THE UNIVERSITY OF TEXAS SYSTEM

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012 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

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THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2013

Officers

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Wm. Eugene "Gene" Powell, Vice Chairman
R. Steven "Steve" Hicks, Vice Chairman
Francie A. Frederick, General Counsel to the Board of Regents

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Robert L. Stillwell	Houston

*Terms scheduled to expire February 1, 2017**

Alex M. Cranberg	Austin
Wallace L. Hall, Jr.	Dallas
Brenda Pejovich	Dallas

*Terms scheduled to expire February 1, 2019**

Ernest Aliseda	McAllen
Jeffery D. Hildebrand	Houston
Paul L. Foster	El Paso

*Term scheduled to expire May 31, 2014**

Nash M. Horne (Student Regent)	Austin

*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, 2013

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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

Stephanie A. Bond Huie, Vice Chancellor for Strategic Initiatives

Patricia D. Hurn, Vice Chancellor for Research and Innovation

Barry R. McBee, Vice Chancellor and Chief Governmental Relations Officer

Randa S. Safady, Vice Chancellor for External Relations

Daniel H. Sharphorn, Vice Chancellor and General Counsel, *ad interim*

William H. Shute, Vice Chancellor for Federal Relations

Amy Shaw Thomas, Vice Chancellor and Counsel for Health Affairs

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

****

Deloitte.

Deloitte & Touche LLP
400 West 15th Street
Suite 1700
Austin, TX 78701-1648
USA

Tel: +1 512 691 2330
Fax: +1 512 708 1035
www.deloitte.com

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the University of Texas System (the "System"), as of August 31, 2013 and 2012, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above previously present fairly, in all material respects, the financial position of the System, as of August 31, 2013 and 2012, and the changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 4, the System implemented Government Accounting Standards Board (GASB) Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, and restated the beginning net position and changed presentation of the consolidated statements of net position and the consolidated statements of revenues, expenses, and changes in net position to reflect the retrospective impact of adopting GASB Statements No. 63 and 65.

As discussed in Note 6, the consolidated financial statements include investments valued at approximately $23 billion and $20 billion as of August 31, 2013 and 2012, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Other Postemployment Benefits — Schedule of Funding Progress be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, 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* in considering System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 20, 2013

THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2013
(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 215,000 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, 2013, with selected comparative information for the years ended August 31, 2012 and 2011. 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 statement of net position; the statement of revenues, expenses and changes in net position; 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

- In 2012, the U. T. System Board of Regents allocated 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 academic years 2012-2013 and 2013-2014. 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 for the entire System which reduces the burden on the individual institutions. Additionally, the institutions were challenged to reduce costs to offset any increase in resident undergraduate tuition and fees in the future. The initiative has been successful as tuition and fees only increased 0.6% from 2012 to 2013, an increase driven predominantly by enrollment growth. 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.

- In the fall of 2012, the System's enrollment increased 0.3% to 215,606 students and student semester credit hours at the academic institutions remained relatively flat with a reduction of less than 1%. The System's academic institutions enroll 35.0% of the State's public college students, and the System's health-related institutions enroll 61.5% of the students attending the State's public health institutions.

- Net patient care revenues, which consists of net sales and services of hospitals and net professional fees, increased $409.0 million in 2013, or 7.6%, as a result of increases in patient volumes and rates.

- As a result of more favorable market conditions in 2013, net investment income, excluding the change in fair value of investments, increased $180.1 million, from $1.9 billion in 2012 to $2.1 billion in 2013 (Table 3). The net increase in fair value of investments was $2.1 billion in 2013, as compared to $1.6 billion in 2012, an increase of $516.0 million. These realized and unrealized gains were the largest contributor to the total increase in net position of $3.6 billion during 2013.

- Investments in capital asset additions were $1.9 billion in 2013, of which $1.3 billion consisted of new projects under construction. Major capital projects and internally developed software completed in 2013 include:

    - the Gates Dell Complex at U. T. Austin, $101.9 million;
    - the Liberal Arts Building at U. T. Austin, $82.9 million;
    - the College Park District at U. T. Arlington, $81.0 million;
    - the Arts and Technology Facility at U. T. Dallas, $61.4 million;
    - the Enterprise Resource Planning software integration at M. D. Anderson, $42.0 million;
    - the Student Housing Expansion at U. T. San Antonio, $41.0 million;
    - the John Sealy Hospital modernization at U. T. Medical Branch - Galveston, $32.4 million;
    - the Swimming and Fitness Center at U. T. El Paso, $31.3 million;
    - the Student Living/Learning Center Phase V at U. T. Dallas, $29.5 million;
    - the South Campus Research Building at M. D. Anderson, $28.8 million; and
    - and the Enterprise Resource Planning, hospital billing software integrations and enhancements to the Electronic Medical Records system at U. T. Southwestern Medical Center, $28.7 million.

- Bonds payable represent the largest portion of the System's liabilities. Bonds payable decreased $246.7 million to $6.6 billion at August 31, 2013. All bonds, which relate to financing of current and prior years' construction needs, continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies.

- Other Postemployment Benefits (OPEB) liability increased $535.6 million to $2.8 billion for 2013 related to retiree medical and dental costs. The System's total unfunded actuarial accrued liability was $6.9 billion as of August 31, 2013.

The Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position 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, 2013, with comparative information for the previous years. The statement of net position presents information in current and noncurrent format for both assets and liabilities. The net position section presents assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Over time, increases or decreases in net position 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 statement of net position at August 31, 2013, 2012 and 2011 follows:

Table 1

		2013	*Restated 2012	2011
Assets			($ in millions)	
Current assets	$	6,585.8	6,181.3	5,546.0
Noncurrent investments		34,003.1	30,646.4	27,833.1
Capital/intangible assets, net		13,144.6	12,422.5	11,785.4
Other noncurrent assets		379.2	274.7	511.1
Total assets		54,112.7	49,524.9	45,675.6
Deferred Outflows				
Fair market value of derivatives		136.9	334.1	202.3
Unamortized loss on refunding debt		47.2	58.2	63.5
Total deferred outflows		184.1	392.3	265.8
Total assets and deferred outflows	$	54,296.8	49,917.2	45,941.4
Liabilities				
Current liabilities	$	7,203.9	6,546.3	6,271.5
Noncurrent liabilities		10,104.6	10,001.0	9,238.6
Total liabilities		17,308.5	16,547.3	15,510.1
Deferred Inflows				
Unamortized gain on refunding debt		8.2	9.2	10.2
Total deferred inflows		8.2	9.2	10.2
Total liabilities and deferred inflows	$	17,316.7	16,556.5	15,520.3
Net Position:				
Net investment in capital assets	$	5,552.4	5,243.5	5,029.2
Restricted		27,841.2	24,633.5	22,016.1
Unrestricted		3,586.5	3,483.7	3,375.8
Net position	$	36,980.1	33,360.7	30,421.1

*GASB Statements 63 and 65, implemented in 2013, modified the presentation of deferred inflows and deferred outflows and changed the balance sheet previously presented to a statement of net position required writing off prepaid issuance costs that were previously classified as other noncurrent assets and amortized as a component of interest expense. As a result, the statement of net positions for 2012 was restated to reflect the changes necessitated by GASB.

Assets and Deferred Outflows (Table 1)

Assets and deferred outflows increased $4.4 billion, or 8.8%, in 2013 primarily due to a significant increase in the fair value of investments, 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 $404.5 million in 2013 primarily as a result of an increase in contributions receivables of $162.5 million, federal receivables of $144.3 million and an increase in securities lending collateral of $122.1 million. Contributions receivables increased as a result of pledges made in support of the William P. Clements Jr. hospital at U. T. Southwestern Medical Center. Federal receivables increased partially as a result of an increase in federal student loan programs and revenue from the Delivery System Reform Incentive Payments program associated with the Medicaid Section 1115 Demonstration program. Securities lending collateral increased due to more securities being out on loan.

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 $3.4 billion in 2013 primarily due to increases in the fair value of investments and realized gains. Included in permanent endowments is the fair value of PUF investments including the PUF lands. The fair value of the PUF lands at August 31, 2013 was $4.7 billion, a $1.2 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. Additionally, beginning in 2013, a percentage of probable and possible reserves of oil and gas were included in the fair value estimate. The PUF also increased due to $900.7 million of PUF lands mineral income earned in 2013 that must be added to the endowment in accordance with the Texas Constitution.

Capital and Intangible 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 $6.5 billion capital improvement program to upgrade its facilities and address planned growth in patient care and student enrollment. Capital additions totaled $1.9 billion in 2013, of which $1.3 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 2013 and 2012, the System placed $172.0 million and $124.4 million, respectively, of computer software into service.

Other Noncurrent Assets

Other noncurrent assets consist primarily of deposit with brokers for derivative contracts, loans and contracts, contributions receivable, and noncurrent cash and cash equivalents. Other noncurrent assets increased $104.5 million to $379.2 million in 2013 primarily due to an increase in noncurrent cash and cash equivalents related to an increase in cash restricted for capital projects.

Deferred Outflows

Deferred outflows consist of the fair market value of derivatives and unamortized losses on refunding of debt. 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 position. Deferred outflows related to hedging derivatives decreased $197.2 million to $137.0 million in 2013 with an offsetting hedging derivative liability.

Liabilities and Deferred Inflows (Table 1)

Liabilities and deferred inflows increased $760.2 million, or 4.6%, 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, salaries payable, 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 $657.6 million, or 10.0%, in 2013 primarily due to increases in notes, loans and leases payable, accounts payable and securities lending obligations mentioned previously.

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 $6.6 billion and $6.8 billion at August 31, 2013 and 2012, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2013, the System did not issue any new bonds and $246.7 million of bonds were retired.

Notes and loans payable increased $341.7 million in 2013. 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 $2.8 billion for 2013 and $2.3 billion for 2012 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, 2013, the System's annual OPEB cost was $682.1 million. Employer contributions for 2013 were $146.5 million, resulting in an increase in net OPEB obligation of $535.6 million in 2013. The System's total unfunded actuarial accrued liability was $6.9 billion as of August 31, 2013. 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 $732.3 million and $757.2 million at August 31, 2013 and 2012, 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 statement of net position.

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 $137.0 million and $334.1 million for 2013 and 2012, respectively. The System also recorded investment derivatives – liability positions of $42.6 million and $64.4 million for 2013 and 2012, respectively. Payables to brokers for collateral held were $48.0 million and $42.7 million for 2013 and 2012, respectively.

Other Liabilities

Other significant liabilities for the System include assets held for others of $852.5 million and $808.9 million for 2013 and 2012, respectively; and employee compensable leave of $496.3 million and $473.3 million for 2013 and 2012, respectively.

Deferred Inflows

Deferred inflows consist of unamortized gains on refunding of debt. Deferred inflows decreased $1.0 million to $8.2 million in 2013.

Net Position (Table 2)

Net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows are deducted. As stated previously under Financial Highlights, net position increased by $3.6 billion in 2013. The following table summarizes the composition of net position at August 31, 2013, 2012 and 2011:

Table 2

		2013	*Restated 2012	2011
			($ in millions)	
Net position:				
Net investment in capital assets	$	5,552.4	5,243.5	5,029.2
Restricted:				
Nonexpendable		17,340.7	15,128.7	12,233.6
Expendable		10,500.5	9,504.8	9,782.5
Total restricted		27,841.2	24,633.5	22,016.1
Unrestricted		3,586.5	3,483.7	3,375.8
Total net position	$	36,980.1	33,360.7	30,421.1

Net Investment in Capital Assets

Net investment in capital assets represents the System's capital and intangible assets, net of accumulated depreciation and amortization and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The $308.9 million increase in net investment in capital assets in 2013 resulted primarily from a net increase in gross capital and intangible assets of $1.6 billion offset by a net increase in related debt of capital assets placed in service of $452.1 million and an increase in accumulated depreciation of $907.8 million.

Restricted Net Position

Restricted net position primarily includes 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 Position

As of August 31, 2013 and 2012, restricted nonexpendable net position includes $13.0 billion and $10.9 billion, respectively, of the PUF corpus, $820 million for both years of the PHF corpus, and $3.5 billion and $3.3 billion, respectively, of other endowments' corpus. Restricted nonexpendable net position increased by $2.2 billion to $17.3 billion in 2013, resulting primarily from the increase in the corpus of the PUF.

Restricted Expendable Net Position

PUF appreciation consists of the market value of all investments in excess of the corpus. Although appreciation related to the PUF investments 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, 2013, restricted expendable net position includes $5.9 billion of the PUF investment appreciation, $195.3 million of PHF appreciation, $2.0 billion of other endowments' appreciation, $362.8 million of restricted funds functioning as endowments, restricted contract and grant and loan funds of $1.9 billion, funds restricted to support programs that benefit public health and cancer treatment of $98.6 million, and bond proceeds for capital projects of $92.1 million.

Unrestricted Net Position

Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the System's unrestricted net position has been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. Unrestricted net position of $3.6 billion also includes funds functioning as endowments of $728.5 million.

2012 Highlights - Statement of Net Position

Due to a slight decline in financial market conditions in 2012, net investment income, excluding the change in fair value of investments, decreased $298.0 million to $1.9 billion. In addition, the net increase in fair value of investments decreased $277.8 million to $1.6 billion in 2012. These realized and unrealized gains were the biggest contributor to the total increase in net position of $2.9 billion during 2012. In addition, the System reported an OPEB liability of $2.3 billion for 2012, an increase of $497.2 million as compared to 2011.

The Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position details the changes in total net position as presented on the statement of net position. 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 position for the years ended August 31, 2013, 2012 and 2011:

Table 3

		2013	*Restated 2012	2011
Operating revenues:			($ in millions)	
Net student tuition and fees	$	1,401.8	1,393.2	1,290.6
Sponsored programs		2,762.2	2,753.8	2,860.9
Net sales and services of hospitals		4,472.3	4,138.2	3,812.1
Net professional fees		1,306.1	1,231.2	1,175.2
Net auxiliary enterprises		471.9	439.3	407.7
Other		627.4	498.6	512.8
Total operating revenues		11,041.7	10,454.3	10,059.3
Total operating expenses		(14,391.3)	(13,422.9)	(12,921.4)
Operating loss		(3,349.6)	(2,968.6)	(2,862.1)
Nonoperating revenues (expenses):				
State appropriations		1,829.4	1,919.0	1,857.3
Nonexchange Sponsored Programs		479.9	343.6	394.9
Gift contributions for operations		445.3	331.8	325.5
Net investment income excluding the change in fair value of investments		2,128.4	1,948.3	2,246.3
Net increase in fair value of investments		2,135.1	1,619.1	1,896.9
Interest expense on capital asset financings		(270.6)	(267.4)	(262.7)
Net other nonoperating revenues (expenses)		(47.8)	(48.9)	(32.8)
Income before other revenues, expenses, gains or losses and transfers		3,350.1	2,876.9	3,563.3
Capital appropriations – Higher Education Assistance Fund (HEAF)		17.4	17.4	17.4
Capital gifts and grants and additions to permanent endowments		474.0	379.9	353.0
Net Transfers to other State entities		(222.1)	(334.6)	(219.6)
Change in net position		3,619.4	2,939.6	3,714.1
Net position, beginning of the year		33,360.7	30,421.1	26,707.0
Net position, end of the year	$	36,980.1	33,360.7	30,421.1

Operating Revenues (Table 3)

Operating revenues totaled $11.0 billion for the fiscal year ended August 31, 2013, an increase of $587.4 million over 2012. 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 12.7% of operating revenues, are reflected net of associated discounts and allowances. Net student tuition and fees increased only $8.6 million, or 0.6%, as a result of the U. T. System Board of Regents' initiative to allocate additional distributions from the PUF to the AUF to effectively eliminate or greatly reduce proposed tuition and fee increases for the academic years 2012-2013 and 2013-2014. Enrollment increased 0.4% at the academic institutions and decreased 0.2% at the health institutions in 2013.

Sponsored Programs

Sponsored program revenues, representing 25% 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 increased only slightly, $8.4 million, or 0.3%, in 2013.

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 52.3% 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 $409.0 million, or 7.6%, in 2013, 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 $671.9 million and $549.7 million for 2013 and 2012, 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 $32.6 million, or 7.4%, in 2013 due to increased gate receipts for athletic events and increased housing revenues.

Operating Expenses (Table 4)

Operating expenses totaled $14.4 billion for the fiscal year ended August 31, 2013, an increase of $968.4 million over 2012. The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2013, 2012 and 2011:

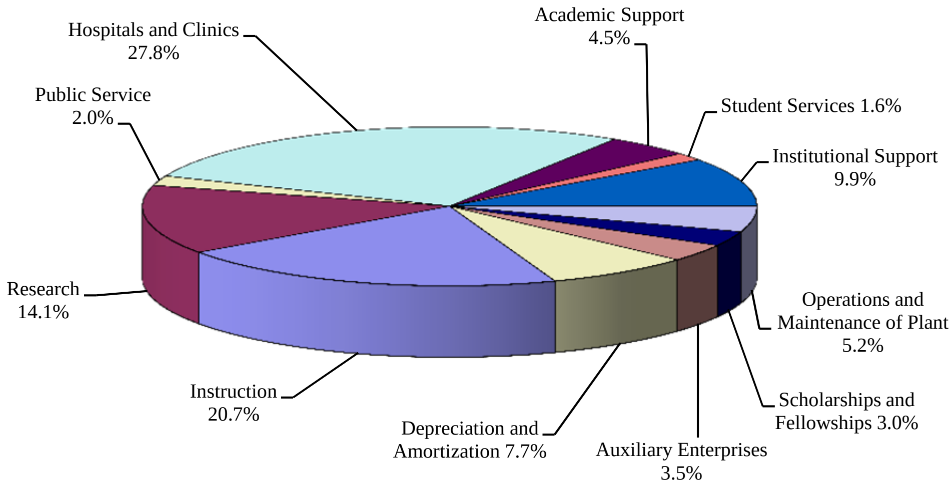
Table 4

	2013	2012	2011
Functional classification of operating expenses:		($ in millions)	
Instruction	$ 2,977.9	2,846.0	2,880.8
Research	2,027.0	1,974.2	1,990.3
Public service	286.1	267.2	275.6
Hospitals and clinics	4,004.0	3,677.4	3,315.3
Academic support	644.0	575.2	541.1
Student services	222.8	215.0	186.3
Institutional support	1,428.0	1,287.3	1,221.8
Operations and maintenance of plant	753.2	730.2	730.5
Scholarships and fellowships	432.5	353.3	419.6
Auxiliary enterprises	510.8	481.5	457.7
Depreciation and amortization	1,105.0	1,015.6	902.4
Total operating expenses	$ 14,391.3	13,422.9	12,921.4

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased $968.4 million, or 7.2%, in 2013 in response to the growing cost of providing support for the institution's primary missions of instruction, research, public service and patient care activities. The System's full-time equivalent employees increased 1.3% from 85,283 in 2012 to 86,431 in 2013. Employee-related costs increased due to salary increases and higher medical costs.

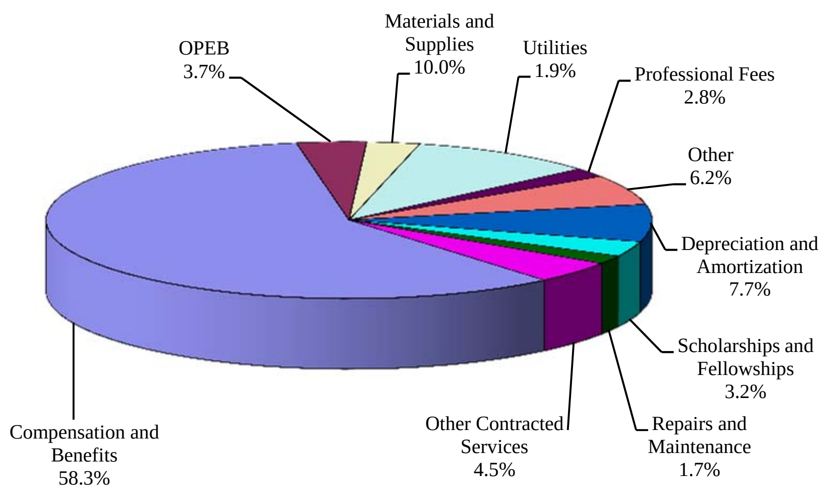
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2013.

Functional Classification of Operating Expenses ($14.4 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, 2013

Natural Classification of Operating Expenses ($14.4 billion)



<u>Nonoperating Revenues and Expenses</u> (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.

<u>State Appropriations</u>
State appropriations decreased $89.6 million, or 4.7% between 2012 and 2013. The System's appropriations for the 2012-13 biennium were reduced $475.4 million or 14.4% compared to the original appropriations for the 2010-11 biennium.

<u>Nonexchange Sponsored Programs</u>
Federal nonexchange sponsored programs includes primarily Pell revenues and Build America Bond subsidy revenues. Pell grants of $420.9 million reflect an increase of 37.1% from 2012 to 2013. This increase was due in part to the recognition of Pell grant revenues attributable to the fall semester, which begins at the end of August. In past years, these revenues were deferred to the following year.

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 2013, the System received $28.4 million of Build America Bond subsidy revenues compared to $29.7 million in 2012.

State nonexchange pass-throughs consist of the Texas Research Incentive Program of $31.3 million, an increase of 564.4% from the prior year.

<u>Gift Contributions for Operations</u>
Gift contributions for operations of $445.3 million increased $113.5 million from 2012 due to several large gifts received by the health institutions in 2013.

<u>Net Investment Income (Loss) Excluding the Change in Fair Value of Investments</u>
Due to improved market conditions, net investment income, excluding the change in the fair value of investments, increased $180.1 million from $1.9 billion in 2012 to $2.1 billion in 2013. Net investment income includes realized gains of $864.6 million in 2013 compared to $657.4 million in 2012.

<u>Net Increase (Decrease) in Fair Value of Investments</u>
The change in the fair value of the System's investments in 2013 was an increase of $2.1 billion as compared to $1.6 billion in 2012 primarily due to a $1.2 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 and a percentage of probable and possible 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, 2013. The fair value of the PUF lands at August 31, 2013 was $4.7 billion.

<u>Interest Expense</u>
Finally, interest expense on capital asset financings increased slightly by $3.2 million from $267.4 million in 2012 to $270.6 million in 2013 as a result of the issuance of commercial paper notes.

<u>Income (Loss) Before Other Revenue, Expenses, Gains or Losses and Transfers</u> (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 $3.4 billion in 2013, an increase of $473.2 million over 2012. This increase was largely a result of the increase in 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 2013, 2012 and 2011:

Table 5

		2013	*Restated 2012	2011
Operating results:			($ in millions)	
Income before other revenue, expenses, gains/(losses) & transfers	$	3,350.1	2,876.9	3,563.3
Remove nonoperating items:				
Net increase in fair value of investments		(2,135.1)	(1,619.1)	(1,896.9)
Loss on sale of capital assets		21.5	14.7	41.6
Other nonoperating (income)/expense		26.4	34.2	(8.7)
Realized gains on investments		(864.6)	(657.4)	(980.2)
Net operating results	$	398.3	649.3	719.1

<u>Capital Appropriations, Capital Gifts and Grants, and Additions to Permanent Endowments</u> (Table 3)
Capital appropriations, capital gifts and grants and additions to permanent endowments totaled $491.4 million for the year ended August 31, 2013, an increase of $94.1 million over 2012 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.

<u>Net Transfers to Other State Entities</u> (Table 3)
Transfers to and from other State agencies includes $223.4 million and $199.8 million for 2013 and 2012, 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 $732.3 million and $757.2 million at August 31, 2013 and 2012, 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 2013, there was a decrease in TAMUS's PUF debt of $24.9 million, while in 2012 there was an increase of $112.8 million.

<u>Change in Net Position</u> (Table 3)
The change in net position 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 statement of net position. Net position increased by $3.6 billion in 2013 as compared to $2.9 billion in 2012, primarily due to more favorable market conditions in 2013. Net investment income, excluding the change in fair value of investments, increased $180.1 million, from $1.9 billion in 2012 to $2.1 billion in 2013. The net increase in fair value of investments was $2.1 billion in 2013, as compared to $1.6 billion in 2012, an increase of $516.0 million. These realized and unrealized gains were the largest contributor to the total increase in net position of $3.6 billion during 2013.

2012 Highlights - Statement of Revenues, Expenses and Changes in Net Position
In 2012, the System's net tuition and fees increased $102.6 million over 2011 due to continued enrollment growth. Sponsored program revenues decreased $107.1 million in 2012 primarily due to the decrease in the American Recovery and Reinvestment Act (ARRA) of 2009. Net patient care revenues grew by $382.1 million as a result of increased patient volumes and higher rates. Total operating expenses increased $501.5 million due to the growth in student enrollment, research, and patient care activities. Due to a slight decline in financial market conditions in 2012, net investment income, excluding the change in fair value of investments, decreased $298.0 million to $1.9 billion. In addition, the net increase in fair value of investments decreased $277.8 million to $1.6 billion in 2012. These realized and unrealized gains were the biggest contributor to the total increase in net position of $2.9 billion during 2012. Additionally, the System recorded a net OPEB obligation expense of $497.2 million in 2012.

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. This comprehensive mission statement applies to the varied elements and complexities of a large group of academic and health institutions. Individually, these institutions have distinct missions, histories, cultures, goals, programs and challenges. Collectively, these institutions share a common vision and a fundamental commitment to enhance the lives of individuals and to advance a free society. To accomplish its mission, the System must attract and support serious and promising students from many cultures; acquire, retain and nourish a high-quality, dedicated, diverse faculty; recruit and appropriately recognize exemplary administrators and staff; create and sustain physical environments that enhance and complement educational goals; and encourage public and private-sector support of higher education.

Higher education was not a major policy focus for the 83rd Legislature which approved funding for the 2014-2015 biennium, as the Legislature was faced with filling holes left by the 82nd Legislature and longstanding infrastructure needs. Unlike the 2012-13 biennium that began with a multi-billion dollar revenue shortfall, the 83rd Legislature began with a surplus in the State Treasury and the State's Rainy Day Fund with healthy reserves due to the abundance of oil and gas revenues. While higher education was not a major policy factor, the System's appropriations for the 2014-15 biennium were increased $249.4 million or 8.1 percent compared to the 2012-13 biennium to offset some of the reductions made in the previous biennium.

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. The U. T. System Board of Regents continues to believe that resident undergraduate students should not bear the burden of additional increases in tuition and fees and have challenged the institutions to increase efficiency and productivity envisioned in the Chancellor's Framework for Advancing Excellence approved by the board in August 2011.

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 the annual accounting expense attributable to projected future healthcare benefits for current and prospective retirees. The unfunded actuarial accrued liability for these projected benefits was $6.9 billion as of August 31, 2013. 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 these benefits 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 were 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. This legislation has increased the annual cost of providing health benefits to System's employees and retirees.

On November 6, 2012, Travis County, Texas voters elected to pass a five cent property tax rate increase to support a new teaching hospital and medical school at U. T. Austin. The Dell Medical School at U. T. Austin, scheduled to accept its first class in the fall of 2016, will improve health in Travis County and throughout the country by training new physicians, providing treatment in a new teaching hospital and conducting research to expand knowledge of medicine and medical technology.

On June 14, 2013 Governor Rick Perry signed a bill to create a South Texas medical school and ultimately merge U. T. Brownsville and U. T. Pan American into one newly created university that will for the first time in Texas history establish a university in that region eligible for support from the PUF. The impact is estimated to be 7,000 to 10,000 new jobs in the Rio Grande Valley over the next several years. It is estimated to take 12 to 18 months to finalize a plan for the new university to be named The University of Texas Rio Grande Valley. The University of Texas Rio Grande Valley is also expected to enroll its first class in the fall of 2016.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION
AUGUST 31, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS		2013	2012
CURRENT ASSETS			
Cash and cash equivalents	$	2,340,584,196	2,325,376,227
Restricted cash and cash equivalents		203,514,888	224,860,149
Balance in State appropriations		58,047,637	242,866,441
Accounts receivable, net:			
Federal (net of allowances of $905,544 and $515,171, respectively)		550,876,511	406,533,944
Other intergovernmental (net of allowances of $452,940 and $909,460, respectively)		63,775,288	57,329,819
Student (net of allowances of $12,489,327 and $11,436,158, respectively)		269,269,025	240,191,976
Patient and healthcare (net of allowances of $218,131,140 and $246,727,869, respectively)		876,924,408	761,745,475
Interest and dividends		52,597,704	56,849,265
Contributions – current portion (net of allowances of $5,440,156 and $5,597,564, respectively)		254,039,563	91,507,209
Investment trades		65,280,601	187,857,301
Other (net of allowances of $4,909,866 and $5,624,918, respectively)		337,695,096	272,144,317
Due from other agencies		39,789,212	28,067,949
Inventories		91,167,926	87,625,414
Restricted loans and contracts - current portion (net of allowances of $8,572,328 and $7,597,304, respectively)		48,493,818	50,370,760
Securities lending collateral		633,473,261	511,400,510
Other current assets		700,240,945	636,573,337
Total current assets		6,585,770,079	6,181,300,093
NONCURRENT ASSETS			
Cash and cash equivalents – noncurrent restricted		(16,684,632)	(90,413,151)
Restricted investments		29,562,179,074	26,727,366,475
Deposit with brokers for derivative contracts		126,386,370	156,932,929
Loans and contracts (net of allowances of $21,653,864 and $20,522,419, respectively)		72,500,916	73,654,944
Contributions receivable (net of allowances of $4,816,334 and $3,562,372, respectively)		182,744,531	119,364,357
Unrestricted Investments		4,440,941,285	3,919,022,955
Other noncurrent assets		14,295,952	15,092,567
Gross capital/intangible assets		22,797,874,432	21,168,046,790
Less accumulated depreciation		(9,653,310,594)	(8,745,490,852)
Net capital assets		13,144,563,838	12,422,555,938
Total noncurrent assets		47,526,927,334	43,343,577,014
TOTAL ASSETS		54,112,697,413	49,524,877,107
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - fair market value of derivatives		136,968,095	334,084,157
Deferred outflows - unamortized loss refunding debt		47,175,852	58,220,650
TOTAL DEFERRED OUTFLOWS		184,143,947	392,304,807
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	54,296,841,360	49,917,181,914

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION (Continued)
AUGUST 31, 2013 AND 2012

LIABILITIES AND DEFERRED INFLOWS		2013	2012
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$	924,967,066	796,648,168
Salaries payable		477,832,793	414,166,000
Investment trades payable		182,891,618	299,903,666
Incurred but not reported self-insurance claims – current portion		90,671,165	93,660,794
Securities lending obligations		633,473,261	511,400,510
Due to other State agencies		13,727,087	15,828,006
Statewide interfund payable		24,524,868	23,606,730
Unearned revenue		1,276,187,257	1,236,041,009
Employees' compensable leave – current portion		327,656,858	317,132,293
Notes, loans and leases payable – current portion		951,946,208	608,976,093
Payable from restricted assets		136,277,884	138,723,444
Bonds payable – current portion		1,563,111,373	1,586,061,373
Assets held for others		21,993,195	32,934,635
Other current liabilities		578,706,721	471,167,112
Total current liabilities		7,203,967,354	6,546,249,833
NONCURRENT LIABILITIES			
Incurred but not reported self-insurance claims		22,400,911	26,011,858
Employees' compensable leave		168,633,339	156,198,712
Assets held for others		830,491,308	775,950,636
Liability to beneficiaries		13,280,564	13,933,251
Net other postemployment benefits obligation		2,799,477,678	2,263,866,591
Notes, loans and leases payable		24,193,123	25,278,967
Bonds payable		5,294,074,854	5,547,976,227
Statewide interfund payable		717,345,003	743,019,387
Hedging derivative liability		136,968,095	334,084,157
Payable to brokers for collateral held		47,957,578	42,705,000
Investment derivatives - liability positions		42,606,318	64,434,007
Other noncurrent liabilities		7,176,897	7,570,056
Total noncurrent liabilities		10,104,605,668	10,001,028,849
TOTAL LIABILITIES		17,308,573,022	16,547,278,682
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - unamortized gain refunding debt		8,172,526	9,205,634
TOTAL DEFERRED INFLOWS		8,172,526	9,205,634
TOTAL LIABILITIES AND DEFERRED INFLOWS	$	17,316,745,548	16,556,484,316
NET POSITION			
Net investment in capital assets	$	5,552,397,748	5,243,459,592
Restricted:			
Nonexpendable		17,340,735,884	15,128,697,354
Expendable		10,500,424,260	9,504,848,844
Total Restricted		27,841,160,144	24,633,546,198
Unrestricted		3,586,537,920	3,483,691,808
TOTAL NET POSITION	$	36,980,095,812	33,360,697,598

See accompanying notes to consolidated financial statements (Concluded)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Net student tuition and fees (net of discounts and allowances of $557,702,260 and $458,152,638, respectively)	$ 1,401,812,923	1,393,213,693
Sponsored programs	2,762,194,621	2,753,785,708
Net sales and services of educational activities (net of discounts and allowances of $312,924 and $201,713, respectively)	415,656,518	386,928,225
Net sales and services of hospitals (net of discounts and allowances of $5,035,123,258 and $4,912,239,007, respectively)	4,472,285,486	4,138,248,794
Net professional fees (net of discounts and allowances of $3,096,553,736 and $2,857,643,332, respectively)	1,306,091,759	1,231,154,265
Net auxiliary enterprises (net of discounts and allowances of $14,875,827 and $13,783,893, respectively)	471,935,246	439,336,319
Other	211,735,339	111,641,833
Total operating revenues	11,041,711,892	10,454,308,837
OPERATING EXPENSES		
Instruction	2,977,934,791	2,846,035,956
Research	2,026,973,347	1,974,216,314
Public service	286,057,018	267,238,019
Hospitals and clinics	4,003,967,787	3,677,408,914
Academic support	644,043,228	575,244,587
Student services	222,683,952	214,851,662
Institutional support	1,428,049,726	1,287,300,008
Operations and maintenance of plant	753,241,683	730,197,217
Scholarships and fellowships	432,520,809	353,328,202
Auxiliary enterprises	510,805,349	481,493,082
Depreciation and amortization	1,105,011,810	1,015,621,870
Total operating expenses	14,391,289,500	13,422,935,831
Operating loss	(3,349,577,608)	(2,968,626,994)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	1,829,391,887	1,918,989,116
Nonexchange sponsored programs	479,917,048	343,564,067
Gift contributions for operations	445,301,009	331,825,864
Net investment income	4,263,468,522	3,567,399,497
Interest expense on capital asset financings	(270,571,370)	(267,384,182)
Loss on sale of capital assets	(21,457,746)	(14,734,544)
Other	(26,395,379)	(34,158,608)
Net nonoperating revenues	6,699,653,971	5,845,501,210
Income before other changes in net position	3,350,076,363	2,876,874,216
OTHER CHANGES IN NET POSITION		
Capital appropriations – Higher Education Assistance Fund (HEAF)	17,368,543	17,368,543
Capital gifts and grants	367,830,103	260,927,665
Additions to permanent endowments	106,191,621	119,071,140
Transfers to other State agencies	(222,064,485)	(334,581,562)
Legislative appropriations lapsed	(3,931)	(12,837)
Change in net position	3,619,398,214	2,939,647,165
NET POSITION		
Net position, beginning of year	33,360,697,598	30,421,050,433
Net position, end of year	$ 36,980,095,812	33,360,697,598

See accompanying notes to consolidated financial statements.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2013 AND 2012

		2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from tuition and fees	$	1,391,203,408	1,421,171,242
Proceeds from patients and customers		5,668,370,110	5,292,225,722
Proceeds from sponsored programs		2,593,264,468	2,785,573,840
Proceeds from auxiliaries		467,452,899	443,804,516
Proceeds from other revenues		642,915,672	497,385,374
Payments to suppliers		(4,211,974,028)	(4,172,233,572)
Payments to employees		(8,306,851,780)	(7,842,504,256)
Payments for loans provided		(107,552,979)	(108,975,649)
Proceeds from loan programs		107,531,261	105,840,158
Net cash used in operating activities		(1,755,640,969)	(1,577,712,625)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from State appropriations		2,015,024,069	1,893,798,048
Proceeds from gifts		363,142,349	346,952,466
Proceeds from private gifts for endowment and annuity life purposes		68,823,632	115,941,850
Proceeds from other nonoperating revenues		5,348,248	5,719,864
Receipts for transfers from other agencies		465,368,690	609,644,230
Payments for transfers to other agencies		(688,535,421)	(836,825,236)
Payments for other uses		(710,085)	(5,086,996)
Proceeds from nonexchange sponsored programs		453,544,214	336,828,710
Net cash provided by noncapital financing activities		2,682,005,696	2,466,972,936
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from issuance of capital debt		454,973,505	912,380,670
Payments of other costs on debt issuance		(1,455,527)	(8,271,747)
Proceeds from capital appropriations, grants and gifts		181,166,697	242,177,962
Proceeds from sale of capital assets		4,860,315	3,986,301
Payments for additions to capital assets		(1,805,320,246)	(1,662,435,811)
Payments of principal on capital related debt		(361,331,395)	(691,981,073)
Payments of interest on capital related debt		(270,790,968)	(268,981,512)
Net cash used in capital and related financing activities		(1,797,897,619)	(1,473,125,210)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investments		10,209,689,869	9,921,693,895
Proceeds from interest and investment income		1,424,817,213	1,370,543,815
Payments to acquire investments		(10,695,382,963)	(10,424,838,694)
Net cash provided by investing activities		939,124,119	867,399,016
NET INCREASE IN CASH		67,591,227	283,534,117
Cash and cash equivalents, beginning of year		2,459,823,225	2,176,289,108
Cash and Cash equivalents, end of year	$	2,527,414,452	2,459,823,225

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEARS ENDED AUGUST 31, 2013 AND 2012

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		**2013**	**2012**
Operating loss	$	(3,349,577,608)	(2,968,626,994)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		1,105,011,810	1,015,621,870
Bad debt expense		277,811,355	249,415,547
Changes in assets and liabilities:			
Accounts receivable		(578,929,239)	(333,302,279)
Inventories		(3,542,513)	(7,857,230)
Loans and contracts		(21,718)	(3,135,491)
Other current and noncurrent assets		24,666,265	(43,045,905)
Accounts payable and accrued liabilities		171,655,617	(79,802,341)
Unearned revenue		31,885,313	75,935,716
Assets held for others		(12,341,961)	(8,083,743)
Employees' compensable leave		22,959,192	20,117,903
Other postemployment benefits obligation		535,611,087	497,214,555
Other current and noncurrent liabilities		19,171,431	7,835,767
Total adjustments		1,593,936,639	1,390,914,369
Net cash used in operating activities	$	(1,755,640,969)	(1,577,712,625)

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Net increase in fair value of investments	2,135,065,126	1,619,142,884
Donated capital assets	70,596,257	57,245,141
Capital assets acquired under capital lease purchases	1,650,287	2,266,146
Miscellaneous noncash transactions	(54,727,566)	(26,310,743)

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 The University of Texas 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 position of the blended component units is insignificant to the System. Blended financial information is available upon request.

U. T. Southwestern Health Systems, 5323 Harry Hines Boulevard, Dallas, Texas 75390, is governed by a four-member board appointed by U. T. Southwestern Medical Center. U. T. Southwestern Health Systems provides support of health care services and grants to conduct research and provide educational programs to accomplish the mission of 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, 400 West Magnolia Avenue, Fort Worth, Texas 76104, is governed by a four-member board appointed by the president of U. T. Southwestern Medical Center. U. T. Southwestern Moncrief Cancer Center provides resources for cancer prevention, early detection and support services to cancer patients and their families within Tarrant County and surrounding areas. The corporation is blended rather than discretely presented because it has substantively the same governing board as U. T. Southwestern Medical Center and there is a financial benefit relationship. The corporation's fiscal year end is August 31.

Moncrief Cancer Foundation, 5323 Harry Hines Blvd. Dallas, Texas 75390, is governed by a six-member board appointed by the president of U. T. Southwestern Medical Center and is a newly blended entity for the System beginning fiscal year 2013. Moncrief Cancer Foundation supports comprehensive, multidisciplinary cancer treatment programs in Tarrant County and surrounding areas. The foundation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Southwestern Medical Center and U. T. Southwestern Moncrief Cancer Center. The foundation'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. UTMB Healthcare Systems, Inc. establishes business for U. T. Medical Branch - Galveston in selected markets, providing referrals, temporary staffing, and medical facilities. 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.

The University Medical Branch Student Book Store, Inc., 301 University Blvd., Galveston, Texas 77555, is governed by a five-member board appointed by U. T. Medical Branch - Galveston and is a newly blended entity for the System beginning fiscal year 2013. The corporation is blended rather than discretely presented because it operates the book store for U. T. Medical Branch - Galveston and provides services entirely or almost entirely to U. T. Medical Branch - Galveston. The corporation's fiscal year end is June 30.

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 management services for the physician practice plan 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 to support the medical residency programs 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 physician practice plan board. The corporation is blended rather than discretely presented because it provides health care education and research activity services 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. M. D. Anderson Physicians Network transfers programs representative of M. D. Anderson to the broad community. 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. M. D. Anderson Services Corporation serves as an instrument of M. D. Anderson in its efforts to achieve its mission beyond the M. D. Anderson main campus. 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 provides agency nursing services entirely or almost entirely to 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 investment management 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 U. T. Austin. The University of Texas Fine Arts Foundation provides services to acquire the Suida-Manning Art Collection for the Blanton Museum of Art. The foundation is blended rather than discretely presented because it provides services 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 University of Texas Communication Foundation provides services to the U. T. Austin College of Communication to facilitate the participation by students, faculty and others in professional communication projects. The foundation is blended rather than discretely presented because it provides services entirely to U. T. Austin. The foundation’s fiscal year end is August 31.

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2013 is as follows:

		Southwestern Health Systems	Southwestern Moncrief Cancer Center	Moncrief Cancer Foundation	UTMB Healthcare Systems	The University Medical Branch Student Book Store, Inc.	U. T. Physicians	U. T. System Medical Foundation
Condensed Statement of Net Position								
Current Assets	$	8,004,744	4,497,742	75,964,249	14,924,417	3,323,644	21,767,472	8,181,483
Noncurrent Assets		3,366,664	34,724,260	5,913,695	2,445,029	-	19,069,328	-
Total Assets		11,371,408	39,222,002	81,877,944	17,369,446	3,323,644	40,836,800	8,181,483
Current Liabilities		24,964	1,995,351	19,056,736	2,714,166	13,452	24,941,794	1,139,765
Noncurrent Liabilities		947,150	-	-	3,392,127	-	1,566,296	250,000
Total Liabilities		972,114	1,995,351	19,056,736	6,106,293	13,452	26,508,090	1,389,765
Net Investment in Capital Assets		3,366,664	32,072,204	-	2,445,029	-	-	-
Restricted Nonexpendable		-	1,540,529	-	-	-	-	-
Restricted Expendable		-	-	62,821,208	-	-	-	-
Unrestricted		7,032,630	3,613,918	-	8,818,124	3,310,192	14,328,710	6,791,718
Total Net Position	$	10,399,294	37,226,651	62,821,208	11,263,153	3,310,192	14,328,710	6,791,718
Condensed Statement of Revenues, Expenses and Changes in Net Position								
Operating Revenues	$	94,500	4,428,859	4,766	3,736,873	988,490	77,081,206	119,793,256
Operating Expenses		(1,735,245)	(4,905,462)	(479,242)	(2,996,931)	(1,159,090)	(74,096,579)	(119,606,696)
Operating Income/(Loss)		(1,640,745)	(476,603)	(474,476)	739,942	(170,600)	2,984,627	186,560
Nonoperating Revenues (Expenses)		1,610,207	2,153,099	8,375,893	545,764	17,347	1,202,898	52
Income/(Loss) Before Other Changes in Net Position		(30,538)	1,676,496	7,901,417	1,285,706	(153,253)	4,187,525	186,612
Increase to Permanent Endowments and Other		449,455	631,705	(4,742,682)	-	-	-	-
Change in Net Position		418,917	2,308,201	3,158,735	1,285,706	(153,253)	4,187,525	186,612
Net Position - August 31, 2012		9,980,377	34,918,450	59,662,473	9,977,447	3,463,445	10,141,185	6,605,106
Net Position-August 31, 2013	$	10,399,294	37,226,651	62,821,208	11,263,153	3,310,192	14,328,710	6,791,718
Condensed Statement of Cash Flows								
Net Cash provided (used) by:								
Operating Activities	$	30,000	2,688,244	(4,188,649)	198,475	140,142	5,010,697	281,660
Noncapital Financing Activities		(189,430)	(3,729,312)	9,678,054	(4,447)	-	139,000	-
Capital and Related Financing		747,000	-	2,000,000	(1,195,838)	-	(5,184,251)	-
Investing Activities		3,458	3,454,323	-	(36,909)	14,231	406,337	-
Net Increase (Decrease) in Cash and Cash Equivalents		591,028	2,413,255	7,489,405	(1,038,719)	154,373	371,783	281,660
Cash and Cash Equivalents - August 31, 2012		2,183,158	1,236,420	1,485,580	2,767,786	2,663,255	7,014,436	1,642,788
Cash and Cash Equivalents - August 31, 2013	$	2,774,186	3,649,675	8,974,985	1,729,067	2,817,628	7,386,219	1,924,448

University Physicians Group	M. D. Anderson Physician's Network	M. D. Anderson Services Corp	East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation	University of Texas Communication Foundation	U. T. System Total
-	4,978,451	72,276,311	296,912	10,849,782	4,496	1,227	225,070,930
7,756,987	25,630,584	567,775,535	-	730,737	16,977,342	145,399	684,535,560
7,756,987	30,609,035	640,051,846	296,912	11,580,519	16,981,838	146,626	909,606,490
1,251,166	6,665,062	94,235,266	48,876	6,791,344	-	-	158,877,942
4,570,199	239,955	358,716,484	-	1,181,223	16,977,342	124,999	387,965,775
5,821,365	6,905,017	452,951,750	48,876	7,972,567	16,977,342	124,999	546,843,717
-	488,170	2,067	-	-	-	-	38,374,134
-	-	50,000,000	-	-	-	-	51,540,529
-	-	-	-	-	-	-	62,821,208
1,935,622	23,215,848	137,098,029	248,036	3,607,952	4,496	21,627	210,026,902
1,935,622	23,704,018	187,100,096	248,036	3,607,952	4,496	21,627	362,762,773
2,268,702	18,944,900	4,320,237	43,386	24,133,175	1,725,270	59,576	257,623,196
(1,985,082)	(11,461,784)	(984,993)	(25,383)	(25,761,798)	4,441	(381)	(245,194,225)
283,620	7,483,116	3,335,244	18,003	(1,628,623)	1,729,711	59,195	12,428,971
(283,620)	742,586	47,441,187	-	14,444	(1,277,096)	-	60,542,761
-	8,225,702	50,776,431	18,003	(1,614,179)	452,615	59,195	72,971,732
-	-	-	-	-	(448,131)	406,051	(3,703,602)
-	8,225,702	50,776,431	18,003	(1,614,179)	4,484	465,246	69,268,130
1,935,622	15,478,316	136,323,665	230,033	5,222,131	12	(443,619)	293,494,643
1,935,622	23,704,018	187,100,096	248,036	3,607,952	4,496	21,627	362,762,773
1,199,951	7,707,691	2,666,337	(184,245)	3,096,027	1,729,712	(381)	20,375,661
-	-	(10,095,829)	-	15,459	(1,277,137)	-	(5,463,642)
(1,199,951)	(459,869)	-	-	(806,917)	(448,131)	15,922	(6,532,035)
-	(10,732,544)	23,416,816	-	-	40	(24,754)	16,500,998
-	(3,484,722)	15,987,324	(184,245)	2,304,569	4,484	(9,213)	24,880,982
-	15,568,157	55,439,430	272,332	7,929,555	12	10,440	98,213,349
-	12,083,435	71,426,754	88,087	10,234,124	4,496	1,227	123,094,331

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2012 is as follows:

		Southwestern Health Systems	Southwestern Moncrief Cancer Center	UTMB Healthcare Systems	U. T. Physicians	U. T. System Medical Foundation
Condensed Statement of Net Position						
Current Assets	$	6,968,348	1,895,251	14,504,340	19,378,863	7,684,602
Noncurrent Assets		4,208,355	95,711,186	2,554,904	16,983,882	-
Total Assets		11,176,703	97,606,437	17,059,244	36,362,745	7,684,602
Current Liabilities		59,746	3,025,514	2,812,648	23,954,271	829,496
Noncurrent Liabilities		1,136,580	-	4,269,149	2,267,289	250,000
Total Liabilities		1,196,326	3,025,514	7,081,797	26,221,560	1,079,496
Net Investment in Capital Assets		4,208,355	30,071,190	2,554,904	-	-
Restricted Nonexpendable		-	1,512,501	-	-	-
Restricted Expendable		-	59,662,473	-	-	-
Unrestricted		5,772,022	3,334,759	7,422,543	10,141,185	6,605,106
Total Net Position	$	9,980,377	94,580,923	9,977,447	10,141,185	6,605,106
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	$	44,000	18,650,322	3,092,849	68,012,158	54,892,138
Operating Expenses		(832,540)	(2,619,683)	(2,551,183)	(67,790,320)	(54,079,069)
Operating Income/(Loss)		(788,540)	16,030,639	541,666	221,838	813,069
Nonoperating Revenues (Expenses)		1,075,970	(10,172,548)	232,534	(413,264)	-
Income/(Loss) Before Other Changes in Net Position		287,430	5,858,091	774,200	(191,426)	813,069
Increase to Permanent Endowments and Other		1,290,925	(4,210,770)	-	-	-
Change in Net Position		1,578,355	1,647,321	774,200	(191,426)	813,069
Net Position - August 31, 2011		8,402,022	92,933,602	9,203,247	10,332,611	5,792,037
Net Position-August 31, 2012	$	9,980,377	94,580,923	9,977,447	10,141,185	6,605,106
Condensed Statement of Cash Flows						
Net Cash provided (used) by:						
Operating Activities	$	1,401,532	12,860,956	341,407	2,096,728	(4,073,069)
Noncapital Financing Activities		(189,430)	-	(4,315)	-	-
Capital and Related Financing		-	(14,192,499)	(1,182,967)	(5,844,184)	-
Investing Activities		(747,000)	228,829	1,542,949	(772,766)	-
Net Increase (Decrease) in Cash and Cash Equivalents		465,102	(1,102,714)	697,074	(4,520,222)	(4,073,069)
Cash and Cash Equivalents - August 31, 2011		1,718,056	2,339,134	2,070,712	11,534,658	5,715,857
Cash and Cash Equivalents - August 31, 2012	$	2,183,158	1,236,420	2,767,786	7,014,436	1,642,788

In fiscal year 2012, Southwestern Moncrief Cancer Center included Moncrief Cancer Foundation on the equity method.

University Physicians Group	M. D. Anderson Physician's Network	M. D. Anderson Services Corp	East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation	University of Texas Communication Foundation	U. T. System Total
-	7,335,974	55,551,299	418,560	8,460,485	12	10,440	122,208,174
8,956,938	13,727,881	543,883,745	-	520,254	17,425,473	62,897	704,035,515
8,956,938	21,063,855	599,435,044	418,560	8,980,739	17,425,485	73,337	826,243,689
-	5,380,142	76,822,825	188,527	2,562,624	-	48,650	115,684,443
7,021,316	205,397	386,288,554	-	1,195,984	17,425,473	468,306	420,528,048
7,021,316	5,585,539	463,111,379	188,527	3,758,608	17,425,473	516,956	536,212,491
-	72,709	391	-	-	-	-	36,907,549
-	-	50,000,000	-	-	-	-	51,512,501
-	-	-	-	-	-	-	59,662,473
1,935,622	15,405,607	86,323,274	230,033	5,222,131	12	(443,619)	141,948,675
1,935,622	15,478,316	136,323,665	230,033	5,222,131	12	(443,619)	290,031,198
2,558,333	16,126,304	3,357,443	47,788	18,306,201	1,773,370	-	186,860,906
(2,224,870)	(6,849,708)	(1,487,891)	(24,134)	(16,929,355)	(362)	(279)	(155,389,394)
333,463	9,276,596	1,869,552	23,654	1,376,846	1,773,008	(279)	31,471,512
(333,463)	383,526	16,451,476	-	14,959	(1,314,838)	-	5,924,352
-	9,660,122	18,321,028	23,654	1,391,805	458,170	(279)	37,395,864
-	-	-	-	-	(458,490)	-	(3,378,335)
-	9,660,122	18,321,028	23,654	1,391,805	(320)	(279)	34,017,529
1,935,622	5,818,194	118,002,637	206,379	3,830,326	332	(443,340)	256,013,669
1,935,622	15,478,316	136,323,665	230,033	5,222,131	12	(443,619)	290,031,198
1,127,061	9,946,968	45,026,828	62,960	(759,326)	1,773,008	(279)	69,804,774
-	-	(26,347,135)	-	15,193	(1,314,880)	-	(27,840,567)
(1,150,070)	-	-	-	(141,437)	(458,490)	-	(22,969,647)
-	(5,645,871)	8,261,507	-	-	42	929	2,868,619
(23,009)	4,301,097	26,941,200	62,960	(885,570)	(320)	650	21,863,179
23,009	11,267,060	28,498,230	209,372	8,815,125	332	9,790	72,201,335
-	15,568,157	55,439,430	272,332	7,929,555	12	10,440	94,064,514

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 position. As of August 31, 2013, 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 position of these potential component units reported by the organizations total $1,993,006,388 at August 31, 2013 and $2,053,236,580 at August 31, 2012.

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, 2013, related to pass-through grants were $375,332,435 and $10,079,720, respectively. 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.

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 was 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 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. While the Agreement remains in effect through a date no later than August 31, 2015, the two institutions began operating separately effective September 1, 2013.

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

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, 2013 and 2012 was $5,113,744 and $4,344,282, respectively, or 49% and 50% respectively. Separate financial statements for DVA 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, 2013 and 2012, U. T. Southwestern Medical Center's investment in Premier was $456,010 and $596,717, respectively, or .32% and .35%, respectively. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or www.premierinc.com. On October 1, 2013, Premier completed an initial public offering (IPO) and reorganization. Following the reorganization, Premier and its consolidated subsidiaries now operate as a publicly traded company. Management is assessing the impact on the financial statements.

U. T. Medical Branch - Galveston entered into a limited partnership agreement on September 1, 2012, with Premier Purchasing Partners, L.P. The principal business of Premier is to operate and manage healthcare-related programs and investments for the benefit of its partners including U. T. Medical Branch - Galveston 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, 2013, U. T. Medical Branch – Galveston's investment in Premier was $617,555, or .18%. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or www.premierinc.com. On October 1, 2013, Premier completed an IPO and reorganization. Following the reorganization, Premier and its consolidated subsidiaries now operate as a publicly traded company. Management is assessing the impact on the financial statements.

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, 2013 and 2012 was $755,836 and $694,954, 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, 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, 2013 and 2012 was $246,507 and $144,987 respectively, or 18.1%. Separate financial statements for TMC Holding may be obtained by contacting Vanessa Smith, 3050 Post Oak Boulevard, Suite 620, Houston, Texas 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. U. T. Physicians' equity interest in Bluesky MOB, LLP at August 31, 2013 was $380,755, or 18.7%. 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, Texas, 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, 2013 and 2012 was $12,652,720 and $12,435,855 respectively, or 14.4% and 14.6% 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, 2013 and 2012 was $2,877,361 and $2,472,539, 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. UTMDA's equity interest in TECO at August 31, 2013 and 2012 was $35,712,389 and $32,810,363, respectively, or 40.6% and 39.7%, 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 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, 2013 and 2012 was $5,241,696 and $3,981,925, 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. Anderson 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 UTMDA. 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 51.22%. 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 statement of net position. As of August 31, 2013 and 2012, M. D. Anderson's equity interest in PTC Partnership was $0. M. D. Anderson received cash contributions totaling $8,019,905 and $6,684,146 during the fiscal years ended August 31, 2013 and 2012, 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, 2013 and 2012 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. 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, 2013 and 2012, M. D. Anderson's investment in Premier was $3,719,000 and $4,086,719, respectively, or 0.96% and 1.15%, respectively. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or www.premierinc.com. On October 1, 2013, Premier completed an IPO and reorganization. Following the reorganization, Premier and its consolidated subsidiaries now operate as a publicly traded company. Management is assessing the impact on the financial statements.

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.

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2013

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. Implementation of Statement No. 60 had no effect on the System's net position or changes in net position for the years ended August 31, 2013 and 2012.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for 2013, modifies the existing requirements for the assessment of component units that should be included in the financial statements of the System. Implementation of Statement No. 61 had no effect on the System's net position or changes in net position for the years ended August 31, 2013 and 2012.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for 2013, modifies the presentation of deferred inflows and deferred outflows in the financial statements to move deferred inflows and outflows to their own section of the Statement of Net Position with no impact on net position. The adoption of the GASB Statement No. 63 did not result in any adjustments to the financial statements of the System's blended component units for the year ended August 31, 2012. The effect of the changes from the implementation of Statement No. 63 on the System's financial statements for the year ended August 31, 2012 was as follows:

Statement of Net Position		2012 Previously Issued	Change	2012 Revised
Deferred Outflows-FMV of Derivatives (as a component of Noncurrent Assets)	$	334,084,157	(334,084,157)	-
Deferred Outflows-FMV of Derivatives (as a component of Deferred Outflows of Resources)		-	334,084,157	334,084,157

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for 2012, clarifies the existing requirements for the termination of hedge accounting. Implementation of Statement No. 64 had no effect on the System's net position or changes in net position for the year ended August 31, 2012.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which was early implemented in 2013, reclassifies, as deferred inflows and deferred outflows of resources, items which were previously reported as assets and liabilities, and required writing off prepaid issuance costs that were previously classified as other noncurrent assets and amortized as a component of interest expense. The adoption of Statement No. 65 did not result in any adjustments to the financial statements of the System's blended component units for the year ended August 31, 2012. The effect of the changes from the implementation of Statement No. 65 on the System's financial statements for the year ended August 31, 2012 was as follows:

	2012 Previously Issued	Change	2012 Revised
Statement of Net Position			
Other Noncurrent Assets	$ 36,768,599	(21,676,032)	15,092,567
Deferred Outflows-Unamortized Loss Refunding Debt	-	58,220,650	58,220,650
Total Assets & Deferred Outflows	49,880,637,296	36,544,618	49,917,181,914
Revenue Bonds Payable-Current	(1,576,049,683)	(10,011,690)	(1,586,061,373)
Revenue Bonds Payable-Noncurrent	(5,508,972,901)	(39,003,326)	(5,547,976,227)
Deferred Inflows-Unamortized Gain Refunding Debt	-	(9,205,634)	(9,205,634)
Total Liabilities & Deferred Inflows	(16,498,263,666)	(58,220,650)	(16,556,484,316)
Net Position	33,382,373,630	(21,676,032)	33,360,697,598
Statement of Revenues, Expenses, and Changes in Net Position			
Interest Expense on Capital Asset Financings	(268,855,685)	1,471,503	(267,384,182)
Other Nonoperating Revenues (Expenses)	(11,011,073)	(23,147,535)	(34,158,608)
Net Position	33,382,373,630	(21,676,032)	33,360,697,598

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 investment, a deferred outflow or deferred inflow on the statement of net position. 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 statement of net position. 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 position.

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, 2013 and 2012, investments in private investment funds in the amount of $5,957,410,384 and $5,458,247,903, 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 position value information provided by the investment manager, as well as other relevant factors as indicated above. As of August 31, 2013 and 2012, investments in these funds in the amount of $12,430,135,379 and $10,878,800,667, 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. A percentage of probable and possible reserves of oil and gas are included in the fair value estimate beginning in 2013. 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 statement of net position. The obligations for securities lent are reported as a liability on the statement of net position 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 position. See Note 6 for details regarding the securities lending program.

CAPITAL AND INTANGIBLE 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 lease receivables that will be realized beyond one year.

DEFERRED OUTFLOWS

Deferred outflows consist of the fair market value of derivatives and unamortized losses on refunding of debt. 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 position. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. 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 position as a component of interest expense.

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, 2013 and 2012 is $390,651,560 and $339,874,792, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at M. D. Anderson. As of August 31, 2013 and 2012, assets held for others also included $334,905,968 and $333,294,605, 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.

DEFERRED INFLOWS

Deferred inflows consist of unamortized gains on refunding of debt. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. 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 position as a component of interest expense.

NET POSITION

The System has classified resources into the following three net position categories:

Net Investment in Capital Assets

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

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.

REVENUES AND EXPENSES

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. The System's 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 2013 and 2012 of $223,351,040 and $199,829,438, respectively, the System recorded a liability of $732,319,494 and $757,179,841 at August 31, 2013 and 2012, 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 statement of net position. 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, 2013 and 2012 is $9,550,377 and $9,446,276, 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 $23,323,072 in 2013 and $21,909,095 in 2012 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 $671,930,188 and $549,675,121 for 2013 and 2012, respectively.

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 $73,882,331 and $80,738,667 for 2013 and 2012, respectively.

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 $274,751,458 and $246,727,869 in 2013 and 2012, respectively.

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, 2013 and 2012 are detailed by type as follows:

Net Other Receivables		**2013**	**2012**
Receivables related to investments	$	145,388,037	100,412,334
Receivables related to gifts, grants and sponsored programs		46,517,988	77,815,418
Receivables related to external parties/other companies		90,662,671	55,987,428
Receivables related to auxiliary enterprises		18,504,218	10,153,211
Receivables related to payroll		7,006,479	6,124,683
Receivables related to patents		162,145	1,602,040
Receivables related to travel		996,749	904,249
Receivables related to loan funds and financial aid		1,617,754	1,425,230
Receivables related to agency funds		1,346,252	1,506,470
Receivables related to other various activities		25,492,803	16,213,254
Total	$	337,695,096	272,144,317

6. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2013 and 2012, the carrying amount of deposits was $199,716,014 and $264,020,219, respectively, as presented below:

		2013	2012
Cash and cash equivalents per statement of cash flows and statement of net position	$	2,527,414,452	2,459,823,225
Less: Cash in State Treasury		651,599,527	661,226,600
Repurchase agreement – Texas Treasury Safekeeping Trust Co.		1,048,163	2,149,988
Other cash equivalent investments		1,667,453,123	1,519,150,667
Other		7,597,625	13,275,751
Deposits of cash in bank	$	199,716,014	264,020,219

As of August 31, 2013 and 2012, the total bank balances were $66,634,980 and $73,533,203, 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, 2013, the System had no bank balances that were exposed to custodial credit risk. As of August 31, 2012, 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 were uninsured and uncollateralized deposits of $22,232.

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, 2013 and 2012, the investments including securities lending collateral were as follows:

Type of Security		2013 Fair Value	2012 Fair Value
U.S. Government:			
U.S. Treasury Securities	$	539,601,782	357,377,883
U.S. Treasury Strips		448,870	557,833
U.S. Treasury TIPS		36,952,743	2,702,930
U.S. Government Agency Obligations		159,605,758	249,406,664
Corporate Obligations		314,548,902	454,203,466
Corporate Asset and Mortgage Backed Securities		67,966,521	94,000,116
Equity		1,544,012,907	1,232,278,212
International Obligations (Government and Corporate)		1,527,163,197	1,918,796,496
International Equity		2,580,734,253	2,060,077,881
Fixed Income Money Market and Bond Mutual Fund		2,666,926,885	2,518,370,293
Other Commingled Funds:			
Hedge Funds		8,833,185,272	7,953,877,772
Fixed Income		23,450,916	23,018,973
U. S. Equity		1,485,358,912	1,150,296,610
International Other Commingled Funds:			
Non-U.S. Developed Equity		1,060,984,105	837,892,956
Emerging Markets		973,874,764	812,095,582
Real Estate		1,447,816	1,576,322
Natural Resources		286,981,200	323,971,511
Commodities		1,916,720	1,967,191
PUF Lands		4,651,061,661	3,453,914,921
Other Real Estate		306,229,350	306,724,484
Physical Commodity		788,198,817	1,153,812,686
Investment Derivatives – Asset Positions		104,911,760	105,781,399
Alternative Investments:			
Limited Partnerships (Private Investments)		6,029,048,669	5,458,247,903
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		18,508,579	175,439,346
Total Securities		34,003,120,359	30,646,389,430
Securities Lending Collateral Investment Pool		633,473,261	511,400,510
TOTAL	$	34,636,593,620	31,157,789,940
Deposit with Brokers for Derivative Contracts, net:			
U.S. Treasury Bonds and Notes	$	459,660	783,227
U.S. Treasury Bills		46,594,447	670,041
U.S. Treasury Inflation Protected		1,226,775	271,299
Foreign Government and Provincial Obligations		(2,238,038)	74,542,172
Fixed Income Money Market and Mutual Funds		32,385,948	37,961,190
Total Deposit with Brokers for Derivative Contracts, net	$	78,428,792	114,227,929

In 2013, certain reclassifications were made within the above schedule as it relates to the previous 2012 presentation of "Other Commingled Funds", "International Commingled Funds" and "Investment Funds" to conform with the 2013 presentation. Such reclassification had no impact on previously reported investments.

(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, 2013 and 2012:

		August 31, 2013					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		Fair Value	Rating	Fair Value	Rating	Fair Value	Rating
U.S. Government Direct Obligations	$	625,134,298	Aaa	625,284,277	Aa	625,284,277	Aaa
		149,979	NR	-	-	-	-
U.S. Government Agency Obligations		159,605,758	Aaa	159,605,758	AA	159,605,758	AAA
Corporate Obligations		6,083,822	Aaa	5,221,096	AAA	3,609,753	AAA
		30,057,297	Aa	40,080,811	AA	37,343,371	AA
		155,392,175	A	183,761,519	A	145,743,953	A
		97,568,325	Baa	69,945,685	BBB	47,027,647	BBB
		8,752,520	Ba	4,894,407	BB	3,268,933	BB
		2,380,899	B	2,817,086	CCC	249,975	B
		14,313,864	NR	7,828,298	NR	77,305,270	NR
Corporate Asset and Mortgage Backed Securities		16,935,529	Aaa	25,760,695	AAA	26,372,151	AAA
		771,431	Aa	12,212,171	AA	1,785,360	AA
		1,440,482	A	3,303,497	A	90,225	A
		2,249,075	Baa	2,912,558	BBB	183,669	BBB
		1,743,676	Ba	305,222	BB	48,816	BB
		3,999,409	B	1,515,312	B	1,131,966	B
		11,849,966	Caa	16,501,397	CCC	408,185	CCC
		1,639,894	Ca	1,001,751	CC	2,807,581	C
		27,337,059	NR	169,956	D	245,654	D
		-	-	4,283,962	NR	34,892,914	NR
International Obligations (Government and Corporate)		495,112,452	Aaa	217,280,272	AAA	331,323,171	AAA
		383,266,221	Aa	251,116,017	AA	332,318,927	AA
		100,208,507	A	291,187,344	A	317,871,240	A
		402,796,564	Baa	124,782,135	BBB	334,909,445	BBB
		81,387,917	Ba	56,469,299	BB	1,575,372	BB
		495,430	Caa	867,199	B	867,199	B
		61,658,068	NR	495,430	CCC	206,059,805	NR
		-	-	582,727,463	NR	-	-
Fixed Income Money Market and Bond Mutual Fund		2,356,222,031	Aaa	2,344,986,204	AAA	11,235,827	AAA
		19,158,469	Aa	11,235,827	Aa	2,628,570,969	NR
		264,426,296	NR	283,584,765	NR	-	-
Miscellaneous		1,615,715	Aaa	907,421	AAA	1,110,690	AAA
		3,918,196	Aa	5,536,502	AA	3,423,384	AA
		7,344,012	A	7,341,421	A	7,341,421	A
		232,413	Ba	24,438,524	BB	755,195	BB
		2,081,139	B	1,325,944	B	26,919,122	NR
		24,358,337	NR	-	-	-	-
	$	5,371,687,225		5,371,687,225		5,371,687,225	

		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	

(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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012:

	August 31, 2013		August 31, 2012	
Investment Type	**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
Investments in Securities:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	$ 463,896,503	8.06	292,323,803	7.81
U.S. Treasury Strips	448,870	0.98	557,833	1.73
U.S. Treasury Bills	75,705,279	0.29	65,054,080	0.54
U.S. Treasury Inflation Protected	36,952,743	13.61	2,702,930	6.48
U.S. Agency Asset Backed	3,492,401	4.01	5,940,385	4.36
Total U.S. Government Guaranteed	580,495,796	7.37	366,579,031	6.45
U.S. Government Non-Guaranteed:				
U.S. Agency	14,509,417	1.19	5,756,248	3.82
U.S. Agency Asset Backed	141,603,940	3.86	237,710,031	2.99
Total U.S. Government Non-Guaranteed	156,113,357	3.61	243,466,279	3.01
Total U.S. Government	736,609,153	6.58	610,045,310	5.07
Corporate Obligations:				
Domestic	382,515,423	5.20	548,203,582	6.33
Foreign	341,810,968	5.28	368,027,324	5.47
Total Corporate Obligations	724,326,391	5.24	916,230,906	5.99
Foreign Government and Provincial Obligations	1,185,352,229	5.19	1,550,769,172	6.32
Other Debt Securities	15,343,700	10.36	47,556,398	12.86
Total Debt Securities	2,661,631,473	5.62	3,124,601,786	6.08
Other Investment Funds - Debt	23,450,917	7.00	23,018,972	6.90
Convertible Stock	755,195	14.35	1,021,062	29.03
Fixed Income Money Market and Mutual Funds	2,607,420,848	0.27	2,452,633,654	0.04
Total	$ 5,293,258,433	2.99	5,601,275,474	3.44
Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	$ 459,660	43.87	783,227	19.25
U.S. Treasury Bills	46,594,447	0.35	670,041	0.67
U.S. Treasury Inflation Protected	1,226,775	11.62	271,299	13.78
Total U.S. Government Guaranteed	48,280,882	1.05	1,724,567	11.17
Foreign Government and Provincial Obligations	(2,238,038)	0.00	74,542,172	5.50
Fixed Income Money Market and Mutual Funds	32,385,948	0.00	37,961,190	0.00
Total Deposit with Brokers for Derivative Contracts	$ 78,428,792	0.64	114,227,929	3.75

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, 2013, these options had a notional value of $11,500,000,000 and a fair value of $22,679,720. As of August 31, 2012, these options had a notional value of $11,500,000,000 and a fair value of $16,304,250. 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 as of August 31, 2013 and 2012. 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, 2013, these puts and swaptions had a notional value of $5,758,000,000 with a fair value of $26,533,395. 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. The risk of loss on these options is limited to the premiums paid by the System upon the purchase of the options, which totaled $44,094,447 and $52,581,063 as of August 31, 2013 and 2012, respectively. It is estimated that these options would adjust the 2013 duration of total debt securities of 5.62 downward by approximately 0.40, and the total duration of 2.99 downward by approximately 0.34. 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. 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, 2013 and 2012, 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, 2013 and 2012, these securities amounted to $147,049,057 and $202,468,063, 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, 2013 and 2012, these securities amounted to $76,666,350 and $141,508,436, 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, 2013 and 2012 these securities amounted to $14,238,571 and $18,065,156, 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, 2013 and 2012.

Investment Type	2013 Fair Value
Domestic Common Stock:	
Indian Rupee	$ 88,641
Foreign Common Stock:	
Australian Dollar	54,286,237
Brazilian Real	133,091,217
British Pound	221,002,437
Canadian Dollar	69,567,165
Chilean Peso	4,286,688
Chinese Yuan Renminbi	106,876,111
Colombian Peso	825,413
Czech Koruna	2,923,000
Danish Krone	6,990,963
Egyptian Pound	2,784,226
Euro	136,170,112
Hong Kong Dollar	288,682,404
Hungarian Forint	1,289,148
Indian Rupee	33,367,267
Indonesian Rupiah	24,717,927
Japanese Yen	478,840,412
Malaysian Ringgit	37,065,961
Mexican Peso	30,011,010
Moroccan Dirham	730,234
Norwegian Kroner	9,330,668
Pakistan Rupee	1,853,145
Peruvian Neuvo Sol	6,443
Philippines Peso	29,303,016
Polish Zloty	11,218,335
Singapore Dollar	34,373,094
South African Rand	40,618,210
South Korean Won	128,425,797
Swedish Krona	34,354,856
Swiss Franc	26,091,615
Taiwan Dollar	87,242,585
Thai Baht	30,813,639
Turkish Lira	19,298,392
United Arab Emirates Dirham	4,966,755
Total Foreign Common Stock	2,091,404,482
Other Equity Securities:	
Hong Kong Dollar	14,968
Chilean Peso	61
Indian Rupee	423
Taiwan Dollar	299
Total Other Equity Securities	15,751
Foreign Preferred Stock:	
Brazilian Real	62,440,434
Colombian Peso	44,427
Total Foreign Preferred Stock	62,484,861
Foreign Government & Provincial Obligations:	
Australian Dollar	112,218,448
Brazilian Real	50,233,870
British Pound	104,674,405
Canadian Dollar	30,401,224
Columbian Peso	6,715,607
Euro	332,116,012

Investment Type	2013 Fair Value
Foreign Government & Provincial Obligations (cont.):	
Hong Kong Dollar	$ 1,444,716
Hungarian Forint	26,707,122
Japanese Yen	93,513,687
Malaysian Ringgit	7,532,620
Mexican Peso	139,941,565
New Zealand Dollar	89,587,021
Polish Zloty	53,554,155
Singapore Dollar	8,225,960
South African Rand	38,148,712
South Korean Won	29,435,999
Swedish Krona	1,382,641
Turkish Lira	17,046,344
Total Foreign Government & Provincial Obligations	1,142,880,108
Corporate Obligations:	
Australian Dollar	55,283,248
British Pound	57,904,431
Canadian Dollar	3,670,782
Euro	74,440,383
Japanese Yen	5,146,057
New Zealand Dollar	3,738,196
Swedish Krona	2,943,869
Total Corporate Obligations	203,126,966
Investment Funds - Emerging Markets:	
Brazilian Real	27,132,424
British Pound	98,656,513
Canadian Dollar	882,914
Hong Kong Dollar	2,368,141
Swedish Krona	1,338,498
Taiwan Dollar	712,522
Total Investment Funds - Emerging Markets	131,091,012
Investment Funds - Natural Resources:	
British Pound	4,868,209
Private Investments:	
Australian Dollar	16,717,178
British Pound	47,129,737
Canadian Dollar	136,323,134
Euro	309,124,708
Total Private Investments	509,294,757
Cash and Cash Equivalents:	
Australian Dollar	846,126
Brazilian Real	13,049,835
British Pound	18,917,116
Canadian Dollar	196,196
Chilean Peso	11,408
Chinese Yuan Renminbi	7,317,997
Colombian Pesa	7,091
Czech Koruna	18,806
Danish Krone	373
Egyptian Pound	1
Euro	60,630,095
Hong Kong Dollar	3,696,506
Hungarian Forint	2,286
Indian Rupee	235,274

Investment Type (cont.)	2013 Fair Value
Cash and Cash Equivalents (cont.):	
Indonesian Rupiah	1,461,308
Israeli Shekel	2
Japanese Yen	4,798,408
Malaysian Ringgit	146,922
Mexican Peso	516,029
Moroccan Dirham	34,665
New Zealand Dollar	458,497
Norwegian Kroner	529
Pakistan Rupee	120
Peruvian Nuevo Sol	768
Philippine Peso	65,692
Polish Zloty	175,827
Singapore Dollar	1,920
South African Rand	75,190
South Korean Won	408,253
Swedish Krona	1,682
Swiss Franc	3,376
Taiwan Dollar	708,773
Thailand Baht	795,968
Turkish Lira	35,492
Total Cash and Cash Equivalents	114,618,531
Purchased Options:	
Japanese Yen	26,533,395
Written Options:	
British Pound	(30,034)
Euro	(36,326)
Total Written Options	(66,360)
Swaps:	
British Pound	9,829
Euro	29,648
Japanese Yen	55,948
Mexican Peso	34,861
Total Swaps	130,286

Investment Type		2013 Fair Value
Futures:		
Australian Dollar	$	9,312
British Pound		57,576
Canadian Dollar		(6,648)
Euro		150,783
Japanese Yen		12,698
Total Futures		223,721
Foreign Exchange Contracts:		
Australian Dollar		3,791,304
Brazilian Real		(719,166)
British Pound		(751,058)
Canadian Dollar		48,926
Chilean Peso		(608,184)
Chinese Yuan Renminbi		(537,706)
Colombian Peso		148,109
Czech Koruna		(777)
Danish Krone		(17,776)
Euro		433,533
Hong Kong Dollar		(153)
Hungarian Forint		56
Indian Rupee		(1,469,615)
Indonesian Rupiah		3,935
Israeli Shekel		1,128
Japanese Yen		9,066,450
Malaysian Ringgit		(116,415)
Mexican Peso		(91,288)
New Zealand Dollar		2,907,473
Norwegian Kroner		(247,998)
Polish Zloty		(844,380)
Russian Ruble		(127,126)
Singapore Dollar		7,058
South African Rand		(11,141,157)
South Korean Won		(1,958,848)
Swedish Krona		(165,119)
Swiss Franc		(743,686)
Taiwan Dollar		(2,563,323)
Thailand Baht		(44,898)
Total Foreign Exchange Contracts		(5,740,701)
Total	$	4,280,953,659

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 Rupiah		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 Rupiah		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 Rupiah		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

(G) *Counterparty (Credit) Risk* **–** The derivative instruments utilized by the System contain varying degrees of off-statement of net position risk whereby changes in the fair values of securities underlying the financial instruments may exceed the amounts recognized in the statement of net position. 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, 2013 and 2012 for options, swaps, and foreign currency exchange contracts:

Options

	Assets	Liabilities	Assets	Liabilities	
	Notional	**Notional**	**Fair Value as of August 31, 2013**	**Fair Value as of August 31, 2013**	**Counterparty Rating**
$	17,263,800,000	132,713,300	50,114,147	1,838,081	A
$	17,263,800,000	132,713,300	50,114,147	1,838,081	

Swaps

	Assets	Liabilities	Assets	Liabilities	
	Notional	**Notional**	**Fair Value as of August 31, 2013**	**Fair Value as of August 31, 2013**	**Counterparty Rating**
$	75,400,299	64,932,458	1,664,034	1,438,930	A
$	75,400,299	64,932,458	1,664,034	1,438,930	

Foreign Currency Exchange Contracts

	Assets	Liabilities	Assets	Liabilities	
	Notional	**Notional**	**Fair Value as of August 31, 2013**	**Fair Value as of August 31, 2013**	**Counterparty Rating**
$	1,079,572,756	1,305,381,437	26,634,756	32,330,726	A
	6,128,342	7,507,833	15,652	60,383	AA
$	1,085,701,098	1,312,889,270	26,650,408	32,391,109	

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	

As of August 31, 2013 and 2012, 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 is held by the System in one of its accounts at the System's custodian bank. As of August 31, 2013 and 2012, the System held $47,318,038 and $42,705,000, respectively, as collateral related to derivative instruments other than futures, and had on deposit with brokers $7,921,418 and $77,111,070, 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, 2013 and 2012, there were a total of $869,554,924 and $663,606,740, 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 $633,473,261 at August 31, 2013 and $511,400,510 at August 31, 2012. These amounts are recorded as assets, with an offsetting liability to return the collateral on the consolidated statement of net position. 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, 2013 and on August 31, 2012 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, 2013 and 2012, are shown in the following table:

	August 31, 2013			August 31, 2012		
Description	**Fair Value**	**Rating**	**Weighted Average**	**Fair Value**	**Rating**	**Weighted Average**
Repurchase Agreements	$ 291,415,535	No Rating	3	250,295,163	No Rating	4
Commercial Paper	142,092,433	P	67	110,173,628	P	57
Discount Notes – U.S. Government Agency	-	-	-	8,716,435	P	3
Corporate Obligations	4,505,264	AAA		-	-	
Corporate Obligations	32,178,005	AA		2,506,690	AA	
Corporate Obligations	5,469,929	A		-	-	
Total Corporate Obligations	42,153,198		40	2,506,690		74
Discount Notes – International Obligations	-	-	-	5,239,867	P	
International Obligations	94,916,479	AA		58,718,365	AA	
International Obligations	36,203,862	A		17,126,980	A	
Total International Obligations	131,120,341		38	81,085,212		42
U.S. Treasury Securities	-	-	-	7,110,638	AA	169
Negotiable Certificates of Deposit	26,635,979	P	75	51,550,703	P	65
Other Receivables/Payables	55,775	Not Rated		(37,959)	Not Rated	-
Total Collateral Pool Investment	$ 633,473,261		30	511,400,510		30

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 both August 31, 2013 and 2012, the System held collateral equal to 102 percent 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 107 percent for international loans on August 31, 2013 and 109 percent for international loans on August 31, 2012.

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, 2013 and 2012, 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, 2013 and 2012.

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 statement of net position. 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, 2013 and 2012, 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, 2013 was an increase of $3,256,388. The change in fair value of open futures contracts for the year ending August 31, 2012 was an increase of $2,782,180 which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System had $117,825,413 and $79,821,859 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2013 and 2012, 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 $160,275,081 for the year ended August 31, 2013. The amount of the net realized loss on the futures contracts was $39,705,903 for the year ended August 31, 2012. 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, 2013 and 2012, 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, 2013 and 2012.

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2013:

		Notional Value at August 31, 2013		Carrying and Fair Value at August 31, 2013	
		Long	Short	Assets	Liabilities
Foreign Equity Futures	$	267,392,950	-	2,244,550	-
Commodity Futures		868,061,160	70,188,863	4,906,000	7,207,677
Domestic Fixed Income		38,421,429	50,388,188	-	23,508
International Fixed Income Futures		469,602,135	50,761,379	246,894	34,999
Interest Rate Swap		-	1,029,188	172	-
Totals	$	1,643,477,674	172,367,618	7,397,616	7,266,184

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

(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 statement of net position. 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, 2013 and 2012. Foreign currency amounts are translated at exchange rates as of August 31, 2013 and 2012. 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, 2013	Net Sell August 31, 2013	Unrealized Gains on Foreign Exchange Contracts August 31, 2013	Unrealized Losses on Foreign Exchange Contracts August 31, 2013
Australian Dollar	$	-	180,824,680	3,922,612	131,308
Brazilian Real		-	17,349,409	1,232,331	1,951,497
British Pound		15,644,860	-	476,417	1,227,475
Canadian Dollar		-	23,330,734	85,162	36,236
Chilean Peso		34,161,616	-	-	608,184
Chinese Yuan Renminbi		249,469	-	-	537,706
Columbian Peso		-	5,877,064	148,109	-
Czech Koruna		186,556	-	-	777
Danish Krone		1,827,951	-	14	17,790
Euro		-	137,968,499	1,316,530	882,997
Hong Kong Dollar		52,753	484,157	-	153
Hungarian Forint		-	3,258	56	-
Indian Rupee		31,449,024	-	4	1,469,619
Indonesian Rupiah		-	21,217	96,252	92,317
Israeli Shekel		199,210	-	1,128	-
Japanese Yen		-	254,173,397	12,952,651	3,886,201
Malaysian Ringgit		15,514,222	-	-	116,415
Mexican Peso		22,867,141	6,699,969	1,427,753	1,519,041
New Zealand Dollar		-	112,215,727	3,117,082	209,609
Norwegian Kroner		2,251,395	-	234,697	482,695
Polish Zloty		-	33,683,347	397,912	1,242,292
Russian Ruble		81,146	-	717,532	844,658
Singapore Dollar		4,551,996	-	26,972	19,914
South African Rand		65,516,212	-	51,950	11,193,107
South Korean Won		50,598,217	-	351,027	2,309,875
Swedish Krona		7,024,865	-	73,278	238,397
Swiss Franc		-	25,803,402	-	743,686
Taiwan Dollar		66,268,817	-	18,373	2,581,696
Thailand Baht		1,063,580	-	2,566	47,464
TOTAL	$	319,509,030	798,434,860	26,650,408	32,391,109

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2013 was a decrease in the amount of $4,813,003, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

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 Rupiah		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 position.

(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 statement of net position 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, 2013 and 2012:

					Fair Value at August 31, 2013	
Type	**Underlying**	**Contracts**	**Expiration Date**		**Assets**	**Liabilities**
Commodity						
	Aluminum Futures	18	12/04/13	$	-	67
	Copper Futures	10	12/03/14		-	33,455
					-	33,522
Interest Rate Swaps						
	6 month EURIBOR	12,100,000	03/12/14		-	11,025
					-	11,025
				$	-	44,547

The change in fair value of open call options for the year ending August 31, 2013, was an increase in the amount of $190,389, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System recognized gains in the amount of $2,552,624 on call options written, which are included in investment income on the consolidated statement of revenues, expenses and changes in net position for the year ended August 31, 2013.

					Fair Value at August 31, 2012	
Type	**Underlying**	**Contracts**	**Expiration Date**		**Assets**	**Liabilities**
Commodity						
	Corn Futures	7	11/23/12	$	-	3,676
					-	3,676
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 position. 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 position for the year ended August 31, 2012.

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, 2013 and 2012. The following discloses the contracts outstanding, the expiration date and the fair values of the outstanding written put options contracts as of August 31, 2013 and 2012:

				Fair Value at August 31, 2013	
Type	**Underlying**	**Contracts**	**Expiration Date**	**Assets**	**Liabilities**
Interest Rate Swap					
	U.S. 3 month LIBOR	7,200,000	09/03/13	$ -	130,755
	U.S. 3 month LIBOR	9,000,000	09/30/13	-	140,540
	U.S. 3 month LIBOR	54,900,000	10/18/13	-	398,042
	6 month British LIBOR	2,200,000	10/25/13	-	30,034
	6 month EURIBOR	12,100,000	03/12/14	-	25,301
	U.S. 3 month LIBOR	23,600,000	09/21/15	-	1,098,653
				-	1,823,325
Commodity					
	Brent Crude Futures	7	11/17/15	-	21,840
				-	21,840
Equity					
	Apple, Inc.	13	01/17/15	-	65,270
				-	65,270
Other					
	CPI Urban Consumer Not Seasonally Adjusted	1,300,000	09/29/20	-	1,593
	CPI Urban Consumer Not Seasonally Adjusted	1,400,000	10/13/20	-	2,137
				-	3,730
				$ -	1,914,165

The change in fair value of open put options for the year ending August 31, 2013, was a decrease in the amount of $884,594, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System recognized gains in the amount of $20,902,929 on put options written which are included in investment income on the consolidated statement of revenues, expenses and changes in net position for the year ended August 31, 2013.

Type	Underlying	Contracts	Expiration Date		Fair Value at August 31, 2012 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	03/18/13		-	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	12/05/12		-	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	08/15/13		-	4,095,076
	Australia S&P/ASX 200 Index	245,157	09/20/12		-	85,347
	Korean KOSPI 200 Index	3,915,726,750	06/13/13		-	3,963,393
	Korean KOSPI 200 Index	3,621,169,130	08/08/13		-	12,996,635
					-	21,140,451
Other						
	CPI Urban Consumer Not Seasonally Adjusted	1,300,000	09/29/20		-	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 position. 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 position for the year ended August 31, 2012.

(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 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 statement of net position. 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, 2013:

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2013 Assets	Fair Value at August 31, 2013 Liabilities
Interest Rate (Pay-Fixed Receive-Variable):					
British Pound	Receive 6 month British LIBOR Pay 1.000%	$ 24,905,090	06/18/15	$ 18,414	-
Euro	Receive 6 month EURIBOR Pay 0.750%	6,988,580	03/19/15	8,085	-
Japanese Yen	Receive 6 month Yen LIBOR Pay 1.500%	1,121,120	06/19/33	-	33,395
U.S. Dollar	Receive 3 month US Dollar LIBOR Pay 2.650%	2,200,000	07/31/23	-	49,873
		35,214,790		26,499	83,268
Interest Rate (Pay-Variable Receive-Fixed):					
Euro	Receive 2.000% Pay 6 month EURIBOR	395,580	09/18/23	6,722	-
Japanese Yen	Receive 0.250% Pay 6 month Yen LIBOR	1,019,200	09/18/15	294	-
Mexican Peso					
	Receive 5.000% Pay Mexican Interbank Rate	1,707,607	06/11/18	-	66,409
	Receive 5.000% Pay Mexican Interbank Rate	22,469	09/06/19	-	1,535
	Receive 5.750% Pay Mexican Interbank Rate	501,798	02/22/23	-	43,902
	Receive 6.590% Pay Mexican Interbank Rate	2,306,767	12/08/15	88,141	-
	Receive 6.750% Pay Mexican Interbank Rate	1,280,705	06/08/16	58,566	-
U.S. Dollar					
	Receive 1.700% Pay 3 month US Dollar LIBOR	1,400,000	03/20/18	-	15,747
		8,634,126		153,723	127,593

(Continued)				Fair Value at August 31, 2013	
Currency		USD Notional Value	Maturity Date	Assets	Liabilities
Credit Default:					
British Pound	0.670%	1,206,582	09/20/2014	-	8,585
Euro	1.000%	791,160	06/20/2017	14,841	-
Japanese Yen	1.000%	20,353,424	06/20/2018	89,049	-
U.S. Dollar	0.460%	1,000,000	12/20/2013	-	2,216
	0.510%	800,000	03/20/2018	-	12,380
	0.590%	1,000,000	09/20/2014	-	6,150
	0.590%	1,000,000	09/20/2016	-	12,844
	0.700%	800,000	12/20/2018	-	210
	0.750%	1,000,000	09/20/2017	-	17,579
	0.820%	1,000,000	03/20/2018	-	14,521
	0.862%	1,800,000	11/20/2016	58,766	-
	0.900%	1,000,000	06/20/2019	-	19,501
	0.990%	200,000	09/20/2015	-	3,613
	1.000%	3,400,000	09/20/2016	82,818	-
	1.000%	2,400,000	12/20/2016	20,207	-
	1.000%	12,900,000	06/20/2018	154,544	185,358
	1.000%	200,000	06/20/2019	-	5,196
	1.060%	680,000	03/20/2018	-	934
	1.350%	400,000	03/20/2018	-	18,476
	1.380%	2,000,000	03/20/2017	-	68,563
	1.530%	500,000	09/20/2016	-	15,475
	1.920%	1,000,000	03/20/2017	-	19,027
	2.700%	1,000,000	03/20/2019	-	70,880
	2.930%	300,000	06/20/2015	-	15,497
		56,731,166		420,225	497,005
Commodity:					
U.S. Dollar	S&P GSCI Industrial Metal	810,288	12/31/2013	13,911	-
	Nuexco Uranium Ore	194,688	02/28/2014	-	41,396
	Nuexco Uranium Ore	193,897	03/31/2014	-	40,605
	Nuexco Uranium Ore	807,000	04/28/2014	-	118,266
	S&P GSCI Grains	8,328,337	08/29/2014	-	44,595
		10,334,210		13,911	244,862
Equity:					
U.S. Dollar	MSCI Taiwan Index	34,290,079	01/11/2014	-	585,217
	MSCI Korea Index	33,157,956	05/29/2014	1,083,191	-
		67,448,035		1,083,191	585,217
Total		178,362,327		1,697,549	1,537,945

The change in fair value of open swap positions for the year ending August 31, 2013, was a decrease in the amount of $1,447,257, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

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	Fair Value at August 31, 2012 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)

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2012 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 position.

(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 statement of net position 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 $217,890,087 and $122,892,459 of future funding to various hedge fund investments as of August 31, 2013 and 2012, 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 $3,781,271,249 and $3,717,867,684 of future funding to various private investments as of August 31, 2013 and 2012, 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. As of August 31, 2013, future fundings in the amount of $13,800,000 have been committed to certain public market funds. As of August 31, 2012, future fundings in the amount of $22,000,000 had 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, 2013 and 2012 were $18,385,545,763 and $16,337,048,570, 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) 8/31/12 to 8/31/13		Fair Value at 8/31/13		
	Classification	**Amount**	**Classification**	**Amount**	**Notional Amount**
Cash Flow Hedges-Interest Rate Swaps					
Hedging Derivative Liabilities Pay-Fixed Receive-Variable	Def Outflows	$ 197,116,062	Hedging Derivative Liab	$ (136,968,095)	1,309,210,000
Investment Derivative Assets Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	11,647,124	Investments	26,156,008	492,682,500
Investment Derivative Liabilities Pay-Fixed Receive-Variable	Net Incr. (Decr.) in FV of Invest	160,451	Invest Deriv - Liab Positions	-	-
Investment Derivative Liabilities Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	584,992	Invest Deriv - Liab Positions	(6,718,552)	678,715,000
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		26,499		26,499	31,893,670
Pay-Variable Receive-Fixed		(630,114)		153,723	5,002,252
Credit Default		47,161		420,225	37,844,584
Commodity		13,911		13,911	810,288
Equity		453,612		1,083,191	33,157,956
Total Swaps	Net Incr. (Decr.) in FV of Invest	(88,931)	Investments	1,697,549	108,708,750
Futures	Net Incr. (Decr.) in FV of Invest	7,397,616	Other Accounts Receivable	7,397,616	1,643,477,674
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	26,650,408	Investments	26,650,408	1,085,701,098
Purchased Options	Net Incr. (Decr.) in FV of Invest	2,784,879	Investments	50,407,795	17,276,694,999
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		(83,268)		(83,268)	3,321,120
Pay-Variable Receive-Fixed		(127,593)		(127,593)	3,631,874
Credit Default		(317,386)		(497,005)	18,886,582
Commodity		(244,862)		(244,862)	9,523,922
Equity		(585,217)		(585,217)	34,290,079
Total Swaps	Net Incr. (Decr.) in FV of Invest	(1,358,326)	Invest Deriv - Liab Positions	(1,537,945)	69,653,577
Futures	Net Incr. (Decr.) in FV of Invest	(7,266,184)	Current Accounts Payable	(7,266,184)	172,367,618
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(31,463,411)	Invest Deriv - Liab Positions	(32,391,109)	1,312,889,270
Options Written	Net Incr. (Decr.) in FV of Invest	(694,205)	Invest Deriv - Liab Positions	(1,958,712)	128,275,002

	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

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 $27,438,538,154 and $24,428,660,911 of endowment funds, including annuity and life income funds, as of August 31, 2013 and 2012, respectively. The net position classifications on the statement of net position related to endowment funds, including annuity and life income funds, as of August 31, 2013 and 2012 are as follows:

Net Position Classification of Endowments		2013	2012
Restricted, nonexpendable	$	17,340,735,884	15,128,697,354
Restricted, expendable:			
Net Appreciation on True Endowments		7,992,049,527	7,290,161,740
Funds Functioning as Endowments		362,811,504	286,767,487
Term Endowments		59,537,258	32,429,517
Unrestricted:			
Funds Functioning as Endowments		728,516,529	663,548,842
Total	$	26,483,650,702	23,401,604,940

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, 2013, is presented below.

		Balance 09/01/12	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:				
Land and Land Improvements	$	494,397,174	-	7,177,976
Construction in Progress (CIP)		1,248,589,086	(6,170,557)	(1,013,808,080)
Nondepreciable Collections		249,188,757	-	-
Nonamortizable Intangible Assets		3,240,147	-	-
Total Nondepreciable/Nonamortizable Assets		1,995,415,164	(6,170,557)	(1,006,630,104)
Depreciable Assets:				
Buildings and Building Improvements		13,751,329,565	(283,995)	785,860,376
Infrastructure		309,015,656	-	23,850,450
Facilities and Other Improvements		691,617,398	-	53,931,520
Furniture and Equipment		2,916,092,789	(15,332,037)	18,446,525
Vehicles, Boats and Aircraft		73,296,864	(113,749)	-
Other Depreciable Assets (including Library Books)		595,531,390	-	1,628,237
Total Depreciable Assets at Historical Cost		18,336,883,662	(15,729,781)	883,717,108
Less Accumulated Depreciation for:				
Buildings and Building Improvements		(5,290,544,799)	-	-
Infrastructure		(140,420,570)	-	-
Facilities and Other Improvements		(313,442,194)	-	-
Furniture and Equipment		(1,930,753,616)	-	-
Vehicles, Boats and Aircraft		(50,831,429)	-	-
Other Depreciable Assets (including Library Books)		(431,889,166)	-	-
Total Accumulated Depreciation		(8,157,881,774)	-	-
Depreciable Assets, net		10,179,001,888	(15,729,781)	883,717,108
Amortizable Intangible Assets:				
Computer Software		835,747,964	(22,445,339)	122,912,996
Total Amortizable Intangible Assets		835,747,964	(22,445,339)	122,912,996
Less Accumulated Amortization for:				
Computer Software		(587,609,078)	-	-
Total Accumulated Amortization		(587,609,078)	-	-
Intangible Capital Assets, net		248,138,886	(22,445,339)	122,912,996
Capital Assets, net	$	12,422,555,938	(44,345,677)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/13
-	-	57,392,340	(6,648,220)	552,319,270
-	-	1,252,163,025	(42,569)	1,480,730,905
-	-	30,507,231	(453,676)	279,242,312
-	-	6,002,323	-	9,242,470
-	-	1,346,064,919	(7,144,465)	2,321,534,957
-	-	132,184,776	(23,053,758)	14,646,036,964
-	-	5,318,714	-	338,184,820
-	-	4,135,618	(10,314)	749,674,222
134,958	(765,522)	346,825,343	(156,668,233)	3,108,733,823
-	(170,540)	9,240,303	(4,072,068)	78,180,810
-	-	25,634,620	(30,133,638)	592,660,609
134,958	(936,062)	523,339,374	(213,938,011)	19,513,471,248
-	-	(622,818,589)	15,638,553	(5,897,724,835)
-	-	(10,358,861)	1,690	(150,777,741)
-	-	(31,059,076)	113,108	(344,388,162)
(130,183)	594,476	(258,084,323)	128,779,784	(2,059,593,862)
-	170,541	(8,825,965)	2,760,816	(56,726,037)
-	-	(24,878,918)	27,567,326	(429,200,758)
(130,183)	765,017	(956,025,732)	174,861,277	(8,938,411,395)
4,775	(171,045)	(432,686,358)	(39,076,734)	10,575,059,853
-	(19,020)	49,078,123	(22,406,497)	962,868,227
-	(19,020)	49,078,123	(22,406,497)	962,868,227
-	19,020	(148,986,078)	21,676,937	(714,899,199)
-	19,020	(148,986,078)	21,676,937	(714,899,199)
-	-	(99,907,955)	(729,560)	247,969,028
4,775	(171,045)	813,470,606	(46,950,759)	13,144,563,838

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

The System does not have any impairment losses to report for the years ended August 31, 2013 and 2012. There were no capital assets that were idle as of August 31, 2013 or 2012.

10. Leases

OPERATING LEASES

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were $88,990,951 in 2013 and $82,784,597 in 2012. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2013, were as follows:

Fiscal Year		Lease Payments
2014	$	67,990,601
2015		52,078,275
2016		38,343,105
2017		29,938,734
2018		21,853,884
2019 – 2023		50,056,745
2024 – 2028		8,987,715
2029 – 2033		1,736,605
2034 – 2038		276,090
2039 – 2043		112,747
Total Minimum Future Payments	$	271,374,501

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, 2013 and 2012 were as follows:

Assets Leased		2013	2012
Buildings:			
Cost	$	129,211,012	84,047,177
Less: Accumulated Depreciation		(33,404,730)	(27,877,464)
Carrying Value of Buildings		95,806,282	56,169,713
Equipment:			
Cost		2,339,658	-
Less: Accumulated Depreciation		(1,906,697)	-
Carrying Value of Equipment		432,961	-
Parking Lot:			
Cost		19,927	18,324
Less: Accumulated Depreciation		(9,519)	(8,534)
Carrying Value of Parking Lot		10,408	9,790
Land		3,999,800	3,314,268
Total Carrying Value	$	100,249,451	59,493,771

There were no contingent rentals for the period ending August 31, 2013. Minimum future lease rental income under noncancelable operating leases as of August 31, 2013, was as follows:

Fiscal Year		Lease Income
2014	$	13,902,775
2015		12,014,721
2016		10,370,517
2017		9,154,838
2018		8,287,192
2019 and beyond		21,900,388
Total	$	75,630,431

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, 2013 and 2012 is as follows:

Assets Under Capital Lease		2013	2012
Furniture and Equipment	$	2,725,521	3,248,617
Less: Accumulated Depreciation		(1,499,328)	(1,834,311)
Nondepreciable Collections		6,083,860	6,847,303
Land		770,000	883,125
Total	$	8,080,053	9,144,734

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, 2013.

Fiscal Year		Principal	Interest	Total
2014	$	1,742,804	22,292	1,765,096
2015		1,506,402	17,292	1,523,694
2016		376,070	12,292	388,362
2017		356,543	6,875	363,418
2018		373,274	2,708	375,982
2019 – 2023		300,000	-	300,000
Total Minimum Lease Payments		4,655,093	61,459	4,716,552
			Less: Interest	(61,459)
		Present Value of Net Minimum Lease Payments		4,655,093

11. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2013 is summarized as follows:

		Balance 09/01/12	Additions	Reductions	Balance 08/31/13	Amounts due within one year
Bonds Payable:						
Permanent University Fund	$	1,431,030,000	-	24,280,000	1,406,750,000	406,570,000
Revenue Financing System		5,391,760,000	-	222,425,000	5,169,335,000	1,126,395,000
Subtotal Bonds Payable – Par		6,822,790,000	-	246,705,000	6,576,085,000	1,532,965,000
Unamortized Net Premiums		311,247,600	-	30,146,373	281,101,227	30,146,373
Total Bonds Payable		7,134,037,600	-	276,851,373	6,857,186,227	1,563,111,373
Notes & Loans Payable:						
Permanent University Fund CP Notes		322,000,000	133,000,000	45,000,000	410,000,000	410,000,000
Revenue Financing System CP Notes		283,304,000	302,441,000	66,490,000	519,255,000	519,255,000
Other Notes and Loans		24,446,789	19,532,505	1,750,056	42,229,238	20,948,404
Total Notes and Loans Payable		629,750,789	454,973,505	113,240,056	971,484,238	950,203,404
Leases Payable:						
Lease Obligations		4,504,271	1,650,286	1,499,464	4,655,093	1,742,804
Total Notes, Loans and Leases Payable		634,255,060	456,623,791	114,739,520	976,139,331	951,946,208
Net Other Postemployment Benefits Obligation		2,263,866,591	682,064,563	146,453,476	2,799,477,678	-
Hedging Derivative Liability		334,084,157	-	197,116,062	136,968,095	-
Employee Compensable Leave		473,331,005	203,457,776	180,498,584	496,290,197	327,656,858
Incurred But Not Reported Self-Insurance Claims		119,672,652	856,987,439	863,588,015	113,072,076	90,671,165
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$	10,959,247,065	2,199,133,569	1,779,247,030	11,379,133,604	2,933,385,604

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

	Restated Balance 09/01/11	Restated Additions	Restated Reductions	Restated Balance 08/31/12	Restated 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
Total Bonds Payable	6,909,549,819	523,274,670	298,786,889	7,134,037,600	1,586,061,373
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
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	$ 10,105,929,450	2,677,017,932	1,823,700,317	10,959,247,065	2,605,830,553

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
2014	$	1,532,965,000	258,881,470	1,791,846,470
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		269,165,000	213,217,624	482,382,624
2019 – 2023		1,275,185,000	877,952,472	2,153,137,472
2024 – 2028		832,845,000	610,981,002	1,443,826,002
2029 – 2033		696,045,000	442,525,466	1,138,570,466
2034 – 2038		738,309,000	234,068,904	972,377,904
2039 – 2043		431,631,000	63,069,968	494,700,968
2044 – 2048		63,105,000	6,112,590	69,217,590
Total Requirements	$	6,576,085,000	3,417,600,276	9,993,685,276

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 $1,309,210,000 and $1,344,315,000 at August 31, 2013 and 2012, respectively.

Total interest expense for the years ended August 31, 2013 and 2012 was $320,684,417 and $318,500,251, respectively. Interest expense of $29,978,364 and $35,959,708 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2013 and 2012, respectively. Interest expense was also adjusted $20,134,683 and $15,156,361 for the amortization of premiums and deferred gains and losses on refundings for the years ended August 31, 2013 and 2012, respectively. The remaining amounts of $270,571,370 in 2013 and $267,384,182 in 2012 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, 2013, which in substance are not bonds, is summarized as follows:

Fiscal Year		Principal	Interest	Total
2014	$	950,203,404	1,541,940	951,745,344
2015		1,735,171	1,010,475	2,745,646
2016		17,640,186	787,084	18,427,270
2017		1,418,529	52,758	1,471,287
2018		486,948	4,262	491,210
Total Requirements	$	971,484,238	3,396,519	974,880,757

POLLUTION REMEDIATION OBLIGATION

In 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 (VCP) 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 U. T. Austin received a "no further action" letter from TCEQ in 2013. 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 $339,278 and $335,909 were capitalized through August 31, 2013 and 2012 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. M. D. Anderson is awaiting closure on the VCP.

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, 2013 and 2012, the System had outstanding bonds payable of $6,576,085,000 and $6,822,790,000, 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	0.030%-5.262%	2014-2039	$	1,406,750,000
Revenue Financing System	0.030%-6.276%	2014-2046		5,169,335,000

As of August 31, 2013, 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, 2014. 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, 2013, 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:			
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
Refunding Bonds Series 2002B	To advance refund $109,240,000.00 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
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

(Continued)

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
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
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

(Continued)

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
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 $600,741,596 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 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 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 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 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

The following table provides the pledged future revenue information for the System's bonds:

		2013	2012
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$	9,993,685,276	10,509,154,757.35
Term of Commitment Year Ending 8/31		2046	2046
Percentage of Revenue Pledged		83.0%	74.3%
Current Year Pledged Revenue	$	8,291,640,244	7,804,126,447.57
Current Year Principal and Interest Paid	$	565,176,716	531,956,792.00

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 2013 or 2012. The System had $1,682,515,000 and $1,695,155,000 outstanding at August 31, 2013 and 2012, respectively.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2013

The System did not have any early extinguishments of bonds in fiscal year 2013.

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 statement of net position.
- 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 statement of net position. 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, 2013:

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 8/31/13
Pay Fixed; receive variable	PUF Bonds 2008A	$193,177,500	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	Baa1/A-	18.95 yrs
	PUF Bonds 2008A	193,177,500	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	Aa3/AA-	18.95 yrs
	RFS Bonds 2007B	166,292,500	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa3/A+	14.85 yrs
	RFS Bonds 2007B	166,292,500	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	A2/A	14.85 yrs
	RFS Bonds 2008B	137,770,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa3/A+	14.37 yrs
	RFS Bonds 2008B	137,770,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Baa1/A-	14.37 yrs
	RFS Bonds 2008B	314,730,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa3/A+	12.49 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	13.71 yrs
	PUF Bonds 2006B	284,065,000	8/1/2014	7/1/2035	Receive SIFMA; pay 82.04% of 1M LIBOR	Yes	Yes	A2/A	N/A
	PUF Bonds 2008A	193,177,500	11/1/2011	7/1/2038	Pay SIFMA; receive 93.4% of 3M LIBOR	No	No	A2/A	18.95 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-	24.15 yrs
	RFS Bonds 2008B	92,045,000	8/1/2009	8/1/2030	Pay SIFMA; receive 96% of 3M LIBOR	No	No	Aa3/AA-	15.34 yrs
	RFS Bonds 2008B	117,190,000	8/1/2009	8/1/2035	Pay SIFMA; receive 103% of 3M LIBOR	No	No	Aa3/AA-	19.98 yrs
TOTAL		**$2,480,607,500**							

*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, 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 is the fair market value of the swap agreements in effect at August 31, 2013 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 8/31/13)	Fair Value as of 8/31/13	Fair Value as of 8/31/12	Change in Fair Value 8/31/12 - 8/31/13	Change in Fair Value Recorded as
Hedging Derivative Liabilities	PUF Bonds 2008A	$193,177,500	1,180,870	(18,184,881)	(52,751,355)	34,566,474	Def Outflow
	PUF Bonds 2008A	193,177,500	1,168,499	(16,782,482)	(50,560,705)	33,778,223	Def Outflow
	RFS Bonds 2007B	166,292,500	519,450	(19,880,155)	(44,748,281)	24,868,126	Def Outflow
	RFS Bonds 2007B	166,292,500	519,450	(19,711,586)	(44,469,596)	24,758,010	Def Outflow
	RFS Bonds 2008B	137,770,000	441,261	(16,852,790)	(36,759,286)	19,906,496	Def Outflow
	RFS Bonds 2008B	137,770,000	441,261	(16,841,759)	(37,237,478)	20,395,719	Def Outflow
	RFS Bonds 2008B	314,730,000	933,032	(28,714,442)	(67,557,456)	38,843,014	Def Outflow
		1,309,210,000	5,203,823	(136,968,095)	(334,084,157)	197,116,062	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000.00	(16,506)	7,213,167	4,354,287	2,858,880	Incr. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000.00	(15,489)	4,584,101	2,574,090	2,010,011	Incr. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000.00	(21,561)	9,705,442	6,042,567	3,662,875	Incr. in Fair Value of Inv
	PUF Bonds 2008A	193,177,500.00	(65,811)	4,653,298	1,537,940	3,115,358	Incr. in Fair Value of Inv
		492,682,500.00	(119,367)	26,156,008	14,508,884	11,647,124	
Investment Derivatives-Liability Positions	RFS Bonds 2001A	-	-	-	(160,452)	160,452	Incr. in Fair Value of Inv
	PUF Bonds 2006B	284,065,000	(23,139)	(4,385,211)	(5,729,441)	1,344,230	Incr. in Fair Value of Inv
	PUF Bonds 2006B	284,065,000	-	(2,128,711)	-	[a] (1,218,711)	Dec. in Fair Value of Inv
	RFS Bonds 2008B	110,585,000	-	(204,630)	(664,102)	459,472	Incr. in Fair Value of Inv
		678,715,000	(23,139)	(6,718,552)	(6,553,995)	745,443	
TOTAL		**2,480,607,500**	**5,061,317**	**(117,530,639)**	**(326,129,268)**	**209,508,629**	

(a) The negative $1,218,711 included in investment income on the consolidated statement of revenues, expenses and changes in net position does not agree to the change in fair value of this interest rate swap from August 31, 2012 to August 31, 2013 due to the $910,000 payment received upon executing this swaption.

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)	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)	(28,983,421)	(23,767,934)	Def Outflow
	PUF Bonds 2008A	195,690,000	1,150,181	(50,560,705)	(27,372,115)	(23,188,590)	Def Outflow
	RFS Bonds 2007B	166,850,000	509,588	(44,748,281)	(27,236,196)	(17,512,085)	Def Outflow
	RFS Bonds 2007B	166,850,000	509,588	(44,469,596)	(27,105,814)	(17,363,782)	Def Outflow
	RFS Bonds 2008B	141,725,000	444,072	(36,759,286)	(23,949,462)	(12,809,824)	Def Outflow
	RFS Bonds 2008B	141,725,000	444,072	(37,237,478)	(24,254,480)	(12,982,998)	Def Outflow
	RFS Bonds 2008B	332,120,000	961,488	(67,557,456)	(43,345,819)	(24,211,637)	Def Outflow
		1,340,650,000	5,181,518	(334,084,157)	(202,247,307)	(131,836,850)	
Investment Derivatives- Asset Positions	RFS Bonds 2008B	90,270,000	(23,589)	4,354,287	6,242,386	(1,888,099)	Dec. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(21,847)	2,574,090	3,074,296	(500,206)	Dec. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(30,840)	6,042,567	8,206,203	(2,163,636)	Dec. in Fair Value of Inv
	PUF Bonds 2008A	195,690,000	(93,900)	1,537,940	-	1,537,940	Incr. in Fair Value of Inv
		495,195,000	(170,176)	14,508,884	17,522,885	(3,014,001)	
Investment Derivatives- Liability Positions	RFS Bonds 2001A	3,590,000	7,454	(160,452)	(459,965)	299,513	Incr. in Fair Value of Inv
	PUF Bonds 2006B	284,065,000	(14,128)	(5,729,441)	(8,636,823)	2,907,382	Incr. in Fair Value of Inv
	RFS Bonds 2008B	110,585,000	-	(664,102)	-	[a] (114,102)	Dec. in Fair Value of Inv
		398,240,000	(6,674)	(6,553,995)	(9,096,788)	3,092,793	
TOTAL		**$2,234,085,000**	**5,004,668**	**(326,129,268)**	**(193,821,210)**	**(131,758,058)**	

(b) The negative $114,102 included in investment income on the consolidated statement of revenues, expenses and changes in net position 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.

Derivative Instrument Objectives

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/13?	Evaluation for Effectiveness
Hedging Derivative Liabilities	PUF Bonds 2008A	$193,177,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	193,177,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	166,292,500	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	166,292,500	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	137,770,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	137,770,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	314,730,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
Investment Derivatives	PUF Bonds 2006B	284,065,000	Hedge changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2006B	284,065,000	Hedge changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2008A	193,177,500	Hedge changes in cash flows on Series 2008A bonds	N/A	N/A
	RFS Bonds 2008B	90,270,000	Hedge changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	92,045,000	Hedge changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	117,190,000	Hedge changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	110,585,000	Hedge changes in cash flows on Series 2008B bonds	N/A	N/A
TOTAL		**$2,480,607,500**			

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	N/A	N/A
	RFS Bonds 2008B	90,270,000	Hedge changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	92,045,000	Hedge changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	117,190,000	Hedge changes in cash flows on Series 2008B bonds	N/A	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**			

No derivative instruments were reclassified from a hedging derivative instrument to an investment derivative instrument in 2013 or 2012. The fair value of interest rate swaps reported as investment derivatives-asset positions of $26,156,008 and $14,508,884 as of August 31, 2013 and 2012, respectively, is included on the consolidated statement of net position 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 $6,718,552 and $6,553,995 as of August 31, 2013 and 2012, respectively, are included on the consolidated statement of net position 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 position, was an increase in the amount of $12,392,567 and an increase in the amount of $78,792 for the years ending August 31, 2013 and 2012, 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, 2013, 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, 2013, the maximum loss due to credit risk is $17,427,297. 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, 2013, 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, 2013, the System had market risk associated with $1,309,210,000 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, 2013, 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 2014 because the bonds are supported by internal liquidity.

As of August 31, 2013

Fiscal Year		Associated Variable Rate Bonds		Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
		Principal[1]	Interest[2]		
2014	$	32,610,000	460,298	48,195,043	81,265,341
2015		33,830,000	450,400	47,005,726	81,286,126
2016		35,095,000	440,131	45,771,361	81,306,492
2017		26,175,000	428,919	44,490,391	71,094,310
2018		27,140,000	419,029	43,530,884	71,089,913
2019-2023		177,885,000	1,931,785	201,807,536	381,624,321
2024-2028		278,925,000	1,499,975	160,316,256	440,741,231
2029-2033		313,440,000	935,204	105,947,451	420,322,655
2034-2038		374,870,000	406,139	49,234,369	424,510,508
2039-2043		9,240,000	2,772	328,390	9,571,162

[1]Reflects scheduled principal and interest payments of 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, 2013 on its Series 2008A 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, 2013 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2013

Fiscal Year		Associated Variable Rate Bonds		Pay-Variable Receive-Variable Interest Rate Swaps[3]	Total
		Principal[1]	Interest[2]		
2014	$	2,605,000	165,196	(818,534)	1,951,662
2015		2,697,500	165,223	(815,667)	2,047,056
2016		2,795,000	165,337	(812,699)	2,147,638
2017		2,897,500	165,233	(809,623)	2,253,110
2018		3,002,500	163,970	(806,435)	2,360,035
2019-2023		16,727,500	798,113	(3,980,156)	13,545,457
2024-2028		70,135,000	742,342	(3,834,404)	67,042,938
2029-2033		133,920,000	528,551	(2,869,378)	131,579,173
2034-2038		248,662,500	268,893	(1,420,241)	247,511,152
2039-2043		9,240,000	2,772	(19,128)	9,223,644

[1]Principal and interest requirements on Permanent University Fund Bonds, Series 2008A and a portion of the outstanding Revenue Financing System Bonds, Series 2008B are reflected in both tables above as the Series 2008A bonds and 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 2008A bonds and Series 2008B bonds, respectively.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2013 on its Series 2008A bonds and a portion of 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, 2013 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2013					
		Associated Fixed Rate Bonds		Pay-Variable Receive-Variable Interest Rate	
Fiscal Year		Principal[1]	Interest[1]	Swaps[2]	Total
2014	$	-	14,851,562	(253,846)	14,597,716
2015		-	14,851,562	(253,846)	14,597,716
2016		-	14,851,562	(253,846)	14,597,716
2017		-	14,851,563	(253,847)	14,597,716
2018		-	14,851,563	(253,847)	14,597,716
2019-2023		103,715,000	66,383,825	(1,132,047)	168,966,778
2024-2028		62,670,000	44,218,650	(752,660)	106,135,990
2029-2033		71,120,000	17,870,475	(304,179)	88,686,296
2034-2038		46,560,000	3,697,838	(62,942)	50,194,896

[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, 2013 and applied on the respective notional amounts of the swaps through its respective termination dates.

As of August 31, 2012					
		Associated Variable Rate Bonds		Pay-Fixed Receive-Variable Interest Rate	
Fiscal Year		Principal[1]	Interest[2]	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					
		Associated Variable Rate Bonds		Pay-Variable Receive-Variable Interest Rate	
Fiscal Year		Principal[1]	Interest[2]	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.

13. Note Indebtedness

The System had RFS Commercial Paper Notes, Series A and PUF Taxable Commercial Paper Notes, Series B, outstanding at August 31, 2013 and 2012. 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, 2013, 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, 2012 through August 31, 2013
  Authorized Amount: Aggregate principal amount not to exceed $500 million
  Source of revenue for debt service: Available University Fund
  Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

- 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, 2012 through August 31, 2013
  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 U. T. System Board of Regents 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 physician practice plan 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 physician practice plan Designated Funds collected by U. T. Medicine San Antonio
  Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.15% annually.

- Note or Loan Payable issue name: JP Morgan Private Bank, Client Services
  Purpose: To provide financing for the construction of the new Moncrief Cancer Center building
  Component Unit: U. T. Southwestern Medical Center's Blended Component Unit
  Issue Date: August 8, 2011, Renewed on August 31, 2013
  Authorized Amount: $19,000,000
  Source of revenue for debt service: Assets of Luther King and Wilkinson O'Grady assets
  Terms: LIBOR rate plus .65%. Interest is paid monthly. Renewal on August 31, 2014.

- Note or Loan Payable issue name: JP Morgan Private Bank, Client Services
  Purpose: To purchase land for construction of the new Moncrief Cancer Center Building
  Component Unit: U. T. Southwestern Medical Center's Blended Component Unit
  Issue Date: April 30, 2012, Renewed on August 31, 2013
  Authorized Amount: $3,500,000
  Source of revenue for debt service: Investment Asset Earnings
  Terms: LIBOR rate plus .65%. Interest is paid monthly. Renewal on August 31, 2014

- Note or loan payable issue name: Premier Purchasing Partners, L.P.
  Purpose: Negotiate and execute reduced cost purchase contracts
  Institution: U. T. Medical Branch - Galveston
  Issue Date: September 1, 2012
  Authorized Amount: $430,531
  Source of revenue for debt service: Reduction from cash distribution
  Terms: September 1, 2012 through September 1, 2017

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 position.

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 $9,057,400 and $9,756,576 of Medicare Part D payments from the federal government in 2013 and 2012, 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 ten percent (10%) 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 ten percent (10%) 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 2013 and 2012 were as follows:

Fiscal Year 2013 Plan		IBNR Liability 09/01/12	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/13
Employee Health and Dental	$	80,900,000	849,147,858	(851,447,858)	78,600,000
Workers' Compensation		8,014,000	4,984,535	(5,052,535)	7,946,000
Professional Medical Liability		18,639,671	3,208,994	(4,047,661)	17,801,004
Property Protection – Fire & AOP		245,330	350,050	(345,380)	250,000
Directors and Officers/EPL		3,311,463	(362,024)	-	2,949,439
ROCIP I, II, III, IV and V		8,562,188	(341,974)	(2,694,581)	5,525,633
TOTAL	$	119,672,652	856,987,439	(863,588,015)	113,072,076

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

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, 2013 and 2012, 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 charged over and above the State contributions.

Level of Coverage		**2013**		**2012**
Retiree Only	$	483.06	$	462.26
Retiree/Spouse		736.28		704.58
Retiree/Children		645.08		617.30
Retiree/Family		899.82		861.07

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, 2013 and 2012 are provided in the following table.

		2013	2012
Number of Retirees		21,954	21,188
Cost to the State	$	62,390,793	56,859,761
Cost to the System		75,767,377	67,758,291

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.

2013 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)}
$640,898,042	158,470,661	117,304,140	682,064,563	146,453,476	535,611,087	2,263,866,591	2,799,477,678

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, 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
August 31, 2013	682,064,563	146,453,476	21.5%	2,799,477,678

The OPEB expense (cost) reflected on the Statement of Revenues, Expenses and Changes in Net Position 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, 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, 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%
December 31, 2012	-	6,939,197,076	6,939,197,076	0.0%	5,674,297,785	122.3%

The plan benefit obligations as of December 31, 2011 were 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]	6.39%
Annual Healthcare Trend Rates[1]	8.00% in FYE 2014
	Declining to 5.50% in FYE 2020
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, 2012) were changed from those used in the prior valuation (as of December 31, 2010):

- the period of coverage assumptions for dependent children and the tobacco usage assumption have been updated to reflect statutory changes and recent plan experience; and
- 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 24 months following the date as of which the prior valuation's assumptions were determined (the Assumed Expenses include provision for the Patient-Centered Outcomes Research Institute (PCORI) fee and the Temporary Reinsurance Program fee); and
- 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.

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. However, members who began TRS participation on or after September 1, 2007 must be age 60 to retire and members who are not vested in TRS on August 31, 2014 must be age 62 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 6.4 percent of annual compensation for 2013, 6.0 percent of annual compensation for 2012 and 6.644 percent of annual compensation for 2011. The System's contributions to TRS for the years ended August 31, 2013, 2012, and 2011 were $210,973,194, $162,296,369, and $166,431,854, 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 2013 and 2012 and 6.40 percent state base rate for 2011 plus any local supplement for a maximum 8.50 percent of annual compensation) for the fiscal years ended August 31, 2013, 2012, and 2011, respectively, are provided in the following table.

		2013	2012	2011
Participant Contributions	$	133,016,555	128,987,249	144,617,852
System Contributions		170,719,638	165,170,074	161,377,272
Total	$	303,736,193	294,157,323	305,995,124

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, 2012, the required contribution for the State and the employee is 6.50 and 6.50 percent of pay, respectively. For Law Enforcement and Custodial Officers Supplemental Retirement Fund eligible employees, the State and the employee contribution is an additional 0.50 percent of pay, respectively.

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, 2013 and 2012, there were 730 and 737 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 $3,904,488 for the year ended August 31, 2013 and $4,708,680 for the year ended August 31, 2012. The participants contributed $3,054,688 for the year ended August 31, 2013 and $3,683,850 for the year ended August 31, 2012. 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, 2013, 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 $6.5 billion capital improvement program, planned for fiscal years 2014 through 2019, 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 $217,890,087 as of August 31, 2013 and $122,892,459 as of August 31, 2012.

The System has invested in certain private investment funds. These agreements commit the System to future capital contributions amounting to $3,781,271,249 as of August 31, 2013 and $3,717,867,684 as of August 31, 2012.

The System has invested in certain public market fund private placements. These agreements commit the System to future fundings amounting to $13,800,000 as of August 31, 2013 and $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. 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.

In August 2013 U. T. Health Science Center – San Antonio received a letter from the Office of the Director of the National Institute of Health (NIH) indicating that, as a result of a review and determination of scientific and budgetary overlap in the federally funded research efforts of one of the university's investigators, the NIH planned to recommend to the sponsoring institute that it recover $981,245 in previously paid grant funding from the university. A liability for this amount was recorded in August 2013. While the university has presented its arguments to NIH for reducing or eliminating the entire recovery effort, there is no indication that this effort will be successful.

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, 2013, 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	$	1,055,215	19,751	2,506,595	80,945,659	556,610
Salaries and Wages		2,115,324,047	1,117,353,548	137,319,365	1,972,038,529	340,777,386
Payroll Related Costs		487,945,792	289,491,817	32,927,252	519,497,231	92,226,420
Professional Fees and Services		33,980,714	79,476,473	18,607,400	131,518,734	38,767,195
Other Contracted Services		61,412,209	148,901,635	29,363,055	177,205,767	33,644,665
Scholarships and Fellowships		12,451,236	29,053,334	3,722,725	143	4,580,834
Travel		30,721,981	42,489,118	6,387,526	13,704,125	11,473,542
Materials and Supplies		81,204,861	194,904,210	19,848,279	927,190,982	38,682,277
Utilities		1,174,463	1,114,120	386,922	6,813,997	187,251
Communications		23,902,608	7,646,832	1,812,548	12,399,021	29,379,584
Repairs and Maintenance		6,912,915	17,439,360	555,168	76,276,420	6,730,331
Rentals and Leases		12,015,768	8,063,575	4,632,802	43,685,442	7,014,024
Printing and Reproduction		5,895,333	4,710,712	4,032,566	4,199,431	2,957,883
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		4	-	-	-	-
Claims and Losses		80	-	-	-	118
Increase in Net OPEB Obligation		-	-	-	-	-
Other Operating Expenses		101,074,336	81,063,415	22,841,186	38,492,306	37,063,267
Federal Sponsored Pass-through to State Agencies		2,826,020	4,837,852	1,068,045	-	1,841
State Sponsored Pass-through to State Agencies		37,209	407,595	45,584	-	-
Total Operating Expenses	$	2,977,934,791	2,026,973,347	286,057,018	4,003,967,787	644,043,228

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
322,194	1,562,010	17,527	(20,038)	20,647,809	-	107,613,332
108,704,724	473,564,794	209,157,847	39,206,200	195,813,945	-	6,709,260,385
28,095,090	123,240,661	58,552,508	6,806,217	45,590,167	-	1,684,373,155
2,643,100	62,310,204	28,616,188	433,929	9,167,557	-	405,521,494
30,465,282	63,829,616	32,584,891	913,261	74,792,690	-	653,113,071
9,597,522	1,305,023	6,000	381,120,377	10,199,844	-	452,037,038
3,617,249	8,523,872	1,213,136	679,809	23,108,507	-	141,918,865
14,977,659	40,851,065	78,566,170	985,741	35,427,019	-	1,432,638,263
39,424	8,622,895	227,778,187	2,014	27,390,905	-	273,510,178
1,754,889	33,011,362	4,733,533	13,113	6,858,647	-	121,512,137
3,192,007	37,558,128	84,015,723	76,622	17,982,207	-	250,738,881
2,019,349	18,768,149	22,411,870	482,533	10,210,823	-	129,304,335
2,683,818	5,744,398	104,203	65,832	4,481,010	-	34,875,186
-	-	-	-	-	1,105,011,810	1,105,011,810
3,052,688	84	-	-	7,121	-	3,059,897
-	11,203,767	-	-	-	-	11,203,965
-	535,611,087	-	-	-	-	535,611,087
11,518,957	1,487,037	5,483,900	1,755,199	29,127,098	-	329,906,701
-	73,120	-	-	-	-	8,806,878
-	782,454	-	-	-	-	1,272,842
222,683,952	1,428,049,726	753,241,683	432,520,809	510,805,349	1,105,011,810	14,391,289,500

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

21. Net Position

The System's net position at August 31, 2013 and 2012 were comprised of the following:

		2013	2012
Net investment in capital assets	$	5,552,397,748	5,243,459,592
Restricted			
Nonexpendable		17,340,735,884	15,128,697,354
Expendable		10,500,424,260	9,504,848,844
Total restricted		27,841,160,144	24,633,546,198
Unrestricted net position:			
Unrestricted			
Reserved			
Encumbrances		932,466,430	1,157,363,260
Accounts receivable (less unearned revenue portion)		1,079,030,904	903,890,801
Inventories		91,167,620	87,498,896
Self-insurance plans		407,109,317	357,329,337
Higher Education Assistance Fund (HEAF)		10,371,705	12,573,536
Other specific purposes:			
Advanced Research/Advanced Technology Programs		1,205,808	2,363,333
Deposits		5,653,072	5,536,983
Prepaid expenses		107,063,270	108,131,427
Deferred charges		276,852	12,993,006
Impress funds		1,287,785	1,248,847
Travel advances		278,392	264,746
Unreserved			
Allocated			
Funds functioning as endowment-unrestricted		728,516,529	663,548,842
Provision for operating budgets		15,558,090	4,457,232
Capital projects		1,254,554,839	591,453,341
Debt service		158,317,188	183,393,991
Start-up/matching		36,230,748	36,321,717
Utilities reserve		32,230,203	45,793,408
Research enhancement and support		225,338,134	162,463,989
Market adjustments		55,925,781	43,500,053
Student fees		174,261,158	158,806,417
Texas Tomorrow Fund shortfall		8,768,953	9,461,614
Instructional program support		347,519,571	326,623,667
Dean, chair and faculty recruitment packages		14,817,475	11,515,522
Self-supporting enterprises		113,363,054	83,219,565
Patient care support		342,340,791	273,812,789
Practice plan minimum operating reserve of 90 days		281,329,875	244,980,602
Unallocated		(2,838,445,624)	(2,004,855,113)
Total unrestricted		3,586,537,920	3,483,691,808
Total net position	$	36,980,095,812	33,360,697,598

As of August 31, 2013 and 2012, restricted nonexpendable net position includes $13,040,144,151 and $10,942,330,320, respectively, of the Permanent University Fund corpus, and $820,000,000 for both years of the Permanent Health Fund corpus. As of August 31, 2013 and 2012, restricted expendable net position includes $5,869,121,279 and $5,318,444,523, respectively, of the Permanent University Fund appreciation, and $195,250,290 and $156,553,315, respectively, of the Permanent Health Fund appreciation.

Unrestricted net position, detailed in the table above, is not subject to externally imposed stipulations. Unrestricted net position 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 position is 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 $181,205 for 472 terminated employees of the System as of August 31, 2013, and $247,740 for 398 terminated employees of the System as of August 31, 2012. 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 2013 and 2012, U. T. Austin offered early retirement incentives at several points throughout the year. In 2013, sixteen terminated employees were provided packages consisting of one-time early incentives ranging from $150,000 to $250,000. U. T. Austin incurred expenses of $2,730,706 in early exit incentives in 2013. 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.

U. T. Brownsville implemented reduction in force as a direct result of the end of the partnership between U. T. Brownsville and Texas Southmost College and incurred early exit incentive expenses of $721,500 for 256 terminated employees as of August 31, 2013. In 2012, U. T. Brownsville issued job termination notices for 89 faculty members and incurred expenses of $640,000 in early exit incentives.

In 2012, U. T. Pan American offered voluntary retirement incentive packages to 33 employees for a total cost of $824,391.

In 2013, U. T. San Antonio implemented a reduction in force that affected 14 employees. The benefits package provided to the 14 involuntarily terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered. 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 2013 and 2012, U. T. Medical Branch - Galveston implemented reductions in force throughout the year. The benefits package provided to the 46 terminated employees in 2013 and 160 terminated employees in 2012 consisted of normal benefits and salaries with no special benefits or severance packages offered.

In 2013, U. T. Health Science Center – San Antonio implemented a reduction in force that affected 57 staff members which 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 were 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 was 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. No federal funding was received in 2013 since the subsidized period ended August 31, 2011. Federal funding received in 2012 totaled $232,869 for all insured plans. COBRA benefits for the self-insured plans offered by the System for the years ended August 31, 2013 and 2012 are provided below:

		2013	2012
Total Number of Participants[1]		2,002	1,864
Premium Revenue[2]	$	4,058,111	5,032,026
2% Administrative Fee Revenue[3]		(86,712)	(98,665)
Net Revenue for COBRA Premium		3,971,399	4,933,361
Federal COBRA Subsidy[4]		-	232,869
Net COBRA Premium & Subsidy		3,971,399	5,166,230
Less Claims Paid		(12,250,824)	(11,397,831)
Cost to State	$	(8,279,425)	(6,231,601)

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

[2]Premium revenue for 2012 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 received from the federal government under ARRA for the self-insured plans offered. This subsidy did not include that which the System received for the fully-insured dental and vision plans.

23. Subsequent Events

On October 30, 2013, the U. T. System Board of Regents issued $90,000,000 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 $500,000,000 of PUF Taxable Commercial Paper Notes, Series B outstanding.

On November 5, 2013, the U. T. System Board of Regents issued $73,411,000 in RFS Commercial Paper Notes, Series A to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Additionally on this date, the System retired $2,500,000 of Series A notes, resulting in a net issuance of $70,911,000. Subsequent to this issuance, the System had $534,218,000 of RFS Commercial Paper Notes, Series A outstanding.

In connection with a portion of the Board's Permanent University Fund Bonds, Series 2008A, on November 20, 2013 the Board entered into an interest rate swap agreement (the "2008A Basis Swap Agreement") with Deutsche Bank AG (the "2008A Basis Swap Provider"). At the option of the 2008A Basis Swap Provider, the 2008A Basis Swap Agreement may become effective on January 1, 2015 at an initial notional amount of $190,572,500. If the 2008A Basis Swap Provider exercises such option pursuant to the 2008A Basis Swap Agreement, the Board will be obligated to make payments to the 2008A Basis Swap Provider based upon the notional amount specified therein at a variable rate equal to the SIFMA Municipal Swap Index, and the 2008A Basis Swap Provider will be obligated to make payments to the Board based upon such notional amount at a variable rate equal to 95.0% of the three-month London Interbank Offered Rate, in each case on the first calendar day of each calendar quarter commencing April 1, 2015 until July 1, 2038.

24. Upcoming Accounting Pronouncements

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 does not anticipate that Statement 66 will have an effect 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.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective 2015, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The System anticipates that Statement 69 will govern the accounting and financial reporting of the new South Texas Medical School's merger of U. T. Brownsville and U. T. Pan American.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective 2014, establishes new accounting and financial reporting requirements for financial guarantees that are nonexchange transactions. The System is evaluating the effect that Statement 70 will have on its financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective 2015, amends GASB Statement 68 to require that, at transition, a beginning deferred outflow of resources is recognized for its pension contributions made subsequent to its measurement date of the beginning net pension liability. The System is evaluating the effect that Statement 71 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, 2013

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, 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%
December 31, 2012	-	6,939,197,076	6,939,197,076	0.0%	5,674,297,785	122.3%

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 were determined based on an actuarial roll-forward of the December 31, 2010 valuation results.