THE UNIVERSITY OF TEXAS SYSTEM

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017 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, 2018

Officers

Sara Martinez Tucker, Chairman
Paul L. Foster, Vice Chairman
Jeffery D. Hildebrand, Vice Chairman
Francie A. Frederick, General Counsel to the Board of Regents

Members

*Terms scheduled to expire February 1, 2019**

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

*Terms scheduled to expire February 1, 2021**

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

*Terms scheduled to expire February 1, 2023**

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

*Term scheduled to expire May 31, 2019**

Brittany E. Jewell (Student Regent)	Pearland

*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, 2018

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Larry R. Faulkner, Chancellor, *ad interim*

David E. Daniel, Deputy Chancellor

Raymond S. Greenberg, Executive Vice Chancellor for Health Affairs

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Steven W. Leslie, Executive Vice Chancellor for Academic Affairs

Stephanie A. Bond Huie, Vice Chancellor for Strategic Initiatives

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

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

Randa S. Safady, Vice Chancellor for External Relations

Daniel H. Sharphorn, Vice Chancellor and General Counsel

William H. Shute, Vice Chancellor for Federal Relations

Amy Shaw Thomas, Vice Chancellor for Academic and Health Affairs

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

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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, 2018 and 2017, 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.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of August 31, 2018 and 2017, 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 Matters

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, 2018 and 2017, 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.

As discussed in Note 4 to the consolidated financial statements, the System restated its beginning net position as of September 1, 2016, to reflect the impact of the implementation of Governmental Accounting Standards Board Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), and No. 81, *Irrevocable Split-Interest Agreements*. Our opinion is not modified with respect to these changes.

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 12, 2018 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 12, 2018

THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2018
(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, and The University of Texas at Tyler. Health institutions for medical education and research have expanded beyond The University of Texas Medical Branch at Galveston to include The University of Texas M. D. Anderson Cancer Center, The University of Texas Southwestern Medical Center, and The University of Texas Health Science Centers at Houston, San Antonio and Tyler. While The University of Texas at Austin and The University of Texas Rio Grande Valley are categorized as academic institutions, both institutions have newly formed medical schools.

The System's fourteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to over 235,000 undergraduate, graduate and professional school students from a wide range of social, ethnic, cultural and economic backgrounds. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a non-voting student Regent for a one-year term.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended August 31, 2018, with selected comparative information for the years ended August 31, 2017 and 2016. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on the current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended August 31. The System's consolidated financial report includes three primary financial statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. The financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

FINANCIAL HIGHLIGHTS

- Because of more favorable market conditions in 2018, net investment income, excluding the change in fair value of investments, increased $1.1 billion from $3.2 billion in 2017 to $4.3 billion in 2018. Additionally, the net increase in fair value of investments was $3.1 billion in 2018, as compared to $1.5 billion in 2017, a year-over-year increase of $1.6 billion. Net investment income and the change in fair value of investments were the largest contributors to the increase in net position of $6.2 billion during 2018. (Table 3).

- Net patient care revenues, which consist of net sales and services of hospitals and net professional fees, increased $597.3 million, or 7.9%, to $8.2 billion in 2018 due to increases in inpatient and outpatient volumes and rates.

- GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective 2018, amended GASB Statement 45 to bring the calculation of other postemployment benefits (OPEB) more in line with pensions. The total OPEB obligation under GASB Statement 45 of $5.4 billion was increased to $10.8 billion for 2017 after the implementation of GASB Statement 75. In 2018, the OPEB liability remained relatively stable at $10.7 billion. The implementation of GASB Statement 75 has made the total OPEB liability the largest liability for the System.

- The net pension liability decreased $483.8 million to $2.7 billion for 2018 related to the System's proportionate share of pension retirement costs for current and former employees. The System's proportion of the State's collective net pension liability is based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan.

- Investments in capital asset additions were $2.2 billion in 2018, of which $1.6 billion consisted of new projects under construction. Building projects placed into service in 2018 include:

  - The Graduate School of Business at U. T. Austin, $179.3 million;
  - the West Campus – Phase 1 project at U. T. Southwestern Medical Center, $178.1 million;
  - the Science and Engineering Innovation and Research Building at U. T. Arlington, $116.9 million;
  - the Engineering Building at U. T. Dallas, $112.0 million;
  - the District Heating and Cooling System at U. T. Medical Branch Galveston, $82.9 million;
  - the Science Building at U. T. Rio Grande Valley, $70.2 million;
  - the Science, Technology, Engineering and Mathematics building at U. T. Tyler, $61.4 million;
  - the Academic Building at U. T. Rio Grande Valley, $54.2 million;
  - the Emergency Cooling to Critical Buildings project at U. T. Medical Branch Galveston, $46.1 million;
  - the Building Seventeen Expansion at U. T. Medical Branch Galveston, $42.6 million; and
  - the Residence Hall, West Campus Phase 1 project at U. T. Arlington, $40.6 million;

- Bonds payable represent the second largest portion of the System's liabilities after the total OPEB liability. The par value of bonds payable increased $553.6 million to $9.0 billion at August 31, 2018. All bonds, which relate to financing of current and prior years' construction needs, continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies.

The Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2018, with comparative information for the previous years. The statement of net position presents information in current and noncurrent format for both assets and liabilities. The net position section presents assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Over time, increases or decreases in net position are one indicator of the improvement or decline of the System's financial health when considered with nonfinancial factors such as enrollment, patient levels, and the condition of facilities. A summarized comparison of the System's statement of net position at August 31, 2018, 2017 and 2016 follows:

Table 1		2018	*Restated 2017	2016
Assets			($ in millions)	
Current assets	$	7,532.6	7,838.1	7,227.9
Noncurrent investments		54,007.2	46,645.9	42,658.4
Capital/intangible assets, net		16,889.3	16,216.4	15,609.7
Other noncurrent assets		560.7	481.7	439.0
Total assets		78,989.8	71,182.1	65,935.0
Total deferred outflows		996.2	1,256.0	951.9
Total assets and deferred outflows	$	79,986.0	72,438.1	66,886.9
Liabilities				
Current liabilities	$	9,167.3	8,219.4	7,712.7
Noncurrent liabilities		23,617.0	24,250.9	17,487.9
Total liabilities		32,784.3	32,470.3	25,200.6
Total deferred inflows		1,791.2	746.9	404.2
Total liabilities and deferred inflows	$	34,575.5	33,217.2	25,604.8
Net Position:				
Net investment in capital assets	$	6,632.4	6,334.6	6,375.8
Restricted		42,050.2	36,732.3	33,780.6
Unrestricted		(3,272.1)	(3,846.0)	1,125.7
Net position	$	45,410.5	39,220.9	41,282.1

*Restatements related to GASB Statement 75 which addressed reporting by governments that provide OPEB to their employees and GASB Statement 81 which 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.

Assets and Deferred Outflows (Table 1)

The System's assets and deferred outflows primarily consist of current assets, noncurrent investments, capital and intangible assets, other noncurrent assets, and deferred outflows. Assets and deferred outflows increased $7.5 billion, or 10.4%, in 2018 primarily due to increases in net investment income, increases in the fair value of investments and increases in capital assets, as discussed below.

Current Assets

Current assets consist primarily of the following: cash and cash equivalents; securities lending collateral; various student, patient, gift and investment trades receivables; and student notes receivable. The System's current assets decreased $305.5 million in 2018 primarily because of less securities settling after the close of the fiscal year resulting in decreases in investment trades receivables of $192.9 million. Additionally, federal accounts receivables related to the Delivery System Reform Incentive Payment project, the Direct Loan program, federal Pell awards and other federal receivables related to sponsored programs decreased $166.6 million primarily due to the timing of draw-downs of cash from the federal government.

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 $7.4 billion in 2018 primarily due to increases in operating results that were invested, net investment income, and the fair value of investments. New gifts and invested PUF mineral income also contributed to the increase in noncurrent investments. Permanent endowments include the fair value of Permanent University Fund (PUF) investments and the fair value of PUF lands. The fair value of the PUF lands at August 31, 2018 was $9.0 billion, a $2.9 billion increase from the prior year due to successful drilling supporting reserves changes from possible to probable and probable to proved, increased well performance increasing the curves used in the valuation, price forecast increases, and an increase in the Society of Petroleum Evaluation Engineers unconventional reserve adjustment factors applied to probable and possible reserves. The PUF investments increased $1.1 billion due to PUF lands mineral income earned in 2018 that is required to be added to the endowment in accordance with the Texas Constitution.

Capital and Intangible Assets

The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its $4.9 billion capital improvement program to upgrade its facilities and address planned growth in patient care and student enrollment. Capital additions totaled $2.2 billion in 2018, of which $1.6 billion consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment and software. Computer software is the biggest component of the System's intangible assets. During 2018 and 2017, the System placed $50.4 million and $80.4 million, respectively, of computer software into service.

Other Noncurrent Assets

Other noncurrent assets consist primarily of deposits with brokers for derivative contracts, loans and contracts, contributions receivable, noncurrent cash and cash equivalents, and hedging derivative assets. Other noncurrent assets increased $79.0 million to $560.7 million in 2018 primarily due to increases in noncurrent contributions receivable and noncurrent hedging derivative assets. The System recorded a hedging derivative asset with an offsetting deferred inflow of $37.1 million for 2018 related to an interest rate swap.

Deferred Outflows

Deferred outflows consist of pension and OPEB related outflows, the fair value of hedging derivatives, unamortized losses on refunding of debt and unamortized interest rate lock termination outflows. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions subsequent to the measurement date of the net pension liability are also required to be reported as pension related deferred outflows of resources. Pension related deferred outflows of resources decreased $187.2 million in 2018. With the implementation of GASB Statement 75, OPEB deferred outflows are reported like pension outflows as described above. The deferred outflows of resources related to OPEB increased from $95.0 million to $103.0 million in 2018. The changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows or deferred outflows in the statement of net position. Deferred outflows related to hedging derivatives decreased $80.7 million to $165.4 million in 2018 with an offsetting hedging derivative liability. Deferred outflows related to unamortized losses on refunding of debt decreased $5.8 million due to current year amortization. Unamortized interest rate lock termination deferred outflows increased $5.9 million due to a new interest rate lock termination agreement entered into in 2018.

Liabilities and Deferred Inflows (Table 1)

The System's liabilities and deferred inflows primarily consist of current liabilities, bonds and notes and loans payable, other postemployment benefits, pension liability, liability to the Texas A&M University System (TAMUS), hedging derivative liabilities, investment derivatives – liability positions, other liabilities, and deferred inflows. Liabilities and deferred inflows increased $1.4 billion or 4.1%, primarily due to new debt issued to fund investments in capital assets, and an increase in deferred inflows related to OPEB and pension.

Current Liabilities

Current liabilities consist primarily of accounts payable and accrued liabilities, salaries payable, investment trades payable, securities lending obligations, unearned revenues, current portion of employee compensable leave, commercial paper notes, the current portion of bonds payable and the current portion of amounts due to TAMUS. The System's current liabilities increased $947.9 million, or 11.5%, in 2018 primarily due to an increase in short-term debt of $621.7 million.

Short Term Debt – Commercial Paper Notes

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. Notes outstanding as of August 31, 2018 totaled $1.2 billion, compared to $564.1 million at the end of fiscal year 2017.

Bonds Payable

Bonds payable relate to the financing of the System's construction needs. The par value of bonds payable totaled $9.0 billion and $8.4 billion at August 31, 2018 and 2017, respectively. During 2018, the System issued new bonds of $1.2 billion and retired $623.8 million of bonds.

Notes and Loans Payable

Notes and loans payable totaled $19.0 million and $948.7 million at August 31, 2018 and 2017, respectively. In 2017, $929.1 million of commercial paper notes were reclassified to long-term notes and loans payable because of the refunding of commercial paper notes subsequent to August 31, 2017 through the issuance of long-term bonds. The decrease was due to the fact that 2018 had no refunding subsequent to year-end. For additional information concerning capital assets and related debt activities, see Notes 9, 10, 11, 12 and 13 to the consolidated financial statements.

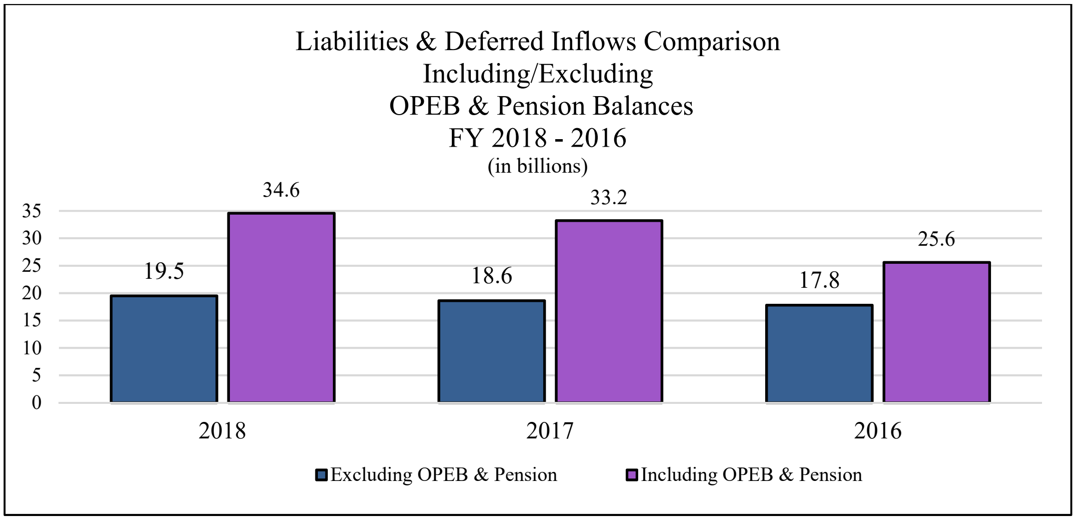
Total Other Postemployment Benefits Liability

The State provides certain health and life insurance benefits for retired employees in accordance with State statutes. OPEB are provided to the System's retirees under the U. T. System Employee Group Insurance Program. The U. T. System Employee Group Insurance Program 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 of the OPEB liability. 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 Contributions. Retirees contribute any premium charged over and above contributions paid by the State or the System, referred to as premium sharing. The System reported an OPEB current liability of $202.6 million and a noncurrent liability of $10.5 billion for 2018. The restated amounts for 2017, due to the implementation of GASB Statement 75, were $197.0 million of OPEB current liability, and $10.6 billion of OPEB noncurrent liability. The primary factor increasing the OPEB liability from GASB 45 to GASB 75 is the fact that GASB 45 allowed the discount rate to reflect expected investment returns, whereas GASB 75 requires the use of municipal bond rates which are significantly lower. The discount rate used under GASB 45 was 6%, whereas under GASB 75 the rate was 3.44%. In addition, under GASB 45, the OPEB liability was brought on to the statement of net position over several years, and under GASB 75, it is all brought on to the statement of net position in the year of implementation. The total OPEB liability is the System's largest liability after the implementation of GASB Statement 75. 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 all retirees be eligible for OPEB; while this would reduce the liability, it would also impact recruiting for the entire State. For additional information concerning the OPEB liability, see Note 16 to the consolidated financial statements.

Net Pension Liability

The System participates in a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Teacher Retirement System of Texas (TRS). TRS is primarily funded through State and employee contributions. The System receives a proportional share of the net pension liability, pension related deferred outflows and pension related deferred inflows, 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 and non-employer contributing entity to the plan. The System recorded a net pension liability of $2.7 billion in 2018 compared to $3.1 billion in 2017.

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



Liability to the Texas A&M University System

The System recorded a liability to TAMUS of $1.3 billion at August 31, 2018 and $976.5 million at August 31, 2017 for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. This liability is reported as both a current and noncurrent statewide interfund payable on the statement of net position.

Hedging Derivative Liability and Investment Derivatives – Liability Positions

The System recorded a hedging derivative liability with an offsetting deferred outflow of $165.4 million and $246.1 million for 2018 and 2017, respectively. The System also recorded investment derivatives – liability positions of $68.0 million and $171.5 million for 2018 and 2017, respectively.

Other Liabilities

Other significant liabilities for the System include assets held for others of $892.8 million and $844.2 million for 2018 and 2017, respectively; and employees' compensable leave of $640.5 million and $607.9 million for 2018 and 2017, respectively.

Deferred Inflows

Deferred inflows consist of pension and OPEB related inflows, split-interest agreements related inflows, unamortized gains on refunding of debt and the fair value of hedging derivatives. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. The System's pension related deferred inflows increased $264.2 million for 2018. With the implementation of GASB Statement 75, OPEB deferred inflows are reported like pension inflows as described above. The deferred inflows of resources related to OPEB increased from $263.9 million to $1.0 billion in 2018. Due to the implementation of GASB Statement 81, *Irrevocable Split-Interest Agreements*, split-interest agreements related inflows are now reported on the Statement of Net Position. For 2018, these inflows were $33.0 million compared to the restated 2017 amount of $42.9 million. Deferred inflows related to unamortized gains on refunding of debt decreased $1.3 million due to current year amortization. Additionally, changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows and deferred outflows in the statement of net position. Deferred inflows related to hedging derivatives increased $26.7 million in 2018 with an offsetting hedging derivative asset.

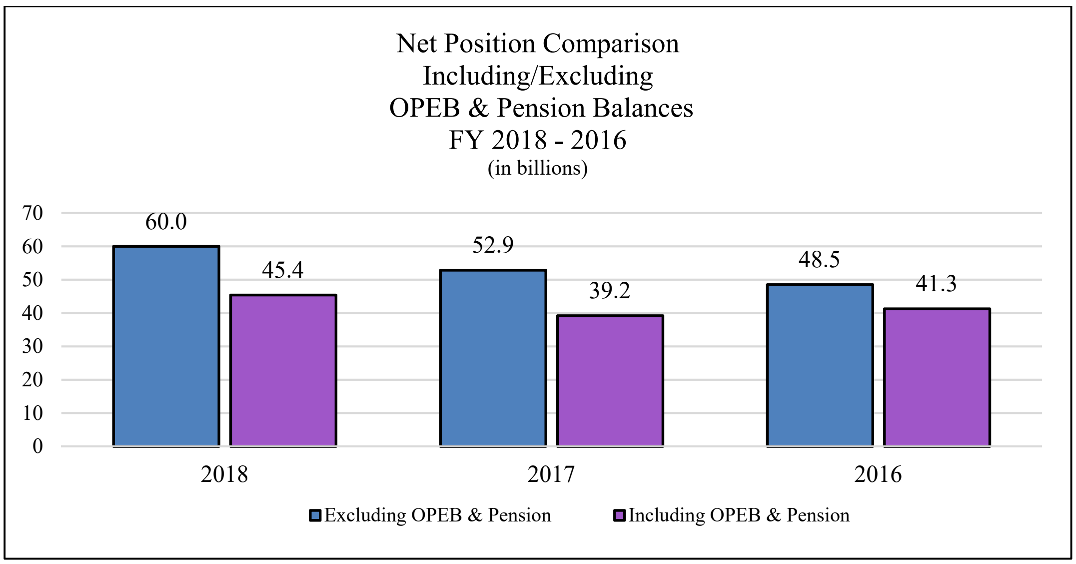
Net Position (Table 2)

Net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows are deducted. As stated previously under Financial Highlights, net position increased by $6.2 billion in 2018 due to current year activity. The following table summarizes the composition of net position at August 31, 2018, 2017 and 2016:

Table 2

		2018	*Restated 2017	2016
Net position:			($ in millions)	
Net investment in capital assets	$	6,632.4	6,334.6	6,375.8
Restricted:				
Nonexpendable		27,395.0	23,174.9	22,350.5
Expendable		14,655.2	13,557.4	11,430.1
Total restricted		42,050.2	36,732.3	33,780.6
Unrestricted		(3,272.1)	(3,846.0)	1,125.7
Total net position	$	45,410.5	39,220.9	41,282.1

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



Net Investment in Capital Assets

Net investment in capital assets represents the System's capital and intangible assets, net of accumulated depreciation and amortization and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The $297.8 million increase in net investment in capital assets in 2018 resulted primarily from a net increase in gross capital and intangible assets of $1.9 billion offset by a net increase in related debt of capital assets placed in service of $376.5 million and an increase in accumulated depreciation of $1.2 billion.

Restricted Net Position

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

Restricted Nonexpendable Net Position

As of August 31, 2018 and 2017, restricted nonexpendable net position includes $21.6 billion and $17.6 billion, respectively, of the PUF corpus, $820.0 million for both years of the PHF corpus, and $5.0 billion and $4.7 billion, respectively, of other endowments' corpus. Restricted nonexpendable net position increased by $4.2 billion to $27.4 billion in 2018, resulting from the contribution of $1.1 billion of mineral income that must be retained in the corpus of the PUF. An increase in PUF lands of $2.9 billion was due to successful drilling supporting reserves changes from possible to probable and probable to proved, increased well performance increasing the curves used in the valuation, price forecast increases, and an increase in the Society of Petroleum Evaluation Engineers unconventional reserve adjustment factors applied to probable and possible reserves.

Restricted Expendable Net Position

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

As of August 31, 2018, restricted expendable net position includes $8.2 billion of the PUF investment appreciation, $383.7 million of PHF appreciation, $3.1 billion of other endowments' appreciation, $599.3 million of restricted funds functioning as endowments, restricted contract and grant and loan funds of $2.1 billion, funds restricted to support programs that benefit public health and cancer treatment of $145.4 million, and bond proceeds for capital projects of $189.4 million. In comparison, as of August 31, 2017, restricted expendable net position included $7.6 billion of the PUF investment appreciation, $324.6 million of PHF appreciation, $2.6 billion of other endowments' appreciation, $559.9 million of restricted funds functioning as endowments, restricted contract and grant and loan funds of $2.1 billion, funds restricted to support programs that benefit public health and cancer treatment of $115.5 million, and bond proceeds for capital projects of $289.9 million.

Unrestricted Net Position

System's unrestricted net position was a negative $3.3 billion in 2018 as compared to the restated amount of a negative $3.8 billion in 2017. The substantial decrease from the positive amounts reported in the past is due to the implementation of GASB Statement 75. This negative unrestricted net position includes negative net position related to OPEB and pensions of $14.3 billion, offset by positive net position of $8.6 billion committed for various future operating budgets related to academic, patient, and research programs and initiatives, $1.9 billion dedicated to ongoing capital projects, and unrestricted funds functioning as endowments of $496.0 million. The $573.9 million increase in unrestricted net position between restated 2017 and 2018 was primarily related to the decrease in OPEB and pension amounts between the years.

2017 Highlights - Statement of Net Position

The System reported a restated decrease in net position of $2.1 billion primarily due to the implementation of GASB Statement 75, slightly offset by more favorable market conditions. Net investment income, excluding the change in fair value of investments, was $3.2 billion and a net increase in fair value of investments of $1.5 billion in 2017. Bonds payable increased $807.7 million to $8.4 billion in 2017. In addition, the System reported a restated OPEB liability of $10.8 billion under GASB Statement 75 for 2017, as compared to $4.6 billion under GASB Statement 45 in 2016. The System also reported a net pension liability of $3.1 billion in 2017 compared to $2.7 billion in 2016.

The Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position details the changes in total net position as presented on the statement of net position. The statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net position for the years ended August 31, 2018, 2017 and 2016:

Table 3		2018	*Restated 2017	2016
Operating revenues:			($ in millions)	
Net student tuition and fees	$	1,828.3	1,718.4	1,653.8
Sponsored programs		3,298.0	3,198.2	3,106.8
Net sales and services of hospitals		6,317.4	5,786.3	5,368.1
Net professional fees		1,878.5	1,812.3	1,697.8
Net auxiliary enterprises		625.8	593.5	558.5
Other		936.8	926.9	897.3
Total operating revenues		14,884.8	14,035.6	13,282.3
Total operating expenses		(18,722.1)	(18,306.1)	(17,297.9)
Operating loss		(3,837.3)	(4,270.5)	(4,015.6)
Nonoperating revenues (expenses):				
State appropriations		2,268.1	2,226.3	2,222.0
Nonexchange Sponsored Programs		424.3	394.8	407.9
Gift contributions for operations		448.1	446.6	491.7
Net investment income excluding the change in fair value of investments		4,279.3	3,178.0	1,820.0
Net increase (decrease) in fair value of investments		3,105.6	1,512.8	952.2
Interest expense on capital asset financings		(281.7)	(262.6)	(277.9)
Net other nonoperating revenues (expenses)		(61.4)	50.3	(2.9)
Income (loss) before other revenues, expenses, gains or losses and transfers		6,345.0	3,275.7	1,597.4
Capital gifts and grants and additions to permanent endowments		458.3	319.7	261.7
Net Transfers to other State entities		(613.7)	(182.9)	(269.9)
Change in net position		6,189.6	3,412.5	1,589.2
Net position, beginning of the year		39,220.9	41,282.1	39,681.1
Restatements			(5,473.7)	11.8
Net position, beginning of the year (as restated)		39,220.9	35,808.4	39,692.9
Net position, end of the year	$	45,410.5	39,220.9	41,282.1

Operating Revenues (Table 3)

Operating revenues totaled $14.9 billion for the fiscal year ended August 31, 2018, an increase of $849.2 million over 2017. The System's primary sources of operating revenues come from net student tuition and fees, sponsored programs, net patient care revenues, and net auxiliary enterprises.

Net Student Tuition and Fees
Student tuition and fees, a primary source of funding for the System's academic programs, representing 12.3% of operating revenues, are reflected net of associated discounts and allowances. Net student tuition and fees increased $109.9 million, or 6.4%, in 2018, primarily because of enrollment increases at U. T. Permian Basin (7.6%), U. T. San Antonio (5.9%), and U. T. Tyler (5.5%) as well as a modest rate increase. Overall, the combined enrollment for both academic and health institutions increased 3.3% in 2018. The System's academic institutions enroll 34.0% of the State's public college students, and the System's health-related institutions enroll 58.5% of the students attending the State's public health institutions.

Sponsored Programs
Sponsored program revenues, representing 22.2% of operating revenues, are primarily generated from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Governmental sponsored programs include grants from the federal government such as the U.S. Department of Health and Human Services. Sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $99.8 million, or 3.1%, in 2018.

Net Patient Care Revenues
Net patient care revenues, which consist of net sales and services of hospitals and net professional fees, are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. These revenues, which represent 55.1% of operating revenues, are reported net of contractual allowances, bad debt expense, and unreimbursed charges for financially or medically indigent patients. Net patient care revenues increased $597.3 million, or 7.9%, in 2018, as a result of increases in inpatient and outpatient volumes and rates.

The System's health-related institutions provide uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured as well as the unreimbursed costs from government-sponsored health programs. To calculate uncompensated care, charges are converted to costs and providers recognize appropriate patient specific funding and lump sum funding available to offset costs. Uncompensated care costs amounted to $716.9 million and $714.7 million for 2018 and 2017, 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 $81.9 million and $86.3 million for 2018 and 2017, respectively.

Net Auxiliary Enterprises
Net auxiliary enterprise revenues, representing 4.2% of operating revenues, were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities. These revenues increased $32.3 million, or 5.4%, in 2018 due to increased athletic, housing and food service revenues.

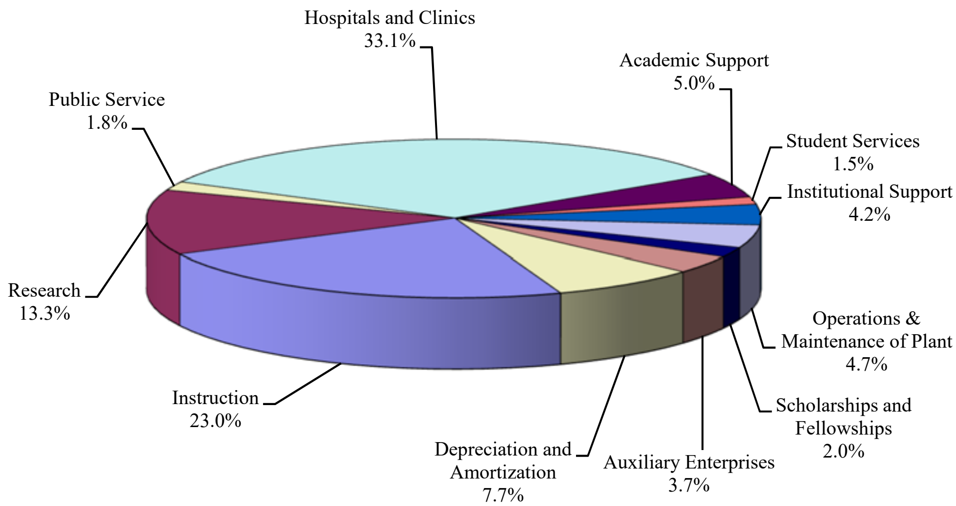
Operating Expenses (Table 4)
Operating expenses totaled $18.7 billion for the fiscal year ended August 31, 2018. The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2018, 2017 and 2016:

Table 4		2018	*Restated 2017	2016
Functional classification of operating expenses:			($ in millions)	
Instruction	$	4,314.6	4,208.3	3,667.1
Research		2,486.9	2,460.5	2,177.7
Public service		338.8	346.3	306.1
Hospitals and clinics		6,196.0	5,913.6	5,446.4
Academic support		937.0	994.5	846.0
Student services		287.8	285.8	260.4
Institutional support		783.7	845.7	1,553.4
Operations and maintenance of plant		877.1	825.7	764.0
Scholarships and fellowships		375.2	374.7	376.7
Auxiliary enterprises		684.4	655.0	592.4
Depreciation and amortization		1,440.6	1,396.0	1,307.7
Total operating expenses	$	18,722.1	18,306.1	17,297.9

Total operating expenses increased $416.0 million, or 2.3%, in 2018 in response to the growing cost of providing support for the institution's primary missions of instruction, research, public service, patient care and student support activities. Additionally, operating expenses include $843.2 million of OPEB expense and $252.0 million of pension expense. The System's full-time equivalent employees increased 3.2% from 95,230 in 2017 to 98,293 in 2018.

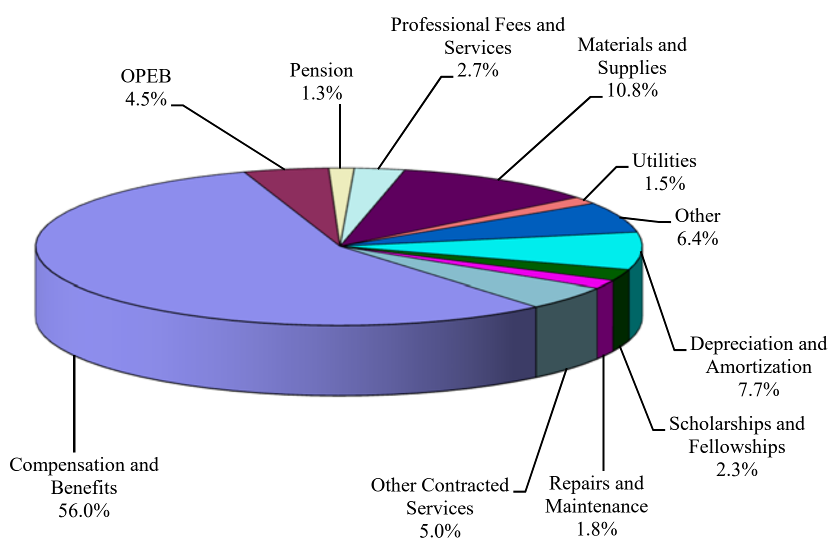
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2018.

Functional Classification of Operating Expenses ($18.7 billion)



In addition to programmatic (functional) classification of operating expenses, the following graph also illustrates the System's operating expenses by natural classification for the year ended August 31, 2018.

Natural Classification of Operating Expenses ($18.7 billion)



<u>Nonoperating Revenues and Expenses</u> (Table 3)

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

<u>State Appropriations</u>

State appropriations increased $41.8 million, or 1.9%, between 2017 and 2018 primarily due to additional hold harmless appropriations made by the Texas 85th Legislature offset by a decrease in special items appropriations.

<u>Nonexchange Sponsored Programs</u>

Nonexchange sponsored programs of $424.3 million increased $29.5 million, or 7.5%, in 2018. Nonexchange sponsored programs primarily include Pell revenues, Build America Bond subsidy revenues, and state nonexchange pass-throughs. Pell grants of $349.9 million reflect an increase of 10.4% from 2017 to 2018 due to year-round Pell grants being available for 2018. During 2018, the System received $27.2 million of Build America Bond subsidy revenues as compared to $27.3 million in 2017. The subsidy from the federal government of 35% of the interest payments reduced by the applicable federal sequestration reduction rate on Build America Bonds is reported as federal nonexchange sponsored programs and not as a credit to interest expense.

State nonexchange pass-throughs consist of the Higher Education Coordinating Board's *Texas Research Incentive Program* that awards potential matching funds based on how much an institution raises in private gifts and endowments to enhance research activities. Awards totaled $7.9 million in 2018, a decrease of 32.6% over 2017 due to the Texas legislature appropriating less gift matching funds for 2018.

<u>Gift Contributions for Operations</u>

Gift contributions for operations of $448.1 million remained relatively stable from 2017 levels. Donations are used to support various programs.

<u>Net Investment Income (Loss) Excluding the Change in Fair Value of Investments</u>

Due in part to increased realized gains, net investment income, excluding the change in the fair value of investments, increased $1.1 billion from $3.2 billion in 2017 to $4.3 billion in 2018. Net investment income includes realized gains of $2.5 billion in 2018 and $1.8 billion in 2017.

<u>Net Increase (Decrease) in Fair Value of Investments</u>

The change in the fair value of the System's investments in 2018 increased $1.6 billion from $1.5 billion in 2017 to $3.1 billion in 2018 primarily due to more favorable market conditions and to the increase in PUF lands oil and gas reserves. The fair value of the PUF land's interest in oil and gas is based on a third party reserve study of proved reserves and a percentage of probable and possible reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2018. The fair value of the PUF lands at August 31, 2018 was $9.0 billion.

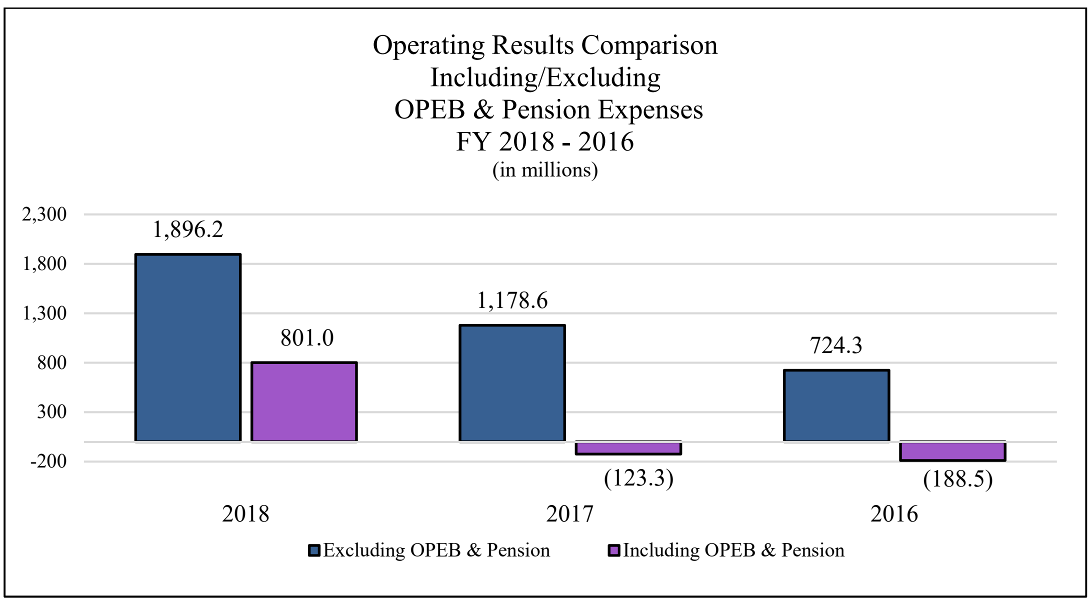
<u>Interest Expense</u>

Finally, interest expense on capital asset financings increased by $19.1 million from $262.6 million in 2017 to $281.7 million in 2018 due to the amortization of premiums, amortization of deferred gains and losses on refunding of debt and to the interest rate lock termination amortization.

Income (Loss) Before Other Revenue, Expenses, Gains or Losses and Transfers
Income before other revenue, expenses, gains or losses and transfers in Table 3, is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions and transfers. The income before other revenues, expenses, gains or losses totaled $6.3 billion in 2018, an increase of $3.1 billion over 2017. This increase was largely a result of the net increase in the fair value of investments and the increase in net investment income, excluding the change in fair value of investments. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. Table 5 below summarizes the System's view of its operating results for 2018, 2017 and 2016:

Table 5	2018	*Restated 2017	2016
		($ in millions)	
Operating results:			
Income (loss) before other revenue, expenses, gains/(losses) & transfers	$ 6,345.0	3,275.7	1,597.4
Remove nonoperating items:			
Net (increase)/decrease in fair value of investments	(3,105.6)	(1,512.8)	(952.2)
Loss (gain) on sale of capital assets	36.3	32.0	24.0
Other nonoperating (income)/expense	25.1	(82.3)	(21.1)
Realized loss (gains) on investments	(2,499.8)	(1,835.9)	(836.6)
Net operating results	$ 801.0	(123.3)	(188.5)

The chart below compares net operating results both including, and excluding, OPEB and pension expenses. It illustrates the significant impact these items have on the System's operations each year.



Capital Gifts and Grants and Additions to Permanent Endowments (Table 3)
Capital gifts and grants and additions to permanent endowments totaled $458.3 million for the year ended August 31, 2018, an increase of $138.6 million over 2017 primarily due to some large gifts received by U. T. Austin for capital acquisitions and endowments. Gifts and additions to permanent endowments fluctuate from year to year depending on the generosity of donors. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

Net Transfers to Other State Entities (Table 3)
Net transfers to other State agencies totaled $613.7 million for the year ended August 31, 2018, an increase of $430.8 million over 2017. These transfers primarily include $324.3 million and $299.5 million for 2018 and 2017, respectively, for the AUF distribution to TAMUS for its annual one-third participation in distributions from the PUF endowment and PUF land surface income. In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the distributions from the total return of PUF investments and net income from the surface lands to TAMUS. In addition to the transfer of the current year earnings, the System recorded a liability of $1.3 billion at August 31, 2018 and $976.5 million at August 31, 2017 for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. The $298.4 million net increase in PUF debt outstanding at TAMUS in 2018 is reflected as a transfer to other State agencies.

Change in Net Position (Table 3)
The change in net position results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline between the prior and current year's statement of net position. Net position increased by $6.2 billion in 2018 as compared to an increase of $3.4 billion, as restated, in 2017 primarily due to more favorable market conditions and an increase in the value of the PUF lands in 2018. Net investment income, excluding the change in fair value of investments, increased $1.1 billion, from $3.2 billion in 2017 to $4.3 billion in 2018. The net increase in fair value of investments was $3.1 billion in 2018, as compared to a net increase of $1.5 billion in 2017, an increase of $1.6 billion. The increase net investment income and the change in fair value of investments were the largest contributors to the increase in net position of $6.2 billion from 2018 activity.

2017 Highlights - Statement of Revenues, Expenses and Changes in Net Position
Because of more favorable market conditions in 2017, net investment income, excluding the change in fair value of investments was $3.2 billion in 2017 and the net increase in fair value of investments was $1.5 billion. Additionally, net patient care revenues increased $532.7 million in 2017; sponsored program revenues increased $91.4 million and tuition and fees increased $64.6 million in 2017. These items were offset by an increase in the OPEB liability and deferred inflows, as restated, due to the implementation of GASB statement 75. In addition, restated operating expenses increased $1.0 billion between 2016 and 2017 which included a restated OPEB expense of $934.2 million and a pension expense of $367.7 million in 2017. Due to these factors the restated net position decreased $2.1 billion between 2016 and 2017.

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 2019 increased 6.7% from 2018 budgeted levels. Areas of growth include: net sales and services of hospitals and clinics, up 11.3% through a combination of volume, productivity and price increases; net professional fees, up 8.4% resulting from growth in practice plans; and, net student tuition and fees, up 5.0% due to additional enrollment and a modest rate increase. Budgeted State appropriations remained virtually unchanged.

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

Budgeted expenses for 2019 increased 6.6% from 2018 levels. The most significant functional areas of growth include: hospitals and clinics, up 8.9% because of growth in patient care costs and increasing volumes; instruction and academic support, up 5.4% due to support for new academic and medical faculty and new academic programs; and research, up 7.5% resulting from increases in state and local research expenses.

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 the System's largest liability after the implementation of GASB Statement 75. It should be noted that because these benefits are guaranteed in statute, the only way to reduce this liability is a change to the statute where some retirees are no longer eligible for OPEB. 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.

In spite of the increasing costs of operating such a large university system, the System continues to maintain the highest credit ratings of Fitch Ratings (AAA), Moody's Investors Service (Aaa) and Standard & Poor's Global Ratings (AAA). Achieving and maintaining the highest credit ratings provides the System with significant flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the System to provide the necessary resources to support a consistent level of excellence in service to students, patients, the research community, the state and the nation.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2018 AND 2017

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION
AUGUST 31, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS		2018	2017
CURRENT ASSETS			
Cash and cash equivalents	$	2,505,387,194	2,607,488,588
Restricted cash and cash equivalents		690,747,230	576,882,202
Balance in State appropriations		125,097,250	133,057,721
Accounts receivable, net:			
Federal (net of allowances of $5,266,723 and $2,513,197, respectively)		534,913,933	701,552,379
Other intergovernmental (net of allowances of $832,283 and $564,436, respectively)		111,571,668	107,385,669
Student (net of allowances of $18,146,681 and $14,292,060, respectively)		352,623,797	337,824,054
Patient and healthcare (net of allowances of $237,002,614 and $364,212,497, respectively)		976,859,607	941,314,222
Interest and dividends		83,337,141	70,773,667
Contributions – current portion (net of allowances of $3,133,056 and $7,681,778, respectively)		130,234,087	127,076,210
Investment trades		488,068,868	680,960,415
Other (net of allowances of $5,650,038 and $4,498,900, respectively)		528,365,708	475,915,083
Due from other agencies		88,015,739	116,296,376
Inventories		139,561,696	125,067,711
Restricted loans and contracts - current portion (net of allowances of $16,845,713 and $13,866,060, respectively)		66,459,357	68,478,690
Securities lending collateral		434,189,416	490,906,139
Other current assets		277,148,786	277,131,674
Total current assets		7,532,581,477	7,838,110,800
NONCURRENT ASSETS			
Cash and cash equivalents – noncurrent restricted		7,384,191	5,163,474
Restricted investments		43,547,706,390	38,446,699,535
Deposit with brokers for derivative contracts		45,836,428	76,443,257
Loans and contracts (net of allowances of $23,945,576 and $23,414,043, respectively)		68,811,410	76,137,770
Contributions receivable (net of allowances of $2,081,281 and $1,913,314, respectively)		238,905,829	192,697,641
Unrestricted Investments		10,459,525,117	8,199,204,493
Hedging Derivative Asset		37,067,661	10,339,315
Other noncurrent assets		162,692,830	120,876,316
Gross capital/intangible assets		31,688,757,852	29,770,561,306
Less accumulated depreciation		(14,799,472,457)	(13,554,107,014)
Net capital assets		16,889,285,395	16,216,454,292
Total noncurrent assets		71,457,215,251	63,344,016,093
TOTAL ASSETS		78,989,796,728	71,182,126,893
Deferred Outflows of Resources		996,206,674	1,255,997,263
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	79,986,003,402	72,438,124,156

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION (Continued)
AUGUST 31, 2018 AND 2017

LIABILITIES AND DEFERRED INFLOWS		2018	2017
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$	1,178,246,263	1,118,896,148
Salaries payable		594,441,802	574,766,283
Investment trades payable		977,438,361	730,277,218
Incurred but not reported self-insurance claims – current portion		134,052,868	125,517,329
Total other postemployment benefits liability - current portion		202,555,282	196,993,644
Securities lending obligations		434,189,416	490,906,139
Due to other State agencies		28,515,356	28,693,696
Statewide interfund payable– current portion		63,222,910	86,283,468
Unearned revenue		1,683,638,538	1,715,467,667
Employees' compensable leave – current portion		412,622,753	401,350,083
Short-term debt		1,185,868,000	564,149,000
Notes, loans and leases payable – current portion		22,701,185	5,350,454
Payable from restricted assets		211,705,477	178,220,959
Bonds payable – current portion		1,826,253,299	1,845,796,760
Assets held for others– current portion		16,164,823	16,901,635
Other current liabilities		195,646,137	139,810,053
Total current liabilities		9,167,262,470	8,219,380,536
NONCURRENT LIABILITIES			
Incurred but not reported self-insurance claims		30,866,320	35,619,243
Employees' compensable leave		227,919,611	206,501,293
Assets held for others		876,684,162	827,311,150
Liability to beneficiaries		14,145,426	13,627,089
Total other postemployment benefits liability		10,514,556,063	10,580,035,138
Net pension liability		2,650,044,162	3,133,888,495
Notes, loans and leases payable		3,686,524	954,160,762
Bonds payable		7,671,716,734	7,156,928,387
Statewide interfund payable		1,215,093,641	894,904,609
Hedging derivative liability		165,354,206	246,087,922
Payable to brokers for collateral held		111,679,000	17,550,000
Investment derivatives - liability positions		68,043,373	171,471,313
Other noncurrent liabilities		67,236,562	12,831,559
Total noncurrent liabilities		23,617,025,784	24,250,916,960
TOTAL LIABILITIES		32,784,288,254	32,470,297,496
Deferred Inflows of Resources		1,791,152,211	746,877,280
TOTAL LIABILITIES AND DEFERRED INFLOWS	$	34,575,440,465	33,217,174,776
NET POSITION			
Net investment in capital assets	$	6,632,432,233	6,334,663,525
Restricted:			
Nonexpendable		27,395,040,035	23,174,866,185
Expendable		14,655,181,774	13,557,386,026
Total Restricted		42,050,221,809	36,732,252,211
Unrestricted		(3,272,091,105)	(3,845,966,356)
TOTAL NET POSITION	$	45,410,562,937	39,220,949,380

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, 2018 AND 2017

		2018	2017
OPERATING REVENUES			
Net student tuition and fees (net of discounts and allowances of $692,100,615 and $625,273,093, respectively)	$	1,828,272,175	1,718,371,569
Sponsored programs		3,297,976,728	3,198,239,703
Net sales and services of educational activities (net of discounts and allowances of $283,155 and $367,765, respectively)		490,280,680	476,472,386
Net sales and services of hospitals (net of discounts and allowances of $8,500,618,907 and $7,785,986,690, respectively)		6,317,449,623	5,786,262,918
Net professional fees (net of discounts and allowances of $4,490,418,956 and $4,009,228,538, respectively)		1,878,525,750	1,812,311,830
Net auxiliary enterprises (net of discounts and allowances of $17,495,295 and $16,240,255, respectively)		625,758,256	593,478,028
Other		446,561,020	450,487,535
Total operating revenues		14,884,824,232	14,035,623,969
OPERATING EXPENSES			
Instruction		4,314,611,736	4,208,355,092
Research		2,486,870,385	2,460,510,410
Public service		338,780,207	346,284,751
Hospitals and clinics		6,196,045,459	5,913,631,725
Academic support		936,988,799	994,474,176
Student services		287,841,502	285,836,862
Institutional support		783,681,374	845,690,379
Operations and maintenance of plant		877,153,053	825,677,806
Scholarships and fellowships		375,190,658	374,660,294
Auxiliary enterprises		684,381,306	655,032,868
Depreciation and amortization		1,440,561,714	1,396,005,593
Total operating expenses		18,722,106,193	18,306,159,956
Operating loss		(3,837,281,961)	(4,270,535,987)
NONOPERATING REVENUES (EXPENSES)			
State appropriations		2,268,092,826	2,226,326,513
Nonexchange sponsored programs		424,282,616	394,794,952
Gift contributions for operations		448,086,349	446,632,196
Net investment income		7,384,886,951	4,690,762,785
Interest expense on capital asset financings		(281,687,994)	(262,553,929)
Loss on sale of capital assets		(36,257,289)	(32,050,897)
Other		(25,077,422)	82,343,242
Net nonoperating revenues		10,182,326,037	7,546,254,862
Income before other changes in net position		6,345,044,076	3,275,718,875
OTHER CHANGES IN NET POSITION			
Capital gifts and grants		253,961,646	158,531,871
Additions to permanent endowments		204,349,155	161,225,671
Net transfers to other State agencies		(610,371,786)	(178,211,395)
Legislative appropriations lapsed		(3,369,534)	(4,744,249)
Change in net position		6,189,613,557	3,412,520,773
NET POSITION			
Net position, beginning of year		39,220,949,380	41,282,138,957
Restatement		-	(5,473,710,350)
Net position, beginning of year (as restated)		39,220,949,380	35,808,428,607
Net position, end of year	$	45,410,562,937	39,220,949,380

See accompanying notes to consolidated financial statements

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2018 AND 2017

		2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from tuition and fees	$	1,836,744,837	1,756,691,285
Proceeds from patients and customers		8,142,533,381	7,718,822,996
Proceeds from sponsored programs		3,408,055,979	3,086,913,036
Proceeds from auxiliaries		655,338,579	603,743,672
Proceeds from other revenues		990,361,589	923,056,419
Payments to suppliers		(5,848,344,790)	(5,382,478,972)
Payments to employees		(10,722,323,532)	(10,481,266,543)
Payments for loans provided		(106,489,395)	(128,687,208)
Proceeds from loan programs		112,136,155	128,516,064
Net cash used in operating activities		(1,531,987,197)	(1,774,689,251)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Proceeds from State appropriations		2,272,683,763	2,224,653,205
Proceeds from operating gifts		395,135,670	458,866,103
Proceeds from private gifts for endowment purposes		988,415,466	297,166,014
Proceeds from other nonoperating revenues		65,915,434	14,588,896
Receipts for transfers from other agencies		512,646,754	484,285,910
Payments for transfers to other agencies		(2,300,169,094)	(1,164,176,943)
Payments for other uses		(79,355,460)	(5,580,879)
Proceeds from nonexchange sponsored programs		449,625,861	381,254,102
Net cash provided by noncapital financing activities		2,304,898,394	2,691,056,408
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from issuance of capital debt		2,011,699,066	3,526,137,129
Payments of other costs on debt issuance		(6,230,095)	(7,428,396)
Proceeds from capital appropriations, grants and gifts		241,134,924	143,692,170
Proceeds from sale of capital assets		3,029,311	2,115,706
Payments for additions to capital assets		(2,027,594,522)	(1,952,791,120)
Payments of principal on capital related debt		(1,753,759,081)	(2,883,229,682)
Payments of interest on capital related debt		(356,158,737)	(338,317,541)
Net cash used in capital and related financing activities		(1,887,879,134)	(1,509,821,734)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investments		25,256,773,284	19,972,477,282
Proceeds from interest and investment income		1,770,080,544	1,399,696,793
Payments to acquire investments		(25,897,901,540)	(20,465,895,179)
Net cash provided by investing activities		1,128,952,288	906,278,896
NET INCREASE IN CASH		13,984,351	312,824,319
Cash and cash equivalents, beginning of year		3,189,534,264	2,876,709,945
Cash and Cash equivalents, end of year	$	3,203,518,615	3,189,534,264

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEARS ENDED AUGUST 31, 2018 AND 2017

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		2018	2017
Operating loss	$	(3,837,281,961)	(4,270,535,987)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		1,440,561,714	1,396,005,593
Gross loss on impairment of capital assets		2,466,800	38,314,893
Bad debt expense		368,794,214	523,146,521
Other postemployment benefits obligation expense		843,220,745	934,204,701
Pension expense		251,961,770	367,734,346
Changes in assets and liabilities:			
Accounts receivable		(265,366,147)	(716,508,393)
Inventories		(14,493,985)	(8,426,199)
Loans and contracts		5,654,006	(163,689)
Other current and noncurrent assets		(51,522,275)	(23,592,320)
Deferred Outflows-Other Postemployment Benefits		(8,006,018)	(95,030,529)
Deferred Outflows-Pension Related		187,209,869	(306,662,510)
Accounts payable and accrued liabilities		35,068,157	89,680,738
Unearned revenue		(30,348,821)	224,416,079
Assets held for others		7,591,826	(413,924)
Employees' compensable leave		32,690,989	12,683,668
Other postemployment benefits obligation		(903,138,182)	(263,884,994)
Pension related obligations		(735,806,103)	21,460,404
Deferred Inflows-Other Postemployment Benefits		764,599,101	263,884,994
Deferred Inflows-Pension Related		264,196,398	21,151,168
Other current and noncurrent liabilities		109,960,706	17,846,189
Total adjustments		2,305,294,764	2,495,846,736
Net cash used in operating activities	$	(1,531,987,197)	(1,774,689,251)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION			
Net increase in fair value of investments		2,881,770,872	1,830,478,525
Donated capital assets		58,599,451	25,976,104
Capital assets acquired under capital lease purchases		1,382,575	727,928
Miscellaneous noncash transactions		(20,825,587)	19,485,871

See accompanying notes to consolidated financial statements (Concluded)

1. The Financial Reporting Entity

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

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

The System is composed of 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, 5323 Harry Hines Boulevard, Dallas, Texas 75390, is governed by a four-member board appointed by U. T. Southwestern Medical Center. U. T. Southwestern Health Systems provides support of health care services and grants to conduct research and provide educational programs to accomplish the mission of U. T. Southwestern Medical Center. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Southwestern Medical Center is the sole corporate member. The corporation's fiscal year end is August 31.

U. T. Southwestern Moncrief Cancer Center, 400 West Magnolia Avenue, Fort Worth, Texas 76104, is governed by a four-member board appointed by the president of U. T. Southwestern Medical Center. U. T. Southwestern Moncrief Cancer Center provides resources for cancer prevention, early detection and support services to cancer patients and their families within Tarrant County and surrounding areas. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Southwestern Medical Center is the sole corporate member. The corporation's fiscal year end is August 31.

Moncrief Cancer Foundation, 5323 Harry Hines Blvd. Dallas, Texas 75390, is governed by a six-member board appointed by the president of U. T. Southwestern Medical Center. Moncrief Cancer Foundation supports comprehensive, multidisciplinary cancer treatment programs in Tarrant County and surrounding areas. The foundation is blended rather than discretely presented because it is organized as a not-for-profit foundation and U. T. Southwestern Medical Center is the sole corporate member. The foundation's fiscal year end is August 31.

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

The assets of St. Paul Medical Foundation were transferred to U. T. Southwestern Medical Center and the foundation was dissolved September 30, 2016.

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

UTMB HealthCare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by an eight-member board appointed by U. T. Medical Branch - Galveston. UTMB HealthCare Systems, Inc. establishes business for U. T. Medical Branch - Galveston in selected markets, providing temporary staffing, medical facilities, and managing the Medicare Select insurance product. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Medical Branch – Galveston is the sole corporate member. The corporation's fiscal year end is August 31.

The University Medical Branch Student Book Store, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by a five-member board appointed by U. T. Medical Branch - Galveston. The corporation is blended rather than discretely presented because it operates the book store for U. T. Medical Branch - Galveston and provides services entirely or almost entirely to U. T. Medical Branch - Galveston. The corporation's fiscal year end is August 31.

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

U. T. Physicians, 6431 Fannin Street, Suite JJL 475, Houston, Texas 77030, is governed by a five-member board appointed by U. T. Health Science Center - Houston. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Health Science Center - Houston is the sole corporate member. The corporation's fiscal year end is August 31.

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

University Physicians Group, 8431 Fredericksburg Road, San Antonio, Texas 78229, is governed by a five-member board. The Dean of the School of Medicine is the Chairman of the Board, and four board members are members of and elected by the physician practice plan board. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Health Science Center - San Antonio is the sole corporate member. The corporation's fiscal year end is August 31.

U. T. Health San Antonio Regional Physician Network, 1999 Bryan St, Suite 900, Dallas TX 75201-3136, 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.

M. D. Anderson Physician's Network, 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030, is governed by a nine-member board appointed by the president of M. D. Anderson. M. D. Anderson Physicians Network transfers programs representative of M. D. Anderson to the broad community. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and M. D. Anderson is the sole corporate member. The corporation's fiscal year end is August 31.

M. D. Anderson Services Corporation, 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030, is governed by a seven-member board appointed by the president of M. D. Anderson. M. D. Anderson Services Corporation serves as an instrument of M. D. Anderson in its efforts to achieve its mission beyond the M. D. Anderson main campus. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and M. D. Anderson is the sole corporate member. The corporation's fiscal year end is August 31.

East Texas Quality Care Network, Inc., 11937 US Highway 271, Tyler, Texas 75708-3154, is governed by a four-member board appointed by U. T. Health Science Center - Tyler. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Health Science Center - Tyler is the sole corporate member. The corporation's fiscal year end is August 31.

The University of Texas/Texas A&M Investment Management Company (UTIMCO), 210 West 7th Street, Suite 1700, Austin, Texas 78701, is governed by a nine-member board consisting of at least three members of the U. T. System Board of Regents, four other members appointed by the U. T. System Board of Regents (one of whom may be the Chancellor of the System), and two members appointed by the Texas A&M System Board of Regents. At least three members appointed by the U. T. System Board of Regents and at least one member appointed by the Texas A&M System Board of Regents must have substantial background and expertise in investments. The corporation is blended rather than discretely presented because it provides investment management services entirely or almost entirely to the System. The corporation's fiscal year end is August 31.

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

The University of Texas Communication Foundation, U. T. Austin, P. O. Box 7322, Austin, Texas 78713 is governed by a three-member board appointed by U. T. Austin. The University of Texas Communication Foundation provides services to the U. T. Austin College of Communication to facilitate the participation by students, faculty and others in professional communication projects. The foundation is blended rather than discretely presented because it provides services entirely to U. T. Austin. The foundation's fiscal year end is August 31.

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.

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, 2018.

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

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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

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2017 is as follows:

As of August 31, 2017		Southwestern Health Systems	Southwestern Moncrief Cancer Center	Moncrief Cancer Foundation	St. Paul Medical Foundation	Southwestern Accountable Care Network	UTMB HealthCare Systems
Condensed Statement of Net Position							
Current Assets	$	15,925,767	2,216,482	1,304,059	-	-	12,648,286
Noncurrent Assets		-	35,393,608	88,567,646	-	-	8,206,056
Total Assets		15,925,767	37,610,090	89,871,705	-	-	20,854,342
Current Liabilities		771,174	2,216,482	1,489,148	-	-	1,766,519
Noncurrent Liabilities		-	-	19,000,000	-	-	-
Total Liabilities		771,174	2,216,482	20,489,148	-	-	1,766,519
Net Investment in Capital Assets		-	31,484,627	-	-	-	1,879,101
Restricted Nonexpendable		-	1,563,838	-	-	-	-
Restricted Expendable		-	-	69,382,557	-	-	-
Unrestricted		15,154,593	2,345,143	-	-	-	17,208,722
Total Net Position	$	15,154,593	35,393,608	69,382,557	-	-	19,087,823
Condensed Statement of Revenues, Expenses and Changes in Net Position							
Operating Revenues	$	64,554	12,233,304	276	-	-	29,659,725
Operating Expenses		(109,621)	(13,209,406)	(591,001)	-	-	(28,619,987)
Operating Income/(Loss)		(45,067)	(976,102)	(590,725)	-	-	1,039,738
Nonoperating Revenues (Expenses)		1,820,878	-	8,631,467	-	-	677,997
Income/(Loss) Before Other Changes in Net Position		1,775,811	(976,102)	8,040,742	-	-	1,717,735
Other Changes in Net Position		(910,130)	(2,047,155)	(2,768,187)	(5,365,808)	(6,201,738)	-
Change in Net Position		865,681	(3,023,257)	5,272,555	(5,365,808)	(6,201,738)	1,717,735
Net Position - August 31, 2016		14,288,912	38,416,865	64,110,002	5,365,808	6,201,738	17,370,088
Net Position-August 31, 2017	$	15,154,593	35,393,608	69,382,557	-	-	19,087,823
Condensed Statement of Cash Flows							
Net Cash provided (used) by:							
Operating Activities	$	(873,660)	465,173	(2,372,643)	(11,738)	3,617,196	1,291,739
Noncapital Financing Activities		-	-	2,713,634	(5,363,308)	(6,201,739)	(3,034)
Capital and Related Financing		-	(110,582)	-	-	-	(597,040)
Investing Activities		-	50,269	-	5,192,572	-	(6,335,600)
Net Increase (Decrease) in Cash and Cash Equivalents		(873,660)	404,860	340,991	(182,474)	(2,584,543)	(5,643,935)
Cash and Cash Equivalents – August 31, 2016		6,918,166	793,885	869,056	182,474	2,584,543	9,634,551
Cash and Cash Equivalents – August 31, 2017	$	6,044,506	1,198,745	1,210,047	-	-	3,990,616

(Continued)

As of August 31, 2017		The University Medical Branch Student Book Store, Inc.	Medical Branch Innovations	U. T. Physicians	U. T. System Medical Foundation	University Physicians Group	M. D. Anderson Physician's Network
Condensed Statement of Net Position							
Current Assets	$	2,525,121	6,504,169	98,206,377	14,036,314	-	41,818,990
Noncurrent Assets		11,457	-	79,923,118	3,319,085	2,424,413	70,966,200
Total Assets		2,536,578	6,504,169	178,129,495	17,355,399	2,424,413	112,785,190
Current Liabilities		131,473	539,285	88,384,253	6,859,488	488,791	14,076,910
Noncurrent Liabilities		-	6,149,137	-	250,000	-	110,975
Total Liabilities		131,473	6,688,422	88,384,253	7,109,488	488,791	14,187,885
Net Investment in Capital Assets		11,457	-	22,726,248	-	-	1,227,653
Restricted Nonexpendable		-	-	-	-	-	-
Restricted Expendable		-	-	-	-	-	-
Unrestricted		2,393,648	(184,253)	67,018,994	10,245,911	1,935,622	97,369,652
Total Net Position	$	2,405,105	(184,253)	89,745,242	10,245,911	1,935,622	98,597,305
Condensed Statement of Revenues, Expenses and Changes in Net Position							
Operating Revenues	$	1,077,521	1,237,847	178,579,750	83,948,663	1,693,044	40,224,482
Operating Expenses		(1,435,379)	(1,442,232)	(164,636,138)	(82,992,555)	(1,175,814)	(20,932,720)
Operating Income/(Loss)		(357,858)	(204,385)	13,943,612	956,108	517,230	19,291,762
Nonoperating Revenues (Expenses)		-	20,132	4,962,847	299,682	(517,230)	5,125,642
Income/(Loss) Before Other Changes in Net Position		(357,858)	(184,253)	18,906,459	1,255,790	-	24,417,404
Other Changes in Net Position		-	-	-	-	-	-
Change in Net Position		(357,858)	(184,253)	18,906,459	1,255,790	-	24,417,404
Net Position - August 31, 2016		2,762,963	-	70,838,783	8,990,121	1,935,622	74,179,901
Net Position-August 31, 2017	$	2,405,105	(184,253)	89,745,242	10,245,911	1,935,622	98,597,305
Condensed Statement of Cash Flows							
Net Cash provided (used) by:							
Operating Activities	$	(331,865)	(753,810)	57,686,923	919,356	1,418,258	23,178,192
Noncapital Financing Activities		-	-	-	-	-	-
Capital and Related Financing		-	6,000,000	(4,333,420)	-	(1,418,258)	-
Investing Activities		3,829	20,132	(18,071,198)	41,836	-	(17,638,552)
Net Increase (Decrease) in Cash and Cash Equivalents		(328,036)	5,266,322	35,282,305	961,192	-	5,539,640
Cash and Cash Equivalents – August 31, 2016		2,498,564	-	38,175,896	5,832,004	-	26,254,229
Cash and Cash Equivalents – August 31, 2017	$	2,170,528	5,266,322	73,458,201	6,793,196	-	31,793,869

(Concluded)

As of August 31, 2017		M. D. Anderson Services Corp	East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation	University of Texas Communication Foundation	Combined Blended Component Unit Total
Condensed Statement of Net Position							
Current Assets	$	95,682,806	375,764	19,782,315	1,268	211	311,027,929
Noncurrent Assets		637,217,851	-	1,788,893	-	171,590	927,989,917
Total Assets		732,900,657	375,764	21,571,208	1,268	171,801	1,239,017,846
Current Liabilities		118,476,065	47,372	9,916,898	-	111,913	245,275,771
Noncurrent Liabilities		243,792,136	-	1,788,893	-	39,052	271,130,193
Total Liabilities		362,268,201	47,372	11,705,791	-	150,965	516,405,964
Net Investment in Capital Assets		5,223	-	-	-	-	57,334,309
Restricted Nonexpendable		50,000,000	-	-	-	-	51,563,838
Restricted Expendable		296,574,323	-	-	-	-	365,956,880
Unrestricted		24,052,910	328,392	9,865,417	1,268	20,836	247,756,855
Total Net Position	$	370,632,456	328,392	9,865,417	1,268	20,836	722,611,882
Condensed Statement of Revenues, Expenses and Changes in Net Position							
Operating Revenues	$	2,117,706	39,228	32,307,792	-	-	383,183,892
Operating Expenses		(1,423,617)	(18,974)	(27,740,053)	(840)	-	(344,328,337)
Operating Income/(Loss)		694,089	20,254	4,567,739	(840)	-	38,855,555
Nonoperating Revenues (Expenses)		71,380,759	-	147,226	2	-	92,549,402
Income/(Loss) Before Other Changes in Net Position		72,074,848	20,254	4,714,965	(838)	-	131,404,957
Other Changes in Net Position		-	-	-	-	-	(17,293,018)
Change in Net Position		72,074,848	20,254	4,714,965	(838)	-	114,111,939
Net Position - August 31, 2016		298,557,608	308,138	5,150,452	2,106	20,836	608,499,943
Net Position-August 31, 2017	$	370,632,456	328,392	9,865,417	1,268	20,836	722,611,882
Condensed Statement of Cash Flows							
Net Cash provided (used) by:							
Operating Activities	$	67,999,317	117,894	3,010,686	(840)	-	155,360,178
Noncapital Financing Activities		(29,020,412)	-	-	-	-	(37,874,859)
Capital and Related Financing		-	-	(61,862)	-	-	(521,162)
Investing Activities		(42,558,892)	-	148,873	2	-	(79,146,729)
Net Increase (Decrease) in Cash and Cash Equivalents		(3,579,987)	117,894	3,097,697	(838)	-	37,817,428
Cash and Cash Equivalents – August 31, 2016		98,864,529	225,240	15,627,261	2,106	211	208,462,715
Cash and Cash Equivalents – August 31, 2017	$	95,284,542	343,134	18,724,958	1,268	211	246,280,143

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, 2018, 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 $2,381,867,586 at August 31, 2018, and $2,308,956,268 at August 31, 2017.

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, 2018, related to pass-through grants were $431,873,657 and $19,438,383, respectively. Funds received and provided during the year ended August 31, 2017, related to pass-through grants were $432,862,323 and $10,234,452, respectively.

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, 2018 and 2017 was $26,802,017 and $3,775,195, respectively, or approximately 50%.

U. T. Southwestern Health Systems (UTSHS), a blended component unit of U. T. Southwestern Medical Center, is a participating member of U. T. Southwestern DVA Healthcare, LLP (DVA). DVA is a joint venture between UTSHS and Davita Inc. to provide care for dialysis patients in the Dallas-Fort Worth area. UTSHS's equity interest in DVA at August 31, 2018 and 2017 was $9,229,383 and $9,630,389, 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, 2018 was $1,596,085 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, 2018 and 2017 was $645,662 and $749,311, 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, 2018 and 2017 was $459,211 and $480,498, 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, 2018 and 2017 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, 2018 and 2017 was $12,958,172 and $13,225,362, respectively, or 11.9% and 12.4%, respectively. M. D. Anderson's equity interest in TECO at August 31, 2018 and 2017 was $43,318,947 and $42,312,318, respectively, or 38.5% and 39.8%, 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, 2018 and 2017 was $5,493,728 and $5,026,044, 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, 2018 and 2017 was $2,489,336 and $2,498,486, 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, 2018 and 2017, M. D. Anderson's equity interest in PTC Partnership was $0. M. D. Anderson received cash contributions totaling $1,225,245 during the fiscal year ended August 31, 2018 but received no cash contributions during the fiscal year ended August 31, 2017. Separate financial statements for PTC Partnership may be obtained at http://www.mdanderson.org/patient-and-cancer-information/proton-therapy-center/index.html.

M. D. Anderson is a participating member in the National Center for Therapeutics Manufacturing (the "NCTM"). M. D. Anderson entered into a Collaboration, Investment and Facility Use Agreement as of May 19, 2010 with Texas A&M University System to collaborate on the design of the NCTM and on grants and proposals relating to cancer therapeutics that could be developed at the NCTM. M. D. Anderson's cost-based interest in NCTM at August 31, 2018 and 2017 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. This newly created health system, known as UT Health East Texas, will 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 new 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 UT Health East Texas at August 31, 2018 was $3,043,300, 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 2017

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

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

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, effective 2017, clarified the financial statement presentation requirements for certain component units. The implementation of GASB Statement No. 80 had no effect on the System's net position or changes in net position for the years ended August 31, 2017 and 2016.

GASB Statement No. 82, *Pension Issues*, effective 2017, addressed practice issues raised by stakeholders during the implementation of GASB 68. The implementation of GASB Statement No. 82 had no effect on the System's net position or changes in net position for the years ended August 31, 2017 and 2016.

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

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.

The effect of implementing GASB Statement No. 75 and GASB Statement No. 81 on the System's financial statements for the year ended August 31, 2017 was as follows:

Statement of Net Position as of August 31, 2017

	As Reported in Fiscal Year 2017	GASB Statement No. 75 Restatement	GASB Statement No. 81 Restatement	Restated Fiscal Year 2017
Assets:				
Total Current Assets	$ 7,827,057,880	-	11,052,920	7,838,110,800
Total Noncurrent Assets	63,321,650,497	-	22,365,596	63,344,016,093
Total Assets	71,148,708,377	-	33,418,516	71,182,126,893
Total Deferred Outflows of Resources	1,160,966,734	95,030,529	-	1,255,997,263
Total Assets and Deferred Outflows	$ 72,309,675,111	95,030,529	33,418,516	72,438,124,156
Liabilities:				
Current OPEB Liability	$ -	196,993,644	-	196,993,644
Other Current Liabilities	8,022,386,892	-	-	8,022,386,892
Total Current Liabilities	8,022,386,892	196,993,644	-	8,219,380,536
Net OPEB Obligation	5,380,651,054	(5,380,651,054)	-	-
Noncurrent OPEB Liability	-	10,580,035,138	-	10,580,035,138
Other Noncurrent Liabilities	13,670,881,822	-	-	13,670,881,822
Total Noncurrent Liabilities	19,051,532,876	5,199,384,084	-	24,250,916,960
Total Liabilities	27,073,919,768	5,396,377,728	-	32,470,297,496
Total Deferred Inflows of Resources	440,108,341	263,884,994	42,883,945	746,877,280
Total Liabilities and Deferred Inflows	$ 27,514,028,109	5,660,262,722	42,883,945	33,217,174,776
Net Position:				
Net Investment in Capital Assets	$ 6,334,663,525	-	-	6,334,663,525
Restricted Nonexpendable	23,184,331,614	-	(9,465,429)	23,174,866,185
Restricted Expendable	13,557,386,026	-	-	13,557,386,026
Unrestricted	1,719,265,837	(5,565,232,193)	-	(3,845,966,356)
Total Net Position	$ 44,795,647,002	(5,565,232,193)	(9,465,429)	39,220,949,380

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended August 31, 2017

		As Reported in Fiscal Year 2017	GASB Statement No. 75 Restatement	GASB Statement No. 81 Restatement	Restated Fiscal Year 2017
Operating Income (Loss):					
Total Operating Revenues	$	14,035,623,969	-	-	14,035,623,969
Operating Expenses:					
Claims and Losses		42,586,064	(95,030,529)	-	(52,444,465)
Increase in Net OPEB Obligation		733,220,500	(733,220,500)	-	-
OPEB Expense		-	934,204,701	-	934,204,701
Other Operating Expenses		17,424,399,720	-	-	17,424,399,720
Total Operating Expenses		18,200,206,284	105,953,672	-	18,306,159,956
Operating Income (Loss)		(4,164,582,315)	(105,953,672)	-	(4,270,535,987)
Nonoperating Revenues:					
Gift Contributions for Operations		442,189,801	-	4,442,395	446,632,196
Investment Income		4,692,780,487	-	(2,017,702)	4,690,762,785
Other Nonoperating Revenues (Expenses)		2,407,854,294	-	1,005,587	2,408,859,881
Total Net Nonoperating Revenues (Expenses)		7,542,824,582	-	3,430,280	7,546,254,862
Income/(Loss) Before Other Revenue, Expenses, Gains/(Losses), and Transfers		3,378,242,267	(105,953,672)	3,430,280	3,275,718,875
Additions to Permanent Endowments/Annuities		159,689,551	-	1,536,120	161,225,671
Other Revenues/Transfers		(24,423,773)	-	-	(24,423,773)
Change in Net Position		3,513,508,045	(105,953,672)	4,966,400	3,412,520,773
Beginning Net Position		41,282,138,957	-	-	41,282,138,957
Restatements		-	(5,459,278,521)	(14,431,829)	(5,473,710,350)
Beginning Net Position (As Restated)		41,282,138,957	(5,459,278,521)	(14,431,829)	35,808,428,607
Ending Net Position	$	44,795,647,002	(5,565,232,193)	(9,465,429)	39,220,949,380

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective 2018, provides guidance for using existing resources to extinguish debt. Statement 86 also provides guidance for prepaid insurance on debt that is extinguished. The implementation of Statement 86 had no effect on the System's net position or changes in net position for the years ended August 31, 2018 and 2017.

CASH AND CASH EQUIVALENTS

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

BALANCE IN STATE APPROPRIATIONS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Changes in the fair value of derivatives that are not effective are recorded as investment income 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. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose (see Note 12). The thresholds for software are $100,000 for purchased software and $1,000,000 for internally developed software including Enterprise Resource Planning replacements. The System capitalizes, but does not depreciate works of art and historical treasures that are held for exhibition, education, research and public service. These collections are protected and preserved.

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

OTHER ASSETS

Other current assets are primarily made up of prepaid expenses, while other noncurrent assets are primarily made up of equity interests in joint ventures that do not meet the definition of an investment 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 and certain changes in the net pension and total OPEB liability. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows and deferred outflows in the statement of net position. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is amortized, using the straight line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net position as a component of interest expense. When a Treasury Lock is used to hedge interest rate exposure on bonds, the lock termination payment is recorded as a deferred outflow and is amortized, using the straight line method, over the remaining life of the related debt in the statement of revenues, expenses and changes in net position as a component of interest expense. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources 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.

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, 2018 and 2017 is $492,658,190 and $460,663,280, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at M. D. Anderson. As of August 31, 2018 and 2017, assets held for others also included $217,380,658 and $206,376,967, 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.

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 2018 and 2017 of $324,342,157 and $299,458,731, respectively, the System recorded a liability of $1,274,923,776 and $976,516,120 at August 31, 2018 and 2017, 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, 2018 and 2017 is $3,392,775 and $4,671,957, 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 $716,876,940 and $714,723,133 for 2018 and 2017, 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 $81,907,495 and $86,282,932 for 2018 and 2017, respectively.

NET PATIENT SERVICE REVENUE

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

Medicare

U. T. Southwestern Medical Center's, U. T. Medical Branch - Galveston's and U. T. Health Science Center - Tyler's inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are reimbursed under a prospective reimbursement methodology. Also, additional reimbursement is received for graduate medical education, disproportionate share, bad debts and other reimbursable costs, as defined, under a variety of payment methodologies.

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

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement 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 $364,095,857 and $516,628,072 in 2018 and 2017, 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, 2018 and 2017 are detailed by type as follows:

Net Other Receivables		**2018**	**2017**
Receivables related to investments	$	200,483,502	115,474,202
Receivables related to gifts, grants and sponsored programs		66,867,599	104,966,603
Receivables related to external parties/other companies		170,231,124	185,934,133
Receivables related to auxiliary enterprises		9,556,838	18,568,244
Receivables related to payroll		8,531,548	5,861,467
Receivables related to patents		706,780	1,227,180
Receivables related to travel		1,374,302	1,115,548
Receivables related to loan funds and financial aid		2,648,370	1,725,532
Receivables related to agency funds		7,054,870	6,839,126
Receivables related to other various activities		60,910,775	34,203,048
Total	$	528,365,708	475,915,083

6. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2018 and 2017, the carrying amount of deposits was $151,240,335 and $110,761,867, respectively, as presented below:

		2018	2017
Cash and cash equivalents per statement of cash flows and statement of net position	$	3,203,518,615	3,189,534,264
Less: Cash in State Treasury		1,144,336,004	1,001,716,651
Repurchase agreement – Texas Treasury Safekeeping Trust Co.		3,955,653	11,209,782
Other cash equivalent investments		1,898,098,845	2,053,323,804
Other		5,887,778	12,522,160
Deposits of cash in bank	$	151,240,335	110,761,867

As of August 31, 2018 and 2017, the total bank balances were $215,181,629 and $150,686,528, 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 and 2017, 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 and 2017, the bank balances exposed to custodial risk as uninsured and uncollateralized deposits were $156,025 and $93,034, respectively.

INVESTMENTS

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

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

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

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

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

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

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

Equity securities, including common and preferred stocks, fair values are based on the closing price on the primary exchange on which they are traded (if a closing price is not available, the average of the last reported bid and ask price is used). When these securities are actively traded, and valuation adjustments are not applied, they are categorized as Level 1. In the event that a stock is not actively traded or a closing price is unavailable on a national or international securities exchange, the last available price per the exchange would be used, and the security would be categorized as Level 2.

Other commingled funds at fair value include fixed income and U.S. equity funds. International other commingled funds at fair value include non-U.S. developed equity, emerging markets, real estate and natural resources. Fair values are based on the closing price on the primary exchange on which the security is traded (if a closing price is not available, the average of the last reported bid and ask price is used). Investments valued as such are classified as Level 1.

Real estate and other investments include real estate, commodities and the asset positions of investment derivatives. The fair value of the PUF land's interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a ten percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31. A percentage of probable and possible reserves of oil and gas are included in the fair value estimate. The PUF lands' surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. The PUF lands are categorized as Level 3 in the fair value hierarchy. The remaining minerals, the trust minerals, because of size, distribution, and limited production histories are generally valued at three times the previous 12 months' revenue. As a rule of thumb, this measure has been used historically to determine the selling price of these types of properties by willing parties. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent State certified or other licensed appraiser, tax assessments use for real estate investments with values that are not significant or by any other generally accepted industry standard. All other real estate is categorized as Level 3 in the fair value hierarchy, with a small amount valued using net asset value.

Physical commodities, specifically gold, are valued using the composite closing price from Bloomberg for the XAU currency code which represents the standard for one troy ounce of gold, and are categorized as Level 1.

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

Alternative investments include private equity securities and limited partnerships, or private investment funds. Equity securities related to non-public equity investments are valued using a variety of methods, including information from recent rounds of financing, the Guideline Public Company method, the Discounted Cash Flow method, the Common Stock Equivalent method and the Option-Pricing method. The fair value of private investment funds, which consist of non-regulated investment funds and various other investment vehicles, are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources. These investments are classified as Level 3.

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

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

The following tables reflect fair value measurements of investments as of August 31, 2018 and 2017, respectively, as categorized by level of the fair value hierarchy:

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	-	-
Emerging Markets		2,567,929	2,567,929	-	-
Real Estate		894,964	894,964	-	-
Natural Resources		1,482,358	1,482,358	-	-
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		2,217,423,975			
International Other Commingled Funds		3,877,753,379			
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			

Type of Security		Fair Value as of August 31, 2017	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	$	787,128,969	787,128,969	-	-
U.S. Government Treasury TIPS		32,726,133	32,726,133	-	-
U.S. Government Agency Obligations		162,244,833	-	162,244,833	-
Corporate Obligations		721,118,556	-	719,612,666	1,505,890
Corporate Asset and Mortgage Backed Securities		82,153,306	-	82,153,306	-
International Obligations (Government and Corporate)		2,847,290,691	-	2,847,290,691	-
Fixed Income Money Market and Bond Mutual Funds		1,549,004,227	1,549,004,227	-	-
Mutual Funds		410,241,480	399,495,484	10,613,832	132,164
Equity Securities:					
Equity		1,220,816,482	1,218,917,548	1,898,934	-
International Equity		3,435,621,245	3,435,592,250	28,995	-
Other Commingled Funds:					
Fixed Income		33,197,719	33,197,719	-	-
U. S. Equity		15,628,002	15,628,002	-	-
International Other Commingled Funds:					
Non-U.S. Developed Equity		3,207,284	3,207,284	-	-
Emerging Markets		2,571,571	2,571,571	-	-
Real Estate		838,551	838,551	-	-
Natural Resources		1,442,411	1,442,411	-	-
Real Estate and Other:					
PUF Lands		6,117,722,598	-	-	6,117,722,598
Other Real Estate		262,498,753	-	-	262,498,753
Physical Commodities - Gold		903,922,186	903,922,186	-	-
Investment Derivatives – Asset Positions		166,479,524	9,063,622	157,415,902	-
Alternative Investments:					
Private Investments		397,977,024	-	-	397,977,024
Miscellaneous		20,639,248	2,226,094	17,328,884	1,084,270
Total Investments by Fair Value Level		19,174,470,793	8,394,962,051	3,998,588,043	6,780,920,699

Type of Security		Fair Value as of August 31, 2017	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		21,521,703			
Hedge Funds		10,146,496,932			
Other Commingled Funds – U.S. Equity		1,743,750,733			
International Other Commingled Funds		3,394,075,568			
Private Investments		11,247,834,828			
Total Investment Funds Fair Valued Using Net Asset Value		26,553,679,764			
Investments Held in Cash (Not at Fair Value)		917,327,267			
Other Investments (Not at Fair Value)		426,204			
Total Investments	$	46,645,904,028			
Securities Lending Collateral Investment Pool (see Securities Lending section)	$	490,906,139	-	490,906,139	-
Investments Classified as Cash Equivalents:					
Repurchase Agreement - Texas Treasury Safekeeping Trust Co. (Not at Fair Value)	$	11,209,782			
Fixed Income Money Market Funds		2,052,483,767	2,052,483,767	-	-
Time Deposits (Not at Fair Value)		840,037			
Total Investments Classified as Cash Equivalents	$	2,064,533,586			
Deposit with Brokers for Derivative Contracts, net (related to investments):					
U.S. Government Direct Obligations		4,884,257	4,884,257	-	-
Held in Cash (Not at Fair Value)		54,009,000			
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	58,893,257			

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, 2018 and 2017 is summarized in the tables below as they are included within the asset mix of the System.

	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	2,217,423,975		Monthly to Annually	1 - 90 Days
Total Other Commingled Funds – U. S. Equity	2,217,423,975	32,500,000		
International Other Commingled Funds:				
Non-U.S. Developed Equity				
Redeemable Within One Year	1,877,809,253		Monthly to 2 Years	6 - 90 Days
Redeemable Beyond One Year	482,316,178		Monthly to 2 Years	1 - 90 Days
Total Non-U.S. Developed Equity	2,360,125,431	-		
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	3,877,753,379	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		

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

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 $1,161,094,432 and $856,427,243 of future funding to various hedge fund investments as of August 31, 2018 and 2017, 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, 2018 and 2017, future fundings in the amount of $173,606,726 and $267,113,198, respectively, have been committed to certain public market funds. The fair value of private investment funds, are estimated using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources.

The System invests in private investments through private investment pools which are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over seven to ten years. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The System had committed $5,077,668,448 and $4,969,823,573 of future funding to various private investments as of August 31, 2018 and 2017, 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, 2018 and 2017 were $28,697,872,000 and $26,553,679,764, respectively.

INVESTMENT RISKS

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System's investment policy does not provide specific requirements and limitations regarding investment ratings. Per GASB authoritative guidance, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. In 2011, some of the U.S. government direct obligations were downgraded and thus U.S. government direct obligations have been added to the credit risk disclosure. The following tables present each applicable investment type grouped by rating as of August 31, 2018 and 2017:

		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	

		August 31, 2017					
		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	$	819,855,102	Aaa	819,855,102	AA	819,855,102	AAA
U.S. Government Agency Obligations		157,200,624	Aaa	157,200,624	AA	157,200,624	AAA
		1,494,111	Baa	5,044,209	NR	5,044,209	NR
		2,319,945	B	-	-	-	-
		1,230,153	NR	-	-	-	-
Corporate Obligations		17,846,230	Aaa	12,908,747	AAA	11,598,400	AAA
		75,862,068	Aa	95,745,131	AA	68,547,602	AA
		363,200,121	A	299,720,315	A	331,269,230	A
		241,830,501	Baa	304,870,476	BBB	150,820,094	BBB
		11,930,384	Ba	2,455,757	BB	2,455,758	BB
		1,328,346	B	347,058	B	156,427,472	NR
		156,133	Caa	5,071,072	NR	-	-
		8,964,773	NR	-	-	-	-
Corporate Asset and Mortgage Backed Securities		45,507,265	Aaa	8,317,563	AAA	25,096,032	AAA
		2,454,605	Aa	5,947,642	AA	4,228,642	AA
		7,252,543	A	2,917,683	A	146,946	A
		1,571,484	Baa	4,054,849	BBB	552,563	BBB
		4,378,290	Ba	2,580,232	BB	341,003	BB
		170,532	B	1,911,311	B	450,989	B
		6,199,719	Caa	4,112,651	CCC	51,337,131	NR
		1,077,138	Ca	481,255	CC	-	-
		13,541,730	NR	3,875,111	D	-	-
		-	-	47,955,009	NR	-	-
International Obligations (Government and Corporate)		679,778,475	Aaa	283,293,195	AAA	469,521,107	AAA
		306,639,723	Aa	294,781,634	AA	431,073,045	AA
		829,610,041	A	535,318,589	A	541,984,243	A
		332,316,843	Baa	265,277,136	BBB	474,323,808	BBB
		216,106,551	Ba	151,121,030	BB	302,860,723	BB
		8,092,575	B	12,919,097	B	326,599	B
		345,963	Caa	345,963	CCC	627,201,166	NR
		474,400,520	NR	1,304,234,047	NR	-	-
Fixed Income Money Market and Mutual Funds		4,341,287,127	Aaa	4,227,056,061	AAA	114,231,066	AAA
		177,528,134	NR	291,759,200	NR	4,404,584,195	NR
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.		11,209,782	Aaa	11,209,782	AA	11,209,782	NR
Miscellaneous		1,559,599	Aaa	1,604,842	AAA	3,593,193	AAA
		2,478,708	Aa	3,144,228	AA	912,829	AA
		9,341,497	A	8,675,977	A	8,675,977	A
		156,872	Baa	776,293	BBB	776,293	BBB
		37,829,964	NR	33,354,591	BB	37,408,348	NR
		-	-	3,810,709	NR	-	-
Total Investments and Investments Classified as Cash Equivalents	$	9,214,054,171		9,214,054,171		9,214,054,171	
Deposit with Brokers for Derivative Contracts, net (related to investments):							
U.S. Government Direct Obligations	$	4,884,257	Aaa	4,884,257	AA	4,884,257	AAA
Cash		54,009,000	NR	54,009,000	NR	54,009,000	NR
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	58,893,257		58,893,257		58,893,257	

(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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017:

		August 31, 2018		August 31, 2017	
Investment Type		**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
Investments:					
U.S. Government Guaranteed:					
U.S. Treasury Bonds and Notes	$	1,355,784,008	6.61	787,128,969	6.69
U.S. Treasury Inflation Protected		36,634,341	12.10	32,726,133	5.65
U.S. Agency Asset Backed		15,102,082	4.37	16,328,228	3.46
Total U.S. Government Guaranteed		1,407,520,431	6.72	836,183,330	6.59
U.S. Government Non-Guaranteed:					
U.S. Agency		399,325	0.08	3,793,953	0.06
U.S. Agency Asset Backed		225,605,702	6.16	142,122,652	5.48
Total U.S. Government Non-Guaranteed		226,005,027	6.15	145,916,605	5.34
Total U.S. Government		1,633,525,458	6.64	982,099,935	6.40
Corporate Obligations:					
Domestic		1,019,437,309	4.26	803,271,862	6.06
Foreign		467,291,908	4.68	504,634,634	6.71
Total Corporate Obligations		1,486,729,217	4.39	1,307,906,496	6.31
Foreign Government and Provincial Obligations		2,259,634,051	4.24	2,342,656,057	4.36
Other Debt Securities		12,951,482	6.57	17,328,884	15.64
Total Debt Securities		5,392,840,208	5.01	4,649,991,372	5.38
Other Investment Funds - Debt		31,397,435	6.70	33,197,719	6.80
Fixed Income Money Market and Mutual Funds		3,904,576,322	0.21	2,466,331,494	0.26
Total Investments	$	9,328,813,965	3.01	7,149,520,585	3.62
Investments Classified as Cash Equivalents:					
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	$	3,955,653	0.01	11,209,782	0.00
Fixed Income Money Market Funds		1,897,558,802	0.08	2,052,483,767	0.08
Time Deposits		540,043	0.00	840,037	0.00
Total Investments Classified as Cash Equivalents	$	1,902,054,498	0.08	2,064,533,586	0.08
Deposit with Brokers for Derivative Contracts, net (related to investments):					
U.S. Government Guaranteed:					
U.S. Government Direct Obligations	$	6,423,735	2.07	4,884,257	5.02
Total U.S. Government Guaranteed		6,423,735	2.07	4,884,257	5.02
Cash		12,823,693	0.00	54,009,000	0.00
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	$	19,247,428	0.69	58,893,257	0.42

(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, 2018 and 2017, 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, 2018 and 2017, these securities amounted to $93,796,073 and $99,241,871, 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, 2018 and 2017, these securities amounted to $235,493,110 and $146,167,456, 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, 2018 and 2017 these securities amounted to $37,822,171 and $29,584,430, 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, 2018 and 2017.

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

Investment Type	2017 Fair Value
Domestic Common Stock:	
Australian Dollar	$ 202,118
Foreign Common Stock:	
Australian Dollar	36,962,580
Brazilian Real	382,185,583
British Pound	145,868,970
Canadian Dollar	63,038,101
Chilean Peso	1,536,646
Chinese Yuan Renminbi	406,831,919
Colombian Peso	310,569
Czech Koruna	9,420,918
Egyptian Pound	18,342,503
Euro	293,438,411
Hong Kong Dollar	187,812,142
Hungarian Forint	1,492,349
Indian Rupee	86,431,493
Indonesian Rupiah	34,554,731
Japanese Yen	349,678,338
Malaysian Ringgit	33,510,640
Mexican Peso	125,115,968
Moroccan Dirham	3,382,092
Philippine Peso	11,694,919
Polish Zloty	2,707,283
Qatari Riyal	5,855,269
Singapore Dollar	25,598,493
South African Rand	44,944,982
South Korean Won	401,588,173
Swedish Krona	15,377,292
Swiss Franc	17,707,358
Taiwan Dollar	138,549,102
Thai Baht	36,337,579
Turkish Lira	14,360,593
United Arab Emirates Dirham	44,611,193
Vietnamese Dong	10,305,455
Total Foreign Common Stock	2,949,551,644
Other Equity Securities:	
Malaysian Ringgit	42,197
Foreign Preferred Stock:	
Brazilian Real	45,835,111
Colombian Peso	71,379
Euro	4,727,413
South African Rand	123,318
South Korean Won	39,853,173
Total Foreign Preferred Stock	90,610,394
Foreign Government & Provincial Obligations:	
Australian Dollar	237,737,320
Brazilian Real	171,392,904
British Pound	81,446,524
Canadian Dollar	54,039,659
Colombian Peso	31,584,890
Czech Koruna	678,290
Euro	367,371,225
Hungarian Forint	14,159,316
Indonesian Rupiah	54,908,824

Investment Type	2017 Fair Value
Foreign Government & Provincial Obligations (cont.):	
Japanese Yen	$ 281,271,096
Malaysian Ringgit	124,805,937
Mexican Peso	269,101,865
New Zealand Dollar	112,425,236
Norwegian Krone	30,077,678
Peruvian Sol	28,916,604
Polish Zloty	178,174,351
Romanian Leu	5,609,389
Singapore Dollar	95,444,257
South African Rand	94,728,957
Thai Baht	16,980,759
Turkish Lira	12,059,591
Total Foreign Government & Provincial Obligations	2,262,914,672
Corporate Obligations:	
Australian Dollar	8,793,923
British Pound	46,742,835
Canadian Dollar	1,827,084
Danish Krone	113,588,618
Euro	43,154,861
Indian Rupee	993
Swedish Krona	40,376,612
Total Corporate Obligations	254,484,926
Investment Funds - Emerging Markets:	
Brazilian Real	36,067,563
Convertible Securities:	
Brazilian Real	1,561,422
Private Investments:	
Australian Dollar	52,337,068
British Pound	60,035,019
Canadian Dollar	270,134,619
Euro	400,921,928
Total Private Investments	783,428,634
Cash and Cash Equivalents:	
Australian Dollar	36,753
Brazilian Real	10,559,617
British Pound	505,659
Canadian Dollar	294,125
Chilean Peso	8,316
Chinese Yuan Renminbi	20,568,166
Colombian Peso	2,561,232
Czech Koruna	252
Danish Krone	978
Egyptian Pound	1
Euro	1,858,595
Hong Kong Dollar	(659,464)
Hungarian Forint	269
Indian Rupee	1,135,099
Indonesian Rupiah	123,030
Israeli Shekel	386
Japanese Yen	5,770,341
Malaysian Ringgit	81,735
Mexican Peso	1,597,253
New Zealand Dollar	138,788

Investment Type (cont.)		2017 Fair Value
Cash and Cash Equivalents (cont.):		
Norwegian Krone	$	160,706
Philippine Peso		33,626
Polish Zloty		18,810
Singapore Dollar		984
South African Rand		2,322,024
South Korean Won		10,197,212
Swedish Krona		148,338
Swiss Franc		1,631
Taiwan Dollar		76,879
Thai Baht		64,714
Turkish Lira		528
United Arab Emirates Dirham		(264)
Total Cash and Cash Equivalents		57,606,319
Purchased Options:		
Australian Dollar		31,209
Brazilian Real		1,281,603
Euro		7,134,361
Total Purchased Options		8,447,173
Written Options:		
Brazilian Real		(1,771,249)
Canadian Dollar		(27,792)
Euro		(974,096)
Total Written Options		(2,773,137)
Swaps:		
Australian Dollar		(18,724)
British Pound		84,059,495
Canadian Dollar		(139,525)
Euro		373,212
Japanese Yen		(830,459)
Mexican Peso		(115,586)
New Zealand Dollar		168,340
South African Rand		69,389
South Korean Won		(129,015)
Swedish Krona		(214,552)
Total Swaps		83,222,575
Futures:		
Australian Dollar		(5,010)
Canadian Dollar		(33,300)
Euro		502
Japanese Yen		(5,906)
Total Futures		(43,714)

Investment Type		2017 Fair Value
Foreign Exchange Contracts:		
Australian Dollar	$	(2,037,223)
Brazilian Real		(1,548,849)
British Pound		(1,640,025)
Canadian Dollar		390,984
Chinese Yuan(Offshore)		(19,783,578)
Chinese Yuan Renminbi		(107,183)
Colombian Peso		86
Czech Koruna		(47,589)
Danish Krone		(3,473,953)
Euro		6,646,316
Hong Kong Dollar		156,618
Hungarian Forint		(95,864)
Indian Rupee		1,006,477
Indonesian Rupiah		24,088
Israeli Shekel		(20,857)
Japanese Yen		(12,113,268)
Malaysian Ringgit		(37,008)
Mexican Peso		(236,450)
New Zealand Dollar		3,714,730
Norwegian Krone		6,540,447
Peruvian Sol		8,202
Philippine Peso		(14)
Polish Zloty		(2,578,340)
Russian Ruble		174,644
Singapore Dollar		(1,162,566)
South African Rand		(1,534,869)
South Korean Won		82,284
Swedish Krona		4,743,210
Swiss Franc		31,594
Taiwan Dollar		(557,734)
Thai Baht		18,001
Turkish Lira		1,372,965
Total Foreign Exchange Contracts		(22,064,724)
Total	$	6,503,258,062

(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, 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	

The System had gross counterparty exposure as of August 31, 2017 for options, swaps, and foreign currency exchange contracts as shown in the following table:

		Notional		Fair Value		
		Assets	**Liabilities**	**Assets**	**Liabilities**	**Counterparty Rating**
Options	$	229,957,252	180,500,842	197,927	158,416	A
Swaps		158,451,311	207,567,527	97,010,269	91,581,169	A
Swaps		7,700,273	1,500,000	1,011,410	50,869	AA
Foreign Currency Exchange Contracts		1,165,822,539	1,664,829,456	17,009,288	40,076,394	A
Foreign Currency Exchange Contracts		818,905,756	1,002,775,996	19,846,349	18,843,967	AA
	$	2,380,837,131	3,057,173,821	135,075,243	150,710,815	

As of August 31, 2018 and 2017, 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, 2018 and 2017, the System held $26,589,000 and $17,550,000, respectively, as collateral related to derivative instruments other than futures, and had on deposit with brokers $37,949,129 and $72,138,930, 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, 2018 and 2017, there were a total of $662,260,721 and $632,812,604, 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 $434,189,416 at August 31, 2018 and $490,906,139 at August 31, 2017. 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, 2018 and August 31, 2017 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, 2018 and 2017, are shown in the following table:

	August 31, 2018			August 31, 2017		
Description	**Fair Value**	**Rating**	**Weighted Average**	**Fair Value**	**Rating**	**Weighted Average**
Repurchase Agreements	$ 151,035,097	No Rating	4	$ 166,711,311	No Rating	2
U.S. Government Agency Obligations	7,500,000	AA	7	-	-	-
Commercial Paper	137,461,988	P	24	121,111,724	P	39
Corporate Obligations	3,006,929	AA		29,233,580	AA	
Corporate Obligations	27,430,766	A		25,553,515	A	
Total Corporate Obligations	30,437,695		42	54,787,095		33
International Obligations	72,561,174	AA		82,766,177	AA	
International Obligations	48,311,685	A		69,773,274	A	
Total International Obligations	120,872,859		23	152,539,451		18
Other Receivables/Payables	(13,118,223)	Not Rated		(4,243,442)	Not Rated	
Total Collateral Pool Investment	$ 434,189,416		19	$ 490,906,139		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, 2018 and August 31, 2017.

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

For non-U. S. issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. The System was collateralized 107 percent for international loans on August 31, 2018 and 105 percent for international loans on August 31, 2017.

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, 2018 and 2017, 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, 2018 and 2017.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During the years ended August 31, 2018 and 2017, the asset classes that used futures include domestic and foreign debt and commodities. The changes in fair value of open futures contracts were increases of $24,533,427 and $5,308,206 for the years ending August 31, 2018 and 2017, respectively, which are included in investment income on the consolidated statements of revenues, expenses and changes in net position. The System had $7,887,298 and $4,304,328 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

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

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

	Notional Value at August 31, 2017		Fair Value at August 31, 2017	
	Long	Short	Assets	Liabilities
Commodity Futures	$ 77,187,956	14,375,664	2,767,115	779,263
Domestic Fixed Income	448,622,850	260,499,287	560,516	55,150
International Fixed Income Futures	462,500,549	7,102,879	21,629	65,344
Totals	$ 988,311,355	281,977,830	3,349,260	899,757

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

The following tables summarize, by currency, the contractual amounts of the System's foreign exchange contracts at August 31, 2018 and 2017. Foreign currency amounts are translated at exchange rates as of August 31, 2018 and 2017. 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, 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.

Currency		Net Buy August 31, 2017	Net Sell August 31, 2017	Unrealized Gains on Foreign Exchange Contracts August 31, 2017	Unrealized Losses on Foreign Exchange Contracts August 31, 2017
Australian Dollar	$	-	109,833,371	1,059,145	3,096,368
Brazilian Real		-	56,902,568	134,906	1,683,755
British Pound		123,465,597	-	1,142,095	2,782,120
Canadian Dollar		57,281,818	-	737,013	346,029
Chinese Yuan (Offshore)		-	427,627,879	-	19,783,578
Chinese Yuan Renminbi		117,213	-	189,556	296,739
Colombian Peso		31,610	-	86	-
Czech Koruna		446,109	397,388	31,899	79,488
Danish Krone		-	73,304,446	763,117	4,237,070
Euro		260,577,496	-	9,158,251	2,511,935
Hong Kong Dollar		-	14,986,243	156,841	223
Hungarian Forint		-	14,213,694	-	95,864
Indian Rupee		62,488,136	-	1,057,169	50,692
Indonesian Rupiah		4,265,073	-	24,088	-
Israeli Shekel		965,826	-	-	20,857
Japanese Yen		140,334,764	78,749,289	2,509,778	14,623,046
Malaysian Ringgit		5,320,844	-	11,189	48,197
Mexican Peso		-	2,086,615	85,502	321,952
New Zealand Dollar		-	96,306,681	4,648,077	933,347
Norwegian Krone		112,971,805	-	6,687,028	146,581
Peruvian Sol		2,018,817	-	8,202	-
Philippines Peso		14,417	-	-	14
Polish Zloty		-	80,149,234	352,943	2,931,283
Russian Ruble		5,449,978	-	204,222	29,578
Singapore Dollar		-	129,850,041	275,762	1,438,328
South African Rand		-	65,293,588	180,050	1,714,919
South Korean Won		-	18,721,844	250,811	168,527
Swedish Krona		69,110,540	-	5,742,797	999,587
Swiss Franc		6,181,033	-	31,606	11
Thailand Baht		-	14,658,291	40,540	22,539
Taiwan Dollar		-	113,088,855	-	557,734
Turkish Lira		42,674,916	-	1,372,964	-
TOTAL	$	893,715,992	1,296,170,027	36,855,637	58,920,361

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2017 was a decrease in the amount of $22,064,724, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

(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, 2018 and 2017:

	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.

	Fair Value at August 31, 2017	
Type	**Assets**	**Liabilities**
Currency	$ -	733,428
Equity	-	1,965,613
Other	-	20,600
	$ -	2,719,641

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

The following discloses the fair values of the outstanding written put options contracts as of August 31, 2018 and 2017:

	Fair Value at August 31, 2018	
Type	**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.

	Fair Value at August 31, 2017	
Type	**Assets**	**Liabilities**
Commodity	$ -	9,200
Currency	-	111,061
Equity	-	44,059
Other	-	3
	$ -	164,323

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

(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, 2018:

Type		USD Notional Value	Fair Value at August 31, 2018 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.

The following discloses the notional amount (presented in US dollar equivalents) and the fair values of the outstanding swap contracts as of August 31, 2017:

Type		USD Notional Value	Fair Value at August 31, 2017 Assets	Liabilities
Interest Rate (Pay-Fixed Receive-Variable)	$	788,944,245	1,988,085	1,013,498
Interest Rate (Pay-Variable Receive-Fixed)		923,931,976	2,102,391	6,889,835
Credit Default		163,583,510	2,602,954	826,827
Commodity		5,047,106	92,156	247,716
Currency		175,411,745	89,531,969	85,857,520
Equity		91,186,820	304,957	4,173,430
Total	$	2,148,105,402	96,622,512	99,008,826

The change in fair value of open swap positions for the year ending August 31, 2017, was an increase in the amount of $1,758,827, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

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) 8/31/17 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

	Change in Fair Value (FV) 8/31/16 to 8/31/17		Fair Value at 8/31/17		
	Classification	Amount	Classification	Amount	Notional Amount
Cash Flow-Interest Rate Swaps					
Hedging Derivative Assets					
Pay-Fixed Receive-Variable	Def Inflows	$ 10,339,315	Hedging Derivative Asset	$ 10,339,315	250,000,000
Hedging Derivative Liabilities					
Pay-Fixed Receive-Variable	Def Outflows	92,637,141	Hedging Derivative Liab	(246,087,922)	1,181,500,000
Investment Derivative Assets					
Basis Swaps	Net Incr. (Decr.) in FV of Invest	5,559,749	Investments	22,677,075	737,512,500
Investment Derivative Liabilities					
Basis Swaps	Net Incr. (Decr.) in FV of Invest	15,877,414	Invest Deriv – Liab Positions	(7,781,148)	795,715,000
Investment Derivative Liabilities					
Rate Lock	Net Incr. (Decr.) in FV of Invest	(2,877,014)	Invest Deriv – Liab Positions	(2,877,014)	318,500,000
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		1,908,166		1,988,085	577,492,975
Pay-Variable Receive-Fixed		3,773,111		2,102,391	302,346,079
Credit Default		579,175		2,602,954	123,902,240
Commodity		92,156		92,156	2,013,608
Currency		89,531,969		89,531,969	89,554,225
Equity		304,957		304,957	18,604,079
Total Swaps	Net Incr. (Decr.) in FV of Invest	96,189,534	Investments	96,622,512	1,113,913,206
Futures	Net Incr. (Decr.) in FV of Invest	3,349,260	Other Accounts Receivable	3,349,260	988,311,355
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	36,855,637	Investments	36,855,637	1,984,728,295
Purchased Options	Net Incr. (Decr.) in FV of Invest	2,805,611	Investments	10,324,300	740,168,624
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		(940,067)		(1,013,498)	211,451,270
Pay-Variable Receive-Fixed		(2,497,856)		(6,889,835)	621,585,897
Credit Default		(714,118)		(826,827)	39,681,270
Commodity		(247,716)		(247,716)	3,033,498
Currency		(85,857,520)		(85,857,520)	85,857,520
Equity		(4,173,430)		(4,173,430)	72,582,741
Total Swaps	Net Incr. (Decr.) in FV of Invest	(94,430,707)	Invest Deriv – Liab Positions	(99,008,826)	1,034,192,196
Futures	Net Incr. (Decr.) in FV of Invest	(899,757)	Current Accounts Payable	(899,757)	281,977,830
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(58,920,361)	Invest Deriv – Liab Positions	(58,920,361)	2,667,605,452
Options Written	Net Incr. (Decr.) in FV of Invest	(320,742)	Invest Deriv – Liab Positions	(2,883,964)	278,966,288

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 $41,448,730,565 and $35,514,323,102 of endowment funds as of August 31, 2018 and 2017, respectively. The net position classifications on the statement of net position related to endowment funds as of August 31, 2018 and 2017 are as follows:

Net Position Classification of Endowments		2018	* Restated 2017
Restricted, nonexpendable	$	27,395,040,035	23,174,866,184
Restricted, expendable:			
Net Appreciation on True Endowments		11,531,875,306	10,431,670,447
Funds Functioning as Endowments		599,347,161	559,902,085
Book Value of Term Endowments		44,839,841	39,060,021
Net Appreciation on Term Endowments		44,049,458	37,196,496
Unrestricted:			
Funds Functioning as Endowments		495,979,503	372,050,627
Total	$	40,111,131,304	34,614,745,860

* The 2017 column was restated by $9,465,430 to remove the net position of the annuity and life income funds with the adoption of GASB Statement No. 81.

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, 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

A summary of changes in the capital assets for the year ended August 31, 2017, is presented below.

		Balance 09/01/16	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:				
Land and Land Improvements	$	846,622,088	-	3,962,333
Construction in Progress (CIP)		1,354,954,587	(1,063,662)	(1,370,233,890)
Nondepreciable Collections		526,573,348	-	2,084,101
Nonamortizable Intangible Assets		17,123,614	-	-
Total Nondepreciable/Nonamortizable Assets		2,745,273,637	(1,063,662)	(1,364,187,456)
Depreciable Assets:				
Buildings and Building Improvements		18,060,089,223	-	1,093,440,154
Infrastructure		506,939,119	(10,630)	65,056,351
Facilities and Other Improvements		971,658,333	-	103,766,480
Furniture and Equipment		3,757,694,670	(8,295)	45,653,597
Vehicles, Boats and Aircraft		84,334,246	-	-
Other Depreciable Assets (including Library Books)		713,458,664	-	1,189,207
Total Depreciable Assets at Historical Cost		24,094,174,255	(18,925)	1,309,105,789
Less Accumulated Depreciation for:				
Buildings and Building Improvements		(7,928,593,905)	-	-
Infrastructure		(189,767,610)	-	-
Facilities and Other Improvements		(448,143,199)	-	-
Furniture and Equipment		(2,535,683,456)	-	-
Vehicles, Boats and Aircraft		(64,691,488)	-	-
Other Depreciable Assets (including Library Books)		(507,298,887)	-	-
Total Accumulated Depreciation		(11,674,178,545)	-	-
Depreciable Assets, net		12,419,995,710	(18,925)	1,309,105,789
Amortizable Intangible Assets:				
Land Use Rights		-	-	-
Computer Software		1,151,722,316	-	55,081,667
Total Amortizable Intangible Assets		1,151,722,316	-	55,081,667
Less Accumulated Amortization for:				
Land Use Rights		-	-	-
Computer Software		(707,263,764)	-	-
Total Accumulated Amortization		(707,263,764)	-	-
Intangible Capital Assets, net		444,458,552	-	55,081,667
Capital Assets, net	$	15,609,727,899	(1,082,587)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/17
-	-	47,240,936	(235,187)	897,590,170
-	-	1,508,611,556	(38,314,893)	1,453,953,698
-	-	79,147,836	(46,779)	607,758,506
-	-	90,125	-	17,213,739
-	-	1,635,090,453	(38,596,859)	2,976,516,113
-	-	41,783,347	(10,162,724)	19,185,150,000
-	-	-	-	571,984,840
-	-	6,085,929	-	1,081,510,742
171,740	(156,645)	317,741,439	(187,403,746)	3,933,692,760
46,899	-	10,622,504	(3,695,865)	91,307,784
-	-	30,395,249	(5,478,254)	739,564,866
218,639	(156,645)	406,628,468	(206,740,589)	25,603,210,992
-	-	(807,050,103)	8,579,386	(8,727,064,622)
-	-	(19,021,179)	-	(208,788,789)
-	-	(46,116,048)	-	(494,259,247)
(171,340)	151,891	(330,190,343)	161,818,222	(2,704,075,026)
(46,899)	-	(6,742,861)	3,582,922	(67,898,326)
-	-	(33,084,530)	5,478,254	(534,905,163)
(218,239)	151,891	(1,242,205,064)	179,458,784	(12,736,991,173)
400	(4,754)	(835,576,596)	(27,281,805)	12,866,219,819
-	-	9,275,000	(9,275,000)	-
-	-	25,306,503	(41,276,285)	1,190,834,201
-	-	34,581,503	(50,551,285)	1,190,834,201
-	-	(9,275,000)	9,275,000	-
-	-	(144,525,529)	34,673,452	(817,115,841)
-	-	(153,800,529)	43,948,452	(817,115,841)
-	-	(119,219,026)	(6,602,833)	373,718,360
400	(4,754)	680,294,831	(72,481,497)	16,216,454,292

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. On August 25, 2017, U. T. Austin's Marine Science Institute in Port Aransas suffered extensive physical damage as a result of Hurricane *Harvey,* which resulted in a potential permanent impairment of capital assets for U. T. Austin for 2017. However, the impairment was not recorded in 2017 due to the fact that the damage occurred three days prior to year-end and the effect of the impairment on the net book value of the asset was not significant. For the year ended August 31, 2018, the following impairment losses were recorded for U. T. Austin's Marine Science Institute in Port Aransas.

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

In 2017 M. D. Anderson impaired a portion of the Oncology Expert Advisor (OEA), which is a system that collects data and uses IBM Watson artificial intelligence to offer care advice. Additionally, U. T. System Administration impaired a portion of Project Diabetes Obesity Control (DOC), which is a platform that combines data from clinics, devices, and retail kiosks and passes that information to patients and providers. Executive management at U. T. System Administration hired fair value specialists to determine a value for Project DOC and legal specialists to determine the intellectual property rights for OEA which both resided in construction in progress. The impairment losses are provided in the following table for the year ended August 31, 2017.

M. D. ANDERSON		2017
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets	$	(26,517,304)
Net Losses – Capital Assets		(26,517,304)
U. T. SYSTEM ADMINISTRATION		
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets		(11,797,589)
Net Losses – Capital Assets	$	(11,797,589)

10. Short-Term Debt

The System had RFS Commercial Paper Notes and PUF Commercial Paper Notes outstanding at August 31, 2018 and 2017. 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, 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

Short-term debt activity for the year ended August 31, 2017, is summarized below:

		Balance 09/01/16	Additions	Reductions [1]	Balance 8/31/17
Commercial Paper Notes:					
Permanent University Fund CP Notes	$	306,000,000	175,000,000	301,000,000	180,000,000
Revenue Financing System CP Notes		546,096,000	563,895,000	725,842,000	384,149,000
Total Commercial Paper Notes	$	852,096,000	738,895,000	1,026,842,000	564,149,000

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

General information related to the commercial paper notes at August 31, 2018, 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, 2017 through August 31, 2018
  Authorized Amount: Aggregate principal amount not to exceed $750 million
  Source of revenue for debt service: Available University Fund
  Terms: Interest payable in periodic installments not to exceed 270 days at interest rates established by the System's commercial paper dealers

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B
  Purpose: To provide interim financing for capital improvements and to finance capital equipment purchases
  Issue Date: September 1, 2017 through August 31, 2018
  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 $132,890,340 in 2018 and $130,039,128 in 2017. 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, 2018, were as follows:

Fiscal Year		Lease Payments
2019	$	94,492,707
2020		73,398,316
2021		57,675,811
2022		43,768,393
2023		32,094,994
2024 – 2028		69,233,185
2029 – 2033		5,712,082
2034 – 2038		50
2039 – 2043		50
2044 – 2048		50
2049 and beyond		13
Total Minimum Future Payments	$	376,375,651

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, 2018 and 2017 were as follows:

Assets Leased		2018	2017
Buildings:			
Cost	$	235,957,922	165,754,533
Less: Accumulated Depreciation		(62,954,802)	(68,637,778)
Carrying Value of Buildings		173,003,120	97,116,755
Land		17,125,184	14,423,455
Total Carrying Value	$	190,128,304	111,540,210

The System reported contingent rental income in the amount of $684,066 in 2018 and $386,706 in 2017. Rental income from operating leases was $28,902,052 in 2018 and $22,389,205 in 2017. Future minimum lease rental income under noncancelable operating leases as of August 31, 2018, was as follows:

Fiscal Year		Lease Income
2019	$	29,329,751
2020		24,153,911
2021		20,865,581
2022		19,112,866
2023		16,083,162
2024 and beyond		844,956,546
Total	$	954,501,817

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, 2018 and 2017 is as follows:

Assets Under Capital Lease		2018	2017
Furniture and Equipment	$	18,302,503	18,039,870
Less: Accumulated Depreciation		(10,449,948)	(7,531,027)
Nondepreciable Collections		1,784,832	2,015,382
Total	$	9,637,387	12,524,225

Capital lease obligations are due in annual installments through 2023. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2018.

Fiscal Year		Principal	Interest	Total
2019	$	3,701,185	242,987	3,944,172
2020		2,554,041	112,317	2,666,358
2021		939,486	24,874	964,360
2022		184,218	3,139	187,357
2023		8,779	132	8,911
Total Minimum Lease Payments	$	7,387,709	383,449	7,771,158

12. Summary of Long-Term Liabilities

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
Lease Obligations		10,853,966	1,382,575	4,848,832	7,387,709	3,701,185
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
Total	$	24,888,229,510	3,804,851,737	4,830,752,239	23,862,329,008	2,598,185,387

Long-term liability activity for the year ended August 31, 2017, as restated for GASB Statement No. 75, is summarized as follows:

	Balance 09/01/16	Additions	Reductions	Balance 08/31/17	Amounts due within one year
Bonds Payable:					
Permanent University Fund	$ 1,990,155,000	272,350,000	48,470,000	2,214,035,000	407,140,000
Revenue Financing System	5,600,690,000	1,351,030,000	767,180,000	6,184,540,000	1,352,600,000
Subtotal Bonds Payable – Par	7,590,845,000	1,623,380,000	815,650,000	8,398,575,000	1,759,740,000
Unamortized Net Premiums	456,069,075	263,592,768	115,511,696	604,150,147	86,056,760
Total Bonds Payable	8,046,914,075	1,886,972,768	931,161,696	9,002,725,147	1,845,796,760
Notes, Loans and Leases Payable:					
Notes and Loans Payable	1,055,022,628	929,119,000 [1]	1,035,484,378	948,657,250	538,250
Lease Obligations	14,392,390	1,714,879	5,253,303	10,853,966	4,812,204
Total Notes, Loans and Leases Payable	1,069,415,018	930,833,879	1,040,737,681	959,511,216	5,350,454
Net Other Postemployment Benefits Obligation [2]	4,647,430,554	-	4,647,430,554	-	-
Total OPEB Liability [2]	-	11,224,126,142	447,097,360	10,777,028,782	196,993,644
Net Pension Liability	2,744,693,745	653,215,749	264,020,999	3,133,888,495	-
Hedging Derivative Liability	338,725,063	-	92,637,141	246,087,922	-
Employee Compensable Leave	595,167,707	294,221,724	281,538,055	607,851,376	401,350,083
Incurred But Not Reported Self-Insurance Claims	132,491,003	1,240,885,524	1,212,239,955	161,136,572	125,517,329
Total [2]	$ 17,574,837,165	16,230,255,786	8,916,863,441	24,888,229,510	2,575,008,270

[1] Additions of Notes and Loans Payable include $929,119,000 of commercial paper notes reclassified from short-term debt to long-term notes and loans payable on the statement of net position as a result of refunding commercial paper notes subsequent to August 31, 2017 through the issuance of long-term bonds. See note 10 related to short-term debt.
[2] Includes retroactive restatements related to GASB Statement No. 75. 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
2019	$ 1,739,555,000	344,490,445	2,084,045,445
2020	326,980,000	328,808,823	655,788,823
2021	338,345,000	313,668,597	652,013,597
2022	337,675,000	297,914,639	635,589,639
2023	336,475,000	281,238,235	617,713,235
2024 – 2028	1,462,885,000	1,167,516,853	2,630,401,853
2029 – 2033	901,450,000	893,794,242	1,795,244,242
2034 – 2038	971,514,000	669,802,112	1,641,316,112
2039 – 2043	907,991,000	422,860,882	1,330,851,882
2044 – 2048	1,629,290,000	185,610,578	1,814,900,578
Total Requirements	$ 8,952,160,000	4,905,705,406	13,857,865,406

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 $1,404,360,000 and $1,431,500,000 at August 31, 2018 and 2017, respectively.

Total interest expense for the years ended August 31, 2018 and 2017 was $412,055,261 and $389,096,564, respectively. Interest expense of $54,909,690 and $50,960,090 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2018 and 2017, respectively. Interest expense was also reduced by $75,457,577 and $75,582,545 for the amortization of premiums, deferred gains and losses on refundings, and interest rate lock termination payments for the years ended August 31, 2018 and 2017, respectively. The remaining amounts of $281,687,994 in 2018 and $262,553,929 in 2017 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2019. General information related to notes and loans payable at August 31, 2018, which in substance are not bonds, is summarized as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 19,000,000	-	19,000,000
Total Requirements	$ 19,000,000	-	19,000,000

General information related to notes and loans payable at August 31, 2018, 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 new Moncrief Cancer Center building
  Component Unit: U. T. Southwestern Medical Center's Blended Component Unit
  Issue Date: August 8, 2011, Renewed on August 31, 2017
  Authorized Amount: $19,000,000
  Source of revenue for debt service: Assets of Luther King and Wilkinson O'Grady
  Terms: LIBOR rate plus 0.65%. Interest is paid monthly. Renewal on August 31, 2019.

General information related to notes and loans payable retired in 2018 is summarized as follows:

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

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

- Note or loan payable issue name: Premier Purchasing Partners, L.P.
  Purpose: Negotiate and execute reduced cost purchase contracts
  Institution: U. T. Medical Branch - Galveston
  Issue Date: September 1, 2012
  Authorized Amount: $430,531
  Source of revenue for debt service: Reduction from cash distribution
  Terms: September 1, 2012 through August 31, 2018

POLLUTION REMEDIATION OBLIGATION

The University of Texas System Administration purchased contaminated land in 2016 and 2017 with plans to remediate. The original estimated outlays for the pollution remediation were $800,000 using the expected cash flow technique. These pollution remediation outlays qualify for capitalization and $474,651 and $186,876 were capitalized through August 31, 2018 and 2017 respectively. The purchase price of $210,921,323 and total expected outlays did not exceed the fair market value of the uncontaminated property of $229,255,000, and as such, no pollution remediation liability was established.

EMPLOYEES' COMPENSABLE LEAVE

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

13. Bonded Indebtedness

At August 31, 2018 and 2017, the System had outstanding bonds payable of $8,952,160,000 and $8,398,575,000, 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	1.470%-5.262%	2019-2047	$ 2,467,895,000
Revenue Financing System	1.460%-6.276%	2019-2047	6,484,265,000

As of August 31, 2018, the following amounts were authorized, but unissued: Permanent University Fund bonds up to a maximum aggregate amount of $600 million and Revenue Financing System bonds up to a maximum aggregate amount of $975 million, each authorized to be issued on or before August 31, 2019. 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, 2018, 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
Taxable Bonds Series 2009B	To refund $96,639,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $230,860,000 and pay the cost of issuance	June 17, 2009	330,545,000
Bonds Series 2009D	To refund $258,995,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund $16,115,000 principal amount of Revenue Financing System Bonds, 1998B and pay the cost of issuance	July 15, 2009	260,005,000
Bonds Series 2010A	To refund $258,392,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $134,369,000 and pay the cost of issuance	March 25, 2010	331,415,000
Refunding Bonds Series 2010B	To refund $393,690,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F and pay the cost of issuance	April 14, 2010	385,380,000
Taxable Bonds Series 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

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:

		2018	2017
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$	13,857,865,406	12,765,036,591
Term of Commitment Year Ending 8/31		2047	2047
Percentage of Revenue Pledged		82.5%	82.9%
Current Year Pledged Revenue	$	11,435,782,782	10,576,025,993
Current Year Principal and Interest Paid	$	755,260,445	726,852,185

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 2018 or 2017. The System had $1,608,280,000 and $1,630,050,000 of BABs outstanding at August 31, 2018 and 2017, respectively.

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.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2017

Revenue Financing System Bonds, Series 2016F were issued on September 1, 2016 to current refund $465,019,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

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

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

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

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

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

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

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

Revenue Financing System Refunding Bonds, Series 2016I were issued on November 30, 2016 to current refund \$31,570,000 principal amount of Revenue Financing System Bonds, Series 2006E, to advance refund \$170,440,000 principal amount of Revenue Financing System Bonds, Series 2010A, and to pay the costs of issuance related thereof.

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

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, 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 table outlines the terms of the System's hedging derivative interest rate swap agreements in effect at August 31, 2017:

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 8/31/17
Pay Fixed; receive variable	PUF Bonds 2008A	$182,182,500	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	Aa2/AA-	15.9 yrs
	PUF Bonds 2008A	182,182,500	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	A1/A+	15.9 yrs
	RFS Bonds 2007B	163,842,500	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa2/AA-	11.0 yrs
	RFS Bonds 2007B	163,842,500	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa3/A+	11.0 yrs
	RFS Bonds 2008B	119,905,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa3/A+	12.2 yrs
	RFS Bonds 2008B	119,905,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	A3/BBB+	12.2 yrs
	RFS Bonds 2008B	249,640,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa3/A+	11.2 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+	27.9 yrs
TOTAL		**$1,431,500,000**							

*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, 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**	

The following is the fair value of the derivative agreements related to debt in effect at August 31, 2017 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Derivatives by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/17)	Fair Value as of 8/31/17	Fair Value as of 8/31/16	Change in Fair Value 8/31/16 - 8/31/17	Change in Fair Value Recorded as
Hedging Derivative Assets	RFS Bonds 2016G *	$250,000,000	155,301	10,339,315	-	10,339,315	Def Inflow
		250,000,000	155,301	10,339,315	-	10,339,315	
Hedging Derivative Liabilities	PUF Bonds 2008A	182,182,500	963,698	(42,503,422)	(58,589,449)	16,086,027	Def Outflow
	PUF Bonds 2008A	182,182,500	952,397	(41,638,181)	(57,674,868)	16,036,687	Def Outflow
	RFS Bonds 2007B	163,842,500	410,574	(33,127,972)	(45,039,149)	11,911,177	Def Outflow
	RFS Bonds 2007B	163,842,500	410,574	(33,127,972)	(45,039,149)	11,911,177	Def Outflow
	RFS Bonds 2008B	119,905,000	309,963	(25,951,512)	(35,231,561)	9,280,049	Def Outflow
	RFS Bonds 2008B	119,905,000	309,962	(25,951,512)	(35,231,561)	9,280,049	Def Outflow
	RFS Bonds 2008B	249,640,000	585,840	(43,787,351)	(61,919,326)	18,131,975	Def Outflow
		1,181,500,000	3,943,008	(246,087,922)	(338,725,063)	92,637,141	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(43,238)	6,217,067	4,530,208	1,686,859	Incr. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(37,412)	2,767,871	2,644,609	123,262	Incr. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(56,787)	6,320,603	5,510,729	809,874	Incr. in Fair Value of Inv
	PUF Bonds 2008A	182,182,500	(120,464)	4,638,619	4,431,780	206,839	Incr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	-	2,732,915	-	2,732,915	Incr. in Fair Value of Inv
		737,512,500	(257,901)	22,677,075	17,117,326	5,559,749	
Investment Derivatives-Liability Positions	PUF Bonds 2006B	284,065,000	(54,759)	(1,137,070)	(1,265,221)	128,151	Incr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(50,632)	(4,834,011)	-	(4,834,011)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(58,627)	(1,810,067)	-	(1,810,067)	Decr. in Fair Value of Inv
	RFS Bonds 2016G *	-	-	-	(22,393,341)	22,393,341	Incr. in Fair Value of Inv
	RFS Bonds 2017A	318,500,000	-	(2,877,014)	-	(2,877,014)	Decr. in Fair Value of Inv
		1,114,215,000	(164,018)	(10,658,162)	(23,658,562)	13,000,400	
TOTAL		**$3,283,227,500**	**3,676,390**	**(223,729,694)**	**(345,266,299)**	**121,536,605**	

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

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**			

Derivative Instrument Objectives

Derivatives by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/17?	Evaluation for Effectiveness
Hedging Derivatives	PUF Bonds 2008A	$182,182,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	182,182,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	163,842,500	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	163,842,500	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	119,905,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	119,905,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	249,640,000	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	182,182,500	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
	RFS Bonds 2017A	318,500,000	Manage changes in cash flows on Series 2017A bonds	N/A	N/A
TOTAL		**$3,283,227,500**			

The fair value of interest rate swaps reported as investment derivatives-asset positions of $76,315,421 and $22,677,075 as of August 31, 2018 and 2017, respectively, is included on the consolidated statement of net position as noncurrent unrestricted investments and in the summary of investments in Note 6. As of August 31, 2018, there were no interest rate swaps and locks reported as investment derivatives-liability position. The fair value of interest rate swaps and locks reported as investment derivatives-liability positions of $10,658,162 as of August 31, 2017, is included on the consolidated statement of net position as investment derivatives-liability positions. The change in fair value of interest rate swaps and locks reported as investment derivatives are included in investment income on the consolidated statement of revenues, expenses and changes in net position. For the year ending August 31, 2018, the change in fair value of interest rate swaps and locks reported as investment derivatives was an increase in the amount of $64,296,508. For the year ending August 31, 2017, the change in fair value of interest rate swaps and locks reported as investment derivatives was an increase in the amount of $18,560,149.

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, 2018, 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, 2018, the maximum loss due to credit risk was $30,190,992. 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.

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, 2018, the System had market access risk associated with $1,404,360,000 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, 2018, 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 2019 because the bonds are supported by internal liquidity.

As of August 31, 2018

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds 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.

As of August 31, 2017

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2018	$	27,140,000	11,594,864	36,812,884	75,547,748
2019		28,155,000	11,391,381	36,015,746	75,562,127
2020		27,065,000	11,180,289	35,188,532	73,433,821
2021		28,055,000	10,977,373	34,395,635	73,428,008
2022		46,425,000	10,767,036	33,573,473	90,765,509
2023-2027		265,260,000	48,306,253	145,956,324	459,522,577
2028-2032		307,955,000	37,649,710	103,615,904	449,220,614
2033-2037		339,775,000	26,449,712	58,929,712	425,154,424
2038-2042		111,670,000	14,656,825	12,995,934	139,322,759
2043-2047		250,000,000	8,250,000	5,720,850	263,970,850

[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, 2017 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, 2017 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 and $11,306,394 of Medicare Part D RDS payments from the federal government in 2018 and 2017, respectively. The System significantly reduced reliance on the RDS program beginning January 1, 2017. Only a small number of eligible participants remained covered under RDS after December 31, 2016.

The System implemented an Employer Group Waiver Plan (EGWP) effective January 1, 2017, in order to access larger Medicare Part D subsidies. For most eligible participants, the EGWP replaces the RDS program previously used to access such subsidies. The System recognized $20,172,113 and $8,193,242 of Medicare EGWP payments from the federal government in 2018 and 2017, 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. 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. 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; institutions have a $250,000 per claim deductible.

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 $550,000 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 2018 and 2017 were as follows:

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

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

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, 2018 and 2017, 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.

	2018		2017	
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 is 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, 2018 and 2017. The System's proportion as of August 31, 2018 and 2017 measurements dates was 77.17 percent. At August 31, 2018 and 2017, the amount of the total OPEB liability related to the System reported by the State was $3,171,184,120 and $3,188,913,639, 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 measurement dates, the following employees were covered by the benefit terms:

	Measurement 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 $10,777,028,782, current portion of $196,993,644 and a noncurrent portion of $10,580,035,138, reported for the fiscal year ended August 31, 2017 was measured as of December 31, 2016 and was determined by an actuarial valuation as of December 31, 2015 and rolled forward twelve months to December 31, 2016. The System's 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, 2017 and December 31, 2016 was determined by an actuarial valuation as of that same date 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	3.44%
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, 2018: The discount rate used to measure the Total OPEB Liability as of December 31, 2017 was 3.44%. The discount rate used to determine the Total OPEB Liability as of December 31, 2016 was 3.78%.

b. For fiscal year ended August 31, 2017: The discount rate used to measure the Total OPEB Liability as of December 31, 2016 was 3.78%. The discount rate used to measure the Total OPEB Liability as of December 31, 2015 was 3.57%.

c. Municipal Bond Rate: 3.44% as of December 31, 2017, 3.78% as of December 31, 2016 and 3.57% as of December 31, 2015; 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 assumed rate of general inflation has been updated since the previous valuation to reflect recent economic trends and updates to long-term expectations.

Assumptions for Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost, Retiree Contribution and Expense trends have been updated since the previous valuation to reflect recent health plan experience and its effects on short-term expectations and the revised assumed rate of general inflation.

The discount rate was lowered as a result of requirements by GAAP to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher.

Minor benefit changes effective September 1, 2018 have been reflected in the FY 2018 Assumed Per Capita Health Benefit Costs.

These changes (aside from the discount rate) were made to reflect the future plan experience as expected by the actuaries attesting to the results of the valuation. The change in the discount rate was made to comport with the requirements of GAAP.

As of the measurement date of December 31, 2017, 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 (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

	1% Decrease (2.78%)	**FY17 Discount Rate (3.78%)**	**1% Increase (4.78%)**
Total OPEB Liability	$ 13,311,939,614	$ 10,777,028,782	$ 8,892,671,384

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

	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 FY18 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%

	1% Decrease[1]	FY17 Healthcare Cost Trend Rates[1]	1% Increase[1]
Total OPEB Liability	$ 8,806,859,211	$ 10,777,028,782	$ 13,440,804,590

Healthcare Cost Trends Rates used for FY17 are shown below:

Fiscal Year	1% Decrease	FY17 Healthcare Cost Trend Rates	1% Increase
2017	6.00%	7.00%	8.00%
2018	7.00%	8.00%	9.00%
2019	7.00%	8.00%	9.00%
2020	6.50%	7.50%	8.50%
2021	6.00%	7.00%	8.00%
2022	5.50%	6.50%	7.50%
2023	5.00%	6.00%	7.00%
2024 and beyond	4.50%	5.50%	6.50%

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

		Increase (Decrease) in Total OPEB Liability	
		For Measurement Year from 12/31/2016 to 12/31/2017	For Measurement Year from 12/31/2015 to 12/31/2016
Balance at Beginning of Measurement Year	$	10,777,028,782	10,255,571,551
Changes for the year:			
Service cost		569,296,804	584,209,916
Interest		426,298,831	384,344,675
Differences between expected and actual experience		(136,662,956)	-
Changes of assumptions or other inputs		(781,692,644)	(299,449,010)
Benefit payments (employer)		(137,157,472)	(147,648,350)
Net changes		(59,917,437)	521,457,231
Balance at End of Measurement Year	$	10,717,111,345	10,777,028,782

The System recognized OPEB expense of $843,220,745 for the fiscal year ended August 31, 2018 and $934,204,701 for the fiscal year ended August 31, 2017.

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 12/31/2016 to 12/31/2017	For Measurement Year from 12/31/2015 to 12/31/2016
Balance at Beginning of Measurement Year	$	13,965,942,420	13,290,186,439
Changes for the year:			
Service cost		737,751,244	757,077,132
Interest		552,440,292	498,071,937
Differences between expected and actual experience		(177,101,409)	-
Changes of assumptions or other inputs		(1,012,994,831)	(388,055,716)
Benefit payments (employer)		(177,742,251)	(191,337,372)
Net changes		(77,646,955)	675,755,981
Balance at End of Measurement Year	$	13,888,295,465	13,965,942,420

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 8/31/2018		As of 8/31/2017	
		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	-	119,074,416	-	-
Changes of assumptions or other inputs		-	909,409,679	-	263,884,994
Contributions subsequent to the measurement date		103,036,547	-	95,030,529	-
Total	$	103,036,547	1,028,484,095	95,030,529	263,884,994

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

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)

For the Fiscal Year ended August 31, 2017:

Fiscal Year Ended August 31		**Amount**
2018	$	(35,564,015)
2019		(35,564,015)
2020		(35,564,015)
2021		(35,564,015)
2022		(35,564,015)
Thereafter		(86,064,919)
Total	$	(263,884,994)

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 both 2018 and 2017, and 7.2 percent of gross earnings for 2016. 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 2018, 2017 and 2016. The System's actual contributions excluding the State match to TRS previously reported for the years ended August 31, 2018, 2017 and 2016 were $282,808,370, $262,734,718, and $262,370,366, 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, 2017 and August 31, 2016 measurement dates.

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

Summary of Actuarial Methods and Assumptions – TRS Plan	
Actuarial Valuation Date	August 31, 2016
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

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

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

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

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

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2017 and August 31, 2016 measurement dates 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 2018

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

Sensitivity of System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate 2017

1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
$4,850,203,703	$3,133,888,495	$1,678,106,252

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 2017 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, 2018 and 2017, respectively, the System reported a liability of $2,650,044,162 and $3,133,888,495 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2017 and 2016, 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, 2017 and 2016 measurements dates was 8.2879633 and 8.2932305 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, 2016 through August 31, 2017 and September 1, 2015 through August 31, 2016. At August 31, 2018 and 2017, respectively, the amount of the net pension liability related to the System reported by the State was $894,941,498 and $893,178,321. 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, 2018 and 2017, the System recognized pension expense of $251,961,770 and $367,734,346, respectively. At August 31, 2018 and 2017, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		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 difference 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

		2017	
		Deferred Outflows of Resources	**Deferred Inflows of Resources**
Difference between expected and actual experience	$	49,138,775	93,576,090
Changes of assumptions		95,515,300	86,867,220
Net difference between projected and actual investment return		265,371,214	-
Change in proportion and contribution difference		198,509,628	239,850,466
Contributions subsequent to the measurement date		262,734,718	-
Total	$	871,269,635	420,293,776

The $282,808,370 and $262,734,718 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, 2019 and 2018, respectively.

Amounts reported as deferred outflows and inflows of resources related to pensions as of August 31, 2018 will be recognized in pension expense in the following years:

Fiscal Year		**Increase (Reduction) of Pension Expense**
2019	$	(100,235,184)
2020		68,923,998
2021		(113,230,195)
2022		(150,147,665)
2023		15,023,472
Thereafter		(3,573,204)
Total	$	(283,238,778)

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, 2018, 2017 and 2016, respectively, are provided in the following table.

		2018	2017	2016
Participant Contributions	$	164,972,085	159,672,032	151,888,728
System Contributions		210,928,114	204,107,450	194,126,284
Total	$	375,900,199	363,779,482	346,015,012

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

DEFERRED COMPENSATION-457(b)

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

TAX-SHELTERED ANNUITY-403(b)

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the $55,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2018 and 2017, there were 658 and 721 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 $3,605,991 for the year ended August 31, 2018 and $3,875,011 for the year ended August 31, 2017. The participants contributed $2,821,158 for the year ended August 31, 2018 and $3,031,626 for the year ended August 31, 2017. 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, 2018, various lawsuits and claims involving the System were pending. After conferring with legal counsel concerning pending litigation and claims, the System's management believes that the outcome of pending litigation should not have a material adverse effect on the financial statements of the System.

The System continues to implement its $4.9 billion capital improvement program, planned for fiscal years 2019 through 2024, 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, 2018, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	1,143,952	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		-	-	-	-	-
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
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	877,153,053	375,190,658	684,381,306	1,440,561,714	18,722,106,193

For the year ended August 31, 2017, the following table represents operating expenses for both natural and functional classifications for the System, with Claims and Losses and OPEB Expense restated for GASB Statement No. 75. See Note 4 for further details on the restatements:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	954,165	35,209	1,760,320	120,898,657	432,307
Salaries and Wages		2,777,985,302	1,216,712,160	139,227,600	2,626,194,961	516,257,569
Payroll Related Costs		596,054,209	302,741,371	33,824,339	650,846,588	139,768,867
Membership Dues		6,230,633	2,204,589	279,372	6,045,004	2,417,504
Registration Fees/ Meetings/Conferences		20,659,763	10,349,980	5,942,117	3,636,095	10,355,943
Professional Fees and Services		40,466,786	92,992,213	18,370,371	208,158,982	29,939,626
Other Contracted Services		89,201,061	184,352,248	43,025,064	283,234,210	72,674,899
Fees and Other Charges		14,230,155	9,050,260	3,996,165	17,873,224	2,993,450
Travel		35,430,772	42,883,048	6,620,625	13,388,701	13,945,096
Materials and Supplies		89,607,350	211,162,261	20,480,034	1,309,761,949	70,345,176
Utilities		301,374	1,018,343	263,340	8,920,177	1,203,189
Communications		21,568,267	5,109,802	2,275,793	17,179,209	7,576,651
Repairs and Maintenance		9,551,981	16,825,768	1,645,444	113,404,989	8,881,446
Rentals and Leases		16,205,393	6,159,606	5,296,552	72,489,976	7,988,777
Printing and Reproduction		6,050,390	5,364,091	3,059,722	7,268,397	3,770,721
Royalty Payments		150,554	5,264,789	(11,354)	2,980,645	11,137,438
Bad Debt Expense		-	(11,098)	-	-	-
Impairment of Capital Assets		-	26,517,304	11,797,589	-	-
Insurance Costs/Premiums		2,844,635	510,698	258,642	20,946,931	618,058
Claims and Losses		-	-	-	-	-
OPEB Expense		311,455,496	136,412,417	15,609,586	294,437,430	57,880,528
Pension Expense		122,766,714	53,914,414	6,563,468	114,476,211	21,610,701
Scholarships and Fellowships		14,502,320	42,747,550	5,834,164	4,167	2,781,599
Depreciation and Amortization		-	-	-	-	-
Federal Sponsored Pass-through to State Agencies		2,145,017	5,551,075	436,874	-	-
State Sponsored Pass-through to State Agencies		127,405	934,171	76,186	-	-
Other Operating Expenses		29,865,350	81,708,141	19,652,738	21,485,222	11,894,631
Total Operating Expenses	$	4,208,355,092	2,460,510,410	346,284,751	5,913,631,725	994,474,176

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
11,775	1,132,732	6,602	9,576	26,802,700	-	152,044,043
118,930,366	475,001,307	220,663,745	16,726,022	224,813,845	-	8,332,512,877
31,685,225	55,024,638	65,180,504	1,660,340	51,565,270	-	1,928,351,351
555,601	5,460,588	446,820	33,756	3,342,270	-	27,016,137
2,621,702	4,105,258	956,428	334,398	5,141,075	-	64,102,759
6,429,232	57,252,245	19,293,356	454,490	12,966,226	-	486,323,527
54,987,428	36,574,714	36,620,751	1,121,720	97,389,887	-	899,181,982
4,676,698	6,067,438	986,885	377,981	4,011,912	-	64,264,168
3,875,465	7,173,405	1,196,611	994,200	28,021,170	-	153,529,093
14,096,801	43,129,192	79,817,694	963,242	44,451,306	-	1,883,815,005
25,492	6,108,237	224,604,336	(4,112)	33,697,423	-	276,137,799
1,624,822	24,597,043	4,568,783	13,080	8,619,727	-	93,133,177
2,902,825	37,443,267	104,112,681	86,593	24,170,413	-	319,025,407
4,161,687	19,464,372	22,056,420	537,269	10,661,516	-	165,021,568
2,933,394	5,745,077	205,857	76,468	4,358,276	-	38,832,393
9,081	527,748	7,673	119	95,502	-	20,162,195
3,529,547	3,000,000	-	-	-	-	6,518,449
-	-	-	-	-	-	38,314,893
621,681	12,910,996	2,524,370	4,123	12,449,055	-	53,689,189
-	(52,444,465)	-	-	-	-	(52,444,465)
13,333,950	53,255,058	24,739,848	1,875,248	25,205,140	-	934,204,701
5,442,681	22,246,374	10,339,659	745,627	9,628,497	-	367,734,346
2,140,929	1,112,645	460	346,637,669	10,617,714	-	426,379,217
-	-	-	-	-	1,396,005,593	1,396,005,593
-	-	-	-	-	-	8,132,966
-	963,724	-	-	-	-	2,101,486
11,240,480	19,838,786	7,348,323	2,012,485	17,023,944	-	222,070,100
285,836,862	845,690,379	825,677,806	374,660,294	655,032,868	1,396,005,593	18,306,159,956

21. Net Position

The System's net position at August 31, 2018 and 2017 were comprised of the following:

	2018	*Restated 2017
Net investment in capital assets	$ 6,632,432,233	6,334,663,525
Restricted		
Nonexpendable	27,395,040,035	23,174,866,185
Expendable	14,655,181,774	13,557,386,026
Total restricted	42,050,221,809	36,732,252,211
Unrestricted net position:		
Unrestricted		
Reserved		
Encumbrances	1,062,651,130	1,052,612,716
Accounts receivable (less unearned revenue portion)	1,331,586,395	1,372,944,637
Inventories	139,561,390	125,067,405
Self-insurance plans	596,286,935	548,047,771
Other specific purposes:		
Advanced Research/Advanced Technology Programs	3,431,365	451,031
Notes Receivable	244,797	-
Deposits	1,376,099	1,333,111
Prepaid expenses	142,444,217	135,377,829
Deferred charges	649,597	3,477,414
Imprest funds	1,200,613	1,329,205
Travel advances	176,188	150,561
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	495,979,503	372,050,627
Provision for operating budgets	29,473,049	59,326,464
Capital projects	2,100,091,175	2,013,092,215
Debt service	159,130,420	153,605,019
Start-up/matching	129,786,501	108,859,788
Utilities reserve	35,867,105	14,896,599
Research enhancement and support	357,770,677	337,199,973
Market adjustments	36,660,309	42,218,954
Student fees	137,575,138	140,135,984
Texas Tomorrow Fund shortfall	3,433,732	5,481,145
Instructional program support	777,801,159	757,267,505
Dean, chair and faculty recruitment packages	12,467,010	10,802,377
Self-supporting enterprises	147,963,126	148,764,608
Patient care support	792,814,807	696,284,921
Practice plan minimum operating reserve of 90 days	265,929,684	379,766,988
Unallocated	(12,034,443,226)	(12,326,511,203)
Total unrestricted	(3,272,091,105)	(3,845,966,356)
Total net position	$ 45,410,562,937	39,220,949,380

* August 31, 2017 restricted nonexpendable net position was restated as a result of implementing GASB Statement No. 81, and unallocated unrestricted net position was restated as a result of implementing GASB Statement No. 75. See Note 4 for further details.

As of August 31, 2018 and 2017, restricted nonexpendable net position includes $21,593,348,668 and $17,617,538,131, respectively, of the Permanent University Fund corpus, and $820,000,000 for both years of the Permanent Health Fund corpus. As of August 31, 2018 and 2017, restricted expendable net position includes $8,181,881,533 and $7,550,611,746, respectively, of the Permanent University Fund appreciation, and $383,666,980 and $324,642,997, respectively, of the Permanent Health Fund appreciation.

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

22. Termination Benefits

U. T. System Administration contracted with NextJob to provide outplacement services to employees of the System who implemented a reduction in force as a result of the budget cuts implemented by the State. U. T. System Administration incurred expenses of $211,670 for 462 terminated employees of the System as of August 31, 2018, and $132,875 for 376 terminated employees of the System as of August 31, 2017. 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 2018 and 2017, U. T. System Administration implemented a reduction in force that affected 29 and 8 employees, respectively. No special benefits or severance packages were offered.

In 2018 and 2017, U. T. San Antonio implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 7 and 28 terminated employees, respectively.

In 2018 and 2017, U. T. Medical Branch - Galveston implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 30 and 48 terminated employees, respectively.

In 2018 and 2017, U. T. Health Science Center – Houston implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 69 and 51 terminated employees, respectively.

In 2018 and 2017, U. T. Health Science Center – San Antonio implemented reductions in force throughout the year. No special benefits or severance packages were offered to the 16 and 13 terminated employees, respectively.

In 2018, U. T. M. D. Anderson Cancer Center processed reductions in force in response to department reorganization and/or loss of grant funding. The reductions affected 59 employees, of which 35 were grant funded and 24 were hard funded positions. No special benefits or severance packages were offered to the 59 terminated employees. In 2017, U. T. M. D. Anderson Cancer Center implemented two significant reductions in force in response to reduced revenues and to improve operational efficiencies. The reductions affected 854 employees. The benefits package provided to the terminated employees consisted of continued benefits and salaries dependent upon the employee's length of service. If an employee secured employment during this time, benefit and salary payments ceased.

In 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, 2018 and 2017 are provided below:

		2018	2017
Total Number of Participants[1]		2,835	956
Premium Revenue	$	5,278,252	5,444,029
2% Administrative Fee Revenue[2]		(106,551)	(107,435)
Net COBRA Premium		5,171,701	5,336,594
Less Claims Paid		(13,203,553)	(12,712,303)
Cost to System	$	(8,031,852)	(7,375,709)

[1]The participants above are for the self-insured program.
[2]The 2 percent administrative fee is retained by UT COBRA in OEB for administering the COBRA benefit and is paid by the participant.

23. Deferred Outflows of Resources and Deferred Inflows of Resources

As of August 31, 2018 and 2017, 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, and beneficial interests in irrevocable split-interest agreements as presented in the table below:

		2018		* Restated for GASB 75 and 81 2017	
		Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Hedging Derivatives	$	165,354,206	37,067,661	246,087,922	10,339,315
Unamortized Loss/Gain on Refunding Debt		34,716,916	8,141,955	40,483,344	9,475,250
OPEB Related *		103,036,547	1,028,484,095	95,030,529	263,884,994
Pension Related		684,059,766	684,490,174	871,269,635	420,293,776
Unamortized Interest Rate Lock Termination		9,039,239	-	3,125,833	-
Split-Interest Agreements *		-	32,968,326	-	42,883,945
Total	$	996,206,674	1,791,152,211	1,255,997,263	746,877,280

Deferred outflows of resources of $165,354,206 and $246,087,922 as of August 31, 2018 and 2017, respectively, were related to hedging derivatives in a liability position. Deferred inflows of resources of $37,067,661 and $10,339,315 as of August 31, 2018 and 2017, respectively, 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 $34,716,916 and $40,483,344 as of August 31, 2018 and 2017, respectively, were related to the unamortized losses on refunding debt. Deferred inflows of resources of $8,141,955 and $9,475,250 as of August 31, 2018 and 2017, 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 $103,036,547 and $95,030,529 and deferred inflows of resources of $1,028,484,095 and $263,884,994 as of August 31, 2018 and 2017, respectively, were related to the OPEB plan. These deferred outflows and inflows are new as a result of implementing GASB Statement No. 75 in 2018. August 31, 2017 balances were retroactively restated as a result of implementing this statement. See Note 4 and Note 16 for additional information.

Deferred outflows of resources of $684,059,766 and $871,269,635 and deferred inflows of resources of $684,490,174 and $420,293,776 as of August 31, 2018 and 2017, respectively, were related to the TRS pension plan. See Note 17 for additional information.

Deferred outflows of resources of $9,039,239 and $3,125,833 as of August 31, 2018 and 2017, respectively, were related to unamortized interest rate lock termination payments.

Deferred inflows of resources of $32,968,326 and $42,883,945 as of August 31, 2018 and 2017, respectively, were related to U. T. System's unconditional beneficial interests in irrevocable split-interest agreements. These deferred inflows are new as a result of implementing GASB Statement No. 81 in 2018. August 31, 2017 balances were retroactively restated as a result of implementing this statement. See Note 4 for additional information.

24. Subsequent Events

On September 10, 2018, the U. T. System Board of Regents issued $45,000,000 in RFS Tax-Exempt Commercial Paper Notes, Series A to refund $45,000,000 of RFS Taxable Commercial Paper Notes, Series B. Subsequent to this issuance and refunding, the System had $503,388,000 of RFS Tax-Exempt Commercial Paper Notes, Series A and $227,480,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On September 13, 2018, the U. T. System Board of Regents issued $21,000,000 in RFS Tax-Exempt Commercial Paper Notes, Series A to refund $21,000,000 of RFS Taxable Commercial Paper Notes, Series B. Subsequent to this issuance and refunding, the System had $524,388,000 of RFS Tax-Exempt Commercial Paper Notes, Series A and $206,480,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On September 17, 2018, 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 $824,388,000 of RFS Tax-Exempt Commercial Paper Notes, Series A outstanding.

On September 18, 2018, the U. T. System Board of Regents issued $40,000,000 in RFS Tax-Exempt Commercial Paper Notes, Series A to refund $40,000,000 of RFS Taxable Commercial Paper Notes, Series B. Subsequent to this issuance and refunding, the System had $864,388,000 of RFS Tax-Exempt Commercial Paper Notes, Series A and $166,480,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On September 24, 2018, the U. T. System Board of Regents issued $25,000,000 in RFS Tax-Exempt Commercial Paper Notes, Series A to refund $25,000,000 of RFS Taxable Commercial Paper Notes, Series B. Subsequent to this issuance and refunding, the System had $889,388,000 of RFS Tax-Exempt Commercial Paper Notes, Series A and $141,480,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

The University of Texas M. D. Anderson Cancer Center entered into an asset purchase agreement for all the assets, including non-excluded working capital accounts, of PTC-Houston Investors, L.L.C. (Investors) for approximately $156,000,000. The transaction is effective December 1, 2018 and subject to a post close review and "true-up" of working capital accounts. As a 49% residual interest holder investor, the University of Texas M. D. Anderson Cancer Center is expected to recover approximately $43,300,000 in distributions through the dissolution of the PTC Partnership. The dissolution of the PTC Partnership is being managed by PTC-Houston Management, LP, general partner. PTC-Houston Management, LP will receive approximately $20,400,000 in exchange for the termination of its management fee, carried at 4% of net patient revenue.

25. Upcoming Accounting Pronouncements

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

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

GASB Statement No. 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. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective 2019, addresses note disclosures based on liability type. GASB Statement 88 will expand the debt disclosures on the System's financial statements.

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 89 will discontinue the capitalization of interest costs during construction. The Texas State Comptroller's Office has decided to early implement this standard in 2019.

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 90 will have no effect on the System's net position or changes in net position.

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, 2017

Last 10 Fiscal Years[1,2,3]

		2017	2016
1. Total OPEB Liability			
Service cost	$	569,296,804	584,209,916
Interest		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]		(781,692,644)	(299,449,010)
Benefit payments (employer)		(137,157,472)	(147,648,350)
Other changes		-	-
Net Change in Total OPEB Liability		(59,917,437)	521,457,231
Total OPEB Liability – Beginning		10,777,028,782	10,255,571,551
Total OPEB Liability – Ending	$	10,717,111,345	10,777,028,782
2. Covered-Employee Payroll	$	4,491,860,695	4,619,997,871
3. Total OPEB Liability as a Percentage of Covered-Employee Payroll		238.59%	233.27%

Notes to Schedule:

1 Only two 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:

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 POST EMPLOYMENT BENEFITS PLAN
August 31, 2018

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

		2017	2016
System's proportion of the total OPEB liability		77.1664987%	77.1664987%
System's proportionate share of the total OPEB liability	$	10,717,111,345	10,777,028,782
State's proportionate share of the total OPEB liability related to System		3,171,184,120	3,188,913,639
Total OPEB liability related to System	$	13,888,295,465	13,965,942,421
System's covered payroll	$	5,820,998,450	5,987,051,307
System's proportionate share of the total OPEB liability as a percentage of its covered payroll		184.11%	180.01%
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%	0.00%

Only two 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, 2018

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

		2017	2016	2015	2014
System's proportion of the net pension liability		8.2879633%	8.2932305%	7.7646311%	8.6199871%
System's proportionate share of the net pension liability	$	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		894,941,498	893,178,321	786,436,009	892,687,939
Total net pension liability related to System	$	3,544,985,660	4,027,066,816	3,531,129,754	3,195,675,480
System's covered payroll	$	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		54.18%	67.60%	61.37%	57.31%
Plan fiduciary net position as a percentage of the total pension liability		82.17%	78.00%	78.43%	83.25%

Schedule of the System's Contributions as of August 31

		2018	2017	2016	2015
Statutorily required contributions	$	347,247,177	332,620,226	315,233,963	304,139,034
Contributions in relation to the statutorily required contributions	$	282,808,370	262,734,718	262,370,366	244,723,301
Contribution deficiency (excess)	$	64,438,807	69,885,508	52,863,597	59,415,733
System's covered payroll	$	5,106,576,133	4,891,473,913	4,635,793,582	4,472,632,860
Contributions as a percentage of covered payroll		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 four years of information is presented due to GASB Statement 68 being implemented in 2015. Additional years will be displayed as they become available.