The University of Texas System

Consolidated Financial Statements for the Years Ended August 31, 2017 and 2016 and Independent Auditors’ Report

The University of Texas at Arlington ♦ The University of Texas at Austin ♦ The University of Texas at Dallas ♦ The University of Texas at El Paso ♦ The University of Texas of the Permian Basin ♦ The University of Texas Rio Grande Valley ♦ The University of Texas at San Antonio ♦ The University of Texas at Tyler ♦ The University of Texas Southwestern Medical Center ♦ The University of Texas Medical Branch at Galveston ♦ The University of Texas Health Science Center at Houston ♦ The University of Texas Health Science Center at San Antonio ♦ The University of Texas M. D. Anderson Cancer Center ♦ The University of Texas Health Science Center at Tyler ♦ The University of Texas System Administration
# THE UNIVERSITY OF TEXAS SYSTEM

## TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE UNIVERSITY OF TEXAS SYSTEM BOARD OF REGENTS</td>
<td>1</td>
</tr>
<tr>
<td>THE UNIVERSITY OF TEXAS SYSTEM SENIOR ADMINISTRATIVE OFFICIALS</td>
<td>3</td>
</tr>
<tr>
<td>INDEPENDENT AUDITORS’ REPORT</td>
<td>5</td>
</tr>
<tr>
<td>MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)</td>
<td>7</td>
</tr>
<tr>
<td>CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED</td>
<td></td>
</tr>
<tr>
<td>AUGUST 31, 2017 AND 2016</td>
<td></td>
</tr>
<tr>
<td>Consolidated Statement of Net Position</td>
<td>20</td>
</tr>
<tr>
<td>Consolidated Statement of Revenues, Expenses and Changes in Net Position</td>
<td>23</td>
</tr>
<tr>
<td>Consolidated Statement of Cash Flows</td>
<td>24</td>
</tr>
<tr>
<td>Notes to Consolidated Financial Statements</td>
<td>27</td>
</tr>
<tr>
<td>REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)</td>
<td>123</td>
</tr>
</tbody>
</table>
THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2017

Officers

Paul L. Foster, Chairman
R. Steven “Steve” Hicks, Vice Chairman
Jeffery D. Hildebrand, Vice Chairman
Francie A. Frederick, General Counsel to the Board of Regents

Members

Terms scheduled to expire February 1, 2019*

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

Terms scheduled to expire February 1, 2021*

R. Steven “Steve” Hicks  Austin
David J. Beck  Houston
Sara Martinez Tucker  Dallas

Terms scheduled to expire February 1, 2023*

Janiece Longoria  Houston
Kevin P. Eltife  Tyler
James Conrad “Rad” Weaver  San Antonio

Term scheduled to expire May 31, 2018*

Jacial Castro (Student Regent)  San Antonio

*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, 2017

********

William H. McRaven, Chancellor
David E. Daniel, Deputy Chancellor
Raymond S. Greenberg, Executive Vice Chancellor for Health Affairs
Scott C. Kelley, Executive Vice Chancellor for Business Affairs
Steven W. Leslie, Executive Vice Chancellor for Academic Affairs
Stephanie A. Bond Huie, Vice Chancellor for Strategic Initiatives
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
William H. Shute, Vice Chancellor for Federal Relations
Amy Shaw Thomas, Vice Chancellor for Academic and Health Affairs
Thomas Britton “Britt” Harris IV, Chief Executive Officer and Chief Investment Officer–UTIMCO

********
INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Texas System (the System), which comprise the consolidated statements of net position as of and for the years ended August 31, 2017 and 2016, and the related consolidated statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements, as listed in the table of contents.

Management’s Responsibility for the 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.

Auditors' Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 entity’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.
Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of August 31, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the State of Texas that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2017 and 2016, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. The results of our review are not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, the Other Postemployment Benefits Schedule of Funding Progress, the Schedule of the System’s Proportionate Share of the Net Pension Liability, and the Schedule of the System’s Contributions be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board 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 8, 2017 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 the 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.

Deleitte & Fouche LLP

December 8, 2017
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 established a program for university-trained medical professionals. In addition to the original academic campus of The University of Texas at Austin, the System now includes seven additional academic institutions: The University of Texas at Arlington, The University of Texas at Dallas, The University of Texas at El Paso, The University of Texas of the Permian Basin, The University of Texas Rio Grande Valley, The University of Texas at San Antonio, and The University of Texas at Tyler. Health institutions for medical education and research have expanded beyond The University of Texas Medical Branch at Galveston 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. While The University of Texas at Austin and The University of Texas Rio Grande Valley are categorized as academic institutions, both institutions have newly formed medical schools.

The System’s fourteen institutions are, collectively, one of the nation’s largest educational enterprises. They provide instruction and learning opportunities to over 228,000 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, 2017, with selected comparative information for the years ended August 31, 2016 and 2015. 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

- As a result of more favorable market conditions in 2017, net investment income, excluding the change in fair value of investments, increased $1.4 billion from $1.8 billion in 2016 to $3.2 billion in 2017. Additionally, the net increase in fair value of investments was $1.5 billion in 2017, as compared to $952.2 million in 2016, a year-over-year increase of $561.5 million. Net investment income, excluding the change in fair value of investments was the largest contributor to the increase in net position of $3.5 billion during 2017. (Table 3).

- The other postemployment benefits (OPEB) liability increased $733.2 million to $5.4 billion for 2017 related to retiree medical and dental costs. The System’s total unfunded actuarial accrued liability was $8.6 billion as of August 31, 2017. 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.

- The net pension liability increased $389.2 million to $3.1 billion for 2017 related to the System’s proportionate share of pension retirement costs for current and former employees. The System’s proportion of the State’s collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan.

- Net patient care revenues, which consist of net sales and services of hospitals and net professional fees, increased $532.7 million in 2017, or 7.5%, as a result of increases in inpatient and outpatient volumes and rates.
• Investments in capital asset additions were $2.1 billion in 2017, of which $1.5 billion consisted of new projects under construction. Building projects placed into service in 2017 include:

 The Engineering Education and Research Center at U. T. Austin, $270.0 million;
 the Dell Medical School Complex at U. T. Austin, $186.8 million;
 the U. T. System building, $120.8 million;
 the Student Housing project, phases VI and VII, at U. T. Dallas, $70.7 million;
 the Victory Hospital building at U. T. Southwestern Medical Center, $63.2 million;
 the East Campus Garage project at U. T. Austin, $47.3 million;
 the Steam and Condensate Distribution System at U. T. Medical Branch Galveston, $45.6 million;
 the Science Building at U. T. Rio Grande Valley, $45.6 million;
 the Academic Building at U. T. Rio Grande Valley, $41.9 million;
 the Alkek Building at M. D. Anderson Cancer Center, $32.7 million, and
 the Brain Performance Institute at U. T. Dallas, $29.6 million.

• Bonds payable represent the largest portion of the System’s liabilities. The par value of bonds payable increased $807.7 million to $8.4 billion at August 31, 2017. 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.

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 at the end of the year. This is a point-in-time financial presentation of the financial status as at August 31, 2017, 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, 2017, 2016 and 2015 follows:

<table>
<thead>
<tr>
<th>Table 1</th>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td>($ in millions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td>$ 7,827.1</td>
<td>7,227.9</td>
<td>7,280.1</td>
</tr>
<tr>
<td>Noncurrent investments</td>
<td></td>
<td>46,645.9</td>
<td>42,658.4</td>
<td>39,881.3</td>
</tr>
<tr>
<td>Capital/intangible assets, net</td>
<td></td>
<td>16,216.4</td>
<td>15,609.7</td>
<td>14,827.0</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td></td>
<td>459.3</td>
<td>439.0</td>
<td>414.0</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>71,148.7</td>
<td>65,935.0</td>
<td>62,402.4</td>
</tr>
<tr>
<td>Total deferred outflows</td>
<td></td>
<td>1,160.9</td>
<td>951.9</td>
<td>740.0</td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows</strong></td>
<td></td>
<td>$ 72,309.6</td>
<td>66,886.9</td>
<td>63,142.4</td>
</tr>
</tbody>
</table>

| **Liabilities** |          |       |       |       |
| Current liabilities |  | $ 8,022.4 | 7,712.7 | 8,493.5 |
| Noncurrent liabilities |  | 19,051.5 | 17,487.9 | 14,257.8 |
| **Total liabilities** |  | 27,073.9 | 25,200.6 | 22,751.3 |
| Total deferred inflows |  | 440.1 | 404.2 | 710.0 |
| **Total liabilities and deferred inflows** |  | $ 27,514.0 | 25,604.8 | 23,461.3 |

| **Net Position:** |          |       |       |       |
| Net investment in capital assets |  | $ 6,334.6 | 6,375.8 | 6,441.7 |
| Restricted |  | 36,741.7 | 33,780.6 | 32,227.2 |
| Unrestricted |  | 1,719.3 | 1,125.7 | 1,012.2 |
| **Net position** |  | $ 44,795.6 | 41,282.1 | 39,681.1 |
**Assets and Deferred Outflows (Table 1)**

The System’s assets and deferred outflows primarily consist of current assets, noncurrent investments, capital and intangible assets, other noncurrent assets, and deferred outflows. Assets and deferred outflows increased $5.4 billion, or 8.1%, in 2017 primarily due to an increase in the fair value of investments and an increase in capital assets, as discussed below.

**Current Assets**

Current assets consist primarily of the following: 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 $599.2 million in 2017 primarily as a result of increases in federal accounts receivables as a result of increased federal awards and federal Pell grants, and investment trade receivables as a result of more securities settling after the close of the fiscal year.

**Noncurrent Investments**

Noncurrent investments are comprised of permanent endowments, funds functioning as endowments, annuity and life income funds and other investments including investment derivative instruments. These assets increased $4.0 billion in 2017 primarily due to increases in operating results which were invested, net investment income and the fair value of investments. New gifts and invested PUF mineral income also contributed to the increase in noncurrent investments. Permanent endowments include the fair value of Permanent University Fund (PUF) investments and the fair value of PUF lands. The fair value of the PUF lands at August 31, 2017 was $6.1 billion, a $68.1 million decrease from the prior year due to a decrease in the value of probable and possible oil and gas reserves as a result of a decrease in the Society of Petroleum Evaluation Engineers unconventional reserve adjustment factors applied to probable and possible reserves. The PUF investments increased as a result of $709.0 million of PUF lands mineral income earned in 2017 that is required to 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 $4.8 billion capital improvement program to upgrade its facilities and address planned growth in patient care and student enrollment. Capital additions totaled $2.1 billion in 2017, of which $1.5 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 and software.

Computer software is the biggest component of the System’s intangible assets. During 2017 and 2016, the System placed $80.4 million and $298.0 million, respectively, of computer software into service.

**Other Noncurrent Assets**

Other noncurrent assets consist primarily of deposits with brokers for derivative contracts, loans and contracts, contributions receivable, noncurrent cash and cash equivalents, and hedging derivative assets. Other noncurrent assets increased $20.3 million to $459.3 million in 2017 primarily due to an increase in deposits with brokers for derivative contracts of $24.2 million. The System recorded a hedging derivative asset with an offsetting deferred inflow of $10.3 million for 2017 related to an interest rate swap.

**Deferred Outflows**

Deferred outflows consist of pension related outflows, the fair value of hedging derivatives, and unamortized losses on refunding of debt. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions subsequent to the measurement date of the net pension liability are also required to be reported as pension related deferred outflows of resources. As a result, pension related deferred outflows of resources increased $306.7 million in 2017. Additionally, 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 $92.6 million to $246.1 million in 2017 with an offsetting hedging derivative liability. Deferred outflows related to unamortized losses on refunding of debt decreased $4.9 million due to current year amortization.
Liabilities and Deferred Inflows (Table 1)
The System’s liabilities and deferred inflows primarily consist of current liabilities, bonds and notes and loans payable, other postemployment benefits, pension liability, liability to the Texas A&M University System (TAMUS), hedging derivative liabilities, investment derivatives – liability positions, other liabilities, and deferred inflows. Liabilities and deferred inflows increased $1.9 billion or 7.5%, primarily due to new debt issued to fund investments in capital assets, an increase in the other postemployment benefit liability, and an increase in the net pension liability.

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 $309.7 million, or 4.0%, in 2017 primarily due to an increase in the current portion of bonds payable of $284.7 million.

Bonds Payable
Bonds payable relating to financing of current and prior years’ construction needs were the largest portion of the System’s liabilities and the par value of bonds payable totaled $8.4 billion and $7.6 billion at August 31, 2017 and 2016, respectively. All bonds continue to reflect the highest uninsured “Aaa” and “AAA” credit ratings from the three major bond-rating agencies. During 2017, the System issued new bonds of $1.6 billion and retired $815.7 million of bonds.

Notes and Loans Payable
Notes and loans payable totaled $948.7 million and $1.1 billion at August 31, 2017 and 2016, respectively. The largest portion was $929.1 million of commercial paper notes that were reclassified to long-term notes and loans payable as a result of the refunding of commercial paper notes subsequent to August 31, 2017 through the issuance of long-term bonds. Comparatively, the 2016 amount was $1.0 billion. Commercial paper 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, 10, 11, 12 and 13 to the consolidated financial statements.

Other Postemployment Benefits Liability
The State provides certain health and life insurance benefits for retired employees in accordance with State statutes. OPEB are provided to the System’s retirees under the U. T. System Employee Group Insurance Program. Retirees contribute any premium charged over and above contributions paid by the State or the System. The System reported an OPEB liability of $5.4 billion for 2017 and $4.6 billion for 2016 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, 2017, the System’s annual OPEB cost was $915.7 million. Employer contributions for 2017 were $182.5 million, resulting in an increase in net OPEB obligation of $733.2 million in 2017. The System’s total unfunded actuarial accrued liability was $8.6 billion as of August 31, 2017. The plan is operated on a pay-as-you-go basis and the System revises benefits as necessary to match expected benefit and administrative costs with available revenues from the State. For additional information concerning the OPEB liability, see Note 16 to the consolidated financial statements.

Net Pension Liability
The System participates in a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Teacher Retirement System of Texas (TRS). TRS is primarily funded through State and employee contributions. The System receives a proportional share of the net pension liability, pension related deferred outflows and pension related deferred inflows from the Texas Comptroller of Public Accounts. The System’s proportion of the State’s collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan. The System recorded a net pension liability of $3.1 billion in 2017 compared to $2.7 billion in 2016.
Liability to the Texas A&M University System
The System recorded a liability to TAMUS of $976.5 million at August 31, 2017 and $1.0 billion at August 31, 2016 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 both a current and noncurrent statewide interfund payable on the statement of net position.

Hedging Derivative Liability and Investment Derivatives – Liability Positions
The System recorded a hedging derivative liability with an offsetting deferred outflow of $246.1 million and $338.7 million for 2017 and 2016, respectively. The System also recorded investment derivatives – liability positions of $171.5 million and $233.8 million for 2017 and 2016, respectively.

Other Liabilities
Other significant liabilities for the System include assets held for others of $844.2 million and $761.8 million for 2017 and 2016, respectively; and employees’ compensable leave of $607.9 million and $595.2 million for 2017 and 2016, respectively.

Deferred Inflows
Deferred inflows consist of pension related inflows, unamortized gains on refunding of debt and the fair value of hedging derivatives. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. The System’s pension related deferred inflows increased $21.2 million for 2017. Deferred inflows related to unamortized gains on refunding of debt increased $4.5 million due to current year amortization. Additionally, 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 inflows related to hedging derivatives increased $10.3 million in 2017 with an offsetting hedging derivative asset.

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 $3.5 billion in 2017 due to current year activity. The following table summarizes the composition of net position at August 31, 2017, 2016 and 2015:

<table>
<thead>
<tr>
<th>Table 2</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>6,334.6</td>
<td>6,375.8</td>
<td>6,441.7</td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonexpendable</td>
<td>23,184.3</td>
<td>22,350.5</td>
<td>20,681.7</td>
</tr>
<tr>
<td>Expendable</td>
<td>13,557.4</td>
<td>11,430.1</td>
<td>11,545.5</td>
</tr>
<tr>
<td>Total restricted</td>
<td>36,741.7</td>
<td>33,780.6</td>
<td>32,227.2</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,719.3</td>
<td>1,125.7</td>
<td>1,012.2</td>
</tr>
<tr>
<td>Total net position</td>
<td>44,795.6</td>
<td>41,282.1</td>
<td>39,681.1</td>
</tr>
</tbody>
</table>

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 $41.2 million decrease in net investment in capital assets in 2017 resulted primarily from a net increase in gross capital and intangible assets of $1.8 billion offset by a net increase in related debt of capital assets placed in service of $638.5 million and an increase in accumulated depreciation of $1.2 billion.
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, 2017 and 2016, restricted nonexpendable net position includes $17.6 billion and $17.0 billion, respectively, of the PUF corpus, $820.0 million for both years of the PHF corpus, and $4.7 billion and $4.5 billion, respectively, of other endowments’ corpus. Restricted nonexpendable net position increased by $833.8 million to $2.3 billion in 2017, resulting primarily from the contribution of $709.0 million of mineral income which must be retained in the corpus of the PUF. Offset that slightly was a decrease in PUF lands of $68.1 million due to a decrease in the value of probable and possible oil and gas reserves as a result of a decrease in the Society of Petroleum Evaluation Engineers unconventional reserve adjustment factors applied to probable and possible reserves discussed earlier.

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 Available University Fund (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, 2017, restricted expendable net position includes $7.6 billion of the PUF investment appreciation, $324.6 million of PHF appreciation, $2.6 billion of other endowments’ appreciation, $559.9 million of restricted funds functioning as endowments, restricted contract and grant and loan funds of $2.1 billion, funds restricted to support programs that benefit public health and cancer treatment of $115.5 million, and bond proceeds for capital projects of $289.9 million. In comparison, as of August 31, 2016, restricted expendable net position included $6.2 billion of the PUF investment appreciation, $245.7 million of PHF appreciation, $2.2 billion of other endowments’ appreciation, $488.4 million of restricted funds functioning as endowments, restricted contract and grant and loan funds of $2.0 billion, funds restricted to support programs that benefit public health and cancer treatment of $109.3 million, and bond proceeds for capital projects of $169.3 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 $1.7 billion also includes funds functioning as endowments of $372.1 million. Comparatively, in 2016, unrestricted net position of $1.1 billion included funds functioning as endowments of $330.7 million and an $11.8 million restatement related to revaluing certain private investments.

2016 Highlights - Statement of Net Position

The System reported an increase in net position of $1.6 billion primarily due to more favorable market conditions. Net investment income, excluding the change in fair value of investments, was $1.8 billion and a net increase in fair value of investments of $952.2 million in 2016. Bonds payable increased $867.4 million to $7.6 billion in 2016. In addition, the System reported an OPEB liability of $4.6 billion for 2016, an increase of $662.5 million as compared to 2015. The System also reported a net pension liability of $2.7 billion in 2016 compared to $2.3 billion in 2015.
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, 2017, 2016 and 2015:

<table>
<thead>
<tr>
<th>Table 3</th>
<th>2017 ($ in millions)</th>
<th>2016 ($ in millions)</th>
<th>2015 ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net student tuition and fees</td>
<td>$1,718.4</td>
<td>1,653.8</td>
<td>1,565.2</td>
</tr>
<tr>
<td>Sponsored programs</td>
<td>3,198.2</td>
<td>3,106.8</td>
<td>2,892.6</td>
</tr>
<tr>
<td>Net sales and services of hospitals</td>
<td>5,786.3</td>
<td>5,368.1</td>
<td>5,260.4</td>
</tr>
<tr>
<td>Net professional fees</td>
<td>1,812.3</td>
<td>1,697.8</td>
<td>1,489.0</td>
</tr>
<tr>
<td>Net auxiliary enterprises</td>
<td>593.5</td>
<td>558.5</td>
<td>539.6</td>
</tr>
<tr>
<td>Other</td>
<td>926.9</td>
<td>897.3</td>
<td>888.7</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>14,035.6</td>
<td>13,282.3</td>
<td>12,635.5</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>(18,200.2)</td>
<td>(17,297.9)</td>
<td>(16,012.0)</td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>(4,164.6)</td>
<td>(4,015.6)</td>
<td>(3,376.5)</td>
</tr>
<tr>
<td><strong>Nonoperating revenues (expenses):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>2,226.3</td>
<td>2,222.0</td>
<td>2,079.1</td>
</tr>
<tr>
<td>Nonexchange Sponsored Programs</td>
<td>394.8</td>
<td>407.9</td>
<td>339.3</td>
</tr>
<tr>
<td>Gift contributions for operations</td>
<td>442.2</td>
<td>491.7</td>
<td>475.9</td>
</tr>
<tr>
<td>Net investment income excluding the change in fair value of investments</td>
<td>3,179.1</td>
<td>1,820.0</td>
<td>2,808.7</td>
</tr>
<tr>
<td>Net increase (decrease) in fair value of investments</td>
<td>1,513.7</td>
<td>952.2</td>
<td>(4,675.9)</td>
</tr>
<tr>
<td>Interest expense on capital asset financings</td>
<td>(262.6)</td>
<td>(277.9)</td>
<td>(249.9)</td>
</tr>
<tr>
<td>Net other nonoperating revenues (expenses)</td>
<td>49.3</td>
<td>(2.9)</td>
<td>(30.7)</td>
</tr>
<tr>
<td><strong>Income (loss) before other revenues, expenses, gains or losses and transfers</strong></td>
<td>3,378.2</td>
<td>1,597.4</td>
<td>(2,630.0)</td>
</tr>
<tr>
<td>Capital appropriations – Higher Education Assistance Fund (HEAF)</td>
<td>-</td>
<td>-</td>
<td>17.4</td>
</tr>
<tr>
<td>Capital gifts and grants and additions to permanent endowments</td>
<td>318.2</td>
<td>261.7</td>
<td>279.5</td>
</tr>
<tr>
<td>Net Transfers to other State entities</td>
<td>(182.9)</td>
<td>(269.9)</td>
<td>(447.7)</td>
</tr>
<tr>
<td><strong>Change in net position</strong></td>
<td>3,513.5</td>
<td>1,589.2</td>
<td>(2,780.8)</td>
</tr>
<tr>
<td><strong>Net position, beginning of the year</strong></td>
<td>41,282.1</td>
<td>39,681.1</td>
<td>45,070.7</td>
</tr>
<tr>
<td>Restatements</td>
<td>-</td>
<td>11.8</td>
<td>(2,608.8)</td>
</tr>
<tr>
<td><strong>Net position, beginning of the year (as restated)</strong></td>
<td>41,282.1</td>
<td>39,692.9</td>
<td>42,461.9</td>
</tr>
<tr>
<td><strong>Net position, end of the year</strong></td>
<td>$44,795.6</td>
<td>41,282.1</td>
<td>39,681.1</td>
</tr>
</tbody>
</table>
Operating Revenues (Table 3)
Operating revenues totaled $14.0 billion for the fiscal year ended August 31, 2017, an increase of $753.3 million over 2016. The System’s primary sources of operating revenues come from net student tuition and fees, sponsored programs, net patient care revenues, 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 12.2% of operating revenues, are reflected net of associated discounts and allowances. Net student tuition and fees increased $64.6 million, or 3.9%, in 2017, primarily as a result of enrollment increases at U. T. Tyler (10.8%), U. T. Permian Basin (9.9%), U. T. Dallas (9.1%), and U. T. Arlington (7.3%) as well as moderate increases in rates. Overall, the combined enrollment for both academic and health institutions increased 3.2% in 2017. The System’s academic institutions enroll 33.6% of the State’s public college students, and the System’s health-related institutions enroll 58.4% of the students attending the State’s public health institutions.

Sponsored Programs
Sponsored program revenues, representing 22.8% 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. Sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $91.4 million, or 2.9%, in 2017.

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 54.1% 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 $532.7 million, or 7.5%, in 2017, as a result of increases in inpatient and outpatient 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 $714.7 million and $779.5 million for 2017 and 2016, 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 $86.3 million and $60.7 million for 2017 and 2016, respectively.

Net Auxiliary Enterprises
Net auxiliary enterprise revenues, representing 4.2% of operating 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 $35.0 million, or 6.3%, in 2017 due to increased athletic, housing and food service revenues.
Operating Expenses (Table 4)
Operating expenses totaled $18.2 billion for the fiscal year ended August 31, 2017. The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2017, 2016 and 2015:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>3,896.9</td>
<td>3,667.1</td>
<td>3,393.8</td>
</tr>
<tr>
<td>Research</td>
<td>2,324.1</td>
<td>2,177.7</td>
<td>2,086.7</td>
</tr>
<tr>
<td>Public service</td>
<td>330.7</td>
<td>306.1</td>
<td>313.1</td>
</tr>
<tr>
<td>Hospitals and clinics</td>
<td>5,619.2</td>
<td>5,446.4</td>
<td>4,874.7</td>
</tr>
<tr>
<td>Academic support</td>
<td>936.6</td>
<td>846.0</td>
<td>747.1</td>
</tr>
<tr>
<td>Student services</td>
<td>272.5</td>
<td>260.4</td>
<td>245.7</td>
</tr>
<tr>
<td>Institutional support</td>
<td>1,620.7</td>
<td>1,553.4</td>
<td>1,472.1</td>
</tr>
<tr>
<td>Operations and maintenance of plant</td>
<td>800.9</td>
<td>764.0</td>
<td>759.9</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>372.8</td>
<td>376.7</td>
<td>367.8</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>629.8</td>
<td>592.4</td>
<td>572.2</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,396.0</td>
<td>1,307.7</td>
<td>1,178.9</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>18,200.2</strong></td>
<td><strong>17,297.9</strong></td>
<td><strong>16,012.0</strong></td>
</tr>
</tbody>
</table>

Total operating expenses increased $902.3 million, or 5.2%, in 2017 in response to the growing cost of providing support for the institution’s primary missions of instruction, research, public service, patient care and student support activities. Additionally, operating expenses include $733.2 million related to the increase in the net OPEB obligation and $367.7 million due to pension expense. The System’s full-time equivalent employees increased a modest 0.4% from 94,879 in 2016 to 95,230 in 2017.
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2017.

**Functional Classification of Operating Expenses ($18.2 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, 2017.

**Natural Classification of Operating Expenses ($18.2 billion)**
Nonoperating Revenues and Expenses (Table 3)

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

State Appropriations
State appropriations increased $4.3 million, or 0.2%, between 2016 and 2017 as a result of additional appropriations made by the Texas 84th Legislature for debt service on new tuition revenue bonds for the 2016-2017 biennium.

Nonexchange Sponsored Programs
Nonexchange sponsored programs of $394.8 million decreased $13.1 million, or 3.2%, in 2017. Nonexchange sponsored programs primarily include Pell revenues, Build America Bond subsidy revenues, and state nonexchange pass-throughs. Pell grants of $316.8 million reflect an increase of 6.5% from 2016 to 2017. During 2017, the System received $27.3 million of Build America Bond subsidy revenues which was the same amount as 2016. The subsidy from the federal government of 35% of the interest payments reduced by the applicable federal sequestration reduction rate on Build America Bonds is reported as federal nonexchange sponsored programs and not as a credit to interest expense.

State nonexchange pass-throughs consist of the Higher Education Coordinating Board’s Texas Research Incentive Program that awards potential matching funds based on how much an institution raises in private gifts and endowments to enhance research activities. Awards totaled $11.8 million in 2017, a decrease of 74.3% over 2016 due to the Texas legislature appropriating less gift matching funds for 2017.

Gift Contributions for Operations
Gift contributions for operations of $442.2 million decreased $49.5 million from 2016 due to decreased donations to support various programs.

Net Investment Income (Loss) Excluding the Change in Fair Value of Investments
Due in part to increased realized gains, net investment income, excluding the change in the fair value of investments, increased $1.4 billion from $1.8 billion in 2016 to $3.2 billion in 2017. Net investment income includes realized gains of $1.8 billion in 2017 and $836.6 million in 2016.

Net Increase (Decrease) in Fair Value of Investments
The change in the fair value of the System’s investments in 2017 increased $561.5 million from $952.2 million in 2016 to $1.5 billion in 2017 primarily due to more favorable market conditions offset slightly by the decrease in PUF lands probable and possible oil and gas reserves mentioned earlier. 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, 2017. The fair value of the PUF lands at August 31, 2017 was $6.1 billion.

Interest Expense
Finally, interest expense on capital asset financings decreased by $15.3 million from $277.9 million in 2016 to $262.6 million in 2017 as a result of an increase in amortization of premiums, and deferred gains and losses on refunding of debt.
Income (Loss) Before Other Revenue, Expenses, Gains or Losses and Transfers
Income before other revenue, expenses, gains or losses and transfers in Table 3, 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 2017, an increase of $1.8 billion over 2016. This increase was largely a result of the increase in net investment income, excluding the change in fair value of investments. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. Table 5 below summarizes the System’s view of its operating results for 2017, 2016 and 2015:

<table>
<thead>
<tr>
<th>Table 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating results:</td>
</tr>
<tr>
<td>Income (loss) before other revenue, expenses, gains/(losses) &amp; transfers</td>
</tr>
<tr>
<td>Remove nonoperating items:</td>
</tr>
<tr>
<td>Net (increase)/decrease in fair value of investments</td>
</tr>
<tr>
<td>Loss on sale of capital assets</td>
</tr>
<tr>
<td>Other nonoperating (income)/expense</td>
</tr>
<tr>
<td>Realized gains on investments</td>
</tr>
<tr>
<td>Net operating results</td>
</tr>
</tbody>
</table>

Capital Gifts and Grants and Additions to Permanent Endowments (Table 3)
Capital gifts and grants and additions to permanent endowments totaled $318.2 million for the year ended August 31, 2017, an increase of $56.5 million over 2016 due to a large gift of software received by U. T. Austin and gifts for capital received by U. T. Dallas. Additions to permanent endowments fluctuate from year to year depending on the generosity of donors. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

Net Transfers to Other State Entities (Table 3)
Net transfers to other State agencies totaled $182.9 million for the year ended August 31, 2017, a decrease of $87.0 million over 2016. These transfers primarily include $299.5 million and $272.6 million for 2017 and 2016, 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 $976.5 million at August 31, 2017 and $1.0 billion at August 31, 2016 for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. The $43.2 million net decrease in PUF debt outstanding at TAMUS in 2017 is reflected as a transfer from other State agencies.

Change in Net Position (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 $3.5 billion in 2017 as compared to an increase of $1.6 billion in 2016 primarily due to more favorable market conditions in 2017. Net investment income, excluding the change in fair value of investments, increased $1.4 billion, from $1.8 billion in 2016 to $3.2 billion in 2017. The net increase in fair value of investments was $1.5 billion in 2017, as compared to a net increase of $952.2 million in 2016, an increase of $561.5 million. The increase in net investment income was the largest contributor to the increase in net position of $3.5 billion from 2017 activity.

2016 Highlights - Statement of Revenues, Expenses and Changes in Net Position
As a result of more favorable market conditions in 2016, net investment income, excluding the change in fair value of investments was $1.8 billion in 2016 and the net increase in fair value of investments was $952.2 million. These two items were the biggest contributors to the total increase in net position of $1.6 billion during 2016. Net patient care revenues increased $316.5 million in 2016; sponsored program revenues increased $214.2 million and tuition and fees increased $88.6 million in 2016. Operating expenses increased $1.3 billion in 2016 which included a net OPEB obligation expense of $662.5 million and a pension expense of $250.3 million in 2016.
Economic Outlook
The mission of the System is to improve the human condition in Texas, our nation and our world. The System will use its size, diversity, and quality to advance education, push the bounds of discovery, enhance population health, build stronger communities, and shape public policy for the common good. We are a state university system with global impact. The achievement of the System’s mission is dependent upon the ability to attract and support dedicated students from many cultures; acquire and retain the highest quality diverse faculty; recruit and appropriately recognize exemplary administrators and staff members; create and sustain physical environments that enhance and complement educational goals; and encourage ongoing public and private sector support of higher education.

The System’s operating budget provides a wide range of services for Texans. Revenues included in the operating budget include both operating and nonoperating revenues. Budgeted combined revenues for 2018 increased 3.1% from 2017 budgeted levels. Areas of growth include net professional fees (8.1%), net investment income (7.8%), and net student tuition and fees (5.9%). Budgeted State appropriations decreased 1.2% largely as a result of broad reductions to non-formula appropriations made by the 85th Texas Legislature. The largest contributor to the System’s operating revenues is net patient care revenues, which consists of net sales and services of hospitals and net professional fees. The most significant increases in net professional fees are projected to occur at U. T. Southwestern Medical Center and U. T. Health Science Center at San Antonio due to the opening of several new clinics. Growth in net investment income is primarily due to increased earnings in endowments for the System as well as increased investment balances at M. D. Anderson Cancer Center due to reduced capital spending and increased operating results. The System will continue to employ its long-term investment strategy to maximize total returns while managing risk and utilizing a spending rate policy to preserve endowment capital and insulate the System’s operations from temporary market volatility. The expected net student tuition and fee growth results from anticipated increased enrollment across the System and modest tuition increases. The most significant net tuition and fee growth is anticipated at U. T. Arlington, U. T. Austin and U. T. Dallas. U. T. Austin’s enrollment growth is partially attributable to a new cohort of students at the Dell Medical School.

The System remains highly competitive in attracting sponsored programs from the federal, state, and local governments as well as private organizations. Over ninety percent of the System’s federal research revenue comes from four agencies, the Department of Health and Human Services, the Department of Defense, the National Science Foundation, and the Department of Education. The System’s size, talent and diversity is a unique national resource for helping the nation address necessary issues.

With increased revenues comes increasing costs to provide those services. The System’s economic outlook is greatly affected by the cost of the benefits provided to its employees and retirees. In 2017, the System continued to recognize the annual accounting expense attributable to projected future healthcare benefits for current and prospective retirees, and for projected future pension benefits. The System reported an OPEB liability of $5.4 billion for 2017 and the System’s total unfunded actuarial accrued liability for OPEB was $8.6 billion as of August 31, 2017. The System is evaluating the impact of a new accounting pronouncement related to retiree health benefit obligations effective in 2018 but anticipates the OPEB liability will increase. The System also receives a proportional share of the State’s net pension liability and as such recorded a net pension liability of $3.1 billion for 2017.

In spite of the increasing costs of operating such a large university system, the System continues to maintain the highest credit ratings of Fitch (AAA), Moody’s (Aaa) and Standard & Poor’s (AAA). Achieving and maintaining the highest credit ratings provides the System with significant 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.
## Assets and Deferred Outflows

### Current Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,607,488,588</td>
<td>$2,545,094,424</td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>576,882,202</td>
<td>326,641,549</td>
</tr>
<tr>
<td>Balance in State appropriations</td>
<td>133,057,721</td>
<td>136,128,662</td>
</tr>
<tr>
<td>Accounts receivable, net:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal (net of allowances of $2,513,197 and $1,789,216, respectively)</td>
<td>701,552,379</td>
<td>493,364,984</td>
</tr>
<tr>
<td>Other intergovernmental (net of allowances of $564,436 and $928,085, respectively)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student (net of allowances of $14,292,060 and $12,296,383, respectively)</td>
<td>107,385,669</td>
<td>119,073,451</td>
</tr>
<tr>
<td>Patient and healthcare (net of allowances of $364,212,497 and $214,403,651, respectively)</td>
<td>337,824,054</td>
<td>316,231,396</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>70,773,667</td>
<td>60,028,099</td>
</tr>
<tr>
<td>Contributions — current portion (net of allowances of $7,681,778 and $8,585,848, respectively)</td>
<td>127,076,210</td>
<td>130,285,909</td>
</tr>
<tr>
<td>Investment trades</td>
<td>680,960,415</td>
<td>418,023,751</td>
</tr>
<tr>
<td>Other (net of allowances of $4,498,900 and $4,731,812, respectively)</td>
<td>475,915,083</td>
<td>405,063,823</td>
</tr>
<tr>
<td>Due from other agencies</td>
<td>116,296,376</td>
<td>116,641,512</td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted loans and contracts - current portion (net of allowances of $13,866,060 and $12,415,417, respectively)</td>
<td>68,478,690</td>
<td>70,220,498</td>
</tr>
<tr>
<td>Securities lending collateral</td>
<td>490,906,139</td>
<td>729,334,828</td>
</tr>
<tr>
<td>Other current assets</td>
<td>266,078,754</td>
<td>233,740,352</td>
</tr>
<tr>
<td>Total current assets</td>
<td>7,827,057,880</td>
<td>7,227,867,313</td>
</tr>
</tbody>
</table>

### Noncurrent Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents – noncurrent restricted</td>
<td>5,163,474</td>
<td>4,973,972</td>
</tr>
<tr>
<td>Restricted investments</td>
<td>38,446,699,535</td>
<td>35,899,086,408</td>
</tr>
<tr>
<td>Deposit with brokers for derivative contracts</td>
<td>76,443,257</td>
<td>52,262,632</td>
</tr>
<tr>
<td>Loans and contracts (net of allowances of $23,414,043 and $22,448,365, respectively)</td>
<td>76,137,770</td>
<td>77,762,025</td>
</tr>
<tr>
<td>Contributions receivable (net of allowances of $1,913,314 and $2,043,415, respectively)</td>
<td>192,697,641</td>
<td>209,952,662</td>
</tr>
<tr>
<td>Unrestricted Investments</td>
<td>8,199,204,493</td>
<td>6,759,352,894</td>
</tr>
<tr>
<td>Hedging Derivative Asset</td>
<td>10,339,315</td>
<td>-</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>98,510,720</td>
<td>93,997,435</td>
</tr>
<tr>
<td>Gross capital/intangible assets</td>
<td>29,770,561,306</td>
<td>27,991,170,208</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(13,554,107,014)</td>
<td>(12,381,442,309)</td>
</tr>
<tr>
<td>Net capital assets</td>
<td>16,216,454,292</td>
<td>15,609,727,899</td>
</tr>
<tr>
<td>Total noncurrent assets</td>
<td>63,321,650,497</td>
<td>58,707,115,927</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>71,148,708,377</td>
<td>65,934,983,240</td>
</tr>
</tbody>
</table>

### Deferred Outflows of Resources

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Outflows of Resources</td>
<td>1,160,966,734</td>
<td>951,908,621</td>
</tr>
</tbody>
</table>

### Total Assets and Deferred Outflows

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets and Deferred Outflows</strong></td>
<td>$72,309,675,111</td>
<td>$66,886,891,861</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements (Continued)
## LIABILITIES AND DEFERRED INFLOWS

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$1,118,896,148</td>
<td>1,049,063,470</td>
</tr>
<tr>
<td>Salaries payable</td>
<td>574,766,283</td>
<td>548,225,947</td>
</tr>
<tr>
<td>Investment trades payable</td>
<td>730,277,218</td>
<td>579,420,470</td>
</tr>
<tr>
<td>Incurred but not reported self-insurance claims – current portion</td>
<td>125,517,329</td>
<td>104,109,224</td>
</tr>
<tr>
<td>Securities lending obligations</td>
<td>490,906,139</td>
<td>729,334,828</td>
</tr>
<tr>
<td>Due to other State agencies</td>
<td>28,693,696</td>
<td>22,024,921</td>
</tr>
<tr>
<td>Statewide interfund payable – current portion</td>
<td>86,283,468</td>
<td>49,708,835</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>1,715,467,667</td>
<td>1,483,727,696</td>
</tr>
<tr>
<td>Employees’ compensable leave – current portion</td>
<td>401,350,083</td>
<td>384,367,066</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>564,149,000</td>
<td>852,096,000</td>
</tr>
<tr>
<td>Notes, loans and leases payable – current portion</td>
<td>5,350,454</td>
<td>25,820,628</td>
</tr>
<tr>
<td>Payable from restricted assets</td>
<td>178,220,959</td>
<td>182,896,648</td>
</tr>
<tr>
<td>Bonds payable – current portion</td>
<td>1,845,796,760</td>
<td>1,561,116,452</td>
</tr>
<tr>
<td>Assets held for others – current portion</td>
<td>16,901,635</td>
<td>19,287,100</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>139,810,053</td>
<td>121,491,005</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$8,022,386,892</td>
<td>7,712,690,290</td>
</tr>
<tr>
<td><strong>NONCURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incurred but not reported self-insurance claims</td>
<td>35,619,243</td>
<td>28,381,779</td>
</tr>
<tr>
<td>Employees’ compensable leave</td>
<td>206,501,293</td>
<td>210,800,641</td>
</tr>
<tr>
<td>Assets held for others</td>
<td>827,311,150</td>
<td>742,537,795</td>
</tr>
<tr>
<td>Liability to beneficiaries</td>
<td>13,627,089</td>
<td>14,056,918</td>
</tr>
<tr>
<td>Net other postemployment benefits obligation</td>
<td>5,386,651,054</td>
<td>4,647,430,554</td>
</tr>
<tr>
<td>Net pension liability</td>
<td>3,133,888,495</td>
<td>2,744,693,745</td>
</tr>
<tr>
<td>Notes, loans and leases payable</td>
<td>954,160,762</td>
<td>1,043,594,390</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>7,156,928,387</td>
<td>6,485,797,623</td>
</tr>
<tr>
<td>Statewide interfund payable</td>
<td>894,904,609</td>
<td>975,701,135</td>
</tr>
<tr>
<td>Hedging derivative liability</td>
<td>246,087,922</td>
<td>338,725,063</td>
</tr>
<tr>
<td>Payable to brokers for collateral held</td>
<td>17,550,000</td>
<td>7,666,923</td>
</tr>
<tr>
<td>Investment derivatives - liability positions</td>
<td>171,471,313</td>
<td>233,839,736</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>12,831,559</td>
<td>14,677,212</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>$19,051,532,876</td>
<td>17,487,903,514</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>$27,073,919,768</td>
<td>25,200,593,804</td>
</tr>
</tbody>
</table>

**Deferred Inflows of Resources**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Inflows of Resources</td>
<td>440,108,341</td>
<td>404,159,100</td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND DEFERRED INFLOWS**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET POSITION</strong></td>
<td>$27,514,028,109</td>
<td>25,604,752,904</td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>$6,334,663,525</td>
<td>6,375,856,344</td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonexpendable</td>
<td>23,184,331,614</td>
<td>22,350,532,269</td>
</tr>
<tr>
<td>Expendable</td>
<td>13,557,386,026</td>
<td>11,430,042,817</td>
</tr>
<tr>
<td><strong>Total Restricted</strong></td>
<td>36,741,717,640</td>
<td>33,780,575,086</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,719,265,837</td>
<td>1,125,707,527</td>
</tr>
<tr>
<td><strong>TOTAL NET POSITION</strong></td>
<td>$44,795,647,002</td>
<td>41,282,138,957</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements (Concluded)
(This page intentionally left blank)
<table>
<thead>
<tr>
<th>OPERATING REVENUES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net student tuition and fees (net of discounts and allowances of $625,273,093 and $581,311,364, respectively)</td>
<td>$1,718,371,569</td>
<td>1,653,772,230</td>
</tr>
<tr>
<td>Sponsored programs</td>
<td>3,198,239,703</td>
<td>3,106,776,623</td>
</tr>
<tr>
<td>Net sales and services of educational activities (net of discounts and allowances of $367,765 and $237,517, respectively)</td>
<td>476,472,386</td>
<td>485,514,294</td>
</tr>
<tr>
<td>Net sales and services of hospitals (net of discounts and allowances of $7,785,986,690 and $7,181,551,766, respectively)</td>
<td>5,786,262,918</td>
<td>5,368,140,810</td>
</tr>
<tr>
<td>Net professional fees (net of discounts and allowances of $4,009,228,538 and $3,865,542,221, respectively)</td>
<td>1,812,311,830</td>
<td>1,697,757,824</td>
</tr>
<tr>
<td>Net auxiliary enterprises (net of discounts and allowances of $16,240,255 and $16,101,128, respectively)</td>
<td>593,478,028</td>
<td>558,546,335</td>
</tr>
<tr>
<td>Other</td>
<td>450,487,535</td>
<td>411,746,537</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>14,035,623,969</td>
<td>13,282,254,653</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OPERATING EXPENSES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>3,896,899,596</td>
<td>3,667,136,667</td>
</tr>
<tr>
<td>Research</td>
<td>2,324,097,993</td>
<td>2,177,733,042</td>
</tr>
<tr>
<td>Public service</td>
<td>330,675,165</td>
<td>306,143,511</td>
</tr>
<tr>
<td>Hospitals and clinics</td>
<td>5,619,194,295</td>
<td>5,446,409,730</td>
</tr>
<tr>
<td>Academic support</td>
<td>936,593,648</td>
<td>845,970,288</td>
</tr>
<tr>
<td>Student services</td>
<td>272,502,912</td>
<td>260,376,373</td>
</tr>
<tr>
<td>Institutional support</td>
<td>1,620,666,350</td>
<td>1,553,343,977</td>
</tr>
<tr>
<td>Operations and maintenance of plant</td>
<td>800,937,958</td>
<td>764,018,743</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>372,785,046</td>
<td>376,644,835</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>629,827,728</td>
<td>592,445,817</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,386,005,593</td>
<td>1,307,689,226</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>18,200,206,284</td>
<td>17,297,912,209</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(4,164,582,315)</td>
<td>(4,015,657,556)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NONOPERATING REVENUES (EXPENSES)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>State appropriations</td>
<td>2,226,326,513</td>
<td>2,221,950,387</td>
</tr>
<tr>
<td>Nonexchange sponsored programs</td>
<td>394,794,952</td>
<td>407,869,301</td>
</tr>
<tr>
<td>Gift contributions for operations</td>
<td>442,189,801</td>
<td>491,717,668</td>
</tr>
<tr>
<td>Net investment income</td>
<td>4,692,780,487</td>
<td>2,772,265,305</td>
</tr>
<tr>
<td>Interest expense on capital asset financings</td>
<td>(262,553,929)</td>
<td>(277,861,512)</td>
</tr>
<tr>
<td>Loss on sale of capital assets</td>
<td>(32,050,897)</td>
<td>(23,951,296)</td>
</tr>
<tr>
<td>Other</td>
<td>81,337,655</td>
<td>21,052,358</td>
</tr>
<tr>
<td>Net nonoperating revenues</td>
<td>7,542,824,582</td>
<td>5,613,042,211</td>
</tr>
<tr>
<td>Income before other changes in net position</td>
<td>3,378,242,267</td>
<td>1,597,384,655</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OTHER CHANGES IN NET POSITION</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gifts and grants</td>
<td>158,531,871</td>
<td>92,656,133</td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>159,689,551</td>
<td>169,124,603</td>
</tr>
<tr>
<td>Net transfers to other State agencies</td>
<td>(178,211,395)</td>
<td>(269,776,821)</td>
</tr>
<tr>
<td>Legislative appropriations lapsed</td>
<td>(4,744,249)</td>
<td>(142,660)</td>
</tr>
<tr>
<td>Change in net position</td>
<td>3,513,508,045</td>
<td>1,589,245,910</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET POSITION</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position, beginning of year</td>
<td>41,282,138,957</td>
<td>39,681,127,743</td>
</tr>
<tr>
<td>Restatement</td>
<td>-</td>
<td>11,765,304</td>
</tr>
<tr>
<td>Net position, beginning of year (as restated)</td>
<td>41,282,138,957</td>
<td>39,692,893,047</td>
</tr>
<tr>
<td>Net position, end of year</td>
<td>$44,795,647,002</td>
<td>41,282,138,957</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements
THE UNIVERSITY OF TEXAS SYSTEM  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2017 AND 2016  

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from tuition and fees</td>
<td>$1,756,691,285</td>
<td>1,679,337,525</td>
</tr>
<tr>
<td>Proceeds from patients and customers</td>
<td>7,718,822,996</td>
<td>6,968,034,420</td>
</tr>
<tr>
<td>Proceeds from sponsored programs</td>
<td>3,086,913,036</td>
<td>2,947,441,569</td>
</tr>
<tr>
<td>Proceeds from auxiliaries</td>
<td>603,743,672</td>
<td>576,799,289</td>
</tr>
<tr>
<td>Proceeds from other revenues</td>
<td>923,056,419</td>
<td>744,343,297</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(5,382,478,972)</td>
<td>(5,278,901,357)</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(10,481,266,543)</td>
<td>(9,950,565,964)</td>
</tr>
<tr>
<td>Payments for loans provided</td>
<td>(128,687,208)</td>
<td>(168,012,055)</td>
</tr>
<tr>
<td>Proceeds from loan programs</td>
<td>128,516,064</td>
<td>153,296,838</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td>(1,774,689,251)</td>
<td>(2,328,226,438)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from State appropriations</td>
<td>2,224,653,205</td>
<td>2,186,837,292</td>
</tr>
<tr>
<td>Proceeds from operating gifts</td>
<td>458,866,103</td>
<td>505,457,650</td>
</tr>
<tr>
<td>Proceeds from private gifts for endowment and annuity life purposes</td>
<td>297,166,014</td>
<td>359,454,053</td>
</tr>
<tr>
<td>Proceeds from other nonoperating revenues</td>
<td>14,588,896</td>
<td>6,760,505</td>
</tr>
<tr>
<td>Receipts for transfers from other agencies</td>
<td>484,285,910</td>
<td>1,017,390,053</td>
</tr>
<tr>
<td>Payments for transfers to other agencies</td>
<td>(1,164,176,943)</td>
<td>(1,714,619,643)</td>
</tr>
<tr>
<td>Payments for other uses</td>
<td>(5,580,879)</td>
<td>(5,178,881)</td>
</tr>
<tr>
<td>Proceeds from nonexchange sponsored programs</td>
<td>381,254,102</td>
<td>403,496,505</td>
</tr>
<tr>
<td><strong>Net cash provided by noncapital financing activities</strong></td>
<td>2,691,056,408</td>
<td>2,759,597,534</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from issuance of capital debt</td>
<td>3,526,137,129</td>
<td>2,338,304,950</td>
</tr>
<tr>
<td>Payments of other costs on debt issuance</td>
<td>(7,428,396)</td>
<td>(7,783,744)</td>
</tr>
<tr>
<td>Proceeds from capital appropriations, grants and gifts</td>
<td>143,692,170</td>
<td>106,703,914</td>
</tr>
<tr>
<td>Proceeds from sale of capital assets</td>
<td>2,115,706</td>
<td>15,966,921</td>
</tr>
<tr>
<td>Payments for additions to capital assets</td>
<td>(1,952,791,120)</td>
<td>(2,087,537,636)</td>
</tr>
<tr>
<td>Payments of principal on capital related debt</td>
<td>(2,883,229,682)</td>
<td>(934,921,156)</td>
</tr>
<tr>
<td>Payments of interest on capital related debt</td>
<td>(338,317,541)</td>
<td>(306,644,266)</td>
</tr>
<tr>
<td><strong>Net cash used in capital and related financing activities</strong></td>
<td>(1,509,821,734)</td>
<td>(875,911,017)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sales of investments</td>
<td>19,972,477,282</td>
<td>15,466,706,196</td>
</tr>
<tr>
<td>Proceeds from interest and investment income</td>
<td>1,399,696,793</td>
<td>1,067,334,854</td>
</tr>
<tr>
<td>Payments to acquire investments</td>
<td>(20,465,895,179)</td>
<td>(16,133,352,783)</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td>906,278,896</td>
<td>400,688,267</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET INCREASE (DECREASE) IN CASH</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>2,876,709,945</td>
<td>2,920,561,599</td>
</tr>
<tr>
<td><strong>Cash and Cash equivalents, end of year</strong></td>
<td>$ 3,189,534,264</td>
<td>2,876,709,945</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements (Continued)
THE UNIVERSITY OF TEXAS SYSTEM  
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)  
YEARS ENDED AUGUST 31, 2017 AND 2016

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>$(4,164,582,315)</td>
<td>$(4,015,657,556)</td>
</tr>
</tbody>
</table>

Adjustments to reconcile operating loss to net cash used in operating activities:
- Depreciation and amortization expense: 1,396,005,593 (2017) / 1,307,689,226 (2016)

Changes in assets and liabilities:
- Assets held for others: (413,924) (2017) / 3,539,435 (2016)

Total adjustments: 2,389,893,064 (2017) / 1,687,431,118 (2016)

Net cash used in operating activities: $(1,774,689,251) (2017) / $(2,328,226,438) (2016)

SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION

- Net increase in fair value of investments: 1,831,391,639 (2017) / 1,149,820,673 (2016)
- Donated capital assets: 25,976,104 (2017) / 12,742,781 (2016)

See accompanying notes to consolidated financial statements (Concluded)
(This page intentionally left blank)
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 eight academic and six health-related institutions of higher education, as well as the System administrative offices. The fourteen institutions are as follows: The University of Texas at Arlington, The University of Texas at Austin, The University of Texas at Dallas, The University of Texas at El Paso, The University of Texas of the Permian Basin, The University of Texas Rio Grande Valley, 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.

Creation of The University of Texas Rio Grande Valley

The amounts recognized as of the merger dates and the effective transfer date from the implementation of GASB Statement 69 on the System’s financial statements for the year ended August 31, 2016 were as follows:

<table>
<thead>
<tr>
<th>Merged Institutions</th>
<th>Transfer of Operations from</th>
<th>Total Amount Recognized by</th>
</tr>
</thead>
</table>

**Assets:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Current Assets</td>
<td>18,829,272</td>
<td>113,682,138</td>
<td>4,302,496</td>
<td>136,813,906</td>
</tr>
<tr>
<td>Gross Cap/Intangible Assets</td>
<td>181,772,378</td>
<td>512,631,545</td>
<td>140,996,577</td>
<td>835,400,500</td>
</tr>
<tr>
<td>AccumulatedDepreciation/Amort</td>
<td>(61,967,477)</td>
<td>(252,036,692)</td>
<td>(37,563,186)</td>
<td>(351,567,355)</td>
</tr>
<tr>
<td>Net Capital/Intangible Assets</td>
<td>119,804,901</td>
<td>260,594,853</td>
<td>103,433,391</td>
<td>483,833,145</td>
</tr>
<tr>
<td>Other Noncurrent Assets</td>
<td>28,688,813</td>
<td>107,505,082</td>
<td>-</td>
<td>136,193,895</td>
</tr>
<tr>
<td>Total Assets</td>
<td>167,322,986</td>
<td>481,782,073</td>
<td>107,735,887</td>
<td>756,840,946</td>
</tr>
</tbody>
</table>

**Liabilities:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Current Liabilities</td>
<td>5,767,494</td>
<td>101,702,058</td>
<td>-</td>
<td>107,469,552</td>
</tr>
<tr>
<td>Total Noncurrent Liabilities</td>
<td>2,005,419</td>
<td>4,389,960</td>
<td>-</td>
<td>6,395,379</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>7,772,913</td>
<td>106,092,018</td>
<td>-</td>
<td>113,864,931</td>
</tr>
</tbody>
</table>

**Net Position:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Investment in Capital Assets</td>
<td>119,804,901</td>
<td>260,594,853</td>
<td>103,433,391</td>
<td>483,833,145</td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>7,566,573</td>
<td>12,326,443</td>
<td>-</td>
<td>19,893,016</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>9,026,024</td>
<td>24,399,136</td>
<td>-</td>
<td>33,425,160</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>23,152,575</td>
<td>78,369,623</td>
<td>4,302,496</td>
<td>105,824,694</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>159,550,073</td>
<td>375,690,055</td>
<td>107,735,887</td>
<td>642,976,015</td>
</tr>
</tbody>
</table>

The amounts transferred by U. T. Brownsville and U. T. Pan American did not include a net pension liability of $39,766,911 or related pension deferred inflows and outflows which were assumed by U. T. Rio Grande Valley. The System records the pension related liabilities and deferred inflows and outflows for all institutions.

**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. Blended component unit 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 is organized as a not-for-profit corporation and U. T. Southwestern Medical Center is the sole corporate member. 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 is organized as a not-for-profit corporation and U. T. Southwestern Medical Center is the sole corporate member. 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. 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 is organized as a not-for-profit foundation and U. T. Southwestern Medical Center is the sole corporate member. The foundation’s fiscal year end is August 31.

St. Paul Medical Foundation, 5909 Harry Hines Boulevard, Dallas, Texas 75390, had no members appointed. The management of the foundation was vested in its board of directors and such committees that were established from time to time. The number of directors was no less than three, with the president of the foundation a voting ex-officio member, and the president of St. Paul Hospital and the president of U. T. Southwestern Medical Center or his or her designee, non-voting ex-officio members. St. Paul Medical Foundation supported the advancement, through philanthropy, of
excellent and innovative patient care and promoted and supported scientific, educational, charitable, religious and research activities of the programs and facilities at St. Paul Hospital. In fiscal year 2016, the foundation was blended rather than discretely presented because it provided services entirely or almost entirely to U. T. Southwestern Medical Center. The foundation’s fiscal year end was December 31. The assets of St. Paul Medical Foundation were transferred to U. T. Southwestern Medical Center and the foundation was dissolved September 30, 2016.

In fiscal year 2016, U. T. Southwestern Accountable Care Network, 5323 Harry Hines Boulevard, Dallas, Texas 75390, was governed by a nine-member board appointed by U. T. Southwestern Health Systems, the sole member of U. T. Southwestern Accountable Care Network. U. T. Southwestern Accountable Care Network owns, operates and manages an Accountable Care Organization in accordance with the requirements of the Medicare Shared Savings Program, as set forth in section 1899 of the Social Security Act and related regulations. In fiscal year 2016, the corporation was blended rather than discretely presented because it provided services entirely or almost entirely to U. T. Southwestern Medical Center. The corporation’s fiscal year end is August 31. Effective September 1, 2016, U. T. Southwestern Health Systems entered into a member substitution agreement with Southwestern Health Resources Physician Network, which substituted the sole member of the Accountable Care Network from U. T. Southwestern Health Resources, Inc. to Southwestern Health Resources Physicians Network. Therefore, Accountable Care Network is no longer blended in the financials of U. T. Southwestern as of and for the year ended August 31, 2017.

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 is organized as a not-for-profit corporation and U. T. Medical Branch – Galveston is the sole corporate member. The corporation’s fiscal year end is August 31.

The University Medical Branch Student Book Store, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by a five-member board appointed by U. T. Medical Branch - Galveston. 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 August 31.

Medical Branch Innovations, Inc., 301 University Boulevard, Galveston, Texas 77555 is governed by a three-member board appointed by U. T. Medical Branch – Galveston. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Medical Branch – Galveston is the sole corporate member. The corporation’s fiscal year end is August 31.

U. T. Physicians, 6431 Fannin Street, Suite JJL 475, Houston, Texas 77030, 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 is organized as a not-for-profit corporation and U. T. Health Science Center - Houston is the sole corporate member. 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, 8431 Fredericksburg Road, San Antonio, Texas 78229, 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 members of and elected by the physician practice plan board. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Health Science Center - San Antonio is the sole corporate member. The corporation’s fiscal year end is August 31.

M. D. Anderson Physician’s Network, 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030, is governed by a nine-member board appointed by the president of 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 is organized as a not-for-profit corporation and M. D. Anderson is the sole corporate member. The corporation’s fiscal year end is August 31.
M. D. Anderson Services Corporation, 7007 Bertner Avenue, Suite 10.3212, 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 is organized as a not-for-profit corporation and M. D. Anderson is the sole corporate member. The corporation’s fiscal year end is August 31.

East Texas Quality Care Network, Inc., 11937 US Highway 271, Tyler, Texas 75708-3154, 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 is organized as a not-for-profit corporation and U. T. Health Science Center - Tyler is the sole corporate member. The corporation’s fiscal year end is August 31.

The University of Texas/Texas A&M 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, four other members appointed by the U. T. System Board of Regents (one of whom may be the Chancellor of the System), and two members appointed by the Texas A&M System Board of Regents. At least three members appointed by the U. T. System Board of Regents and at least one member appointed by the Texas A&M System Board of Regents must have 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, 2017 is as follows:

### Condensed Statement of Net Position

<table>
<thead>
<tr>
<th>As of August 31, 2017</th>
<th>Southwestern Health Systems</th>
<th>Southwestern Moncrief Cancer Center</th>
<th>Moncrief Cancer Foundation</th>
<th>St. Paul Medical Foundation</th>
<th>Southwestern Accountable Care Network</th>
<th>UTMB HealthCare Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td>$15,925,767</td>
<td>2,216,482</td>
<td>1,304,059</td>
<td>-</td>
<td>-</td>
<td>12,648,286</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td>-</td>
<td>35,393,608</td>
<td>88,567,646</td>
<td>-</td>
<td>-</td>
<td>8,206,056</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$15,925,767</td>
<td>37,610,090</td>
<td>89,871,705</td>
<td>-</td>
<td>-</td>
<td>20,854,342</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td>771,174</td>
<td>2,216,482</td>
<td>1,489,148</td>
<td>-</td>
<td>-</td>
<td>1,766,519</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities</strong></td>
<td>-</td>
<td>-</td>
<td>19,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>771,174</td>
<td>2,216,482</td>
<td>20,489,148</td>
<td>-</td>
<td>-</td>
<td>1,766,519</td>
</tr>
<tr>
<td><strong>Net Investment in Capital Assets</strong></td>
<td>-</td>
<td>31,484,627</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,879,101</td>
</tr>
<tr>
<td><strong>Restricted Nonexpendable</strong></td>
<td>-</td>
<td>1,563,838</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Restricted Expendable</strong></td>
<td>-</td>
<td>-</td>
<td>69,382,557</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Unrestricted</strong></td>
<td>$15,154,593</td>
<td>35,393,608</td>
<td>69,382,557</td>
<td>-</td>
<td>-</td>
<td>17,208,722</td>
</tr>
</tbody>
</table>

### Condensed Statement of Revenues, Expenses and Changes in Net Position

<table>
<thead>
<tr>
<th></th>
<th>Southwestern Health Systems</th>
<th>Southwestern Moncrief Cancer Center</th>
<th>Moncrief Cancer Foundation</th>
<th>St. Paul Medical Foundation</th>
<th>Southwestern Accountable Care Network</th>
<th>UTMB HealthCare Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td>$64,554</td>
<td>12,233,304</td>
<td>276</td>
<td>-</td>
<td>-</td>
<td>29,659,725</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>(109,621)</td>
<td>(13,209,406)</td>
<td>(591,001)</td>
<td>-</td>
<td>-</td>
<td>(28,619,987)</td>
</tr>
<tr>
<td><strong>Operating Income/(Loss)</strong></td>
<td>(45,067)</td>
<td>(976,102)</td>
<td>(590,725)</td>
<td>-</td>
<td>-</td>
<td>1,039,738</td>
</tr>
<tr>
<td><strong>Nonoperating Revenues</strong></td>
<td>1,820,878</td>
<td>-</td>
<td>8,631,467</td>
<td>-</td>
<td>-</td>
<td>677,997</td>
</tr>
<tr>
<td><strong>Income/(Loss) Before Other Changes in Net Position</strong></td>
<td>1,775,811</td>
<td>(976,102)</td>
<td>8,040,742</td>
<td>-</td>
<td>-</td>
<td>1,717,735</td>
</tr>
<tr>
<td><strong>Other Changes in Net Position</strong></td>
<td>(910,130)</td>
<td>(2,047,155)</td>
<td>(2,768,187)</td>
<td>(5,365,808)</td>
<td>(6,201,738)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>865,681</td>
<td>(3,023,257)</td>
<td>5,272,555</td>
<td>(5,365,808)</td>
<td>(6,201,738)</td>
<td>1,717,735</td>
</tr>
<tr>
<td><strong>Net Position - August 31, 2016</strong></td>
<td>14,288,912</td>
<td>38,416,865</td>
<td>64,110,002</td>
<td>5,365,808</td>
<td>6,201,738</td>
<td>17,370,088</td>
</tr>
<tr>
<td><strong>Net Position - August 31, 2017</strong></td>
<td>$15,154,593</td>
<td>35,393,608</td>
<td>69,382,557</td>
<td>-</td>
<td>-</td>
<td>19,087,823</td>
</tr>
</tbody>
</table>

### Condensed Statement of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>Southwestern Health Systems</th>
<th>Southwestern Moncrief Cancer Center</th>
<th>Moncrief Cancer Foundation</th>
<th>St. Paul Medical Foundation</th>
<th>Southwestern Accountable Care Network</th>
<th>UTMB HealthCare Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td>$873,660</td>
<td>465,173</td>
<td>(2,372,643)</td>
<td>(11,738)</td>
<td>3,617,196</td>
<td>1,291,739</td>
</tr>
<tr>
<td><strong>Noncapital Financing Activities</strong></td>
<td>-</td>
<td>-</td>
<td>2,713,634</td>
<td>(5,363,308)</td>
<td>(6,201,739)</td>
<td>(3,034)</td>
</tr>
<tr>
<td><strong>Capital and Related Financing</strong></td>
<td>-</td>
<td>(110,582)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(597,040)</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td>-</td>
<td>50,269</td>
<td>-</td>
<td>5,192,572</td>
<td>-</td>
<td>(6,335,600)</td>
</tr>
<tr>
<td><strong>Net Increase (Decrease) in Cash and Cash Equivalents</strong></td>
<td>$873,660</td>
<td>404,860</td>
<td>340,991</td>
<td>(182,474)</td>
<td>(2,584,543)</td>
<td>(5,643,935)</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents – August 31, 2016</strong></td>
<td>6,918,166</td>
<td>793,885</td>
<td>869,056</td>
<td>182,474</td>
<td>2,584,543</td>
<td>9,634,551</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents – August 31, 2017</strong></td>
<td>$6,044,506</td>
<td>1,198,745</td>
<td>1,210,047</td>
<td>-</td>
<td>-</td>
<td>3,990,616</td>
</tr>
</tbody>
</table>
### As of August 31, 2017

<table>
<thead>
<tr>
<th>The University Medical Branch</th>
<th>Medical Branch Innovations</th>
<th>U. T. Physicians</th>
<th>U. T. System Medical Foundation</th>
<th>University Physicians Group</th>
<th>M. D. Anderson Physician's Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condensed Statement of Net Position</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$2,525,121</td>
<td>6,504,169</td>
<td>98,206,377</td>
<td>14,036,314</td>
<td>41,818,990</td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>11,457</td>
<td>-</td>
<td>79,923,118</td>
<td>3,319,085</td>
<td>2,424,413</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>2,536,578</strong></td>
<td><strong>6,504,169</strong></td>
<td><strong>178,129,495</strong></td>
<td><strong>17,355,399</strong></td>
<td><strong>2,424,413</strong></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>131,473</td>
<td>539,285</td>
<td>88,384,253</td>
<td>6,859,488</td>
<td>488,791</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>-</td>
<td>6,149,137</td>
<td>-</td>
<td>250,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>131,473</strong></td>
<td><strong>6,688,422</strong></td>
<td><strong>88,384,253</strong></td>
<td><strong>7,109,488</strong></td>
<td><strong>488,791</strong></td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>2,393,648</td>
<td>(184,253)</td>
<td>67,018,994</td>
<td>10,245,911</td>
<td>1,935,622</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td><strong>$2,405,105</strong></td>
<td>(184,253)</td>
<td><strong>89,745,242</strong></td>
<td><strong>10,245,911</strong></td>
<td><strong>1,935,622</strong></td>
</tr>
</tbody>
</table>

### Condensed Statement of Revenues, Expenses and Changes in Net Position

<table>
<thead>
<tr>
<th>Operating Revenues</th>
<th>$1,077,521</th>
<th>1,237,847</th>
<th>178,579,750</th>
<th>83,948,663</th>
<th>1,693,044</th>
<th>40,224,482</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>(1,435,379)</td>
<td>(1,442,232)</td>
<td>(164,636,138)</td>
<td>(82,992,555)</td>
<td>(1,175,814)</td>
<td>(20,932,720)</td>
</tr>
<tr>
<td><strong>Operating Income/(Loss)</strong></td>
<td>(357,858)</td>
<td>(204,385)</td>
<td>13,943,612</td>
<td>956,108</td>
<td>517,230</td>
<td>19,291,762</td>
</tr>
<tr>
<td>Nonoperating Revenues (Expenses)</td>
<td>-</td>
<td>20,132</td>
<td>4,962,847</td>
<td>299,682</td>
<td>(517,230)</td>
<td>5,125,642</td>
</tr>
<tr>
<td><strong>Income/(Loss) Before Other Changes in Net Position</strong></td>
<td>(357,858)</td>
<td>(184,253)</td>
<td>18,906,459</td>
<td>1,255,790</td>
<td>-</td>
<td>24,417,404</td>
</tr>
<tr>
<td>Other Changes in Net Position</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>(357,858)</td>
<td>(184,253)</td>
<td>18,906,459</td>
<td>1,255,790</td>
<td>-</td>
<td>24,417,404</td>
</tr>
<tr>
<td>Net Position - August 31, 2016</td>
<td>2,762,963</td>
<td>-</td>
<td>70,838,783</td>
<td>8,990,121</td>
<td>1,935,622</td>
<td>74,179,901</td>
</tr>
<tr>
<td><strong>Net Position-August 31, 2017</strong></td>
<td><strong>$2,405,105</strong></td>
<td>(184,253)</td>
<td><strong>89,745,242</strong></td>
<td><strong>10,245,911</strong></td>
<td><strong>1,935,622</strong></td>
<td><strong>98,597,305</strong></td>
</tr>
</tbody>
</table>

### Condensed Statement of Cash Flows

| Net Cash provided (used) by: | Operating Activities | $331,865 | (753,810) | 57,686,923 | 919,356 | 1,418,258 | 23,178,192 |
| Noncapital Financing Activities | - | - | - | - | - | - |
| Capital and Related Financing | - | 6,000,000 | (4,333,420) | - | (1,418,258) | - |
| Investing Activities | 3,829 | 20,132 | (18,071,198) | 41,836 | - | (17,638,552) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (328,036) | 5,266,322 | 35,282,305 | 961,192 | - | 5,539,640 |
| Cash and Cash Equivalents – August 31, 2016 | 2,498,564 | - | 38,175,896 | 5,832,004 | - | 26,254,229 |
| **Cash and Cash Equivalents – August 31, 2017** | **$2,170,528** | 5,266,322 | 73,458,201 | 6,793,196 | - | 31,793,869 |
(Concluded)

<table>
<thead>
<tr>
<th></th>
<th>M. D. Anderson Services Corp</th>
<th>East Texas Quality Care Network</th>
<th>UTIMCO</th>
<th>University of Texas Fine Arts Foundation</th>
<th>University of Texas Communication Foundation</th>
<th>Combined Blended Component Unit Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of August 31, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Condensed Statement of Net Position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$95,682,806</td>
<td>375,764</td>
<td>19,782,315</td>
<td>1,268</td>
<td>211</td>
<td>311,027,929</td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>637,217,851</td>
<td>-</td>
<td>1,788,893</td>
<td>-</td>
<td>171,590</td>
<td>927,989,917</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$732,900,657</td>
<td>375,764</td>
<td>21,571,208</td>
<td>1,268</td>
<td>171,801</td>
<td>1,239,017,846</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>118,476,065</td>
<td>47,372</td>
<td>9,916,898</td>
<td>-</td>
<td>111,913</td>
<td>245,275,771</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>243,792,136</td>
<td>-</td>
<td>1,788,893</td>
<td>-</td>
<td>39,052</td>
<td>271,130,193</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$362,268,201</td>
<td>47,372</td>
<td>11,705,791</td>
<td>-</td>
<td>150,965</td>
<td>516,405,964</td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>5,223</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>57,334,309</td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>50,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>51,563,838</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>296,574,323</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>365,956,880</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>24,052,910</td>
<td>328,392</td>
<td>9,865,417</td>
<td>1,268</td>
<td>20,836</td>
<td>247,756,855</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$370,632,456</td>
<td>328,392</td>
<td>9,865,417</td>
<td>1,268</td>
<td>20,836</td>
<td>722,611,882</td>
</tr>
</tbody>
</table>

|                      |                             |                                 |        |                                          |                                               |                                        |
| **Condensed Statement of Revenues, Expenses and Changes in Net Position** |                             |                                 |        |                                          |                                               |                                        |
| Operating Revenues   | $2,117,706                  | 39,228                          | 32,307,792 | -                                        | -                                            | 383,183,892                             |
| Operating Expenses   | (1,423,617)                 | (18,974)                        | (27,740,053) | (840)                                   | -                                            | (344,328,337)                           |
| **Operating Income/(Loss)** | 694,089                   | 20,254                          | 4,567,739  | (840)                                   | -                                            | 38,855,555                              |
| Nonoperating Revenues (Expenses) | 71,380,759               | -                               | 147,226  | 2                                        | -                                            | 92,549,402                              |
| **Income/(Loss) Before Other Changes in Net Position** | 72,074,848                | 20,254                          | 4,714,965  | (838)                                   | -                                            | 131,404,957                             |
| Other Changes in Net Position | -                          | -                               | -         | -                                        | -                                            | (17,293,018)                            |
| **Change in Net Position** | 72,074,848                | 20,254                          | 4,714,965  | (838)                                   | -                                            | 114,111,939                             |
| Net Position - August 31, 2016 | 298,557,608              | 308,138                         | 5,150,452  | 2,106                                   | 20,836                                       | 608,499,943                             |
| **Net Position-August 31, 2017** | $370,632,456              | 328,392                         | 9,865,417  | 1,268                                   | 20,836                                       | 722,611,882                             |

|                      |                             |                                 |        |                                          |                                               |                                        |
| **Condensed Statement of Cash Flows** |                             |                                 |        |                                          |                                               |                                        |
| Net Cash provided (used) by: |                             |                                 |        |                                          |                                               |                                        |
| Operating Activities  | $67,999,317                 | 117,894                         | 3,010,686  | (840)                                   | -                                            | 155,360,178                             |
| Noncapital Financing Activities | (29,020,412)             | -                               | -         | -                                        | -                                            | (37,874,859)                            |
| Capital and Related Financing | -                          | -                               | (61,862)  | -                                        | -                                            | (521,162)                               |
| Investing Activities   | (42,558,892)                | -                               | 148,873  | 2                                        | -                                            | (79,146,729)                            |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (3,579,987)                | 117,894                         | 3,097,697  | (838)                                   | -                                            | 37,817,428                              |
| Cash and Cash Equivalents – August 31, 2016 | 98,864,529                | 225,240                         | 15,627,261 | 2,106                                   | 211                                          | 208,462,715                             |
| **Cash and Cash Equivalents – August 31, 2017** | $95,284,542                | 343,134                         | 18,724,958 | 1,268                                   | 211                                          | 246,280,143                             |
Condensed financial statement information related to the System’s blended component units for the year ended August 31, 2016 is as follows:

### Condensed Statement of Net Position

<table>
<thead>
<tr>
<th></th>
<th>Southwestern Health Systems</th>
<th>Southwestern Moncrief Cancer Center</th>
<th>Moncrief Cancer Foundation</th>
<th>St. Paul Medical Foundation</th>
<th>Southwestern Accountable Care Network</th>
<th>UTMB Healthcare Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As of August 31, 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>$21,964,505</td>
<td>3,870,268</td>
<td>961,705</td>
<td>13,380,695</td>
<td>26,787,973</td>
<td>17,670,704</td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>-</td>
<td>36,786,743</td>
<td>83,844,309</td>
<td>-</td>
<td>-</td>
<td>7,259,032</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$21,964,505</td>
<td>40,657,011</td>
<td>84,806,014</td>
<td>13,380,695</td>
<td>26,787,973</td>
<td>24,929,736</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>7,675,593</td>
<td>2,240,146</td>
<td>20,696,012</td>
<td>8,014,887</td>
<td>20,586,235</td>
<td>6,959,574</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>600,074</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>7,675,593</td>
<td>2,240,146</td>
<td>20,696,012</td>
<td>8,014,887</td>
<td>20,586,235</td>
<td>7,559,648</td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>-</td>
<td>33,221,453</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,968,510</td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>-</td>
<td>1,405,973</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>-</td>
<td>-</td>
<td>64,110,002</td>
<td>5,365,808</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>14,288,912</td>
<td>3,789,439</td>
<td>-</td>
<td>6,201,738</td>
<td>6,201,738</td>
<td>15,401,578</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$14,288,912</td>
<td>38,416,865</td>
<td>64,110,002</td>
<td>5,365,808</td>
<td>6,201,738</td>
<td>17,370,088</td>
</tr>
</tbody>
</table>

### Condensed Statement of Revenues, Expenses and Changes in Net Position

<table>
<thead>
<tr>
<th></th>
<th>Southwestern Health Systems</th>
<th>Southwestern Moncrief Cancer Center</th>
<th>Moncrief Cancer Foundation</th>
<th>St. Paul Medical Foundation</th>
<th>Southwestern Accountable Care Network</th>
<th>UTMB Healthcare Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
<td>8,782,944</td>
<td>681</td>
<td>684,465</td>
<td>26,856,253</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>(1,650,093)</td>
<td>(11,931,829)</td>
<td>(500,598)</td>
<td>(9,041,830)</td>
<td>(15,075,565)</td>
<td>(29,575,515)</td>
</tr>
<tr>
<td><strong>Operating Income/(Loss)</strong></td>
<td>(1,528,680)</td>
<td>(3,148,885)</td>
<td>(499,917)</td>
<td>(8,357,365)</td>
<td>11,780,688</td>
<td>1,163,986</td>
</tr>
<tr>
<td><strong>Nonoperating Revenues</strong> (Expenses)</td>
<td>2,277,719</td>
<td>3,178,764</td>
<td>3,281,427</td>
<td>-</td>
<td>-</td>
<td>480,293</td>
</tr>
<tr>
<td>Income/(Loss) Before Other Changes in Net Position</td>
<td>749,039</td>
<td>29,879</td>
<td>2,781,510</td>
<td>(8,357,365)</td>
<td>11,780,688</td>
<td>1,644,279</td>
</tr>
<tr>
<td><strong>Other Changes in Net Position</strong></td>
<td>220,556</td>
<td>(2,033,394)</td>
<td>(3,423,381)</td>
<td>(47,632)</td>
<td>(7,623,592)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in Net Position</strong></td>
<td>969,595</td>
<td>1,993,265</td>
<td>641,411</td>
<td>(8,404,997)</td>
<td>4,157,096</td>
<td>1,644,279</td>
</tr>
<tr>
<td><strong>Net Position - August 31, 2015</strong></td>
<td>13,319,317</td>
<td>40,420,380</td>
<td>64,751,873</td>
<td>13,770,805</td>
<td>2,044,642</td>
<td>15,725,809</td>
</tr>
<tr>
<td><strong>Net Position - August 31, 2016</strong></td>
<td>$14,288,912</td>
<td>38,416,865</td>
<td>64,110,002</td>
<td>5,365,808</td>
<td>6,201,738</td>
<td>17,370,088</td>
</tr>
</tbody>
</table>

### Condensed Statement of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>Southwestern Health Systems</th>
<th>Southwestern Moncrief Cancer Center</th>
<th>Moncrief Cancer Foundation</th>
<th>St. Paul Medical Foundation</th>
<th>Southwestern Accountable Care Network</th>
<th>UTMB Healthcare Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Cash provided (used) by:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Activities</td>
<td>$2,427,825</td>
<td>(1,501,370)</td>
<td>(2,951,039)</td>
<td>(604,695)</td>
<td>2,582,057</td>
<td>1,264,458</td>
</tr>
<tr>
<td>Noncapital Financing Activities</td>
<td>-</td>
<td>274,440</td>
<td>(585,140)</td>
<td>462,978</td>
<td>-</td>
<td>(4,867)</td>
</tr>
<tr>
<td>Capital and Related Financing</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(818,448)</td>
</tr>
<tr>
<td>Investing Activities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,537,869</td>
</tr>
<tr>
<td><strong>Net Increase (Decrease) in Cash and Cash Equivalents</strong></td>
<td>2,427,825</td>
<td>(1,226,930)</td>
<td>(3,536,179)</td>
<td>(141,717)</td>
<td>2,582,057</td>
<td>3,979,012</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents – August 31, 2015</strong></td>
<td>4,490,341</td>
<td>2,020,815</td>
<td>4,405,235</td>
<td>324,191</td>
<td>2,486</td>
<td>5,655,539</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents – August 31, 2016</strong></td>
<td>$6,918,166</td>
<td>793,885</td>
<td>869,056</td>
<td>182,474</td>
<td>2,584,543</td>
<td>9,634,551</td>
</tr>
</tbody>
</table>
As of August 31, 2016

<table>
<thead>
<tr>
<th>Condensed Statement of Net Position</th>
<th>The University Medical Branch Student Book Store, Inc.</th>
<th>Medical Branch Innovations</th>
<th>U. T. Physicians</th>
<th>U. T. System Medical Foundation</th>
<th>University Physicians Group</th>
<th>M. D. Anderson Physician's Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$2,867,102</td>
<td>5,000,000</td>
<td>78,119,299</td>
<td>13,171,409</td>
<td>-</td>
<td>39,413,692</td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>15,151</td>
<td>-</td>
<td>55,563,122</td>
<td>3,066,763</td>
<td>3,842,671</td>
<td>53,993,827</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>2,882,253</strong></td>
<td><strong>5,000,000</strong></td>
<td><strong>133,682,421</strong></td>
<td><strong>16,238,172</strong></td>
<td><strong>3,842,671</strong></td>
<td><strong>93,407,519</strong></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>119,290</td>
<td>-</td>
<td>62,843,638</td>
<td>6,998,051</td>
<td>1,418,267</td>
<td>19,082,156</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>-</td>
<td>5,000,000</td>
<td>-</td>
<td>250,000</td>
<td>488,782</td>
<td>145,462</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>119,290</strong></td>
<td><strong>5,000,000</strong></td>
<td><strong>62,843,638</strong></td>
<td><strong>7,248,051</strong></td>
<td><strong>1,418,267</strong></td>
<td><strong>19,082,156</strong></td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>15,151</td>
<td>-</td>
<td>22,640,196</td>
<td>-</td>
<td>-</td>
<td>1,824,858</td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>2,747,812</td>
<td>-</td>
<td>48,198,587</td>
<td>8,990,121</td>
<td>1,935,622</td>
<td>72,355,043</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td><strong>2,762,963</strong></td>
<td>-</td>
<td>70,838,783</td>
<td>8,990,121</td>
<td>1,935,622</td>
<td><strong>74,179,901</strong></td>
</tr>
</tbody>
</table>

Condensed Statement of Revenues, Expenses and Changes in Net Position

| Operating Revenues                | $1,355,072                                           | -                         | 193,930,538     | 78,804,488                    | 1,348,335                | 35,267,029                    |
| Operating Expenses                | (1,552,086)                                         | -                         | (158,418,076)   | (77,937,037)                  | (1,225,435)              | (19,180,955)                  |
| **Operating Income/(Loss)**       | **(197,014)**                                       | -                         | 35,512,462      | 867,451                       | 122,900                  | 16,086,074                    |
| Nonoperating Revenues (Expenses)  | 3,671                                               | -                         | 1,623,262       | 114,379                       | (122,900)                | 1,760,312                     |
| Income/(Loss) Before Other Changes in Net Position | (193,343) | - | 37,135,724 | 981,830 | - | 17,846,386 |
| Other Changes in Net Position     | -                                                   | -                         | -               | -                             | -                        | -                             |
| **Change in Net Position**        | **(193,343)**                                       | -                         | 37,135,724      | 981,830                       | -                        | 17,846,386                    |
| Net Position - August 31, 2015    | 2,956,306                                           | -                         | 33,703,059      | 8,008,291                     | 1,935,622                | 56,333,515                    |
| **Net Position-August 31, 2016**  | **2,762,963**                                       | -                         | 70,838,783      | 8,990,121                     | 1,935,622                | **74,179,901**                |

Condensed Statement of Cash Flows

| Net Cash provided (used) by:      | $153,013                                             | -                         | 42,603,034      | (231,513)                     | 1,359,395                | 16,818,197                    |
| Noncapital Financing Activities   | -                                                   | -                         | 1,000           | -                             | -                        | -                             |
| Capital and Related Financing     | (11,876)                                            | -                         | (8,333,356)     | -                             | (1,359,395)              | -                             |
| Investing Activities              | (7)                                                 | -                         | (23,120,464)    | (2,961,473)                   | -                        | (13,360,312)                  |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (164,896) | - | 11,150,214 | (3,192,986) | - | 3,457,885 |
| Cash and Cash Equivalents – August 31, 2015 | 2,663,460 | - | 27,025,682 | 9,024,990 | - | 22,796,344 |
| Cash and Cash Equivalents – August 31, 2016 | $2,498,564 | - | 38,175,896 | 5,832,004 | - | 26,254,229 |
As of August 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>M. D. Anderson Services Corp</th>
<th>East Texas Quality Care Network</th>
<th>UTIMCO</th>
<th>University of Texas Fine Arts Foundation</th>
<th>University of Texas Communication Foundation</th>
<th>Combined Blended Component Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Condensed Statement of Net Position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets $</td>
<td>99,710,336</td>
<td>336,297</td>
<td>16,570,272</td>
<td>2,106</td>
<td>211</td>
<td>339,826,574</td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>594,653,877</td>
<td>-</td>
<td>1,470,030</td>
<td>-</td>
<td>171,140</td>
<td>840,666,665</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>694,364,213</td>
<td>336,297</td>
<td>18,040,302</td>
<td>2,106</td>
<td>171,351</td>
<td>1,180,493,239</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>123,150,610</td>
<td>28,159</td>
<td>11,419,820</td>
<td>-</td>
<td>111,463</td>
<td>291,343,901</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>272,655,995</td>
<td>-</td>
<td>1,470,030</td>
<td>-</td>
<td>39,052</td>
<td>280,649,395</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>395,806,605</td>
<td>28,159</td>
<td>12,889,850</td>
<td>-</td>
<td>150,515</td>
<td>571,993,296</td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>141</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>59,670,309</td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>50,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>51,405,973</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>226,583,936</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>296,059,746</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>21,973,531</td>
<td>308,138</td>
<td>5,150,452</td>
<td>2,106</td>
<td>20,836</td>
<td>201,363,915</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$ 298,557,608</td>
<td>308,138</td>
<td>5,150,452</td>
<td>2,106</td>
<td>20,836</td>
<td>608,499,943</td>
</tr>
</tbody>
</table>

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

|                              |                             |                                 |        |                                          |                                               |                                 |
|------------------------------|------------------------------|                                 |        |                                          |                                               |                                 |
| Operating Revenues $         | 2,237,129                    | 43,801                          | 31,527,266 | 675,880                               | -                                            | 412,374,795                     |
| Operating Expenses           | (1,239,954)                  | (21,205)                        | (28,160,769) | (903)                                 | (262)                                        | (355,512,112)                   |
| **Operating Income/(Loss)**  | 997,175                      | 22,596                          | 3,366,497 | 674,977                               | (262)                                        | 56,862,683                       |
| Nonoperating Revenues       | 22,061,490                   | -                               | 32,062   | (1,082,896)                           | -                                            | 33,607,583                       |
| Expenses                     |                             |                                 |          |                                        |                                               |                                 |
| **Income/(Loss) Before Other Changes in Net Position** | 23,058,665 | 22,596 | 3,398,559 | (407,919) | (262) | 90,470,266 |
| Other Changes in Net Position |                             |                                 |          |                                        |                                               | (12,500,424)                   |
| **Change in Net Position**   | 23,058,665                   | 22,596                          | 3,398,559 | (900)                                 | (262)                                        | 77,969,842                       |
| **Net Position - August 31, 2015** | 275,498,943 | 285,542 | 1,751,893 | 3,006 | 21,098 | 530,530,101 |
| **Net Position-August 31, 2016** | $ 298,557,608 | 308,138 | 5,150,452 | 2,106 | 20,836 | 608,499,943 |

**Condensed Statement of Cash Flows**

Net Cash provided (used) by:

|                              |                             |                                 |        |                                          |                                               |                                 |
|------------------------------|------------------------------|                                 |        |                                          |                                               |                                 |
| Operating Activities         | $ 22,016,154                 | 65,560                          | 5,535,466 | 674,976                               | -                                            | 89,905,492                       |
| Noncapital Financing Activities | (28,672,776)                | -                               | -        | (1,082,899)                           | -                                            | (29,607,264)                   |
| Capital and Related Financing |                             |                                 |          |                                        |                                               | (10,391,222)                   |
| Investing Activities         | 5,400,773                    | -                               | 35,494   | 4                                     | -                                            | (30,468,116)                   |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (1,255,849) | 65,560 | 5,295,794 | (900) | - | 19,438,890 |
| Cash and Cash Equivalents – August 31, 2015 | 100,120,378 | 159,680 | 10,331,467 | 3,006 | 211 | 189,023,825 |
| Cash and Cash Equivalents – August 31, 2016 | $ 98,864,529 | 225,240 | 15,627,261 | 2,106 | 211 | 208,462,715 |
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 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 System’s net position. As of August 31, 2017, none of the System’s potential component units individually meet the 5% of System’s net position 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 $2,308,956,268 at August 31, 2017, and $2,404,269,493 at August 31, 2016.

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, 2017, related to pass-through grants were $432,862,323 and $10,234,452, respectively. Funds received and provided during the year ended August 31, 2016, related to pass-through grants were $468,672,364 and $18,481,390, respectively.

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

3. Joint Ventures

On December 15, 2015, Texas Health Resources (THR) and The University of Texas Southwestern Medical Center (UTSW) formed an integrated regional health network. This new network, Southwestern Health Resources (SWHR), commenced activities on April 1, 2016 and is expected to offer key advantages for patients in North Texas including: a) a broad, integrated continuum of physician-driven care utilizing UTSW’s network of faculty and community-based physicians, THR’s employed physicians, and independent physicians affiliated with both organizations; and b) an integrated hospital network consisting of UTSW’s two university hospitals and THR’s wholly-controlled and joint-ventured community hospitals, a key component of which is a new organization – a Joint Operating Company formed to bring together the three Dallas hospitals (UTSW’s William P. Clements, Jr. and Zale Lipshy University Hospitals, and THR’s Texas Health Presbyterian Hospital Dallas). UTSW’s equity interest in SWHR at August 31, 2017 and 2016 was $3,775,195 and negative $885,693, respectively, or approximately 50%.

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, 2017 and 2016 was $9,630,389 and $8,790,121, respectively, or 49%. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, California 90245 or www.davita.com.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of Physician’s Dialysis of Houston. Physician’s Dialysis of Houston is a joint venture entered into by U. T. Physicians and DaVita, Inc. U. T. Physician’s equity interest in Physician’s Dialysis of Houston at August 31, 2017 and 2016 was $749,311 and $722,480, 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.P. U. T. Physicians’
equity interest in TMC Holding at August 31, 2017 and 2016 was $480,498 and $474,888, 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, 2017 and 2016 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 and M. D. Anderson are participating members 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. In fiscal year 2016, U. T. Health Science Center – Houston purchased the Jessie Jones Library and obtained additional patronage equity in TECO in the amount of $301,800 via the Houston Academy of Medicine’s shares of TECO equity. U. T. Health Science Center - Houston’s equity interest in TECO at August 31, 2017 and 2016 was $13,225,362 and $13,044,452, respectively, or 12.4% and 13.0%, respectively. M. D. Anderson’s equity interest in TECO at August 31, 2017 and 2016 was $42,312,318 and $41,030,053, respectively, or 39.8% and 40.2%, 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, 2017 and 2016 was $5,026,044 and $4,817,371, 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 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, 2017 and 2016 was $2,498,486 and $2,251,427, 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 an amended and restated Limited Partnership agreement dated March 30, 2010 between Proton Therapy Center-Houston LTD., L.L.P., (PTC Partnership), PTC-Houston Investors, L.L.C., (Investors), PTC-Houston Management, L.P., and M. D. Anderson. The purposes of PTC Partnership are to assume the lease formerly held by Investors with M. D. Anderson to lease approximately four acres on the M. D. Anderson’s property for an initial term of 60 years, develop and/or acquire other proton therapy related business opportunities in the area and engage in any other activities that are reasonably incidental to the foregoing or that are contemplated by the agreement or the related agreements. As part of the agreement, each partner has made or is deemed to have made the Initial Contribution which equaled $15,621,950 for M. D. Anderson or 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, 2017 and 2016, M. D. Anderson’s equity interest in PTC Partnership was 50%. M. D. Anderson received no cash contributions during the fiscal year ended August 31, 2017 but received cash contributions totaling $3,087,617 during the fiscal year ended August 31, 2016. 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, 2017 and 2016 was $1,245,000, or approximately 2.5%. Separate financial statements for NCTM may be obtained at http://www.tamus.edu/iit/nctm/.

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 2016
GASB Statement No. 72, Fair Value Measurement and Application, effective 2016, clarified the definition of fair value, established principles for measuring fair value, provided additional fair value guidance, and enhanced disclosures about fair value measurements. Restatement of beginning net position for the prior period presented was not practical, and the cumulative effect of applying GASB Statement 72 was reported as a restatement of beginning net position for 2016, causing an increase of $11,765,304.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective 2016, completed the suite of pension standards. The implementation of GASB Statement No. 73 had no effect on the System’s net position or changes in net position for the years ended August 31, 2016 and 2015.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, effective 2016, reduced the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The implementation of GASB Statement No. 76 had no effect on the System’s net position or changes in net position for the years ended August 31, 2016 and 2015.

GASB Statement No. 79, Certain External Investment Pools and Pool Participants, effective 2016, permitted qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes and established additional note disclosure requirements for those external investment pools and for governments that participate in them. This statement had no effect on the System’s net position or changes in net position for the years ended August 31, 2016 and 2015.

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2017
GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, effective 2017, addressed reporting by OPEB plans that administer benefits on behalf of governments. This statement was not applicable to the System and had no effect on the System’s net position or changes in net position for the years ended August 31, 2017 and 2016.

GASB Statement No. 77, Tax Abatement Disclosures, effective 2017, required disclosure of tax abatement information. This statement was not applicable to the System and had no effect on the System’s net position or changes in net position for the years ended August 31, 2017 and 2016.

GASB Statement No. 78, Pensions Provided through Certain Multiple Employer Defined Benefit Pension Plans, effective 2017, excluded certain pensions that are not provided by a state or local government. This statement was not applicable to the System and had no effect on the System’s net position or changes in net position for the years ended August 31, 2017 and 2016.

GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14, effective 2017, clarified the financial statement presentation requirements for certain component units. The implementation of GASB Statement No. 80 had no effect on the System’s net position or changes in net position for the years ended August 31, 2017 and 2016.
GASB Statement No. 82, *Pension Issues*, effective 2017, addressed practice issues raised by stakeholders during implementation of GASB 68. The implementation of GASB Statement No. 82 had no effect on the System’s net position or changes in net position for the years ended August 31, 2017 and 2016.

GASB Statement No. 85, *Omnibus 2017*, early implemented in 2017, addresses practice issues identified during implementation of certain GASB Statements. The implementation of GASB Statement No. 85 had no effect on the System’s net position or changes in net position for the years ended August 31, 2017 and 2016.

**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. 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, an investment derivative liability, a hedging derivative asset or a hedging derivative liability on the statement of net position. The valuation of investment derivatives is discussed in the Investments disclosure below. The System has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows and considered the nonperformance risk of the parties.

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 (for hedging derivatives with positive fair values) or deferred outflows (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 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 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.
Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date.

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, hedge funds, public market funds, and private investments. 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 System 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 is 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 acquisition 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 12). 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**
Other current assets are primarily made up of prepaid expenses, while other noncurrent assets are primarily made up of equity interests in joint ventures that do not meet the definition of an investment.
DEFERRED OUTFLOWS
Deferred outflows consist of the fair value of hedging derivatives in a liability position, unamortized losses on refunding of debt, unamortized interest rate lock termination payments and certain changes in the net pension liability. 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. When a Treasury Lock is used to hedge interest rate exposure on bonds, the lock termination payment is recorded as a deferred outflow and is amortized, using the straight line method, over the remaining life of the related debt in the statement of revenues, expenses and changes in net position as a component of interest expense. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources related to pensions. Employer contributions subsequent to the measurement date of the net pension liability are also required to be reported as deferred outflows of resources.

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, 2017 and 2016 is $460,663,280 and $420,760,532, respectively, for the Physician’s Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at M. D. Anderson. As of August 31, 2017 and 2016, assets held for others also included $206,376,967 and $190,014,266, 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 acquisition value when received and at fair value 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 acquisition value of the assets received, discounted for a term equal to the life expectancies of the beneficiaries.

NET PENSION LIABILITY
The System participates in a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Teacher Retirement System of Texas (TRS). TRS is primarily funded through State and employee contributions. The System receives a proportional share of the net pension liability, pension related deferred outflows and pension related deferred inflows from the Texas Comptroller of Public Accounts.

DEFERRED INFLOWS
Deferred inflows consist of the fair value of hedging derivatives in an asset position, unamortized gains on refunding of debt and certain changes in the net pension liability. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as 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. Changes in the net pension liability not included in pension expense are required to be reported as deferred inflows of resources related to pensions.
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 programs, patient care, 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; the exchange basis federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, other contracted services, pension expense, postemployment benefits, 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, the nonexchange basis federal and state grants and contracts, and other revenue sources that are defined as nonoperating revenues by GASB. The System’s institutions are the named beneficiaries in certain lawsuits, wills, trusts, 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 2017 and 2016 of $299,458,731 and $272,575,992, respectively, the System recorded a liability of $976,516,120 and $1,019,736,060 at August 31, 2017 and 2016, 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, 2017 and 2016 is $4,671,957 and $5,673,910, respectively, related to the revolving loan programs administered by the Texas State Comptroller’s Office.

In accordance with tuition set-asides required by Section 61.910 and Section 61.9660 of the Texas Education Code, the institutions transferred tuition revenues of $94,756 in 2017 and $407,821 in 2016 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 $714,723,133 and $779,506,366 for 2017 and 2016, 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 $86,282,932 and $60,670,542 for 2017 and 2016, 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 $516,628,072 and $374,508,842 in 2017 and 2016, 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, 2017 and 2016 are detailed by type as follows:

<table>
<thead>
<tr>
<th>Net Other Receivables</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables related to investments</td>
<td>$ 115,474,202</td>
<td>101,977,535</td>
</tr>
<tr>
<td>Receivables related to gifts, grants and sponsored programs</td>
<td>104,966,603</td>
<td>81,624,096</td>
</tr>
<tr>
<td>Receivables related to external parties/other companies</td>
<td>185,934,133</td>
<td>146,470,218</td>
</tr>
<tr>
<td>Receivables related to auxiliary enterprises</td>
<td>18,568,244</td>
<td>25,360,787</td>
</tr>
<tr>
<td>Receivables related to payroll</td>
<td>5,861,467</td>
<td>4,299,706</td>
</tr>
<tr>
<td>Receivables related to patents</td>
<td>1,227,180</td>
<td>1,149,097</td>
</tr>
<tr>
<td>Receivables related to travel</td>
<td>1,115,548</td>
<td>1,259,845</td>
</tr>
<tr>
<td>Receivables related to loan funds and financial aid</td>
<td>1,725,532</td>
<td>1,789,396</td>
</tr>
<tr>
<td>Receivables related to agency funds</td>
<td>6,839,126</td>
<td>4,735,898</td>
</tr>
<tr>
<td>Receivables related to other various activities</td>
<td>34,203,048</td>
<td>36,397,245</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 475,915,083</strong></td>
<td><strong>405,063,823</strong></td>
</tr>
</tbody>
</table>

6. **Deposits, Investments and Repurchase Agreements**

**DEPOSITS OF CASH IN BANK**

As of August 31, 2017 and 2016, the carrying amount of deposits was $110,761,867 and $100,208,609, respectively, as presented below:

<table>
<thead>
<tr>
<th>Cash and cash equivalents per statement of cash flows and statement of net position</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 3,189,534,264</td>
<td></td>
<td>2,876,709,945</td>
</tr>
<tr>
<td>Less: Cash in State Treasury</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase agreement – Texas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury Safekeeping Trust Co.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 11,209,782</td>
<td></td>
<td>14,306,794</td>
</tr>
<tr>
<td>Other cash equivalent investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>2,053,323,804</td>
<td>1,784,908,587</td>
</tr>
<tr>
<td>$ 12,522,160</td>
<td></td>
<td>9,760,728</td>
</tr>
<tr>
<td>Deposits of cash in bank</td>
<td>$ 110,761,867</td>
<td>100,208,609</td>
</tr>
</tbody>
</table>

As of August 31, 2017 and 2016, the total bank balances were $150,686,528 and $131,132,527, 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, 2017 and 2016, U. T. Health Science Center at Tyler’s blended component unit, East Texas Quality Care Network (ETQCN), held deposits that were exposed to custodial credit risk. ETQCN has no policies regarding these deposits. As of August 31, 2017 and 2016, the bank balances exposed to custodial risk as uninsured and uncollateralized deposits were $93,034 and $41,839, respectively.

INVESTMENTS

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs of fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect management’s assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the hierarchy of inputs used to measure fair value are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs.

The System’s investments with readily available fair values are primarily valued on the basis of market valuations provided by independent pricing services.

Debt securities held by System include U.S. government and agency obligations, corporate obligations, corporate asset and mortgage backed securities, and international obligations. U.S. government obligations valued based on unadjusted prices in active markets are categorized as Level 1. Debt securities, including corporate obligations and governmental and international obligations are valued based upon prices supplied by Intercontinental Exchange Data Services and other major fixed income pricing services, external broker quotes and internal pricing matrices. Debt securities valued based on multiple quotations or models utilizing observable market inputs are categorized as Level 2; otherwise they would be categorized as Level 3.

Fixed income money market and bond mutual funds consist primarily of money market investments, foreign currencies and other overnight funds. Investments in publicly listed money market funds are categorized as Level 1.

Mutual funds include a large portion of the holdings for the University of Texas System Governmental Retirement Arrangement (UTGRA), discussed in Note 18. A majority of the underlying investments in UTGRA are valued based on the closing price on the primary exchange on which they are traded, and are classified as Level 1. The remaining holdings are classified as Levels 2 and 3.

Equity securities, including common and preferred stocks, 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). When these securities are actively traded, and valuation adjustments are not applied, they are categorized as Level 1. In the event that a stock is not actively traded or a closing price is unavailable on a national or international securities exchange, the last available price per the exchange would be used, and the security would be categorized as Level 2.
Other commingled funds at fair value include fixed income and U.S. equity funds. International other commingled funds at fair value include non-U.S. developed equity, emerging markets, real estate and natural resources. Fair values are based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used). Investments valued as such are classified as Level 1.

Real estate and other investments include real estate, commodities and the asset positions of investment derivatives. 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. The PUF lands’ surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. The PUF lands are categorized as Level 3 in the fair value hierarchy. The remaining minerals, the trust minerals, because of size, distribution, and limited production histories are generally 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. 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, tax assessments use for real estate investments with values that are not significant or by any other generally accepted industry standard. All other real estate is categorized as Level 3 in the fair value hierarchy, with a small amount valued using net asset value.

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, and are categorized as Level 1.

All derivative investments are categorized as Level 2 in the fair value hierarchy, except for some of the purchased options which are categorized as Level 1. The fair values of the interest rate swaps on U. T. System’s debt are calculated using a forecast of expected discounted future net cash flows. Other swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Foreign exchange contracts are fair valued at closing market prices on the valuation date.

Alternative investments include private equity securities and limited partnerships, or private investment funds. Equity securities related to non-public equity investments are valued using a variety of methods, including information from recent rounds of financing, the Guideline Public Company method, the Discounted Cash Flow method, the Common Stock Equivalent method and the Option-Pricing method. The fair value of private investment funds, which consist of non-regulated investment funds and various other investment vehicles, 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. These investments are classified as Level 3.

Miscellaneous investments primarily include municipal bonds, valued on multiple quotations or models utilizing observable market inputs, and are categorized as Level 2. Investments with fair values based on the closing price on the primary exchange on which they are traded are categorized as Level 1.

GAAP permits management to fair value certain investments that do not have a readily determinable fair value using the investment’s net asset value per share or the System’s ownership interest in partners’ capital as a practical expedient. Investments valued in this manner are not classified in the fair value hierarchy.

The following tables reflect fair value measurements of investments as of August 31, 2017 and 2016, respectively, as categorized by level of the fair value hierarchy:
### Fair Value Measurement Using

<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Fair Value as of August 31, 2017</th>
<th>Quoted Prices in Active markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments by Fair Value Level:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Treasury Securities</td>
<td>$ 787,128,969</td>
<td>787,128,969</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Government Treasury TIPS</td>
<td>32,726,133</td>
<td>32,726,133</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Government Agency Obligations</td>
<td>162,244,833</td>
<td>-</td>
<td>162,244,833</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Obligations</td>
<td>721,118,556</td>
<td>-</td>
<td>719,612,666</td>
<td>1,505,890</td>
</tr>
<tr>
<td>Corporate Asset and Mortgage Backed Securities</td>
<td>82,153,306</td>
<td>-</td>
<td>82,153,306</td>
<td>-</td>
</tr>
<tr>
<td>International Obligations (Government and Corporate)</td>
<td>2,847,290,691</td>
<td>-</td>
<td>2,847,290,691</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Income Money Market and Bond Mutual Funds</td>
<td>1,549,004,227</td>
<td>1,549,004,227</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>410,241,480</td>
<td>399,495,484</td>
<td>10,613,832</td>
<td>132,164</td>
</tr>
<tr>
<td>Equity Securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>1,220,816,482</td>
<td>1,218,917,548</td>
<td>1,898,934</td>
<td>-</td>
</tr>
<tr>
<td>International Equity</td>
<td>3,435,621,245</td>
<td>3,435,592,250</td>
<td>28,995</td>
<td>-</td>
</tr>
<tr>
<td>Other Commingled Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Income</td>
<td>33,197,719</td>
<td>33,197,719</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U. S. Equity</td>
<td>15,628,002</td>
<td>15,628,002</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>International Other Commingled Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Developed Equity</td>
<td>3,207,284</td>
<td>3,207,284</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>2,571,571</td>
<td>2,571,571</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Real Estate</td>
<td>838,551</td>
<td>838,551</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>1,442,411</td>
<td>1,442,411</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Real Estate and Other:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PUF Lands</td>
<td>6,117,722,598</td>
<td>-</td>
<td>-</td>
<td>6,117,722,598</td>
</tr>
<tr>
<td>Other Real Estate</td>
<td>262,498,753</td>
<td>-</td>
<td>-</td>
<td>262,498,753</td>
</tr>
<tr>
<td>Physical Commodities - Gold</td>
<td>903,922,186</td>
<td>903,922,186</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment Derivatives – Asset Positions</td>
<td>166,479,524</td>
<td>9,063,622</td>
<td>157,415,902</td>
<td>-</td>
</tr>
<tr>
<td>Alternative Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Investments</td>
<td>397,977,024</td>
<td>-</td>
<td>-</td>
<td>397,977,024</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>20,639,248</td>
<td>2,226,094</td>
<td>17,328,884</td>
<td>1,084,270</td>
</tr>
<tr>
<td><strong>Total Investments by Fair Value Level</strong></td>
<td>19,174,470,793</td>
<td>8,394,962,051</td>
<td>3,998,588,043</td>
<td>6,780,920,699</td>
</tr>
<tr>
<td>Type of Security</td>
<td>Fair Value as of August 31, 2017</td>
<td>Quoted Prices in Active markets for Identical Assets (Level 1)</td>
<td>Significant Other Observable Inputs (Level 2)</td>
<td>Significant Unobservable Inputs (Level 3)</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td>----------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td><strong>Investment Funds Fair Valued Using Net Asset Value:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>21,521,703</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>10,146,496,932</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Commingled Funds – U.S. Equity</td>
<td>1,743,750,733</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Other Commingled Funds</td>
<td>3,394,075,568</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Investments</td>
<td>11,247,834,828</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investment Funds Fair Valued Using Net Asset Value</strong></td>
<td>26,553,679,764</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments Held in Cash (Not at Fair Value)</td>
<td>917,327,267</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Investments (Not at Fair Value)</td>
<td>426,204</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$46,645,904,028</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities Lending Collateral Investment Pool (see Securities Lending section)</td>
<td>$490,906,139</td>
<td>-</td>
<td>490,906,139</td>
<td>-</td>
</tr>
<tr>
<td><strong>Investments Classified as Cash Equivalents:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase Agreement - Texas Treasury Safekeeping Trust Co. (Not at Fair Value)</td>
<td>$11,209,782</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Income Money Market Funds</td>
<td>2,052,483,767</td>
<td>2,052,483,767</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time Deposits (Not at Fair Value)</td>
<td>840,037</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investments Classified as Cash Equivalents</strong></td>
<td>$2,064,533,586</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deposit with Brokers for Derivative Contracts, net:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury Bonds and Notes</td>
<td>$1,492,314</td>
<td>1,492,314</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury Inflation Protected</td>
<td>3,391,943</td>
<td>3,391,943</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Held in Cash (Not at Fair Value)</td>
<td>4,884,257</td>
<td>4,884,257</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Deposit with Brokers for Derivative Contracts, net</strong></td>
<td>$58,893,257</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investments by Fair Value Level:

**Debt Securities:**
- U.S. Government Treasury Securities $ 348,995,774 348,995,774 - -
- U.S. Government Treasury TIPS 42,321,610 42,321,610 - -
- U.S. Government Agency Obligations 157,164,456 - 157,164,456 -
- Corporate Obligations 602,478,200 - 601,506,576 971,624
- Corporate Asset and Mortgage Backed Securities 78,002,832 - 78,002,832 -
- International Obligations (Government and Corporate) 2,455,106,220 - 2,455,106,220 -

**Fixed Income Money Market and Mutual Funds**
2,340,365,964 2,333,949,791 6,173,385 242,788

**Equity Securities:**
- Equity 1,683,898,692 1,644,687,188 2,578,941 36,632,563
- International Equity 2,973,472,322 2,973,405,818 29,255 37,249

**Other Commingled Funds:**
- Fixed Income 30,678,864 30,678,864 - -
- U. S. Equity 15,625,340 15,615,102 - 10,238

**International Other Commingled Funds:**
- Non-U.S. Developed Equity 3,660,206 3,660,206 - -
- Emerging Markets 2,914,940 2,914,940 - -
- Real Estate 850,375 850,375 - -
- Natural Resources 1,170,569 1,170,569 - -

**Real Estate and Other:**
- PUF Lands 6,185,785,106 - - 6,185,785,106
- Other Real Estate 280,967,164 - - 280,967,164
- Physical Commodities - Gold 737,790,554 737,790,554 - -
- Investment Derivatives – Asset Positions 207,007,503 4,013,596 202,993,907 -

**Alternative Investments:**
- Private Investments 211,760,612 - - 211,760,612
- Miscellaneous 18,331,700 2,396,729 14,957,455 977,516

**Total Investments by Fair Value Level**
18,378,349,003 8,142,451,116 3,518,513,027 6,717,384,860
<table>
<thead>
<tr>
<th>Type of Security</th>
<th>Fair Value as of August 31, 2016</th>
<th>Quoted Prices in Active markets for Identical Assets (Level 1)</th>
<th>Significant Other Observable Inputs (Level 2)</th>
<th>Significant Unobservable Inputs (Level 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Funds Fair Valued Using Net Asset Value:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>19,975,174</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>10,558,101,007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Commingled Funds – U.S. Equity</td>
<td>1,645,991,062</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Other Commingled Funds</td>
<td>2,515,905,688</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Investments</td>
<td>9,401,605,110</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investment Funds Fair Valued Using Net Asset Value</strong></td>
<td>24,141,578,041</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments Held in Cash (Not at Fair Value)</td>
<td>125,914,035</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Investments (Not at Fair Value)</td>
<td>12,598,223</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$ 42,658,439,302</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities Lending Collateral Investment Pool (see Securities Lending section)</td>
<td>$ 729,334,828</td>
<td>-</td>
<td>729,334,828</td>
<td>-</td>
</tr>
<tr>
<td><strong>Investments Classified as Cash Equivalents:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase Agreement - Texas Treasury Safekeeping Trust Co. (Not at Fair Value)</td>
<td>$ 14,306,794</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Income Money Market Funds</td>
<td>1,784,066,458</td>
<td>1,784,066,458</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Time Deposits (Not at Fair Value)</td>
<td>842,129</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investments Classified as Cash Equivalents</strong></td>
<td>$ 1,799,215,381</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deposit with Brokers for Derivative Contracts, net:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury Bonds and Notes</td>
<td>$ 2,221,946</td>
<td>2,221,946</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Treasury Inflation Protected</td>
<td>5,349,104</td>
<td>5,349,104</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Income Money Market and Mutual Funds</td>
<td>37,024,659</td>
<td>37,024,659</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Deposit with Brokers for Derivative Contracts, net</strong></td>
<td>$ 44,595,709</td>
<td>44,595,709</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Investment funds fair valued at net asset value per share or based on the System’s ownership interest in partner’s capital include externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds that are fair valued using Net Asset Value (NAV) at August 31, 2017 and 2016 is summarized in the tables below as they are included within the asset mix of the System.

<table>
<thead>
<tr>
<th>Investment Funds Fair Valued Using Net Asset Value</th>
<th>Fair Value as of August 31, 2017</th>
<th>Unfunded Commitments</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Estate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>$21,521,703</td>
<td>-</td>
<td>Quarterly</td>
<td>60 Days</td>
</tr>
<tr>
<td><strong>Hedge Funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>5,786,239,260</td>
<td>Monthly to 3 Years</td>
<td>5 - 180 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>3,590,315,717</td>
<td>Quarterly to 3 Years</td>
<td>0 - 120 Days</td>
<td></td>
</tr>
<tr>
<td>Nonredeemable</td>
<td>769,941,955</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Total Hedge Funds</strong></td>
<td>10,146,496,932</td>
<td>856,427,243</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Commingled Funds – U. S. Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>1,182,053,169</td>
<td>Monthly to Annually</td>
<td>1 - 90 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>561,697,564</td>
<td>Annually</td>
<td>90 Days</td>
<td></td>
</tr>
<tr>
<td><strong>Total Other Commingled Funds – U. S. Equity</strong></td>
<td>1,743,750,733</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>International Other Commingled Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-U.S. Developed Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>1,589,253,967</td>
<td>Monthly to Annually</td>
<td>1 - 90 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>402,250,741</td>
<td>Quarterly/Annually</td>
<td>1 - 184 Days</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-U.S. Developed Equity</strong></td>
<td>1,991,504,708</td>
<td>150,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Emerging Markets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>1,030,966,401</td>
<td>Daily to Semi-Annually</td>
<td>1 - 90 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>335,314,999</td>
<td>Quarterly</td>
<td>45 - 60 Days</td>
<td></td>
</tr>
<tr>
<td>Nonredeemable</td>
<td>36,289,460</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Total Emerging Markets</strong></td>
<td>1,402,570,860</td>
<td>117,113,198</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total International Other Commingled Funds</strong></td>
<td>3,394,075,568</td>
<td>267,113,198</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Limited Partnerships (Private Investments)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>18,413,382</td>
<td>Quarterly</td>
<td>180 Days</td>
<td></td>
</tr>
<tr>
<td>Nonredeemable</td>
<td>11,229,421,446</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Total Limited Partnerships (Private Investments)</strong></td>
<td>11,247,834,828</td>
<td>4,969,823,573</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investment Funds Fair Valued Using NAV</strong></td>
<td>$26,553,679,764</td>
<td>6,093,364,014</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Investment Funds Fair Valued Using Net Asset Value

<table>
<thead>
<tr>
<th></th>
<th>August 31, 2016</th>
<th>Unfunded Commitments</th>
<th>Redemption Frequency</th>
<th>Redemption Notice Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Estate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>$19,975,174</td>
<td>-</td>
<td>Quarterly</td>
<td>60 Days</td>
</tr>
<tr>
<td><strong>Hedge Funds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>6,679,302,548</td>
<td>Daily to 3 Years</td>
<td>0 - 180 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>3,232,299,223</td>
<td>Monthly to 3 Years</td>
<td>45 - 120 Days</td>
<td></td>
</tr>
<tr>
<td>Nonredeemable</td>
<td>646,499,236</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Total Hedge Funds</strong></td>
<td>10,558,101,007</td>
<td>479,371,597</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Commingled Funds - U. S. Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>1,082,325,458</td>
<td>Quarterly/Annually</td>
<td>30 - 90 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>563,665,604</td>
<td>Quarterly/Annually</td>
<td>30 - 90 Days</td>
<td></td>
</tr>
<tr>
<td><strong>Total Other Commingled Funds - U. S. Equity</strong></td>
<td>1,645,991,062</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>International Other Commingled Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-U.S. Developed Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>1,116,384,079</td>
<td>Monthly to Annually</td>
<td>1 - 90 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>163,901,525</td>
<td>Quarterly/Annually</td>
<td>1 - 184 Days</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-U.S. Developed Equity</strong></td>
<td>1,280,285,604</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Emerging Markets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>1,109,597,554</td>
<td>Daily to Annually</td>
<td>0 - 90 Days</td>
<td></td>
</tr>
<tr>
<td>Redeemable Beyond One Year</td>
<td>79,328,598</td>
<td>Quarterly</td>
<td>40 - 60 Days</td>
<td></td>
</tr>
<tr>
<td>Nonredeemable</td>
<td>46,693,932</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Total Emerging Markets</strong></td>
<td>1,235,620,084</td>
<td>37,113,198</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total International Other Commingled Funds</strong></td>
<td>2,515,905,688</td>
<td>37,113,198</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Limited Partnerships (Private Investments)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redeemable Within One Year</td>
<td>17,370,389</td>
<td>Quarterly</td>
<td>180 Days</td>
<td></td>
</tr>
<tr>
<td>Nonredeemable</td>
<td>9,384,234,721</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td></td>
</tr>
<tr>
<td><strong>Total Limited Partnerships (Private Investments)</strong></td>
<td>9,401,605,110</td>
<td>6,071,336,744</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Investment Funds Fair Valued Using NAV</strong></td>
<td>$24,141,578,041</td>
<td>6,587,821,539</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The System invests in hedge fund pools which are invested in private funds 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 typically one to three years before the investment may be withdrawn from the manager without significant penalty. The amounts shown as nonredeemable are considered illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, 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 $856,427,243 and $479,371,597 of future funding to various hedge fund investments as of August 31, 2017 and 2016, respectively. Hedge funds, are fair valued by management based on net asset value information provided by the investment manager, as well as other relevant factors.

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. The amounts shown as nonredeemable are considered illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. 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, 2017 and 2016, future fundings in the amount of $267,113,198 and $37,113,198, respectively, have been committed to certain public market funds. The fair value of private investment funds, are estimated 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.

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 typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over seven to ten years. 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 $4,969,823,573 and $6,071,336,744 of future funding to various private investments as of August 31, 2017 and 2016, respectively.

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 discussed below. 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, 2017 and 2016 were $26,553,679,764 and $24,141,578,041, respectively.

**INVESTMENT RISKS**

(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, 2017 and 2016:
### August 31, 2017

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>MOODY’S Fair Value</th>
<th>Rating</th>
<th>STANDARD &amp; POOR’S Fair Value</th>
<th>Rating</th>
<th>FITCH Fair Value</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments and Investments Classified as Cash Equivalents:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Direct Obligations</td>
<td>$819,855,102</td>
<td>Aaa</td>
<td>819,855,102</td>
<td>AA</td>
<td>819,855,102</td>
<td>AAA</td>
</tr>
<tr>
<td>U.S. Government Agency Obligations</td>
<td>157,200,624</td>
<td>Aaa</td>
<td>157,200,624</td>
<td>AA</td>
<td>157,200,624</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>1,494,111</td>
<td>Baa</td>
<td>5,044,209</td>
<td>NR</td>
<td>5,044,209</td>
<td>NR</td>
</tr>
<tr>
<td></td>
<td>2,319,945</td>
<td>B</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1,230,153</td>
<td>NR</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Obligations</td>
<td>17,846,230</td>
<td>Aaa</td>
<td>12,908,747</td>
<td>AAA</td>
<td>11,598,400</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>75,862,068</td>
<td>Aa</td>
<td>95,745,131</td>
<td>AA</td>
<td>68,547,602</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>363,200,121</td>
<td>A</td>
<td>299,720,315</td>
<td>A</td>
<td>311,269,230</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>241,830,501</td>
<td>Baa</td>
<td>304,870,476</td>
<td>BBB</td>
<td>150,820,094</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td>11,930,384</td>
<td>Ba</td>
<td>2,455,757</td>
<td>BB</td>
<td>2,455,757</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>1,328,346</td>
<td>B</td>
<td>347,058</td>
<td>BB</td>
<td>2,455,758</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>156,133</td>
<td>Caa</td>
<td>5,071,072</td>
<td>NR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>8,964,773</td>
<td>NR</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Asset and Mortgage Backed Securities</td>
<td>45,507,265</td>
<td>Aaa</td>
<td>8,317,563</td>
<td>AAA</td>
<td>25,096,032</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>2,454,605</td>
<td>Aa</td>
<td>5,947,642</td>
<td>AA</td>
<td>4,228,642</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>7,252,543</td>
<td>A</td>
<td>2,917,683</td>
<td>A</td>
<td>146,946</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>1,571,484</td>
<td>Baa</td>
<td>4,054,849</td>
<td>BBB</td>
<td>552,563</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td>4,378,290</td>
<td>Ba</td>
<td>2,580,232</td>
<td>BB</td>
<td>341,003</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>170,532</td>
<td>B</td>
<td>1,911,311</td>
<td>B</td>
<td>450,989</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>6,199,719</td>
<td>Caa</td>
<td>4,112,651</td>
<td>CCC</td>
<td>51,337,131</td>
<td>NR</td>
</tr>
<tr>
<td></td>
<td>1,077,138</td>
<td>Ca</td>
<td>481,255</td>
<td>CC</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>13,541,730</td>
<td>NR</td>
<td>3,875,111</td>
<td>D</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>47,955,009</td>
<td>NR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>International Obligations (Government and Corporate)</td>
<td>679,778,475</td>
<td>Aaa</td>
<td>283,293,195</td>
<td>AAA</td>
<td>469,521,107</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>306,639,723</td>
<td>Aa</td>
<td>294,781,634</td>
<td>AA</td>
<td>431,073,045</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>829,610,041</td>
<td>A</td>
<td>535,318,589</td>
<td>A</td>
<td>541,984,243</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>332,316,843</td>
<td>Baa</td>
<td>265,277,136</td>
<td>BBB</td>
<td>474,323,808</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td>216,106,551</td>
<td>Ba</td>
<td>151,121,030</td>
<td>BB</td>
<td>302,860,723</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>8,092,575</td>
<td>B</td>
<td>12,919,097</td>
<td>B</td>
<td>326,599</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>345,963</td>
<td>Caa</td>
<td>345,963</td>
<td>CCC</td>
<td>627,201,166</td>
<td>NR</td>
</tr>
<tr>
<td></td>
<td>474,400,520</td>
<td>NR</td>
<td>1,304,234,047</td>
<td>NR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Income Money Market and Mutual Funds</td>
<td>4,341,287,127</td>
<td>Aaa</td>
<td>4,227,056,061</td>
<td>AAA</td>
<td>114,231,066</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>177,528,134</td>
<td>NR</td>
<td>291,759,200</td>
<td>NR</td>
<td>4,404,584,195</td>
<td>NR</td>
</tr>
<tr>
<td>Repurchase Agreement - Texas Treasury Safekeeping Trust Co.</td>
<td>11,209,782</td>
<td>Aaa</td>
<td>11,209,782</td>
<td>AA</td>
<td>11,209,782</td>
<td>AA</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,559,599</td>
<td>Aaa</td>
<td>1,604,842</td>
<td>AAA</td>
<td>3,593,193</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>2,478,708</td>
<td>Aa</td>
<td>3,144,228</td>
<td>AA</td>
<td>912,829</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>9,341,497</td>
<td>A</td>
<td>8,675,977</td>
<td>A</td>
<td>8,675,977</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>156,872</td>
<td>Baa</td>
<td>776,293</td>
<td>BBB</td>
<td>776,293</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td>37,829,964</td>
<td>NR</td>
<td>33,354,591</td>
<td>BB</td>
<td>37,408,348</td>
<td>NR</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>3,810,709</td>
<td>NR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Investments and Investments Classified as Cash Equivalents</strong></td>
<td>$9,214,054,171</td>
<td></td>
<td>9,214,054,171</td>
<td></td>
<td>9,214,054,171</td>
<td></td>
</tr>
<tr>
<td>Deposit with Brokers for Derivative Contracts, net:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Direct Obligations</td>
<td>$4,884,257</td>
<td>Aaa</td>
<td>4,884,257</td>
<td>AA</td>
<td>4,884,257</td>
<td>AAA</td>
</tr>
<tr>
<td>Cash</td>
<td>54,009,000</td>
<td>NR</td>
<td>54,009,000</td>
<td>NR</td>
<td>54,009,000</td>
<td>NR</td>
</tr>
<tr>
<td><strong>Total Deposit with Brokers for Derivative Contracts, net</strong></td>
<td>$58,893,257</td>
<td></td>
<td>58,893,257</td>
<td></td>
<td>58,893,257</td>
<td></td>
</tr>
<tr>
<td>Investment Type</td>
<td>Fair Value</td>
<td>Rating</td>
<td>Fair Value</td>
<td>Rating</td>
<td>Fair Value</td>
<td>Rating</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------</td>
<td>--------</td>
<td>-------------</td>
<td>--------</td>
<td>-------------</td>
<td>--------</td>
</tr>
<tr>
<td>Corporate Obligations</td>
<td>14,097,756</td>
<td>Aaa</td>
<td>12,047,845</td>
<td>AAA</td>
<td>7,617,320</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>69,529,028</td>
<td>Aa</td>
<td>92,367,753</td>
<td>AA</td>
<td>73,142,341</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>322,716,790</td>
<td>A</td>
<td>263,195,780</td>
<td>A</td>
<td>272,635,656</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>156,168,857</td>
<td>Baa</td>
<td>228,880,831</td>
<td>BBB</td>
<td>111,776,430</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td>342,711</td>
<td>B</td>
<td>1,037,502</td>
<td>B</td>
<td>333,695</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>7,612,711</td>
<td>NR</td>
<td>1,622,674</td>
<td>NR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Asset and Mortgage Backed Securities</td>
<td>41,034,998</td>
<td>Aaa</td>
<td>10,386,318</td>
<td>AAA</td>
<td>25,313,733</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>3,106,844</td>
<td>A</td>
<td>9,758,604</td>
<td>AA</td>
<td>1,496,982</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>1,779,500</td>
<td>A</td>
<td>4,760,068</td>
<td>A</td>
<td>561,768</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>6,371,865</td>
<td>Baa</td>
<td>1,944,041</td>
<td>BBB</td>
<td>97,176</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td>1,912,973</td>
<td>Ba</td>
<td>2,462,970</td>
<td>BB</td>
<td>589,754</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>541,587</td>
<td>B</td>
<td>2,293,319</td>
<td>B</td>
<td>1,155,484</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>8,050,476</td>
<td>Caa</td>
<td>6,476,696</td>
<td>CCC</td>
<td>1,515,981</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>1,368,056</td>
<td>Ca</td>
<td>496,705</td>
<td>CC</td>
<td>47,311,954</td>
<td>NR</td>
</tr>
<tr>
<td></td>
<td>13,836,533</td>
<td>NR</td>
<td>3,965,222</td>
<td>D</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>35,458,889</td>
<td>NR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>International Obligations (Government and Corporate)</td>
<td>532,422,676</td>
<td>Aaa</td>
<td>212,858,834</td>
<td>AAA</td>
<td>312,740,541</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>425,674,587</td>
<td>Aa</td>
<td>354,711,603</td>
<td>AA</td>
<td>565,380,770</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>494,678,742</td>
<td>A</td>
<td>460,997,924</td>
<td>A</td>
<td>597,819,043</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>279,998,188</td>
<td>Baa</td>
<td>251,637,959</td>
<td>BBB</td>
<td>578,370,418</td>
<td>BBB</td>
</tr>
<tr>
<td></td>
<td>203,754,414</td>
<td>Ba</td>
<td>201,176,250</td>
<td>BB</td>
<td>171,700,601</td>
<td>BB</td>
</tr>
<tr>
<td></td>
<td>16,560,461</td>
<td>B</td>
<td>19,487,162</td>
<td>B</td>
<td>2,462,286</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>704,812</td>
<td>Caa</td>
<td>704,812</td>
<td>CCC</td>
<td>1,327,796</td>
<td>CCC</td>
</tr>
<tr>
<td></td>
<td>501,312,340</td>
<td>NR</td>
<td>953,531,676</td>
<td>NR</td>
<td>225,304,765</td>
<td>NR</td>
</tr>
<tr>
<td>Fixed Income Money Market and Mutual Funds</td>
<td>3,926,734,495</td>
<td>Aaa</td>
<td>3,804,140,462</td>
<td>AAA</td>
<td>323,277,976</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>218,802,095</td>
<td>NR</td>
<td>341,396,128</td>
<td>NR</td>
<td>3,822,258,614</td>
<td>NR</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,134,510</td>
<td>Aaa</td>
<td>1,659,796</td>
<td>AAA</td>
<td>1,134,510</td>
<td>AAA</td>
</tr>
<tr>
<td></td>
<td>3,280,741</td>
<td>Aa</td>
<td>3,945,480</td>
<td>AA</td>
<td>2,207,374</td>
<td>AA</td>
</tr>
<tr>
<td></td>
<td>9,804,399</td>
<td>A</td>
<td>9,139,660</td>
<td>A</td>
<td>9,139,660</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td>176,822</td>
<td>Baa</td>
<td>30,855,686</td>
<td>BB</td>
<td>33,961,207</td>
<td>NR</td>
</tr>
<tr>
<td></td>
<td>32,046,279</td>
<td>NR</td>
<td>842,129</td>
<td>NR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Investments and Investments Classified as Cash Equivalents</td>
<td>$ 7,890,355,227</td>
<td>7,890,355,227</td>
<td>7,890,355,227</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit with Brokers for Derivative Contracts, net:</td>
<td>U.S. Government Direct Obligations</td>
<td>$ 7,571,050</td>
<td>Aaa</td>
<td>7,571,050</td>
<td>AA</td>
<td>7,571,050</td>
</tr>
<tr>
<td>Fixed Income Money Market and Mutual Funds</td>
<td>37,024,659</td>
<td>NR</td>
<td>37,024,659</td>
<td>NR</td>
<td>37,024,659</td>
<td>NR</td>
</tr>
<tr>
<td>Total Deposit with Brokers for Derivative Contracts, net</td>
<td>$ 44,595,709</td>
<td>44,595,709</td>
<td>44,595,709</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(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 fair value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2017 and 2016, 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 fair 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, 2017 and 2016, 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 in years by investment type as of August 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>August 31, 2017</th>
<th>August 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
<td>Modified Duration</td>
</tr>
<tr>
<td><strong>Investments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Guaranteed:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury Bonds and Notes</td>
<td>$787,128,969</td>
<td>6.69</td>
</tr>
<tr>
<td>U.S. Treasury Inflation Protected</td>
<td>32,726,133</td>
<td>5.65</td>
</tr>
<tr>
<td>U.S. Agency Asset Backed</td>
<td>16,328,228</td>
<td>3.46</td>
</tr>
<tr>
<td>Total U.S. Government Guaranteed</td>
<td>836,183,330</td>
<td>6.59</td>
</tr>
<tr>
<td>U.S. Government Non-Guaranteed:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Agency</td>
<td>3,793,953</td>
<td>0.06</td>
</tr>
<tr>
<td>U.S. Agency Asset Backed</td>
<td>142,122,652</td>
<td>5.48</td>
</tr>
<tr>
<td>Total U.S. Government Non-Guaranteed</td>
<td>145,916,605</td>
<td>5.34</td>
</tr>
<tr>
<td>Total U.S. Government</td>
<td>982,099,935</td>
<td>6.40</td>
</tr>
<tr>
<td>Corporate Obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>803,271,862</td>
<td>6.06</td>
</tr>
<tr>
<td>Foreign</td>
<td>504,634,634</td>
<td>6.71</td>
</tr>
<tr>
<td>Total Corporate Obligations</td>
<td>1,307,906,496</td>
<td>6.31</td>
</tr>
<tr>
<td>Foreign Government and Provincial Obligations</td>
<td>2,342,656,057</td>
<td>4.36</td>
</tr>
<tr>
<td>Other Debt Securities</td>
<td>17,328,884</td>
<td>15.64</td>
</tr>
<tr>
<td>Total Debt Securities</td>
<td>4,649,991,372</td>
<td>5.38</td>
</tr>
<tr>
<td>Other Investment Funds - Debt</td>
<td>33,197,719</td>
<td>6.80</td>
</tr>
<tr>
<td>Fixed Income Money Market and Mutual Funds</td>
<td>2,466,331,494</td>
<td>0.26</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>$7,149,520,585</td>
<td>3.62</td>
</tr>
<tr>
<td>Investments Classified as Cash Equivalents:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase Agreement - Texas Treasury Safekeeping Trust Co.</td>
<td>$11,209,782</td>
<td>0.00</td>
</tr>
<tr>
<td>Fixed Income Money Market Funds</td>
<td>2,052,483,767</td>
<td>0.08</td>
</tr>
<tr>
<td>Time Deposits</td>
<td>840,037</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total Investments Classified as Cash Equivalents</strong></td>
<td>$2,064,533,586</td>
<td>0.08</td>
</tr>
<tr>
<td><strong>Deposit with Brokers for Derivative Contracts:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Guaranteed:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury Bonds and Notes</td>
<td>$1,492,314</td>
<td>3.05</td>
</tr>
<tr>
<td>U.S. Treasury Inflation Protected</td>
<td>3,391,943</td>
<td>5.88</td>
</tr>
<tr>
<td>Total U.S. Government Guaranteed</td>
<td>4,884,257</td>
<td>5.02</td>
</tr>
<tr>
<td>Fixed Income Money Market and Mutual Funds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash</td>
<td>54,009,000</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total Deposit with Brokers for Derivative Contracts, net</strong></td>
<td>$58,893,257</td>
<td>0.42</td>
</tr>
</tbody>
</table>

58
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, 2017 and 2016, 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, 2017 and 2016, these securities amounted to $99,241,871 and $126,340,661, 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, 2017 and 2016, these securities amounted to $146,167,456 and $129,094,010, 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, 2017 and 2016 these securities amounted to $29,584,430 and $13,313,751, respectively.

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, 2017 and 2016.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2017 Fair Value</th>
<th>Investment Type</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Common Stock:</td>
<td></td>
<td>Foreign Government &amp; Provincial Obligations (cont.):</td>
<td></td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>$202,118</td>
<td>Japanese Yen</td>
<td>$281,271,096</td>
</tr>
<tr>
<td>Foreign Common Stock:</td>
<td></td>
<td>Malaysian Ringgit</td>
<td>124,805,937</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>36,962,580</td>
<td>Mexican Peso</td>
<td>269,101,865</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>382,185,583</td>
<td>New Zealand Dollar</td>
<td>112,425,236</td>
</tr>
<tr>
<td>British Pound</td>
<td>145,868,970</td>
<td>Norwegian Krone</td>
<td>30,077,678</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>63,038,101</td>
<td>Peruvian Sol</td>
<td>28,916,604</td>
</tr>
<tr>
<td>Chilean Peso</td>
<td>1,536,646</td>
<td>Polish Zloty</td>
<td>178,174,351</td>
</tr>
<tr>
<td>Chinese Yuan Renminbi</td>
<td>406,831,919</td>
<td>Romanian Leu</td>
<td>5,609,389</td>
</tr>
<tr>
<td>Colombian Peso</td>
<td>310,569</td>
<td>Singapore Dollar</td>
<td>95,444,257</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>9,420,918</td>
<td>South African Rand</td>
<td>94,728,957</td>
</tr>
<tr>
<td>Egyptian Pound</td>
<td>18,342,503</td>
<td>Thai Baht</td>
<td>16,980,759</td>
</tr>
<tr>
<td>Euro</td>
<td>293,438,411</td>
<td>Turkish Lira</td>
<td>12,059,591</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>187,812,142</td>
<td>Total Foreign Government &amp; Provincial Obligations</td>
<td>2,262,914,672</td>
</tr>
<tr>
<td>Hungarian Forint</td>
<td>1,492,349</td>
<td>Corporate Obligations:</td>
<td></td>
</tr>
<tr>
<td>Indian Rupee</td>
<td>86,431,493</td>
<td>Australian Dollar</td>
<td>8,793,923</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>34,554,731</td>
<td>British Pound</td>
<td>46,742,835</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>349,678,338</td>
<td>Canadian Dollar</td>
<td>1,827,084</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>33,510,640</td>
<td>Danish Krone</td>
<td>113,588,618</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>125,115,968</td>
<td>Euro</td>
<td>43,154,861</td>
</tr>
<tr>
<td>Moroccan Dirham</td>
<td>3,382,092</td>
<td>Indian Rupee</td>
<td>993</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>11,694,919</td>
<td>Swedish Krona</td>
<td>40,376,612</td>
</tr>
<tr>
<td>Polish Zloty</td>
<td>2,707,283</td>
<td>Total Corporate Obligations</td>
<td>254,484,926</td>
</tr>
<tr>
<td>Qatari Riyal</td>
<td>5,855,269</td>
<td>Investment Funds - Emerging Markets:</td>
<td></td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>25,598,493</td>
<td>Brazilian Real</td>
<td>36,067,563</td>
</tr>
<tr>
<td>South African Rand</td>
<td>44,944,982</td>
<td>Singapore Dollar</td>
<td>25,598,493</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>401,588,173</td>
<td>British Pound</td>
<td>1,561,422</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>15,377,292</td>
<td>Canadian Dollar</td>
<td>294,125</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>17,707,358</td>
<td>Private Investments:</td>
<td></td>
</tr>
<tr>
<td>Taiwan Dollar</td>
<td>138,549,102</td>
<td>Australian Dollar</td>
<td>52,337,068</td>
</tr>
<tr>
<td>Thai Baht</td>
<td>36,337,579</td>
<td>British Pound</td>
<td>60,035,019</td>
</tr>
<tr>
<td>Turkish Lira</td>
<td>14,360,593</td>
<td>Canadian Dollar</td>
<td>270,134,619</td>
</tr>
<tr>
<td>United Arab Emirates Dirham</td>
<td>44,611,193</td>
<td>Euro</td>
<td>400,921,928</td>
</tr>
<tr>
<td>Vietnamese Dong</td>
<td>10,305,455</td>
<td>Total Private Investments</td>
<td>783,428,634</td>
</tr>
<tr>
<td>Total Foreign Common Stock</td>
<td>2,949,551,644</td>
<td>Cash and Cash Equivalents:</td>
<td></td>
</tr>
<tr>
<td>Other Equity Securities:</td>
<td></td>
<td>Australian Dollar</td>
<td>36,753</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>42,197</td>
<td>Brazilian Real</td>
<td>10,559,617</td>
</tr>
<tr>
<td>Foreign Preferred Stock:</td>
<td></td>
<td>British Pound</td>
<td>505,659</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>45,835,111</td>
<td>Canadian Dollar</td>
<td>294,125</td>
</tr>
<tr>
<td>Colombian Peso</td>
<td>71,379</td>
<td>Private Investments:</td>
<td></td>
</tr>
<tr>
<td>Euro</td>
<td>4,727,413</td>
<td>Chilean Peso</td>
<td>8,316</td>
</tr>
<tr>
<td>South African Rand</td>
<td>123,318</td>
<td>Chinese Yuan Renminbi</td>
<td>20,568,166</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>39,853,173</td>
<td>Canadian Dollar</td>
<td>2,561,232</td>
</tr>
<tr>
<td>Total Foreign Preferred Stock</td>
<td>90,610,394</td>
<td>Euro</td>
<td>1,858,595</td>
</tr>
<tr>
<td>Foreign Government &amp; Provincial Obligations:</td>
<td></td>
<td>Egyptian Pound</td>
<td>1</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>237,737,320</td>
<td>Hungarian Forint</td>
<td>269</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>171,392,904</td>
<td>Canadian Dollar</td>
<td>1,135,099</td>
</tr>
<tr>
<td>British Pound</td>
<td>81,446,524</td>
<td>Indonesian Rupiah</td>
<td>123,030</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>54,039,659</td>
<td>Israeli Shekel</td>
<td>386</td>
</tr>
<tr>
<td>Colombian Peso</td>
<td>31,584,890</td>
<td>Japanese Yen</td>
<td>5,770,341</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>678,290</td>
<td>Malaysian Ringgit</td>
<td>81,735</td>
</tr>
<tr>
<td>Euro</td>
<td>367,371,122</td>
<td>Mexican Peso</td>
<td>1,597,253</td>
</tr>
<tr>
<td>Hungarian Forint</td>
<td>14,360,593</td>
<td>New Zealand Dollar</td>
<td>138,788</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>54,908,824</td>
<td>Norwegian Krone</td>
<td>30,077,678</td>
</tr>
</tbody>
</table>
### Investment Type (cont.)

<table>
<thead>
<tr>
<th>Investment Type (cont.)</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norwegian Krone</td>
<td>$ 160,706</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>33,626</td>
</tr>
<tr>
<td>Polish Zloty</td>
<td>18,810</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>984</td>
</tr>
<tr>
<td>South African Rand</td>
<td>2,322,024</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>10,197,212</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>148,338</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>1,631</td>
</tr>
<tr>
<td>Taiwan Dollar</td>
<td>76,879</td>
</tr>
<tr>
<td>Thai Baht</td>
<td>64,714</td>
</tr>
<tr>
<td>Turkish Lira</td>
<td>528</td>
</tr>
<tr>
<td>United Arab Emirates Dirham</td>
<td>(264)</td>
</tr>
<tr>
<td><strong>Total Cash and Cash Equivalents</strong></td>
<td><strong>57,606,319</strong></td>
</tr>
</tbody>
</table>

### Purchased Options:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>31,209</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>1,281,603</td>
</tr>
<tr>
<td>Euro</td>
<td>7,134,361</td>
</tr>
<tr>
<td><strong>Total Purchased Options</strong></td>
<td><strong>8,447,173</strong></td>
</tr>
</tbody>
</table>

### Written Options:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazilian Real</td>
<td>(1,771,249)</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>(27,792)</td>
</tr>
<tr>
<td>Euro</td>
<td>(974,096)</td>
</tr>
<tr>
<td><strong>Total Written Options</strong></td>
<td><strong>(2,773,137)</strong></td>
</tr>
</tbody>
</table>

### Swaps:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>(18,724)</td>
</tr>
<tr>
<td>British Pound</td>
<td>84,059,495</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>(139,525)</td>
</tr>
<tr>
<td>Euro</td>
<td>373,212</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>(830,459)</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>(115,586)</td>
</tr>
<tr>
<td>New Zealand Dollar</td>
<td>168,340</td>
</tr>
<tr>
<td>South African Rand</td>
<td>69,389</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>(129,015)</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>(214,552)</td>
</tr>
<tr>
<td><strong>Total Swaps</strong></td>
<td><strong>83,222,575</strong></td>
</tr>
</tbody>
</table>

### Futures:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>(5,010)</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>(33,300)</td>
</tr>
<tr>
<td>Euro</td>
<td>502</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>(5,906)</td>
</tr>
</tbody>
</table>
| **Total Futures**     | **(43,714)**    

### Foreign Exchange Contracts:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>$ (2,037,223)</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>(1,548,849)</td>
</tr>
<tr>
<td>Chinese Yuan</td>
<td>(1,640,025)</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>390,984</td>
</tr>
<tr>
<td>Chinese Yuan Reminbi</td>
<td>(107,183)</td>
</tr>
<tr>
<td>Colombian Peso</td>
<td>86</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>(47,589)</td>
</tr>
<tr>
<td>Danish Krone</td>
<td>(3,473,953)</td>
</tr>
<tr>
<td>Euro</td>
<td>6,646,316</td>
</tr>
<tr>
<td>Hungarian Forint</td>
<td>(95,864)</td>
</tr>
<tr>
<td>Indian Rupee</td>
<td>1,006,477</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>24,088</td>
</tr>
<tr>
<td>Israeli Shekel</td>
<td>(20,857)</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>(12,113,268)</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>(37,008)</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>(236,450)</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>6,540,447</td>
</tr>
<tr>
<td>Peruvian Sol</td>
<td>8,202</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>(14)</td>
</tr>
<tr>
<td>Polish Zloty</td>
<td>(2,578,340)</td>
</tr>
<tr>
<td>Russian Ruble</td>
<td>174,644</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>(1,162,566)</td>
</tr>
<tr>
<td>South African Rand</td>
<td>(1,534,869)</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>82,284</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>4,743,210</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>31,594</td>
</tr>
<tr>
<td>Taiwan Dollar</td>
<td>(557,734)</td>
</tr>
<tr>
<td>Thai Baht</td>
<td>18,001</td>
</tr>
<tr>
<td>Turkish Lira</td>
<td>1,372,965</td>
</tr>
<tr>
<td>Total Foreign Exchange Contracts</td>
<td>(22,064,724)</td>
</tr>
</tbody>
</table>

### Total Futures:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2017 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Futures</td>
<td><strong>($ 6,503,258,062)</strong></td>
</tr>
</tbody>
</table>

---

61
<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2016 Fair Value</th>
<th>Investment Type</th>
<th>2016 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Common Stock:</td>
<td></td>
<td>Foreign Government &amp; Provincial Obligations (cont.):</td>
<td></td>
</tr>
<tr>
<td>Hong Kong Dollar:</td>
<td>$207,518</td>
<td>British Pound</td>
<td>$130,484,887</td>
</tr>
<tr>
<td>Foreign Common Stock:</td>
<td></td>
<td>Canadian Dollar</td>
<td>50,247,504</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>66,948,430</td>
<td>Czech Koruna</td>
<td>1,446,854</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>294,021,729</td>
<td>Colombian Peso</td>
<td>20,037,153</td>
</tr>
<tr>
<td>British Pound</td>
<td>175,336,597</td>
<td>Euro</td>
<td>254,489,918</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>135,550,643</td>
<td>Malaysian Ringgit</td>
<td>111,591,502</td>
</tr>
<tr>
<td>Chilean Peso</td>
<td>245,107</td>
<td>Mexican Peso</td>
<td>230,047,827</td>
</tr>
<tr>
<td>Chinese Yuan Renminbi</td>
<td>223,665,438</td>
<td>New Zealand Dollar</td>
<td>154,218,208</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>5,748,258</td>
<td>Norwegian Krone</td>
<td>53,673,007</td>
</tr>
<tr>
<td>Egyptian Pound</td>
<td>16,836,580</td>
<td>Polish Zloty</td>
<td>68,315,333</td>
</tr>
<tr>
<td>Euro</td>
<td>174,908,361</td>
<td>Romanian Leu</td>
<td>4,177,322</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>224,102,786</td>
<td>Singapore Dollar</td>
<td>63,717,278</td>
</tr>
<tr>
<td>Indian Rupee</td>
<td>87,392,005</td>
<td>South African Rand</td>
<td>76,287,890</td>
</tr>
<tr>
<td>Indonesians Rupiah</td>
<td>20,122,152</td>
<td>South Korean Won</td>
<td>11,602,805</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>319,007,114</td>
<td>Thai Baht</td>
<td>12,822,240</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>20,132,160</td>
<td>Total Foreign Government &amp; Provincial Obligations</td>
<td>1,952,534,209</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>104,118,221</td>
<td>Corporate Obligations</td>
<td></td>
</tr>
<tr>
<td>Moroccan Dirham</td>
<td>2,724,240</td>
<td>Brazilian Dollar</td>
<td>29,192,501</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>1,054,948</td>
<td>British Pound</td>
<td>39,610,902</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>11,608,057</td>
<td>Canadian Dollar</td>
<td>1,807,939</td>
</tr>
<tr>
<td>Polish Zloty</td>
<td>3,098,837</td>
<td>Danish Krone</td>
<td>38,023,678</td>
</tr>
<tr>
<td>Qatari Riyal</td>
<td>9,668,202</td>
<td>Euro</td>
<td>74,781,834</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>41,106,805</td>
<td>Indian Rupee</td>
<td>914</td>
</tr>
<tr>
<td>South African Rand</td>
<td>38,392,177</td>
<td>Swedish Krona</td>
<td>577,630</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>274,871,450</td>
<td>Total Corporate Obligations</td>
<td>183,995,398</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>11,527,499</td>
<td>Investment Funds - Emerging Markets:</td>
<td></td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>11,517,154</td>
<td>Brazilian Real</td>
<td>24,583,368</td>
</tr>
<tr>
<td>Taiwan Dollar</td>
<td>81,692,391</td>
<td>Convertible Securities</td>
<td>1,026,551</td>
</tr>
<tr>
<td>Thai Baht</td>
<td>34,244,772</td>
<td>Private Investments</td>
<td></td>
</tr>
<tr>
<td>Turkish Lira</td>
<td>9,812,951</td>
<td>Australian Dollar</td>
<td>50,109,425</td>
</tr>
<tr>
<td>United Arab Emirates Dirham</td>
<td>28,817,024</td>
<td>British Pound</td>
<td>68,054,259</td>
</tr>
<tr>
<td>Vietnamese Dong</td>
<td>18,343,874</td>
<td>Canadian Dollar</td>
<td>179,871,935</td>
</tr>
<tr>
<td>Total Foreign Common Stock</td>
<td>2,446,615,962</td>
<td>Total Private Investments</td>
<td>618,655,614</td>
</tr>
<tr>
<td>Other Equity Securities</td>
<td></td>
<td>Cash and Cash Equivalents</td>
<td></td>
</tr>
<tr>
<td>British Pound</td>
<td>22,013</td>
<td>Brazilian Real</td>
<td>3,124,955</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>1,507,988</td>
<td>Australian Dollar</td>
<td>497,663</td>
</tr>
<tr>
<td>Indian Rupee</td>
<td>8,009</td>
<td>British Pound</td>
<td>1,091,696</td>
</tr>
<tr>
<td>Total Other Equity Securities</td>
<td>1,538,010</td>
<td>Brazilian Real</td>
<td>3,124,955</td>
</tr>
<tr>
<td>Foreign Preferred Stock</td>
<td></td>
<td>Canadian Dollar</td>
<td>322,764</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>53,799,674</td>
<td>Chilean Peso</td>
<td>4,456</td>
</tr>
<tr>
<td>Colombian Peso</td>
<td>64,322</td>
<td>Chinese Yuan Renminbi</td>
<td>48,191,664</td>
</tr>
<tr>
<td>Euro</td>
<td>8,086,540</td>
<td>Colombian Peso</td>
<td>2,212,618</td>
</tr>
<tr>
<td>South African Rand</td>
<td>50,410</td>
<td>Czech Koruna</td>
<td>129,144</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>24,951,032</td>
<td>Danish Krone</td>
<td>15,707,423</td>
</tr>
<tr>
<td>Total Foreign Preferred Stock</td>
<td>86,951,978</td>
<td>Egyptian Pound</td>
<td>(27,967)</td>
</tr>
<tr>
<td>Foreign Government &amp; Provincial Obligations:</td>
<td></td>
<td>Euro</td>
<td>8,818,401</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>175,776,653</td>
<td>Hong Kong Dollar</td>
<td>247,848</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>131,886,437</td>
<td>Hungarian Forint</td>
<td>249</td>
</tr>
<tr>
<td>Hungarian Forint</td>
<td>51,674,312</td>
<td>Indonesian Rupiah</td>
<td>1,012,439</td>
</tr>
<tr>
<td>Indoneisian Rupiah</td>
<td>43,865,367</td>
<td>Israeli Shekel</td>
<td>154,191</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>306,191,712</td>
<td>Total Foreign Government &amp; Provincial Obligations</td>
<td></td>
</tr>
</tbody>
</table>

62
<table>
<thead>
<tr>
<th>Investment Type (cont.)</th>
<th>2016 Fair Value</th>
<th>Investment Type</th>
<th>2016 Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents (cont.):</td>
<td></td>
<td>Futures:</td>
<td></td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>$14,976,736</td>
<td>Australian Dollar</td>
<td>$3,028</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>637,382</td>
<td>British Pound</td>
<td>186</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>3,315,137</td>
<td>Canadian Dollar</td>
<td>(1,029)</td>
</tr>
<tr>
<td>New Zealand Dollar</td>
<td>1,413</td>
<td>Euro</td>
<td>(26,508)</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>178,684</td>
<td>Japanese Yen</td>
<td>(1,933)</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>13,284</td>
<td>Total Futures</td>
<td>(26,256)</td>
</tr>
<tr>
<td>Polish Zloty</td>
<td>400,251</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>32,375</td>
<td>Australian Dollar</td>
<td>(536,607)</td>
</tr>
<tr>
<td>South African Rand</td>
<td>1,915,419</td>
<td>Brazilian Real</td>
<td>(749,922)</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>6,943,310</td>
<td>British Pound</td>
<td>6,060,177</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>(834,337)</td>
<td>Canadian Dollar</td>
<td>(7,752)</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>(5,162,981)</td>
<td>Chilean Peso</td>
<td>281,641</td>
</tr>
<tr>
<td>Taiwan Dollar</td>
<td>3,982,932</td>
<td>Chinese Yuan(Offshore)</td>
<td>7,499,195</td>
</tr>
<tr>
<td>Thai Baht</td>
<td>1,794,868</td>
<td>Chinese Yuan Renminbi</td>
<td>(43,930)</td>
</tr>
<tr>
<td>Turkish Lira</td>
<td>1,035,204</td>
<td>Colombian Peso</td>
<td>(151,112)</td>
</tr>
<tr>
<td>Vietnamese Dong</td>
<td>349,964</td>
<td>Czech Koruna</td>
<td>22,252</td>
</tr>
<tr>
<td>Total Cash and Cash Equivalents</td>
<td>111,067,551</td>
<td>Danish Krone</td>
<td>43,417</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Euro</td>
<td>1,067,852</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hong Kong Dollar</td>
<td>2,910</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indian Rupee</td>
<td>131,559</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Israeli Shekel</td>
<td>8,908</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Japanese Yen</td>
<td>(23,749,770)</td>
</tr>
<tr>
<td>Purchased Options:</td>
<td></td>
<td>Total Purchased Options</td>
<td>4,554,033</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>4,349,209</td>
<td>Malaysian Ringgit</td>
<td>18,944</td>
</tr>
<tr>
<td>British Pound</td>
<td>125,038</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euro</td>
<td>73,317</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>6,469</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Purchased Options</td>
<td>4,554,033</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Written Options:</td>
<td></td>
<td>Total Written Options</td>
<td>(5,148,241)</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>(10,587)</td>
<td>South African Rand</td>
<td>(314,496)</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>(4,805,420)</td>
<td>New Zealand Dollar</td>
<td>(976,865)</td>
</tr>
<tr>
<td>British Pound</td>
<td>(197,381)</td>
<td>Norwegian Krone</td>
<td>357,089</td>
</tr>
<tr>
<td>Euro</td>
<td>(128,046)</td>
<td>Polish Zloty</td>
<td>21,994</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>(6,807)</td>
<td>Russian Ruble</td>
<td>157,154</td>
</tr>
<tr>
<td>Total Written Options</td>
<td>(5,148,241)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swaps:</td>
<td></td>
<td>Total Foreign Exchange Contracts</td>
<td>(9,080,083)</td>
</tr>
<tr>
<td>Australian Dollar</td>
<td>(39,807)</td>
<td>South African Won</td>
<td>521,999</td>
</tr>
<tr>
<td>British Pound</td>
<td>42,433,793</td>
<td>Swedish Krona</td>
<td>(455,035)</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>14,310,468</td>
<td>Swiss Franc</td>
<td>(34,208)</td>
</tr>
<tr>
<td>Euro</td>
<td>57,167,668</td>
<td>Thai Baht</td>
<td>(133,272)</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>(25,430,085)</td>
<td>Turkish Lira</td>
<td>(342)</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>(69,258)</td>
<td>Total</td>
<td>$5,505,906,359</td>
</tr>
<tr>
<td>South African Rand</td>
<td>(428)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>58,396</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Swaps</td>
<td>88,430,747</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

63
(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 of August 31, 2017 for options, swaps, and foreign currency exchange contracts as shown in the following table:

<table>
<thead>
<tr>
<th>Notional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Options</td>
</tr>
<tr>
<td>Swaps</td>
</tr>
<tr>
<td>Swaps</td>
</tr>
<tr>
<td>Foreign Currency Exchange Contracts</td>
</tr>
<tr>
<td>Foreign Currency Exchange Contracts</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

The System had gross counterparty exposure as of August 31, 2016 for options, swaps, and foreign currency exchange contracts as shown in the following table:

<table>
<thead>
<tr>
<th>Notional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Options</td>
</tr>
<tr>
<td>Options</td>
</tr>
<tr>
<td>Swaps</td>
</tr>
<tr>
<td>Swaps</td>
</tr>
<tr>
<td>Swaps</td>
</tr>
<tr>
<td>Foreign Currency Exchange Contracts</td>
</tr>
<tr>
<td>Foreign Currency Exchange Contracts</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

As of August 31, 2017 and 2016, 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, 2017 and 2016, the System held $17,550,000 and $7,666,923, respectively, as collateral related to derivative instruments other than futures, and had on deposit with brokers $72,138,930 and $40,105,688, 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, 2017 and 2016, there were a total of $632,812,604 and $849,601,839, 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 $490,906,139 at August 31, 2017 and $729,334,828 at August 31, 2016. 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. 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 103 percent on August 31, 2017 and August 31, 2016 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, 2017 and 2016, are shown in the following table:

<table>
<thead>
<tr>
<th>Description</th>
<th>August 31, 2017</th>
<th>August 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
<td>Rating</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>$166,711,311</td>
<td>No Rating</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>121,111,724</td>
<td>P</td>
</tr>
<tr>
<td>Corporate Obligations</td>
<td>29,233,580</td>
<td>AA</td>
</tr>
<tr>
<td>Corporate Obligations</td>
<td>25,553,515</td>
<td>A</td>
</tr>
<tr>
<td>Total Corporate Obligations</td>
<td>54,787,095</td>
<td>33</td>
</tr>
<tr>
<td>International Obligations</td>
<td>82,766,177</td>
<td>AA</td>
</tr>
<tr>
<td>International Obligations</td>
<td>69,773,274</td>
<td>A</td>
</tr>
<tr>
<td>Total International Obligations</td>
<td>152,539,451</td>
<td>18</td>
</tr>
<tr>
<td>Other Receivables/Payables</td>
<td>(4,243,442)</td>
<td>Not Rated</td>
</tr>
<tr>
<td>Total Collateral Pool Investment</td>
<td>$490,906,139</td>
<td>19</td>
</tr>
</tbody>
</table>

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. All collateral pool investments are categorized as Level 2 in the fair value hierarchy and are valued based upon prices supplied by major fixed income pricing services, external broker quotes and internal pricing matrices.

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. The System held collateral equal to 103 percent of the securities on loan that were collateralized by non-cash securities as of August 31, 2017 and 102 percent as of August 31, 2016.

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 105 percent for international loans on August 31, 2017 and 109 percent on August 31, 2016.

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, 2017 and 2016, 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, 2017 and 2016.

**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 fair value of the futures contracts.

During the years ended August 31, 2017 and 2016, the asset classes that used futures include domestic and foreign debt and commodities. The changes in fair value of open futures contracts were increases of $5,308,206 and $15,588,961 for the years ending August 31, 2017 and 2016, respectively, which are included in investment income on the consolidated statements of revenues, expenses and changes in net position. The System had $4,304,328 and $12,156,944 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2017 and 2016, 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 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, 2017 and 2016, certain 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 fair value as of August 31, 2017 and 2016.

The following discloses the type, notional value, and fair value of futures contracts at August 31, 2017:

<table>
<thead>
<tr>
<th>Notional Value at August 31, 2017</th>
<th>Fair Value at August 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long</td>
</tr>
<tr>
<td>Commodity Futures</td>
<td>$77,187,956</td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>448,622,850</td>
</tr>
<tr>
<td>International Fixed Income Futures</td>
<td>462,500,549</td>
</tr>
<tr>
<td>Totals</td>
<td>$988,311,355</td>
</tr>
</tbody>
</table>

The following discloses the type, notional value, and fair value of futures contracts at August 31, 2016:

<table>
<thead>
<tr>
<th>Notional Value at August 31, 2016</th>
<th>Fair Value at August 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long</td>
</tr>
<tr>
<td>Commodity Futures</td>
<td>$297,456,595</td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>243,082,673</td>
</tr>
<tr>
<td>International Fixed Income Futures</td>
<td>184,934,284</td>
</tr>
<tr>
<td>Totals</td>
<td>$725,473,552</td>
</tr>
</tbody>
</table>

(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, 2017 and 2016. Foreign currency amounts are translated at exchange rates as of August 31, 2017 and 2016. 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.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian Dollar</td>
<td>$ -</td>
<td>109,833,371</td>
<td>1,059,145</td>
<td>3,096,368</td>
</tr>
<tr>
<td>Brazilian Real</td>
<td>-</td>
<td>56,902,568</td>
<td>134,906</td>
<td>1,683,755</td>
</tr>
<tr>
<td>British Pound</td>
<td>123,465,597</td>
<td>-</td>
<td>1,142,095</td>
<td>2,782,120</td>
</tr>
<tr>
<td>Canadian Dollar</td>
<td>57,281,818</td>
<td>-</td>
<td>737,013</td>
<td>346,029</td>
</tr>
<tr>
<td>Chinese Yuan (Offshore)</td>
<td>-</td>
<td>427,627,879</td>
<td>-</td>
<td>19,783,578</td>
</tr>
<tr>
<td>Chinese Yuan Renminbi</td>
<td>117,213</td>
<td>-</td>
<td>189,556</td>
<td>296,739</td>
</tr>
<tr>
<td>Colombian Peso</td>
<td>31,610</td>
<td>-</td>
<td>86</td>
<td>-</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>446,109</td>
<td>397,388</td>
<td>31,899</td>
<td>79,488</td>
</tr>
<tr>
<td>Danish Krone</td>
<td>-</td>
<td>73,304,446</td>
<td>763,117</td>
<td>4,237,070</td>
</tr>
<tr>
<td>Euro</td>
<td>260,577,496</td>
<td>-</td>
<td>9,158,251</td>
<td>2,511,935</td>
</tr>
<tr>
<td>Hong Kong Dollar</td>
<td>-</td>
<td>14,986,243</td>
<td>156,841</td>
<td>223</td>
</tr>
<tr>
<td>Hungarian Forint</td>
<td>-</td>
<td>14,213,694</td>
<td>-</td>
<td>95,864</td>
</tr>
<tr>
<td>Indian Rupee</td>
<td>62,488,136</td>
<td>-</td>
<td>1,057,169</td>
<td>50,692</td>
</tr>
<tr>
<td>Indonesian Rupiah</td>
<td>4,265,073</td>
<td>-</td>
<td>24,088</td>
<td>-</td>
</tr>
<tr>
<td>Israeli Shekel</td>
<td>965,826</td>
<td>-</td>
<td>-</td>
<td>20,857</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>140,334,764</td>
<td>78,749,289</td>
<td>2,509,778</td>
<td>14,623,046</td>
</tr>
<tr>
<td>Malaysian Ringgit</td>
<td>5,320,844</td>
<td>-</td>
<td>11,189</td>
<td>48,197</td>
</tr>
<tr>
<td>Mexican Peso</td>
<td>-</td>
<td>2,086,615</td>
<td>85,502</td>
<td>321,952</td>
</tr>
<tr>
<td>New Zealand Dollar</td>
<td>-</td>
<td>96,306,681</td>
<td>4,648,077</td>
<td>933,347</td>
</tr>
<tr>
<td>Norwegian Krone</td>
<td>112,971,805</td>
<td>-</td>
<td>6,687,028</td>
<td>146,581</td>
</tr>
<tr>
<td>Peruvian Sol</td>
<td>2,018,817</td>
<td>-</td>
<td>8,202</td>
<td>-</td>
</tr>
<tr>
<td>Philippine Peso</td>
<td>14,417</td>
<td>-</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td>Polish Zloty</td>
<td>-</td>
<td>80,149,234</td>
<td>352,943</td>
<td>2,931,283</td>
</tr>
<tr>
<td>Russian Ruble</td>
<td>5,449,978</td>
<td>-</td>
<td>204,222</td>
<td>29,578</td>
</tr>
<tr>
<td>Singapore Dollar</td>
<td>-</td>
<td>129,850,041</td>
<td>275,762</td>
<td>1,438,328</td>
</tr>
<tr>
<td>South African Rand</td>
<td>-</td>
<td>65,293,588</td>
<td>180,050</td>
<td>1,714,919</td>
</tr>
<tr>
<td>South Korean Won</td>
<td>-</td>
<td>18,721,844</td>
<td>250,811</td>
<td>168,527</td>
</tr>
<tr>
<td>Swedish Krona</td>
<td>69,110,540</td>
<td>-</td>
<td>5,742,797</td>
<td>999,587</td>
</tr>
<tr>
<td>Swiss Franc</td>
<td>6,181,033</td>
<td>-</td>
<td>31,606</td>
<td>11</td>
</tr>
<tr>
<td>Thailand Baht</td>
<td>-</td>
<td>14,658,291</td>
<td>40,540</td>
<td>22,539</td>
</tr>
<tr>
<td>Taiwan Dollar</td>
<td>-</td>
<td>113,088,855</td>
<td>-</td>
<td>557,734</td>
</tr>
<tr>
<td>Turkish Lira</td>
<td>42,674,916</td>
<td>-</td>
<td>1,372,964</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 893,715,992</strong></td>
<td><strong>1,296,170,027</strong></td>
<td><strong>36,855,637</strong></td>
<td><strong>58,920,361</strong></td>
</tr>
</tbody>
</table>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2017 was a decrease in the amount of $22,064,724, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.
The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2016 was a decrease in the amount of $9,080,084, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.
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. The following discloses the fair values of the outstanding written call options contracts as of August 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>Type</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>-</td>
<td>733,428</td>
</tr>
<tr>
<td>Equity</td>
<td>-</td>
<td>1,965,613</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>20,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>2,719,641</td>
</tr>
</tbody>
</table>

The change in fair value of open call options for the year ending August 31, 2017, was a decrease in the amount of $650,451, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

<table>
<thead>
<tr>
<th>Type</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Swap</td>
<td>$</td>
<td>57,343</td>
</tr>
<tr>
<td>Commodity</td>
<td>-</td>
<td>4,881</td>
</tr>
<tr>
<td>Currency</td>
<td>-</td>
<td>136,524</td>
</tr>
<tr>
<td>Equity</td>
<td>-</td>
<td>4,799,736</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>4,998,484</td>
</tr>
</tbody>
</table>

The change in fair value of open call options for the year ending August 31, 2016, was a decrease in the amount of $2,806,518, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

The following discloses the fair values of the outstanding written put options contracts as of August 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>Type</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity</td>
<td>-</td>
<td>9,200</td>
</tr>
<tr>
<td>Currency</td>
<td>-</td>
<td>111,061</td>
</tr>
<tr>
<td>Equity</td>
<td>-</td>
<td>44,059</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>164,323</td>
</tr>
</tbody>
</table>

The change in fair value of open put options for the year ending August 31, 2017, was an increase in the amount of $329,709, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

<table>
<thead>
<tr>
<th>Type</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate Swap</td>
<td>$</td>
<td>6,806</td>
</tr>
<tr>
<td>Commodity</td>
<td>-</td>
<td>256,291</td>
</tr>
<tr>
<td>Currency</td>
<td>-</td>
<td>370,766</td>
</tr>
<tr>
<td>Equity</td>
<td>-</td>
<td>5,684</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>160</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>639,707</td>
</tr>
</tbody>
</table>

The change in fair value of open put options for the year ending August 31, 2016, was an increase in the amount of $72,481, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.
(D) Swaps – Swaps are used to adjust interest rate and yield curve exposures. 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) and the fair values of the outstanding swap contracts as of August 31, 2017:

<table>
<thead>
<tr>
<th>Type</th>
<th>USD Notional Value (in millions)</th>
<th>Fair Value at August 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate (Pay-Fixed Receive-Variable)</td>
<td>$788,944,245</td>
<td>$1,988,085</td>
</tr>
<tr>
<td>Interest Rate (Pay-Variable Receive-Fixed)</td>
<td>923,931,976</td>
<td>2,102,391</td>
</tr>
<tr>
<td>Credit Default</td>
<td>163,583,510</td>
<td>2,602,954</td>
</tr>
<tr>
<td>Commodity</td>
<td>5,047,106</td>
<td>92,156</td>
</tr>
<tr>
<td>Currency</td>
<td>175,411,745</td>
<td>89,531,969</td>
</tr>
<tr>
<td>Equity</td>
<td>91,186,820</td>
<td>304,957</td>
</tr>
<tr>
<td>Total</td>
<td>$2,148,105,402</td>
<td></td>
</tr>
</tbody>
</table>

The change in fair value of open swap positions for the year ending August 31, 2017, was an increase in the amount of $1,758,827, 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) and the fair values of the outstanding swap contracts as of August 31, 2016:

<table>
<thead>
<tr>
<th>Type</th>
<th>USD Notional Value (in millions)</th>
<th>Fair Value at August 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate (Pay-Fixed Receive-Variable)</td>
<td>$254,839,973</td>
<td>$7,061,247</td>
</tr>
<tr>
<td>Interest Rate (Pay-Variable Receive-Fixed)</td>
<td>412,561,238</td>
<td>6,273</td>
</tr>
<tr>
<td>Credit Default</td>
<td>252,798,250</td>
<td>2,924,848</td>
</tr>
<tr>
<td>Commodity</td>
<td>17,055,536</td>
<td>38,490</td>
</tr>
<tr>
<td>Currency</td>
<td>292,798,398</td>
<td>145,023,038</td>
</tr>
<tr>
<td>Equity</td>
<td>69,962,029</td>
<td>907,788</td>
</tr>
<tr>
<td>Volatility</td>
<td>100,000</td>
<td>2,511</td>
</tr>
<tr>
<td>Total</td>
<td>$1,300,115,424</td>
<td>155,964,195</td>
</tr>
</tbody>
</table>

The change in fair value of open swap positions for the year ending August 31, 2016, was a decrease in the amount of $8,574,759, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

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. All derivative instruments are categorized as Level 2 in the fair value hierarchy, except for futures contracts and some of the purchased options which are categorized as Level 1. The fair values of the interest rate swaps are calculated using a forecast of expected discounted future net cash flows. Other swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Futures contracts and foreign exchange contracts are fair valued at closing market prices on the valuation date. The following disclosures summarize the System’s derivative activity as reported in the consolidated financial statements.
## Change in Fair Value (FV)
**8/31/16 to 8/31/17**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Classification</th>
<th>Amount</th>
<th>Notional Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flow-Interest Rate Swaps</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedging Derivative Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay-Fixed Receive-Variable</td>
<td>Def Inflows $</td>
<td>10,339,315</td>
<td>$10,339,315</td>
<td>250,000,000</td>
</tr>
<tr>
<td>Hedging Derivative Liabilities</td>
<td>Def Outflows</td>
<td>92,637,141</td>
<td>(246,087,922)</td>
<td>1,181,500,000</td>
</tr>
<tr>
<td>Investment Derivative Assets</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>5,559,749</td>
<td>Investments</td>
<td>22,677,075</td>
</tr>
<tr>
<td>Basis Swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Derivative Liabilities</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>15,877,414</td>
<td>Invest Deriv – Liab Positions</td>
<td>(7,781,148)</td>
</tr>
<tr>
<td>Rate Lock</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment Derivatives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment Derivative Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swaps:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay-Fixed Receive-Variable</td>
<td>1,908,166</td>
<td>1,988,085</td>
<td>577,492,975</td>
<td></td>
</tr>
<tr>
<td>Pay-Variable Receive-Fixed</td>
<td>3,773,111</td>
<td>2,102,391</td>
<td>302,346,079</td>
<td></td>
</tr>
<tr>
<td>Credit Default</td>
<td>579,175</td>
<td>2,602,954</td>
<td>123,902,240</td>
<td></td>
</tr>
<tr>
<td>Commodity</td>
<td>92,156</td>
<td>92,156</td>
<td>2,013,608</td>
<td></td>
</tr>
<tr>
<td>Currency</td>
<td>89,531,969</td>
<td>89,531,969</td>
<td>89,554,225</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>304,957</td>
<td>304,957</td>
<td>18,604,079</td>
<td></td>
</tr>
<tr>
<td>Total Swaps</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>96,189,534</td>
<td>Investments</td>
<td>96,622,512</td>
</tr>
<tr>
<td>Futures</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>3,349,260</td>
<td>Other Accounts</td>
<td>3,349,260</td>
</tr>
<tr>
<td>Unrealized Gains on Foreign Forwards</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>36,855,637</td>
<td>Investments</td>
<td>36,855,637</td>
</tr>
<tr>
<td>Purchased Options</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>2,805,611</td>
<td>Investments</td>
<td>10,324,300</td>
</tr>
<tr>
<td><strong>Investment Derivative Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swaps:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay-Fixed Receive-Variable</td>
<td>(940,067)</td>
<td>(1,013,498)</td>
<td>211,451,270</td>
<td></td>
</tr>
<tr>
<td>Pay-Variable Receive-Fixed</td>
<td>(2,497,856)</td>
<td>(6,889,835)</td>
<td>621,585,897</td>
<td></td>
</tr>
<tr>
<td>Credit Default</td>
<td>(714,118)</td>
<td>(826,827)</td>
<td>39,681,270</td>
<td></td>
</tr>
<tr>
<td>Commodity</td>
<td>(247,716)</td>
<td>(247,716)</td>
<td>3,033,498</td>
<td></td>
</tr>
<tr>
<td>Currency</td>
<td>(85,857,520)</td>
<td>(85,857,520)</td>
<td>Era, Deriv – Liab Positions</td>
<td>85,857,520</td>
</tr>
<tr>
<td>Equity</td>
<td>(4,173,430)</td>
<td>(4,173,430)</td>
<td>72,582,741</td>
<td></td>
</tr>
<tr>
<td>Total Swaps</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>(94,430,707)</td>
<td>Invest Deriv – Liab Positions</td>
<td>(99,008,826)</td>
</tr>
<tr>
<td>Futures</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>(899,757)</td>
<td>Current Accounts Payable</td>
<td>(899,757)</td>
</tr>
<tr>
<td>Unrealized Losses on Foreign Forwards</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>58,920,361</td>
<td>Invest Deriv – Liab Positions</td>
<td>(58,920,361)</td>
</tr>
<tr>
<td>Options Written</td>
<td>FV of Invest</td>
<td>320,742</td>
<td>(2,883,964)</td>
<td>278,966,288</td>
</tr>
</tbody>
</table>
### Change in Fair Value (FV)  
**8/31/15 to 8/31/16**

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Classification</th>
<th>Amount</th>
<th>Notional Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flow-Interest Rate Swaps</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hedging Derivative Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay-Fixed Receive-Variable</td>
<td>Def Outflows $</td>
<td>(77,112,162)</td>
<td>Hedging Derivative Liab $</td>
<td>(338,725,063)</td>
</tr>
<tr>
<td>Investment Derivative Assets</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td></td>
<td>Investments</td>
<td>17,117,326</td>
</tr>
<tr>
<td>Basis Swaps</td>
<td></td>
<td></td>
<td>Invest Deriv – Liab Positions</td>
<td>(23,658,562)</td>
</tr>
<tr>
<td>Investment Derivative Liabilities</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>(23,641,549)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basis Swaps</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Investment Derivatives

#### Investment Derivative Assets:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Classification</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Swaps</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay-Fixed Receive-Variable</td>
<td>7,655,679</td>
<td>7,061,247</td>
<td>223,588,287</td>
</tr>
<tr>
<td>Pay-Variable Receive-Fixed</td>
<td>6,338</td>
<td>6,273</td>
<td>1,134,157</td>
</tr>
<tr>
<td>Credit Default</td>
<td>2,888,231</td>
<td>2,924,848</td>
<td>215,118,625</td>
</tr>
<tr>
<td>Commodity</td>
<td>38,490</td>
<td>38,490</td>
<td>782,116</td>
</tr>
<tr>
<td>Currency</td>
<td>145,023,038</td>
<td>145,023,038</td>
<td>144,964,789</td>
</tr>
<tr>
<td>Equity</td>
<td>907,788</td>
<td>907,788</td>
<td>43,498,177</td>
</tr>
<tr>
<td>Volatility</td>
<td>2,511</td>
<td>2,511</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total Swaps</strong></td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>156,522,075</td>
<td>Investments</td>
</tr>
<tr>
<td>Futures</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>10,916,983</td>
<td>Other Accounts</td>
</tr>
<tr>
<td>Unrealized Gains on Foreign Forwards</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>28,913,838</td>
<td>Investments</td>
</tr>
<tr>
<td>Purchased Options</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>1,836,101</td>
<td>Investments</td>
</tr>
</tbody>
</table>

#### Investment Derivative Liabilities:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Amount</th>
<th>Classification</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Swaps</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay-Fixed Receive-Variable</td>
<td>(185,602)</td>
<td>(168,105)</td>
<td>31,251,686</td>
</tr>
<tr>
<td>Pay-Variable Receive-Fixed</td>
<td>(14,845,177)</td>
<td>(15,722,228)</td>
<td>411,427,081</td>
</tr>
<tr>
<td>Credit Default</td>
<td>(502,263)</td>
<td>(1,094,935)</td>
<td>37,679,625</td>
</tr>
<tr>
<td>Commodity</td>
<td>(1,069,319)</td>
<td>(1,069,319)</td>
<td>16,273,420</td>
</tr>
<tr>
<td>Currency</td>
<td>(147,841,833)</td>
<td>(147,841,833)</td>
<td>147,833,609</td>
</tr>
<tr>
<td>Equity</td>
<td>(652,640)</td>
<td>(652,640)</td>
<td>26,463,852</td>
</tr>
<tr>
<td><strong>Total Swaps</strong></td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>(165,096,834)</td>
<td>Invest Deriv – Liab Positions</td>
</tr>
<tr>
<td>Futures</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>(7,859,464)</td>
<td>Current Accounts Payable</td>
</tr>
<tr>
<td>Unrealized Losses on Foreign Forwards</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>(37,993,922)</td>
<td>Invest Deriv – Liab Positions</td>
</tr>
<tr>
<td>Options Written</td>
<td>Net Incr. (Decr.) in FV of Invest</td>
<td>(2,734,037)</td>
<td>Invest Deriv – Liab Positions</td>
</tr>
</tbody>
</table>

See Note 13 for more information on Cash Flow Hedges – Interest Rate Swaps and Note 6 for more information on Investment Derivatives.
8. Endowments

Restricted investments include $35,833,609,227 and $33,129,214,329 of endowment funds, including annuity and life income funds, as of August 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

<table>
<thead>
<tr>
<th>Net Position Classification of Endowments</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted, nonexpendable</td>
<td>$23,184,331,614</td>
<td>$22,350,532,269</td>
</tr>
<tr>
<td>Restricted, expendable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Appreciation on True Endowments</td>
<td>10,431,670,447</td>
<td>8,547,122,301</td>
</tr>
<tr>
<td>Funds Functioning as Endowments</td>
<td>559,902,085</td>
<td>488,360,150</td>
</tr>
<tr>
<td>Book Value of Term Endowments</td>
<td>39,060,021</td>
<td>36,398,072</td>
</tr>
<tr>
<td>Net Appreciation on Term Endowments</td>
<td>37,196,496</td>
<td>31,871,177</td>
</tr>
<tr>
<td>Unrestricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds Functioning as Endowments</td>
<td>372,050,627</td>
<td>330,707,672</td>
</tr>
<tr>
<td>Total</td>
<td>$34,624,211,290</td>
<td>$31,784,991,641</td>
</tr>
</tbody>
</table>

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 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. The University of Texas System administers the PHF and the distributions from the PHF benefit 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 annual payout of the PHF is determined by the U. T. System Board of Regents. The annual payout is typically adjusted by the average consumer price index of the previous twelve quarters provided that the distribution rate remains within a range of 3.5% to 5.5% of the PHF’s net position; however, the U. T. System Board of Regents may approve distribution amount above, within, or below this range.
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. The annual payout of the LTF is also determined by the U. T. System Board of Regents. The annual payout is typically adjusted by the average consumer price index of the previous twelve quarters provided that the distribution rate remains within a range of 3.5% to 5.5% of the LTF’s net position; however, the U. T. System Board of Regents may approve distribution amount above, within, or below this range.

**ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE**
The funds are subject to restrictions of endowment and trust instruments, requiring that the principal be maintained and that only the income be utilized. Funds may include Permanent 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 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, 2017, is presented below.

<table>
<thead>
<tr>
<th></th>
<th>Balance 09/01/16</th>
<th>Adjustments</th>
<th>Reclassifications Completed CIP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nondepreciable Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and Land Improvements</td>
<td>$846,622,088</td>
<td>-</td>
<td>3,962,333</td>
</tr>
<tr>
<td>Construction in Progress (CIP)</td>
<td>1,354,954,587</td>
<td>(1,063,662)</td>
<td>(1,370,233,890)</td>
</tr>
<tr>
<td>Nondepreciable Collections</td>
<td>526,573,348</td>
<td>-</td>
<td>2,084,101</td>
</tr>
<tr>
<td>Nonamortizable Intangible Assets</td>
<td>17,123,614</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Nondepreciable/Nonamortizable Assets</strong></td>
<td>2,745,273,637</td>
<td>(1,063,662)</td>
<td>(1,364,187,456)</td>
</tr>
<tr>
<td><strong>Depreciable Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>18,060,089,223</td>
<td>-</td>
<td>1,093,440,154</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>506,939,119</td>
<td>(10,630)</td>
<td>65,056,351</td>
</tr>
<tr>
<td>Facilities and Other Improvements</td>
<td>971,658,333</td>
<td>-</td>
<td>103,766,480</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>3,757,694,670</td>
<td>(8,295)</td>
<td>45,653,597</td>
</tr>
<tr>
<td>Vehicles, Boats and Aircraft</td>
<td>84,334,246</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Depreciable Assets (including Library Books)</td>
<td>713,458,664</td>
<td>-</td>
<td>1,189,207</td>
</tr>
<tr>
<td><strong>Total Depreciable Assets at Historical Cost</strong></td>
<td>24,094,174,255</td>
<td>(18,925)</td>
<td>1,309,105,789</td>
</tr>
<tr>
<td>Less Accumulated Depreciation for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>(7,928,593,905)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(189,767,610)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facilities and Other Improvements</td>
<td>(448,143,199)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>(2,535,683,456)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vehicles, Boats and Aircraft</td>
<td>(64,691,488)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Depreciable Assets (including Library Books)</td>
<td>(507,298,887)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Accumulated Depreciation</strong></td>
<td>(11,674,178,545)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Depreciable Assets, net</strong></td>
<td>12,419,995,710</td>
<td>(18,925)</td>
<td>1,309,105,789</td>
</tr>
<tr>
<td><strong>Amortizable Intangible Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Use Rights</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Computer Software</td>
<td>1,151,722,316</td>
<td>-</td>
<td>55,081,667</td>
</tr>
<tr>
<td><strong>Total Amortizable Intangible Assets</strong></td>
<td>1,151,722,316</td>
<td>-</td>
<td>55,081,667</td>
</tr>
<tr>
<td>Less Accumulated Amortization for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Use Rights</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Computer Software</td>
<td>(707,263,764)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Accumulated Amortization</strong></td>
<td>(707,263,764)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Intangible Capital Assets, net</strong></td>
<td>444,458,552</td>
<td>-</td>
<td>55,081,667</td>
</tr>
<tr>
<td><strong>Capital Assets, net</strong></td>
<td>$15,609,727,899</td>
<td>(1,082,587)</td>
<td>-</td>
</tr>
<tr>
<td>Reclassifications Interagency Transfers - In</td>
<td>Reclassifications Interagency Transfers - Out</td>
<td>Balance 08/31/17</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>---------------------------------------------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>47,240,936</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>1,508,611,556</td>
<td>47,240,936</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>79,147,836</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>90,125</td>
<td>1,508,611,556</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>1,635,090,453</td>
<td>1,508,611,556</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>41,783,347</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>6,085,929</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>317,741,439</td>
<td>607,758,506</td>
<td></td>
</tr>
<tr>
<td>171,740</td>
<td>(156,645)</td>
<td>607,758,506</td>
<td></td>
</tr>
<tr>
<td>46,899</td>
<td></td>
<td>46,899</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>10,622,504</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>30,395,249</td>
<td>171,740</td>
<td></td>
</tr>
<tr>
<td>218,639</td>
<td>(156,645)</td>
<td>218,639</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(807,050,103)</td>
<td>(807,050,103)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(19,021,179)</td>
<td>(19,021,179)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(46,116,048)</td>
<td>(46,116,048)</td>
<td></td>
</tr>
<tr>
<td>(171,340)</td>
<td>151,891</td>
<td>(171,340)</td>
<td></td>
</tr>
<tr>
<td>(46,899)</td>
<td></td>
<td>(46,899)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(330,190,343)</td>
<td>(330,190,343)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(6,742,861)</td>
<td>(6,742,861)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(33,084,530)</td>
<td>(33,084,530)</td>
<td></td>
</tr>
<tr>
<td>(218,239)</td>
<td>151,891</td>
<td>(218,239)</td>
<td></td>
</tr>
<tr>
<td>400</td>
<td>(4,754)</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>9,275,000</td>
<td>9,275,000</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>34,581,503</td>
<td>34,581,503</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(9,275,000)</td>
<td>(9,275,000)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(144,525,529)</td>
<td>(144,525,529)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(153,800,529)</td>
<td>(153,800,529)</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>(119,219,026)</td>
<td>(119,219,026)</td>
<td></td>
</tr>
<tr>
<td>400</td>
<td>(4,754)</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>680,294,831</td>
<td>680,294,831</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>77</td>
<td>77</td>
<td></td>
</tr>
</tbody>
</table>
A summary of changes in the capital assets for the year ended August 31, 2016, is presented below.

<table>
<thead>
<tr>
<th>Nondepreciable Assets:</th>
<th>Balance 09/01/15</th>
<th>Adjustments</th>
<th>Reclassifications Completed CIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Land Improvements</td>
<td>$ 602,753,733</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Construction in Progress (CIP)</td>
<td>1,857,514,447</td>
<td>(800,584)</td>
<td>(1,884,549,618)</td>
</tr>
<tr>
<td>Nondepreciable Collections</td>
<td>517,763,858</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nonamortizable Intangible Assets</td>
<td>9,242,470</td>
<td>-</td>
<td>7,881,144</td>
</tr>
<tr>
<td><strong>Total Nondepreciable/Nonamortizable Assets</strong></td>
<td>2,987,274,508</td>
<td>(800,584)</td>
<td>(1,876,668,474)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Depreciable Assets:</th>
<th>Balance 09/01/15</th>
<th>Adjustments</th>
<th>Reclassifications Completed CIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and Building Improvements</td>
<td>16,710,055,791</td>
<td>-</td>
<td>1,328,421,869</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>403,190,580</td>
<td>(1,204,157)</td>
<td>104,827,820</td>
</tr>
<tr>
<td>Facilities and Other Improvements</td>
<td>861,497,598</td>
<td>-</td>
<td>104,513,960</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>3,502,808,359</td>
<td>(56,015)</td>
<td>47,533,352</td>
</tr>
<tr>
<td>Vehicles, Boats and Aircraft</td>
<td>81,006,042</td>
<td>-</td>
<td>572</td>
</tr>
<tr>
<td>Other Depreciable Assets (including Library Books)</td>
<td>681,468,945</td>
<td>-</td>
<td>8,548,549</td>
</tr>
<tr>
<td><strong>Total Depreciable Assets at Historical Cost</strong></td>
<td>22,240,027,315</td>
<td>(1,260,172)</td>
<td>1,593,846,122</td>
</tr>
<tr>
<td>Less Accumulated Depreciation for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>(7,226,516,533)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(174,805,459)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Facilities and Other Improvements</td>
<td>(408,438,630)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>(2,329,250,566)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vehicles, Boats and Aircraft</td>
<td>(60,579,651)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Depreciable Assets (including Library Books)</td>
<td>(476,296,853)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Accumulated Depreciation</strong></td>
<td>(10,675,887,692)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciable Assets, net</td>
<td>11,564,139,623</td>
<td>(1,260,172)</td>
<td>1,593,846,122</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amortizable Intangible Assets:</th>
<th>Balance 09/01/15</th>
<th>Adjustments</th>
<th>Reclassifications Completed CIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer Software</td>
<td>963,353,922</td>
<td>-</td>
<td>282,822,352</td>
</tr>
<tr>
<td><strong>Total Amortizable Intangible Assets</strong></td>
<td>963,353,922</td>
<td>-</td>
<td>282,822,352</td>
</tr>
<tr>
<td>Less Accumulated Amortization for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Software</td>
<td>(687,741,142)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Accumulated Amortization</strong></td>
<td>(687,741,142)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Intangible Capital Assets, net</td>
<td>275,612,780</td>
<td>-</td>
<td>282,822,352</td>
</tr>
<tr>
<td><strong>Capital Assets, net</strong></td>
<td>$ 14,827,026,911</td>
<td>(2,060,756)</td>
<td>-</td>
</tr>
<tr>
<td>Reclassifications</td>
<td>Reclassifications</td>
<td>Additions</td>
<td>Deletions</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Interagency Transfers - In</td>
<td>Interagency Transfers - Out</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>247,884,609</td>
<td>(4,016,254)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>1,382,790,342</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>8,935,450</td>
<td>(125,960)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>1,639,610,401</td>
<td>(4,142,214)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>85,270,324</td>
<td>(63,658,761)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>124,876</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>7,229,356</td>
<td>(1,582,581)</td>
</tr>
<tr>
<td>122,514</td>
<td>(108,516)</td>
<td>352,124,368</td>
<td>(144,729,392)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>5,988,414</td>
<td>(2,660,782)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>26,869,421</td>
<td>(3,428,251)</td>
</tr>
<tr>
<td>122,514</td>
<td>(108,516)</td>
<td>477,606,759</td>
<td>(216,059,767)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(759,314,054)</td>
<td>57,236,682</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(14,962,151)</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(40,562,934)</td>
<td>858,365</td>
</tr>
<tr>
<td>(114,701)</td>
<td>77,314</td>
<td>323,046,986</td>
<td>116,651,483</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(6,704,698)</td>
<td>2,592,861</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(34,173,740)</td>
<td>3,171,706</td>
</tr>
<tr>
<td>(114,701)</td>
<td>77,314</td>
<td>(1,178,764,563)</td>
<td>180,511,097</td>
</tr>
<tr>
<td>7,813</td>
<td>(31,202)</td>
<td>(701,157,804)</td>
<td>(35,548,670)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>15,175,415</td>
<td>(109,629,373)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>15,175,415</td>
<td>(109,629,373)</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(128,924,662)</td>
<td>109,402,040</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(128,924,662)</td>
<td>109,402,040</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>(113,749,247)</td>
<td>(227,333)</td>
</tr>
<tr>
<td>7,813</td>
<td>(31,202)</td>
<td>824,703,350</td>
<td>(39,918,217)</td>
</tr>
</tbody>
</table>
M. D. ANDERSON

OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment Losses – Capital Assets</td>
<td>$(26,517,304)</td>
</tr>
<tr>
<td>Net Losses – Capital Assets</td>
<td>$(26,517,304)</td>
</tr>
</tbody>
</table>

U. T. SYSTEM ADMINISTRATION

OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment Losses – Capital Assets</td>
<td>$(11,797,589)</td>
</tr>
<tr>
<td>Net Losses – Capital Assets</td>
<td>$(11,797,589)</td>
</tr>
</tbody>
</table>

On August 25, 2017, U. T. Austin’s Marine Science Institute in Port Aransas suffered extensive physical damage as a result of Hurricane Harvey, which resulted in a potential permanent impairment of capital assets for U. T. Austin for 2017; however, the effect of the impairment on the net book value of the asset is not significant.

10. Short-Term Debt

The System had RFS Commercial Paper Notes and PUF Commercial Paper Notes outstanding at August 31, 2017 and 2016. 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. Short-term debt activity for the year ended August 31, 2017, is summarized below:

<table>
<thead>
<tr>
<th></th>
<th>Balance 09/01/16</th>
<th>Additions</th>
<th>Reductions¹</th>
<th>Balance 8/31/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Paper Notes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent University Fund CP Notes</td>
<td>$306,000,000</td>
<td>175,000,000</td>
<td>301,000,000</td>
<td>$180,000,000</td>
</tr>
<tr>
<td>Revenue Financing System CP Notes</td>
<td>546,096,000</td>
<td>563,895,000</td>
<td>725,842,000</td>
<td>384,149,000</td>
</tr>
<tr>
<td>Total Commercial Paper Notes</td>
<td>$852,096,000</td>
<td>738,895,000</td>
<td>1,026,842,000</td>
<td>564,149,000</td>
</tr>
</tbody>
</table>

¹ Reductions of short-term debt include $929,119,000 of commercial paper notes reclassified to long-term notes and loans payable on the statement of net position as a result of refunding commercial paper notes subsequent to August 31, 2017 through the issuance of long-term bonds.

Short-term debt activity for the year ended August 31, 2016, is summarized below:

<table>
<thead>
<tr>
<th></th>
<th>Balance 09/01/15</th>
<th>Additions</th>
<th>Reductions²</th>
<th>Balance 8/31/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Paper Notes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent University Fund CP Notes</td>
<td>$385,000,000</td>
<td>502,500,000</td>
<td>581,500,000</td>
<td>$306,000,000</td>
</tr>
<tr>
<td>Revenue Financing System CP Notes</td>
<td>1,120,717,000</td>
<td>426,325,000</td>
<td>1,000,046,000</td>
<td>546,096,000</td>
</tr>
<tr>
<td>Total Commercial Paper Notes</td>
<td>$1,505,717,000</td>
<td>928,825,000</td>
<td>1,582,446,000</td>
<td>852,096,000</td>
</tr>
</tbody>
</table>

² Reductions of short-term debt include $1,034,019,000 of commercial paper notes reclassified to long-term notes and loans payable on the statement of net position as a result of refunding commercial paper notes subsequent to August 31, 2016 through the issuance of long-term bonds.
General information related to the commercial paper notes at August 31, 2017, 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 interim financing for capital improvements and to finance capital equipment purchases
  - **Issue Date:** September 1, 2016 through August 31, 2017
  - **Authorized Amount:** Aggregate principal amount not to exceed $750 million
  - **Source of revenue for debt service:** Available University Fund
  - **Terms:** Interest payable in periodic installments not to exceed 270 days at interest rates established by the System’s commercial paper dealers

- **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 interim financing for capital improvements and to finance capital equipment purchases
  - **Issue Date:** September 1, 2016 through August 31, 2017
  - **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 interest rates established by the System’s commercial paper dealers

11. **Leases**

**OPERATING LEASES**

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were $130,039,128 in 2017 and $122,353,231 in 2016. There were no contingent rental expenses for the period ending August 31, 2017. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2017, were as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Lease Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$91,617,199</td>
</tr>
<tr>
<td>2019</td>
<td>77,985,104</td>
</tr>
<tr>
<td>2020</td>
<td>52,495,159</td>
</tr>
<tr>
<td>2021</td>
<td>39,442,498</td>
</tr>
<tr>
<td>2022</td>
<td>31,438,219</td>
</tr>
<tr>
<td>2023 – 2027</td>
<td>69,008,774</td>
</tr>
<tr>
<td>2028 – 2032</td>
<td>11,231,140</td>
</tr>
<tr>
<td><strong>Total Minimum Future Payments</strong></td>
<td><strong>$373,218,093</strong></td>
</tr>
</tbody>
</table>

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, 2017 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Assets Leased</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>$165,754,533</td>
<td>129,841,596</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(68,637,778)</td>
<td>(45,607,747)</td>
</tr>
<tr>
<td>Carrying Value of Buildings</td>
<td>97,116,755</td>
<td>84,233,849</td>
</tr>
<tr>
<td>Equipment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>-</td>
<td>2,606,757</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>-</td>
<td>(2,278,335)</td>
</tr>
<tr>
<td>Carrying Value of Equipment</td>
<td>-</td>
<td>328,422</td>
</tr>
<tr>
<td>Land</td>
<td>14,423,455</td>
<td>10,495,861</td>
</tr>
<tr>
<td><strong>Total Carrying Value</strong></td>
<td><strong>$111,540,210</strong></td>
<td><strong>95,058,132</strong></td>
</tr>
</tbody>
</table>
The System reported contingent rental income in the amount of $386,706 in 2017 and $414,167 in 2016. Rental income from operating leases was $22,389,205 in 2017 and $22,438,869 in 2016. Future minimum lease rental income under noncancelable operating leases as of August 31, 2017, was as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Lease Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$26,257,215</td>
</tr>
<tr>
<td>2019</td>
<td>22,266,431</td>
</tr>
<tr>
<td>2020</td>
<td>21,493,318</td>
</tr>
<tr>
<td>2021</td>
<td>18,947,457</td>
</tr>
<tr>
<td>2022</td>
<td>18,439,582</td>
</tr>
<tr>
<td>2023 and beyond</td>
<td>243,269,985</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$350,673,988</strong></td>
</tr>
</tbody>
</table>

**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, 2017 and 2016 is as follows:

<table>
<thead>
<tr>
<th>Assets Under Capital Lease</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and Equipment</td>
<td>$18,039,870</td>
<td>16,918,912</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>(7,531,027)</td>
<td>(4,456,897)</td>
</tr>
<tr>
<td>Nondepreciable Collections</td>
<td>2,015,382</td>
<td>4,517,474</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$12,524,225</strong></td>
<td><strong>16,979,489</strong></td>
</tr>
</tbody>
</table>

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, 2017.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$4,812,204</td>
<td>337,919</td>
<td>5,150,123</td>
</tr>
<tr>
<td>2019</td>
<td>2,958,306</td>
<td>193,457</td>
<td>3,151,763</td>
</tr>
<tr>
<td>2020</td>
<td>2,009,060</td>
<td>87,461</td>
<td>2,096,521</td>
</tr>
<tr>
<td>2021</td>
<td>914,677</td>
<td>22,836</td>
<td>937,513</td>
</tr>
<tr>
<td>2022</td>
<td>159,719</td>
<td>2,104</td>
<td>161,823</td>
</tr>
</tbody>
</table>

**Total Minimum Lease Payments** $10,853,966

Less: Interest $(643,777)

**Present Value of Net Minimum Lease Payments** $10,853,966
## 12. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2017, is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance 09/01/16</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance 08/31/17</th>
<th>Amounts due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bonds Payable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent University Fund</td>
<td>$1,990,155,000</td>
<td>272,350,000</td>
<td>48,470,000</td>
<td>2,214,035,000</td>
<td>407,140,000</td>
</tr>
<tr>
<td>Revenue Financing System</td>
<td>5,600,690,000</td>
<td>1,351,030,000</td>
<td>767,180,000</td>
<td>6,184,540,000</td>
<td>1,352,600,000</td>
</tr>
<tr>
<td><strong>Subtotal Bonds Payable – Par</strong></td>
<td>7,590,845,000</td>
<td>1,623,380,000</td>
<td>815,650,000</td>
<td>8,398,575,000</td>
<td>1,759,740,000</td>
</tr>
<tr>
<td>Unamortized Net Premiums</td>
<td>456,069,075</td>
<td>263,592,768</td>
<td>115,511,696</td>
<td>604,150,147</td>
<td>86,056,760</td>
</tr>
<tr>
<td><strong>Total Bonds Payable</strong></td>
<td>8,046,914,075</td>
<td>1,886,972,768</td>
<td>931,161,696</td>
<td>9,002,725,147</td>
<td>1,845,796,760</td>
</tr>
<tr>
<td><strong>Notes, Loans and Leases Payable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and Loans Payable</td>
<td>1,055,022,628</td>
<td>929,119,000</td>
<td>1,035,484,378</td>
<td>948,657,250</td>
<td>538,250</td>
</tr>
<tr>
<td>Lease Obligations</td>
<td>14,392,390</td>
<td>1,714,879</td>
<td>5,253,303</td>
<td>10,853,966</td>
<td>4,812,204</td>
</tr>
<tr>
<td><strong>Total Notes, Loans and Leases Payable</strong></td>
<td>1,069,415,018</td>
<td>930,833,879</td>
<td>1,040,737,681</td>
<td>959,511,216</td>
<td>5,350,454</td>
</tr>
<tr>
<td><strong>Net Other Postemployment Benefits Obligation</strong></td>
<td>4,647,430,554</td>
<td>915,730,174</td>
<td>182,509,674</td>
<td>5,380,651,054</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Pension Liability</strong></td>
<td>2,744,693,745</td>
<td>653,215,749</td>
<td>264,020,999</td>
<td>3,133,888,495</td>
<td>-</td>
</tr>
<tr>
<td><strong>Hedging Derivative Liability</strong></td>
<td>338,725,063</td>
<td>-</td>
<td>92,637,141</td>
<td>246,087,922</td>
<td>-</td>
</tr>
<tr>
<td><strong>Employee Compensable Leave Claims</strong></td>
<td>595,167,707</td>
<td>294,221,724</td>
<td>281,538,055</td>
<td>607,851,376</td>
<td>401,350,083</td>
</tr>
<tr>
<td><strong>Incurred But Not Reported Self-Insurance Claims</strong></td>
<td>132,491,003</td>
<td>1,240,885,524</td>
<td>1,212,239,955</td>
<td>161,136,572</td>
<td>125,517,329</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$17,574,837,165</td>
<td>5,921,859,818</td>
<td>4,004,845,201</td>
<td>19,491,851,782</td>
<td>2,378,014,626</td>
</tr>
</tbody>
</table>

1Additions of Notes and Loans Payable include $929,119,000 of commercial paper notes reclassified from short-term debt to long-term notes and loans payable on the statement of net position as a result of refunding commercial paper notes subsequent to August 31, 2017 through the issuance of long-term bonds. See note 10 related to short-term debt.

Long-term liability activity for the year ended August 31, 2016, is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance 09/01/15</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance 08/31/16</th>
<th>Amounts due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bonds Payable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent University Fund</td>
<td>$1,784,085,000</td>
<td>243,290,000</td>
<td>37,220,000</td>
<td>1,990,155,000</td>
<td>404,985,000</td>
</tr>
<tr>
<td>Revenue Financing System</td>
<td>4,939,395,000</td>
<td>1,004,500,000</td>
<td>343,205,000</td>
<td>5,600,690,000</td>
<td>1,097,165,000</td>
</tr>
<tr>
<td><strong>Subtotal Bonds Payable – Par</strong></td>
<td>6,723,480,000</td>
<td>1,247,790,000</td>
<td>380,425,000</td>
<td>7,590,845,000</td>
<td>1,502,150,000</td>
</tr>
<tr>
<td>Unamortized Net Premiums</td>
<td>340,876,118</td>
<td>163,295,293</td>
<td>48,102,336</td>
<td>456,069,075</td>
<td>58,966,452</td>
</tr>
<tr>
<td><strong>Total Bonds Payable</strong></td>
<td>7,064,356,118</td>
<td>1,410,085,293</td>
<td>428,527,336</td>
<td>8,046,914,075</td>
<td>1,561,116,452</td>
</tr>
<tr>
<td><strong>Notes, Loans and Leases Payable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes and Loans Payable</td>
<td>39,773,458</td>
<td>1,034,019,000</td>
<td>18,769,830</td>
<td>1,055,022,628</td>
<td>20,465,287</td>
</tr>
<tr>
<td>Lease Obligations</td>
<td>5,002,136</td>
<td>14,438,753</td>
<td>5,048,499</td>
<td>14,392,390</td>
<td>5,355,341</td>
</tr>
<tr>
<td><strong>Total Notes, Loans and Leases Payable</strong></td>
<td>44,775,594</td>
<td>1,048,457,753</td>
<td>23,818,329</td>
<td>1,069,415,018</td>
<td>25,820,628</td>
</tr>
<tr>
<td><strong>Net Other Postemployment Benefits Obligation</strong></td>
<td>3,984,975,778</td>
<td>860,270,356</td>
<td>197,815,580</td>
<td>4,647,430,554</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Pension Liability</strong></td>
<td>2,302,987,541</td>
<td>1,138,654,786</td>
<td>696,948,582</td>
<td>2,744,693,745</td>
<td>-</td>
</tr>
<tr>
<td><strong>Hedging Derivative Liability</strong></td>
<td>261,612,901</td>
<td>77,112,162</td>
<td>-</td>
<td>338,725,063</td>
<td>-</td>
</tr>
<tr>
<td><strong>Employee Compensable Leave</strong></td>
<td>556,823,120</td>
<td>307,747,880</td>
<td>269,403,293</td>
<td>595,167,707</td>
<td>384,367,066</td>
</tr>
<tr>
<td><strong>Incurred But Not Reported Self-Insurance Claims</strong></td>
<td>119,791,324</td>
<td>1,152,180,370</td>
<td>1,139,480,691</td>
<td>132,491,003</td>
<td>104,109,224</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$14,335,322,376</td>
<td>5,995,508,600</td>
<td>2,755,993,811</td>
<td>17,574,837,165</td>
<td>2,075,413,370</td>
</tr>
</tbody>
</table>

2Additions of Notes and Loans Payable include $1,034,019,000 of commercial paper notes reclassified from short-term debt to long-term notes and loans payable on the statement of net position as a result of refunding commercial paper notes subsequent to August 31, 2016 through the issuance of long-term bonds. See note 10 related to short-term debt.
The principal and interest debt service requirements for the next five years and beyond are projected below for bonds issued and outstanding:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$1,759,740,000</td>
<td>328,811,738</td>
<td>2,088,551,738</td>
</tr>
<tr>
<td>2019</td>
<td>334,895,000</td>
<td>313,110,288</td>
<td>648,005,288</td>
</tr>
<tr>
<td>2020</td>
<td>328,075,000</td>
<td>297,860,261</td>
<td>625,935,261</td>
</tr>
<tr>
<td>2021</td>
<td>339,495,000</td>
<td>282,487,754</td>
<td>621,982,754</td>
</tr>
<tr>
<td>2022</td>
<td>338,745,000</td>
<td>266,815,196</td>
<td>605,560,196</td>
</tr>
<tr>
<td>2023 – 2027</td>
<td>1,591,375,000</td>
<td>1,089,096,231</td>
<td>2,680,471,231</td>
</tr>
<tr>
<td>2028 – 2032</td>
<td>903,780,000</td>
<td>783,110,001</td>
<td>1,686,890,001</td>
</tr>
<tr>
<td>2033 – 2037</td>
<td>1,014,388,000</td>
<td>562,655,544</td>
<td>1,577,043,544</td>
</tr>
<tr>
<td>2038 – 2042</td>
<td>986,732,000</td>
<td>314,031,312</td>
<td>1,300,763,312</td>
</tr>
<tr>
<td>2043 – 2047</td>
<td>801,350,000</td>
<td>128,483,266</td>
<td>929,833,266</td>
</tr>
<tr>
<td><strong>Total Requirements</strong></td>
<td><strong>$8,398,575,000</strong></td>
<td><strong>4,366,461,591</strong></td>
<td><strong>12,765,036,591</strong></td>
</tr>
</tbody>
</table>

The System’s variable rate demand bonds mature at various dates through 2045. 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 $1,431,500,000 and $1,207,675,000 at August 31, 2017 and 2016, respectively.

Total interest expense for the years ended August 31, 2017 and 2016 was $389,096,564 and $335,617,621, respectively. Interest expense of $50,960,090 and $21,276,626 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2017 and 2016, respectively. Interest expense was also reduced by $75,582,545 and $36,479,483 for the amortization of premiums, deferred gains and losses on refundings, and interest rate lock termination payment for the years ended August 31, 2017 and 2016, respectively. The remaining amounts of $262,553,929 in 2017 and $277,861,512 in 2016 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2019. General information related to notes and loans payable at August 31, 2017, which in substance are not bonds, is summarized as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$538,250</td>
<td>4,850</td>
<td>543,100</td>
</tr>
<tr>
<td>2019</td>
<td>19,000,000</td>
<td>-</td>
<td>19,000,000</td>
</tr>
<tr>
<td><strong>Total Requirements</strong></td>
<td><strong>$19,538,250</strong></td>
<td><strong>4,850</strong></td>
<td><strong>19,543,100</strong></td>
</tr>
</tbody>
</table>

The table above does not include the principal for $929,119,000 of commercial paper notes reclassified from short-term debt to long-term notes and loans payable on the statement of net position as a result of refunding commercial paper notes subsequent to August 31, 2017 through the issuance of long-term bonds.
General information related to notes and loans payable at August 31, 2017, is summarized as follows:

- **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, 2017  
  Authorized Amount: $19,000,000  
  Source of revenue for debt service: Assets of Luther King and Wilkinson O’Grady  
  Terms: LIBOR rate plus 0.65%. Interest is paid monthly. Renewal on August 31, 2019.

- **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 August 31, 2018

**POLLUTION REMEDIATION OBLIGATION**

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 original estimated outlays for the pollution remediation were $350,000 using the expected cash flow technique. These pollution remediation outlays qualify for capitalization and $381,641 were capitalized through August 31, 2016. The purchase price of $4,287,882 and total expected outlays did 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 received a Certificate of Completion in 2016 and the project has been placed in service.

The University of Texas System Administration purchased contaminated land in 2016 and 2017 with plans to remediate. The original estimated outlays for the pollution remediation were $800,000 using the expected cash flow technique. These pollution remediation outlays qualify for capitalization and $186,876 were capitalized through August 31, 2017. The purchase price of $210,921,323 and total expected outlays did not exceed the fair market value of the uncontaminated property of $229,255,000, and as such, no pollution remediation liability was established.
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.

13. Bonded Indebtedness

At August 31, 2017 and 2016, the System had outstanding bonds payable of $8,398,575,000 and $7,590,845,000, 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.

<table>
<thead>
<tr>
<th>Bonded Indebtedness</th>
<th>Interest Rates</th>
<th>Maturity Dates</th>
<th>Outstanding Principal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent University Fund</td>
<td>0.750%-5.262%</td>
<td>2018-2045</td>
<td>$ 2,214,035,000</td>
</tr>
<tr>
<td>Revenue Financing System</td>
<td>0.740%-6.276%</td>
<td>2018-2047</td>
<td>6,184,540,000</td>
</tr>
</tbody>
</table>
As of August 31, 2017, the following amounts were authorized, but unissued: Permanent University Fund bonds up to a maximum aggregate amount of $600 million and Revenue Financing System bonds up to a maximum aggregate amount of $975 million, each authorized to be issued on or before August 31, 2018. 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, 2017, is summarized in the following table.

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Purpose</th>
<th>Issue Date</th>
<th>Amount Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent University Fund:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunding Bonds Series 2006B</td>
<td>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</td>
<td>January 24, 2007</td>
<td>$284,065,000</td>
</tr>
<tr>
<td>Taxable Bonds Series 2009A</td>
<td>To refund $250,000,000 principal amount of Permanent University Taxable Commercial Paper Notes, Series B</td>
<td>September 17, 2009</td>
<td>250,000,000</td>
</tr>
<tr>
<td>Bonds Series 2014A</td>
<td>To refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B</td>
<td>February 10, 2014</td>
<td>240,340,000</td>
</tr>
<tr>
<td>Bonds Series 2014B</td>
<td>To refund $172,400,000 principal amount of Permanent University Fund Bonds, Series 2004A, maturing on July 1 in the years 2015 and 2016; and to refund $223,535,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2024, 2025, 2027 and 2033</td>
<td>April 2, 2014</td>
<td>221,580,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2015A</td>
<td>To refund $50,390,000 principal amount of Permanent University Fund Refunding Bonds, Series 2005A, maturing on July 1 in the years 2016 through 2019, both inclusive; to refund $72,720,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the years 2018, 2019, 2034 and 2035; and to refund $87,485,000 principal amount of Permanent University Fund Bonds, Series 2006C, maturing on July 1 in the years 2017 through 2035, both inclusive</td>
<td>April 2, 2015</td>
<td>197,970,000</td>
</tr>
<tr>
<td>Bonds Series 2015B</td>
<td>To refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B</td>
<td>August 25, 2015</td>
<td>220,565,000</td>
</tr>
<tr>
<td>Bonds Taxable Series 2015C</td>
<td>To refund $125,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B</td>
<td>December 9, 2015</td>
<td>126,020,000</td>
</tr>
<tr>
<td>Bonds Series 2016A</td>
<td>To refund $137,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B</td>
<td>January 5, 2016</td>
<td>117,270,000</td>
</tr>
<tr>
<td>Bonds Series 2016B</td>
<td>To refund $319,000,000 principal amount of Permanent University Fund Commercial Paper Notes, Series A</td>
<td>September 1, 2016</td>
<td>272,350,000</td>
</tr>
<tr>
<td>Revenue Financing System:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunding Bonds Series 2002A</td>
<td>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</td>
<td>September 27, 2002</td>
<td>54,430,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2002B</td>
<td>To advance refund $109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance</td>
<td>September 27, 2002</td>
<td>108,855,000</td>
</tr>
<tr>
<td>Bond Series</td>
<td>Purpose</td>
<td>Issue Date</td>
<td>Amount Issued</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Refunding Bonds Series 2006C</td>
<td>To refund $177,835,000 principal amount of portions of Revenue Financing System Bonds, 2001C, 2003A and 2004C and pay the cost of issuance</td>
<td>January 4, 2007</td>
<td>175,115,000</td>
</tr>
<tr>
<td>Bonds Series 2006E</td>
<td>To refund $58,300,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance</td>
<td>January 4, 2007</td>
<td>55,985,000</td>
</tr>
<tr>
<td>Bonds Series 2006F</td>
<td>To refund $330,187,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance</td>
<td>January 4, 2007</td>
<td>318,525,000</td>
</tr>
<tr>
<td>Bonds Series 2008A</td>
<td>To refund $265,386,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance</td>
<td>January 6, 2009</td>
<td>256,735,000</td>
</tr>
<tr>
<td>Taxable Bonds Series 2009B</td>
<td>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</td>
<td>June 17, 2009</td>
<td>330,545,000</td>
</tr>
<tr>
<td>Bonds Series 2009D</td>
<td>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</td>
<td>July 15, 2009</td>
<td>260,005,000</td>
</tr>
<tr>
<td>Bonds Series 2010A</td>
<td>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</td>
<td>March 25, 2010</td>
<td>331,415,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2010B</td>
<td>To refund $393,690,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F and pay the cost of issuance</td>
<td>April 14, 2010</td>
<td>385,380,000</td>
</tr>
<tr>
<td>Taxable Bonds Series 2010C</td>
<td>To provide new money of $600,741,596 and pay the cost of issuance</td>
<td>September 23, 2010</td>
<td>604,310,000</td>
</tr>
<tr>
<td>Taxable Bonds Series 2010D</td>
<td>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</td>
<td>June 30, 2010</td>
<td>516,245,000</td>
</tr>
<tr>
<td>Bonds Series 2010E</td>
<td>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</td>
<td>September 23, 2010</td>
<td>39,785,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2012A</td>
<td>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</td>
<td>March 1, 2012</td>
<td>195,850,000</td>
</tr>
</tbody>
</table>

88
<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Purpose</th>
<th>Issue Date</th>
<th>Amount Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds Series 2012B</td>
<td>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</td>
<td>March 21, 2012</td>
<td>238,135,000</td>
</tr>
<tr>
<td>Bonds Series 2014A</td>
<td>To refund $179,411,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $103,148,328 and pay the cost of issuance</td>
<td>May 1, 2014</td>
<td>259,135,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2014B</td>
<td>To refund $261,840,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F, and pay the cost of issuance</td>
<td>November 24, 2014</td>
<td>250,700,000</td>
</tr>
<tr>
<td>Bonds Taxable Series 2016A</td>
<td>To refund $48,494,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund $107,630,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B, provide new money of $98,745,350 and pay the cost of issuance</td>
<td>January 14, 2016</td>
<td>255,825,000</td>
</tr>
<tr>
<td>Bonds Series 2016B</td>
<td>To refund $105,478,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $118,490,125 and pay the cost of issuance</td>
<td>January 22, 2016</td>
<td>206,040,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2016C</td>
<td>To refund $87,145,000 principal amount of Revenue Financing System Bonds, Series 2008A, provide new money of $64,800,000 and pay the cost of issuance</td>
<td>May 10, 2016</td>
<td>133,240,000</td>
</tr>
<tr>
<td>Bonds Series 2016D</td>
<td>To provide new money of $260,000,000 and pay the cost of issuance</td>
<td>July 1, 2016</td>
<td>213,180,000</td>
</tr>
<tr>
<td>Bonds Series 2016E</td>
<td>To provide new money of $245,000,000 and pay the cost of issuance</td>
<td>August 22, 2016</td>
<td>196,215,000</td>
</tr>
<tr>
<td>Bonds Series 2016F</td>
<td>To refund $465,019,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and pay the cost of issuance</td>
<td>September 1, 2016</td>
<td>376,030,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2016H</td>
<td>To refund $266,640,000 principal amount of portions of Revenue Financing System Bonds, 2006D and 2006F, and pay the cost of issuance</td>
<td>November 17, 2016</td>
<td>233,350,000</td>
</tr>
<tr>
<td>Refunding Bonds Series 2016l</td>
<td>To refund $202,010,000 principal amount of portions of Revenue Financing System Bonds, 2006E and 2010A, and pay the cost of issuance</td>
<td>November 30, 2016</td>
<td>184,725,000</td>
</tr>
<tr>
<td>Bonds Series 2016J</td>
<td>To provide new money of $352,832,000 and pay the cost of issuance</td>
<td>January 4, 2017</td>
<td>306,925,000</td>
</tr>
</tbody>
</table>
DEMAND BONDS
Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, Revenue Financing System Bonds, Taxable Series 2016G, 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 Revenue Financing System Bonds, Taxable Series 2016G and the corresponding swap agreements extend to August 15, 2045. 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:

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Purpose</th>
<th>Issue Date</th>
<th>Amount Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent University Fund:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds Series 2008A</td>
<td>To refund $400,000,000 of Permanent University Fund Flexible Notes, Series A and pay costs of issuance</td>
<td>October 30, 2008</td>
<td>$ 400,905,000</td>
</tr>
<tr>
<td>Revenue Financing System:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refunding Bonds Series 2007B</td>
<td>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</td>
<td>December 20, 2007</td>
<td>345,460,000</td>
</tr>
<tr>
<td>Bonds Series 2008B</td>
<td>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</td>
<td>March 18, 2008</td>
<td>685,485,000</td>
</tr>
<tr>
<td>Bonds Taxable Series 2016G</td>
<td>To refund $250,000,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and pay the cost of issuance</td>
<td>September 15, 2016</td>
<td>250,000,000</td>
</tr>
</tbody>
</table>

PLEDGED FUTURE REVENUES
The following table provides the pledged future revenue information for the System’s bonds:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pledged Revenue Required for Future Principal and Interest on Existing Bonds</td>
<td>$ 12,765,036,591</td>
<td>11,584,736,439</td>
</tr>
<tr>
<td>Term of Commitment Year Ending 8/31</td>
<td>2047</td>
<td>2046</td>
</tr>
<tr>
<td>Percentage of Revenue Pledged</td>
<td>82.9%</td>
<td>84.1%</td>
</tr>
<tr>
<td>Current Year Pledged Revenue</td>
<td>$ 10,576,025,993</td>
<td>9,739,403,730</td>
</tr>
<tr>
<td>Current Year Principal and Interest Paid</td>
<td>$ 726,852,185</td>
<td>616,996,554</td>
</tr>
</tbody>
</table>

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 reduced by the applicable federal sequestration reduction rate. The System did not issue any BABs during 2017 or 2016. The System had $1,630,050,000 and $1,643,540,000 of BABs outstanding at August 31, 2017 and 2016, respectively.
Revenue Financing System Bonds, Series 2016F were issued on September 1, 2016 to current refund $465,019,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $465,692,390, which represents the principal amount of the 2016F Bonds of $376,030,000, plus an original issue premium of $91,759,370, and less an underwriting discount of $2,096,980. The net proceeds were used to pay costs of issuance of $303,260 and to deposit $465,389,130 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $370,130 resulted from the transaction as the reacquisition price of $465,389,130 exceeded the net carrying amount of $465,019,000 par value.

Permanent University Fund Bonds, Series 2016B were issued on September 1, 2016 to current refund $319,000,000 principal amount of Permanent University Fund Tax-Exempt Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $319,303,102, which represents the principal amount of the 2016B Bonds of $272,350,000, plus an original issue premium of $47,902,312, and less an underwriting discount of $949,210. The net proceeds were used to pay costs of issuance of $149,235 and to deposit $319,153,867 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $153,867 resulted from the transaction as the reacquisition price of $319,153,867 exceeded the net carrying amount of $319,000,000 par value.

Revenue Financing System Bonds, Taxable Series 2016G were issued on September 15, 2016 to current refund $250,000,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $249,939,000, which represents the principal amount of the 2016G Bonds of $250,000,000 less an underwriting discount of $61,000. The net proceeds along with $419,799 of System funds were used to pay costs of issuance of $216,250 and to deposit $250,142,549 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $142,549 resulted from the transaction as the reacquisition price of $250,142,549 exceeded the net carrying amount of $250,000,000 par value.

Revenue Financing System Refunding Bonds, Series 2016H were issued on November 17, 2016 to current refund $89,455,000 principal amount of Revenue Financing System Bonds, Series 2006D, to current refund $177,185,000 principal amount of Revenue Financing System Bonds, Series 2006F, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $272,926,353, which represents the principal amount of the 2016H Bonds of $233,350,000, plus an original issue premium of $40,175,122, and less an underwriting discount of $598,769. The net proceeds were used to pay costs of issuance of $251,659 and to deposit $272,674,694 with the escrow agent for the refunded bonds. These escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.
- The refunded bonds are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting gain of $7,098,943 resulted from the transaction as the net carrying amount of $266,640,000 par value, $11,826,747 of unamortized premiums, and $1,306,890 of unamortized gain from Revenue Financing System Bonds, Series 2006D exceeded the reacquisition price of $272,674,694.
- As a result of this refunding, the System reduced its aggregate debt service payments by $59,677,041 from closing through August 15, 2038, and an economic gain from the transaction resulted in a net present value savings of $48,560,731 between the old and new debt service payments.
Revenue Financing System Refunding Bonds, Series 2016I were issued on November 30, 2016 to current refund $31,570,000 principal amount of Revenue Financing System Bonds, Series 2006E, to advance refund $170,440,000 principal amount of Revenue Financing System Bonds, Series 2010A, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $220,971,262, which represents the principal amount of the 2016I Bonds of $184,725,000, plus an original issue premium of $36,743,232, and less an underwriting discount of $496,970. The net proceeds along with $5,057,609 of System funds were used to pay costs of issuance of $216,974 and to deposit $225,811,897 with the escrow agent for the refunded bonds. These escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.
- The refunded bonds are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $7,100,915 resulted from the transaction as the reacquisition price of $225,811,897 exceeded the net carrying amount of $202,010,000 par value and $16,700,982 of unamortized premiums.
- As a result of this refunding, the System reduced its aggregate debt service payments by $20,946,505 from closing through August 15, 2024, and an economic gain from the transaction resulted in a net present value savings of $18,813,364 between the old and new debt service payments.

**EARLY EXTINGUISHMENTS IN FISCAL YEAR 2016**

Permanent University Fund Bonds, Taxable Series 2015C were issued on December 9, 2015 to current refund $125,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $125,670,726, which represents the principal amount of the 2015C Bonds of $126,020,000 and less an underwriting discount of $349,274. The net proceeds were used to pay costs of issuance of $140,056 and to deposit $125,530,670 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $30,670 resulted from the transaction as the reacquisition price of $125,530,670 exceeded the net carrying amount of $125,500,000 par value.

Permanent University Fund Bonds, Series 2016A were issued on January 5, 2016 to current refund $137,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $137,154,817, which represents the principal amount of the 2016A Bonds of $117,270,000, plus an original issue premium of $20,212,067, and less an underwriting discount of $327,250. The net proceeds were used to pay costs of issuance of $122,948 and to deposit $137,031,869 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $31,869 resulted from the transaction as the reacquisition price of $137,031,869 exceeded the net carrying amount of $137,000,000 par value.

Revenue Financing System Bonds, Taxable Series 2016A were issued on January 14, 2016 to finance the cost of campus improvements, to current refund $48,494,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and $107,630,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $255,133,889, which represents the principal amount of the 2016A Bonds of $255,825,000, less an underwriting discount of $691,111. The net proceeds were used to pay costs of issuance of $226,312, to deposit $98,745,350 in a construction fund to finance various projects, and to deposit $156,162,227 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $38,227 resulted from the transaction as the reacquisition price of $156,162,227 exceeded the net carrying amount of $156,124,000 par value.

Revenue Financing System Bonds, Series 2016B were issued on January 22, 2016 to finance the cost of campus improvements, to current refund $105,478,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and to pay the costs of issuance related thereof.

92
Net proceeds related to the issuance were $224,150,049, which represents the principal amount of the 2016B Bonds of $206,040,000, plus an original issue premium of $19,456,336, and less an underwriting discount of $1,346,287. The net proceeds were used to pay costs of issuance of $178,558, to deposit $118,490,125 in a construction fund to finance various projects, and to deposit $105,481,365 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.

The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.

An accounting loss of $3,366 resulted from the transaction as the reacquisition price of $105,481,366 exceeded the net carrying amount of $105,478,000 par value.

Revenue Financing System Refunding Bonds, Series 2016C were issued on May 10, 2016 to finance the cost of campus improvements, to advance refund $87,145,000 principal amount of Revenue Financing System Bonds, Series 2008A, and to pay the costs of issuance related thereof.

Net proceeds related to the issuance were $159,384,857, which represents the principal amount of the 2016C Bonds of $133,240,000, plus an original issue premium of $26,507,081, and less an underwriting discount of $362,224. The net proceeds along with $2,265,375 of System funds were used to pay costs of issuance of $238,512, to deposit $64,800,000 in a construction fund to finance various projects, and to deposit $96,611,720 with the escrow agent for the refunded bonds. These escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.

The refunded bonds are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.

An accounting loss of $8,183,546 resulted from the transaction as the reacquisition price of $96,611,720 exceeded the net carrying amount of $87,145,000 par value, and $1,283,174 of unamortized premiums from Revenue Financing System Bonds, Series 2008A.

As a result of this refunding, the System reduced its aggregate debt service payments by $8,354,703 over the next 8 years, and an economic gain from the transaction resulted in a net present value savings of $7,596,759 between the old and new debt service payments.
CASH FLOW DERIVATIVES – HEDGING DERIVATIVE INTEREST RATE SWAPS

All interest rate swaps are valued using the fair value hierarchy of level 2. The System has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows and considered the nonperformance risk of the parties. The following table outlines the terms of the System’s hedging derivative interest rate swap agreements in effect at August 31, 2017:

<table>
<thead>
<tr>
<th>Interest Rate Swaps - by type</th>
<th>Hedgeable</th>
<th>Current Notional</th>
<th>Effective Date</th>
<th>Maturity Date</th>
<th>Terms*</th>
<th>Embedded Options?</th>
<th>Cash Paid or Received</th>
<th>Counterparty Credit Rating (Moody’s/S&amp;P)</th>
<th>Weighted Average Maturity As of 8/31/17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>182,182,500</td>
<td>11/3/2008</td>
<td>7/1/2038</td>
<td>Pay 3.6575%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>A1/A+</td>
<td>15.9 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>163,842,500</td>
<td>12/20/2007</td>
<td>8/1/2034</td>
<td>Pay 3.805%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa2/AA-</td>
<td>11.0 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>163,842,500</td>
<td>12/20/2007</td>
<td>8/1/2034</td>
<td>Pay 3.805%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa3/A+</td>
<td>11.0 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>119,905,000</td>
<td>3/18/2008</td>
<td>8/1/2036</td>
<td>Pay 3.900%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa3/A+</td>
<td>12.2 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>119,905,000</td>
<td>3/18/2008</td>
<td>8/1/2036</td>
<td>Pay 3.900%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>A3/BBB+</td>
<td>12.2 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>249,640,000</td>
<td>3/18/2008</td>
<td>8/1/2039</td>
<td>Pay 3.614%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa3/A+</td>
<td>11.2 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>250,000,000</td>
<td>12/1/2016</td>
<td>8/1/2045</td>
<td>Pay 2.000%; receive 100% of 1M LIBOR</td>
<td>No</td>
<td>No</td>
<td>A1/A+</td>
<td>27.9 yrs</td>
</tr>
</tbody>
</table>

**TOTAL** $1,431,500,000

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

The following table outlines the terms of the System’s hedging derivative interest rate swap agreements in effect at August 31, 2016:

<table>
<thead>
<tr>
<th>Interest Rate Swaps - by type</th>
<th>Hedgeable</th>
<th>Current Notional</th>
<th>Effective Date</th>
<th>Maturity Date</th>
<th>Terms*</th>
<th>Embedded Options?</th>
<th>Cash Paid or Received</th>
<th>Counterparty Credit Rating (Moody’s/S&amp;P)</th>
<th>Weighted Average Maturity As of 8/31/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Fixed; receive variable</td>
<td>PUF Bonds 2008A</td>
<td>$185,080,000</td>
<td>11/3/2008</td>
<td>7/1/2038</td>
<td>Pay 3.696%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa2/AA-</td>
<td>16.70 yrs</td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>185,080,000</td>
<td>11/3/2008</td>
<td>7/1/2038</td>
<td>Pay 3.6575%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa3/AA-</td>
<td>16.70 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>164,490,000</td>
<td>12/20/2007</td>
<td>8/1/2034</td>
<td>Pay 3.805%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa2/AA-</td>
<td>12.00 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>164,490,000</td>
<td>12/20/2007</td>
<td>8/1/2034</td>
<td>Pay 3.805%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa3/A+</td>
<td>12.00 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>123,950,000</td>
<td>3/18/2008</td>
<td>8/1/2036</td>
<td>Pay 3.900%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa3/A+</td>
<td>12.76 yrs</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>260,635,000</td>
<td>3/18/2008</td>
<td>8/1/2039</td>
<td>Pay 3.614%; receive SIFMA</td>
<td>No</td>
<td>No</td>
<td>Aa3/A+</td>
<td>11.68 yrs</td>
</tr>
</tbody>
</table>

**TOTAL** $1,207,675,000

*London Interbank Offer Rate (LIBOR)
*Securities Industry and Financial Markets Association (SIFMA)
The following is the fair value of the derivative agreements related to debt in effect at August 31, 2017 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

<table>
<thead>
<tr>
<th>Derivatives by type</th>
<th>Hedgeable Item</th>
<th>Current Notional</th>
<th>Accrued Interest (through 8/31/17)</th>
<th>Fair Value as of 8/31/17</th>
<th>Fair Value as of 8/31/16</th>
<th>Change in Fair Value 8/31/16 - 8/31/17</th>
<th>Change in Fair Value Recorded as</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedgeable Assets</td>
<td>RFS Bonds 2016G *</td>
<td>$250,000,000</td>
<td>155,301</td>
<td>10,339,315</td>
<td>-</td>
<td>10,339,315</td>
<td>Def Inflow</td>
</tr>
<tr>
<td></td>
<td></td>
<td>250,000,000</td>
<td>155,301</td>
<td>10,339,315</td>
<td>-</td>
<td>10,339,315</td>
<td></td>
</tr>
<tr>
<td>Hedgeable Liabilities</td>
<td>PUF Bonds 2008A</td>
<td>182,182,500</td>
<td>963,698</td>
<td>(42,503,422)</td>
<td>(58,589,449)</td>
<td>16,086,027</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td></td>
<td>182,182,500</td>
<td>952,397</td>
<td>(41,638,181)</td>
<td>(57,674,868)</td>
<td>16,036,687</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>163,842,500</td>
<td>410,574</td>
<td>(33,127,972)</td>
<td>(45,039,149)</td>
<td>11,911,177</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td></td>
<td>163,842,500</td>
<td>410,574</td>
<td>(33,127,972)</td>
<td>(45,039,149)</td>
<td>11,911,177</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>119,905,000</td>
<td>309,963</td>
<td>(25,951,512)</td>
<td>(35,231,561)</td>
<td>9,280,049</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td></td>
<td>119,905,000</td>
<td>309,962</td>
<td>(25,951,512)</td>
<td>(35,231,561)</td>
<td>9,280,049</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>249,640,000</td>
<td>585,840</td>
<td>(43,787,351)</td>
<td>(61,919,326)</td>
<td>18,131,975</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016A</td>
<td>90,270,000</td>
<td>(43,238)</td>
<td>6,217,067</td>
<td>4,530,208</td>
<td>1,686,859</td>
<td>Incr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90,270,000</td>
<td>(43,238)</td>
<td>6,217,067</td>
<td>4,530,208</td>
<td>1,686,859</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>92,045,000</td>
<td>(37,412)</td>
<td>2,767,871</td>
<td>2,644,609</td>
<td>123,262</td>
<td>Incr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>92,045,000</td>
<td>(37,412)</td>
<td>2,767,871</td>
<td>2,644,609</td>
<td>123,262</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>117,190,000</td>
<td>(56,787)</td>
<td>6,320,603</td>
<td>5,510,729</td>
<td>809,874</td>
<td>Incr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>117,190,000</td>
<td>(56,787)</td>
<td>6,320,603</td>
<td>5,510,729</td>
<td>809,874</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>182,182,500</td>
<td>(120,464)</td>
<td>4,638,619</td>
<td>4,431,780</td>
<td>206,839</td>
<td>Incr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>182,182,500</td>
<td>(120,464)</td>
<td>4,638,619</td>
<td>4,431,780</td>
<td>206,839</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016A</td>
<td>255,825,000</td>
<td>-</td>
<td>2,732,915</td>
<td>-</td>
<td>2,732,915</td>
<td>Incr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>255,825,000</td>
<td>-</td>
<td>2,732,915</td>
<td>-</td>
<td>2,732,915</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>737,512,500</td>
<td>(257,901)</td>
<td>22,677,075</td>
<td>17,117,326</td>
<td>5,559,749</td>
<td></td>
</tr>
<tr>
<td>Investment Derivatives-Asset Positions</td>
<td>RFS Bonds 2008B</td>
<td>284,065,000</td>
<td>(54,759)</td>
<td>(1,137,070)</td>
<td>(1,265,221)</td>
<td>128,151</td>
<td>Incr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>284,065,000</td>
<td>(54,759)</td>
<td>(1,137,070)</td>
<td>(1,265,221)</td>
<td>128,151</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016A</td>
<td>255,825,000</td>
<td>(50,632)</td>
<td>(4,834,011)</td>
<td>-</td>
<td>(4,834,011)</td>
<td>Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>255,825,000</td>
<td>(50,632)</td>
<td>(4,834,011)</td>
<td>-</td>
<td>(4,834,011)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016A</td>
<td>255,825,000</td>
<td>(58,627)</td>
<td>(1,810,067)</td>
<td>-</td>
<td>(1,810,067)</td>
<td>Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>255,825,000</td>
<td>(58,627)</td>
<td>(1,810,067)</td>
<td>-</td>
<td>(1,810,067)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016G *</td>
<td>-</td>
<td>-</td>
<td>(22,393,341)</td>
<td>22,393,341</td>
<td></td>
<td>Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td></td>
<td>318,500,000</td>
<td>-</td>
<td>(2,877,014)</td>
<td>-</td>
<td>(2,877,014)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,114,215,000</td>
<td>(164,018)</td>
<td>(10,658,162)</td>
<td>(23,658,562)</td>
<td>13,000,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>$3,283,227,500</td>
<td>3,676,390</td>
<td>(223,729,694)</td>
<td>(345,266,299)</td>
<td>121,536,605</td>
<td></td>
</tr>
</tbody>
</table>

*Derivative instrument was reclassified from an investment derivative instrument to a hedging derivative instrument in 2017. The reclass resulted in a decrease in fair value of investments of $22,393,341 in 2016 and an increase in fair value of investments of $22,393,341 in 2017, resulting in no net effect to net position.

95
The following is the fair value of the derivative agreements related to debt in effect at August 31, 2016 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

<table>
<thead>
<tr>
<th>Derivatives by type</th>
<th>Hedgeable Item</th>
<th>Current Notional</th>
<th>Accrued Interest (through 8/31/16)</th>
<th>Fair Value as of 8/31/16</th>
<th>Fair Value as of 8/31/15</th>
<th>Change in Fair Value 8/31/15 - 8/31/16</th>
<th>Change in Fair Value Recorded as</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedgeable Liability</td>
<td>PUF Bonds 2008A</td>
<td>$185,080,000</td>
<td>1,064,393</td>
<td>(58,589,449)</td>
<td>(42,960,426)</td>
<td>(15,629,023)</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>185,080,000</td>
<td>1,052,516</td>
<td>(57,674,868)</td>
<td>(40,893,640)</td>
<td>(16,781,228)</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>164,490,000</td>
<td>454,292</td>
<td>(45,039,149)</td>
<td>(36,050,048)</td>
<td>(9,989,101)</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>164,490,000</td>
<td>454,292</td>
<td>(45,039,149)</td>
<td>(35,928,536)</td>
<td>(9,110,613)</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>123,950,000</td>
<td>352,140</td>
<td>(35,231,561)</td>
<td>(28,393,420)</td>
<td>(6,838,141)</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>123,950,000</td>
<td>352,140</td>
<td>(35,231,561)</td>
<td>(28,366,675)</td>
<td>(6,864,886)</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>260,635,000</td>
<td>678,342</td>
<td>(61,919,326)</td>
<td>(49,020,156)</td>
<td>(12,899,170)</td>
<td>Def Outflow</td>
</tr>
<tr>
<td></td>
<td>**</td>
<td>1,207,675,000</td>
<td>4,408,115</td>
<td>(338,725,063)</td>
<td>(261,612,901)</td>
<td>(77,112,162)</td>
<td>**</td>
</tr>
<tr>
<td>Investment Derivatives- Asset Positions</td>
<td>RFS Bonds 2008B</td>
<td>90,270,000</td>
<td>(25,971)</td>
<td>4,530,208</td>
<td>7,124,856</td>
<td>(2,594,648)</td>
<td>Decr. in Fair Value of Inv Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>92,045,000</td>
<td>(22,415)</td>
<td>2,644,609</td>
<td>4,677,204</td>
<td>(2,032,595)</td>
<td>Decr. in Fair Value of Inv Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>117,190,000</td>
<td>(34,114)</td>
<td>5,510,729</td>
<td>9,060,754</td>
<td>(3,550,025)</td>
<td>Decr. in Fair Value of Inv Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>185,080,000</td>
<td>(51,810)</td>
<td>4,431,780</td>
<td>6,534,702</td>
<td>(2,102,922)</td>
<td>Decr. in Fair Value of Inv Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td>**</td>
<td>484,585,000</td>
<td>(134,310)</td>
<td>17,117,326</td>
<td>27,397,516</td>
<td>(10,280,190)</td>
<td>**</td>
</tr>
<tr>
<td>Investment Derivatives- Liability Positions</td>
<td>PUF Bonds 2006B</td>
<td>284,065,000</td>
<td>15,408</td>
<td>(1,265,221)</td>
<td>(17,013)</td>
<td>(1,248,208)</td>
<td>Decr. in Fair Value of Inv Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016G</td>
<td>250,000,000</td>
<td>-</td>
<td>(22,393,341)</td>
<td>-</td>
<td>(22,393,341)</td>
<td>Decr. in Fair Value of Inv Decr. in Fair Value of Inv</td>
</tr>
<tr>
<td></td>
<td>**</td>
<td>534,065,000</td>
<td>15,408</td>
<td>(23,658,562)</td>
<td>(17,013)</td>
<td>(23,641,549)</td>
<td>**</td>
</tr>
<tr>
<td>TOTAL</td>
<td>**</td>
<td>$2,226,325,000</td>
<td>4,289,213</td>
<td>(345,266,299)</td>
<td>(234,232,398)</td>
<td>(111,033,901)</td>
<td>**</td>
</tr>
</tbody>
</table>

**As a result of the implementation of GASB Statement No. 72, $4,040,446 of the change in fair value of investment derivatives was included as a restatement to beginning net position to reflect nonperformance risk in the fair value of interest rate swaps as of August 31, 2015.
## Derivative Instrument Objectives

<table>
<thead>
<tr>
<th>Derivatives by type</th>
<th>Hedgeable Item</th>
<th>Current Notional</th>
<th>Objective</th>
<th>Effective at 8/31/17?</th>
<th>Evaluation for Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hedging Derivatives</strong></td>
<td>PUF Bonds 2008A</td>
<td>$182,182,500</td>
<td>Hedge changes in cash flows on Series 2008A bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>182,182,500</td>
<td>Hedge changes in cash flows on Series 2008A bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>163,842,500</td>
<td>Hedge changes in cash flows on Series 2007B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>163,842,500</td>
<td>Hedge changes in cash flows on Series 2007B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>119,905,000</td>
<td>Hedge changes in cash flows on Series 2008B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>119,905,000</td>
<td>Hedge changes in cash flows on Series 2008B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>249,640,000</td>
<td>Hedge changes in cash flows on Series 2008B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016G</td>
<td>250,000,000</td>
<td>Hedge changes in cash flows on Series 2016G bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td><strong>Investment Derivatives</strong></td>
<td>PUF Bonds 2006B</td>
<td>284,065,000</td>
<td>Manage changes in cash flows on Series 2006B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>182,182,500</td>
<td>Manage changes in cash flows on Series 2008A bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>90,270,000</td>
<td>Manage changes in cash flows on Series 2008B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>92,045,000</td>
<td>Manage changes in cash flows on Series 2008B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>117,190,000</td>
<td>Manage changes in cash flows on Series 2008B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016A</td>
<td>255,825,000</td>
<td>Manage changes in cash flows on Series 2016A bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016A</td>
<td>255,825,000</td>
<td>Manage changes in cash flows on Series 2016A bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016A</td>
<td>255,825,000</td>
<td>Manage changes in cash flows on Series 2016A bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2017A</td>
<td>318,500,000</td>
<td>Manage changes in cash flows on Series 2017A bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$3,283,227,500</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Derivative Instrument Objectives

<table>
<thead>
<tr>
<th>Derivatives by type</th>
<th>Hedgeable Item</th>
<th>Current Notional</th>
<th>Objective</th>
<th>Effective at 8/31/16?</th>
<th>Evaluation for Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging Derivative Liabilities</td>
<td>PUF Bonds 2008A</td>
<td>$185,080,000</td>
<td>Hedge changes in cash flows on Series 2008A bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>185,080,000</td>
<td>Hedge changes in cash flows on Series 2008A bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>164,490,000</td>
<td>Hedge changes in cash flows on Series 2007B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2007B</td>
<td>164,490,000</td>
<td>Hedge changes in cash flows on Series 2007B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>123,950,000</td>
<td>Hedge changes in cash flows on Series 2008B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>123,950,000</td>
<td>Hedge changes in cash flows on Series 2008B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>260,635,000</td>
<td>Hedge changes in cash flows on Series 2008B bonds</td>
<td>Yes</td>
<td>Consistent Critical Terms</td>
</tr>
<tr>
<td>Investment Derivatives</td>
<td>PUF Bonds 2006B</td>
<td>284,065,000</td>
<td>Manage changes in cash flows on Series 2006B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>PUF Bonds 2008A</td>
<td>185,080,000</td>
<td>Manage changes in cash flows on Series 2008A bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>90,270,000</td>
<td>Manage changes in cash flows on Series 2008B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>92,045,000</td>
<td>Manage changes in cash flows on Series 2008B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2008B</td>
<td>117,190,000</td>
<td>Manage changes in cash flows on Series 2008B bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>RFS Bonds 2016G</td>
<td>250,000,000</td>
<td>Manage changes in cash flows on Series 2016G bonds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$2,226,325,000</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The fair value of interest rate swaps reported as investment derivatives-asset positions of $22,677,075 and $17,117,326 as of August 31, 2017 and 2016, 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 and locks reported as investment derivatives-liability positions of $10,658,162 and $23,658,562 as of August 31, 2017 and 2016, respectively, are included on the consolidated statement of net position as investment derivatives-liability positions. The change in fair value of interest rate swaps and locks reported as investment derivatives are included in investment income on the consolidated statement of revenues, expenses and changes in net position. For the year ending August 31, 2017, the change in fair value of interest rate swaps and locks reported as investment derivatives was an increase in the amount of $18,560,149. For the year ending August 31, 2016, the fair value of interest rate swaps reported as investment derivatives decreased $33,921,739; $29,881,293 of that decrease was related to the change in fair value for fiscal year 2016 and was reported as net decrease in fair value of investments on the consolidated statement of revenues, expenses and changes in net position, and $4,040,446 of that decrease was reported as an adjustment to beginning net position to reflect nonperformance risk in the fair value of interest rate swaps as of August 31, 2015 as a result of the implementation of GASB Statement No. 72.
**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 value before considering nonperformance risk of the parties 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, 2017, 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 unless the System does not have a credit rating or the System commits a specified event of default and the event of default is continuing. As of August 31, 2017, the maximum loss due to credit risk was $19,233,475. 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 value of derivative instruments in asset positions, net of the effect of applicable threshold amounts based on each counterparty’s credit rating. Although collateral posted can be 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, collateral posted is currently only in the form of cash held directly 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. 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, 2017, the System had market access risk associated with $1,431,500,000 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, 2017, the System’s variable rate bonds carried the highest short term ratings from Moody’s and S&P of VMIG1 and A-1+, respectively.
Hedging Derivative Swap Scheduled Payments

The following tables reflect the scheduled payments on the hedging derivative 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 2018 because the bonds are supported by internal liquidity.

As of August 31, 2017

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Associated Variable Rate Bonds</th>
<th>Pay-Fixed Receive-Variable Interest Rate Swaps Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$27,140,000</td>
<td>11,594,864</td>
</tr>
<tr>
<td>2019</td>
<td>28,155,000</td>
<td>11,391,381</td>
</tr>
<tr>
<td>2020</td>
<td>27,065,000</td>
<td>11,180,289</td>
</tr>
<tr>
<td>2021</td>
<td>28,055,000</td>
<td>10,977,373</td>
</tr>
<tr>
<td>2022</td>
<td>46,425,000</td>
<td>10,767,036</td>
</tr>
<tr>
<td>2023-2027</td>
<td>265,260,000</td>
<td>48,306,253</td>
</tr>
<tr>
<td>2028-2032</td>
<td>307,955,000</td>
<td>37,649,710</td>
</tr>
<tr>
<td>2033-2037</td>
<td>339,775,000</td>
<td>26,449,712</td>
</tr>
<tr>
<td>2038-2042</td>
<td>111,670,000</td>
<td>14,656,825</td>
</tr>
<tr>
<td>2043-2047</td>
<td>250,000,000</td>
<td>8,250,000</td>
</tr>
</tbody>
</table>


3Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2017 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2016

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Associated Variable Rate Bonds</th>
<th>Pay-Fixed Receive-Variable Interest Rate Swaps Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$26,175,000</td>
<td>6,693,617</td>
</tr>
<tr>
<td>2018</td>
<td>27,140,000</td>
<td>6,549,235</td>
</tr>
<tr>
<td>2019</td>
<td>28,155,000</td>
<td>6,399,531</td>
</tr>
<tr>
<td>2020</td>
<td>27,065,000</td>
<td>6,244,227</td>
</tr>
<tr>
<td>2021</td>
<td>28,055,000</td>
<td>6,094,902</td>
</tr>
<tr>
<td>2022-2026</td>
<td>252,080,000</td>
<td>26,997,484</td>
</tr>
<tr>
<td>2027-2031</td>
<td>302,680,000</td>
<td>19,367,892</td>
</tr>
<tr>
<td>2032-2036</td>
<td>305,815,000</td>
<td>11,068,016</td>
</tr>
<tr>
<td>2037-2041</td>
<td>210,510,000</td>
<td>1,829,990</td>
</tr>
</tbody>
</table>


3Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2016 and applied on the respective notional amounts of the swaps through their respective termination dates.

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 eight 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, construction contractor insurance, and automobile, property and liability.
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, and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fourteen 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. The System’s OEB program was established by Chapter 1601 of the Texas Insurance Code and complies with State laws and statutes 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 various subsidies related to 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 has participated in the Medicare Part D Retiree Drug Subsidy (RDS) program since 2006 which provides 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. The System recognized $11,306,394 and $11,621,418 of Medicare Part D RDS payments from the federal government in 2017 and 2016, respectively. The System significantly reduced reliance on the RDS program beginning January 1, 2017. Only a small number of eligible participants remained covered under RDS after December 31, 2016.

The System implemented an Employer Group Waiver Plan (EGWP) effective January 1, 2017, in order to access larger Medicare Part D subsidies. For most eligible participants, the EGWP replaces the RDS program previously used to access such subsidies. The System recognized $8,193,242 of Medicare EGWP payments from the federal government in 2017.

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 qualified former employees paid from general revenue funds and 100% of the unemployment benefits paid from local funds.

WORKERS’ COMPENSATION INSURANCE
The Workers’ Compensation Insurance (WCI) program provides coverage to all employees of the System and its fourteen institutions. Under the oversight of the System’s Office of Risk Management (ORM), the System self-insures and administers the systemwide program through the use of a third party administrator. The coverage provides income and medical benefits to all employees who have sustained compensable 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 (the “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 and dental 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 and dental student ($25,000 per claim). Additional coverage is available outside of Texas and for approved international activities. Liability is limited to $2 million per claim, regardless of the number of claimants or plan participants involved in an incident.

The limits of liability are prescribed by law as $100,000 per health care liability claim per physician determined to be a public servant. 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 $1.3 billion per occurrence limit for most perils, with sub-limits that do apply. The System participates in a seven percent (7%) quota share of the $75 million layer excess of the $25 million layer of commercial insurance coverage. Deductibles for Fire and AOP are $5 million per occurrence with a $15 million annual aggregate limit. The commercial insurance coverage for Named Windstorm and resulting perils provides a $250 million per occurrence limit with the System participating in a seven percent (7%) quota share of the $75 million layer excess of the $25 million layer. 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 $50 million Named Windstorm policy 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 PLAN AND CYBER LIABILITY PROGRAM

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) 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.

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.

The Cyber Liability Program, incepted September 15, 2015, provides coverage for claims arising from the following causes of loss: media liability, network security liability, privacy liability, regulatory liability, loss of digital assets, network asset protection, and Payment Card Industry Data Security Standard (PCI-DSS). The limit of liability on the commercial insurance policy is a $50 million annual aggregate, except for $25 million annual aggregate sublimit for PCI-DSS coverage. Each coverage is subject to a $2.5 million retention.

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, employers’ liability 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 more than one coverage is triggered by the same occurrence. Deductibles are paid through the program’s self-insurance fund.

AUTOMOBILE, PROPERTY & LIABILITY PLAN

The Automobile, Property & Liability Plan provides automobile liability and physical damage coverage for owned, leased, hired, and non-owned (excess liability only) vehicles, along with general liability coverage for certain scheduled exposures. All coverages are subject to a self-insured retention of $50,000 for liability claims and $25,000 for physical damage claims, subject to an aggregate stop loss deductible per policy term.

102
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 cyber liability program, rolling owner controlled, and automobile, property and liability self-insurance plans. IBNR figures for the workers’ compensation, professional medical liability, directors and officers/employment practices liability and cyber liability program, rolling owner controlled, and automobile, property and liability 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 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 self-funded 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 cyber liability program, rolling owner controlled, and automobile, property and liability 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 2017 and 2016 were as follows:

<table>
<thead>
<tr>
<th>Fiscal Year 2017 Plan</th>
<th>IBNR Liability 09/01/16</th>
<th>Current Year Claims and Changes in Estimates</th>
<th>Claims Payments</th>
<th>IBNR Liability 08/31/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Health and Dental</td>
<td>$94,600,000</td>
<td>1,196,289,223</td>
<td>(1,194,989,223)</td>
<td>95,900,000</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>7,591,000</td>
<td>4,204,634</td>
<td>(4,223,634)</td>
<td>7,572,000</td>
</tr>
<tr>
<td>Professional Medical Liability</td>
<td>18,000,030</td>
<td>6,023,579</td>
<td>(3,647,045)</td>
<td>20,376,564</td>
</tr>
<tr>
<td>Property Protection – Fire &amp; AOP</td>
<td>5,115,000</td>
<td>12,135,165</td>
<td>(6,969,461)</td>
<td>10,280,704</td>
</tr>
<tr>
<td>Property Protection – Wind &amp; Flood</td>
<td>-</td>
<td>20,000,000</td>
<td>-</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Directors and Officers/EPL/Cyber</td>
<td>2,532,761</td>
<td>(229,444)</td>
<td>-</td>
<td>2,303,317</td>
</tr>
<tr>
<td>ROCIP</td>
<td>4,535,346</td>
<td>1,968,820</td>
<td>(2,202,647)</td>
<td>4,301,519</td>
</tr>
<tr>
<td>Automobile, Property &amp; Liability</td>
<td>116,866</td>
<td>493,547</td>
<td>(207,945)</td>
<td>402,468</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$132,491,003</td>
<td>1,240,885,524</td>
<td>(1,212,239,955)</td>
<td>161,136,572</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year 2016 Plan</th>
<th>IBNR Liability 09/01/15</th>
<th>Current Year Claims and Changes in Estimates</th>
<th>Claims Payments</th>
<th>IBNR Liability 08/31/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Health and Dental</td>
<td>$87,800,000</td>
<td>1,136,305,186</td>
<td>(1,129,505,186)</td>
<td>94,600,000</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>7,711,000</td>
<td>3,068,567</td>
<td>(3,188,567)</td>
<td>7,591,000</td>
</tr>
<tr>
<td>Professional Medical Liability</td>
<td>16,114,153</td>
<td>5,717,066</td>
<td>(3,831,189)</td>
<td>18,000,030</td>
</tr>
<tr>
<td>Property Protection – Fire &amp; AOP</td>
<td>1,365,000</td>
<td>3,758,965</td>
<td>(8,965)</td>
<td>5,115,000</td>
</tr>
<tr>
<td>Directors and Officers/EPL/Cyber</td>
<td>1,085,485</td>
<td>1,447,276</td>
<td>-</td>
<td>2,532,761</td>
</tr>
<tr>
<td>ROCIP</td>
<td>5,446,194</td>
<td>1,506,095</td>
<td>(2,416,943)</td>
<td>4,535,346</td>
</tr>
<tr>
<td>Automobile, Property &amp; Liability</td>
<td>269,492</td>
<td>377,215</td>
<td>(529,841)</td>
<td>116,866</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$119,791,324</td>
<td>1,152,180,370</td>
<td>(1,139,480,691)</td>
<td>132,491,003</td>
</tr>
</tbody>
</table>
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, 2017 and 2016, the State and retiree contribution rates for the self-funded plan per full-time retired employee are shown in the following table. The retiree contributes any premium charged over and above the State contributions.

<table>
<thead>
<tr>
<th>Level of Coverage</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer</td>
<td>Retiree</td>
</tr>
<tr>
<td>Retiree Only</td>
<td>$598.14</td>
<td>-</td>
</tr>
<tr>
<td>Retiree/Spouse</td>
<td>911.69</td>
<td>257.53</td>
</tr>
<tr>
<td>Retiree/Children</td>
<td>798.76</td>
<td>269.34</td>
</tr>
<tr>
<td>Retiree/Family</td>
<td>1,114.18</td>
<td>507.15</td>
</tr>
</tbody>
</table>

The number of systemwide retired employees who were eligible for these benefits, as well as the premium expense of providing the benefits for the years ended August 31, 2017 and 2016 are provided in the following table.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Retirees</td>
<td>26,852</td>
<td>25,628</td>
</tr>
<tr>
<td>Premiums paid by the State</td>
<td>$75,704,411</td>
<td>65,698,682</td>
</tr>
<tr>
<td>Premiums paid by the System</td>
<td>128,970,557</td>
<td>117,503,603</td>
</tr>
</tbody>
</table>

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.

### 2017 ANNUAL OPEB COST, EMPLOYER CONTRIBUTIONS AND NET OPEB OBLIGATION

<table>
<thead>
<tr>
<th>ARC</th>
<th>Interest on Net OPEB Obligation</th>
<th>Adjustment to the ARC</th>
<th>Annual OPEB Cost [(1) + (2) - (3)]</th>
<th>Employer Contributions</th>
<th>Increase (Decrease) in Net OPEB Obligation [(4) - (5)]</th>
<th>Net OPEB Obligation at Beginning of Year</th>
<th>Net OPEB Obligation at End of Year [(6) + (7)]</th>
</tr>
</thead>
<tbody>
<tr>
<td>$851,254,239</td>
<td>278,845,833</td>
<td>214,369,898</td>
<td>915,730,174</td>
<td>182,509,674</td>
<td>733,220,500</td>
<td>4,647,430,554</td>
<td>5,380,651,054</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fiscal Year Ending</th>
<th>Annual OPEB Cost</th>
<th>Employer Contributions</th>
<th>Percentage of Annual OPEB Cost Contributed [(3)/(2)]</th>
<th>Net OPEB Obligation at End of Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 31, 2015</td>
<td>810,956,215</td>
<td>185,328,320</td>
<td>22.9%</td>
<td>3,984,975,778</td>
</tr>
<tr>
<td>August 31, 2016</td>
<td>860,270,356</td>
<td>197,815,580</td>
<td>23.0%</td>
<td>4,647,430,554</td>
</tr>
<tr>
<td>August 31, 2017</td>
<td>915,730,174</td>
<td>182,509,674</td>
<td>19.9%</td>
<td>5,380,651,054</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Assets</th>
<th>Actuarial Accrued Liability</th>
<th>Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}</th>
<th>Funded Ratio {(2)/(3)}</th>
<th>Annual Covered Payroll</th>
<th>Ratio of UAAL to Covered Payroll {(4)/(6)}</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2012</td>
<td>$-</td>
<td>6,939,197,076</td>
<td>6,939,197,076</td>
<td>0.0%</td>
<td>5,674,297,785</td>
<td>122.3%</td>
</tr>
<tr>
<td>December 31, 2014</td>
<td>-</td>
<td>8,274,414,043</td>
<td>8,274,414,043</td>
<td>0.0%</td>
<td>5,842,409,902</td>
<td>141.6%</td>
</tr>
<tr>
<td>December 31, 2015</td>
<td>-</td>
<td>8,584,045,126</td>
<td>8,584,045,126</td>
<td>0.0%</td>
<td>5,948,245,136</td>
<td>144.3%</td>
</tr>
</tbody>
</table>

The plan benefit obligations as of December 31, 2013 were determined based on an actuarial roll-forward of the December 31, 2012 valuation results. The plan benefit obligations as of December 31, 2016 were determined based on an actuarial roll-forward of the December 31, 2015 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**

<table>
<thead>
<tr>
<th>Actuarial cost method</th>
<th>Entry Age Normal (Level percent of pay)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset valuation method</td>
<td>Market</td>
</tr>
<tr>
<td>Actuarial assumptions:</td>
<td></td>
</tr>
<tr>
<td>Annual investment return assumption (discount rate)(^1)</td>
<td>6.00%</td>
</tr>
<tr>
<td>Projected annual salary increases(^1)</td>
<td>4.50% to 10.50%</td>
</tr>
<tr>
<td>Weighted-average at valuation date(^1)</td>
<td>6.33%</td>
</tr>
<tr>
<td>Annual Healthcare Trend Rates(^1)</td>
<td>7.00% in FYE 2017</td>
</tr>
<tr>
<td>Increasing to 8.00% in FYE 2018 and</td>
<td></td>
</tr>
<tr>
<td>Declining to 5.50% in FYE 2024</td>
<td></td>
</tr>
<tr>
<td>Amortization method</td>
<td>Level percent</td>
</tr>
<tr>
<td>Amortization period</td>
<td>30 year open period</td>
</tr>
</tbody>
</table>

\(^1\)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, 2015) were changed from those used in the prior valuation (as of December 31, 2014):

- the assumed salary increases and rates of mortality, termination, disability and retirement were updated to remain consistent with the assumptions used by the TRS retirement plan actuary. These assumptions were updated by the TRS actuary in fiscal year 2015 to reflect the results of a recent experience study;
- the discount rate was updated to reflect a change in the investment policies of the assets of the employer and to reflect changes in expected returns of the various asset classes that comprise the assets of the employer;
- 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 12 months following the date as of which the prior valuation’s assumptions were determined;
- the Assumed Per Capita Health Benefit Costs reflect the impact of benefit changes that occurred on September 1, 2016, and will occur on January 1, 2017;
- the Assumed Per Capita Health Benefit Costs reflect the implementation of EGWP plus Wrap prescription drug coverage for Medicare primary participants effective January 1, 2017; 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.
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 multiple-employer defined benefit pension plan with a special funding situation 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 with unreduced benefits and members who are not vested in TRS on August 31, 2014 must be age 62 to retire with unreduced benefits 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.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members’ average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees were 7.7 percent of gross earnings for 2017, 7.2 percent of gross earnings for 2016 and 6.7 percent of gross earnings for 2015. Depending upon the source of funding for the employee’s compensation, the State or the System contributes a percentage of participant salaries totaling 6.8 percent of annual compensation for 2017, 2016 and 2015. The System’s actual contributions excluding the State match to TRS previously reported for the years ended August 31, 2017, 2016 and 2015 were $262,734,718, $262,370,366 and $244,723,301, respectively.
The total pension liability is determined by an annual actuarial valuation. The tables below present the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2016 and August 31, 2015 measurement dates.

### Summary of Actuarial Methods and Assumptions – TRS Plan

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>August 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Cost Method</td>
<td>Individual Entry Age Normal</td>
</tr>
<tr>
<td>Amortization Method</td>
<td>Level Percentage of Payroll, Floating</td>
</tr>
<tr>
<td>Asset Valuation Method</td>
<td>Market Value</td>
</tr>
<tr>
<td>Actuarial Assumptions:</td>
<td>Discount Rate 8.00%</td>
</tr>
<tr>
<td></td>
<td>Investment Rate of Return 8.00%</td>
</tr>
<tr>
<td></td>
<td>Inflation 2.50%</td>
</tr>
<tr>
<td></td>
<td>Salary Increase 3.50% to 9.50% including inflation</td>
</tr>
<tr>
<td></td>
<td>Payroll Growth Rate 2.50%</td>
</tr>
<tr>
<td>Mortality:</td>
<td>Active 90% of the RP 2014 Employee Mortality Tables for males and females</td>
</tr>
<tr>
<td></td>
<td>Post-Retirement 2015 TRS Healthy Pensioner Mortality Tables</td>
</tr>
<tr>
<td></td>
<td>Ad Hoc Post-Employment Benefit Changes None</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>August 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Cost Method</td>
<td>Individual Entry Age Normal</td>
</tr>
<tr>
<td>Amortization Method</td>
<td>Level Percentage of Payroll, Floating</td>
</tr>
<tr>
<td>Asset Valuation Method</td>
<td>Market Value</td>
</tr>
<tr>
<td>Actuarial Assumptions:</td>
<td>Discount Rate 8.00%</td>
</tr>
<tr>
<td></td>
<td>Investment Rate of Return 8.00%</td>
</tr>
<tr>
<td></td>
<td>Inflation 2.50%</td>
</tr>
<tr>
<td></td>
<td>Salary Increase 3.50% to 9.50% including inflation</td>
</tr>
<tr>
<td></td>
<td>Payroll Growth Rate 2.50%</td>
</tr>
<tr>
<td>Mortality:</td>
<td>Active 90% of the RP 2014 Employee Mortality Tables for males and females</td>
</tr>
<tr>
<td></td>
<td>Post-Retirement 2015 TRS Healthy Pensioner Mortality Tables</td>
</tr>
<tr>
<td></td>
<td>Ad Hoc Post-Employment Benefit Changes None</td>
</tr>
</tbody>
</table>

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2014 and adopted September 2015. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for the active members. The post-retirement mortality rates were based on the 2015 TRS Healthy Pensioner Mortality Tables.

There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate of 8.0 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement period. The projected cash flows into and out of the pension plan assumed that members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. Under this assumption, the pension plan’s fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8.0 percent long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.
The target allocation and best estimates of geometric real rates of return for each major asset class for the plan’s investment portfolio as of the August 31, 2016 and August 31, 2015 measurement dates are presented below:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-Term Expected Geometric Real Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.</td>
<td>18%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Non-U.S. Developed</td>
<td>13%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Directional Hedge Funds</td>
<td>4%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>13%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Stable Value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>11%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Stable Value Hedge Funds</td>
<td>4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>1%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Real Return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Inflation Linked Bonds</td>
<td>3%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>16%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Energy and Natural Resources</td>
<td>3%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Commodities</td>
<td>0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Parity</td>
<td>5%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Sensitivity analysis was performed on the impact of changes in the discount rate on the System’s proportionate share of the net pension liability. The result of the analysis is presented in the table below:

<table>
<thead>
<tr>
<th>Sensitivity of System’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1% Decrease</td>
</tr>
<tr>
<td>(7%)</td>
</tr>
<tr>
<td>$4,850,203,703</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sensitivity of System’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1% Decrease</td>
</tr>
<tr>
<td>(7%)</td>
</tr>
<tr>
<td>$4,300,417,779</td>
</tr>
</tbody>
</table>

The pension plan’s fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan’s investment policy, assets, and fiduciary net position, may be obtained from TRS’ fiscal 2016 Comprehensive Annual Financial Report. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the TRS’ annual financial report, which may be obtained from the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701 or found on the TRS website at www.trs.state.tx.us.
As of August 31, 2017 and 2016, respectively, the System reported a liability of $3,133,888,495 and $2,744,693,745 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System’s proportion as of the August 31, 2016 and 2015 measurements dates was 8.2932305 and 7.7646311 percent, respectively. The System’s proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the periods September 1, 2015 through August 31, 2016 and September 1, 2014 through August 31, 2015. At August 31, 2017 and 2016, respectively, the amount of the net pension liability related to the System reported by the State was $893,178,321 and $786,436,009. The amount reported by the State is related to the on-behalf contributions, which are recognized as State appropriation general revenue on the System’s financial statements in the fiscal year that the State contributed the amounts to TRS on the System’s behalf.

For the year ending August 31, 2017 and 2016, the System recognized pension expense of $367,734,346 and $250,326,393, respectively. At August 31, 2017 and 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

### 2017

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference between expected and actual experience</td>
<td>$49,138,775</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>95,515,300</td>
</tr>
<tr>
<td>Net difference between projected and actual investment return</td>
<td>265,371,214</td>
</tr>
<tr>
<td>Change in proportion and contribution difference</td>
<td>198,509,628</td>
</tr>
<tr>
<td>Contributions subsequent to the measurement date</td>
<td>262,734,718</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$871,269,635</strong></td>
</tr>
</tbody>
</table>

### 2016

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference between expected and actual experience</td>
<td>$29,614,976</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>124,472,426</td>
</tr>
<tr>
<td>Net difference between projected and actual investment return</td>
<td>148,149,357</td>
</tr>
<tr>
<td>Change in proportion and contribution difference</td>
<td>-</td>
</tr>
<tr>
<td>Contributions subsequent to the measurement date</td>
<td>262,370,366</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$564,607,125</strong></td>
</tr>
</tbody>
</table>

The $262,734,718 and $262,370,366 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the years ending August 31, 2018 and 2017, respectively.

Amounts reported as deferred outflows and inflows of resources related to pensions as of August 31, 2017 will be recognized in pension expense in the following years:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Increase (Reduction) of Pension Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$12,426,304</td>
</tr>
<tr>
<td>2019</td>
<td>$12,426,304</td>
</tr>
<tr>
<td>2020</td>
<td>181,692,993</td>
</tr>
<tr>
<td>2021</td>
<td>(576,971)</td>
</tr>
<tr>
<td>2022</td>
<td>(37,520,006)</td>
</tr>
<tr>
<td>Thereafter</td>
<td>19,792,517</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$188,241,141</strong></td>
</tr>
</tbody>
</table>
OPTIONAL RETIREMENT PROGRAM (ORP)
The State has also established an optional defined contribution 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 (6.6 percent State base rate) for the fiscal years ended August 31, 2017, 2016 and 2015, respectively, are provided in the following table.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant Contributions</td>
<td>$159,672,032</td>
<td>151,888,728</td>
<td>145,565,462</td>
</tr>
<tr>
<td>System Contributions</td>
<td>204,107,450</td>
<td>194,126,284</td>
<td>191,455,373</td>
</tr>
<tr>
<td>Total</td>
<td>$363,779,482</td>
<td>346,015,012</td>
<td>337,020,835</td>
</tr>
</tbody>
</table>

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, 2015, the required contributions for the State and the employee are each 9.5 percent of pay. 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.

The Texas State Comptroller’s Office has decided not to allocate ERS pension to proprietary funds due to immateriality, as a result, there is no ERS pension net pension liability reported in the System’s financial statements. Additional information can be obtained from the separately issued ERS Comprehensive Annual Financial Report which can be obtained from the Employees Retirement System of Texas, 200 East 18th Street, Austin, Texas 78701 or found on the ERS website at www.ers.state.tx.us.
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 employer. 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.

**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 $54,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2017 and 2016, there were 721 and 742 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 $54,000 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 $3,875,011 for the year ended August 31, 2017 and $3,636,400 for the year ended August 31, 2016. The participants contributed $3,031,626 for the year ended August 31, 2017 and $2,844,948 for the year ended August 31, 2016. Plan provisions are established and may be amended at any time by the U. T. System Board of Regents.

Plan assets are recorded 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.
19. Commitments and Contingent Liabilities

On August 31, 2017, 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 $4.8 billion capital improvement program, planned for fiscal years 2018 through 2023, 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.

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.

The U.S. Department of Health and Human Services Office of Inspector General audited 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. A report was issued, and an accrual was recorded for $57.9 million in 2015 with payment made February 22, 2017.
### 20. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2017, the following table represents operating expenses for both natural and functional classifications for the System:

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th>Instruction</th>
<th>Research</th>
<th>Public Service</th>
<th>Hospitals and Clinics</th>
<th>Academic Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>$954,165</td>
<td>35,209</td>
<td>1,760,320</td>
<td>120,898,657</td>
<td>432,207</td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>2,777,985,302</td>
<td>1,216,712,160</td>
<td>139,227,600</td>
<td>2,626,194,961</td>
<td>516,257,569</td>
</tr>
<tr>
<td>Payroll Related Costs</td>
<td>596,054,209</td>
<td>302,741,371</td>
<td>33,824,339</td>
<td>650,846,588</td>
<td>139,768,867</td>
</tr>
<tr>
<td>Membership Dues</td>
<td>6,230,633</td>
<td>2,204,589</td>
<td>279,372</td>
<td>6,045,004</td>
<td>2,417,504</td>
</tr>
<tr>
<td>Registration Fees/Meetings/Conferences</td>
<td>20,659,763</td>
<td>10,349,980</td>
<td>5,942,117</td>
<td>3,636,095</td>
<td>10,355,943</td>
</tr>
<tr>
<td>Professional Fees and Services</td>
<td>40,466,786</td>
<td>92,992,213</td>
<td>18,370,371</td>
<td>208,158,982</td>
<td>29,939,626</td>
</tr>
<tr>
<td>Other Contracted Services</td>
<td>89,201,061</td>
<td>184,352,248</td>
<td>43,025,064</td>
<td>283,234,210</td>
<td>72,674,899</td>
</tr>
<tr>
<td>Fees and Other Charges</td>
<td>14,230,155</td>
<td>9,050,260</td>
<td>3,996,165</td>
<td>17,873,224</td>
<td>2,993,450</td>
</tr>
<tr>
<td>Travel</td>
<td>35,430,772</td>
<td>42,883,048</td>
<td>6,620,625</td>
<td>13,388,701</td>
<td>13,945,096</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>89,607,350</td>
<td>211,162,261</td>
<td>20,480,034</td>
<td>1,309,761,949</td>
<td>70,345,176</td>
</tr>
<tr>
<td>Utilities</td>
<td>301,374</td>
<td>1,018,343</td>
<td>263,340</td>
<td>8,920,177</td>
<td>1,203,189</td>
</tr>
<tr>
<td>Communications</td>
<td>21,568,267</td>
<td>5,109,802</td>
<td>2,275,793</td>
<td>17,179,209</td>
<td>7,576,651</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>9,551,981</td>
<td>16,825,768</td>
<td>1,645,444</td>
<td>113,404,989</td>
<td>8,881,446</td>
</tr>
<tr>
<td>Rentals and Leases</td>
<td>16,205,393</td>
<td>6,159,606</td>
<td>5,296,552</td>
<td>72,489,976</td>
<td>7,988,777</td>
</tr>
<tr>
<td>Printing and Reproduction</td>
<td>6,050,390</td>
<td>5,364,091</td>
<td>3,059,722</td>
<td>7,268,397</td>
<td>3,770,721</td>
</tr>
<tr>
<td>Royalty Payments</td>
<td>150,554</td>
<td>5,264,789</td>
<td>(11,354)</td>
<td>2,980,645</td>
<td>11,137,438</td>
</tr>
<tr>
<td>Bad Debt Expense</td>
<td>-</td>
<td>(11,098)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Impairment of Capital Assets</td>
<td>-</td>
<td>26,517,304</td>
<td>11,797,589</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Insurance Costs/Premiums</td>
<td>2,844,635</td>
<td>510,698</td>
<td>258,642</td>
<td>20,946,931</td>
<td>618,058</td>
</tr>
<tr>
<td>Claims and Losses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Increase in Net OPEB Obligation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pension Expense</td>
<td>122,766,714</td>
<td>53,914,414</td>
<td>6,563,468</td>
<td>114,476,211</td>
<td>21,610,701</td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td>14,502,320</td>
<td>42,747,550</td>
<td>5,834,164</td>
<td>4,167</td>
<td>2,781,599</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Federal Sponsored Pass-through to State Agencies</td>
<td>2,145,017</td>
<td>5,551,075</td>
<td>436,874</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>State Sponsored Pass-through to State Agencies</td>
<td>127,405</td>
<td>934,171</td>
<td>76,186</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>29,865,350</td>
<td>81,708,141</td>
<td>19,652,738</td>
<td>21,485,222</td>
<td>11,894,631</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$3,896,899,596</td>
<td>2,324,097,993</td>
<td>330,675,165</td>
<td>5,619,194,295</td>
<td>936,593,648</td>
</tr>
<tr>
<td>Student Services</td>
<td>Institutional Support</td>
<td>Operations and Maintenance of Plant</td>
<td>Scholarships and Fellowships</td>
<td>Auxiliary Enterprises</td>
<td>Depreciation and Amortization</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------</td>
<td>-------------------------------------</td>
<td>-----------------------------</td>
<td>----------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>11,775</td>
<td>1,132,732</td>
<td>6,602</td>
<td>9,576</td>
<td>26,802,700</td>
<td>-</td>
</tr>
<tr>
<td>118,930,366</td>
<td>475,001,307</td>
<td>220,663,745</td>
<td>16,726,022</td>
<td>224,813,845</td>
<td>-</td>
</tr>
<tr>
<td>31,685,225</td>
<td>55,024,638</td>
<td>65,180,504</td>
<td>1,660,340</td>
<td>51,565,270</td>
<td>-</td>
</tr>
<tr>
<td>555,601</td>
<td>5,460,588</td>
<td>446,820</td>
<td>33,756</td>
<td>3,342,270</td>
<td>-</td>
</tr>
<tr>
<td>2,621,702</td>
<td>4,105,258</td>
<td>956,428</td>
<td>334,398</td>
<td>5,141,075</td>
<td>-</td>
</tr>
<tr>
<td>6,429,232</td>
<td>57,252,245</td>
<td>19,293,356</td>
<td>454,490</td>
<td>12,966,226</td>
<td>-</td>
</tr>
<tr>
<td>54,987,428</td>
<td>36,574,714</td>
<td>36,620,751</td>
<td>1,121,720</td>
<td>97,389,887</td>
<td>-</td>
</tr>
<tr>
<td>4,676,698</td>
<td>6,067,438</td>
<td>986,885</td>
<td>377,981</td>
<td>4,011,912</td>
<td>-</td>
</tr>
<tr>
<td>3,875,465</td>
<td>7,173,405</td>
<td>1,196,611</td>
<td>994,200</td>
<td>28,021,170</td>
<td>-</td>
</tr>
<tr>
<td>1,624,822</td>
<td>24,597,043</td>
<td>4,568,783</td>
<td>13,080</td>
<td>8,619,727</td>
<td>-</td>
</tr>
<tr>
<td>2,902,825</td>
<td>37,443,267</td>
<td>104,112,681</td>
<td>86,593</td>
<td>24,170,413</td>
<td>-</td>
</tr>
<tr>
<td>4,161,687</td>
<td>19,464,372</td>
<td>22,056,420</td>
<td>537,269</td>
<td>10,661,516</td>
<td>-</td>
</tr>
<tr>
<td>2,933,394</td>
<td>5,745,077</td>
<td>205,857</td>
<td>76,468</td>
<td>4,358,276</td>
<td>-</td>
</tr>
<tr>
<td>9,081</td>
<td>527,748</td>
<td>7,673</td>
<td>119</td>
<td>95,502</td>
<td>-</td>
</tr>
<tr>
<td>3,529,547</td>
<td>3,000,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>621,681</td>
<td>12,910,996</td>
<td>2,524,370</td>
<td>4,123</td>
<td>12,449,055</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>42,586,064</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>733,220,500</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5,442,681</td>
<td>22,246,374</td>
<td>10,339,659</td>
<td>745,627</td>
<td>9,628,497</td>
<td>-</td>
</tr>
<tr>
<td>2,140,929</td>
<td>1,112,645</td>
<td>460</td>
<td>346,637,669</td>
<td>10,617,714</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>963,724</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>11,240,480</td>
<td>19,838,786</td>
<td>7,348,323</td>
<td>2,012,485</td>
<td>17,023,944</td>
<td>-</td>
</tr>
<tr>
<td>272,502,912</td>
<td>1,620,686,350</td>
<td>800,937,958</td>
<td>372,785,046</td>
<td>629,827,728</td>
<td>1,396,005,593</td>
</tr>
</tbody>
</table>

115
For the year ended August 31, 2016, the following table represents operating expenses for both natural and functional classifications for the System:

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th>Instruction</th>
<th>Research</th>
<th>Public Service</th>
<th>Hospitals and Clinics</th>
<th>Academic Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>$1,255,672</td>
<td>55,479</td>
<td>1,556,932</td>
<td>112,488,632</td>
<td>508,542</td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>2,657,244,308</td>
<td>1,166,959,393</td>
<td>142,064,065</td>
<td>2,477,799,138</td>
<td>467,756,372</td>
</tr>
<tr>
<td>Payroll Related Costs</td>
<td>552,849,982</td>
<td>285,671,083</td>
<td>33,383,870</td>
<td>603,757,097</td>
<td>120,294,439</td>
</tr>
<tr>
<td>Professional Fees and Services</td>
<td>46,891,172</td>
<td>81,879,138</td>
<td>17,621,845</td>
<td>296,618,141</td>
<td>20,363,155</td>
</tr>
<tr>
<td>Other Contracted Services</td>
<td>97,872,337</td>
<td>166,717,316</td>
<td>35,147,329</td>
<td>302,623,910</td>
<td>58,683,600</td>
</tr>
<tr>
<td>Scholarships and Fellowships</td>
<td>9,270,735</td>
<td>44,129,014</td>
<td>3,662,695</td>
<td>4,100</td>
<td>4,572,272</td>
</tr>
<tr>
<td>Travel</td>
<td>34,538,043</td>
<td>41,795,076</td>
<td>6,697,026</td>
<td>14,835,171</td>
<td>13,291,195</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>75,934,772</td>
<td>204,113,105</td>
<td>19,432,158</td>
<td>1,239,515,290</td>
<td>65,455,624</td>
</tr>
<tr>
<td>Utilities</td>
<td>(130,351)</td>
<td>941,002</td>
<td>251,050</td>
<td>7,788,878</td>
<td>1,159,409</td>
</tr>
<tr>
<td>Communications</td>
<td>23,285,164</td>
<td>6,163,308</td>
<td>2,618,233</td>
<td>17,135,895</td>
<td>8,081,011</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>7,154,940</td>
<td>17,141,096</td>
<td>1,209,866</td>
<td>125,767,835</td>
<td>7,382,032</td>
</tr>
<tr>
<td>Rentals and Leases</td>
<td>13,178,506</td>
<td>6,359,906</td>
<td>5,400,306</td>
<td>76,197,477</td>
<td>7,566,699</td>
</tr>
<tr>
<td>Printing and Reproduction</td>
<td>6,109,126</td>
<td>5,333,607</td>
<td>2,791,121</td>
<td>5,201,767</td>
<td>3,602,375</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bad Debt Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Claims and Losses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Increase in Net OPEB Obligation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pension Expense</td>
<td>81,596,889</td>
<td>38,521,638</td>
<td>4,859,365</td>
<td>76,422,481</td>
<td>14,165,353</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>59,155,967</td>
<td>106,553,838</td>
<td>27,530,599</td>
<td>90,253,918</td>
<td>43,857,585</td>
</tr>
<tr>
<td>Federal Sponsored Pass-through to State Agencies</td>
<td>900,706</td>
<td>5,235,583</td>
<td>1,507,122</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>State Sponsored Pass-through to State Agencies</td>
<td>28,699</td>
<td>163,460</td>
<td>409,929</td>
<td>-</td>
<td>9,230,625</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$3,667,136,667</td>
<td>2,177,733,042</td>
<td>306,143,511</td>
<td>5,446,409,730</td>
<td>845,970,288</td>
</tr>
<tr>
<td>Student Services</td>
<td>Institutional Support</td>
<td>Operations and Maintenance of Plant</td>
<td>Scholarships and Fellowships</td>
<td>Auxiliary Enterprises</td>
<td>Depreciation and Amortization</td>
</tr>
<tr>
<td>------------------</td>
<td>----------------------</td>
<td>-------------------------------------</td>
<td>-----------------------------</td>
<td>----------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>15,549</td>
<td>1,097,649</td>
<td>103,642</td>
<td>(22,817)</td>
<td>27,072,776</td>
<td>-</td>
</tr>
<tr>
<td>117,805,007</td>
<td>481,515,297</td>
<td>223,798,440</td>
<td>16,138,836</td>
<td>208,405,588</td>
<td>-</td>
</tr>
<tr>
<td>31,164,491</td>
<td>73,500,623</td>
<td>64,247,653</td>
<td>1,609,512</td>
<td>46,143,314</td>
<td>-</td>
</tr>
<tr>
<td>7,189,560</td>
<td>47,869,689</td>
<td>16,853,314</td>
<td>284,321</td>
<td>12,198,972</td>
<td>-</td>
</tr>
<tr>
<td>40,046,393</td>
<td>47,686,689</td>
<td>46,693,724</td>
<td>589,006</td>
<td>90,624,680</td>
<td>-</td>
</tr>
<tr>
<td>2,500,664</td>
<td>1,234,818</td>
<td>22,937</td>
<td>351,428,983</td>
<td>11,683,012</td>
<td>-</td>
</tr>
<tr>
<td>3,768,745</td>
<td>8,157,027</td>
<td>899,621</td>
<td>650,102</td>
<td>23,529,076</td>
<td>-</td>
</tr>
<tr>
<td>18,601,583</td>
<td>37,382,571</td>
<td>54,505,396</td>
<td>1,120,210</td>
<td>45,593,508</td>
<td>-</td>
</tr>
<tr>
<td>31,073</td>
<td>2,728,057</td>
<td>224,172,358</td>
<td>134,550</td>
<td>33,318,871</td>
<td>-</td>
</tr>
<tr>
<td>1,837,826</td>
<td>25,803,246</td>
<td>4,101,944</td>
<td>43,553</td>
<td>11,041,188</td>
<td>-</td>
</tr>
<tr>
<td>2,484,943</td>
<td>43,248,922</td>
<td>90,895,198</td>
<td>133,909</td>
<td>21,704,533</td>
<td>-</td>
</tr>
<tr>
<td>4,125,755</td>
<td>16,227,439</td>
<td>21,370,467</td>
<td>703,945</td>
<td>10,769,156</td>
<td>-</td>
</tr>
<tr>
<td>3,120,621</td>
<td>5,754,924</td>
<td>196,380</td>
<td>41,620</td>
<td>4,893,362</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>3,749,469</td>
<td>17,335,255</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>18,939,131</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>662,454,776</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>3,863,920</td>
<td>15,844,750</td>
<td>7,476,177</td>
<td>548,490</td>
<td>7,027,330</td>
</tr>
<tr>
<td></td>
<td>20,070,774</td>
<td>45,557,848</td>
<td>8,681,492</td>
<td>3,240,615</td>
<td>38,440,451</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,005,266</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>1,553,343,977</td>
<td>764,018,743</td>
<td>376,644,835</td>
<td>592,445,817</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>1,005,266</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

117
## 21. Net Position

The System’s net position at August 31, 2017 and 2016 were comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net investment in capital assets</strong></td>
<td>$6,334,663,525</td>
<td>$6,375,856,344</td>
</tr>
<tr>
<td><strong>Restricted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonexpendable</td>
<td>23,184,331,614</td>
<td>22,350,532,269</td>
</tr>
<tr>
<td>Expendable</td>
<td>13,557,386,026</td>
<td>11,430,042,817</td>
</tr>
<tr>
<td>Total restricted</td>
<td>36,741,717,640</td>
<td>33,780,575,086</td>
</tr>
<tr>
<td><strong>Unrestricted net position:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserved</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encumbrances</td>
<td>1,052,612,716</td>
<td>1,188,060,347</td>
</tr>
<tr>
<td>Accounts receivable (less unearned revenue portion)</td>
<td>1,372,944,637</td>
<td>1,399,455,840</td>
</tr>
<tr>
<td>Inventories</td>
<td>125,067,405</td>
<td>116,641,206</td>
</tr>
<tr>
<td>Self-insurance plans</td>
<td>548,047,771</td>
<td>478,168,141</td>
</tr>
<tr>
<td><strong>Other specific purposes:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced Research/Advanced Technology</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programs</td>
<td>451,031</td>
<td>1,109,376</td>
</tr>
<tr>
<td>Deposits</td>
<td>1,333,111</td>
<td>6,047,700</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>135,377,829</td>
<td>144,063,052</td>
</tr>
<tr>
<td>Deferred charges</td>
<td>3,477,414</td>
<td>1,999,394</td>
</tr>
<tr>
<td>Imprest funds</td>
<td>1,329,205</td>
<td>1,306,045</td>
</tr>
<tr>
<td>Travel advances</td>
<td>150,561</td>
<td>104,275</td>
</tr>
<tr>
<td><strong>Unreserved</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds functioning as endowment-unrestricted</td>
<td>372,050,627</td>
<td>330,707,672</td>
</tr>
<tr>
<td>Provision for operating budgets</td>
<td>59,326,464</td>
<td>63,450,350</td>
</tr>
<tr>
<td>Capital projects</td>
<td>2,013,092,215</td>
<td>1,683,255,813</td>
</tr>
<tr>
<td>Debt service</td>
<td>153,605,019</td>
<td>156,982,865</td>
</tr>
<tr>
<td>Start-up/matching</td>
<td>108,859,788</td>
<td>87,756,963</td>
</tr>
<tr>
<td>Utilities reserve</td>
<td>14,896,599</td>
<td>16,289,585</td>
</tr>
<tr>
<td>Research enhancement and support</td>
<td>337,199,973</td>
<td>269,904,469</td>
</tr>
<tr>
<td>Market adjustments</td>
<td>42,218,954</td>
<td>30,781,207</td>
</tr>
<tr>
<td>Student fees</td>
<td>140,135,984</td>
<td>123,965,158</td>
</tr>
<tr>
<td>Texas Tomorrow Fund shortfall</td>
<td>5,481,145</td>
<td>5,970,166</td>
</tr>
<tr>
<td>Instructional program support</td>
<td>757,267,505</td>
<td>710,133,726</td>
</tr>
<tr>
<td>Dean, chair and faculty recruitment packages</td>
<td>10,802,377</td>
<td>7,531,163</td>
</tr>
<tr>
<td>Self-supporting enterprises</td>
<td>148,764,608</td>
<td>144,320,943</td>
</tr>
<tr>
<td>Patient care support</td>
<td>696,284,921</td>
<td>546,053,105</td>
</tr>
<tr>
<td>Practice plan minimum operating reserve of 90 days</td>
<td>379,766,988</td>
<td>393,739,930</td>
</tr>
<tr>
<td>Unallocated</td>
<td>(6,761,279,010)</td>
<td>(6,782,090,964)</td>
</tr>
<tr>
<td><strong>Total unrestricted</strong></td>
<td>1,719,265,837</td>
<td>1,125,707,527</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$44,795,647,002</td>
<td>41,282,138,957</td>
</tr>
</tbody>
</table>

As of August 31, 2017 and 2016, restricted nonexpendable net position includes $17,617,538,131 and $16,976,622,544, respectively, of the Permanent University Fund corpus, and $820,000,000 for both years of the Permanent Health Fund corpus. As of August 31, 2017 and 2016, restricted expendable net position includes $7,550,611,746 and $6,163,728,905, respectively, of the Permanent University Fund appreciation, and $324,642,997 and $245,747,510, 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

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 budget cuts implemented by the State. U. T. System Administration incurred expenses of $132,875 for 376 terminated employees of the System as of August 31, 2017, and $186,830 for 349 terminated employees of the System as of August 31, 2016. 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 2017, U. T. System Administration implemented a reduction in force that affected 8 employees. No special benefits or severance packages were offered. In 2016, U. T. System Administration offered a Voluntary Separation Incentive Program (VSIP) to reduce its number of full-time employees and control expenses. A Notice of Intent to sign a Voluntary Separation Agreement was signed by 81 employees, but only 56 of those employees actually elected the VSIP offer. Those employees who elected to participate in the VSIP received one lump-sum payment equal to six months of their annual base salary, which was $2,600,083.

In 2017 and 2016, U. T. San Antonio implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 28 and 3 terminated employees, respectively.

In 2017 and 2016, U. T. Medical Branch - Galveston implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 48 and 41 terminated employees, respectively.

In 2017, U. T. Health Science Center – Houston implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 51 terminated employees.

In 2017 and 2016, U. T. Health Science Center – San Antonio implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 13 and 15 terminated employees, respectively.

In 2017, U. T. M. D. Anderson Cancer Center implemented two significant reductions in force in response to reduced revenues and to improve operational efficiencies. The reductions affected 854 employees. The benefits package provided to the terminated employees consisted of continued benefits and salaries dependent upon the employee’s length of service. If an employee secured employment during this time, benefit and salary payments ceased. In 2016, U. T. M. D. Anderson Cancer Center implemented three departmental-wide reductions in force that affected 38 employees, also 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. COBRA benefits for the self-insured plans offered by the System for the years ended August 31, 2017 and 2016 are provided below:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Participants¹</td>
<td>956</td>
<td>1,745</td>
</tr>
<tr>
<td>Premium Revenue</td>
<td>$5,444,029</td>
<td>5,011,723</td>
</tr>
<tr>
<td>2% Administrative Fee Revenue²</td>
<td>(107,435)</td>
<td>(98,034)</td>
</tr>
<tr>
<td>Net COBRA Premium</td>
<td>5,336,594</td>
<td>4,913,689</td>
</tr>
<tr>
<td>Less Claims Paid</td>
<td>(12,712,303)</td>
<td>(11,834,923)</td>
</tr>
<tr>
<td>Cost to System</td>
<td>$ (7,375,709)</td>
<td>(6,921,234)</td>
</tr>
</tbody>
</table>

¹The participants above are for the self-insured program.
²The 2 percent administrative fee is retained by UT COBRA in OEB for administering the COBRA benefit and is paid by the participant.
23. Deferred Outflows of Resources and Deferred Inflows of Resources

As of August 31, 2017 and 2016, the System reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, unamortized (losses)/gains on refunding debt, the TRS pension plan and an unamortized interest rate lock termination payment as presented in the table below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deferral</td>
<td>Inflow</td>
<td>Deferral</td>
<td>Inflow</td>
</tr>
<tr>
<td>Derivatives</td>
<td>$246,087,922</td>
<td>$10,339,315</td>
<td>$338,725,063</td>
<td>-</td>
</tr>
<tr>
<td>Unamortized Loss/Gain on Refunding Debt</td>
<td>40,483,344</td>
<td>9,475,250</td>
<td>45,340,922</td>
<td>5,016,492</td>
</tr>
<tr>
<td>Pension Related</td>
<td>871,269,635</td>
<td>420,293,776</td>
<td>564,607,125</td>
<td>399,142,608</td>
</tr>
<tr>
<td>Unamortized Interest Rate Lock Termination</td>
<td>3,125,833</td>
<td>-</td>
<td>3,235,511</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$1,160,966,734</td>
<td>$440,108,341</td>
<td>$951,908,621</td>
<td>$404,159,100</td>
</tr>
</tbody>
</table>

Deferred outflows of resources of $246,087,922 and $338,725,063 as of August 31, 2017 and 2016, respectively, were related to hedging derivatives in a liability position. Deferred inflows of resources of $10,339,315 as of August 31, 2017 were related to hedging derivatives in an asset position. The hedging derivative asset and liability are disclosed in Note 7.

Deferred outflows of resources of $40,483,344 and $45,340,922 as of August 31, 2017 and 2016, respectively, were related to the unamortized losses on refunding debt. Deferred inflows of resources of $9,475,250 and $5,016,492 as of August 31, 2017 and 2016, respectively, were related to the unamortized gains on refunding 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.

Deferred outflows of resources of $871,269,635 and $564,607,125 and deferred inflows of resources of $420,293,776 and $399,142,608 as of August 31, 2017 and 2016, respectively, were related to the TRS pension plan. See Note 17 for additional information.

Deferred outflows of resources of $3,125,833 and $3,235,511 as of August 31, 2017 and 2016, respectively, were related to an unamortized interest rate lock termination payment.

24. Subsequent Events

On September 7, 2017, the U. T. System Board of Regents issued $75,000,000 in RFS Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various UT System institutions. Subsequent to this issuance, the System had $784,000,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On September 14, 2017, the U. T. System Board of Regents issued $350,815,000 in RFS Bonds, Taxable Series 2017A to current refund $349,000,000 principal amount of Revenue Financing System Commercial Paper Notes, Series B, and to pay the costs of issuance related thereof. The refunded debt is considered fully defeased. Subsequent to this issuance, the System had $435,000,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On October 24, 2017, the U. T. System Board of Regents issued $265,490,000 in RFS Bonds, Series 2017B to current refund $87,455,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to current refund $191,664,000 principal amount of Revenue Financing System Commercial Paper Notes, Series B and to pay the costs of issuance related thereof. The refunded debt is considered fully defeased. Subsequent to this issuance, the System had $215,813,000 of RFS Commercial Paper Notes, Series A outstanding and $243,336,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On November 14, 2017, the U. T. System Board of Regents issued $302,640,000 in PUF Bonds, Taxable Series 2017A to current refund $81,000,000 principal amount of Permanent University Fund Commercial Paper Notes, Series A, to current refund $220,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B, and to pay the costs of issuance related thereof. The refunded debt is considered fully defeased. Subsequent to this issuance, the System had no PUF Commercial Paper Notes, Series A outstanding and $180,000,000 of PUF Taxable Commercial Paper Notes, Series B outstanding.
On November 21, 2017, the U. T. System Board of Regents issued $100,000,000 in PUF Commercial Paper Notes, Series A to finance a variety of capital projects and equipment purchases at various UT System institutions. Subsequent to this issuance, the System had $100,000,000 of PUF Commercial Paper Notes, Series A outstanding.

On November 21, 2017, the U. T. System Board of Regents issued $25,000,000 in RFS Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various UT System institutions. Subsequent to this issuance, the System had $268,336,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On December 7, 2017, the U. T. System Board of Regents issued $258,465,000 in RFS Refunding Bonds, Series 2017C to advance refund $118,900,000 principal amount of Revenue Financing System Bonds Series 2009D, to advance refund $35,985,000 principal amount of Revenue Financing System Bonds Series 2012A and $110,970,000 principal amount of Revenue Financing System Bonds Series 2012B for savings and to pay the costs of issuance related thereof. The refunded debt is considered fully defeased. An economic gain from the transaction resulted in a net present value savings of $22,988,016 between the old and new debt service payments.

On September 13, 2017, the East Texas Medical Center Regional Healthcare System announced that it selected Ardent Health Services (Ardent) and U. T. Health Science Center - Tyler to form a new health system to benefit East Texas, subject to approval by the U. T. System Board of Regents. Ardent will assume majority ownership and day-to-day operations of the health system. U. T. Health Science Center – Tyler’s hospital and twelve physician clinic operations will participate in the new ten-hospital system. The newly created health system will expand medical education, research and community health. Governance will be shared through a newly formed board of directors, which will include local physicians. Terms of the acquisition have not yet been disclosed. The transaction is expected to close following the completion of due diligence and required regulatory approvals.

### 25. Upcoming Accounting Pronouncements

**GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**, effective 2018, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The implementation of Statement 75 will result in an increase in net OPEB obligation.

**GASB Statement No. 81, Irrevocable Split-Interest Agreements**, effective 2018, requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The System is evaluating the effect that Statement 81 will have on its financial statements.

**GASB Statement No. 83, Certain Asset Retirement Obligations**, effective 2019, addresses accounting and financial reporting for certain asset retirement obligations. The System is evaluating the effect that Statement 83 will have on its financial statements.

**GASB Statement No. 84, Fiduciary Activities**, effective 2020, establishes criteria for identifying fiduciary activities which should be reported in a fiduciary fund in the financial statements. The System is evaluating the effect that Statement 84 will have on its financial statements.

**GASB Statement No. 86, Certain Debt Extinguishment Issues**, effective 2018, provides guidance for using existing resources to extinguish debt. Statement 86 also provides guidance for prepaid insurance on debt that is extinguished. The System does not believe that Statement 86 will have an impact on its financial statements.

**GASB Statement No. 87, Leases**, effective 2021, establishes a single model for lease accounting. The System is evaluating the effect that Statement 87 will have on its financial statements.
(This page intentionally left blank)
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
The Schedule of Funding Progress presents information as of the current valuation date and the two preceding valuation dates.

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Assets</th>
<th>Actuarial Accrued Liability</th>
<th>Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)</th>
<th>Funded Ratio (2)/(3)</th>
<th>Annual Covered Payroll</th>
<th>Ratio of UAAL to Covered Payroll (4)/(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2012</td>
<td>$-</td>
<td>6,939,197,076</td>
<td>6,939,197,076</td>
<td>0.0%</td>
<td>5,674,297,785</td>
<td>122.3%</td>
</tr>
<tr>
<td>December 31, 2014</td>
<td>-</td>
<td>8,274,414,043</td>
<td>8,274,414,043</td>
<td>0.0%</td>
<td>5,842,409,902</td>
<td>141.6%</td>
</tr>
<tr>
<td>December 31, 2015</td>
<td>-</td>
<td>8,584,045,126</td>
<td>8,584,045,126</td>
<td>0.0%</td>
<td>5,948,245,136</td>
<td>144.3%</td>
</tr>
</tbody>
</table>

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, 2013 were determined based on an actuarial roll-forward of the December 31, 2012 valuation results. The plan benefit obligations as of December 31, 2016 were determined based on an actuarial roll-forward of the December 31, 2015 valuation results.
### Schedule of the System’s Proportionate Share of the Net Pension Liability as of the August 31 Measurement Date

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>System’s proportion of the net pension liability</td>
<td>8.2932305%</td>
<td>7.7646311%</td>
<td>8.6199871%</td>
</tr>
<tr>
<td>System’s proportionate share of the net pension liability</td>
<td>$3,133,888,495</td>
<td>$2,744,693,745</td>
<td>$2,302,987,541</td>
</tr>
<tr>
<td>State’s proportionate share of the net pension liability related to System</td>
<td>$893,178,321</td>
<td>$786,436,009</td>
<td>$892,687,939</td>
</tr>
<tr>
<td>Total net pension liability related to System</td>
<td>$4,027,066,816</td>
<td>$3,531,129,754</td>
<td>$3,195,675,480</td>
</tr>
<tr>
<td>System’s covered payroll</td>
<td>$4,635,793,582</td>
<td>$4,472,632,860</td>
<td>$4,018,776,650</td>
</tr>
<tr>
<td>System’s proportionate share of the net pension liability as a percentage of its covered payroll</td>
<td>67.60%</td>
<td>61.37%</td>
<td>57.31%</td>
</tr>
<tr>
<td>Plan fiduciary net position as a percentage of the total pension liability</td>
<td>78.00%</td>
<td>78.43%</td>
<td>83.25%</td>
</tr>
</tbody>
</table>

### Schedule of the System’s Contributions as of August 31

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutorily required contributions</td>
<td>$332,620,226</td>
<td>$315,233,963</td>
<td>$304,139,034</td>
</tr>
<tr>
<td>Contributions in relation to the statutorily required contributions</td>
<td>$262,734,718</td>
<td>$262,370,366</td>
<td>$244,723,301</td>
</tr>
<tr>
<td>Contribution deficiency (excess)</td>
<td>$69,885,508</td>
<td>$52,863,597</td>
<td>$59,415,733</td>
</tr>
<tr>
<td>System’s covered payroll</td>
<td>$4,891,473,913</td>
<td>$4,635,793,582</td>
<td>$4,472,632,860</td>
</tr>
<tr>
<td>Contributions as a percentage of covered payroll</td>
<td>5.37%</td>
<td>5.66%</td>
<td>5.47%</td>
</tr>
</tbody>
</table>

Contributions by the State of Texas on behalf of the System substantially resolve the contribution deficiency.

Only three years of information is presented due to GASB Statement 68 being implemented in 2015. Additional years will be displayed as they become available.