THE UNIVERSITY OF TEXAS SYSTEM

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018 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 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

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THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2019

Officers

Kevin P. Eltife, Chairman
Janiece Longoria, Vice Chairman
James Conrad "Rad" Weaver, Vice Chairman
Francie A. Frederick, General Counsel to the Board of Regents

Members

*Terms scheduled to expire February 1, 2021**

David J. Beck	Houston
R. Steven "Steve" Hicks	Austin
Nolan E. Perez	Harlingen

*Terms scheduled to expire February 1, 2023**

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

*Terms scheduled to expire February 1, 2025**

Christina Melton Crain	Dallas
Jodie Lee Jiles	Houston
Kelcy L. Warren	Dallas

*Term scheduled to expire May 31, 2020**

Daniel R. Dominguez (Student Regent)	El Paso

*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, 2019

****

James B. Milliken, Chancellor

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Steven W. Leslie, Executive Vice Chancellor for Academic Affairs

Amy Shaw Thomas, Executive Vice Chancellor for Health Affairs, *ad interim*

Stephanie A. Bond Huie, Vice Chancellor for Institutional Research and Analysis

David L. Lakey, Vice Chancellor for Health Affairs and Chief Medical Officer

Stacey Napier, Vice Chancellor for Governmental Relations

Randa S. Safady, Vice Chancellor for External Relations, Communications, and Advancement Services

Daniel H. Sharphorn, Vice Chancellor and General Counsel

Thomas Britton “Britt” Harris IV, President, CEO and Chief Investment Officer–UTIMCO

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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 Consolidated 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, 2019 and 2018, 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

Opinion

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, 2019 and 2018, 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, 2019 and 2018, 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 Schedule of the System's Proportionate Share of Changes in Employer Total OPEB Liability and Related Ratios, Schedule of the System's Proportionate Share of Total OPEB Liability, the Schedule of the System's Proportionate Share of the Net Pension Liability, and the Schedule of the System's Contributions for the Teachers Retirement System Pension Plan 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 20, 2019 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.

Deloitte & Touche LLP

December 20, 2019

THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2019
(Unaudited)

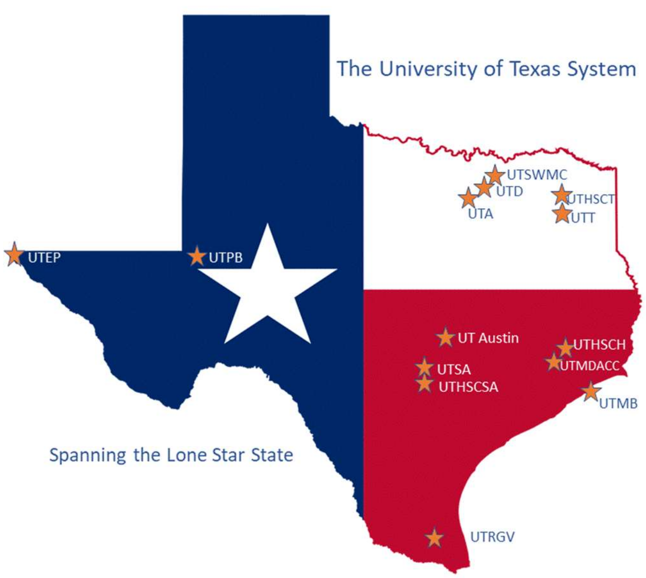
INTRODUCTION

The University of Texas System (the System) was established by the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston 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 Permian Basin
- The University of Texas Rio Grande Valley
- The University of Texas at San Antonio
- 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:

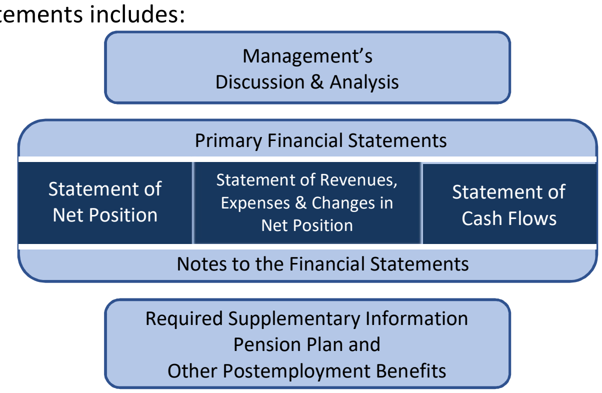
- The University of Texas M. D. Anderson Cancer Center
- The University of Texas Southwestern Medical Center
- The University of Texas Health Science Center at Houston
- The University of Texas Health Science Center at San Antonio
- The University of Texas Health Science Center at Tyler



The System's fourteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to over 239,000 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. In addition, the Governor appoints a 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, 2019, with selected comparative information for the years ended August 31, 2018 and 2017. The complete set of financial statements includes:



The financial statements of the System were 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

The System continues to maintain and protect its strong financial condition, with net position of $45.9 billion at August 31, 2019. Revenues totaled $21.4 billion in 2019. Net patient care revenues, net investment income and sponsored program revenues were the largest contributors to the increase in net position. This increase in net position was reduced by expenses totaling $20.6 billion in 2019. Compensation and benefits, including the Teacher Retirement System of Texas pension and other postemployment benefits continue to be the largest expense of the System. The System is committed to recruiting and retaining outstanding faculty and staff, and the compensation package is one way to successfully compete with peer institutions and nonacademic employers.

The Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2019, with comparative information for the previous years. Net position is the residual value of the System's assets and deferred outflows of resources, after liabilities and deferred inflows of resources are deducted. Changes in net position are one indicator of the improvement or decline of the System's financial strength. A summarized comparison of the System's statement of net position at August 31, 2019, 2018 and 2017 follows:

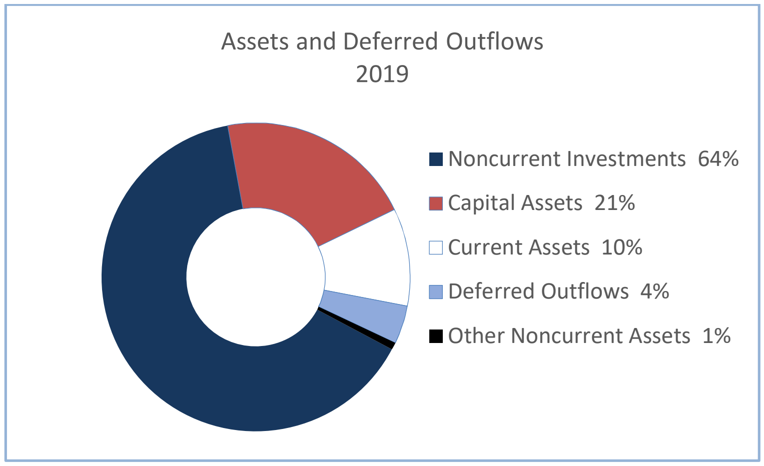
Condensed Statement of Net Position

($ in millions)

		2019	*Restated 2018	2017
Assets				
Current assets	$	8,675.3	7,532.6	7,838.1
Noncurrent investments		54,447.3	54,007.2	46,645.9
Capital/intangible assets, net		17,546.8	16,889.3	16,216.4
Other noncurrent assets		646.4	560.7	481.7
Total assets		81,315.8	78,989.8	71,182.1
Total deferred outflows		3,376.0	1,001.8	1,256.0
Total assets and deferred outflows	$	84,691.8	79,991.6	72,438.1
Liabilities				
Current liabilities	$	10,015.7	9,167.9	8,219.4
Noncurrent liabilities		26,051.9	23,641.7	24,250.9
Total liabilities		36,067.6	32,809.6	32,470.3
Total deferred inflows		2,761.6	1,791.2	746.9
Total liabilities and deferred inflows	$	38,829.2	34,600.8	33,217.2
Net Position				
Net investment in capital assets	$	6,747.2	6,632.4	6,334.6
Restricted		41,848.1	42,050.2	36,732.3
Unrestricted		(2,732.7)	(3,291.8)	(3,846.0)
Net position	$	45,862.6	45,390.8	39,220.9

*Restatements in 2018 related to the implementation of GASB Statement 83 *Certain Asset Retirement Obligations*

Assets and Deferred Outflows



Assets and deferred outflows increased $4.7 billion, or 5.9%, to $84.7 billion in 2019 primarily due to increases in pension related deferred outflows and cash and cash equivalents due to increased operating results.

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 $440.1 million in 2019 primarily due to additions from endowment gifts and cash and cash equivalent balances that were invested long term. These investments were partially offset by a decrease in the fair value of investments.

The Permanent University Fund (PUF), which includes the fair value of PUF investment and the fair value of PUF lands, decreased $760.0 million due primarily to several factors. Assets invested increased $994.6 million due to PUF lands mineral income earned in 2019 that was added to the endowment in accordance with requirements of the Texas Constitution. Investment income also increased the value of the PUF by $1.5 billion. These increases were offset by decreases of $2.3 billion in the fair value of the investments. The decrease in the fair value of the PUF lands of $1.7 billion was the primary driver. This decrease was due to several factors including fewer active wells, a decrease in the forecasted price, and a decrease in the Society of Petroleum Evaluation Engineers unconventional reserve adjustment factor applied to probable reserves.

Capital and Intangible Assets

A critical factor in sustaining the quality of the System's academic and research programs and residential life is the development and maintenance of its capital assets. Capital additions totaled $2.3 billion in 2019, of which $1.2 billion consisted of new projects under construction. Capital additions were comprised of replacement, renovation, and new construction of academic, research and healthcare facilities, as well as significant investments in equipment and software. The table below depicts the System's capital improvement program for the next six years.

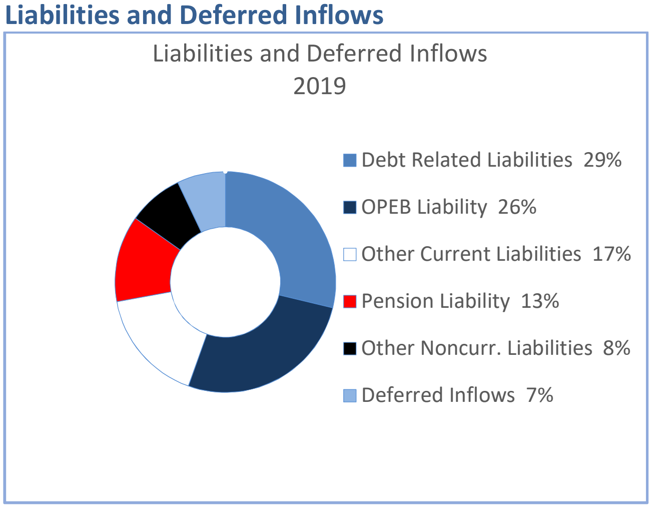
Capital Improvement Program 2020-2025

Institution:	*($ in thousands)*
UT Arlington	26,000
UT Austin	786,059
UT Dallas	139,000
UT El Paso	109,750
UT Permian Basin	37,000
UT Rio Grande Valley	43,700
UT San Antonio	230,000
UT Tyler	72,075
UTHSC Houston	144,360
UTHSC San Antonio	79,200
UTMB Galveston	379,115
UT MD Anderson Cancer Center	563,500
UT Southwestern Medical Center	1,187,411
Total	3,797,170

Deferred Outflows

Pension related deferred outflows increased $1.8 billion due to changes in assumptions. There was a decrease in the discount rate from 8.0% to 6.907% and a decrease in the long term assumed rate of return from 8.0% to 7.25%.

Liabilities and Deferred Inflows



Liabilities and Deferred Inflows increased $4.2 billion, 12.2%, to $38.8 billion in 2019 primarily due to increases in the pension liability and OPEB related deferred inflows.

Debt Related Liabilities

Debt related liabilities consist of both the current and noncurrent portions of short-term debt, or commercial paper, as well as leases, notes, loans and bonds payable. Several factors contributed to the $457.6 million change in debt related liabilities between 2019 and 2018 including an increase in short-term debt of $304.7 million. 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. Bonds payable, which increased $2.4 million in 2019, relate to the financing of the System's construction needs. The table below depicts the change in the System's debt related liabilities over the past three years:

Current & Noncurrent Debt	2019	2018	2017
		($ in millions)	
Bonds Payable	9,500.4	9,498.0	9,002.7
Commercial Paper	1,490.5	1,185.8	564.2
Leases, Notes & Loans	176.9	26.4	959.5
Total Debt Related Liabilities	11,167.8	10,710.2	10,526.4

OPEB Liabilities

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. The U. T. System Employee Group Insurance Program is a single-employer defined benefit OPEB plan; however, because State statute requires funding for the plan from State appropriations, the State's governmental fund reports a proportionate share of the OPEB liability. The System reported a total OPEB liability of $10.4 billion for 2019 compared to $10.7 billion in 2018. It should be noted that these benefits are guaranteed in State statute. One way to reduce this liability is to change the statute to no longer require that all retirees are eligible for OPEB; while this would reduce the liability, it would also impact recruiting and the retention of outstanding faculty and staff for the entire State.

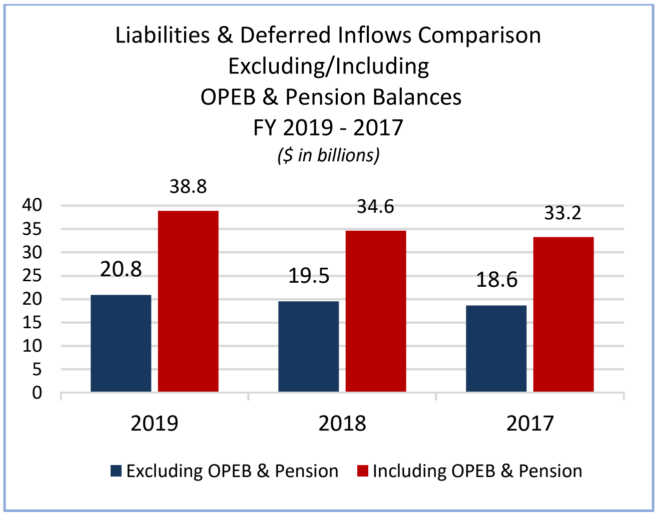
Pension Liabilities

The System participates in a cost-sharing multiple-employer defined benefit pension plan with a special funding arrangement administered by the Teacher Retirement System of Texas (TRS). The System receives a proportional share of the net pension liability, pension related deferred outflows and pension related deferred inflows, and pension expense 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 to the plan. The System recorded a net pension liability of $4.9 billion in 2019 compared to $2.7 billion in 2018 related to the decrease in the discount rate and decrease in the long term assumed rate of return discussed above.

Deferred Inflows

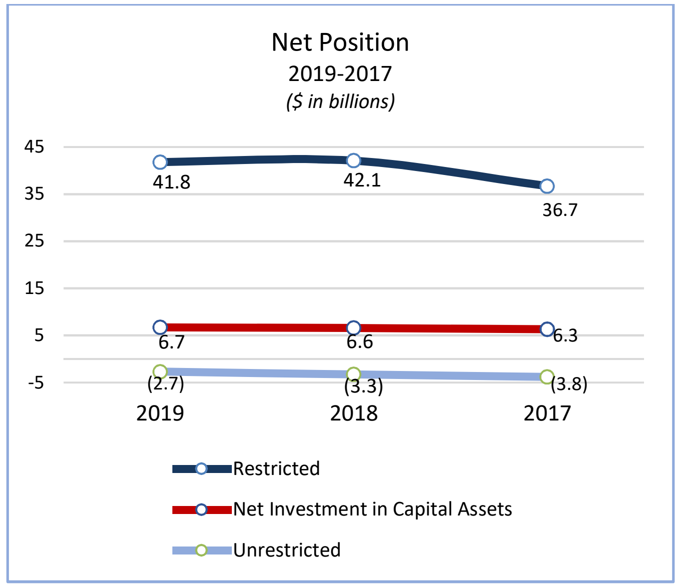
OPEB related deferred inflows increased $1.2 billion due to a change in assumptions related to the discount rate which increased from 3.44% to 4.10%.

The chart below depicting liabilities and deferred inflows including and excluding OPEB and pension, illustrates the significant impact these items have on the System's total liabilities and deferred inflows.



Net Position

Net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows are deducted. Net position increased $471.8 million in 2019 compared to a $6.2 billion increase in 2018. The significant decline in the increase in net position was due to the fluctuating value of the fair value of investments. In 2019 there was a decrease in fair value of investment of $2.3 billion compared to an increase $3.1 billion in 2018, a decrease between the years of $5.4 billion. PUF lands accounted for $4.6 billion of this decrease as discussed above. The three-year trend of the classifications of net position is depicted here:



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.

Restricted Net Position

Restricted net position primarily includes the System's permanent endowment funds subject to externally imposed restrictions governing their use. They include:

- Permanent University Fund (PUF) - supports both the System and The Texas A&M University System (TAMUS).
- Permanent Health Fund Endowments (PHF) - established in 1999 from tobacco-related litigation funds that support programs that benefit medical research, health education or treatment at health-related institutions.
- Donor restricted endowments - income generated is used to fund various endeavors in accordance with the donors' wishes.

Restricted net position decreased by $202.1 million to $41.8 billion in 2019, resulting primarily from the decrease in the fair value of the PUF lands discussed above.

Unrestricted Net Position

System's unrestricted net position was a negative $2.7 billion in 2019 as compared to a negative $3.3 billion in 2018. This negative unrestricted net position includes negative net position related to OPEB and pensions of $15.0 billion. The $559.1 million increase in unrestricted net position between 2018 and 2019 was primarily due to significant net patient care revenues offset by OPEB and pension related expenses.

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. The following table summarizes the System's revenues, expenses and changes in net position for the years ended August 31, 2019, 2018 and 2017:

Condensed Statement of Revenues. Expenses and Changes in Net Position

($ in millions)

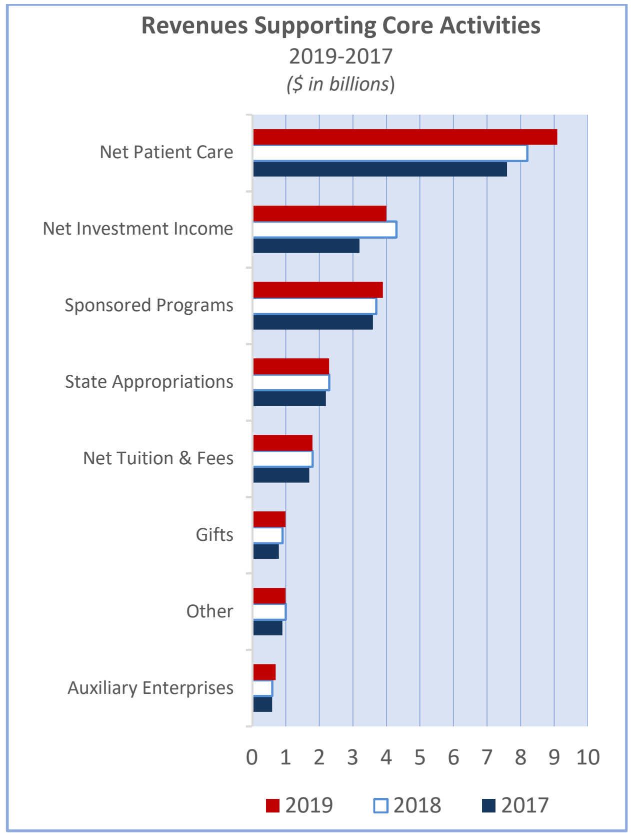
		2019	*Restated 2018	2017
Operating revenues:				
Net student tuition and fees	$	1,811.1	1,828.3	1,718.4
Sponsored programs		3,495.4	3,298.0	3,198.2
Net sales and services of hospitals		7,017.2	6,317.4	5,786.3
Net professional fees		2,026.7	1,878.5	1,812.3
Net auxiliary enterprises		689.4	625.8	593.5
Other		1,009.5	936.8	926.9
Total operating revenues		16,049.3	14,884.8	14,035.6
Total operating expenses		(20,284.8)	(18,741.8)	(18,306.1)
Operating loss		(4,235.5)	(3,857.0)	(4,270.5)
Nonoperating revenues (expenses):				
State appropriations		2,283.2	2,268.1	2,226.3
Nonexchange Sponsored Programs		442.6	424.3	394.8
Gift contributions for operations		436.6	448.1	446.6
Net investment income excluding the change in fair value of investments		4,040.5	4,279.3	3,178.0
Net increase (decrease) in fair value of investments		(2,322.1)	3,105.6	1,512.8
Interest expense on capital asset financings		(334.8)	(281.7)	(262.6)
Net other nonoperating revenues (expenses)		23.2	(61.4)	50.3
Income (loss) before other revenues, expenses, gains or losses and transfers		333.7	6,325.3	3,275.7
Capital gifts and grants and additions to permanent endowments		517.1	458.3	319.7
Net Transfers to other State entities		(379.0)	(613.7)	(182.9)
Change in net position		471.8	6,169.9	3,412.5
Net position, beginning of the year		45,390.8	39,220.9	41,282.1
Restatements				(5,473.7)
Net position, beginning of the year (as restated)		45,390.8	39,220.9	35,808.4
Net position, end of the year	$	45,862.6	45,390.8	39,220.9

*Restatements in 2018 related to the implementation of GASB Statement 83 *Certain Asset Retirement Obligations*

Revenues Supporting Core Activities

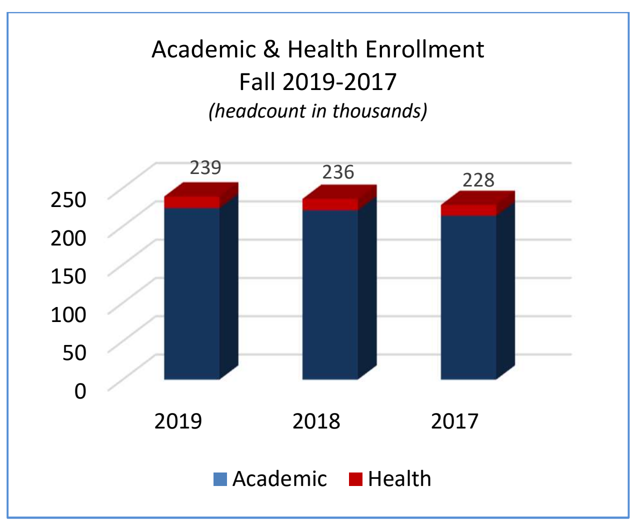
Revenues to support the System's core activities, including those classified as nonoperating revenues, were $23.8 billion, $22.8 billion, and $20.6 billion in 2019, 2018, and 2017, respectively. These diverse sources of revenues increased by $1.0 billion in 2019 primarily due to increases in patient care revenues.

The chart below shows a three-year comparison of the components of revenues that support the core activities of the System:



Net Student Tuition and Fees

Student tuition and fees, net of scholarship allowances, are a primary source of funding for the System's academic programs. Scholarship allowances, or financial aid, are the differences between the stated charge for tuition and fees and the amount that is paid by the student and third parties on behalf of the student. Tuition and fees are generated from students enrolled primarily in the System's academic institutions as illustrated in the chart below:



The System's academic institutions enroll 34.1% of the State's public college students, and the System's health-related institutions enroll 58.0% of the students attending the State's public health institutions.

Sponsored Programs

Sponsored program revenues are primarily generated from governmental and private sources related to research programs that typically provide for the recovery of direct and indirect costs. Sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. Sponsored programs revenues were $3.9 billion, $3.7 billion, and $3.6 billion in 2019, 2018, and 2017, respectively.

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 are reported net of contractual allowances, bad debt expense, and unreimbursed charges for financially or medically indigent patients. Net patient care revenues were $9.0 billion, $8.2 billion, and $7.6 billion in 2019, 2018, and 2017, respectively. Net patient care revenues increased $848.0 million, or 10.3%, in 2019, as a result of increases in inpatient and outpatient volumes.

Net Auxiliary Enterprises

Net auxiliary enterprise revenues were earned from a host of activities such as athletics, housing and food services, bookstores, parking, student health and other activities. Net auxiliary enterprises were $689.4 million, $625.8 million, and $593.5 million in 2019, 2018, and 2017, respectively.

State Appropriations

State appropriations, in conjunction with student tuition and fees, are core components that support the instructional mission of the System. State appropriations were $2.3 billion, $2.3 billion, and $2.2 billion in 2019, 2018, and 2017, respectively.

Net Investment Income (Loss) Excluding the Change in Fair Value of Investments

The System carefully navigates the investment environment and works diligently to manage its financial resources. Net investment income, excluding the change in fair value of investments, were $4.0 billion, $4.3 billion, and $3.2 billion in 2019, 2018, and 2017, respectively. Due in part to decreased realized gains because of less favorable market conditions, net investment income, excluding the change in the fair value of investments, decreased $238.8 million from 2018 to 2019. Net investment income includes realized gains of $2.2 billion in 2019 and $2.5 billion in 2018.

Net Increase (Decrease) in Fair Value of Investments

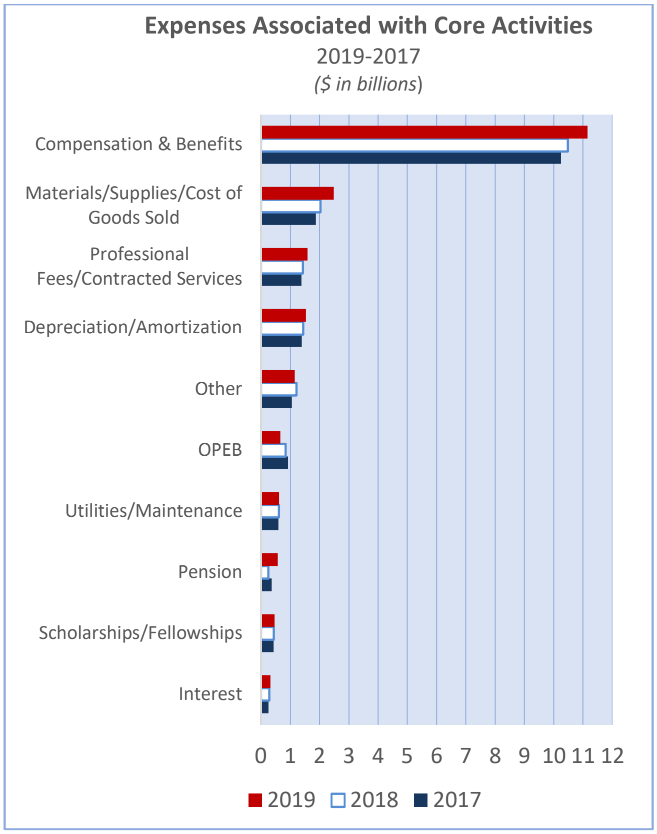
Net increase (decrease) in fair value of investments reported a decrease of $2.3 billion in 2019, an increase of $3.1 billion in 2018, and an increase of $1.5 billion in 2017. In 2019 there was a decrease from 2018 of $5.4 billion primarily due to less favorable market conditions and to the decrease in PUF lands oil and gas reserves discussed above. 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 an annual ten percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2019.

Gifts

The System receives gift contributions for operations as well as nonoperating gifts and grants of capital, and gifts that are held in perpetuity which are added to the System's endowment holdings. In 2019, gifts for operations totaled $436.6 million, a decrease of 2.6% over 2018. Capital gifts and grants and additions to permanent endowments totaled $517.1 million for the year ended August 31, 2019, an increase of $58.8 million over 2018 primarily due to a large gift received by U. T. Dallas for capital acquisitions. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

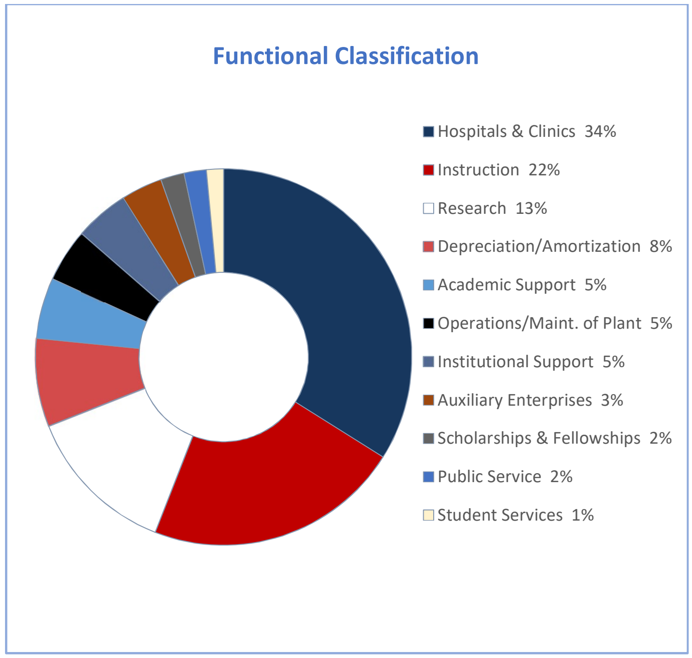
Expenses Supporting Core Activities

Expenses associated with the System's core activities, including interest expense classified as nonoperating, were $20.6 billion, $19.0 billion, and $18.6 billion in 2019, 2018, and 2017, respectively. The changes, by category, for the three years are depicted below:



Operating expenses increased by $1.5 billion in 2019 and $435.7 million in 2018 primarily due 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 $664.8 million of OPEB expense and $584.8 million of pension expense. Nonoperating expenses include interest expense which increased by $53.1 million in 2019 due primarily to changes related to the implementation of GASB statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which discontinued the capitalization of interest costs during construction. Interest expense includes the amortization of premiums, amortization of deferred gains and losses on refunding of debt and the interest rate lock termination amortization.

The following charts illustrate the makeup of operating expenses by functional classification for the year ended August 31, 2019:



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

Income before other revenue, expenses, gains or losses and transfers is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions, discussed above, or transfers. The income before other revenues, expenses, gains or losses totaled $333.7 billion in 2019, a decrease of $6.0 billion over 2018. This decrease was largely a result of the net decrease in the fair value of investments discussed above.

Net Transfers to Other State Entities

Net transfers to other State agencies totaled $379.0 million for the year ended August 31, 2019, a decrease of $234.7 million over 2018. These transfers primarily include $374.1 million and $324.3 million for 2019 and 2018, 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 Texas Constitution. In addition to the transfers of the current year earnings, the net change in PUF debt outstanding at TAMUS is reflected as a transfer to other State agencies. In 2018, the PUF debt at TAMUS increased $298.4 million; whereas in 2019 the debt only increased $18.7 million. This accounted for the decrease in net transfers to other State entities.

Change in Net Position

The change in net position is an overall indication of the improvement or decline between the prior and current year's statement of net position. Net position increased by $471.8 million in 2019 as compared to an increase of $6.2 billion in 2018 primarily due to less favorable market conditions and a substantial decrease in the value of the PUF lands in 2019, discussed above.

Restatements

Deferred outflows of resources, asset retirement obligations and asset retirement expense were restated by $19.8 million in 2018 to reflect the effects of implementing GASB Statement 83 *Certain Asset Retirement Obligations.*

The Statement of Cash Flows

The Statement of Cash Flows provides information about the System's financial results by reporting the major sources and uses of cash and cash equivalents during the fiscal year. Ending cash and cash equivalents were $4.0 billion, $3.2 billion, and $3.2 billion in 2019, 2018, and 2017, respectively. A summarized three-year comparison of the System's changes in cash and cash equivalents follows:

Condensed Statement of Cash Flows

($ in millions)

		2019	2018	2017
Net cash provided (used) by:				
Operating activities	$	(1,769.3)	(1,532.0)	(1,774.7)
Noncapital financing activities		3,104.8	2,304.9	2,691.1
Capital and related financing activities		(1,846.6)	(1,887.9)	(1,509.9)
Investing activities		1,356.8	1,129.0	906.3
Net increase in cash and cash equivalents		845.7	14.0	312.8
Beginning cash and cash equivalents		3,203.5	3,189.5	2,876.7
Ending cash and cash equivalents	$	4,049.2	3,203.5	3,189.5

In 2019, cash and cash equivalents increased $845.7 million primarily due to $3.1 billion provided by noncapital financing activities such as state appropriations and gifts, and $1.4 billion provided by investing activities such as interest and investment income. These increases were offset by $1.8 billion of cash used for capital and related financing activities primarily for the purchase of capital assets and the net activity associated with issuing and retiring capital related debt. And finally, $1.8 billion of net cash was used for operating activities such as payments to employees and suppliers, offset by the collection of cash related to tuition and fees, patient charges, and to sponsored programs activities. Cash received from net patient care revenues increased $843.2 million in 2019 and it was one of the main drivers of the increase in cash for the year.

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 is one of the largest and most comprehensive institutions of higher education in the country, as well as one of the largest employers in Texas. The System's operating budget provides a wide range of services for Texans. Budgeted revenues of the System include both operating and nonoperating revenues. Budgeted revenues for 2020 increased 7.9% to $21.7 billion.

Areas of growth include: net sales and services of hospitals and clinics, up 9.2% through a combination of volume, productivity and price increases; local and private sponsored programs, up 11.3% due to growth in contracts with partner health organizations; net professional fees, up 6.6% resulting from growth in practice plans; and net student tuition and fees, up 7.2% due to additional enrollment and rate increases.

Budgeted expenses for 2020 increased 7.4% to $21.1 billion. The most significant areas of growth include: personnel costs, up 8.3%, due to additional employees in support of the medical enterprise, merit increases and increased benefit costs; costs of operations, up 7.8%, due to expanded facilities for growth in patient care activities and increased medical and drug supply costs; and new academic programs and research.

The Texas legislature, per the 86th legislative session, appropriated additional funding for higher education. The System's academic institutions will benefit from an 8.3% increase in formula funding for the 2020-2021 biennium; the health institutions will see a 6.9% increase in formula funding. Additionally, the System's research funding for the academic institutions received an increase of 14.3% over the 2018-2019 biennium. Besides increasing funding, the legislators passed a bill that takes some positive steps to address the challenges some students experience when transferring between institutions. The bill will require the

System to report critical data regarding the transferability of credit hours to state oversight agencies.

A significant cost to the System is the cost of the benefits provided to its employees and retirees. The State provides certain health and life insurance benefits for retired employees in accordance with State statutes. The total OPEB liability is one of the System's largest liabilities; however, as noted previously, these benefits are guaranteed in statute. In addition to OPEB, the System also receives a proportional share of the State's net pension liability, which is also guaranteed in State statute. These significant costs will continue to be a challenge to both the System and the state of Texas as a whole.

The System employs a highly trained, world-class workforce which continually enables it to attract students and patients. It has a diversified mix of revenue streams which augment tuition and state support and it maintains a strong credit rating which facilitates a low cost of borrowing. The System continues to sustain the highest credit ratings of Fitch Ratings (AAA), Moody's Investors Service (Aaa) and Standard & Poor's Global Ratings (AAA). The System's ongoing efforts toward revenue diversification and cost containment will enable the System to achieve its goals and realize its mission.

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CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2019 AND 2018

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION
AUGUST 31, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS		2019	2018
CURRENT ASSETS			
Cash and cash equivalents	$	3,195,116,022	2,505,387,194
Restricted cash and cash equivalents		850,441,792	690,747,230
Balance in State appropriations		129,459,929	125,097,250
Accounts receivable, net:			
Federal (net of allowances of $5,575,155 and $5,266,723, respectively)		544,123,499	534,913,933
Other intergovernmental (net of allowances of $1,578,065 and $832,283, respectively)		131,404,328	111,571,668
Student (net of allowances of $22,609,155 and $18,146,681, respectively)		333,829,834	352,623,797
Patient and healthcare (net of allowances of $354,846,571 and $237,002,614, respectively)		1,045,994,724	976,859,607
Interest and dividends		85,645,142	83,337,141
Contributions – current portion (net of allowances of $4,373,018 and $3,133,056, respectively)		122,818,011	130,234,087
Investment trades		720,787,537	488,068,868
Other (net of allowances of $12,282,247 and $5,650,038, respectively)		487,051,701	528,365,708
Due from other agencies		65,949,711	88,015,739
Inventories		161,424,610	139,561,696
Restricted loans and contracts - current portion (net of allowances of $19,167,874 and $16,845,713, respectively)		56,229,051	66,459,357
Securities lending collateral		453,059,220	434,189,416
Other current assets		292,011,583	277,148,786
Total current assets		8,675,346,694	7,532,581,477
NONCURRENT ASSETS			
Cash and cash equivalents – noncurrent restricted		3,645,372	7,384,191
Restricted investments		43,228,099,313	43,547,706,390
Deposit with brokers for derivative contracts		52,885,484	45,836,428
Loans and contracts (net of allowances of $25,841,033 and $23,945,576, respectively)		55,460,018	68,811,410
Contributions receivable (net of allowances of $1,681,548 and $2,081,281, respectively)		266,538,284	238,905,829
Unrestricted Investments		11,219,170,548	10,459,525,117
Hedging Derivative Asset		-	37,067,661
Other noncurrent assets		267,821,255	162,692,830
Gross capital/intangible assets		33,636,158,665	31,688,757,852
Less accumulated depreciation		(16,089,318,530)	(14,799,472,457)
Net capital assets		17,546,840,135	16,889,285,395
Total noncurrent assets		72,640,460,409	71,457,215,251
TOTAL ASSETS		81,315,807,103	78,989,796,728
Deferred Outflows of Resources		3,376,021,305	1,001,796,159
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	84,691,828,408	79,991,592,887

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION (Continued)
AUGUST 31, 2019 AND 2018

LIABILITIES AND DEFERRED INFLOWS		2019	2018
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$	1,449,822,051	1,389,951,740
Salaries payable		645,437,218	594,441,802
Investment trades payable		1,219,091,532	977,438,361
Incurred but not reported self-insurance claims – current portion		140,388,415	134,052,868
Total other postemployment benefits liability - current portion		230,593,877	202,555,282
Securities lending obligations		453,059,221	434,189,416
Due to other State agencies		25,318,480	28,515,356
Statewide interfund payable – current portion		70,717,552	63,222,910
Unearned revenue		1,832,415,729	1,683,638,538
Employees' compensable leave – current portion		428,376,654	412,622,753
Short-term debt		1,490,522,000	1,185,868,000
Notes, loans and leases payable – current portion		6,577,976	22,701,185
Bonds payable – current portion		1,789,490,558	1,826,253,299
Assets held for others – current portion		4,594,587	16,164,823
Asset retirement obligation – current portion		-	611,267
Other current liabilities		229,282,748	195,646,137
Total current liabilities		10,015,688,598	9,167,873,737
NONCURRENT LIABILITIES			
Incurred but not reported self-insurance claims		28,030,577	30,866,320
Employees' compensable leave		244,173,830	227,919,611
Assets held for others		991,783,584	876,684,162
Liability to beneficiaries		14,041,657	14,145,426
Total other postemployment benefits liability		10,125,191,669	10,514,556,063
Net pension liability		4,919,537,167	2,650,044,162
Notes, loans and leases payable		170,301,063	3,686,524
Bonds payable		7,710,948,456	7,671,716,734
Statewide interfund payable		1,225,343,489	1,215,093,641
Hedging derivative liability		325,363,093	165,354,206
Payable to brokers for collateral held		98,277,187	111,679,000
Investment derivatives - liability positions		103,796,598	68,043,373
Asset retirement obligation		26,309,187	24,753,139
Other noncurrent liabilities		68,834,775	67,236,562
Total noncurrent liabilities		26,051,932,332	23,641,778,923
TOTAL LIABILITIES		36,067,620,930	32,809,652,660
Deferred Inflows of Resources		2,761,591,967	1,791,152,211
TOTAL LIABILITIES AND DEFERRED INFLOWS	$	38,829,212,897	34,600,804,871
NET POSITION			
Net investment in capital assets	$	6,747,250,462	6,632,432,233
Restricted:			
Nonexpendable		26,986,429,001	27,395,040,035
Expendable		14,861,667,665	14,655,181,774
Total Restricted		41,848,096,666	42,050,221,809
Unrestricted		(2,732,731,617)	(3,291,866,026)
TOTAL NET POSITION	$	45,862,615,511	45,390,788,016

See accompanying notes to consolidated financial statements (Concluded)

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THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2019 AND 2018

		2019	2018
OPERATING REVENUES			
Net student tuition and fees (net of discounts and allowances of $761,301,656 and $692,100,615, respectively)	$	1,811,146,300	1,828,272,175
Sponsored programs		3,495,361,757	3,297,976,728
Net sales and services of educational activities (net of discounts and allowances of $278,677 and $283,155, respectively)		560,226,641	490,280,680
Net sales and services of hospitals (net of discounts and allowances of $9,452,269,548 and $8,500,618,907, respectively)		7,017,183,565	6,317,449,623
Net professional fees (net of discounts and allowances of $5,142,581,598 and $4,490,418,956, respectively)		2,026,681,532	1,878,525,750
Net auxiliary enterprises (net of discounts and allowances of $12,191,186 and $17,495,295, respectively)		689,387,028	625,758,256
Other		449,332,676	446,561,020
Total operating revenues		16,049,319,499	14,884,824,232
OPERATING EXPENSES			
Instruction		4,465,389,598	4,314,611,736
Research		2,653,356,266	2,486,870,385
Public service		385,189,762	338,780,207
Hospitals and clinics		6,880,333,623	6,196,045,459
Academic support		1,062,469,948	936,988,799
Student services		299,634,472	287,841,502
Institutional support		943,874,700	783,681,374
Operations and maintenance of plant		928,790,267	896,927,974
Scholarships and fellowships		410,441,793	375,190,658
Auxiliary enterprises		719,278,693	684,381,306
Depreciation and amortization		1,536,019,254	1,440,561,714
Total operating expenses		20,284,778,376	18,741,881,114
Operating loss		(4,235,458,877)	(3,857,056,882)
NONOPERATING REVENUES (EXPENSES)			
State appropriations		2,283,166,288	2,268,092,826
Nonexchange sponsored programs		442,559,789	424,282,616
Gift contributions for operations		436,649,734	448,086,349
Net investment income		1,718,430,345	7,384,886,951
Interest expense on capital asset financings		(334,790,350)	(281,687,994)
Loss on sale of capital assets		(36,714,696)	(36,257,289)
Other		59,881,124	(25,077,422)
Net nonoperating revenues		4,569,182,234	10,182,326,037
Income before other changes in net position		333,723,357	6,325,269,155
OTHER CHANGES IN NET POSITION			
Capital gifts and grants		292,781,993	253,961,646
Additions to permanent endowments		224,281,887	204,349,155
Net transfers to other State agencies		(378,873,588)	(610,371,786)
Legislative appropriations lapsed		(86,154)	(3,369,534)
Change in net position		471,827,495	6,169,838,636
NET POSITION			
Net position, beginning of year		45,390,788,016	39,220,949,380
Net position, end of year	$	45,862,615,511	45,390,788,016

See accompanying notes to consolidated financial statements

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2019 AND 2018

CASH FLOWS FROM OPERATING ACTIVITIES		2019	2018
Proceeds from tuition and fees	$	1,865,803,386	1,836,744,837
Proceeds from patients and customers		8,985,690,162	8,142,533,381
Proceeds from sponsored programs		3,540,097,980	3,408,055,979
Proceeds from auxiliaries		694,589,402	655,338,579
Proceeds from other revenues		951,608,298	990,361,589
Payments to suppliers		(6,431,325,296)	(5,848,344,790)
Payments to employees		(11,396,086,922)	(10,722,323,532)
Payments for loans provided		(109,585,577)	(106,489,395)
Proceeds from loan programs		129,888,612	112,136,155
Net cash used in operating activities		(1,769,319,955)	(1,531,987,197)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from State appropriations		2,278,717,455	2,272,683,763
Proceeds from operating gifts		420,611,112	395,135,670
Proceeds from private gifts for endowment purposes		486,467,350	988,415,466
Proceeds from other noncapital financing activities		145,275,304	65,915,434
Receipts for transfers from other agencies		621,785,681	512,646,754
Payments for transfers to other agencies		(1,277,440,911)	(2,300,169,094)
Payments for other uses		(28,877,255)	(79,355,460)
Proceeds from nonexchange sponsored programs		458,281,900	449,625,861
Net cash provided by noncapital financing activities		3,104,820,636	2,304,898,394
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from issuance of capital debt		1,854,957,282	2,011,699,066
Payments of other costs on debt issuance		(4,433,463)	(6,230,095)
Proceeds from capital appropriations, grants and gifts		228,706,765	241,134,924
Proceeds from sale of capital assets		3,944,927	3,029,311
Payments for additions to capital assets		(2,052,235,223)	(2,027,594,522)
Payments of principal on capital related debt		(1,465,417,886)	(1,753,759,081)
Payments of interest on capital related debt		(412,168,342)	(356,158,737)
Net cash used in capital and related financing activities		(1,846,645,940)	(1,887,879,134)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investments		31,989,571,616	25,256,773,284
Proceeds from interest and investment income		2,010,674,008	1,770,080,544
Payments to acquire investments		(32,643,415,794)	(25,897,901,540)
Net cash provided by investing activities		1,356,829,830	1,128,952,288
NET INCREASE IN CASH		845,684,571	13,984,351
Cash and cash equivalents, beginning of year		3,203,518,615	3,189,534,264
Cash and Cash equivalents, end of year	$	4,049,203,186	3,203,518,615

See accompanying notes to consolidated financial statements (Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEARS ENDED AUGUST 31, 2019 AND 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		**2019**	**2018**
Operating loss	$	(4,235,458,877)	(3,857,056,882)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		1,536,019,254	1,440,561,714
Gross loss on impairment of capital assets		33,807,632	2,466,800
Bad debt expense		364,422,782	368,794,214
Other postemployment benefits obligation expense		664,784,810	843,220,745
Pension expense		584,838,293	251,961,770
Changes in assets and liabilities:			
Accounts receivable		(444,492,296)	(265,366,147)
Inventories		(21,862,914)	(14,493,985)
Loans and contracts		20,308,435	5,654,006
Other current and noncurrent assets		(116,669,488)	(51,522,275)
Deferred Outflows-Other Postemployment Benefits		(364,048,918)	(8,006,018)
Deferred Outflows-Pension Related		(1,832,590,813)	187,209,869
Accounts payable and accrued liabilities		189,411,748	35,068,157
Unearned revenue		141,837,442	(30,348,821)
Assets held for others		(22,958,416)	7,591,826
Employees' compensable leave		32,008,120	32,690,989
Other postemployment benefits obligation		(1,026,110,609)	(903,138,182)
Pension related obligations		1,684,654,712	(735,806,103)
Asset retirement obligations		1,783,272	19,774,921
Deferred Inflows-Other Postemployment Benefits		1,178,400,403	764,599,101
Deferred Inflows-Pension Related		(172,639,351)	264,196,398
Other current and noncurrent liabilities		35,234,824	109,960,706
Total adjustments		2,466,138,922	2,325,069,685
Net cash used in operating activities	$	(1,769,319,955)	(1,531,987,197)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION			
Net increase (decrease) in fair value of investments		(2,392,905,074)	2,881,770,872
Donated capital assets		84,142,184	58,599,451
Capital assets acquired under capital lease purchases or direct borrowings		150,480,838	1,382,575
Miscellaneous noncash transactions		(39,567,289)	(20,825,587)

See accompanying notes to consolidated financial statements (Concluded)

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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 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.

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 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. Separate financial statements may be obtained by contacting U. T. Southwestern Health Systems, 5323 Harry Hines Boulevard, Dallas, Texas 75390.

U. T. Southwestern Moncrief Cancer Center 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. Separate financial statements may be obtained by contacting U. T. Southwestern Moncrief Cancer Center, 400 West Magnolia Avenue, Fort Worth, Texas 76104.

Moncrief Cancer Foundation 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. Separate financial statements may be obtained by contacting Moncrief Cancer Foundation, 5323 Harry Hines Blvd. Dallas, Texas 75390.

UTMB HealthCare Systems is governed by an eight-member board appointed by U. T. Medical Branch - Galveston. UTMB HealthCare Systems, Inc. provides temporary staffing and leased property, and manages the Medicare Select insurance product in selected markets for 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. Separate financial statements may be obtained by contacting UTMB HealthCare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555.

The University Medical Branch Student Book Store, Inc. 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. Separate financial statements may be obtained by contacting The University Medical Branch Student Book Store, Inc., 301 University Boulevard, Galveston, Texas 77555.

Medical Branch Innovations, Inc. 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. Separate financial statements may be obtained by contacting Medical Branch Innovations, Inc., 301 University Boulevard, Galveston, Texas 77555.

U. T. Physicians 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. Separate financial statements may be obtained by contacting U. T. Physicians, 7000 Fannin Street, Suite 860, Houston, Texas 77030.

U. T. System Medical Foundation 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. Separate financial statements may be obtained by contacting U. T. System Medical Foundation, 6431 Fannin, Suite JJL 310, Houston, Texas 77030.

University Physicians Group 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. Separate financial statements may be obtained by contacting University Physicians Group, 8431 Fredericksburg Road, San Antonio, Texas 78229.

U. T. Health San Antonio Regional Physician Network is governed by a seven-member board. The Dean of the School of Medicine is the Chair of the Board of Directors. The corporation 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. The corporation is a newly blended entity for the System beginning in fiscal year 2018. 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. Separate financial statements may be obtained by contacting U. T. Health San Antonio Regional Physician Network, 1999 Bryan St, Suite 900, Dallas Texas 75201-3136.

M. D. Anderson Physician's Network 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. Separate financial statements may be obtained by contacting M. D. Anderson Physician's Network, 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

M. D. Anderson Services Corporation is governed by a seven-member board appointed by the president of M. D. Anderson. 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. Separate financial statements may be obtained by contacting M. D Anderson Services Corporation, 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

East Texas Quality Care Network, Inc. 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. Separate financial statements may be obtained by contacting East Texas Quality Care Network, Inc., 11937 US Highway 271, Tyler, Texas 75708-3154.

The University of Texas/Texas A&M Investment Management Company (UTIMCO) is governed by a nine-member board consisting of at least three members of the U. T. System Board of Regents, four 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. Separate financial statements may be obtained by contacting The University of Texas/Texas A&M Investment Management Company (UTIMCO), 210 West 7th Street, Suite 1700, Austin, Texas 78701.

The University of Texas Fine Arts Foundation 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. Separate financial statements may be obtained by contacting The University of Texas Fine Arts Foundation, U. T. Austin, Main Building, P. O. Box T, Austin, Texas 78713.

The University of Texas Communication Foundation 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. Separate financial statements may be obtained by contacting The University of Texas Communication Foundation, U. T. Austin, P. O. Box 7322, Austin, Texas 78713.

Centro Global de Innovacion y Emprendimiento, A.C., Parque de Investigación e Innovación Tecnológica (PIIT), Av. Alianza Norte 300, esquina con Av. Innovación, Apodaca, Nuevo León, is governed by a two-member board appointed by U. T. Austin. Centro Global de Innovacion y Emprendimiento, A.C. promotes academic development in engineering, science, and business and cultural studies between The University of Texas at Austin and Mexico's academic institutions. The institute is blended rather than discretely presented because it is organized as a not-for-profit corporation, and U. T. Austin is the sole corporate member. Centro Global de Innovacion y Emprendimiento's fiscal year end is December 31. Separate financial statements may be obtained by contacting Centro Global de Innovacion y Emprendimiento, A.C., Carlos Ross, Director, ross@cgie.org.mx, T: +52(81)8850-3495 | 96.

The University of Texas at Austin – Mexico Institute, A.C., Centro de Ciencias de la Complejidad (Edificio C3), Planta Baja, Unidad Internacional de Sedes Universitarias, Circuito Cultural c/n, Zona Cultural, Ciudad Universitaria, Ciudad de México, México, CP. 04510, is governed by a four-member board appointed by U. T. Austin. The University of Texas at Austin – Mexico Institute, A.C. advances collaborative cross-disciplinary academic and scientific research partnerships in science, technology, engineering, and mathematics, and scholarly and cultural studies between The University of Texas at Austin and Mexico's academic institutions. The institute is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Austin is the sole corporate member. The Mexico Institute's fiscal year end is December 31. The University of Texas at Austin – Mexico Institute, A.C. had no activity through August 31, 2019. Separate financial statements may be obtained by contacting The University of Texas at Austin Jorge Rene Pinon, Director of Institutional Relations – Mexico, 2275 Speedway, Austin, TX, 78712.

The Crow Museum of Asian Art - Foundation, is governed a board of five directors appointed by U. T. Dallas. The foundation is a newly blended entity for the System beginning in fiscal year 2019. The foundation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Dallas is the sole corporate member. The foundation's fiscal year end is December 31. Separate financial statements may be obtained by contacting the Crow Museum of Asian Art, 2010 Flora Street, Dallas, Texas 75201.

The Crow Museum of Asian Art - Trust, is governed by U. T. Dallas as the sole trustee. The trust is a newly blended entity for the System beginning in fiscal year 2019. The trust is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Dallas is the sole corporate member. The trust's fiscal year end is December 31. Separate financial statements may be obtained by contacting the Crow Museum of Asian Art, 2010 Flora Street, Dallas, Texas 75201.

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2019 is as follows:

As of August 31, 2019		Southwestern Health Systems	Southwestern Moncrief Cancer Center	Moncrief Cancer Foundation	UTMB HealthCare Systems	The University Medical Branch Student Book Store, Inc.
Condensed Statement of Net Position						
Current Assets	$	17,522,449	4,406,820	731,122	15,837,074	2,196,205
Noncurrent Assets		-	29,992,519	95,160,352	8,269,421	4,068
Total Assets		17,522,449	34,399,339	95,891,474	24,106,495	2,200,273
Current Liabilities		-	1,975,140	20,764,005	2,243,125	82,767
Noncurrent Liabilities		-	-	-	-	-
Total Liabilities		-	1,975,140	20,764,005	2,243,125	82,767
Net Investment in Capital Assets		-	28,017,379	-	1,700,284	4,068
Restricted Nonexpendable		-	1,567,923	-	-	-
Restricted Expendable		-	-	75,127,469	-	-
Unrestricted		17,522,449	2,838,897	-	20,163,086	2,113,438
Total Net Position	$	17,522,449	32,424,199	75,127,469	21,863,370	2,117,506
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	$	38,845	9,198,986	-	36,379,592	818,913
Operating Expenses		(34,159)	(12,208,153)	-	(35,367,094)	(1,011,103)
Operating Income/(Loss)		4,686	(3,009,167)	-	1,012,498	(192,190)
Nonoperating Revenues (Expenses)		1,876,014	-	-	675,354	15,969
Income/(Loss) Before Other Changes in Net Position		1,880,700	(3,009,167)	-	1,687,852	(176,221)
Other Changes in Net Position		(931,000)	1,791,607	(3,317,062)	-	-
Change in Net Position		949,700	(1,217,560)	(3,317,062)	1,687,852	(176,221)
Net Position - August 31, 2018		16,572,749	33,641,759	78,444,531	20,175,518	2,293,727
Net Position-August 31, 2019	$	17,522,449	32,424,199	75,127,469	21,863,370	2,117,506
Condensed Statement of Cash Flows						
Net Cash provided (used) by:						
Operating Activities	$	253,807	1,181,285	337,950	233,288	(225,825)
Noncapital Financing Activities		-	-	-	-	-
Capital and Related Financing		-	-	-	-	-
Investing Activities		(25,054)	84,887	(902,231)	(415,409)	66,183
Net Increase (Decrease) in Cash and Cash Equivalents		228,753	1,266,172	(564,281)	(182,121)	(159,642)
Cash and Cash Equivalents – August 31, 2018		5,518,778	1,860,465	1,221,452	6,288,339	2,084,679
Cash and Cash Equivalents – August 31, 2019	$	5,747,531	3,126,637	657,171	6,106,218	1,925,037

(Continued)

As of August 31, 2019		Medical Branch Innovations	U. T. Physicians	U. T. System Medical Foundation	University Physicians Group	U. T. Health San Antonio Regional Physician Network
Condensed Statement of Net Position						
Current Assets	$	6,172,439	104,744,665	7,907,385	-	398
Noncurrent Assets		-	76,790,799	3,603,450	1,935,622	-
Total Assets		6,172,439	181,535,464	11,510,835	1,935,622	398
Current Liabilities		48,693	131,558,745	266,602	-	398
Noncurrent Liabilities		6,569,137	-	250,000	-	-
Total Liabilities		6,617,830	131,558,745	516,602	-	398
Net Investment in Capital Assets		-	21,080,605	-	-	-
Restricted Nonexpendable		-	-	-	-	-
Restricted Expendable		-	-	-	-	-
Unrestricted		(445,391)	28,896,114	10,994,233	1,935,622	-
Total Net Position	$	(445,391)	49,976,719	10,994,233	1,935,622	-
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	$	809,497	187,084,858	78,289,116	65,000	-
Operating Expenses		(1,097,094)	(196,370,670)	(78,349,226)	(65,000)	(971,624)
Operating Income/(Loss)		(287,597)	(9,285,812)	(60,110)	-	(971,624)
Nonoperating Revenues (Expenses)		124,406	5,122,126	358,501	-	-
Income/(Loss) Before Other Changes in Net Position		(163,191)	(4,163,686)	298,391	-	(971,624)
Other Changes in Net Position		-	-	-	-	1,188,243
Change in Net Position		(163,191)	(4,163,686)	298,391	-	216,619
Net Position - August 31, 2018		(282,200)	54,140,405	10,695,842	1,935,622	(216,619)
Net Position-August 31, 2019	$	(445,391)	49,976,719	10,994,233	1,935,622	-
Condensed Statement of Cash Flows						
Net Cash provided (used) by:						
Operating Activities	$	(438,386)	33,561,843	802,393	-	-
Noncapital Financing Activities		-	-	-	-	-
Capital and Related Financing		-	(3,426,066)	-	-	-
Investing Activities		124,406	(18,004,437)	169,729	-	-
Net Increase (Decrease) in Cash and Cash Equivalents		(313,980)	12,131,340	972,122	-	-
Cash and Cash Equivalents – August 31, 2018		5,694,768	67,560,060	6,167,067	-	-
Cash and Cash Equivalents – August 31, 2019	$	5,380,788	79,691,400	7,139,189	-	-

(Continued)

As of August 31, 2019		M. D. Anderson Physician's Network	M. D. Anderson Services Corp	East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation
Condensed Statement of Net Position						
Current Assets	$	64,727,900	97,147,720	385,626	27,379,391	436
Noncurrent Assets		107,964,903	670,532,355	-	2,417,290	-
Total Assets		172,692,803	767,680,075	385,626	29,796,681	436
Current Liabilities		16,835,858	121,254,980	11,175	14,431,227	-
Noncurrent Liabilities		-	184,230,968	-	5,461,994	-
Total Liabilities		16,835,858	305,485,948	11,175	19,893,221	-
Net Investment in Capital Assets		1,167,034	7,406	-	-	-
Restricted Nonexpendable		-	50,000,000	-	-	-
Restricted Expendable		-	383,830,518	-	-	-
Unrestricted		154,689,911	28,356,203	374,451	9,903,460	436
Total Net Position	$	155,856,945	462,194,127	374,451	9,903,460	436
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	$	52,195,211	3,187,344	45,285	43,801,512	-
Operating Expenses		(23,929,939)	(2,059,113)	(20,225)	(40,952,229)	(60)
Operating Income/(Loss)		28,265,272	1,128,231	25,060	2,849,283	(60)
Nonoperating Revenues (Expenses)		6,152,828	29,716,877	-	560,046	2
Income/(Loss) Before Other Changes in Net Position		34,418,100	30,845,108	25,060	3,409,329	(58)
Other Changes in Net Position		-	-	-	-	-
Change in Net Position		34,418,100	30,845,108	25,060	3,409,329	(58)
Net Position - August 31, 2018		121,438,845	431,349,019	349,391	6,494,131	494
Net Position-August 31, 2019	$	155,856,945	462,194,127	374,451	9,903,460	436
Condensed Statement of Cash Flows						
Net Cash provided (used) by:						
Operating Activities	$	33,939,413	31,876,588	(165,844)	5,536,394	(60)
Noncapital Financing Activities		-	(29,314,671)	-	-	-
Capital and Related Financing		-	-	-	(181,060)	-
Investing Activities		(20,960,850)	(1,689,609)	-	560,011	2
Net Increase (Decrease) in Cash and Cash Equivalents		12,978,563	872,308	(165,844)	5,915,345	(58)
Cash and Cash Equivalents – August 31, 2018		38,231,027	94,610,136	343,167	20,112,598	494
Cash and Cash Equivalents – August 31, 2019	$	51,209,590	95,482,444	177,323	26,027,943	436

(Concluded)

As of August 31, 2019		University of Texas Communication Foundation	Centro Global de Innovacion y Emprendimiento A.C.	The Crow Museum of Asian Art - Foundation	The Crow Museum of Asian Art - Trust.	Combined Blended Component Unit Total
Condensed Statement of Net Position						
Current Assets	$	211	130,643	320,895	833,033	350,444,412
Noncurrent Assets		177,910	33,618	40,850,016	24,494,537	1,062,226,860
Total Assets		178,121	164,261	41,170,911	25,327,570	1,412,671,272
Current Liabilities		119,020	15,653	687,752	-	310,295,140
Noncurrent Liabilities		39,052	-	-	-	196,551,151
Total Liabilities		158,072	15,653	687,752	-	506,846,291
Net Investment in Capital Assets		-	791,833	40,850,016	-	93,618,625
Restricted Nonexpendable		-	-	-	-	51,567,923
Restricted Expendable		-	-	-	25,327,570	484,285,557
Unrestricted		20,049	(643,225)	(366,857)	-	276,352,876
Total Net Position	$	20,049	148,608	40,483,159	25,327,570	905,824,981
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	$	-	357,179	177,107	-	412,448,445
Operating Expenses		(787)	(430,617)	(1,099,817)	(60,279)	(394,027,189)
Operating Income/(Loss)		(787)	(73,438)	(922,710)	(60,279)	18,421,256
Nonoperating Revenues (Expenses)		-	-	372,834	2,754,914	47,729,871
Income/(Loss) Before Other Changes in Net Position		(787)	(73,438)	(549,876)	2,694,635	66,151,127
Other Changes in Net Position		-	6,132	41,033,035	22,632,935	62,403,890
Change in Net Position		(787)	(67,306)	40,483,159	25,327,570	128,555,017
Net Position - August 31, 2018		20,836	215,914	-	-	777,269,964
Net Position-August 31, 2019	$	20,049	148,608	40,483,159	25,327,570	905,824,981
Condensed Statement of Cash Flows						
Net Cash provided (used) by:						
Operating Activities	$	-	(73,438)	(5,101)	(60,279)	106,754,028
Noncapital Financing Activities		-	-	18,313	354,521	(28,941,837)
Capital and Related Financing		-	-	48,444	22,278,414	18,719,732
Investing Activities		-	26,553	-	(21,739,623)	(62,705,442)
Net Increase (Decrease) in Cash and Cash Equivalents		-	(46,885)	61,656	833,033	33,826,481
Cash and Cash Equivalents – August 31, 2018		211	133,759	-	-	249,827,000
Cash and Cash Equivalents – August 31, 2019	$	211	86,874	61,656	833,033	283,653,481

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2018 is as follows:

As of August 31, 2018		Southwestern Health Systems	Southwestern Moncrief Cancer Center	Moncrief Cancer Foundation	UTMB HealthCare Systems	The University Medical Branch Student Book Store, Inc.	Medical Branch Innovations
Condensed Statement of Net Position							
Current Assets	$	16,585,555	2,360,563	1,296,018	14,172,150	2,400,019	6,186,496
Noncurrent Assets		-	33,641,760	97,895,995	8,148,830	7,762	-
Total Assets		16,585,555	36,002,323	99,192,013	22,320,980	2,407,781	6,186,496
Current Liabilities		12,806	2,360,564	20,747,482	2,145,462	114,054	109,559
Noncurrent Liabilities		-	-	-	-	-	6,359,137
Total Liabilities		12,806	2,360,564	20,747,482	2,145,462	114,054	6,468,696
Net Investment in Capital Assets		-	29,381,199	-	1,789,693	7,762	-
Restricted Nonexpendable		-	1,659,170	-	-	-	-
Restricted Expendable		-	-	78,444,531	-	-	-
Unrestricted		16,572,749	2,601,390	-	18,385,825	2,285,965	(282,200)
Total Net Position	$	16,572,749	33,641,759	78,444,531	20,175,518	2,293,727	(282,200)
Condensed Statement of Revenues, Expenses and Changes in Net Position							
Operating Revenues	$	3,075	12,756,974	406	37,083,762	966,759	617,813
Operating Expenses		(20,328)	(12,411,642)	-	(36,477,821)	(1,085,133)	(789,534)
Operating Income/(Loss)		(17,253)	345,332	406	605,941	(118,374)	(171,721)
Nonoperating Revenues (Expenses)		2,366,408	-	12,341,993	481,754	6,996	73,774
Income/(Loss) Before Other Changes in Net Position		2,349,155	345,332	12,342,399	1,087,695	(111,378)	(97,947)
Other Changes in Net Position		(930,999)	(2,097,181)	(3,280,425)	-	-	-
Change in Net Position		1,418,156	(1,751,849)	9,061,974	1,087,695	(111,378)	(97,947)
Net Position - August 31, 2017		15,154,593	35,393,608	69,382,557	19,087,823	2,405,105	(184,253)
Net Position-August 31, 2018	$	16,572,749	33,641,759	78,444,531	20,175,518	2,293,727	(282,200)
Condensed Statement of Cash Flows							
Net Cash provided (used) by:							
Operating Activities	$	1,732,353	614,644	2,374,502	2,710,447	(85,513)	354,672
Noncapital Financing Activities		-	-	-	-	-	-
Capital and Related Financing		-	(6,247)	-	-	-	-
Investing Activities		(2,258,081)	53,323	(2,363,097)	(412,724)	(336)	73,774
Net Increase (Decrease) in Cash and Cash Equivalents		(525,728)	661,720	11,405	2,297,723	(85,849)	428,446
Cash and Cash Equivalents – August 31, 2017		6,044,506	1,198,745	1,210,047	3,990,616	2,170,528	5,266,322
Cash and Cash Equivalents – August 31, 2018	$	5,518,778	1,860,465	1,221,452	6,288,339	2,084,679	5,694,768

(Continued)

As of August 31, 2018		U. T. Physicians	U. T. System Medical Foundation	University Physicians Group	U. T. Health San Antonio Regional Physician Network	M. D. Anderson Physician's Network	M. D. Anderson Services Corp
Condensed Statement of Net Position							
Current Assets	$	86,844,173	14,519,324	-	(216,245)	50,336,309	95,933,378
Noncurrent Assets		54,861,655	3,422,960	1,935,622	-	86,667,273	668,838,665
Total Assets		141,705,828	17,942,284	1,935,622	(216,245)	137,003,582	764,772,043
Current Liabilities		87,565,423	6,996,442	-	374	15,466,154	118,947,947
Noncurrent Liabilities		-	250,000	-	-	98,583	214,475,077
Total Liabilities		87,565,423	7,246,442	-	374	15,564,737	333,423,024
Net Investment in Capital Assets		22,538,096	-	-	-	633,089	3,324
Restricted Nonexpendable		-	-	-	-	-	50,000,000
Restricted Expendable		-	-	-	-	-	355,864,684
Unrestricted		31,602,309	10,695,842	1,935,622	(216,619)	120,805,756	25,481,011
Total Net Position	$	54,140,405	10,695,842	1,935,622	(216,619)	121,438,845	431,349,019
Condensed Statement of Revenues, Expenses and Changes in Net Position							
Operating Revenues	$	184,107,379	90,175,824	903,881	-	42,853,284	2,617,454
Operating Expenses		(171,339,520)	(89,933,078)	(722,525)	(217,514)	(22,696,968)	(3,614,029)
Operating Income/(Loss)		12,767,859	242,746	181,356	(217,514)	20,156,316	(996,575)
Nonoperating Revenues (Expenses)		1,627,054	207,185	(181,356)	-	2,685,224	61,713,138
Income/(Loss) Before Other Changes in Net Position		14,394,913	449,931	-	(217,514)	22,841,540	60,716,563
Other Changes in Net Position		(49,999,750)	-	-	895	-	-
Change in Net Position		(35,604,837)	449,931	-	(216,619)	22,841,540	60,716,563
Net Position - August 31, 2017		89,745,242	10,245,911	1,935,622	-	98,597,305	370,632,456
Net Position-August 31, 2018	$	54,140,405	10,695,842	1,935,622	(216,619)	121,438,845	431,349,019
Condensed Statement of Cash Flows							
Net Cash provided (used) by:							
Operating Activities	$	(27,808,499)	(723,521)	488,791	-	22,757,581	59,917,923
Noncapital Financing Activities		95,495	-	-	-	-	(28,969,616)
Capital and Related Financing		(4,467,806)	-	(488,791)	-	-	-
Investing Activities		26,282,669	97,392	-	-	(16,320,423)	(31,622,713)
Net Increase (Decrease) in Cash and Cash Equivalents		(5,898,141)	(626,129)	-	-	6,437,158	(674,406)
Cash and Cash Equivalents – August 31, 2017		73,458,201	6,793,196	-	-	31,793,869	95,284,542
Cash and Cash Equivalents – August 31, 2018	$	67,560,060	6,167,067	-	-	38,231,027	94,610,136

(Concluded)

As of August 31, 2018		East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation	University of Texas Communication Foundation	Centro Global de Innovacion y Emprendimiento A.C.	Combined Blended Component Unit Total
Condensed Statement of Net Position							
Current Assets	$	359,402	21,707,243	494	211	228,823	312,713,913
Noncurrent Assets		-	2,196,620	-	177,910	49,475	957,844,527
Total Assets		359,402	23,903,863	494	178,121	278,298	1,270,558,440
Current Liabilities		10,011	12,011,702	-	118,233	62,384	266,668,597
Noncurrent Liabilities		-	5,398,030	-	39,052	-	226,619,879
Total Liabilities		10,011	17,409,732	-	157,285	62,384	493,288,476
Net Investment in Capital Assets		-	-	-	-	-	54,353,163
Restricted Nonexpendable		-	-	-	-	-	51,659,170
Restricted Expendable		-	-	-	-	-	434,309,215
Unrestricted		349,391	6,494,131	494	20,836	215,914	236,948,416
Total Net Position	$	349,391	6,494,131	494	20,836	215,914	777,269,964
Condensed Statement of Revenues, Expenses and Changes in Net Position							
Operating Revenues	$	44,971	45,509,801	-	-	297,203	417,938,586
Operating Expenses		(23,972)	(49,157,229)	(775)	-	(291,688)	(388,781,756)
Operating Income/(Loss)		20,999	(3,647,428)	(775)	-	5,515	29,156,830
Nonoperating Revenues (Expenses)		-	276,142	1	-	(578,623)	81,019,690
Income/(Loss) Before Other Changes in Net Position		20,999	(3,371,286)	(774)	-	(573,108)	110,176,520
Other Changes in Net Position		-	-	-	-	789,022	(55,518,438)
Change in Net Position		20,999	(3,371,286)	(774)	-	215,914	54,658,082
Net Position - August 31, 2017		328,392	9,865,417	1,268	20,836	-	722,611,882
Net Position-August 31, 2018	$	349,391	6,494,131	494	20,836	215,914	777,269,964
Condensed Statement of Cash Flows							
Net Cash provided (used) by:							
Operating Activities	$	33	14,294,619	(775)	-	5,515	76,632,772
Noncapital Financing Activities		-	-	-	-	-	(28,874,121)
Capital and Related Financing		-	(13,223,283)	-	-	-	(18,186,127)
Investing Activities		-	316,304	1	-	128,244	(26,025,667)
Net Increase (Decrease) in Cash and Cash Equivalents		33	1,387,640	(774)	-	133,759	3,546,857
Cash and Cash Equivalents – August 31, 2017		343,134	18,724,958	1,268	211	-	246,280,143
Cash and Cash Equivalents – August 31, 2018	$	343,167	20,112,598	494	211	133,759	249,827,000

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, 2019, 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 $2,707,624,087 at August 31, 2019 and $2,381,867,586 at August 31, 2018.

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, 2019, related to pass-through grants were $412,390,162 and $9,054,947, respectively. Funds received and provided during the year ended August 31, 2018, related to pass-through grants were $431,873,657 and $19,438,383, 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

The University of Texas Southwestern Medical Center (UTSW) is a participating member of Texas Health Resources (THR) integrated regional health network. This network, Southwestern Health Resources (SWHR), offers 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, 2019 and 2018 was $23,681,501 and $26,802,017, respectively, or approximately 50%.

The University of Texas Southwestern Medical Center is a participating member of Texas Health Hospital Frisco (THHF). Texas Health Hospital Frisco is a joint venture entered into by UTSW and Texas Health Resources on August 27, 2018. UTSW's equity interest in Texas Health Hospital Frisco at August 31, 2019 was $105,046,823, or 49%. No separate financial statements were completed for fiscal year 2019. THHF is scheduled to open in fiscal year 2020.

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, 2019 and 2018 was $10,597,069 and $9,229,383, 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.

In April 2018, UTSHS became a participating member of Crowder Dialysis, LLC (Crowder). Crowder is a joint venture between UTSHS, Crowder, and Renal Treatment Centers-Southeast, LP, formed for the purpose of developing, establishing, owning or leasing, and operating one or more licensed outpatient dialysis and renal care service centers and for the purpose of doing such other things as are necessary, convenient, desirable or incidental to the foregoing, and for such other purposes as may be agreed upon from time to time. UTSHS's equity interest in Crowder at August 31, 2019 and 2018 was $1,124,414 and $1,596,085, respectively or 49%. Separate financial statements for Crowder may be obtained at c/o DaVita Inc., 2000 16th Street, Denver, Colorado, 80202 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, 2019 and 2018 was $921,148 and $645,662, respectively, or 35.62%. Separate financial statements for Physician’s Dialysis of Houston may be obtained at Physician’s Dialysis of Houston, Attention: Marie Sinfield, 1423 Pacific Avenue, Tacoma, Washington 98402.

U. T. Health Science Center - Houston’s blended component unit, U. T. Physicians, is a participating member of TMC Holding Company, L.L.C. (TMC Holding). TMC Holding is a Limited Liability Corporation entered into by U. T. Physicians, Baylor College of Medicine and Memorial Hermann/USP Surgery Centers III, L.L.P. U. T. Physicians’ equity interest in TMC Holding at August 31, 2019 and 2018 was $405,220 and $459,211, 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, 2019 and 2018 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, 2019 and 2018 was $12,989,382 and $12,958,172, respectively, or 11.6% and 11.9%, respectively. M. D. Anderson’s equity interest in TECO at August 31, 2019 and 2018 was $42,265,157 and $43,318,947, respectively, or 37.6% and 38.5%, 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, 2019 and 2018 was $5,924,560 and $5,493,728, 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, 2019 and 2018 was $2,849,145 and $2,489,336, 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, 2019 and 2018, M. D. Anderson's equity interest in PTC Partnership was $0. M. D. Anderson received no cash contributions during the fiscal year ended August 31, 2019, but received cash contributions totaling $1,225,245 during the fiscal year ended August 31, 2018. 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 entered into an asset purchase agreement for all the assets, including non-excluded working capital accounts, with PTC-Houston Management, LP for approximately $156,000,000. The transaction was effective December 1, 2018. The deferred outflows created from this transaction was approximately $23 million. As a 49% residual interest holder Investor, M. D. Anderson recovered approximately $43,300,000 in distributions through the dissolution of the partnership.

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, 2019 and 2018 was $1,245,000, or approximately 2.5%. Separate financial statements for NCTM may be obtained at http://www.tamus.edu/iit/nctm/.

On March 1, 2018, U. T. Health Science Center – Tyler (UTHSC – Tyler) entered into a joint venture with AHS East Texas Health System, LLC, to form East Texas Health System, LLC, a Texas Limited Liability Company. The resulting health system, known as U. T. Health East Texas, is designed to expand medical education, research and community health in Northeast Texas. U. T. Health Science Center – Tyler's hospital and physician clinic operations are participants in the ten-hospital system, designed to advance the achievement of UTHSC – Tyler's mission through financial and clinical alignment and integration and to improve the delivery of cost effective, quality health care services in the Northeast Texas region. UTHSC – Tyler's equity interest in U. T. Health East Texas at August 31, 2019 and 2018 was $10,457,300 and $3,043,300, respectively, or approximately 30%.

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 2018

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective 2018, addressed reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, effective 2018, required 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.

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2019

GASB Statement No. 83, *Certain Asset Retirement Obligations* (ARO), effective 2019, addressed accounting and financial reporting for AROs related to clean-up and decommissioning of items using radiation such as broadscope licenses, cyclotrons, and nuclear reactors. The effect of implementing GASB Statement No. 83 on the System's financial statements for the year ended August 31, 2018 was as follows:

Statement of Net Position as of August 31, 2018

		As Reported in Fiscal Year 2018	GASB Statement No. 83 Restatement	Restated Fiscal Year 2018
Assets:				
Total Current Assets	$	7,532,581,477	-	7,532,581,477
Total Noncurrent Assets		71,457,215,251	-	71,457,215,251
Total Assets		78,989,796,728	-	78,989,796,728
Total Deferred Outflows of Resources		996,206,674	5,589,485	1,001,796,159
Total Assets and Deferred Outflows	$	79,986,003,402	5,589,485	79,991,592,887
Liabilities:				
Current Asset Retirement Obligation	$	-	611,267	611,267
Other Current Liabilities		9,167,262,470	-	9,167,262,470
Total Current Liabilities		9,167,262,470	611,267	9,167,873,737
Noncurrent Asset Retirement Obligation		-	24,753,139	24,753,139
Other Noncurrent Liabilities		23,617,025,784	-	23,617,025,784
Total Noncurrent Liabilities		23,617,025,784	24,753,139	23,641,778,923
Total Liabilities		32,784,288,254	25,364,406	32,809,652,660
Total Deferred Inflows of Resources		1,791,152,211	-	1,791,152,211
Total Liabilities and Deferred Inflows	$	34,575,440,465	25,364,406	34,600,804,871
Net Position:				
Net Investment in Capital Assets	$	6,632,432,233	-	6,632,432,233
Restricted Nonexpendable		27,395,040,035	-	27,395,040,035
Restricted Expendable		14,655,181,774	-	14,655,181,774
Unrestricted		(3,272,091,105)	(19,774,921)	(3,291,866,026)
Total Net Position	$	45,410,562,937	(19,774,921)	45,390,788,016

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended August 31, 2018

		As Reported in Fiscal Year 2018	GASB Statement No. 83 Restatement	Restated Fiscal Year 2018
Operating Income (Loss):				
Total Operating Revenues	$	14,884,824,232	-	14,884,824,232
Less Operating Expenses:				
Asset Retirement Expense		-	19,774,921	19,774,921
Other Operating Expenses		18,722,106,193	-	18,722,106,193
Total Operating Expenses		18,722,106,193	19,774,921	18,741,881,114
Operating Income (Loss)		(3,837,281,961)	(19,774,921)	(3,857,056,882)
Total Net Nonoperating Revenues (Expenses)		10,182,326,037	-	10,182,326,037
Income/(Loss) Before Other Revenue, Expenses, Gains/(Losses), and Transfers		6,345,044,076	(19,774,921)	6,325,269,155
Other Revenues/Transfers		(155,430,519)	-	(155,430,519)
Change in Net Position		6,189,613,557	(19,774,921)	6,169,838,636
Beginning Net Position		39,220,949,380	-	39,220,949,380
Ending Net Position	$	45,410,562,937	(19,774,921)	45,390,788,016

GASB Statement No. 85, *Omnibus 2017*, effective 2019, addressed practice issues that were identified during implementation and application of certain GASB statements. The implementation of Statement 85 had no effect on the System's net position or changes in net position for the years ended August 31, 2019 and 2018.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective 2019, addressed note disclosures based on liability type. The implementation of Statement 88 had no effect on the System's net position or changes in net position for the years ended August 31, 2019 and 2018. Capital lease obligations of $7,295,157 were reclassified to notes from direct borrowings for August 31, 2018.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective 2021, simplifies interest expense accounting and enhances the relevance of information about capital assets. GASB Statement No. 89 discontinued the capitalization of interest costs during construction. The Texas State Comptroller's Office decided to early implement this standard in 2019. The implementation of Statement 89 resulted in more interest expense being reflected beginning in 2019.

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 Permanent University Fund (PUF), General Endowment Fund (GEF) and Intermediate Term Fund (ITF) 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 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.

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 part of investment income 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. 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 and beneficial interests in irrevocable split-interest agreements in which a third-party is the intermediary.

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, certain changes in the net pension and total OPEB liability, unamortized portions of asset retirement obligation, and excess consideration paid in a government acquisition. 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 or deferred inflows of resources related to pensions, and employer contributions subsequent to the measurement date of the net pension liability are also required to be reported as deferred outflows of resources. Similarly, changes in the total OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB, and employer contributions subsequent to the measurement date of the total OPEB liability are also required to be reported as deferred outflows of resources. For asset retirement obligations, deferred outflows are recognized for anticipated clean-up and decommissioning costs, amortized over the life of the related assets. Deferred outflows are also recognized for excess consideration paid in a government acquisition, amortized over the estimated service life.

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, 2019 and 2018 is $516,598,582 and $492,658,190, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at M. D. Anderson. As of August 31, 2019 and 2018, assets held for others also included $222,100,542 and $217,380,658, 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.

TOTAL OPEB LIABILITY

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 System and member contribution rates are determined annually by the System based on the recommendations of the Office of Employee Benefits 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.

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.

ASSET RETIREMENT OBLIGATION

The liability related to clean-up and decommissioning of items using radiation such as broadscope licenses, cyclotrons, and nuclear reactors is reported as asset retirement obligation. The liability is measured using best estimates of expected outlays for clean-up and decommissioning costs.

DEFERRED INFLOWS

Deferred inflows consist of the fair value of hedging derivatives in an asset position, unamortized gains on refunding of debt, certain changes in the net pension and total OPEB liability, and beneficial interests in irrevocable split-interest agreements. 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. 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. Similarly, changes in the total OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. For irrevocable split-interest agreements in which U. T. System has an unconditional beneficial interest, the fair value of the gift beneficial interest is deferred and reported as deferred inflows until the resources become applicable to the reporting period.

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 2019 and 2018 of $374,118,285 and $324,342,157, respectively, the System recorded a liability of $1,293,585,081 and $1,274,923,776 at August 31, 2019 and 2018, 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, 2019 and 2018 is $2,475,960 and $3,392,775, respectively, related to the revolving loan programs administered by the Texas State Comptroller's Office.

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 $952,693,885 and $716,876,940 for 2019 and 2018, 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 $98,597,834 and $81,907,495 for 2019 and 2018, 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 facility's 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.

The physician practices at other institutions – U. T. Health Science Center - Houston, U. T. Health Science Center - San Antonio, U. T. Austin Dell Medical School, and U. T. Rio Grande Valley – are reimbursed by Medicare according to the Medicare Physician Fee Schedule and/or various Medicare Alternative Payment Models.

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 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, Medicaid and Medicare payors which offer benefit plans for 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 for inpatient and outpatient services. The System's health-related institutions recognized bad debt expense of $361,141,031 and $364,095,857 in 2019 and 2018, 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, 2019 and 2018 are detailed by type as follows:

Net Other Receivables		2019	2018
Receivables related to investments	$	159,631,322	200,483,502
Receivables related to gifts, grants and sponsored programs		88,121,765	66,867,599
Receivables related to external parties/other companies		166,346,366	170,231,124
Receivables related to auxiliary enterprises		17,916,999	9,556,838
Receivables related to payroll		2,109,943	8,531,548
Receivables related to patents		1,132,059	706,780
Receivables related to travel		1,618,533	1,374,302
Receivables related to loan funds and financial aid		2,927,015	2,648,370
Receivables related to agency funds		861,348	7,054,870
Receivables related to other various activities		46,386,351	60,910,775
Total	$	487,051,701	528,365,708

6. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2019 and 2018, the carrying amount of deposits was $96,741,382 and $151,240,335, respectively, as presented below:

		2019	2018
Cash and cash equivalents per statement of cash flows and statement of net position	$	4,049,203,186	3,203,518,615
Less: Cash in State Treasury		1,223,612,049	1,144,336,004
Repurchase agreement – Texas Treasury Safekeeping Trust Co.		374,109	3,955,653
Other cash equivalent investments		2,711,916,808	1,898,098,845
Other		16,558,838	5,887,778
Deposits of cash in bank	$	96,741,382	151,240,335

As of August 31, 2019 and 2018, the total bank balances were $130,672,653 and $215,181,629, 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. State law requires 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, 2018, U. T. System held deposits that were exposed to custodial credit risk due to due unexpected inflows on August 31, 2018. As of August 31, 2018, the bank balances exposed to custodial risk as uninsured and uncollateralized deposits were $27,159,777.

As of August 31, 2018, 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, 2018, the bank balances exposed to custodial risk as uninsured and uncollateralized deposits were $156,025. As of August 31, 2019, there were no bank balances exposed to custodial risk as uninsured and uncollateralized deposits.

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, probable, and possible 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. 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, 2019 and 2018, respectively, as categorized by level of the fair value hierarchy:

During the year ended August 31, 2019, UTIMCO reclassified the categorizations of the investment funds, or commingled funds, to align with revisions made to the investment strategy used by UTIMCO in managing PUF, effective September 1, 2018. This reclassification was approved by the U. T. Board of Regents and is reflected in the presentation of the commingled funds in the tables below. Accordingly, the August 31, 2018 commingled funds categorization was reclassified from the 2018 audited financial statements to conform to the current year presentation.

Type of Security	Fair Value as of August 31, 2019	Fair Value Measurement Using: Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt Securities:				
U.S. Government Treasury Securities	$ 1,085,171,389	1,085,171,389	-	-
U.S. Government Treasury TIPS	50,904,129	50,904,129	-	-
U.S. Government Agency Obligations	979,578,924	-	979,578,924	-
Corporate Obligations	1,145,070,989	-	1,144,127,972	943,017
Corporate Asset and Mortgage Backed Securities	99,367,789	-	99,367,789	-
International Obligations (Government and Corporate)	2,730,210,132	-	2,730,210,132	-
Fixed Income Money Market and Bond Mutual Funds	2,262,520,048	2,262,520,048	-	-
Mutual Funds	477,544,039	467,914,143	9,629,896	-
Equity Securities:				
Equity	1,580,902,758	1,569,592,964	11,309,794	-
International Equity	3,693,653,516	3,693,624,555	28,961	-
Other Commingled Funds:				
Fixed Income	34,942,241	34,942,241	-	-
U. S. Equity	71,306,592	71,306,592	-	-
Real Estate and Other:				
PUF Lands	7,323,051,848	-	-	7,323,051,848
Other Real Estate	514,930,960	-	-	514,930,960
Physical Commodities - Gold	691,714,405	691,714,405	-	-
Investment Derivatives – Asset Positions	144,420,222	2,251,718	142,168,504	-
Alternative Investments:				
Private Investments	500,576,474	-	-	500,576,474
Miscellaneous	16,857,008	1,567,923	13,470,439	1,818,646
Total Investments by Fair Value Level	23,402,723,463	9,931,510,107	5,129,892,411	8,341,320,945

Type of Security		Fair Value as of August 31, 2019	Fair Value Measurement Using: Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Funds Fair Valued Using Net Asset Value:					
Real Estate		28,963,138			
Hedge Funds		10,887,909,386			
Other Commingled Funds – U.S. Equity		2,062,260,179			
International Other Commingled Funds		4,635,180,016			
Private Investments		13,249,237,891			
Total Investment Funds Fair Valued Using Net Asset Value		30,863,550,610			
Investments Held in Cash (Not at Fair Value)		180,545,316			
Other Investments (Not at Fair Value)		450,472			
Total Investments	$	54,447,269,861			
Securities Lending Collateral Investment Pool (see Securities Lending section)	$	453,059,220	-	453,059,220	-
Investments Classified as Cash Equivalents:					
Repurchase Agreement - Texas Treasury Safekeeping Trust Co. (Not at Fair Value)	$	374,109			
Fixed Income Money Market Funds		2,711,750,688	2,711,750,688	-	-
Time Deposits (Not at Fair Value)		166,120			
Total Investments Classified as Cash Equivalents	$	2,712,290,917			
Deposit with Brokers for Derivative Contracts, net (related to investments):					
U.S. Government Direct Obligations	$	4,189,700	4,189,700	-	-
Held in Cash (Not at Fair Value)		(38,251,403)			
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	(34,061,703)			

Type of Security		Fair Value as of August 31, 2018	Fair Value Measurement Using: Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:					
Debt Securities:					
U.S. Government Treasury Securities	$	1,355,784,008	1,355,784,008	-	-
U.S. Government Treasury TIPS		36,634,341	36,634,341	-	-
U.S. Government Agency Obligations		241,107,109	-	241,107,109	-
Corporate Obligations		928,860,249	-	927,863,199	997,050
Corporate Asset and Mortgage Backed Securities		90,577,060	-	90,577,060	-
International Obligations (Government and Corporate)		2,726,925,959	-	2,726,925,959	-
Fixed Income Money Market and Bond Mutual Funds		3,770,658,441	3,770,658,441	-	-
Mutual Funds		423,425,242	399,248,200	24,079,407	97,635
Equity Securities:					
Equity		1,389,368,297	1,382,196,186	7,172,111	-
International Equity		3,373,694,584	3,373,665,673	28,911	-
Other Commingled Funds:					
Fixed Income		31,397,435	31,397,435	-	-
U. S. Equity		109,540,415	109,540,415	-	-
International Other Commingled Funds:					
Non-U.S. Developed Equity		3,395,034	3,395,034	-	-
Global Developed Equity		431,664	431,664	-	-
Emerging Markets		2,567,929	2,567,929	-	-
Real Estate		894,964	894,964	-	-
Natural Resources		1,050,694	1,050,694	-	-
Real Estate and Other:					
PUF Lands		8,985,870,810	-	-	8,985,870,810
Other Real Estate		369,147,375	-	-	369,147,375
Physical Commodities - Gold		752,630,718	752,630,718	-	-
Investment Derivatives – Asset Positions		172,176,902	2,620,484	169,556,418	-
Alternative Investments:					
Private Investments		392,568,308	-	-	392,568,308
Miscellaneous		16,297,592	1,659,171	12,951,481	1,686,940
Total Investments by Fair Value Level		25,175,005,130	11,224,375,357	4,200,261,655	9,750,368,118

Type of Security		Fair Value as of August 31, 2018	Fair Value Measurement Using: Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Funds Fair Valued Using Net Asset Value:					
Real Estate		27,692,473			
Hedge Funds		10,111,487,954			
Other Commingled Funds – U.S. Equity		2,470,698,361			
International Other Commingled Funds		3,624,478,993			
Private Investments		12,463,514,219			
Total Investment Funds Fair Valued Using Net Asset Value		28,697,872,000			
Investments Held in Cash (Not at Fair Value)		133,917,881			
Other Investments (Not at Fair Value)		436,496			
Total Investments	$	54,007,231,507			
Securities Lending Collateral Investment Pool (see Securities Lending section)	$	434,189,416	-	434,189,416	-
Investments Classified as Cash Equivalents:					
Repurchase Agreement - Texas Treasury Safekeeping Trust Co. (Not at Fair Value)	$	3,955,653			
Fixed Income Money Market Funds		1,897,558,802	1,897,558,802	-	-
Time Deposits (Not at Fair Value)		540,043			
Total Investments Classified as Cash Equivalents	$	1,902,054,498			
Deposit with Brokers for Derivative Contracts, net (related to investments):					
U.S. Government Direct Obligations	$	6,423,735	6,423,735	-	-
Held in Cash (Not at Fair Value)		12,823,693			
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	19,247,428			

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, 2019 and 2018 is summarized in the tables below as they are included within the asset mix of the System.

	Fair Value as of August 31, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment Funds Fair Valued Using Net Asset Value				
Real Estate				
Redeemable Within One Year	$ 28,963,138	-	Quarterly	60 Days
Hedge Funds				
Redeemable Within One Year	5,110,879,514		Monthly to 3 years	5 - 90 Days
Redeemable Beyond One Year	4,595,201,599		Quarterly to 3 years	45 - 120 Days
Nonredeemable	1,181,828,273		Not Applicable	Not Applicable
Total Hedge Funds	10,887,909,386	1,098,734,077		
Other Commingled Funds – U. S. Equity				
Redeemable Within One Year	1,147,412,546		Daily to Annually	1 - 90 Days
Redeemable Beyond One Year	914,847,633		Annually	1 - 90 Days
Total Other Commingled Funds – U. S. Equity	2,062,260,179	192,202,759		
International Other Commingled Funds:				
Non-U.S. Developed Equity				
Redeemable Within One Year	925,339,624		Monthly to Quarterly	6 - 30 Days
Total Non-U.S. Developed Equity	925,339,624	-		
Global Developed Equity				
Redeemable Within One Year	2,009,781,389		Monthly to Quarterly	30 - 60 Days
Redeemable Beyond One Year	170,671,670		Monthly	60 Days
Total Global Developed Equity	2,180,453,059	-		
Emerging Markets				
Redeemable Within One Year	1,286,490,016		Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	188,276,345		Monthly to Quarterly	45 - 60 Days
Nonredeemable	54,620,972		Not Applicable	Not Applicable
Total Emerging Markets	1,529,387,333	61,617,987		
Total International Other Commingled Funds	4,635,180,016	61,617,987		
Limited Partnerships (Private Investments)				
Redeemable Within One Year	19,816,293		Quarterly	90 days
Nonredeemable	13,229,421,598		Not Applicable	Not Applicable
Total Limited Partnerships (Private Investments)	13,249,237,891	7,524,136,005		
Total Investment Funds Fair Valued Using NAV	$ 30,863,550,610	8,876,690,828		

	Fair Value as of August 31, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment Funds Fair Valued Using Net Asset Value				
Real Estate				
Redeemable Within One Year	$ 27,692,473	-	Quarterly	60 Days
Hedge Funds				
Redeemable Within One Year	5,500,235,462		Monthly to 3 Years	0 - 180 Days
Redeemable Beyond One Year	3,592,518,679		Monthly to 3 Years	45 - 120 Days
Nonredeemable	1,018,733,813		Not Applicable	Not Applicable
Total Hedge Funds	10,111,487,954	1,161,094,432		
Other Commingled Funds – U. S. Equity				
Redeemable Within One Year	2,091,820,104		Monthly to 2 Years	1 - 90 Days
Redeemable Beyond One Year	378,878,257		Quarterly to Annually	1 - 90 Days
Total Other Commingled Funds – U. S. Equity	2,470,698,361	32,500,000		
International Other Commingled Funds:				
Non-U.S. Developed Equity				
Redeemable Within One Year	801,517,389		Monthly to Quarterly	6 - 30 Days
Total Non-U.S. Developed Equity	801,517,389	-		
Global Developed Equity				
Redeemable Within One Year	1,201,895,735		Monthly to Quarterly	45 - 60 Days
Redeemable Beyond One Year	103,437,921		Monthly	60 Days
Total Global Developed Equity	1,305,333,656	-		
Emerging Markets				
Redeemable Within One Year	1,286,210,923		Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	168,122,797		Monthly/Quarterly	45 - 90 Days
Nonredeemable	63,294,228		Not Applicable	Not Applicable
Total Emerging Markets	1,517,627,948	141,106,726		
Total International Other Commingled Funds	3,624,478,993	141,106,726		
Limited Partnerships (Private Investments)				
Redeemable Within One Year	19,132,804		Quarterly	180 Days
Nonredeemable	12,444,381,415		Not Applicable	Not Applicable
Total Limited Partnerships (Private Investments)	12,463,514,219	5,077,668,448		
Total Investment Funds Fair Valued Using NAV	$ 28,697,872,000	6,412,369,606		

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 $1,098,734,077 and $1,161,094,432 of future funding to various hedge fund investments as of August 31, 2019 and 2018, 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, 2019 and 2018, future fundings in the amount of $253,820,746 and $173,606,726, 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 $7,524,136,005 and $5,077,668,448 of future funding to various private investments as of August 31, 2019 and 2018, 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, 2019 and 2018 were $30,863,550,610 and $28,697,872,000, 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 are included in the credit risk disclosure. The following tables present each applicable investment type grouped by rating as of August 31, 2019 and 2018:

		August 31, 2019					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
Investments and Investments Classified as Cash Equivalents:							
U.S. Government Direct Obligations	$	1,136,075,518	Aaa	1,136,075,518	AA	1,136,075,518	AAA
U.S. Government Agency Obligations		976,114,655	Aaa	976,114,655	AA	976,114,655	AAA
		1,058,447	A	3,464,269	NR	3,464,269	NR
		2,405,822	B	-	-	-	-
Corporate Obligations		50,359,686	Aaa	28,706,211	AAA	31,130,012	AAA
		116,971,080	Aa	103,281,589	AA	101,794,020	AA
		634,304,869	A	569,704,702	A	558,135,337	A
		319,380,574	Baa	427,659,494	BBB	225,478,751	BBB
		13,519,219	Ba	4,477,735	BB	941,860	BB
		1,140	B	1,140	B	227,591,009	NR
		10,534,421	NR	5,037	D	-	-
		-	-	11,235,081	NR	-	-
Corporate Asset and Mortgage Backed Securities		57,118,812	Aaa	9,029,142	AAA	41,471,072	AAA
		3,733,392	Aa	6,289,113	AA	3,355,539	AA
		6,589,119	A	4,918,438	A	2,929,604	A
		6,951,503	Baa	7,820,961	BBB	4,467,662	BBB
		5,026,276	Ba	4,384,367	BB	1,855,431	BB
		230,033	B	2,220,418	B	555,884	B
		2,938,822	Caa	5,760,718	CCC	44,732,597	NR
		848,782	Ca	905,218	CC	-	-
		15,931,050	NR	23,260	D	-	-
		-	-	58,016,154	NR	-	-
International Obligations (Government and Corporate)		462,821,639	Aaa	316,026,142	AAA	421,894,904	AAA
		296,759,770	Aa	188,483,221	AA	281,043,623	AA
		808,213,012	A	519,524,809	A	499,653,948	A
		476,932,579	Baa	231,923,142	BBB	508,080,877	BBB
		89,529,681	Ba	167,740,802	BB	162,096,806	BB
		9,455,793	B	10,200,597	B	1,782,273	B
		586,497,658	NR	1,296,311,419	NR	855,657,701	NR
Fixed Income Money Market and Mutual Funds		4,828,561,995	Aaa	4,828,561,995	AAA	210,572,100	AAA
		326,254,057	NR	326,254,057	NR	4,944,243,952	NR
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.		374,109	NR	374,109	AA	374,109	NR
Miscellaneous		1,522,215	Aaa	5,189,101	AAA	8,392,637	AAA
		4,618,627	Aa	4,958,984	AA	8,341	AA
		2,720,388	A	2,431,382	A	2,431,382	A
		147,010	Baa	371,766	BBB	224,756	BBB
		39,570,559	NR	35,627,566	NR	37,521,683	NR
Total Investments and Investments Classified as Cash Equivalents	$	11,294,072,312		11,294,072,312		11,294,072,312	
Deposit with Brokers for Derivative Contracts, net (related to investments):							
U.S. Government Direct Obligations	$	4,189,700	Aaa	4,189,700	AA	4,189,700	AAA
Cash		(38,251,403)	NR	(38,251,403)	NR	(38,251,403)	NR
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	(34,061,703)		(34,061,703)		(34,061,703)	

		August 31, 2018					
		MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type		**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
Investments and Investments Classified as Cash Equivalents:							
U.S. Government Direct Obligations	$	1,392,418,349	Aaa	1,392,418,349	AA	1,392,418,349	AAA
U.S. Government Agency Obligations		237,375,648	Aaa	237,375,648	AA	28,589,902	AAA
		1,284,549	A	3,731,461	NR	208,785,746	AA
		2,446,912	B	-	-	3,731,461	NR
Corporate Obligations		18,036,048	Aaa	12,906,972	AAA	12,054,126	AAA
		111,362,832	Aa	117,708,164	AA	101,270,888	AA
		496,234,581	A	433,643,673	A	462,717,829	A
		280,555,955	Baa	355,012,185	BBB	194,429,957	BBB
		12,819,349	Ba	4,083,620	BB	984,470	BB
		518,591	B	727,915	B	157,402,979	NR
		727,915	Caa	4,777,720	NR	-	-
		8,604,978	NR	-	-	-	-
Corporate Asset and Mortgage Backed Securities		51,143,120	Aaa	7,637,713	AAA	34,084,150	AAA
		5,338,912	Aa	14,366,965	AA	3,854,989	AA
		8,003,065	A	4,179,273	A	2,818,778	A
		4,963,771	Baa	2,740,422	BBB	437,131	BBB
		3,054,115	Ba	2,340,740	BB	2,001,188	BB
		421,850	B	5,689,933	B	262,641	B
		3,550,156	Caa	2,631,557	CCC	47,118,183	NR
		895,955	Ca	1,025,065	CC	-	-
		13,206,116	NR	39,972	D	-	-
		-	-	49,925,420	NR	-	-
International Obligations (Government and Corporate)		735,428,476	Aaa	323,025,220	AAA	543,288,282	AAA
		288,806,235	Aa	273,253,114	AA	395,232,761	AA
		809,734,682	A	585,312,496	A	462,548,755	A
		365,265,761	Baa	176,185,988	BBB	516,682,417	BBB
		96,039,227	Ba	163,174,178	BB	165,686,342	BB
		10,182,772	B	13,667,228	B	723,532	B
		376,269	Caa	376,269	CCC	642,763,870	NR
		421,092,537	NR	1,191,931,466	NR	-	-
Fixed Income Money Market and Mutual Funds		5,551,423,011	Aaa	5,438,135,999	AAA	623,987,309	AAA
		250,712,113	NR	363,999,125	NR	5,178,147,815	NR
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.		3,955,653	NR	3,955,653	AA	3,955,653	NR
Miscellaneous		1,485,237	Aaa	5,010,096	AAA	6,532,859	AAA
		5,210,103	Aa	4,419,590	AA	247,018	AA
		2,803,955	A	2,159,885	A	2,159,885	A
		152,537	Baa	914,375	BBB	761,838	BBB
		35,237,128	NR	31,397,435	BB	35,187,360	NR
		-	-	987,579	NR	-	-
Total Investments and Investments Classified as Cash Equivalents	$	11,230,868,463		11,230,868,463		11,230,868,463	
Deposit with Brokers for Derivative Contracts, net (related to investments):							
U.S. Government Direct Obligations	$	6,423,735	Aaa	6,423,735	AA	6,423,735	AAA
Cash		12,823,693	NR	12,823,693	NR	12,823,693	NR
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	19,247,428		19,247,428		19,247,428	

(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, 2019 and 2018, 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, 2019 and 2018, the System did not have any 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, 2019 and 2018:

Investment Type		August 31, 2019 Fair Value	August 31, 2019 Modified Duration	August 31, 2018 Fair Value	August 31, 2018 Modified Duration
Investments:					
U.S. Government Guaranteed:					
U.S. Treasury Bills	$	302,944,464	0.41	-	-
U.S. Treasury Bonds and Notes		782,226,925	10.40	1,355,784,008	6.61
U.S. Treasury Inflation Protected		50,904,129	11.34	36,634,341	12.10
U.S. Agency Asset Backed		12,814,861	1.83	15,102,082	4.37
Total U.S. Government Guaranteed		1,148,890,379	7.71	1,407,520,431	6.72
U.S. Government Non-Guaranteed:					
U.S. Agency		564,562,181	2.89	399,325	0.08
U.S. Agency Asset Backed		402,201,882	2.23	225,605,702	6.16
Total U.S. Government Non-Guaranteed		966,764,063	2.62	226,005,027	6.15
Total U.S. Government		2,115,654,442	5.38	1,633,525,458	6.64
Corporate Obligations:					
Domestic		1,244,438,778	5.00	1,019,437,309	4.26
Foreign		492,234,320	6.04	467,291,908	4.68
Total Corporate Obligations		1,736,673,098	5.30	1,486,729,217	4.39
Foreign Government and Provincial Obligations		2,237,975,812	4.17	2,259,634,051	4.24
Other Debt Securities		13,470,438	8.30	12,951,482	6.57
Total Debt Securities		6,103,773,790	4.92	5,392,840,208	5.01
Other Investment Funds - Debt		34,942,241	7.50	31,397,435	6.70
Fixed Income Money Market and Mutual Funds		2,443,065,364	0.31	3,904,576,322	0.21
Total Investments	$	8,581,781,395	3.62	9,328,813,965	3.01
Investments Classified as Cash Equivalents:					
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	$	374,109	0.01	3,955,653	0.01
Fixed Income Money Market Funds		2,711,750,688	0.08	1,897,558,802	0.08
Time Deposits		166,120	0.00	540,043	0.00
Total Investments Classified as Cash Equivalents	$	2,712,290,917	0.08	1,902,054,498	0.08
Deposit with Brokers for Derivative Contracts, net (related to investments):					
U.S. Government Guaranteed:					
U.S. Government Direct Obligations	$	4,189,700	2.53	6,423,735	2.07
Total U.S. Government Guaranteed		4,189,700	2.53	6,423,735	2.07
Cash		(38,251,403)	0.00	12,823,693	0.00
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	(34,061,703)	(0.31)	19,247,428	0.69

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – The System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped treasury and agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2019 and 2018, 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, 2019 and 2018, these securities amounted to $102,229,675 and $93,796,073, 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, 2019 and 2018, these securities amounted to $411,741,517 and $235,493,110, 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, 2019 and 2018 these securities amounted to $39,822,206 and $37,822,171, respectively.

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

Classification between domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following tables summarize the System's exposure to non-U.S. dollar investments by asset type as of August 31, 2019 and 2018.

Investment Type		2019 Fair Value
Foreign Common Stock:		
Australian Dollar	$	5,425,886
Brazilian Real		403,826,036
British Pound		154,628,203
Canadian Dollar		10,669,542
Chilean Peso		3,221,506
Chinese Yuan Renminbi		623,642,930
Colombian Peso		404,253
Czech Koruna		628,087
Danish Krone		20,422,831
Egyptian Pound		13,873,210
Euro		269,837,940
Hong Kong Dollar		210,745,392
Hungarian Forint		3,972,174
Indian Rupee		87,340,129
Indonesian Rupiah		36,189,495
Japanese Yen		413,174,868
Malaysian Ringgit		23,976,599
Mexican Peso		113,128,500
Norwegian Krone		23,828,718
Peruvian Sol		109,002
Philippine Peso		2,031,140
Polish Zloty		12,967,415
Qatari Riyal		4,087,547
Saudi Riyal		2,968,303
Singapore Dollar		15,663,806
South African Rand		41,313,039
South Korean Won		353,031,003
Sri Lankan Rupee		3,223,927
Swedish Krona		8,760,011
Swiss Franc		34,029,141
Taiwan Dollar		166,007,372
Thai Baht		26,520,901
Turkish Lira		45,992,854
United Arab Emirates Dirham		35,440,804
Vietnamese Dong		20,052,838
Total Foreign Common Stock		3,191,135,402
Other Equity Securities:		
Chinese Yuan Renminbi		3,725,780
Malaysian Ringgit		18,091
Taiwan Dollar		9,846
Total Other Equity Securities		3,753,717
Foreign Preferred Stock:		
Brazilian Real		66,839,217
Colombian Peso		223,731
South African Rand		115,697
South Korean Won		34,381,640
Total Foreign Preferred Stock		101,560,285
Foreign Government & Provincial Obligations:		
Australian Dollar		79,612,410
Brazilian Real		108,522,960
British Pound		29,063,273
Canadian Dollar		141,485,939
Colombian Peso		90,838,499

Investment Type		2019 Fair Value
Foreign Government & Provincial Obligations (cont.):		
Euro	$	451,234,471
Hungarian Forint		14,639,202
Indonesian Rupiah		64,223,472
Japanese Yen		439,583,954
Malaysian Ringgit		86,859,246
Mexican Peso		300,553,525
New Zealand Dollar		1,044,054
Norwegian Krone		25,977,277
Peruvian Sol		17,611,955
Polish Zloty		109,955,894
Romanian Leu		9,599,848
Russian Ruble		944,010
Singapore Dollar		85,299,682
South African Rand		65,334,487
South Korean Won		12,227,486
Total Foreign Government & Provincial Obligations		2,134,611,644
Corporate Obligations:		
Australian Dollar		2,927,571
British Pound		66,846,710
Canadian Dollar		1,365,625
Danish Krone		82,252,943
Euro		51,207,274
Indian Rupee		870
South African Rand		3,300,071
Swedish Krona		349,138
Total Corporate Obligations		208,250,202
Investment Funds - Emerging Markets:		
Brazilian Real		21,129,335
Private Investments:		
Australian Dollar		138,102,249
British Pound		90,054,764
Canadian Dollar		245,915,713
Euro		357,367,937
Total Private Investments		831,440,663
Cash and Cash Equivalents:		
Australian Dollar		65,364
Brazilian Real		7,427,750
British Pound		(1,207,395)
Canadian Dollar		504,445
Chilean Peso		30,689
Chinese Yuan Renminbi		26,724,376
Colombian Peso		1,286,407
Czech Koruna		83,918
Danish Krone		(151,810)
Egyptian Pound		10,015
Euro		4,336,301
Hong Kong Dollar		2,630,257
Hungarian Forint		99,434
Indian Rupee		492,900
Indonesian Rupiah		229,441
Israeli Shekel		2,499
Japanese Yen		25,463,593
Malaysian Ringgit		118,356

Investment Type (cont.)		2019 Fair Value
Cash and Cash Equivalents (cont.):		
Mexican Peso	$	1,115,159
New Zealand Dollar		2,480
Norwegian Krone		1,519,484
Philippine Peso		18,184
Polish Zloty		642,837
Peruvian Sol		8,790
Qatari Riyal		285,743
Romanian Leu		264
Russian Ruble		(72)
Singapore Dollar		47,619
South African Rand		1,785,363
South Korean Won		7,658,895
Swedish Krona		67,659
Swiss Franc		48,592
Taiwan Dollar		1,491,515
Thai Baht		63,037
Turkish Lira		125,604
United Arab Emirates Dirham		41,961
Total Cash and Cash Equivalents		83,069,654
Purchased Options:		
Australian Dollar		51
Brazilian Real		178,130
Euro		5,708,406
Japanese Yen		8,386
Swiss Franc		438,932
Total Purchased Options		6,333,905
Written Options:		
Australian Dollar		(69,560)
Brazilian Real		(565,609)
Japanese Yen		(6,621)
Total Written Options		(641,790)
Swaps:		
Australian Dollar		11,595,964
British Pound		(2,692,953)
Canadian Dollar		1,894,945
Chinese Yuan Renminbi		453,198
Czech Koruna		58,335
Euro		27,737,507
Israeli Shekel		649,045
Japanese Yen		604,048
Mexican Peso		27,387
New Zealand Dollar		9,424
Polish Zloty		76,855
South Korean Won		668,639
South African Rand		71,719
Swedish Krona		159,562
Total Swaps		41,313,675

Investment Type		2019 Fair Value
Futures:		
Euro	$	(100,069)
Foreign Exchange Contracts:		
Argentina Peso		(242,815)
Australian Dollar		(32,196)
Brazilian Real		2,733,673
British Pound		3,274,028
Canadian Dollar		205,789
Chilean Peso		(1,753,615)
Chinese Yuan Renminbi		(71,218)
Colombian Peso		1,939,673
Czech Koruna		(715,951)
Danish Krone		1,703,560
Euro		14,883,638
Hong Kong Dollar		65,949
Hungarian Forint		1,620,079
Indian Rupee		509,682
Indonesian Rupiah		181,252
Israeli Shekel		1,842
Japanese Yen		(13,173,604)
Malaysian Ringgit		43,157
Mexican Peso		5,521,663
New Zealand Dollar		1,156,106
Norwegian Krone		(1,305,640)
Peruvian Sol		666,296
Polish Zloty		1,240,428
Qatari Riyal		(1,088)
Romanian Leu		317,130
Russian Ruble		(241,441)
Singapore Dollar		773,655
South African Rand		464,928
South Korean Won		(1,208,668)
Swedish Krona		(3,329,868)
Swiss Franc		(139,838)
Taiwan Dollar		(141,399)
Thai Baht		(672,500)
Total Foreign Exchange Contracts		14,272,687
Total	$	6,636,129,310

Investment Type		2018 Fair Value
Domestic Common Stock:		
Australian Dollar	$	184,293
Foreign Common Stock:		
Australian Dollar		4,127,465
Brazilian Real		301,296,544
British Pound		124,452,409
Canadian Dollar		21,378,794
Chilean Peso		1,735,849
Chinese Yuan Renminbi		449,274,805
Colombian Peso		234,056
Czech Koruna		8,951,788
Danish Krone		20,746,741
Egyptian Pound		22,305,389
Euro		330,574,872
Hong Kong Dollar		160,237,490
Hungarian Forint		1,870,007
Indian Rupee		110,410,268
Indonesian Rupiah		39,733,042
Japanese Yen		398,459,862
Malaysian Ringgit		31,795,319
Mexican Peso		128,737,378
Norwegian Krone		3,865,391
Peruvian Sol		125,629
Philippine Peso		1,532,445
Polish Zloty		5,337,696
Qatari Riyal		9,390,738
Singapore Dollar		26,492,686
South African Rand		43,504,170
South Korean Won		464,928,104
Sri Lankan Rupee		8,815,880
Swiss Franc		24,180,314
Taiwan Dollar		153,377,493
Thai Baht		41,060,567
Turkish Lira		18,444,640
United Arab Emirates Dirham		36,229,065
Vietnamese Dong		15,152,560
Total Foreign Common Stock		3,008,759,456
Other Equity Securities:		
Australian Dollar		4,090
Malaysian Ringgit		37,029
Total Other Equity Securities		41,119
Foreign Preferred Stock:		
Brazilian Real		48,493,589
Euro		10,577,750
South African Rand		105,693
South Korean Won		30,453,676
Total Foreign Preferred Stock		89,630,708
Foreign Government & Provincial Obligations:		
Australian Dollar		199,429,417
Brazilian Real		86,865,296
British Pound		45,607,131
Canadian Dollar		128,400,097
Colombian Peso		48,572,797
Euro		416,305,815

Investment Type		2018 Fair Value
Foreign Government & Provincial Obligations (cont.):		
Indonesian Rupiah	$	57,395,864
Japanese Yen		249,721,599
Malaysian Ringgit		119,415,866
Mexican Peso		273,261,418
New Zealand Dollar		101,000,320
Norwegian Krone		31,268,777
Peruvian Sol		38,677,929
Polish Zloty		154,574,605
Romanian Leu		5,439,316
Singapore Dollar		101,479,699
South African Rand		66,456,830
South Korean Won		29,797,454
Thai Baht		11,769,181
Turkish Lira		10,000,169
Total Foreign Government & Provincial Obligations		2,175,439,580
Corporate Obligations:		
Australian Dollar		4,941,885
British Pound		53,333,349
Canadian Dollar		2,391,222
Danish Krone		67,155,667
Euro		36,047,434
Indian Rupee		11,217,984
South African Rand		8,994,644
Swedish Krona		37,997,118
Total Corporate Obligations		222,079,303
Investment Funds - Emerging Markets:		
Brazilian Real		29,272,884
Convertible Securities:		
Brazilian Real		1,702,816
Private Investments:		
Australian Dollar		122,439,273
British Pound		58,068,434
Canadian Dollar		291,900,609
Euro		404,589,583
Total Private Investments		876,997,899
Cash and Cash Equivalents:		
Australian Dollar		16,261
Brazilian Real		4,475,337
British Pound		926,038
Canadian Dollar		5,341,017
Chilean Peso		291
Chinese Yuan Renminbi		70,586,046
Colombian Peso		1,255,529
Czech Koruna		42
Danish Krone		6,778
Egyptian Pound		16,400
Euro		393,841
Hong Kong Dollar		436,939
Hungarian Forint		23,647
Indian Rupee		196,333
Indonesian Rupiah		350,872
Israeli Shekel		398
Japanese Yen		13,767,456

Investment Type (cont.)		2018 Fair Value
Cash and Cash Equivalents (cont.):		
Malaysian Ringgit	$	904,679
Mexican Peso		2,440,166
New Zealand Dollar		295,529
Norwegian Krone		815
Philippine Peso		12,113
Polish Zloty		450,724
Singapore Dollar		1,125,498
South African Rand		3,669,017
South Korean Won		9,067,322
Swedish Krona		623
Swiss Franc		1,159
Taiwan Dollar		1,100,823
Thai Baht		32,575
Turkish Lira		95,722
United Arab Emirates Dirham		(3,439)
Total Cash and Cash Equivalents		116,986,551
Purchased Options:		
Brazilian Real		551,211
Euro		162,299
Total Purchased Options		713,510
Written Options:		
Australian Dollar		(11,581)
Brazilian Real		(144)
British Pound		(137,209)
Euro		(49,231)
Total Written Options		(198,165)
Swaps:		
British Pound		9,908,424
Canadian Dollar		499,916
Euro		4,361,399
Japanese Yen		(335,093)
Mexican Peso		(83,999)
New Zealand Dollar		304,929
South Korean Won		25,996
South African Rand		(386,690)
Total Swaps		14,294,882
Futures:		
Canadian Dollar		(22,508)
Euro		(212,559)
Total Futures		(235,067)

Investment Type		2018 Fair Value
Foreign Exchange Contracts:		
Argentina Peso	$	(401,979)
Australian Dollar		1,479,327
Brazilian Real		3,930,794
British Pound		(969,954)
Canadian Dollar		(1,088,420)
Chilean Peso		(113,984)
Chinese Yuan Renminbi		(1,495,177)
Colombian Peso		(1,052,195)
Czech Koruna		(6,539)
Danish Krone		(9,845)
Euro		1,867,805
Hong Kong Dollar		182,801
Hungarian Forint		(35,837)
Indian Rupee		112,561
Indonesian Rupiah		85,757
Israeli Shekel		28,350
Japanese Yen		12,066,997
Malaysian Ringgit		(90,224)
Mexican Peso		(2,068,420)
New Zealand Dollar		1,440,880
Norwegian Krone		(2,003,588)
Peruvian Sol		85,111
Polish Zloty		(634,617)
Romanian Leu		(55,296)
Russian Ruble		(573,525)
Singapore Dollar		2,279,316
South African Rand		1,161,629
South Korean Won		(539,346)
Swedish Krona		(9,435,048)
Swiss Franc		136,539
Taiwan Dollar		467,908
Thai Baht		(303,730)
Turkish Lira		(560,637)
Total Foreign Exchange Contracts		3,887,414
Total	$	6,539,557,183

(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, 2019 for options, swaps, and foreign currency exchange contracts as shown in the following table:

		Notional		**Fair Value**		
		Assets	**Liabilities**	**Assets**	**Liabilities**	**Counterparty Rating**
Options	$	90,292,592	-	4,988,471	-	AA
Options		28,257,997	42,139,875	164,370	217,724	A
Swaps		68,797,105	31,107,315	8,612,230	6,419,433	AA
Swaps		390,830,439	738,475,144	30,841,650	36,218,577	A
Foreign Currency Exchange Contracts		854,819,016	341,976,218	18,211,712	4,072,944	AA
Foreign Currency Exchange Contracts		2,509,034,543	2,259,678,515	37,644,788	37,510,869	A
	$	3,942,031,692	3,413,377,067	100,463,221	84,439,547	

The System had gross counterparty exposure as of August 31, 2018 for options, swaps, and foreign currency exchange contracts as shown in the following table:

		Notional		**Fair Value**		
		Assets	**Liabilities**	**Assets**	**Liabilities**	**Counterparty Rating**
Options	$	-	8,300,000	-	75,883	AA
Options		15,396,381	96,594,234	681,807	257,821	A
Swaps		5,447,916	5,831,797	1,352,265	564,360	AA
Swaps		757,163,605	310,084,015	27,845,967	15,698,816	A
Foreign Currency Exchange Contracts		1,039,529,767	2,841,350,645	24,515,008	31,814,241	AA
Foreign Currency Exchange Contracts		1,521,104,488	2,058,561,860	28,217,254	16,910,447	A
Foreign Currency Exchange Contracts		2,906,931	3,026,126	78,100	198,261	BBB
	$	3,341,549,088	5,323,748,677	82,690,401	65,519,829	

As of August 31, 2019 and 2018, 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, 2019 and 2018, the System held $86,947,187 and $26,589,000, respectively, as collateral related to derivative instruments other than futures, and had on deposit with brokers $49,085,725 and $37,949,129, 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, 2019 and 2018, there were a total of $782,945,047 and $662,260,721, 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 $453,059,220 at August 31, 2019 and $434,189,416 at August 31, 2018. 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, 2019 and August 31, 2018 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, 2019 and 2018, are shown in the following table:

	August 31, 2019			August 31, 2018		
Description	**Fair Value**	**Rating**	**Weighted Average**	**Fair Value**	**Rating**	**Weighted Average**
Repurchase Agreements	$ 283,087,060	Not Rated	3	$ 151,035,097	No Rating	4
U.S. Government Agency Obligations	-			7,500,000	AA	7
Commercial Paper	12,307,353	P	58	137,461,988	P	24
Corporate Obligations	22,114,656	AA		3,006,929	AA	
Corporate Obligations	15,630,294	A		27,430,766	A	
Total Corporate Obligations	37,744,950		43	30,437,695		42
International Obligations	67,917,573	AA		72,561,174	AA	
International Obligations	52,099,574	A		48,311,685	A	
Total International Obligations	120,017,147		38	120,872,859		23
Other Receivables/Payables	(97,290)	Not Rated		(13,118,223)	Not Rated	
Total Collateral Pool Investment	$ 453,059,220		17	$ 434,189,416		19

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, 2019 and August 31, 2018.

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 106 percent for international loans on August 31, 2019 and 107 percent for international loans on August 31, 2018.

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, 2019 and 2018, 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, 2019 and 2018.

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.

The changes in fair value of open futures contracts were increases of $9,535,220 and $24,533,427 for the years ending August 31, 2019 and 2018, respectively, which are included in investment income on the consolidated statements of revenues, expenses and changes in net position. The System had $3,799,760 and $7,887,298 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

The following discloses the type, notional value, and fair value of futures contracts at August 31, 2019:

	Notional Value at August 31, 2019		Fair Value at August 31, 2019	
	Long	Short	Assets	Liabilities
Commodity Futures	$ 117,896,302	27,562,270	3,565,952	4,195,969
Domestic Fixed Income	743,404,945	-	287,469	-
International Fixed Income Futures	800,474,562	190,396,222	115,259	215,329
Totals	$ 1,661,775,809	217,958,492	3,968,680	4,411,298

The following discloses the type, notional value, and fair value of futures contracts at August 31, 2018:

	Notional Value at August 31, 2018		Fair Value at August 31, 2018	
	Long	Short	Assets	Liabilities
Commodity Futures	$ 735,892,250	192,833,532	7,177,479	32,051,925
Domestic Fixed Income	977,708,022	777,879,075	286,033	313,546
International Fixed Income Futures	776,143,821	305,471,592	412,088	518,155
Domestic Equities	45,272,760	-	1,560	-
International Equities	27,589,102	-	-	202,987
Totals	$ 2,562,605,955	1,276,184,199	7,877,160	33,086,613

(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 counterparties 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, 2019 and 2018. Foreign currency amounts are translated at exchange rates as of August 31, 2019 and 2018. The "Net Buy" amounts represent the U. S. dollar equivalent of net commitments to purchase foreign currencies and the "Net Sell" amounts represent the U. S. dollar equivalent of net commitments to sell foreign currencies.

Currency		Net Buy August 31, 2019	Net Sell August 31, 2019	Unrealized Gains on Foreign Exchange Contracts August 31, 2019	Unrealized Losses on Foreign Exchange Contracts August 31, 2019
Argentina Peso	$	-	-	38,001	280,816
Australian Dollar		-	42,780,409	744,343	776,538
Brazilian Real		-	61,593,449	4,937,720	2,204,046
British Pound		-	84,252,204	4,883,623	1,609,595
Canadian Dollar		-	135,373,785	1,129,778	923,989
Chilean Peso		43,714,771	-	13,688	1,767,303
Chinese Yuan Renminbi		-	10,752,777	515,795	587,013
Colombian Peso		-	16,073,219	2,350,134	410,461
Czech Koruna		13,420,678	-	-	715,951
Danish Krone		-	101,023,137	1,793,182	89,622
Euro		-	860,943,643	17,273,171	2,389,533
Hong Kong Dollar		-	14,446,799	134,569	68,621
Hungarian Forint		-	52,477,744	1,966,803	346,724
Indian Rupee		-	75,442	885,722	376,040
Indonesian Rupiah		-	27,258,143	403,832	222,581
Israeli Shekel		-	444,127	5,334	3,492
Japanese Yen		-	658,762,062	177,143	13,350,747
Malaysian Ringgit		-	4,099,636	43,159	2
Mexican Peso		-	159,458,594	6,126,275	604,612
New Zealand Dollar		-	32,187,088	2,246,156	1,090,050
Norwegian Krone		37,331,866	-	2,232,002	3,537,642
Peruvian Sol		-	57,284,617	717,719	51,422
Polish Zloty		-	37,524,646	2,245,556	1,005,128
Qatari Riyal		-	285,743	-	1,089
Romanian Leu		-	9,514,383	428,852	111,722
Russian Ruble		14,063,507	-	-	241,441
Singapore Dollar		-	98,282,973	1,049,075	275,420
South African Rand		-	70,987,653	1,207,268	742,340
South Korean Won		49,083,493	-	572,524	1,781,192
Swedish Krona		82,412,289	-	902,676	4,232,544
Swiss Franc		-	67,076,876	813,603	953,441
Taiwan Dollar		-	17,993,987	18,797	160,196
Thailand Baht		-	70,545,116	-	672,500
TOTAL	$	240,026,604	2,691,498,252	55,856,500	41,583,813

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2019 was an increase in the amount of $14,273,249, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

Currency		Net Buy August 31, 2018	Net Sell August 31, 2018	Unrealized Gains on Foreign Exchange Contracts August 31, 2018	Unrealized Losses on Foreign Exchange Contracts August 31, 2018
Argentina Peso	$	1,789,358	-	769,455	1,171,434
Australian Dollar		-	160,631,998	1,963,301	483,974
Brazilian Real		-	46,198,971	4,586,950	656,156
British Pound		-	145,907,600	2,894,506	3,864,460
Canadian Dollar		-	54,616,932	669,078	1,757,498
Chilean Peso		28,362,121	-	-	113,984
Chinese Yuan Renminbi		-	4,902,382	260,778	1,755,955
Colombian Peso		39,568,749	-	856,376	1,908,571
Czech Koruna		21,905	-	-	6,539
Danish Krone		-	70,904,791	242,957	252,802
Euro		-	921,609,644	4,490,994	2,623,189
Hong Kong Dollar		-	16,157,795	182,801	-
Hungarian Forint		-	39,671,032	-	35,837
Indian Rupee		-	4,361,646	655,065	542,504
Indonesian Rupiah		-	43,136,472	575,323	489,566
Israeli Shekel		118,323	-	28,376	26
Japanese Yen		-	555,276,710	14,285,745	2,218,748
Malaysian Ringgit		-	435,212	933	91,157
Mexican Peso		-	41,979,486	1,030,433	3,098,853
New Zealand Dollar		-	146,421,839	1,637,758	196,878
Norwegian Krone		75,584,855	-	239,234	2,242,822
Peruvian Sol		-	10,780,424	85,286	175
Polish Zloty		-	49,647,654	302,099	936,716
Romanian Leu		-	10,240,153	2,598	57,894
Russian Ruble		9,421,801	-	-	573,525
Singapore Dollar		-	123,838,658	2,525,665	246,349
South African Rand		-	17,107,065	4,472,918	3,311,289
South Korean Won		-	58,979,190	26,633	565,979
Swedish Krona		149,603,558	-	460,262	9,895,310
Swiss Franc		-	43,394,001	150,812	14,273
Taiwan Dollar		-	28,700,450	547,071	79,163
Thailand Baht		-	53,659,309	11,246	314,976
Turkish Lira		-	3,279,658	8,855,709	9,416,347
TOTAL	$	304,470,670	2,651,839,072	52,810,362	48,922,949

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2018 was an increase in the amount of $4,521,272, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

(C) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks, so that the actual risk/return profile is more closely aligned with the target risk/return profile. The fair value is included on the consolidated statement of net position in investment derivatives-liability positions. The following discloses the fair values of the outstanding written call options contracts as of August 31, 2019 and 2018:

		Fair Value at August 31, 2019	
Type		**Assets**	**Liabilities**
Currency	$	-	116,558
Equity		-	514,470
Commodity		-	150,760
Other		-	303,728
	$	-	1,085,516

The change in fair value of open call options for the year ending August 31, 2019, was a decrease in the amount of $525,997, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

		Fair Value at August 31, 2018	
Type		**Assets**	**Liabilities**
Currency	$	-	147,602
Equity		-	159,903
Commodity		-	1,170
Other		-	6,811
	$	-	315,486

The change in fair value of open call options for the year ending August 31, 2018, was an increase in the amount of $270,624, 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, 2019 and 2018:

		Fair Value at August 31, 2019	
Type		**Assets**	**Liabilities**
Currency	$	-	100,993
Equity		-	107,859
Commodity		-	8,160
Credit Default Swap		-	173
Interest Rate Swap		-	712,163
Other		19,947	5,742
	$	19,947	935,090

The change in fair value of open put options for the year ending August 31, 2019, was an increase in the amount of $412,328, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

Type		Fair Value at August 31, 2018 Assets	Liabilities
Currency	$	-	163,746
Other		-	15,546
	$	-	179,292

The change in fair value of open put options for the year ending August 31, 2018, was an increase in the amount of $80,132, 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, 2019:

			Fair Value at August 31, 2019	
Type		**USD Notional Value**	**Assets**	**Liabilities**
Interest Rate (Pay-Fixed Receive-Variable)	$	2,564,897,563	19,795,285	173,784
Interest Rate (Pay-Variable Receive-Fixed)		928,497,926	192,659	14,705,522
Credit Default		279,675,125	4,756,134	2,886,957
Commodity		4,073,682	79,007	286,709
Currency		50,088,960	24,853,050	25,285,460
Equity		985,297,169	5,796,272	14,193,706
Volatility		9,700,000	-	897,686
Fixed Income		15,000,000	-	1,338,898
Total	$	4,837,230,425	55,472,407	59,768,722

The change in fair value of open swap positions for the year ending August 31, 2019, was a decrease in the amount of $6,675,200, 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, 2018:

			Fair Value at August 31, 2018	
Type		**USD Notional Value**	**Assets**	**Liabilities**
Interest Rate (Pay-Fixed Receive-Variable)	$	1,296,404,652	4,765,260	2,794,622
Interest Rate (Pay-Variable Receive-Fixed)		1,215,848,507	10,181,087	1,371,877
Credit Default		130,735,750	1,905,129	829,225
Commodity		8,860,756	568,240	282,236
Currency		17,890,225	9,136,963	8,662,001
Equity		946,459,739	13,670,447	4,685,686
Total	$	3,616,199,629	40,227,126	18,625,647

The change in fair value of open swap positions for the year ending August 31, 2018, was an increase in the amount of $22,396,573, 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) 8/31/18 to 8/31/19		Fair Value at 8/31/19		
	Classification	Amount	Classification	Amount	Notional Amount
Cash Flow-Interest Rate Swaps					
Hedging Derivative Assets					
Pay-Fixed Receive-Variable	Def Inflows	$ (37,067,661)	Hedging Derivative Asset	$ -	-
Hedging Derivative Liabilities					
Pay-Fixed Receive-Variable	Def Outflows	(160,008,887)	Hedging Derivative Liab	(325,363,093)	1,626,205,000
Investment Derivative Assets					
Basis Swaps	Net Incr. (Decr.) in FV of Invest	(51,270,783)	Investments	25,044,638	987,225,000
Investment Derivative Liabilities					
Basis Swaps	Net Incr. (Decr.) in FV of Invest	(443,405)	Invest Deriv – Liab Positions	(443,405)	539,890,000
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		19,989,445		19,795,285	997,521,334
Pay-Variable Receive-Fixed		(1,325,894)		192,659	79,700,000
Credit Default		4,735,981		4,756,134	201,153,625
Commodity		79,007		79,007	929,141
Currency		24,853,050		24,853,050	24,803,500
Equity		5,468,193		5,796,272	315,677,002
Total Swaps	Net Incr. (Decr.) in FV of Invest	53,799,782	Investments	55,472,407	1,619,784,602
Futures	Net Incr. (Decr.) in FV of Invest	3,968,680	Other Accounts Receivable	3,968,680	1,661,775,809
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	55,856,500	Investments	55,856,500	3,363,853,559
Purchased Options	Net Incr. (Decr.) in FV of Invest	(3,887,162)	Investments	8,046,677	242,890,177
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		(33,686)		(173,784)	1,567,376,229
Pay-Variable Receive-Fixed		(14,810,599)		(14,705,522)	848,797,926
Credit Default		(2,155,937)		(2,886,957)	78,521,500
Commodity		(286,709)		(286,709)	3,144,541
Currency		(25,285,460)		(25,285,460)	25,285,460
Equity		(15,785,586)		(14,193,706)	669,620,167
Volatility		(778,107)		(897,686)	9,700,000
Fixed Income		(1,338,898)		(1,338,898)	15,000,000
Total Swaps	Net Incr. (Decr.) in FV of Invest	(60,474,982)	Invest Deriv – Liab Positions	(59,768,722)	3,217,445,823
Futures	Net Incr. (Decr.) in FV of Invest	(4,411,298)	Current Accounts Payable	(4,411,298)	217,958,492
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(41,583,251)	Invest Deriv – Liab Positions	(41,583,813)	2,601,654,733
Options Written	Net Incr. (Decr.) in FV of Invest	(113,669)	Invest Deriv – Liab Positions	(2,000,658)	335,117,858

	Change in Fair Value (FV) 8/31/17 to 8/31/18		Fair Value at 8/31/18		
	Classification	Amount	Classification	Amount	Notional Amount
Cash Flow-Interest Rate Swaps					
Hedging Derivative Assets					
Pay-Fixed Receive-Variable	Def Inflows	$ 26,728,346	Hedging Derivative Asset	$ 37,067,661	250,000,000
Hedging Derivative Liabilities					
Pay-Fixed Receive-Variable	Def Outflows	80,733,716	Hedging Derivative Liab	(165,354,206)	1,154,360,000
Investment Derivative Assets Basis Swaps	Net Incr. (Decr.) in FV of Invest	53,638,346	Investments	76,315,421	1,530,225,000
Investment Derivative Liabilities Basis Swaps	Net Incr. (Decr.) in FV of Invest	7,781,148	Invest Deriv – Liab Positions	-	-
Investment Derivative Liabilities Rate Lock	Net Incr. (Decr.) in FV of Invest	2,877,014	Invest Deriv – Liab Positions	-	-
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		4,773,391		4,765,260	538,933,609
Pay-Variable Receive-Fixed		11,582,938		10,181,087	781,309,337
Credit Default		628,422		1,905,129	99,439,550
Commodity		568,240		568,240	4,291,852
Currency		9,136,963		9,136,963	9,228,225
Equity		13,670,447		13,670,447	696,286,801
Total Swaps	Net Incr. (Decr.) in FV of Invest	40,360,401	Investments	40,227,126	2,129,489,374
Futures	Net Incr. (Decr.) in FV of Invest	7,877,160	Other Accounts Receivable	7,877,160	2,562,605,955
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	52,810,362	Investments	52,810,362	2,563,541,186
Purchased Options	Net Incr. (Decr.) in FV of Invest	310,576	Investments	2,823,993	171,051,425
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		(2,794,622)		(2,794,622)	757,471,043
Pay-Variable Receive-Fixed		(1,221,176)		(1,371,877)	434,539,170
Credit Default		(318,107)		(829,225)	31,296,200
Commodity		(282,236)		(282,236)	4,568,904
Currency		(8,662,001)		(8,662,001)	8,662,000
Equity		(4,685,686)		(4,685,686)	250,172,938
Total Swaps	Net Incr. (Decr.) in FV of Invest	(17,963,828)	Invest Deriv – Liab Positions	(18,625,647)	1,486,710,255
Futures	Net Incr. (Decr.) in FV of Invest	(33,086,613)	Current Accounts Payable	(33,086,613)	1,276,184,199
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(48,289,090)	Invest Deriv – Liab Positions	(48,922,949)	4,902,938,631
Options Written	Net Incr. (Decr.) in FV of Invest	350,756	Invest Deriv – Liab Positions	(494,777)	137,079,355

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

8. Endowments

Investments include $41,239,330,109 and $41,448,730,565 of endowment funds as of August 31, 2019 and 2018, respectively. The net position classifications on the statement of net position related to endowment funds as of August 31, 2019 and 2018 are as follows:

Net Position Classification of Endowments		2019	2018
Restricted, nonexpendable	$	26,986,429,001	27,395,040,035
Restricted, expendable:			
Net Appreciation on True Endowments		11,522,342,880	11,531,875,306
Funds Functioning as Endowments		623,206,717	599,347,161
Book Value of Term Endowments		57,138,544	44,839,841
Net Appreciation on Term Endowments		45,596,870	44,049,458
Unrestricted:			
Funds Functioning as Endowments		491,292,177	495,979,503
Total	$	39,726,006,189	40,111,131,304

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 U. T. System Board of Regents manages certain permanent funds for health-related institutions of higher education as more fully described in Chapter 63 of the Texas Education Code. Certain funds created by this statute were transferred to the U. T. System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the U. T. System Board of Regents manages and invests other endowment funds. The PHF as defined in the statute is classified as Endowment and Similar Funds – State. These endowments provide support for programs that benefit medical research, health education or treatment at health-related institutions. The U. T. System Board of Regents determines the amount of distributions to support the programs on an annual basis.

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.

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, 2019, is presented below.

	Balance 09/01/18	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 914,961,493	-	-
Construction in Progress (CIP)	1,405,106,615	-	(1,075,970,914)
Nondepreciable Collections	624,852,811	-	1,497,298
Nonamortizable Intangible Assets	20,830,790	-	1,294,918
Total Nondepreciable/Nonamortizable Assets	2,965,751,709	-	(1,073,178,698)
Depreciable Assets:			
Buildings and Building Improvements	20,540,930,285	-	904,457,743
Infrastructure	712,952,045	-	8,121,214
Facilities and Other Improvements	1,150,165,461	-	46,925,782
Furniture and Equipment	4,189,266,317	-	17,668,037
Vehicles, Boats and Aircraft	89,058,542	-	237,516
Other Depreciable Assets (including Library Books)	820,361,329	-	1,304,352
Total Depreciable Assets at Historical Cost	27,502,733,979	-	978,714,644
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(9,559,458,289)	-	-
Infrastructure	(232,428,275)	-	-
Facilities and Other Improvements	(531,550,562)	-	-
Furniture and Equipment	(2,908,536,765)	-	-
Vehicles, Boats and Aircraft	(68,168,885)	-	-
Other Depreciable Assets (including Library Books)	(558,960,791)	-	-
Total Accumulated Depreciation	(13,859,103,567)	-	-
Depreciable Assets, net	13,643,630,412	-	978,714,644
Amortizable Intangible Assets:			
Computer Software	1,220,272,164	-	94,464,054
Other Intangibles	-	-	-
Total Amortizable Intangible Assets	1,220,272,164	-	94,464,054
Less Accumulated Amortization for:			
Computer Software	(940,368,890)	-	-
Total Accumulated Amortization	(940,368,890)	-	-
Intangible Capital Assets, net	279,903,274	-	94,464,054
Capital Assets, net	$ 16,889,285,395	-	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/19
-	-	23,756,295	(762,335)	937,955,453
-	-	1,229,613,916	(26,580,916)	1,532,168,701
-	-	57,912,064	(3,697,836)	680,564,337
-	-	-	-	22,125,708
-	-	1,311,282,275	(31,041,087)	3,172,814,199
-	-	313,387,353	(8,785,164)	21,749,990,217
-	-	983,346	-	722,056,605
-	-	19,556,662	(41,052,222)	1,175,595,683
336,891	(85,421)	550,295,297	(191,884,322)	4,565,596,799
-	-	7,268,130	(3,378,923)	93,185,265
-	-	44,934,240	(2,160,963)	864,438,958
336,891	(85,421)	936,425,028	(247,261,594)	29,170,863,527
-	-	(915,547,294)	4,638,978	(10,470,366,605)
-	-	(27,744,207)	-	(260,172,482)
-	-	(56,317,683)	41,003,778	(546,864,467)
(305,494)	72,078	(371,663,366)	160,421,874	(3,120,011,673)
-	-	(6,367,371)	2,971,703	(71,564,553)
-	-	(38,102,395)	2,160,963	(594,902,223)
(305,494)	72,078	(1,415,742,316)	211,197,296	(15,063,882,003)
31,397	(13,343)	(479,317,288)	(36,064,298)	14,106,981,524
-	-	20,215,288	(43,170,567)	1,291,780,939
-	-	700,000	-	700,000
-	-	20,915,288	(43,170,567)	1,292,480,939
-	-	(119,976,770)	34,909,133	(1,025,436,527)
-	-	(119,976,770)	34,909,133	(1,025,436,527)
-	-	(99,061,482)	(8,261,434)	267,044,412
31,397	(13,343)	732,903,505	(75,366,819)	17,546,840,135

A summary of changes in the capital assets for the year ended August 31, 2018, is presented below.

	Balance 09/01/17	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 897,590,170	-	1,398,628
Construction in Progress (CIP)	1,453,953,698	-	(1,610,670,703)
Nondepreciable Collections	607,758,506	-	710,647
Nonamortizable Intangible Assets	17,213,739	-	3,614,907
Total Nondepreciable/Nonamortizable Assets	2,976,516,113	-	(1,604,946,521)
Depreciable Assets:			
Buildings and Building Improvements	19,185,150,000	-	1,325,500,158
Infrastructure	571,984,840	-	141,702,155
Facilities and Other Improvements	1,081,510,742	-	68,879,280
Furniture and Equipment	3,933,692,760	-	32,327,968
Vehicles, Boats and Aircraft	91,307,784	-	26,955
Other Depreciable Assets (including Library Books)	739,564,866	-	807,453
Total Depreciable Assets at Historical Cost	25,603,210,992	-	1,569,243,969
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(8,727,064,622)	-	-
Infrastructure	(208,788,789)	-	-
Facilities and Other Improvements	(494,259,247)	-	-
Furniture and Equipment	(2,704,075,026)	-	-
Vehicles, Boats and Aircraft	(67,898,326)	-	-
Other Depreciable Assets (including Library Books)	(534,905,163)	-	-
Total Accumulated Depreciation	(12,736,991,173)	-	-
Depreciable Assets, net	12,866,219,819	-	1,569,243,969
Amortizable Intangible Assets:			
Computer Software	1,190,834,201	-	35,702,552
Total Amortizable Intangible Assets	1,190,834,201	-	35,702,552
Less Accumulated Amortization for:			
Computer Software	(817,115,841)	-	-
Total Accumulated Amortization	(817,115,841)	-	-
Intangible Capital Assets, net	373,718,360	-	35,702,552
Capital Assets, net	$ 16,216,454,292	-	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/18
-	-	16,207,278	(234,583)	914,961,493
-	-	1,563,190,336	(1,366,716)	1,405,106,615
-	-	16,681,484	(297,826)	624,852,811
-	-	2,144	-	20,830,790
-	-	1,596,081,242	(1,899,125)	2,965,751,709
-	-	51,356,220	(21,076,093)	20,540,930,285
-	-	305,689	(1,040,639)	712,952,045
-	-	17,017,105	(17,241,666)	1,150,165,461
182,794	(1,047,531)	383,633,807	(159,523,481)	4,189,266,317
37,890	-	4,772,384	(7,086,471)	89,058,542
-	-	91,703,413	(11,714,403)	820,361,329
220,684	(1,047,531)	548,788,618	(217,682,753)	27,502,733,979
-	-	(848,517,679)	16,124,012	(9,559,458,289)
-	-	(24,680,125)	1,040,639	(232,428,275)
-	-	(50,746,519)	13,455,204	(531,550,562)
(143,962)	865,204	(333,169,052)	127,986,071	(2,908,536,765)
(37,890)	-	(6,937,335)	6,704,666	(68,168,885)
-	-	(35,737,882)	11,682,254	(558,960,791)
(181,852)	865,204	(1,299,788,592)	176,992,846	(13,859,103,567)
38,832	(182,327)	(750,999,974)	(40,689,907)	13,643,630,412
-	-	14,658,504	(20,923,093)	1,220,272,164
-	-	14,658,504	(20,923,093)	1,220,272,164
-	-	(140,773,122)	17,520,073	(940,368,890)
-	-	(140,773,122)	17,520,073	(940,368,890)
-	-	(126,114,618)	(3,403,020)	279,903,274
38,832	(182,327)	718,966,650	(45,992,052)	16,889,285,395

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, requires the disclosure of impairment losses and associated insurance recoveries. U. T. System Administration made the decision to discontinue the Institute for Transformational Learning resulting in the impairment of the technology platform that had been created for competency-based education for the year ended August 31, 2019:

U. T. SYSTEM ADMINISTRATION		2019
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets	$	(8,114,385)
Net Losses – Capital Assets	$	(8,114,385)

U. T. System Administration made the decision to impair Project Diabetes Obesity Control which was being developed to collect data and use IBM Watson artificial intelligence to offer care advice for the year ended August 31, 2019:

U. T. SYSTEM ADMINISTRATION		2019
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets	$	(17,725,619)
Net Losses – Capital Assets	$	(17,725,619)

U. T. Austin made the decision to abandon the implementation of Workday for financials which resulted in the following impairment losses for the year ended August 31, 2019:

U. T. AUSTIN		2019
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets	$	(7,955,732)
Net Losses – Capital Assets	$	(7,955,732)

U. T. Austin's Marine Science Institute in Port Aransas suffered extensive physical damage as a result of Hurricane *Harvey,* which resulted in the following residual impairment losses for the year ended August 31, 2019:

U. T. AUSTIN		2019
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets	$	(11,896)
Net Losses – Capital Assets		(11,896)
OTHER NONOPERATING (REVENUE) EXPENSE		
Insurance Recoveries for Other than Capital Assets – Current Year Losses		5,136,753
Net Losses – Other than Capital Assets	$	5,136,753

U. T. Austin's Marine Science Institute related impairment losses for the year ended August 31, 2018 were as follows:

U. T. AUSTIN		2018
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets	$	(2,466,800)
Net Losses – Capital Assets		(2,466,800)
OTHER NONOPERATING (REVENUE) EXPENSE		
Insurance Recoveries for Other than Capital Assets – Current Year Losses		9,152,242
Net Losses – Other than Capital Assets	$	9,152,242

GASB Statement No. 83, *Certain Asset Retirement Obligations*, requires the disclosure of asset retirement obligations resulting from Texas Administrative Code, Title 25, Part 1, Chapter 289. Subchapter F, Rule 289.252, Licensing of Radioactive Material. The liabilities were measured using best estimates of current values of outlays expected. The Texas Administrative Code, Title 25, Part 1, Chapter 289. Subchapter F, Rule 289.252 (gg)(6)(D) exempts State licenses from providing financial assurances and no assets have been restricted for payment of the liability.

The Asset Retirement Obligation for the year ended August 31, 2019, is presented below:

Asset Retirement Obligation		**Amount**	**Life**
Broadscope	$	8,078,863	0-89 months
Cyclotron		10,110,079	0-18 months
Gamma Knife		2,346,043	0-16 months
Proton Therapy		1,289,963	12 months
Gamma Pod		334,753	60 months
Irradiator		255,486	15 months
Nuclear Engineering Teaching Lab		3,894,000	15 months
Total	$	26,309,187	

The Asset Retirement Obligation for the year ended August 31, 2018, is presented below:

Asset Retirement Obligation		**Amount**	**Life**
Broadscope	$	6,000,034	0-101 months
Cyclotron		10,721,347	0-30 months
Gamma Knife		2,868,824	0-28 months
Proton Therapy		1,289,962	24 months
Gamma Pod		334,753	72 months
Irradiator		255,486	27 months
Nuclear Engineering Teaching Lab		3,894,000	27 months
Total	$	25,364,406	

10. Short-Term Debt

The System had RFS Commercial Paper Notes and PUF Commercial Paper Notes outstanding at August 31, 2019 and 2018. 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, 2019, is summarized below:

		Balance 09/01/18	Additions	Reductions	Balance 8/31/19
Commercial Paper Notes:					
Permanent University Fund CP Notes	$	455,000,000	295,000,000	60,000,000	690,000,000
Revenue Financing System CP Notes		730,868,000	720,132,000	650,478,000	800,522,000
Total Commercial Paper Notes	$	1,185,868,000	1,015,132,000	710,478,000	1,490,522,000

Short-term debt activity for the year ended August 31, 2018, is summarized below:

		Balance 09/01/17	Additions	Reductions	Balance 8/31/18
Commercial Paper Notes:					
Permanent University Fund CP Notes	$	180,000,000	300,000,000	25,000,000	455,000,000
Revenue Financing System CP Notes		384,149,000	517,147,000	170,428,000	730,868,000
Total Commercial Paper Notes	$	564,149,000	817,147,000	195,428,000	1,185,868,000

General information related to the commercial paper notes at August 31, 2019, 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, 2018 through August 31, 2019
  Authorized Amount: Aggregate principal amount not to exceed $1.25 billion
  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, 2018 through August 31, 2019
  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 $140,038,470 in 2019 and $132,890,340 in 2018. Contingent rental expense for the period ending August 31, 2019 was $1,138,995. There were no contingent rental expenses for the period ending August 31, 2018. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2019, were as follows:

Fiscal Year		Lease Payments
2020	$	117,829,357
2021		97,467,116
2022		73,857,186
2023		50,709,471
2024		38,157,841
2025 – 2029		121,559,785
2030 – 2034		21,982,123
2035 – 2039		14,714,447
2040 – 2044		16,032,140
2045 – 2049		17,476,290
2050 and beyond		4,576,422
Total Minimum Future Payments	$	574,362,178

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, 2019 and 2018 were as follows:

Assets Leased		2019	2018
Buildings:			
Cost	$	253,877,983	235,957,922
Less: Accumulated Depreciation		(78,321,572)	(62,954,802)
Carrying Value of Buildings		175,556,411	173,003,120
Land		19,397,677	17,125,184
Total Carrying Value	$	194,954,088	190,128,304

The System reported contingent rental income in the amount of $458,793 in 2019 and $684,066 in 2018. Rental income from operating leases was $34,346,629 in 2019 and $28,902,052 in 2018. Future minimum lease rental income under noncancelable operating leases as of August 31, 2019, was as follows:

Fiscal Year		Lease Income
2020	$	32,600,356
2021		28,580,213
2022		25,970,059
2023		21,172,552
2024		18,497,740
2025 and beyond		688,007,135
Total	$	814,828,055

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, 2019 and 2018 is as follows:

Assets Under Capital Lease		2019	*Restated 2018
Furniture and Equipment	$	146,167	110,903
Less: Accumulated Depreciation		(36,329)	(9,575)
Buildings		148,943,119	-
Less: Accumulated Depreciation		(9,102,080)	-
Total	$	139,950,877	101,328

*August 31, 2018 capitalized cost of property under capital lease was reclassified to move a portion of capitalized cost of property under capital lease to capitalized cost of property financed with notes from direct borrowings as a result of implementing GASB Statement No. 88. See Note 4 for further details.

Capital lease obligations are due in annual installments through 2034. The following is a schedule of the future minimum lease payments for leased property at August 31, 2019.

Fiscal Year		Principal	Interest	Total
2020	$	3,551,022	5,896,149	9,447,171
2021		4,653,193	6,262,950	10,916,143
2022		6,425,335	6,034,977	12,460,312
2023		8,456,169	5,721,826	14,177,995
2024		9,549,175	5,334,453	14,883,628
2025 – 2029		58,013,780	19,820,909	77,834,689
2030 – 2034		62,272,184	5,729,993	68,002,177
Total Minimum Lease Payments	$	152,920,858	54,801,257	207,722,115

12. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2019, is summarized as follows:

	Balance 09/01/18	Additions	Reductions	Balance 08/31/19	Amounts due within one year
Bonds Payable:					
Permanent University Fund	$ 2,467,895,000	-	51,135,000	2,416,760,000	399,260,000
Revenue Financing System	6,484,265,000	639,150,000	699,000,000	6,424,415,000	1,303,925,000
Subtotal Bonds Payable – Par	8,952,160,000	639,150,000	750,135,000	8,841,175,000	1,703,185,000
Unamortized Net Premiums	545,810,033	210,114,187	96,660,206	659,264,014	86,305,558
Total Bonds Payable	9,497,970,033	849,264,187	846,795,206	9,500,439,014	1,789,490,558
Notes, Loans and Leases Payable:					
Notes and Loans Payable	19,000,000	-	-	19,000,000	-
Notes from Direct Borrowings	7,295,157	1,502,455	3,839,431	4,958,181	3,026,954
Lease Obligations	92,552	153,793,761	965,455	152,920,858	3,551,022
Total Notes, Loans and Leases Payable	26,387,709	155,296,216	4,804,886	176,879,039	6,577,976
Total OPEB Liability	10,717,111,345	1,221,531,048	1,582,856,847	10,355,785,546	230,593,877
Net Pension Liability	2,650,044,162	2,570,582,129	301,089,124	4,919,537,167	-
Hedging Derivative Liability	165,354,206	160,008,887	-	325,363,093	-
Employee Compensable Leave	640,542,365	341,194,893	309,186,773	672,550,485	428,376,654
Incurred But Not Reported Self-Insurance Claims	164,919,188	1,372,894,456	1,369,394,652	168,418,992	140,388,415
Asset Retirement Obligation	25,364,406	2,078,830	1,134,049	26,309,187	-
Total	$ 23,887,693,414	6,672,850,646	4,415,261,537	26,145,282,523	2,595,427,480

Long-term liability activity for the year ended August 31, 2018, is summarized as follows:

		Balance 09/01/17	Additions	Reductions	Balance 08/31/18	Amounts due within one year
Bonds Payable:						
Permanent University Fund	$	2,214,035,000	302,640,000	48,780,000	2,467,895,000	403,275,000
Revenue Financing System		6,184,540,000	874,770,000	575,045,000	6,484,265,000	1,336,280,000
Subtotal Bonds Payable – Par		8,398,575,000	1,177,410,000	623,825,000	8,952,160,000	1,739,555,000
Unamortized Net Premiums		604,150,147	51,855,473	110,195,587	545,810,033	86,698,299
Total Bonds Payable		9,002,725,147	1,229,265,473	734,020,587	9,497,970,033	1,826,253,299
Notes, Loans and Leases Payable:						
Notes and Loans Payable		948,657,250	-	929,657,250	19,000,000	19,000,000
Notes from Direct Borrowings [1]		10,764,400	1,362,575	4,831,818	7,295,157	3,672,349
Lease Obligations [1]		89,566	20,000	17,014	92,552	28,836
Total Notes, Loans and Leases Payable		959,511,216	1,382,575	934,506,082	26,387,709	22,701,185
Total OPEB Liability		10,777,028,782	995,595,635	1,055,513,072	10,717,111,345	202,555,282
Net Pension Liability		3,133,888,495	7,304,886	491,149,219	2,650,044,162	-
Hedging Derivative Liability		246,087,922	-	80,733,716	165,354,206	-
Employee Compensable Leave		607,851,376	316,164,100	283,473,111	640,542,365	412,622,753
Incurred But Not Reported Self-Insurance Claims		161,136,572	1,255,139,068	1,251,356,452	164,919,188	134,052,868
Asset Retirement Obligation [2]		25,364,406	-	-	25,364,406	611,267
Total	$	24,913,593,916	3,804,851,737	4,830,752,239	23,887,693,414	2,598,796,654

[1] Includes retroactive restatements related to GASB Statement No. 88. See Note 4 for further details.
[2] Includes retroactive restatements related to GASB Statement No. 83. See Note 4 for further details.

PROJECTED BOND DEBT SERVICE REQUIREMENTS

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

Fiscal Year		Principal	Interest	Total
2020	$	1,703,185,000	339,473,114	2,042,658,114
2021		338,345,000	322,754,292	661,099,292
2022		337,675,000	307,000,335	644,675,335
2023		336,475,000	290,323,931	626,798,931
2024		332,550,000	273,681,678	606,231,678
2025 – 2029		1,344,815,000	1,142,228,539	2,487,043,539
2030 – 2034		950,684,000	889,453,349	1,840,137,349
2035 – 2039		952,036,000	669,042,974	1,621,078,974
2040 – 2044		904,680,000	439,757,632	1,344,437,632
2045 – 2049		1,640,730,000	181,755,047	1,822,485,047
Total Requirements	$	8,841,175,000	4,855,470,891	13,696,645,891

The System's variable rate demand bonds mature at various dates through August 1, 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 $1,376,205,000 and $1,404,360,000 at August 31, 2019 and 2018, respectively.

Total interest expense for the years ended August 31, 2019 and 2018 was $417,812,495 and $412,055,261, respectively. Interest expense of $54,909,690 associated with financing projects during the construction phase was capitalized during the year ended August 31, 2018. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, early implemented in 2019, discontinued the capitalization of interest costs during construction. Interest expense was reduced by $83,022,145 and $75,457,577 for the amortization of premiums, deferred gains and losses on refundings, and interest rate lock termination payments for the years ended August 31, 2019 and 2018, respectively. The remaining amounts of $334,790,350 in 2019 and $281,687,994 in 2018 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2021. General information related to notes and loans payable at August 31, 2019, which in substance are not bonds, is summarized as follows:

Fiscal Year	Principal	Interest	Total
2020	$ -	432,816	432,816
2021	19,000,000	443,593	19,443,593
Total Requirements	$ 19,000,000	876,409	19,876,409

General information related to notes and loans payable at August 31, 2019, is summarized as follows:

- Note or Loan Payable issue name: JP Morgan Private Bank, Client Services
  Purpose: To provide financing for the construction of the Moncrief Cancer Center building
  Component Unit: U. T. Southwestern Medical Center's Blended Component Unit
  Issue Date: August 8, 2011, Renewed on August 28, 2019
  Authorized Amount: $19,000,000
  Source of revenue for debt service: Assets of Luther King Capital Management
  Terms: Fixed rate of 2.49% Per Annum. Interest is paid monthly. Renewal on August 31, 2021

DIRECT BORROWINGS

Certain direct borrowings to finance the purchase of property are capitalized at the present value of future minimum direct borrowing payments. The original capitalized cost of all such property financed with direct borrowings as of August 31, 2019 and 2018 is as follows:

Assets - Direct Borrowings		2019	* Restated 2018
Furniture and Equipment	$	16,177,786	18,191,600
Less: Accumulated Depreciation		(9,710,957)	(10,440,373)
Nondepreciable Collections		2,239,047	1,784,832
Total	$	8,705,876	9,536,059

*August 31, 2018 capitalized cost of property financed with notes from direct borrowings was reclassified from a portion of capitalized cost of property under capital lease as a result of implementing GASB Statement No. 88. See Note 4 for further details.

Direct borrowing obligations are due in annual installments through 2024. The following is a schedule of the future minimum payments for direct borrowings at August 31, 2019.

Fiscal Year		Principal	Interest	Total
2020	$	3,026,954	143,911	3,170,865
2021		1,391,362	51,330	1,442,692
2022		493,023	17,245	510,268
2023		45,608	2,158	47,766
2024		1,234	2	1,236
Total Minimum Payments	$	4,958,181	214,646	5,172,827

POLLUTION REMEDIATION OBLIGATION

The University of Texas System Administration purchased contaminated land in 2016 and 2017 with plans to remediate. The estimated outlays for the pollution remediation are $3,500,000 using the expected cash flow technique. These pollution remediation outlays qualify for capitalization and $941,177 and $474,651 were capitalized through August 31, 2019 and 2018 respectively. The purchase price of $213,584,352 and total expected outlays did not exceed the fair market value of the uncontaminated property of $232,290,000, 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, 2019 and 2018, the System had outstanding bonds payable of $8,841,175,000 and $8,952,160,000, respectively. Permanent University Fund bonds are secured by and payable from the System's interest in the Available University Fund, which consists of distributions from the investment income of the Permanent University Fund. Revenue Financing System debt is secured by and payable from Pledged Revenues as defined in the Master Resolution establishing the Revenue Financing System. Pledged Revenues consist of all lawfully available revenues, funds and balances, with certain exceptions, pledged to secure revenue-supported indebtedness issued under the Master Resolution.

Bonded Indebtedness	**Interest Rates**	**Maturity Dates**		**Outstanding Principal**
Permanent University Fund	1.28%-5.262%	2020-2047	$	2,416,760,000
Revenue Financing System	1.28%-5.375%	2020-2049		6,424,415,000

As of August 31, 2019, 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 $750 million, each authorized to be issued on or before August 31, 2020. 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, 2019, is summarized in the following table.

Bond Series	Purpose	Issue Date	Amount Issued
Permanent University Fund:			
Refunding Bonds Series 2006B	To refund $85,545,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2020 through 2022, both inclusive; to refund $172,985,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2023, 2026 and 2028 through 2030, both inclusive; to refund $51,905,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the year 2035	January 24, 2007	$284,065,000
Taxable Bonds Series 2009A	To refund $250,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	September 17, 2009	250,000,000
Bonds Series 2014A	To refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	February 10, 2014	240,340,000
Bonds Series 2014B	To refund $17,240,000 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	April 2, 2014	221,580,000
Refunding Bonds Series 2015A	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	April 2, 2015	197,970,000
Bonds Series 2015B	To refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	August 25, 2015	220,565,000
Bonds Taxable Series 2015C	To refund $125,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	December 9, 2015	126,020,000
Bonds Series 2016A	To refund $137,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	January 5, 2016	117,270,000
Bonds Series 2016B	To refund $319,000,000 principal amount of Permanent University Fund Commercial Paper Notes, Series A	September 1, 2016	272,350,000
Taxable Bonds Series 2017A	To refund $81,000,000 principal amount of Permanent University Fund Commercial Paper Notes, Series A, and to refund $220,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	November 14, 2017	302,640,000

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System:			
Refunding Bonds Series 2002A	To advance refund $54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	54,430,000
Refunding Bonds Series 2002B	To advance refund $109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	108,855,000
Refunding Bonds Series 2004B	To refund $310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay the cost of issuance	March 9, 2004	300,330,000
Refunding Bonds Series 2006C	To refund $177,835,000 principal amount of portions of Revenue Financing System Bonds, 2001C, 2003A and 2004C and pay the cost of issuance	January 4, 2007	175,115,000
Bonds Series 2010A	To refund $258,392,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $134,369,000 and pay the cost of issuance	March 25, 2010	331,415,000
Refunding Bonds Series 2010B	To refund $393,690,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F and pay the cost of issuance	April 14, 2010	385,380,000
Taxable Bonds Series 2010C	To provide new money of $600,741,596 and pay the cost of issuance	September 23, 2010	604,310,000
Taxable Bonds Series 2010D	To refund $349,415,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $163,441,000 and pay the cost of issuance	June 30, 2010	516,245,000
Refunding Bonds Series 2012A	To refund $53,990,000 principal amount of portions of Revenue Financing System Bonds, 2003A and 2004C, to refund $186,296,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	March 1, 2012	195,850,000
Bonds Series 2012B	To refund $96,542,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $184,128,000 and pay the cost of issuance	March 21, 2012	238,135,000
Bonds Series 2014A	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	May 1, 2014	259,135,000

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
Refunding Bonds Series 2014B	To refund $261,840,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F, and pay the cost of issuance	November 24, 2014	250,700,000
Bonds Taxable Series 2016A	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	January 14, 2016	255,825,000
Bonds Series 2016B	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	January 22, 2016	206,040,000
Refunding Bonds Series 2016C	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	May 10, 2016	133,240,000
Bonds Series 2016D	To provide new money of $260,000,000 and pay the cost of issuance	July 1, 2016	213,180,000
Bonds Series 2016E	To provide new money of $245,000,000 and pay the cost of issuance	August 22, 2016	196,215,000
Bonds Series 2016F	To refund $465,019,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and pay the cost of issuance	September 1, 2016	376,030,000
Refunding Bonds Series 2016H	To refund $266,640,000 principal amount of portions of Revenue Financing System Bonds, 2006D and 2006F, and pay the cost of issuance	November 17, 2016	233,350,000
Refunding Bonds Series 2016I	To refund $202,010,000 principal amount of portions of Revenue Financing System Bonds, 2006E and 2010A, and pay the cost of issuance	November 30, 2016	184,725,000
Bonds Series 2016J	To provide new money of $352,832,000 and pay the cost of issuance	January 4, 2017	306,925,000
Bonds Taxable Series 2017A	To refund $349,000,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B, and pay the cost of issuance	September 14, 2017	350,815,000
Bonds Series 2017B	To refund $87,455,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund $191,664,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B, and pay the cost of issuance	October 24, 2017	265,490,000
Refunding Bonds Series 2017C	To refund $265,855,000 principal amount of portions of Revenue Financing System Bonds, 2009D, 2012A and 2012B, and pay the cost of issuance	December 7, 2017	258,465,000
Refunding Bonds Series 2019A	To refund $386,785,000 principal amount of portions of Revenue Financing System Bonds, 2009B and 2014B, and pay the cost of issuance	June 13, 2019	320,435,000
Bonds Series 2019B	To refund $449,478,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and pay the cost of issuance	July 18, 2019	318,715,000

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:

Bond Series	**Purpose**	**Issue Date**		**Amount Issued**
Permanent University Fund:				
Bonds Series 2008A	To refund $400,000,000 of Permanent University Fund Flexible Notes, Series A and pay costs of issuance	October 30, 2008	$	400,905,000
Revenue Financing System:				
Refunding Bonds Series 2007B	To refund $169,015,000 of Revenue Financing System Bonds, Series 2003B and $149,860,000 of Revenue Financing System Bonds, Series 2004D, and pay costs of issuance	December 20, 2007		345,460,000
Bonds Series 2008B	To refund $461,922,000 of Revenue Financing System Commercial Paper Notes, Series A and $34,715,000 of Revenue Financing System Bonds, Series 1998B, provide $182,590,000 of new money to finance the costs of campus improvements, and pay costs of issuance	March 18, 2008		685,485,000
Bonds Taxable Series 2016G	To refund $250,000,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and pay the cost of issuance	September 15, 2016		250,000,000

PLEDGED FUTURE REVENUES

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

		2019	2018
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$	13,696,645,891	13,857,865,406
Term of Commitment Year Ending 8/31		2049	2047
Percentage of Revenue Pledged		91.7%	82.5%
Current Year Pledged Revenue	$	12,556,776,250	11,435,782,782
Current Year Principal and Interest Paid	$	746,533,594	755,260,445

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 2019 or 2018. The System had $1,248,190,000 and $1,608,280,000 of BABs outstanding at August 31, 2019 and 2018, respectively.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2019

Revenue Financing System Refunding Bonds, Series 2019A were issued on June 13, 2019 to current refund $330,545,000 principal amount of Revenue Financing System Taxable Bonds, Series 2009B, to current refund $56,240,000 principal amount of Revenue Financing System Bonds, Series 2014B, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $396,559,354, which represents the principal amount of the 2019A Bonds of $320,435,000, plus an original issue premium of $77,249,682, less an underwriting discount of $1,125,328. The net proceeds were used to pay costs of issuance of $335,448, to purchase $396,222,702 of eligible defeasance securities and to deposit $1,204 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 $6,430,596 resulted from the transaction as the reacquisition price of $396,223,906 exceeded the net carrying amount of $386,785,000 par value, $4,662,018 of unamortized original issue premium, and $1,653,708 of unamortized loss from Revenue Financing System Bonds, Series 2014B.
- As a result of this refunding, the System reduced its future debt service payments by $94,198,456 from closing through August 15, 2041, and an economic gain from the transaction resulted in a net present value savings of $67,897,659 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2019B were issued on July 18, 2019 to current refund $449,478,000 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 $450,577,597, which represents the principal amount of the 2019B Bonds of $318,715,000, plus an original issue premium of $132,864,505, less an underwriting discount of $1,001,908. The net proceeds were used to pay costs of issuance of $357,470, to purchase $450,219,810 of eligible defeasance securities and to deposit $317 with the escrow agent for 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 $742,127 resulted from the transaction as the reacquisition price of $450,220,127 exceeded the net carrying amount of $449,478,000 par value.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2018

Revenue Financing System Bonds, Taxable Series 2017A were issued on September 14, 2017 to current refund $349,000,000 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 $349,696,565, which represents the principal amount of the 2017A Bonds of $350,815,000 less an underwriting discount of $1,118,435. The net proceeds were used to pay costs of issuance of $303,396 and to deposit $349,393,169 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 $393,169 resulted from the transaction as the reacquisition price of $349,393,169 exceeded the net carrying amount of $349,000,000 par value.

Revenue Financing System Bonds, Series 2017B were issued on October 24, 2017 to current refund $87,455,000 principal amount of Revenue Financing System Tax-Exempt Commercial Paper Notes, Series A, to current refund $191,664,000 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 $279,809,746, which represents the principal amount of the 2017B Bonds of $265,490,000, plus a net original issue premium of $15,393,666 less an underwriting discount of $1,073,920. The net proceeds were used to pay costs of issuance of $229,293 and to deposit $279,580,453 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 $461,453 resulted from the transaction as the reacquisition price of $279,580,453 exceeded the net carrying amount of $279,119,000 par value.

Permanent University Fund Bonds, Taxable Series 2017A were issued on November 14, 2017 to current refund $81,000,000 principal amount of Permanent University Fund Tax-Exempt 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.

- Net proceeds related to the issuance were $301,681,000, which represents the principal amount of the 2017A Bonds of $302,640,000 less an underwriting discount of $959,000. The net proceeds were used to pay costs of issuance of $264,549 and to deposit $301,416,451 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 $416,451 resulted from the transaction as the reacquisition price of $301,416,451 exceeded the net carrying amount of $301,000,000 par value.

Revenue Financing System Refunding Bonds, Series 2017C were issued on December 7, 2017 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 Refunding Bonds, Series 2012A, to advance refund $110,970,000 principal amount of Revenue Financing System Bonds, Series 2012B, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $294,230,448, which represents the principal amount of the 2017C Bonds of $258,465,000, plus a net original issue premium of $36,461,808 less an underwriting discount of $696,360. The net proceeds along with $624,687 of System funds were used to pay costs of issuance of $283,701 and to deposit $294,571,434 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 $8,215,812 resulted from the transaction as the reacquisition price of $294,571,434 exceeded the net carrying amount of $265,855,000 par value, $21,183,608 of unamortized premiums, and $682,986 of unamortized loss from Revenue Financing System Bonds, Series 2009D, 2012A and 2012B.
- As a result of this refunding, the System reduced its aggregate debt service payments by $27,943,268 from closing through August 15, 2035, and 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.

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, 2019:

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Effective Date	Maturity Date	Terms*	Embedded Options?	Cash Paid or Received	Counterparty Credit Rating (Moody's/S&P)	Weighted Average Maturity As of 8/31/19
Pay Fixed; receive variable	PUF Bonds 2008A	$176,070,000	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	Aa2/A+	14.5 yrs
	PUF Bonds 2008A	176,070,000	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	Aa3/A+	14.5 yrs
	RFS Bonds 2007B	162,470,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa2/A+	9.1 yrs
	RFS Bonds 2007B	162,470,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa2/A+	9.1 yrs
	RFS Bonds 2008B	111,180,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa2/A+	11.0 yrs
	RFS Bonds 2008B	111,180,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	A3/BBB+	11.0 yrs
	RFS Bonds 2008B	226,765,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa2/A+	10.1 yrs
	RFS Bonds 2016G	250,000,000	12/1/2016	8/1/2045	Pay 2.000%; receive 100% of 1M LIBOR	No	No	Aa3/A+	25.9 yrs
	RFS Bonds 2020A**	250,000,000	11/1/2020	8/1/2049	Pay 1.576%; receive 100% of 1M LIBOR	No	No	Aa3/A+	29.9 yrs
TOTAL		**$1,626,205,000**							

*London Interbank Offer Rate (LIBOR)
*Securities Industry and Financial Markets Association (SIFMA)
**RFS Taxable Bonds, Series 2020A expected to be issued prior to the effective date.

The following table outlines the terms of the System's hedging derivative interest rate swap agreements in effect at August 31, 2018:

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Effective Date	Maturity Date	Terms*	Embedded Options?	Cash Paid or Received	Counterparty Credit Rating (Moody's/S&P)	Weighted Average Maturity As of 8/31/18
Pay Fixed; receive variable	PUF Bonds 2008A	$179,180,000	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	Aa2/A+	15.2 yrs
	PUF Bonds 2008A	179,180,000	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	A1/A+	15.2 yrs
	RFS Bonds 2007B	163,170,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa2/A+	10.1 yrs
	RFS Bonds 2007B	163,170,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa3/A+	10.1 yrs
	RFS Bonds 2008B	115,645,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa3/A+	11.6 yrs
	RFS Bonds 2008B	115,645,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	A3/BBB+	11.6 yrs
	RFS Bonds 2008B	238,370,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa3/A+	10.6 yrs
	RFS Bonds 2016G	250,000,000	12/1/2016	8/1/2045	Pay 2.000%; receive 100% of 1M LIBOR	No	No	A1/A+	26.9 yrs
TOTAL		**$1,404,360,000**							

*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, 2019 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Derivatives by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/19)	Fair Value as of 8/31/19	Fair Value as of 8/31/18	Change in Fair Value 8/31/18 - 8/31/19	Change in Fair Value Recorded as
Hedging Derivative Assets	RFS Bonds 2016G	-	-	-	37,067,661	(37,067,661)	Def Inflow
		-	-	-	37,067,661	(37,067,661)	
Hedging Derivative Liabilities	PUF Bonds 2008A	176,070,000	881,701	(54,139,201)	(29,316,763)	(24,822,438)	Def Outflow
	PUF Bonds 2008A	176,070,000	870,404	(53,319,653)	(28,528,871)	(24,790,782)	Def Outflow
	RFS Bonds 2007B	162,470,000	327,947	(36,641,790)	(22,122,264)	(14,519,526)	Def Outflow
	RFS Bonds 2007B	162,470,000	327,947	(36,641,790)	(22,122,264)	(14,519,526)	Def Outflow
	RFS Bonds 2008B	111,180,000	233,219	(29,572,546)	(17,618,120)	(11,954,426)	Def Outflow
	RFS Bonds 2008B	111,180,000	233,219	(29,572,546)	(17,618,120)	(11,954,426)	Def Outflow
	RFS Bonds 2008B	226,765,000	421,634	(49,801,448)	(28,027,804)	(21,773,644)	Def Outflow
	RFS Bonds 2016G	250,000,000	(48,624)	(27,522,348)	-	(27,522,348)	Def Outflow
	RFS Bonds 2020A	250,000,000	-	(8,151,771)	-	(8,151,771)	Def Outflow
		1,626,205,000	3,247,447	(325,363,093)	(165,354,206)	(160,008,887)	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(67,688)	3,835,817	8,523,952	(4,688,135)	Decr. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(57,915)	2,027,764	4,454,582	(2,426,818)	Decr. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(88,960)	4,504,893	9,209,001	(4,704,108)	Decr. in Fair Value of Inv
	PUF Bonds 2006B	-	-	-	1,752,222	(1,752,222)	Decr. in Fair Value of Inv
	PUF Bonds 2008A	176,070,000	(192,582)	3,899,151	7,843,574	(3,944,423)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	-	-	-	11,360,653	(11,360,653)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(62,535)	5,267,406	16,577,142	(11,309,736)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(79,590)	5,509,607	16,594,295	(11,084,688)	Decr. in Fair Value of Inv
		987,225,000	(549,270)	25,044,638	76,315,421	(51,270,783)	
Investment Derivatives-Liability Positions	PUF Bonds 2006B	284,065,000	(106,403)	(254,938)	-	(254,938)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(54,008)	(188,467)	-	(188,467)	Decr. in Fair Value of Inv
		539,890,000	(160,411)	(443,405)	-	(443,405)	
TOTAL		**$3,153,320,000**	**2,537,766**	**(300,761,860)**	**(51,971,124)**	**(248,790,736)**	

The following is the fair value of the derivative agreements related to debt in effect at August 31, 2018 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Derivatives by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/18)	Fair Value as of 8/31/18	Fair Value as of 8/31/17	Change in Fair Value 8/31/17 - 8/31/18	Change in Fair Value Recorded as
Hedging Derivative Assets	RFS Bonds 2016G	$250,000,000	(22,578)	37,067,661	10,339,315	26,728,346	Def Inflow
		250,000,000	(22,578)	37,067,661	10,339,315	26,728,346	
Hedging Derivative Liabilities	PUF Bonds 2008A	179,180,000	863,022	(29,316,763)	(42,503,422)	13,186,659	Def Outflow
	PUF Bonds 2008A	179,180,000	851,716	(28,528,871)	(41,638,181)	13,109,310	Def Outflow
	RFS Bonds 2007B	163,170,000	314,920	(22,122,264)	(33,127,972)	11,005,708	Def Outflow
	RFS Bonds 2007B	163,170,000	314,920	(22,122,264)	(33,127,972)	11,005,708	Def Outflow
	RFS Bonds 2008B	115,645,000	232,351	(17,618,120)	(25,951,512)	8,333,392	Def Outflow
	RFS Bonds 2008B	115,645,000	232,351	(17,618,120)	(25,951,512)	8,333,392	Def Outflow
	RFS Bonds 2008B	238,370,000	422,116	(28,027,804)	(43,787,351)	15,759,547	Def Outflow
		1,154,360,000	3,231,396	(165,354,206)	(246,087,922)	80,733,716	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(70,884)	8,523,952	6,217,067	2,306,885	Incr. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(60,452)	4,454,582	2,767,871	1,686,711	Incr. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(93,181)	9,209,001	6,320,603	2,888,398	Incr. in Fair Value of Inv
	PUF Bonds 2006B	284,065,000	(56,983)	1,752,222	-	1,752,222	Incr. in Fair Value of Inv
	PUF Bonds 2008A	179,180,000	(276,420)	7,843,574	4,638,619	3,204,955	Incr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(54,008)	11,360,653	-	11,360,653	Incr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(62,535)	16,577,142	-	16,577,142	Incr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(79,590)	16,594,295	2,732,915	13,861,380	Incr. in Fair Value of Inv
		1,530,225,000	(754,053)	76,315,421	22,677,075	53,638,346	
Investment Derivatives-Liability Positions	PUF Bonds 2006B	-	-	-	(1,137,070)	1,137,070	Incr. in Fair Value of Inv
	RFS Bonds 2016A	-	-	-	(4,834,011)	4,834,011	Incr. in Fair Value of Inv
	RFS Bonds 2016A	-	-	-	(1,810,067)	1,810,067	Incr. in Fair Value of Inv
	RFS Bonds 2017A	-	-	-	(2,877,014)	2,877,014	Incr. in Fair Value of Inv
		-	-	-	(10,658,162)	10,658,162	
TOTAL		**$2,934,585,000**	**2,454,765**	**(51,971,124)**	**(223,729,694)**	**171,758,570**	

Derivative Instrument Objectives

Derivatives by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/19?	Evaluation for Effectiveness
Hedging Derivatives	PUF Bonds 2008A	$176,070,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	176,070,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	162,470,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	162,470,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	111,180,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	111,180,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	226,765,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2016G	250,000,000	Hedge changes in cash flows on Series 2016G bonds	Yes	Consistent Critical Terms
	RFS Bonds 2020A	250,000,000	Hedge changes in cash flows on Series 2020A bonds	Yes	Consistent Critical Terms
Investment Derivatives	PUF Bonds 2006B	284,065,000	Manage changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2008A	176,070,000	Manage changes in cash flows on Series 2008A bonds	N/A	N/A
	RFS Bonds 2008B	90,270,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	92,045,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	117,190,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
TOTAL		**$3,153,320,000**			

Derivative Instrument Objectives

Derivatives by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/18?	Evaluation for Effectiveness
Hedging Derivatives	PUF Bonds 2008A	$179,180,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	179,180,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	163,170,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	163,170,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	115,645,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	115,645,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	238,370,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2016G	250,000,000	Hedge changes in cash flows on Series 2016G bonds	Yes	Consistent Critical Terms
Investment Derivatives	PUF Bonds 2006B	284,065,000	Manage changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2008A	179,180,000	Manage changes in cash flows on Series 2008A bonds	N/A	N/A
	RFS Bonds 2008B	90,270,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	92,045,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	117,190,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
TOTAL		**$2,934,585,000**			

The fair value of interest rate swaps reported as investment derivatives-asset positions of $25,044,638 and $76,315,421 as of August 31, 2019 and 2018, respectively, is included on the consolidated statement of net position as noncurrent unrestricted investments and in the summary of investments in Note 6. The fair value of interest rate swaps reported as investment derivatives-liability positions of $443,405 as of August 31, 2019 is included on the consolidated statement of net position as investment derivatives-liability positions. As of August 31, 2018, there were no interest rate swaps reported as investment derivatives-liability position. The change in fair value of interest rate swaps 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, 2019, the change in fair value of interest rate swaps reported as investment derivatives was a decrease in the amount of $51,714,188. For the year ending August 31, 2018, the change in fair value of interest rate swaps reported as investment derivatives was an increase in the amount of $64,296,508.

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, 2019, 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, 2019, the maximum loss due to credit risk was $14,267,625. 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.

Bankruptcy Risk: The System is exposed to bankruptcy risk of its swap counterparties. The amount of any termination the System would receive, if a termination payment is owed, would be subject to the swap counterparty's ability to make the required payment. Upon the swap counterparty's bankruptcy, the System's obligation to make payments, the timing of termination, and the valuation of the swap upon termination may be affected by relevant bankruptcy law.

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.

Index Risk: The System is exposed to risk that the method of establishing LIBOR, the Thomson Municipal Market Data (MMD) or the SIFMA index could change over time. A change in LIBOR, MMD or the SIFMA index may affect the rate that the System pays or receives on certain interest rate swaps.

LIBOR Discontinuation Risk: In addition, on July 27, 2017, the Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021 (the "FCA Announcement"). A portion of the System's swaps use a LIBOR-based rate as a reference rate for determining payments to be received or payments to be made thereunder. It is not possible to predict the effect of the FCA Announcement, any changes in the methods pursuant to which LIBOR rates are determined, or any other reforms to LIBOR that may be enacted, any of which may adversely affect the determination of LIBOR rates or result in the phasing out of LIBOR as a reference rate. Any such effects could result in a sudden or prolonged increase or decrease in reported LIBOR rates or result in the replacement of LIBOR with other reference rates and could have a negative impact on the market value of the System's swaps and the payment obligations of the System thereunder.

Liquidity Risk: The System is exposed to risk that, under certain market conditions, the System may be unable to terminate, assign or novate an interest rate swap. The System may not amend, assign or novate a swap without the swap counterparty's consent. There can be no assurance that another party will be willing to accept an assignment or novation of the System's interest rate swap.

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.

Amortization Risk: Amortization 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 amortization 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, 2019, the System had market access risk associated with $1,376,205,000 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, 2019, 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 2020 because the bonds are supported by internal liquidity.

As of August 31, 2019

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2020	$	27,065,000	19,992,344	26,694,834	73,752,178
2021		28,055,000	19,641,908	26,053,501	73,750,409
2022		46,425,000	19,278,654	25,388,447	91,092,101
2023		48,185,000	18,670,582	24,273,069	91,128,651
2024		49,785,000	18,039,465	23,115,223	90,939,688
2025-2029		287,690,000	79,576,197	96,076,104	463,342,301
2030-2034		297,240,000	59,857,108	59,754,629	416,851,737
2035-2039		341,760,000	39,147,324	21,498,049	402,405,373
2040-2044		-	26,500,000	(1,400,000)	25,100,000
2045-2049		250,000,000	5,300,000	(280,000)	255,020,000

[1]Reflects scheduled principal and interest payments of 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 to be optionally or mandatorily redeemed in the fiscal years reflected.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2019 on its Series 2008A Bonds, Series 2007B Bonds, Series 2008B, and Series 2016G Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2019 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2018

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2019	$	28,155,000	22,113,551	25,030,524	75,299,075
2020		27,065,000	21,695,170	24,420,104	73,180,274
2021		28,055,000	21,292,648	23,835,607	73,183,255
2022		46,425,000	20,875,400	23,229,468	90,529,868
2023		48,185,000	20,178,410	22,211,583	90,574,993
2024-2028		278,925,000	89,292,395	94,103,731	462,321,126
2029-2033		313,440,000	67,215,210	61,752,151	442,407,361
2034-2038		374,870,000	44,153,449	27,978,944	447,002,393
2039-2043		9,240,000	23,885,828	(758,710)	32,367,118
2044-2048		250,000,000	9,500,000	(379,400)	259,120,600

[1]Reflects scheduled principal and interest payments of 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 to be optionally or mandatorily redeemed in the fiscal years reflected.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2018 on its Series 2008A Bonds, Series 2007B Bonds, Series 2008B, and Series 2016G Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2018 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 statues pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans with 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 $1,032,292 of Medicare Part D RDS revenue from the federal government in 2018. In 2019 the System was required to refund $92,638 to the Medicare Part D RDS program after the annual reconciliation was performed. The annual reconciliation recognizes any payments made by the Medicare RDS program. 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 $29,090,168 and $20,172,113 of Medicare EGWP payments from the federal government in 2019 and 2018, respectively.

UNEMPLOYMENT COMPENSATION INSURANCE

The General Appropriations Act requires the System to reimburse the Texas Workforce Commission (TWC) for 50% of the unemployment benefits paid to 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 person injured 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) and Named Windstorm and Flood (Wind and Flood) coverage. 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; institutions have a $250,000 per occurrence deductible. 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. M. D. Anderson purchases a dedicated $100 million policy excess of the $250 million per occurrence Named Windstorm CPPP limit. Deductibles for Wind and Flood are $100 million per occurrence for U. T. Medical Branch - Galveston (locations in Galveston only), $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), 5% of total insurable value in other Tier 1 counties, and AOP deductibles for all other locations.

Primary insurance policies are purchased on certain flood and wind exposed properties to partially offset the large deductibles. 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) for facilities in Tier 1 seacoast territories and the National Flood Insurance Program (NFIP) for properties located in higher risk flood zones. U. T. Medical Branch - Galveston purchases a $50 million Named Windstorm buydown policy to reduce the $100 million Wind and Flood deductible for locations in Galveston only. M. D. Anderson purchases a $25 million Named Windstorm Multi Year Single Limit (MYSL) buydown policy to reduce the $50 million Wind and Flood deductible; they have a 25% share of the $25 million to $50 million layer. 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 and for EPL claims, such as wrongful termination, failure to promote, and wrongful discipline.

Coverage applies to individual board members, employees, faculty, and other covered individuals, as well as to each of the institutions and U. T. System Administration. The limit of liability is a $15 million annual aggregate (Coverages A, B and C combined), with an additional $5 million self-insured annual aggregate excess limit for Coverages A and B. Self-insured retentions for the Plan are subject to a $5 million annual aggregate. 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 with a $300,000 deductible. In the event a loss involves any or all of Coverages A, B, and C, then only the single largest deductible amount will apply.

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. Each claim is subject to a $2.5 million retention except for PCI-DSS which is $1 million; institutions have a $250,000 per claim deductible. M. D. Anderson purchases a $10 million standalone policy which is primary to the Cyber Liability Program.

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 improvement 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 a $615,000 annual aggregate stop loss deductible per policy term. Institutions retain the first $2,500 per occurrence for liability, $1,000 per vehicle for physical damage, and $5,000 per vehicle for vehicles valued over $100,000.

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 2019 and 2018 were as follows:

Fiscal Year 2019 Plan		IBNR Liability 09/01/18	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/19
Employee Health and Dental	$	103,800,000	1,366,389,799	(1,356,289,799)	113,900,000
Workers' Compensation		7,023,000	1,590,715	(3,228,715)	5,385,000
Professional Medical Liability		20,496,140	2,837,813	(3,847,857)	19,486,096
Property Protection – Fire & AOP		6,462,000	(654,845)	(682,155)	5,125,000
Property Protection – Wind & Flood		20,000,000	(1,760,525)	(1,377,128)	16,862,347
Directors and Officers/EPL/Cyber		1,618,478	1,751,563	(1,151,484)	2,218,557
ROCIP		5,141,318	2,218,522	(2,370,270)	4,989,570
Automobile, Property & Liability		378,252	521,414	(447,244)	452,422
TOTAL	$	164,919,188	1,372,894,456	(1,369,394,652)	168,418,992

Fiscal Year 2018 Plan		IBNR Liability 09/01/17	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/18
Employee Health and Dental	$	95,900,000	1,243,525,768	(1,235,625,768)	103,800,000
Workers' Compensation		7,572,000	3,327,042	(3,876,042)	7,023,000
Professional Medical Liability		20,376,564	3,812,228	(3,692,652)	20,496,140
Property Protection – Fire & AOP		10,280,704	1,244,918	(5,063,622)	6,462,000
Property Protection – Wind & Flood		20,000,000	(416,319)	416,319	20,000,000
Directors and Officers/EPL/Cyber		2,303,317	513,304	(1,198,143)	1,618,478
ROCIP		4,301,519	2,453,765	(1,613,966)	5,141,318
Automobile, Property & Liability		402,468	678,363	(702,579)	378,252
TOTAL	$	161,136,572	1,255,139,069	(1,251,356,453)	164,919,188

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, 2019 and 2018, 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.

	2019		2018	
Level of Coverage	**Employer**	**Retiree**	**Employer**	**Retiree**
Retiree Only	$ 598.14	-	$ 598.14	-
Retiree/Spouse	911.69	257.53	911.69	257.53
Retiree/Children	798.76	269.34	798.76	269.34
Retiree/Family	1,114.18	507.15	1,114.18	507.15

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; however, due to the State statute requiring appropriations for funding the plan, the State is reporting a proportionate share. Chapter 1551 of the *Texas Insurance Code*, Sections 310 and 311, require that the State contribute to the cost of each participant's insurance coverage. The funds are appropriated under the General Appropriations Act Higher Education Employees Group Insurance (HEGI) Contributions. The State's proportion was 20.82 and 22.83 percent of the collective OPEB related liabilities, deferred outflows and inflows and expense based on HEGI contributions by the State to total contributions as of August 31, 2019 and 2018. The System's proportion as of August 31, 2019 and 2018 was 79.18 and 77.17 percent. At August 31, 2019 and 2018, the amount of the total OPEB liability related to the System reported by the State was $2,723,817,586 and $3,171,184,120, respectively. The amount reported by the State is related to the premium sharing 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 for OPEB on the System's behalf.

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 and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

EMPLOYEES COVERED BY BENEFIT TERMS

The benefits provided are discussed in Note 15. 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*. At the respective valuation dates, the following employees were covered by the benefit terms:

	Valuation Date	
	12/31/2017	**12/31/2016**
a. Inactive employees or beneficiaries currently receiving benefit payments	27,597	25,324
b. Inactive employees entitled to but not yet receiving benefit payments	12,311	11,383
c. Active employees	90,605	87,265
d. Total	130,513	123,972

TOTAL OPEB LIABILITY

The System has elected to use a measurement date that is eight months in advance of the fiscal year end. The System's proportionate share of the total OPEB liability of $10,355,785,546, current portion of $230,593,877 and a noncurrent portion of $10,125,191,669, reported for the fiscal year ended August 31, 2019 was measured as of December 31, 2018 and was determined by an actuarial valuation as of December 31, 2017 and rolled forward twelve months to December 31, 2018. The System's proportionate share of the total OPEB liability of $10,717,111,345, current portion of $202,555,282 and a noncurrent portion of $10,514,556,063, reported for the fiscal year ended August 31, 2018 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that same date.

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

The Total OPEB Liability as of December 31, 2018 and December 31, 2017 was determined by an actuarial valuation as of December 31, 2017 and rolled forward twelve months to December 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 9.50% (includes inflation)
Discount rate	4.10% for December 31, 2018 and 3.44% for December 31, 2017
Healthcare cost trend rates	7.00% for FY19, 8.00% for FY20, then decreasing 0.50% per year to an ultimate rate of 4.50% for FY27 and later years

Mortality:

a. Service Retirees, Survivors and other Inactive Members:
Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014.

b. Disability Retirees:
Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.

c. Active Members:
Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB.

Discount Rate

a. For fiscal year ended August 31, 2019: The discount rate used to measure the Total OPEB Liability as of December 31, 2018 was 4.10%. The discount rate used to determine the Total OPEB Liability as of December 31, 2017 was 3.44%.

b. For fiscal year ended August 31, 2018: The discount rate used to measure the Total OPEB Liability as of December 31, 2017 was 3.44%. The discount rate used to measure the Total OPEB Liability as of December 31, 2016 was 3.78%.

c. Municipal Bond Rate: 4.10% as of December 31, 2018, 3.44% as of December 31, 2017, and 3.78% as of December 31, 2016; the source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. In describing their index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

Many of the actuarial assumptions used in this valuation were based on the results of an actuarial experience study performed by the TRS retirement plan actuary for the period September 1, 2010 to August 31, 2014.

The following assumptions or other inputs were changed since the previous measurement date:

The discount rate was changed as a result of requirements by GASB Statement No. 75 to utilize the yield or index rate as of the measurement date for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher.

As of the measurement date of December 31, 2018, no changes in benefit and eligibility provisions have occurred. Accordingly, the benefit and eligibility provisions used in this valuation have not been changed since the prior valuation.

Sensitivity of the System's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate

	1% Decrease (3.10%)	FY19 Discount Rate (4.10%)	1% Increase (5.10%)
Total OPEB Liability	$ 12,565,850,208	$ 10,355,785,546	$ 8,682,139,141

	1% Decrease (2.44%)	FY18 Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB Liability	$ 13,185,594,111	$ 10,717,111,345	$ 8,877,728,799

Sensitivity of the System's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

	1% Decrease	FY19 Healthcare Cost Trend Rates[1]	1% Increase
Total OPEB Liability	$ 8,606,162,337	$ 10,355,785,546	$ 12,679,927,126

	1% Decrease[1]	FY18 Healthcare Cost Trend Rates[1]	1% Increase[1]
Total OPEB Liability	$ 8,912,787,175	$ 10,717,111,345	$ 13,124,958,390

Healthcare Cost Trend Rates used for fiscal year 2019 and 2018 are shown below:

Fiscal Year	1% Decrease	FY18 Healthcare Cost Trend Rates	1% Increase
2019	6.00%	7.00%	8.00%
2020	7.00%	8.00%	9.00%
2021	6.50%	7.50%	8.50%
2022	6.00%	7.00%	8.00%
2023	5.50%	6.50%	7.50%
2024	5.00%	6.00%	7.00%
2025	4.50%	5.50%	6.50%
2026	4.00%	5.00%	6.00%
2027 and beyond	3.50%	4.50%	5.50%

CHANGES IN THE SYSTEM'S PROPORTIONATE SHARE OF THE TOTAL OPEB LIABILITY

		Increase (Decrease) in Total OPEB Liability	
		For Measurement Year from 12/31/2017 to 12/31/2018	For Measurement Year from 12/31/2016 to 12/31/2017
Balance at Beginning of Measurement Year	$	10,717,111,345	10,777,028,782
Changes for the year:			
Service cost		548,093,347	569,296,804
Interest		394,480,742	426,298,831
Differences between expected and actual experience		-	(136,662,956)
Changes of assumptions or other inputs		(1,429,460,396)	(781,692,644)
Benefit payments (employer)		(153,396,451)	(137,157,472)
Net changes		(640,282,758)	(59,917,437)
Changes in Proportional Share		278,956,959	
Balance at End of Measurement Year	$	10,355,785,546	10,717,111,345

The System recognized OPEB expense of $664,784,810 for the fiscal year ended August 31, 2019 and $843,220,745 for the fiscal year ended August 31, 2018.

The changes in the total OPEB liability, including both the System's and the State's portion, are shown in the table below.

		Increase (Decrease) in Total OPEB Liability	
		For Measurement Year from 12/31/2017 to 12/31/2018	For Measurement Year from 12/31/2016 to 12/31/2017
Balance at Beginning of Measurement Year	$	13,888,295,465	13,965,942,420
Changes for the year:			
Service cost		692,254,917	737,751,244
Interest		498,238,547	552,440,292
Differences between expected and actual experience		-	(177,101,409)
Changes of assumptions or other inputs		(1,805,442,436)	(1,012,994,831)
Benefit payments (employer)		(193,743,361)	(177,742,251)
Net changes		(808,692,333)	(77,646,955)
Balance at End of Measurement Year	$	13,079,603,132	13,888,295,465

At each fiscal year-end, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the sources listed in the table below.

		As of 8/31/2019		As of 8/31/2018	
		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	-	104,127,465	-	119,074,416
Changes of assumptions or other inputs		-	2,058,144,539	-	909,409,679
Change in proportion and contribution difference		355,767,722	44,612,494	-	-
Contributions subsequent to the measurement date		111,317,743	-	103,036,547	-
Total	$	467,085,465	2,206,884,498	103,036,547	1,028,484,095

Amounts reported as Deferred Outflows/(Inflows) of Resources will be recognized in OPEB expense as follows:

For the Fiscal Year ended August 31, 2019:

Fiscal Year Ended August 31		**Amount**
2020	$	(279,677,749)
2021		(279,677,749)
2022		(279,677,750)
2023		(279,677,750)
2024		(279,677,750)
Thereafter		(452,728,028)
Total	$	(1,851,116,776)

For the Fiscal Year ended August 31, 2018:

Fiscal Year Ended August 31		Amount
2019	$	(153,756,499)
2020		(153,756,499)
2021		(153,756,499)
2022		(153,756,499)
2023		(153,756,499)
Thereafter		(259,701,600)
Total	$	(1,028,484,095)

17. Pension Plans

TEACHER RETIREMENT SYSTEM (TRS)

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the System participates is a cost-sharing 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 2019, 2018 and 2017. 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 2019, 2018 and 2017. The System's actual contributions excluding the State match to TRS previously reported for the years ended August 31, 2019, 2018 and 2017 were $302,294,698, $282,808,370, and $262,734,718, 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, 2018 and August 31, 2017 measurement dates.

Summary of Actuarial Methods and Assumptions * – TRS Plan	
Actuarial Valuation Date	Aug 31, 2017 rolled forward to Aug 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	6.907%
Investment Rate of Return	8.00%
Long-term Expected Rate of Return	7.25%
Municipal Bond Rate as of August 2018	3.69%**
Inflation	2.30%
Salary Increase	3.05% to 9.05% including inflation
Payroll Growth Rate	2.50%
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality using Scale BB
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale BB
Ad Hoc Post-Employment Benefit Changes	None

Summary of Actuarial Methods and Assumptions – TRS Plan	
Actuarial Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	8.00%
Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Payroll Growth Rate	2.50%
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

Notes:
* The assumptions used to determine the ADC are those in effect for the Aug. 31, 2017 actuarial valuation. Due to the lag between valuation data and the measurement date, they may not be the same assumptions used to measure the Net Pension Liability.
** Source for the rate is Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the three-year period ending August 31, 2017 and adopted July 2018. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2018 TRS Healthy Pensioner Mortality Tables.

Furthermore, assumptions, methods, and plan changes were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following assumptions:

- the total pension liability as of Aug. 31, 2018 was developed using a roll forward method from the Aug. 31, 2017 valuation;
- demographic assumptions including post-retirement mortality, termination rates, and rates of retirement was updated based on the experience study performed for TRS for the period ending Aug. 31, 2017;
- economic assumptions including rates of salary increase for individual participants was updated based on the same experience study;
- the discount rate changed from 8.000% as of Aug. 31, 2017 to 6.907% as of Aug. 31, 2018;
- the long term assumed rate of return changed from 8.00% to 7.25%; and,
- the change in the long term assumed rate of return combined with the change in the discount rate was the primary reason for the increase in the net pension liability.

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

The discount rate of 6.907% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projected cash flows into and out of the pension plan assumed that active members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and State contributions will be 7.76% of payroll. This includes a factor for the rehired retirees and the non-old age, survivor and disability insurance surcharge. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date.

The long-term expected rate of return on plan investments was developed using a building-block method, in which best estimate ranges of expected future real rates of return (net of pension plan 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 arithmetic real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2018 measurement date are presented below:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity		
U.S.	18%	5.7%
Non-U.S. Developed	13%	6.9%
Emerging Markets	9%	8.95%
Directional Hedge Funds	4%	3.53%
Private Equity	13%	10.18%
Stable Value		
U.S. Treasury	11%	1.11%
Absolute Return	0%	0.00%
Stable Value Hedge Funds	4%	3.09%
Cash	1%	-0.30
Real Return		
Global Inflation Linked Bonds	3%	0.70%
Real Assets	14%	5.21%
Energy and Natural Resources	5%	7.48%
Commodities	0%	0.00%
Risk Parity		
Risk Parity	5%	3.70%
Total	100%	

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, 2017 measurement date are presented below:

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

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:

Sensitivity of System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2019

1% Decrease (5.907%)	Current Discount Rate (6.907%)	1% Increase (7.907%)
$7,424,761,246	$4,919,537,167	$2,891,409,696

Sensitivity of System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2018

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
$4,467,450,867	$2,650,044,162	$1,136,758,114

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 2018 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, 2019 and 2018, respectively, the System reported a liability of $4,919,537,167 and $2,650,044,162 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2018 and 2017, 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, 2018 and 2017 measurements dates was 8.9377185 and 8.2879633 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, 2017 through August 31, 2018 and September 1, 2016 through August 31, 2017. At August 31, 2019 and 2018, respectively, the amount of the net pension liability related to the System reported by the State was $1,355,571,593 and $894,941,498. 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, 2019 and 2018, the System recognized pension expense of $584,838,293 and $251,961,770, respectively. At August 31, 2019 and 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		2019	
		Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between expected and actual experience	$	30,664,357	120,706,016
Changes of assumptions		1,773,730,108	55,429,111
Net diff between projected and actual investment return		-	93,344,698
Change in proportion and contribution difference		409,961,416	242,370,998
Contributions subsequent to the measurement date		302,294,698	-
Total	$	2,516,650,579	511,850,823

		2018	
		Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	38,771,341	142,913,399
Changes of assumptions		120,713,715	69,105,787
Net diff between projected and actual investment return		-	193,129,434
Change in proportion and contribution difference		241,766,340	279,341,554
Contributions subsequent to the measurement date		282,808,370	-
Total	$	684,059,766	684,490,174

The $302,294,698 and $282,808,370 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, 2020 and 2019, respectively.

Amounts reported as deferred outflows and inflows of resources related to pensions as of August 31, 2019 will be recognized in pension expense in the following years:

Fiscal Year		Increase (Reduction) of Pension Expense
2020	$	413,015,327
2021		216,580,240
2022		176,508,827
2023		352,659,287
2024		326,973,729
Thereafter		216,767,648
Total	$	1,702,505,058

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, 2019, 2018 and 2017, respectively, are provided in the following table.

		2019	2018	2017
Participant Contributions	$	172,807,007	164,972,085	159,672,032
System Contributions		220,698,101	210,928,114	204,107,450
Total	$	393,505,108	375,900,199	363,779,482

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.texas.gov.

18. Deferred Compensation

<u>DEFERRED COMPENSATION-457(b)</u>
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.

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

<u>THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)</u>
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 $55,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2019 and 2018, there were 615 and 658 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 $55,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6.58 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed $4,755,524 for the year ended August 31, 2019 and $3,605,991 for the year ended August 31, 2018. The participants contributed $3,720,499 for the year ended August 31, 2019 and $2,821,158 for the year ended August 31, 2018. 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, 2019, 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 $3.8 billion capital improvement program, planned for fiscal years 2020 through 2025, 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.

20. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2019, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	820,909	61	1,591,186	24,976,057	417,267
Salaries and Wages		3,061,741,398	1,355,714,572	156,360,064	2,906,973,829	573,651,775
Payroll Related Costs		601,818,379	315,545,193	36,476,301	698,613,570	149,160,791
Membership Dues		9,814,862	2,685,603	273,198	8,596,353	3,677,263
Registration Fees/ Meetings/Conferences		23,501,887	12,431,539	6,423,676	5,106,742	10,759,576
Professional Fees and Services		42,207,393	78,501,068	21,122,449	306,361,715	37,249,843
Other Contracted Services		67,441,503	222,742,408	37,886,730	301,775,570	61,149,673
Fees and Other Charges		15,728,076	17,937,541	4,058,158	25,294,677	5,180,265
Travel		35,027,564	45,761,384	6,113,580	17,224,643	16,022,741
Materials and Supplies		90,105,446	232,998,144	39,349,642	1,870,761,798	69,514,087
Utilities		441,865	2,184,396	188,926	7,689,868	129,930
Communications		14,652,945	3,280,196	1,833,674	18,719,051	4,200,422
Repairs and Maintenance		1,494,087	16,142,240	1,228,824	146,717,338	8,560,295
Rentals and Leases		14,608,336	7,397,550	4,708,291	82,896,103	11,295,343
Printing and Reproduction		5,716,940	5,188,557	3,235,853	5,631,696	3,726,652
Royalty Payments		342,979	3,667,693	3,428	6,745,577	8,064,421
Bad Debt Expense		-	-	-	-	-
Impairment of Capital Assets		-	-	17,725,619	-	8,114,385
Asset Retirement Expense		-	-	-	-	-
Insurance Costs/Premiums		3,974,934	368,771	275,005	25,714,032	186,811
Claims and Losses		-	-	-	-	-
OPEB Expense		227,303,414	97,904,423	11,282,016	205,366,762	38,786,621
Pension Expense		199,968,078	86,130,511	9,925,249	180,669,511	34,122,172
Scholarships and Fellowships		15,343,026	51,585,218	2,249,700	2,213	2,723,195
Depreciation and Amortization		-	-	-	-	-
Federal Sponsored Pass-through to State Agencies		244,199	3,225,579	3,429,899	-	-
State Sponsored Pass-through to State Agencies		60,000	806,648	68,791	-	-
Other Operating Expenses		33,031,378	91,156,971	19,379,503	34,496,518	15,776,420
Total Operating Expenses	$	4,465,389,598	2,653,356,266	385,189,762	6,880,333,623	1,062,469,948

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
2,023	529,163	159,640	(8,526)	29,604,742	-	58,092,522
120,873,279	532,419,877	265,455,120	18,020,934	243,748,058	-	9,234,958,906
31,298,245	(41,304,249)	76,780,578	1,896,112	52,804,405	-	1,923,089,325
692,631	4,850,613	458,376	43,647	3,220,707	-	34,313,253
2,479,587	5,969,628	798,493	178,899	5,849,547	-	73,499,574
9,523,651	84,637,405	34,936,981	600,521	17,469,759	-	632,610,785
60,719,801	41,964,577	61,599,496	984,339	103,429,565	-	959,693,662
4,720,312	9,233,314	5,156,243	569,603	7,511,398	-	95,389,587
4,550,686	8,555,161	1,405,035	1,267,680	32,182,853	-	168,111,327
16,415,069	44,230,742	82,813,466	1,133,698	44,141,816	-	2,491,463,908
29,702	3,270,591	226,031,105	340	36,352,089	-	276,318,812
1,895,643	32,502,984	3,015,723	10,185	9,499,939	-	89,610,762
3,355,813	35,511,128	105,218,393	66,429	28,887,553	-	347,182,100
4,286,259	15,921,373	21,809,489	518,030	11,870,835	-	175,311,609
3,199,660	6,734,965	236,009	103,804	4,893,920	-	38,668,056
11,822	1,935,190	-	346	19,617	-	20,791,073
3,281,751	-	-	-	-	-	3,281,751
-	7,955,732	11,896	-	-	-	33,807,632
-	-	2,394,539	-	-	-	2,394,539
771,632	(2,758,877)	2,271,281	952	14,702,600	-	45,507,141
-	65,470,962	-	-	-	-	65,470,962
9,451,548	37,167,326	18,324,119	1,261,339	17,937,242	-	664,784,810
8,314,912	32,697,612	16,120,474	1,109,651	15,780,123	-	584,838,293
2,538,686	326,392	803	380,143,271	17,937,803	-	472,850,307
-	-	-	-	-	1,536,019,254	1,536,019,254
-	-	-	-	-	-	6,899,677
-	791,831	-	428,000	-	-	2,155,270
11,221,760	15,261,260	3,793,008	2,112,539	21,434,122	-	247,663,479
299,634,472	943,874,700	928,790,267	410,441,793	719,278,693	1,536,019,254	20,284,778,376

For the year ended August 31, 2018, the following table represents operating expenses for both natural and functional classifications for the System, with Asset Retirement Expense added for GASB Statement No. 83. See Note 4 for further details on the restatement:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	1,143,952	228	1,657,459	149,971,816	445,490
Salaries and Wages		2,964,784,549	1,276,995,867	147,154,616	2,678,658,415	505,905,185
Payroll Related Costs		622,814,324	308,703,074	35,755,460	664,492,325	128,929,285
Membership Dues		8,791,222	2,325,176	533,043	6,722,991	2,484,844
Registration Fees/ Meetings/Conferences		20,772,250	12,213,308	6,064,852	4,745,342	9,666,079
Professional Fees and Services		41,725,533	90,057,086	18,647,817	206,831,286	30,994,957
Other Contracted Services		42,151,712	201,202,855	37,144,809	346,113,828	52,053,190
Fees and Other Charges		13,347,751	12,177,148	4,228,059	22,263,985	3,931,900
Travel		35,436,163	43,708,752	6,130,056	16,623,775	13,911,562
Materials and Supplies		98,937,504	213,855,304	26,924,041	1,444,720,713	57,755,129
Utilities		367,842	2,212,752	300,650	8,598,307	46,941
Communications		19,197,383	4,571,549	2,043,194	17,290,315	6,917,373
Repairs and Maintenance		9,390,210	17,272,616	1,552,157	121,062,714	9,848,924
Rentals and Leases		16,108,862	5,863,946	4,566,658	74,192,081	10,099,938
Printing and Reproduction		5,710,137	5,024,946	3,279,306	5,680,911	3,824,972
Royalty Payments		242,250	2,573,585	6,285	5,153,505	7,903,796
Bad Debt Expense		-	-	-	-	1,250
Impairment of Capital Assets		-	-	-	-	-
Asset Retirement Expense		-	-	-	-	-
Insurance Costs/Premiums		3,122,798	268,524	(20,647)	22,834,119	120,468
Claims and Losses		-	-	-	-	-
OPEB Expense		281,122,258	123,126,955	14,089,339	265,761,614	52,243,435
Pension Expense		84,001,802	36,791,416	4,210,018	79,411,906	15,610,797
Scholarships and Fellowships		16,710,178	47,671,791	1,999,073	6,878	2,929,376
Depreciation and Amortization		-	-	-	-	-
Federal Sponsored Pass-through to State Agencies		797,044	6,145,507	1,330,637	-	-
State Sponsored Pass-through to State Agencies		147,196	770,118	-	-	9,230,625
Other Operating Expenses		27,788,816	73,337,882	21,183,325	54,908,633	12,133,283
Total Operating Expenses	$	4,314,611,736	2,486,870,385	338,780,207	6,196,045,459	936,988,799

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
9,962	936,810	3,099	1,771	28,200,916	-	182,371,503
123,279,285	484,784,250	239,006,809	16,452,006	233,960,668	-	8,670,981,650
32,382,996	(103,286,808)	71,811,274	1,867,461	52,617,954	-	1,816,087,345
489,542	4,952,813	300,215	39,811	2,804,383	-	29,444,040
2,632,818	5,036,066	709,901	204,525	5,068,338	-	67,113,479
5,657,955	63,915,135	27,473,584	542,814	14,822,742	-	500,668,909
58,951,325	42,192,546	45,290,646	1,136,314	104,276,940	-	930,514,165
4,349,719	5,015,538	3,507,760	477,289	5,020,877	-	74,320,026
3,808,992	7,865,908	1,553,350	1,010,280	28,729,489	-	158,778,327
15,648,628	43,932,972	83,139,819	1,279,484	43,726,532	-	2,029,920,126
31,484	6,666,830	225,695,869	41,236	37,334,423	-	281,296,334
1,755,614	23,139,355	4,084,818	13,447	9,190,293	-	88,203,341
1,987,829	35,495,437	109,338,197	87,262	23,227,866	-	329,263,212
4,355,073	17,804,033	22,050,578	1,568,610	10,369,025	-	166,978,804
2,569,293	5,730,727	196,785	41,168	4,843,023	-	36,901,268
24,768	1,581,943	17,150	304	88,141	-	17,591,727
3,691,960	1,005,146	-	-	-	-	4,698,356
-	-	2,466,800	-	-	-	2,466,800
-	-	19,774,921	-	-	-	19,774,921
1,003,366	(11,681,808)	4,587,158	862	11,918,707	-	32,153,547
-	65,456,630	-	-	-	-	65,456,630
12,035,331	48,068,447	22,330,388	1,692,614	22,750,364	-	843,220,745
3,596,263	14,363,275	6,672,516	505,768	6,798,009	-	251,961,770
2,207,198	2,003,774	1,300	346,178,819	19,256,839	-	438,965,226
-	-	-	-	-	1,440,561,714	1,440,561,714
-	62,450	-	-	-	-	8,335,638
-	954,806	-	-	-	-	11,102,745
7,372,101	17,685,099	6,915,037	2,048,813	19,375,777	-	242,748,766
287,841,502	783,681,374	896,927,974	375,190,658	684,381,306	1,440,561,714	18,741,881,114

21. Net Position

The System's net position at August 31, 2019 and 2018 were comprised of the following:

		2019	*Restated 2018
Net investment in capital assets	$	6,747,250,462	6,632,432,233
Restricted			
Nonexpendable		26,986,429,001	27,395,040,035
Expendable		14,861,667,665	14,655,181,774
Total restricted		41,848,096,666	42,050,221,809
Unrestricted net position:			
Unrestricted			
Reserved			
Encumbrances		1,040,911,682	1,062,651,130
Accounts receivable (less unearned revenue portion)		1,399,036,867	1,331,586,395
Inventories		161,424,304	139,561,390
Self-insurance plans		585,380,140	596,286,935
Other specific purposes:			
Advanced Research/Advanced Technology Programs		3,422,083	3,431,365
Notes Receivable		137,003	244,797
Deposits		1,369,638	1,376,099
Prepaid expenses		160,268,219	142,444,217
Deferred charges		623,185	649,597
Imprest funds		1,141,663	1,200,613
Travel advances		334,524	176,188
Unreserved			
Allocated			
Funds functioning as endowment-unrestricted		491,292,177	495,979,503
Provision for operating budgets		50,526,494	29,473,049
Capital projects		2,277,599,265	2,100,091,175
Debt service		186,058,547	159,130,420
Start-up/matching		115,389,567	129,786,501
Utilities reserve		11,690,869	35,867,105
Research enhancement and support		414,686,491	357,770,677
Market adjustments		47,336,691	36,660,309
Student fees		193,995,584	137,575,138
Texas Tomorrow Fund shortfall		5,464,510	3,433,732
Instructional program support		827,867,990	777,801,159
Dean, chair and faculty recruitment packages		10,346,634	12,467,010
Self-supporting enterprises		168,948,974	147,963,126
Patient care support		902,703,267	792,814,807
Practice plan minimum operating reserve of 90 days		310,221,802	265,929,684
Unallocated		(12,100,909,787)	(12,054,218,147)
Total unrestricted		(2,732,731,617)	(3,291,866,026)
Total net position	$	45,862,615,511	45,390,788,016

*August 31, 2018 unallocated unrestricted net position was restated as a result of implementing GASB Statement No. 83. See Note 4 for further details.

As of August 31, 2019 and 2018, restricted nonexpendable net position includes $20,925,167,823 and $21,593,348,668, respectively, of the Permanent University Fund corpus, and $820,000,000 for both years of the Permanent Health Fund corpus. As of August 31, 2019 and 2018, restricted expendable net position includes $8,090,101,758 and $8,181,881,533, respectively, of the Permanent University Fund appreciation, and $383,960,650 and $383,666,980, 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. U. T. System Administration incurred expenses of $112,750 for 553 terminated employees of the System as of August 31, 2019 and $211,670 for 462 terminated employees of the System as of August 31, 2018. 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 2019, U. T. Austin Intercollegiate Athletics offered a Voluntary Exit Incentive Program (VEIP) to reduce its number of full-time employees and control expenses. Those employees who elected to participate in the VEIP received a one-time, lump-sum payment equal to $17,000 or 25% of their base pay, whichever was greater. The total amount paid out to employees was $112,746.

In 2019, U. T. San Antonio offered a Voluntary Separation Incentive Program (VSIP) to eligible faculty. Those employees who elected to participate in the VSIP received one lump-sum payment equal to nine months of their annual base salary. The total of $3,435,177 was included in salaries payable at August 31, 2019.

In February 2018, U. T. Health Science Center – Tyler offered a Voluntary Separation Incentive Program (VSIP) to reduce the number of full-time employees and control expenses. The 107 employees who elected to participate in the VSIP received one lump-sum payment in varying amounts according to a tiered approach based on years of State service, which totaled $2,170,042. In March 2018, U. T. Health Science Center – Tyler implemented a reduction in force that affected 154 employees. Similar to the VSIP program, the affected employees received a lump sum payment in varying amounts according to a tiered approach based on years of State service, which totaled $595,367.

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, 2019 and 2018 are provided below:

		2019	2018
Total Number of Participants[1]		2,659	2,835
Premium Revenue	$	5,642,357	5,278,252
2% Administrative Fee Revenue[2]		(110,562)	(106,551)
Net COBRA Premium		5,531,795	5,171,701
Less Claims Paid		(12,759,632)	(13,203,553)
Cost to System	$	(7,227,837)	(8,031,852)

[1]The participants above are for the self-insured program.
[2]The 2 percent administrative fee is retained by U. T. 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, 2019 and 2018, 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 OPEB plan, the TRS pension plan, unamortized interest rate lock termination payments, asset retirement obligations, beneficial interests in irrevocable split-interest agreements, and acquisitions, as presented in the table below:

		2019		* Restated for GASB 83 2018	
		Deferred Outflows	**Deferred Inflows**	**Deferred Outflows**	**Deferred Inflows**
Hedging Derivatives	$	325,363,093	-	165,354,206	37,067,661
Unamortized Loss/Gain on Refunding Debt		30,243,963	6,808,660	34,716,916	8,141,955
OPEB Related		467,085,465	2,206,884,498	103,036,547	1,028,484,095
Pension Related		2,516,650,579	511,850,823	684,059,766	684,490,174
Unamortized Interest Rate Lock Termination		8,721,868	-	9,039,239	-
Asset Retirement Obligation		4,750,994	-	5,589,486	-
Split-Interest Agreements		-	36,047,986	-	32,968,326
Acquisition Related		23,205,343	-	-	-
Total	$	3,376,021,305	2,761,591,967	1,001,796,160	1,791,152,211

Deferred outflows of resources of $325,363,093 and $165,354,206 as of August 31, 2019 and 2018, respectively, were related to hedging derivatives in a liability position. Deferred inflows of resources of $37,067,661 as of August 31, 2018 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 $30,243,963 and $34,716,916 as of August 31, 2019 and 2018, respectively, were related to the unamortized losses on refunding debt. Deferred inflows of resources of $6,808,660 and $8,141,955 as of August 31, 2019 and 2018, 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 $467,085,465 and $103,036,547 and deferred inflows of resources of $2,206,884,498 and $1,028,484,095 as of August 31, 2019 and 2018, respectively, were related to the OPEB plan. These deferred outflows and inflows were a result of implementing GASB Statement No. 75 in 2018. See Note 16 for additional information.

Deferred outflows of resources of $2,516,650,579 and $684,059,766 and deferred inflows of resources of $511,850,823 and $684,490,174 as of August 31, 2019 and 2018, respectively, were related to the TRS pension plan. See Note 17 for additional information.

Deferred outflows of resources of $8,721,868 and $9,039,239 as of August 31, 2019 and 2018, respectively, were related to unamortized interest rate lock termination payments.

Deferred outflows of resources of $4,750,994 and $5,589,486 as of August 31, 2019 and 2018, respectively, were related to asset retirement obligations. These deferred outflows are new as a result of implementing GASB Statement No. 83 in 2019. August 31, 2018 balances were retroactively restated as a result of implementing this statement. See Note 4 for additional information.

Deferred inflows of resources of $36,047,986 and $32,968,326 as of August 31, 2019 and 2018, respectively, were related to U. T. System's unconditional beneficial interests in irrevocable split-interest agreements. These deferred inflows were a result of implementing GASB Statement No. 81 in 2018.

Deferred outflows of resources of $23,205,343 as of August 31, 2019, were related to unamortized excess consideration paid as a result of an asset purchase agreement with PTC- Houston Management, LP in fiscal year 2019.

24. Subsequent Events

On September 4, 2019, the U. T. System Board of Regents issued $300,000,000 in RFS Tax-Exempt Commercial Paper Notes, Series A to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had $1,029,042,000 of RFS Tax-Exempt Commercial Paper Notes, Series A outstanding.

On November 4, 2019, the U. T. System Board of Regents issued $160,000,000 in PUF Tax-Exempt Commercial Paper Notes, Series A to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had $755,000,000 of PUF Tax-Exempt Commercial Paper Notes, Series A outstanding.

On December 3, 2019, the U. T. System Board of Regents issued $149,478,000 in RFS Tax-Exempt Commercial Paper Notes, Series A to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had $1,178,520,000 of RFS Tax-Exempt Commercial Paper Notes, Series A outstanding.

The University of Texas M. D. Anderson Cancer Center entered into an agreement on October 28, 2019, with Millennium Pharmaceuticals, Inc., a wholly owned subsidiary of Takeda Pharmaceutical Company Limited. M. D. Anderson received $300 million on November 15, 2019. The funding will support further research, development and manufacturing of technology, which is consistent with M. D. Anderson's educational and research missions and goals.

On December 9, 2019, the U. T. System Board of Regents authorized a combined, single administrative structure for U. T. Tyler and U. T. Health Science Center – Tyler to significantly increase their capacity to respond to the educational and health needs of a dynamic and growing region of Texas. U. T. System will seek authorization from the Texas Higher Education Coordinating Board and appropriate accrediting and licensing agencies to finalize the new structure. The timing of implementing the new administrative structure is unknown at this time.

25. Upcoming Accounting Pronouncements

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. 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.

GASB Statement No. 90, *Majority Equity Interests*, effective 2020, improves the consistency and comparability of reporting majority equity interests in a legally separate organization and improves the relevance of financial statement information for certain component units. GASB Statement No. 90 will have no effect on the System's net position or changes in net position.

GASB Statement No. 91, *Conduit Debt Obligations*, effective 2022, provides a single method of reporting conduit debt obligations. The System is evaluating the effect that Statement 91 will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF CHANGES
IN THE EMPLOYER TOTAL OPEB LIABILITY AND RELATED RATIOS
December 31, 2018

Last 10 Fiscal Years[1,2,3]

		2018	2017	2016
1. Total OPEB Liability				
Service cost	$	548,093,347	569,296,804	584,209,916
Interest		394,480,742	426,298,831	384,344,675
Changes of benefit terms[4]		-	-	-
Differences between expected and actual experience		-	(136,662,956)	-
Changes of assumptions or other inputs[5]		(1,429,460,396)	(781,692,644)	(299,449,010)
Benefit payments (employer)		(153,396,451)	(137,157,472)	(147,648,350)
Other changes		-	-	-
Net Change in Total OPEB Liability		(640,282,758)	(59,917,437)	521,457,231
Total OPEB Liability – Beginning		10,717,111,345	10,777,028,782	10,255,571,551
Changes in Proportionate Share		278,956,959	-	-
Total OPEB Liability – Ending	$	10,355,785,546	10,717,111,345	10,777,028,782
2. Covered-Employee Payroll	$	4,799,749,927	4,491,860,695	4,619,997,871
3. Total OPEB Liability as a Percentage of Covered-Employee Payroll		215.76%	238.59%	233.27%

Notes to Schedule:

1 Only three years of information is presented due to GASB Statement No. 75 being implemented in 2018. Additional years will be displayed as they become available.

2 Information is presented using measurement date which precedes the fiscal year end by eight months.

3 No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

4 Changes in benefit terms: None

5 Changes in assumptions or other inputs: Changes of assumptions and other inputs reflect the changes in the discount rate each period. The following are the discount rates used in each period:

FY2019	4.10%
FY2018	3.44%
FY2017	3.78%
FY2016	3.57%

In FY18, amounts reflect a 1-percentage-point decrease in the assumed rate of general inflation and adjustments to assumptions for expenses, assumed per capita health benefit costs and assumed trend for health benefit costs, retiree contributions and expenses.

THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN
August 31, 2019

Schedule of the System's Proportionate Share of the Total OPEB Liability
as of the December 31 Measurement Date

		2018	2017	2016
System's proportion of the total OPEB liability		79.1750747%	77.1664987%	77.1664987%
System's proportionate share of the total OPEB liability	$	10,355,785,546	10,717,111,345	10,777,028,782
State's proportionate share of the total OPEB liability related to System		2,723,817,586	3,171,184,120	3,188,913,639
Total OPEB liability related to System	$	13,079,603,132	13,888,295,465	13,965,942,421
System's covered payroll	$	6,062,198,170	5,820,998,450	5,987,051,307
System's proportionate share of the total OPEB liability as a percentage of its covered payroll		170.83%	184.11%	180.01%
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%	0.00%	0.00%

Only three years of information is presented due to GASB Statement 75 being implemented in 2017. Additional years will be displayed as they become available.

THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
TEACHER RETIREMENT SYSTEM PENSION PLAN
August 31, 2019

Schedule of the System's Proportionate Share of the Net Pension Liability as of the August 31 Measurement Date

		2018	2017	2016	2015	2014
System's proportion of the net pension liability		8.9377185%	8.2879633%	8.2932305%	7.7646311%	8.6199871%
System's proportionate share of the net pension liability	$	4,919,537,167	2,650,044,162	3,133,888,495	2,744,693,745	2,302,987,541
State's proportionate share of the net pension liability related to System		1,355,571,593	894,941,498	893,178,321	786,436,009	892,687,939
Total net pension liability related to System	$	6,275,108,760	3,544,985,660	4,027,066,816	3,531,129,754	3,195,675,480
System's covered payroll	$	5,106,576,133	4,891,473,913	4,635,793,582	4,472,632,860	4,018,776,650
System's proportionate share of the net pension liability as a percentage of its covered payroll		96.34%	54.18%	67.60%	61.37%	57.31%
Plan fiduciary net position as a percentage of the total pension liability		73.74%	82.17%	78.00%	78.43%	83.25%

Schedule of the System's Contributions as of August 31

		2019	2018	2017	2016	2015
Statutorily required contributions	$	369,615,856	347,247,177	332,620,226	315,233,963	304,139,034
Contributions in relation to the statutorily required contributions	$	302,294,698	282,808,370	262,734,718	262,370,366	244,723,301
Contribution deficiency (excess)	$	67,321,158	64,438,807	69,885,508	52,863,597	59,415,733
System's covered payroll	$	5,435,527,295	5,106,576,133	4,891,473,913	4,635,793,582	4,472,632,860
Contributions as a percentage of covered payroll		5.56%	5.54%	5.37%	5.66%	5.47%

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

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