

**PRELIMINARY OFFICIAL STATEMENT**

**NEW ISSUE—BOOK-ENTRY ONLY**

**Ratings: Fitch: AAA  
Moody's: Aaa  
Standard & Poor's: AAA  
See "Ratings" herein**

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, under the statutes, regulations, published rulings, and court decisions existing on the date thereof, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) is not includable in an owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986. See "TAX MATTERS" herein for a discussion of certain collateral federal tax consequences.*

**\$373,270,000\***

**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM  
Revenue Financing System Refunding Bonds, Series 2010B**



**Dated: April 1, 2010**

**Due: August 15, as shown on inside front cover**

**Interest Accrual: Date of Delivery**

The Bonds are special obligations of the Board of Regents (the "Board") of The University of Texas System (the "University System"), payable from and secured by a lien on the "Pledged Revenues" (as defined herein) of the University System's Revenue Financing System on a parity with the Board's outstanding "Parity Debt" (as defined herein). The Bonds are issued pursuant to a Master Resolution of the Board that established the Revenue Financing System and pursuant to the Supplemental Resolution of the Board that provides for issuance of the Bonds (collectively, the "Resolution"). **THE BOARD HAS NO TAXING POWER, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See "SECURITY FOR THE BONDS."**

Proceeds from the sale of the Bonds, together with other available moneys of the Board, if any, will be used for the purpose of (i) refunding certain Parity Debt and (ii) paying the costs of issuance of the Bonds. See "PLAN OF FINANCE."

Interest on the Bonds will accrue from the initial date of delivery to the initial purchasers (the "Underwriters") and will be payable on February 15 and August 15 of each year, commencing August 15, 2010, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

**MATURITY SCHEDULE**

(See Inside Front Cover)

The Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS—Redemption" herein.

The Bonds are issuable only as fully-registered bonds and, when issued, will be initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which initially will act as securities depository for all of the Bonds pursuant to a book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof. Beneficial owners of the Bonds will not receive physical delivery of Bond certificates except as described herein. For so long as Cede & Co., as nominee of DTC, is the exclusive registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Bank of Texas, N.A., Houston, Texas, to DTC on each applicable payment date. DTC will be responsible for distributing the amounts so paid to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry-Only System."

*The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see "APPENDIX E — FORM OF BOND COUNSEL OPINION"). Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas. It is expected that the Bonds will be tendered for delivery to the Underwriters through DTC on or about April 14, 2010.*

**RBC CAPITAL MARKETS**

**PIPER JAFFRAY & Co.**

**BOFA MERRILL LYNCH  
RAMIREZ & Co., INC.**

**J.P. MORGAN**

**LOOP CAPITAL MARKETS, LLC  
RAYMOND JAMES & ASSOCIATES, INC.**

March 9, 2010

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM**  
**\$373,270,000<sup>(1)</sup> Revenue Financing System Refunding Bonds, Series 2010B**

<u>Due August 15</u>	<u>Maturing Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Price/Yield (%)</u>	<u>CUSIP Numbers<sup>(2)</sup></u>
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(interest accrues on the Bonds from the Date of Delivery)

- <sup>(1)</sup> Preliminary, subject to change. The Bonds are subject to optional and mandatory sinking fund redemption prior to stated maturity. See “DESCRIPTION OF THE BONDS – Redemption” herein.
- <sup>(2)</sup> CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds at the time of issuance. Neither the Board nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

**BOARD OF REGENTS OF  
THE UNIVERSITY OF TEXAS SYSTEM**

**OFFICERS**

Colleen McHugh, Chairman  
Paul Foster, Vice-Chairman  
Janiece Longoria, Vice-Chairman  
Francie A. Frederick, General Counsel to the Board

**MEMBERS**

Term Expires May 31, 2010

Karim A. Meijer <sup>(1)</sup> ..... Dallas

Terms Expire February 1, 2011 <sup>(2)</sup>

R. Steven "Steve" Hicks ..... Austin  
Janiece Longoria ..... Houston  
Colleen McHugh ..... Corpus Christi

Terms Expire February 1, 2013 <sup>(2)</sup>

James D. Dannenbaum ..... Houston  
Paul Foster ..... El Paso  
Printice L. Gary ..... Dallas

Terms Expire February 1, 2015 <sup>(2)</sup>

James R. Huffines ..... Austin  
Wm. Eugene "Gene" Powell ..... San Antonio  
Robert L. Stillwell ..... Houston

**SYSTEM ADMINISTRATION**

Dr. Francisco G. Cigarroa, Chancellor  
Dr. David B. Prior, Executive Vice Chancellor for Academic Affairs  
Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs  
Dr. Kenneth I. Shine, Executive Vice Chancellor for Health Affairs  
Tonya Moten Brown, Vice Chancellor for Administration  
Dr. Randa S. Safady, Vice Chancellor for External Relations  
William H. Shute, Vice Chancellor for Federal Relations  
Philip R. Aldridge, Vice Chancellor for Finance and Business Development  
Barry McBee, Vice Chancellor for Governmental Relations  
Amy Shaw Thomas, Vice Chancellor and Counsel for Health Affairs  
Barry D. Burgdorf, Vice Chancellor and General Counsel  
Dr. H. Keith McDowell, Vice Chancellor for Research and Technology Transfer  
Sandra K. Woodley, Vice Chancellor for Strategic Initiatives  
Terry A. Hull, Assistant Vice Chancellor for Finance

**CHIEF ADMINISTRATIVE OFFICERS OF UNIVERSITY SYSTEM INSTITUTIONS**

James D. Spaniolo, President, The University of Texas at Arlington  
William C. Powers, President, The University of Texas at Austin  
Dr. Juliet V. Garcia, President, The University of Texas at Brownsville  
Dr. David E. Daniel, President, The University of Texas at Dallas  
Dr. Diana S. Natalicio, President, The University of Texas at El Paso  
Dr. Robert S. Nelsen, President, The University of Texas-Pan American  
Dr. W. David Watts, President, The University of Texas of the Permian Basin  
Dr. Ricardo Romo, President, The University of Texas at San Antonio  
Dr. Rodney H. Mabry, President, The University of Texas at Tyler  
Daniel K. Podolsky, M.D., President, The University of Texas Southwestern Medical Center at Dallas  
David L. Callendar, M.D., President, The University of Texas Medical Branch at Galveston  
Larry R. Kaiser, M.D., President, The University of Texas Health Science Center at Houston  
William L. Henrich, M.D., President, The University of Texas Health Science Center at San Antonio  
John Mendelsohn, M.D., President, The University of Texas M.D. Anderson Cancer Center at Houston  
Kirk A. Calhoun, M.D., President, The University of Texas Health Science Center at Tyler

(1) Student Regent. State law does not allow a Student Regent to vote on any matter before the Board.  
(2) The actual expiration date of the term depends on the date the successor is appointed, qualified, and takes the oath of office.

## SALE AND DISTRIBUTION OF THE BONDS

### Use of Official Statement

No dealer, broker, salesman or other person has been authorized by the Board to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Board. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the Board since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and in no instance may this Official Statement be reproduced or used for any other purpose.

Certain information set forth in this Official Statement has been furnished by the Board and other sources that are believed to be reliable, but such information is not to be construed as a representation by the Underwriters. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds. Neither the Board nor the Underwriters shall be responsible for the selection or the correctness of the CUSIP numbers.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

THE BOARD MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION WAS FURNISHED BY DTC.

### Market Price

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### Securities Laws

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Board assumes no responsibility for the registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

The statements contained in this Official Statement, and in other information provided by the Board, that are not purely historical are forward-looking statements, including statements regarding the Board's expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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## OFFICIAL STATEMENT

relating to

\$373,270,000\*

### BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM Revenue Financing System Refunding Bonds, Series 2010B

#### INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto, provides certain information regarding the issuance by the Board of Regents (the “Board”) of The University of Texas System of its Revenue Financing System Refunding Bonds, Series 2010B (the “Bonds”), in the aggregate principal amount set forth above. Unless otherwise defined herein, capitalized terms used in this Official Statement have the meanings assigned to such terms in “APPENDIX B — GLOSSARY OF TERMS.”

The University of Texas System (the “University System”) currently consists of The University of Texas at Austin, The University of Texas M.D. Anderson Cancer Center at Houston and the thirteen other state-supported institutions included in the University System by operation of Texas law. Enrollment for the University System for the 2009 Fall Semester was 202,240 students. See “APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—GENERAL DESCRIPTION.” The University of Texas System Revenue Financing System (the “Revenue Financing System”) was established by the Master Resolution of the Board for the purpose of providing a system-wide financing structure for revenue-supported indebtedness of University System institutions included as Members of the Revenue Financing System. See “APPENDIX C — SUMMARY OF THE MASTER RESOLUTION.” All of the institutions currently constituting the University System have been included as Members of the Revenue Financing System. See “DESCRIPTION OF THE REVENUE FINANCING SYSTEM.” Pursuant to the Master Resolution, the Board has, with certain exceptions, combined all revenues, funds and balances attributable to any Member of the Revenue Financing System that may lawfully be pledged to secure the payment of revenue-supported debt obligations and pledged those sources as Pledged Revenues to secure payment of all revenue-supported debt obligations of the Board incurred as Parity Debt under the Master Resolution. The Board has covenanted that it will not incur any additional debt secured by Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to Parity Debt. The Board intends to issue most of its revenue-supported debt obligations that benefit Members of the Revenue Financing System as Parity Debt under the Master Resolution.

The Bonds are being issued in accordance with the general laws of the State of Texas (the “State”), including particularly Chapter 55, Texas Education Code, as amended, and Chapters 1207 and 1371, Texas Government Code, as amended. The Bonds are issued as Parity Debt pursuant to the Master Resolution and pursuant to a Twenty-Second Supplemental Resolution to the Master Resolution (also referred to and more particularly described herein as the “Supplemental Resolution”) adopted by the Board on August 20, 2009. As of March 9, 2010, long-term Parity Debt in the principal amount of \$4,058,590,000 was outstanding.<sup>(1)</sup> As described in “PLAN OF FINANCE,” a portion of the outstanding long-term Parity Debt will be refunded with a portion of the proceeds of the Bonds. Each issue of long-term Parity Debt was issued pursuant to previous supplements to the Master Resolution. In addition, the Board has previously authorized tax-exempt and taxable commercial paper programs pursuant to which Parity Debt in the form of commercial paper notes may be issued, from time to time, under the Master Resolution; provided, that the aggregate principal amount of tax-exempt (the “Tax-Exempt Commercial Paper Notes”) and taxable commercial paper notes (the “Taxable Commercial Paper Notes”) at any time outstanding is currently limited by the Board’s authorization to \$1.25 billion. As of March 9, 2010, \$836,021,000<sup>(2)</sup> in aggregate principal amount of Tax-Exempt Commercial Paper Notes and no Taxable Commercial Paper Notes were outstanding. See “DESCRIPTION OF THE REVENUE FINANCING SYSTEM—Outstanding Parity Debt” and “ANNUAL CASH BASIS DEBT SERVICE REQUIREMENTS ON PARITY DEBT.”

This Official Statement contains summaries and descriptions of the Plan of Finance, the Bonds, the Revenue Financing System, the Board, the University System, the Master Resolution and the Supplemental Resolution, among other things. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to complete copies of such documents, which may be obtained from the Office of Finance of The University of Texas System, 201 W. 7th Street, 4<sup>th</sup> Floor, Austin, Texas 78701.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement and the Escrow Agreement (as defined herein) will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the Board’s undertaking to provide certain information on a continuing basis.

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\* Preliminary, subject to change.

<sup>(1)</sup> Does not include the Board’s \$331,415,000 Revenue Financing System Bonds, Series 2010A, to be issued on or about March 25, 2010.

<sup>(2)</sup> \$258,392,000 in principal amount of the Board’s Revenue Financing System Commercial Paper Notes, Series A (included in the above amount) will be refunded and defeased in connection with the issuance of the Board’s Revenue Financing System Bonds, Series 2010A, to be issued on or about March 25, 2010.

## PLAN OF FINANCE

### **Plan of Finance**

Proceeds from the sale of the Bonds, together with other available moneys of the Board, if any, will be used for the purpose of (i) refunding certain Parity Debt in the aggregate principal amount of \$ \_\_\_\_\_ (the “Refunded Bonds”) described in “SCHEDULE I – REFUNDED BONDS” hereto, and (ii) paying the costs of issuance of the Bonds.

### **Refunded Bonds**

A portion of the proceeds from the issuance and sale of the Bonds will be applied to refund, to their respective redemption dates, the principal amount of the Refunded Bonds. The Board will make any necessary contribution to the Escrow Fund (as hereinafter defined) sufficient, together with a portion of the proceeds of such Bonds, to provide for the defeasance of the Refunded Bonds in accordance with the terms thereof. See “SCHEDULE I – REFUNDED BONDS” for the details of the specific series and maturities of Refunded Bonds to be refunded and their respective redemption dates and redemption prices.

The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates and the respective redemption dates from funds to be deposited with Regions Bank, Houston, Texas, as escrow agent (the “Escrow Agent”), pursuant to an escrow agreement (the “Escrow Agreement”) between the Board and the Escrow Agent. The Supplemental Resolution provides that, from a portion of the proceeds of the sale of the Bonds, together with amounts contributed to the refunding of the Refunded Bonds by the Board, if any, there shall be deposited with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on their scheduled redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and used to purchase (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, and/or (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent (collectively, the “Defeasance Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Bonds.

Simultaneously with the issuance of the Bonds, the Board will give irrevocable instructions to provide notice, if any, to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity of each respective issue of Refunded Bonds on which date money will be made available to redeem the Refunded Bonds on their respective redemption dates from money held under the Escrow Agreement.

Grant Thornton LLP, a nationally-recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate that the Defeasance Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of, premium, if any, and interest on the Refunded Bonds on their scheduled redemption dates. Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Bonds. Grant Thornton LLP will also verify the yields relied on by Bond Counsel to support its opinion that none of the Bonds is an arbitrage bond under section 148 of the Internal Revenue Code of 1986, as amended (the “Code”). Such verification report will be based on information and assumptions supplied by the Board and the Underwriters, and such verifications, information and assumptions will be relied upon by Bond Counsel in rendering its opinions described herein. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” and “TAX MATTERS.”

By the deposit of the Defeasance Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the Board will have effected the defeasance of the Refunded Bonds in accordance with applicable law. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be payable from Pledged Revenues but will be payable solely from the principal of and interest on the Defeasance Securities and cash held for such purpose by the Escrow Agent and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the Board for any other purpose.

The Board has covenanted in the Escrow Agreement to make timely deposits in the Escrow Fund from lawfully available funds, of additional funds in the amounts required to pay the principal of and interest on the Refunded Bonds should, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payments.

## SOURCES AND APPLICATIONS OF FUNDS

The proceeds from the sale of the Bonds will be applied as follows:

### Sources of Funds

Par Amount of Bonds	\$
Net Premium/Discount	
Total Sources of Funds	\$ _____

### Applications of Funds

Escrow Agent Deposit	\$
Costs of Issuance <sup>(1)</sup>	
Total Applications of Funds	\$ _____

<sup>(1)</sup> Includes Underwriters' discount and rounding amount. See "UNDERWRITING" herein.

## DESCRIPTION OF THE BONDS

### General

The Bonds will be dated April 1, 2010 and will bear interest from their Delivery Date at the rates, and will mature on the dates and in the amounts, set forth on the inside cover page to this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds is payable on February 15 and August 15 of each year, commencing August 15, 2010. Principal of and interest on the Bonds are payable by the Paying Agent/Registrar for the Bonds, initially Bank of Texas, N.A., Houston, Texas.

The Bonds are initially issuable in book-entry-only form. Initially, Cede & Co., as nominee of DTC (hereinafter defined), will be the registered owner and references herein to the Bondholders, holders, holders of the Bonds or registered owners of the Bonds shall mean Cede & Co., and not the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry-Only System."

In the event that the date for payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or day on which banking institutions located in New York, New York or in the city where the Principal Office for Payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or day on which banking institutions are so authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

If any Bond is not presented for payment when the principal price therefor becomes due, or any check representing payment of interest on the Bonds is not presented for payment, and if money sufficient to pay such Bond or such interest, as applicable, has been deposited under the Supplemental Resolution, all liability of the Board to the owner thereof for the payment of such Bonds or such interest, as applicable, will be completely discharged, and thereupon it shall be the duty of the Paying Agent/Registrar to hold such money, without liability for interest thereupon, for the benefit of the owner of the applicable Bond, who will thereafter be restricted exclusively to such money for any claim on his part under the Supplemental Resolution with respect to such principal and/or interest. Money not claimed within three years will, upon request of the Board, be repaid to the Board.

### Redemption

**Optional Redemption.** On \_\_\_\_\_, 20\_\_, or on any date thereafter, the Bonds scheduled to mature on \_\_\_\_\_, 20\_\_, and thereafter may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Bonds, or portion thereof, to be redeemed shall be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption, without premium; provided, that during any period in which ownership of the Bonds to be redeemed is determined by a book-entry at a securities depository for such Bonds, if fewer than all of such Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository. See "DESCRIPTION OF THE BONDS—Book-Entry-Only System."

**Mandatory Sinking Fund Redemption.** The Bonds scheduled to mature on August 15, 20\_\_ (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Board, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates, and in the principal amounts, respectively, set forth in the following schedules:

Term Bonds due August 15, 20

<u>Redemption Date</u>	<u>Principal Amount (\$)</u>
<u>(August 15)</u>	
20__	
20__	
20__ (Final Maturity)	

The principal amount of the Term Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Board, by the principal amount of any Term Bonds of the same maturity and bearing the same interest rate, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by such Paying Agent/Registrar at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Term Bonds or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Term Bonds to be redeemed is determined by a book entry at a securities depository for such Term Bonds, if fewer than all of such Term Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Term Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository. See “DESCRIPTION OF THE BONDS—Book-Entry-Only System.”

**Notice of Redemption.** Not less than 30 days prior to a redemption date, a notice of redemption will be published once in a financial publication, journal or report of general circulation among securities dealers in New York, New York, or in the State of Texas, in accordance with the Supplemental Resolution. Additional notice will be sent by the Paying Agent/Registrar by United States mail, first-class, postage prepaid, to each registered owner of a Bond, not less than 30 days prior to the date fixed for redemption, to be redeemed in whole or in part at the address of each such owner appearing on the registration books of the Paying Agent/Registrar on the 45th day prior to such redemption date, and to each registered securities depository and to any national information service that disseminates redemption notices. Failure to mail or receive such notice will not affect the proceedings for redemption and publication of notice of redemption in the manner set forth above shall be the only notice actually required as a prerequisite for redemption. In addition, in the event of a redemption caused by an advance refunding of Bonds, the Paying Agent/Registrar shall send a second notice of redemption to the registered owner of Bonds subject to redemption at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to registered securities depositories or national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent his Bonds in for redemption 60 days after the redemption date.

All redemption notices shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the date of issue, the interest rates, the maturity dates, the CUSIP numbers, the certificate numbers, the amounts of each certificate called, the publication and mailing dates for the notices, the dates of redemption, the redemption prices, the name of the Paying Agent/Registrar and the address at which such Bonds may be redeemed, including a contact person and telephone number.

If at the time of mailing of notice of optional redemption in connection with a refunding of the Bonds, the Board shall not have deposited with the Paying Agent/Registrar moneys sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Paying Agent/Registrar not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

**Additional Defeasance Provisions**

The Resolution provides that the Bonds shall be treated as Defeased Debt (see APPENDIX C — “SUMMARY OF THE MASTER RESOLUTION—Defeasance of Parity Debt”) when, among other things, there shall have been irrevocably deposited with an eligible bank or trust company noncallable Government Obligations which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for the payment of all principal and interest with respect to such Bonds to the due date or dates thereof. The Supplemental Resolution also provides that, with respect to a defeasance of the Bonds, the term “Government Obligations” shall mean (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the financial arrangements are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

To the extent that the Bonds are treated as Defeased Debt as described above, any determination not to redeem Defeased Debt that is made in conjunction with the payment arrangements specified above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the Board expressly reserves the right to call the Defeased Debt for redemption; (2) the Board gives notice of the reservation of that right to the owners of the Defeased Debt immediately following the defeasance; (3) the Board directs that notice

of the reservation be included in any redemption notices that it authorizes; and (4) at or prior to the time of the redemption, the Board satisfies the conditions described in the paragraph above as though the defeasance was to occur at the time of the exercise of the option to redeem the Defeased Debt, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

### **The Paying Agent/Registrar**

In the Supplemental Resolution, the Board reserves the right to replace the Paying Agent/Registrar for the Bonds. The Board covenants to maintain and provide a Paying Agent/Registrar for the Bonds at all times while such Bonds are outstanding, and any successor Paying Agent/Registrar for the Bonds shall be a competent and legally qualified bank, trust company, financial institution or other agency. In the event that the entity at any time acting as Paying Agent/Registrar should resign or otherwise cease to act as such, the Board covenants promptly to appoint a competent and legally qualified bank, trust company, financial institution or other agency to act as Paying Agent/Registrar, as applicable. Upon any change in the Paying Agent/Registrar for of the Bonds, the Board agrees promptly to cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar, as applicable.

### **Book-Entry-Only System**

*This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in the name of Cede & Co., its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Board believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The Board cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

**General.** The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership.

DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent/Registrar, on such payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC nor its nominee, the Paying Agent/Registrar, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Board or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

**Effect of Termination of Book-Entry-Only System.** In the event that the book-entry-only system is discontinued by DTC or the Board, the following provisions will be applicable to the Bonds: Bonds may be exchanged for an equal aggregate principal amount of Bonds in authorized denominations and of the same maturity upon surrender thereof at the Principal Office for Payment of the Paying Agent/Registrar. The transfer of any Bond may be registered on the books maintained by the Paying Agent/Registrar for such purpose only upon the surrender of such Bond to the Paying Agent/Registrar with a duly executed assignment in form satisfactory to the Paying Agent/Registrar. For every exchange or transfer of registration of Bonds, the Paying Agent/Registrar and the Board may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The Board shall pay the fee, if any, charged by the Paying Agent/Registrar for the transfer or exchange. The Paying Agent/Registrar will not be required to transfer or exchange any Bond after its selection for redemption. The Board and the Paying Agent/Registrar may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, and interest on, such Bond.

### **Supplemental Resolution**

The issuance, sale and delivery of the Bonds are authorized by the Supplemental Resolution. The Supplemental Resolution also contains the written determination by the Board, as required by the Master Resolution as a condition to the issuance of Parity Debt, that it will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System and that the Members on whose behalf the Bonds are issued possess the financial capacity to satisfy their Direct Obligations after taking the Bonds into account.

The Supplemental Resolution permits amendment, without the consent of the Bondholders, for the same purposes for which amendment may be made to the Master Resolution without the consent of the owners of outstanding Parity Debt. See "APPENDIX C —

SUMMARY OF THE MASTER RESOLUTION—Amendments of Master Resolution.” The Supplemental Resolution also permits amendment, with the consent of the owners of 51% in aggregate principal amount of the outstanding Bonds, other than amendments which: change the maturity of the outstanding Bonds; reduce the rate of interest borne by the outstanding Bonds; reduce the amount of principal payable on the outstanding Bonds; modify the payment of principal or interest on the outstanding Bonds, or impose any conditions with respect to such payment; affect the rights of the owners of less than all Bonds then outstanding; or change the minimum percentage of outstanding principal amount of Bonds necessary for consent to an amendment.

## **SECURITY FOR THE BONDS**

The Bonds are Parity Debt under the Master Resolution and constitute special obligations of the Board payable from and secured by a lien on and pledge of Pledged Revenues of the Revenue Financing System. The Master Resolution provides that the obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and any Supplement thereto is absolute, irrevocable, complete and unconditional, and the amount, manner and time of payment shall not be modified in any way regardless of any contingency. THE BOARD HAS NO TAXING POWER, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See “APPENDIX C — SUMMARY OF THE MASTER RESOLUTION.”

Any owner of any of the Bonds or Parity Debt may, in the event of default in connection with any covenant contained in the Master Resolution or in any Supplement, or default in the payment of Parity Debt, or of any interest due thereon, or other costs and expenses related thereto, require the Board, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or any Supplement, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Board, its officials and employees, or any appropriate official of the State. The Resolution does not establish other remedies or specifically enumerate the events of default with respect to the Bonds. The Resolution does not provide for a trustee to enforce the covenants and obligations of the Board. In no event will registered owners of the Bonds have the right to have the maturity of the Bonds accelerated as a remedy. The enforcement of the remedy of mandamus may be difficult and time consuming. No assurance can be given that a mandamus or other legal action to enforce a default under the Resolution would be successful.

Under current State law, the Board is prohibited from waiving sovereign immunity from suit or liability with respect to the Bonds, and the owners thereof are prevented by operation of the Board’s sovereign immunity from bringing a suit against the Board in a court of law to adjudicate a claim to enforce the Bonds or for damages for breach of the Bonds. However, State courts have held that mandamus proceedings against a governmental unit, such as the Board, as discussed in the preceding paragraph, are not prohibited by sovereign immunity.

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Pledged Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the Board agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE UNIVERSITY SYSTEM, OR ANY PARTS THEREOF, OR THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE. THE BOARD HAS NO TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS.

## **DESCRIPTION OF THE REVENUE FINANCING SYSTEM**

### **Establishment**

On February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System. The Board amended such resolution on October 8, 1993 and on August 14, 1997. The Board adopted the Master Resolution for the purpose of assembling the University System’s revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to institutions of the University System and to maximize the financing options available to the Board. The Master Resolution provides for the establishment of the Revenue Financing System and permits the Board to make additions to or deletions from the membership of the Revenue Financing System subject to the satisfaction of certain conditions specified therein. All of the institutions currently constituting the University System have been included as Members of the Revenue Financing System. See “APPENDIX C — SUMMARY OF THE MASTER RESOLUTION—Changes in Membership of the Revenue Financing System.”

## **Administration**

Under Board regulations, administration of the Revenue Financing System is the shared responsibility of the Office of Business Affairs and each Member of the Revenue Financing System. The guiding principle underlying the administration of the Revenue Financing System is that allocations of Parity Debt proceeds for capital improvements at a Member shall be contingent upon a Board determination that the Member can prudently satisfy its proportionate share of the outstanding Parity Debt attributable to such Member with such Member's financial resources. All capital improvement projects proposed to be funded in part or in whole with Parity Debt must receive a recommendation for allocation of Parity Debt from the Office of Business Affairs prior to being approved by the Board for inclusion in the capital improvements program. Such recommendations are given upon the completion of a financial evaluation concluding that such Member can prudently satisfy its Direct Obligation.

In establishing the annual budget of each Member of the Revenue Financing System, the Board includes as the Annual Obligation of the Member the amount necessary to provide for the satisfaction by the Member of its proportionate share of debt service due by the Board in such budget year on outstanding Parity Debt, plus the amount budgeted by the Board for such fiscal year to allow the Member to retire its obligation for any intra-system advances made to it to satisfy part or all of a previous Annual Direct Obligation payment.

## **Pledged Revenues**

Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances attributable to Members of the Revenue Financing System and lawfully available to secure revenue-supported indebtedness into a system-wide pledge to secure the payment of Parity Debt from time to time issued under the Master Resolution.

The University System has calculated that Pledged Revenues (excluding unrestricted net assets and certain restricted assets available to pay debt service related to particular projects) for the fiscal year ended August 31, 2009 totaled \$6.21 billion. Pledged Revenues do not include: (a) the interest of the University System in the Available University Fund; (b) funds held in the Permanent Health Fund and amounts distributed to any Member from the Permanent Health Fund; (c) amounts appropriated to any Member from the Higher Education Assistance Fund; (d) except to the extent so appropriated, general revenue funds appropriated to the University System by the State; and (e) Practice Plan Funds of any Member, including the income therefrom and any fund balances related thereto not included in Pledged Practice Plan Funds. See generally "APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT."

Pledged Revenues not utilized to pay debt service on Parity Debt are available to pay other costs of operating the University System. Continued operation of the University System at current levels is dependent upon general revenue appropriations. See "APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—State Appropriations."

The Board has covenanted in the Master Resolution that in each fiscal year it will use its reasonable efforts to collect revenues sufficient to meet all financial obligations of the Board relating to the Revenue Financing System including all deposits or payments due on or with respect to outstanding Parity Debt for such fiscal year. The Board has also covenanted in the Master Resolution that it will not incur any debt secured by Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to Parity Debt. The Board intends to issue most of its revenue-supported debt obligations that benefit Members of the Revenue Financing System as Parity Debt under the Master Resolution.

**Outstanding Parity Debt**

As of March 9, 2010, the following Parity Debt was outstanding:

Revenue Financing System Bonds:

Series 2001A	\$15,965,000
Series 2001B	15,485,000
Series 2001C	7,285,000
Series 2002A	51,835,000
Series 2002B	103,800,000
Series 2003A	24,760,000
Series 2003B	54,025,000
Series 2004A	121,775,000
Series 2004B	255,325,000
Series 2004C	93,290,000
Series 2004D	59,215,000
Series 2006A	13,530,000
Series 2006B	509,335,000
Series 2006C	174,345,000
Series 2006D	339,820,000
Series 2006E	51,785,000
Series 2006F	308,865,000
Series 2007B	336,805,000
Series 2008A	256,735,000
Series 2008B	674,060,000
Series 2009B	330,545,000
Series 2009D	<u>260,005,000</u>
	\$4,058,590,000 <sup>(1)</sup>

Revenue Financing System Commercial Paper Notes:

Series A	\$836,021,000 <sup>(2)</sup>
Taxable Series B	<u>--</u>

Total \$4,894,611,000

<sup>(1)</sup> Does not include the Board’s \$331,415,000 Revenue Financing System Bonds, Series 2010A, to be issued on or about March 25, 2010. In addition, \$\_\_\_\_\_ in principal amount of Parity Debt (included in the above amount) will be refunded and defeased in connection with the issuance of the Bonds. See “PLAN OF FINANCE—Refunded Bonds.”

<sup>(2)</sup> \$258,392,000 in principal amount of the Board’s Revenue Financing System Commercial Paper Notes, Series A (included in the above amount) will be refunded and defeased in connection with the issuance of the Board’s Revenue Financing System Bonds, Series 2010A, to be issued on or about March 25, 2010.

**Anticipated Financings**

Following the delivery of the Bonds, the Board anticipates the issuance of additional Parity Debt in fiscal year 2010 for equipment and construction needs in the approximate principal amount of \$400 million. This Parity Debt will be issued through the commercial paper note programs and/or through long-term revenue bonds. See “APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—Capital Improvements Planning and Authorization.”

In addition, the Board has the ability to enter into additional derivative transactions that constitute Parity Debt obligations under the Board’s existing ISDA Master Agreements. See “THE SWAP AGREEMENTS.”

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**ANNUAL CASH BASIS DEBT SERVICE REQUIREMENTS ON PARITY DEBT**

The following schedule shows the combined cash basis debt service requirements on all long-term Parity Debt outstanding following the issuance of the Bonds.

**Combined Annual Cash Basis Debt Service Requirements**

<b>Fiscal Year Ending 8/31</b>	<b>Annual Debt Service on Outstanding Parity Debt<sup>(1)(2)</sup></b>	<b>The Bonds</b>		<b>Total Principal and Interest on the Bonds</b>	<b>Total Annual Debt Service on Parity Debt<sup>(1)(2)</sup></b>
		<b>Principal</b>	<b>Interest</b>		
2010	\$ 258,468,016 <sup>(3)</sup>	\$	\$	\$	\$
2011	362,893,192				
2012	376,522,898				
2013	376,456,782				
2014	367,644,942				
2015	367,452,180				
2016	366,892,641				
2017	350,343,793				
2018	348,562,668				
2019	340,215,713				
2020	316,372,430				
2021	299,237,233				
2022	295,420,673				
2023	280,353,859				
2024	244,920,018				
2025	181,092,041				
2026	171,535,114				
2027	152,999,526				
2028	144,781,815				
2029	134,161,913				
2030	127,686,774				
2031	125,807,188				
2032	125,861,909				
2033	121,843,324				
2034	94,317,450				
2035	86,405,025				
2036	86,224,898				
2037	78,752,398				
2038	66,732,935				
2039	37,111,270				
2040	18,481,064				
2041	13,322,163				

- (1) Includes debt service on all Parity Debt outstanding at March 9, 2010, including the Refunded Bonds and the Board’s Revenue Financing System Bonds, Series 2010A, to be issued on or about March 25, 2010; however, does not include debt service on the currently outstanding Commercial Paper Notes. See “INTRODUCTION,” “PLAN OF FINANCE” and “DESCRIPTION OF THE REVENUE FINANCING SYSTEM—Outstanding Parity Debt.” Expected annual debt service requirements on the Board’s Revenue Financing System Refunding Bonds, Series 2001A are computed using a base rate of 4.633% obtained as a result of the 2001A Swap Agreement (as defined under “THE SWAP AGREEMENTS” herein), plus interest on the excess portion of each maturity calculated at 15%. Expected annual debt service requirements on the Board’s Revenue Financing System Refunding Bonds, Series 2007B are computed using a base rate of 3.805% obtained as a result of the 2007B Swap Agreements (as defined under “THE SWAP AGREEMENTS” herein). Expected annual debt service requirements on \$305,340,000 in principal amount of the Board’s Revenue Financing System Bonds, Series 2008B (the “Series 2008B Bonds”) are computed using a base rate of 3.900%, and annual debt service requirements on the remaining \$368,720,000 in principal amount of the Series 2008B Bonds are computed using a base rate of 3.614%, each obtained as a result of the 2008B Swap Agreements (as defined under “THE SWAP AGREEMENTS” herein). Excludes any amounts to be paid or received by the Board under the 2008B Basis Swap Agreements (as defined under “THE SWAP AGREEMENTS” herein). See “THE SWAP AGREEMENTS” for more information.
- (2) The expected annual debt service requirements on the Board’s Revenue Financing System Taxable Bonds, Series 2009B are calculated net of the cash subsidy payments that are anticipated to be received by the Board from the United States Treasury as a result of the Board’s designation of such bonds as “Build America Bonds.” Such cash subsidy payments are anticipated to be equal to 35% of the amount of each interest payment on such bonds.
- (3) Excludes February 15, 2010 interest payments.

## THE SWAP AGREEMENTS

### **General**

In connection with the Board's Revenue Financing System Refunding Bonds, Series 2001A (the "Series 2001A Bonds"), the Board has entered into an interest rate swap agreement (the "2001A Swap Agreement") with JPMorgan Chase Bank, N.A. (the "2001A Swap Provider") with a current notional amount of \$15,740,000. Pursuant to the terms of the 2001A Swap Agreement, the Board is obligated to pay to the 2001A Swap Provider interest on the notional amount specified therein at a fixed rate of 4.633% per annum, and the 2001A Swap Provider is obligated to pay to the Board interest on such notional amount at a variable rate equal to 67% of the one-month London Interbank Offered Rate.

In connection with the Board's Revenue Financing System Refunding Bonds, Series 2007B (the "Series 2007B Bonds") the Board entered into two interest rate swap agreements (the "2007B Swap Agreements") which became effective on December 20, 2007, with JPMorgan Chase Bank, N.A. and UBS AG (together, the "2007B Swap Providers"). Pursuant to the terms of the 2007B Swap Agreements, the Board has agreed to pay to the 2007B Swap Providers interest on an aggregate notional amount stated therein, which corresponds to the aggregate principal amount of the Series 2007B Bonds, at a fixed rate of 3.805% per annum. The Board's obligation to make such payments began on February 1, 2008, and such payments are payable each August 1 and February 1 thereafter until August 1, 2034. In consideration of receiving such payments from the Board, the 2007B Swap Providers have agreed to pay to the Board interest on the applicable notional amount at a variable rate equal to the SIFMA Municipal Swap Index on the first business day of each month through the term of the agreements. The current notional amount of each respective 2007B Swap Agreement is \$168,420,500, half of the outstanding aggregate principal amount of the Series 2007B Bonds.

In connection with the Board's Revenue Financing System Bonds, Series 2008B (the "Series 2008B Bonds"), in March 2007 the Board entered into two forward-starting interest rate swap agreements (the "2008B Initial Swap Agreements") with JPMorgan Chase Bank, N.A. and Morgan Stanley Capital Services, Inc. (together, the "Initial 2008B Swap Providers"). In February 2008 the Board entered into another forward-starting interest rate swap agreement (the "2008B Additional Swap Agreement", and, together with the 2008B Initial Swap Agreements, the "2008B Swap Agreements") with JPMorgan Chase Bank, N.A. (together with the Initial 2008B Swap Providers, the "2008B Swap Providers"). The aggregate notional amount of 2008B Swap Agreements corresponds to the aggregate principal amount of the Series 2008B Bonds. The Board's obligation to make payments under such agreements began on August 1, 2008. Pursuant to the terms of the 2008B Initial Swap Agreements, the Board has agreed to pay interest on a current notional amount of \$305,340,000 at a fixed rate of 3.900% per annum on August 1 and February 1 of each year until August 1, 2036. Pursuant to the 2008B Additional Swap Agreement, the Board has agreed to pay interest on a current notional amount of \$368,720,000 at a fixed rate of 3.614% per annum on August 1 and February 1 of each year until August 1, 2039. In consideration of receiving the payments from the Board, the 2008B Swap Providers have agreed to pay to the Board a variable rate equal to the SIFMA Municipal Swap Index on the first business day of each month through the term of the agreements.

In 2008 the Board also entered into three additional basis interest rate swap agreements with respect to portions of the 2008B Bonds (collectively, the "2008B Basis Swap Agreements") with Royal Bank of Canada ("2008B Basis Swap Provider"). Pursuant to the terms of the 2008B Basis Swap Agreements, the Board has agreed to pay interest to the 2008B Basis Swap Provider on notional amounts currently aggregating \$299,505,000 at a variable rate equal to the SIFMA Municipal Swap Index. The Board's obligation to make payments under the 2008B Basis Swap Agreements began on November 1, 2009. With respect to a current notional amount of \$90,270,000, the 2008B Basis Swap Provider has agreed to pay interest to the Board on such notional amount at a variable rate equal to 102.5% of the London Interbank Offered Rate, and all payments with respect to such notional amount are due quarterly through August 1, 2039. With respect to a current notional amount of \$92,045,000, the 2008B Basis Swap Provider has agreed to pay interest to the Board on such notional amount at a variable rate equal to 96% of the London Interbank Offered Rate, and all payments with respect to such notional amount are due quarterly through August 1, 2030. With respect to a current notional amount of \$117,190,000, the 2008B Basis Swap Provider has agreed to pay interest to the Board on such notional amount at a variable rate equal to 103% of the London Interbank Offered Rate, and all payments with respect to such notional amount are due quarterly through August 1, 2035.

Royal Bank of Canada, the 2008B Basis Swap Provider, is the parent company of RBC Capital Markets Corporation, one of the Underwriters of the Bonds.

The 2001A Swap Agreement, the 2007B Swap Agreements, the 2008B Swap Agreements and the 2008B Basis Swap Agreements are collectively referred to herein as the "Swap Agreements."

### **Board Obligations Under Swap Agreements**

The Board's obligations under the Swap Agreements constitute Parity Debt, except that any termination amount payable by the Board will be payable from and secured by a lien on Pledged Revenues that is subordinate to the lien securing the payment of Parity Debt. The arrangements made in respect of the Swap Agreements do not alter the Board's obligations to pay

the principal of and interest on the applicable series of Parity Debt from the Pledged Revenues and other amounts pledged therefor. Copies of the Swap Agreements are available from the Office of Finance of the University System.

If either party to a Swap Agreement commits an event of default, suffers a reduction in credit worthiness, or merges with a materially weaker entity, or in certain other circumstances, such Swap Agreement may be terminated at the option of the other party. Accordingly, no assurance can be given that the Swap Agreements will continue in existence until the maturity of the applicable bonds. If a Swap Agreement is terminated under certain market conditions, the Board may owe a termination payment or may receive a termination payment. Such termination payment generally would be based on the market value of the Swap Agreement on the date of termination; such termination payment could be substantial. In addition, a partial termination of a Swap Agreement could occur to the extent any applicable bonds are redeemed pursuant to the Board exercising its right to effect an optional redemption of such bonds. If such optional redemption were to occur, termination payments related to the portion of the Swap Agreement to be terminated will be owed by either the Board or the applicable Swap Provider, depending on then existing market conditions. The obligation of the Board to pay a termination payment could result in the Board issuing Parity Debt to enable the Board to make such a termination payment. See "APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2009" – Note 9.

### **Additional Derivative Transactions**

Additionally, the Board has the authority under State law to enter into additional derivative transactions with respect to currently outstanding Parity Debt or Parity Debt that is anticipated to be issued in the future, and under such transactions the Board may incur additional obligations which constitute Parity Debt, similar to the Swap Agreements. Currently, the Board has entered into ISDA Master Agreements with seven different counterparties, including those noted above, pursuant to which the Board has the ability to enter into additional derivative transactions. The Board has adopted a resolution which authorizes certain representatives of the University System to enter into such additional derivative transactions under certain conditions and to execute additional ISDA Master Agreements with other counterparties through August 31, 2010, and the Board has the legal authority to adopt additional resolutions which provide similar authorizations in the future.

### **THE BOARD'S LIQUIDITY OBLIGATIONS**

The Board provides self-liquidity for its short-term indebtedness and its long-term indebtedness which is subject to tender for purchase. To manage this self-liquidity obligation, the Board has adopted a resolution (the "Board's Liquidity Resolution") and entered into a Security Purchase Agreement (the "Security Purchase Agreement") with The University of Texas Investment Management Company ("UTIMCO"). See generally "APPENDIX A - THE UNIVERSITY OF TEXAS SYSTEM-FINANCIAL MANAGEMENT - Investment Funds."

Pursuant to the Security Purchase Agreement, UTIMCO has agreed that it will, on the terms and conditions and subject to the limitations set forth therein, purchase such indebtedness as investments for certain funds of the Board managed by UTIMCO. The Security Purchase Agreement provides liquidity support for (i) the Board's Permanent University Fund Flexible Rate Notes authorized to be outstanding in the aggregate principal amount not to exceed \$400 million, (ii) the Board's Permanent University Fund Commercial Paper Notes authorized to be outstanding in the aggregate principal amount not to exceed \$500 million, (iii) the Board's Permanent University Fund Bonds, Series 2008A outstanding in the aggregate principal amount of \$400,905,000, (iv) the Board's Revenue Financing System Bonds, Series 2001A outstanding in the aggregate principal amount of \$15,965,000, (v) the Board's Revenue Financing System Commercial Paper Notes, Series A and Revenue Financing System Taxable Commercial Paper Notes, Series B authorized to be outstanding in the combined aggregate principal amount not to exceed \$1,250,000,000, (vi) the Board's Revenue Financing System Refunding Bonds, Series 2007B outstanding in the aggregate principal amount of \$336,805,000, and (vii) the Board's Revenue Financing System Bonds, Series 2008B outstanding in the aggregate principal amount of \$674,060,000. Following the delivery of the Bonds and the Board's Revenue Financing System Bonds, Series 2010A, expected to occur on or about March 25, 2010, there will be no Permanent University Fund Flexible Rate Notes outstanding, no Permanent University Fund Commercial Paper Notes outstanding, \$577,629,000 of Revenue Financing System Commercial Paper Notes, Series A outstanding and no Revenue Financing System Taxable Commercial Paper Notes, Series B outstanding.

The Board may provide additional self-liquidity for additional obligations to be issued in the future, including through future amendments to the Security Purchase Agreement.

In addition, UTIMCO has entered into Note Purchase Agreements with the Board of Regents of the Texas A&M University System (the "A&M System") under which UTIMCO has agreed to purchase up to \$205 million in principal amount of notes of the A&M System as investments for the Permanent University Fund, in the event such notes are unable to be remarketed or refunded, as applicable. As of March 9, 2010, there were no such notes outstanding.

## ABSENCE OF LITIGATION

Neither the Board nor the University System is a party to any litigation, investigation, inquiry or proceeding (whether or not purportedly on behalf of the Board) pending or threatened, in any court, governmental agency, public board or body or before any arbitrator or any governmental body which, if decided adversely to such parties, would have a material adverse effect on the Pledged Revenues or on the business, properties or assets or the condition, financial or otherwise, of the University System, and no litigation of any nature has been filed or threatened which seeks to restrain or enjoin the establishment of the Revenue Financing System, the issuance or delivery of the Bonds or the collection or application of Pledged Revenues to pay the principal of and interest on the Bonds, or in any manner questioning the validity of the Bonds.

## CONTINUING DISCLOSURE OF INFORMATION

### Continuing Disclosure Undertaking of the Board

In the Supplemental Resolution, the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board has agreed that, so long as the Board is an “obligated person” under the Rule hereinafter defined, it will provide certain updated financial information and operating data about the University System annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”). Such information will be available to the public at no charge using the MSRB’s Electronic Municipal Market Access system via the MSRB’s internet website, [www.emma.msrb.org](http://www.emma.msrb.org).

**Annual Reports.** The Board is to provide certain updated financial information and operating data to the MSRB annually. The information to be updated by the Board includes all quantitative financial information and operating data with respect to the University System of the general type included herein under the captions “DESCRIPTION OF THE REVENUE FINANCING SYSTEM,” “ANNUAL CASH BASIS DEBT SERVICE REQUIREMENTS ON PARITY DEBT”, “APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—GENERAL DESCRIPTION—Enrollment” and “—Faculty and Employees” and “—FINANCIAL MANAGEMENT” and all such financial information and operating data incorporated herein by reference, including the unaudited Combined Primary Financial Statements of the University System (with the relevant portion of the Notes to the Combined Primary Financial Statements but excluding the Management’s Discussion and Analysis) for the fiscal year ended August 31, 2009, and the audited financial statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Intermediate Term Fund, and the Long Term Fund. See “APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—Incorporation by Reference of Other Documents” and “—Investment Funds.” The Board is to update and provide this information within six months after the end of each of its fiscal years. The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”).

The updated information will also include audited financial statements of the University System, if the Board commissions an audit and it is completed by the time required. If audited financial statements of the University System are not available by the required time, the Board will provide such statements when and if they become available. Any such financial statements are to be prepared in accordance with accounting principles generally accepted in the United States of America. *No outside audit of the University System’s financial statements is currently required to be obtained by the Board.* See “APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—Financial Statements.”

In addition, as stated above, the annual audited financial statements for fiscal years ended August 31, 2009 and 2008 for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Intermediate Term Fund and the Long Term Fund have been filed with the MSRB and are incorporated by reference herein. See “APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—Incorporation by Reference of Other Documents.” The Board has not requested Deloitte & Touche LLP to reissue their auditors’ reports on such funds, and Deloitte & Touche has not undertaken any procedures in connection with this Official Statement.

The Board’s current fiscal year end is August 31. Annually, not later than 80 days after the close of the fiscal year, the unaudited Combined Primary Financial Statements of the University System dated as of August 31, prepared from the books of the University System, must be delivered to the Governor and the State Comptroller of Public Accounts. See “APPENDIX D—UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2009.” If the Board changes its fiscal year, it is required to notify the MSRB of the change. If audited financial statements of the University System are not prepared for any fiscal year and audited financial statements are prepared with respect to the State for such fiscal year, the Board shall provide, or cause to be provided, the audited financial statements of the State for the applicable fiscal year to the MSRB within six months after the end of said fiscal year or as soon thereafter as such audited financial statements become available from the State Auditor. Any such audited financial statements of the State so provided shall be prepared in accordance with generally accepted accounting principles for state governments, as such principles may be changed from time to time to comply with state law. See “APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—Financial Statements.”

**Material Event Notices.** The Board will also provide timely notices of certain events to the MSRB. The Board will provide notice of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancement reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Supplemental Resolution make any provision for debt service reserves, credit enhancement, or liquidity enhancement.)

In addition, the Board will provide timely notice of any failure by it to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information**

The Board has agreed to provide the foregoing updated information only to the MSRB. All documents provided by the Board to the MSRB described above under "Annual Reports" and "Material Event Notices" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

### **Limitations and Amendments**

The Board has agreed to update information and to provide notices of material events only as described above. The Board has not agreed to provide other information that may be relevant or material to a complete presentation of the University System's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

The Board may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Board if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment or (b) any person unaffiliated with the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the Board so amends its agreement, it will provide notice of such amendment to the MSRB, in a timely manner, including an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the notices to be so provided. The Board may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

### **Compliance with Prior Undertakings**

During the past five years, the Board has not failed to comply in any material respect with any continuing disclosure agreement made by it in accordance with the Rule.

## **LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to approval of legality by the Attorney General of the State and of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the Board. Attached hereto as APPENDIX E is the form of opinion that Bond Counsel will render in connection with the issuance of the Bonds. Bond Counsel has reviewed the information under the captions "INTRODUCTION," "PLAN OF FINANCE," "DESCRIPTION OF THE BONDS" (except for the information under "Book-Entry-Only System as to which no opinion is expressed), "SECURITY FOR THE BONDS", "DESCRIPTION OF THE REVENUE FINANCING SYSTEM", "THE SWAP AGREEMENTS," "CONTINUING DISCLOSURE OF INFORMATION" (except the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "APPENDIX B — GLOSSARY OF TERMS," and "APPENDIX C — SUMMARY OF THE MASTER RESOLUTION," in the Official Statement

and such firm is of the opinion that the information relating to the Bonds and the Resolution contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. The payment of legal fees to Bond Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the University System.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The mathematical accuracy of certain computations included in the schedules provided by the Board relating to the computation of forecasted receipts of principal and interest on the Defeasance Securities held in the Escrow Fund for the Refunded Bonds and the forecasted payments of principal, premium, if any, and interest to pay the Refunded Bonds were verified by Grant Thornton LLP, certified public accountants. Such computations were based solely on assumptions and information supplied by the Board and the Underwriters. Grant Thornton LLP, has restricted its procedures to verifying the mathematical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Bonds. See "TAX MATTERS."

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the Board, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), for federal income tax purposes, interest on the Bonds (i) will be excludable from the "gross income" of the holders thereof and (ii) will not be includable in the owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX E — FORM OF BOND COUNSEL OPINION."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the Board, including information and representations contained in the Board's federal tax certificate, (b) covenants of the Board contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith and (c) the verification report prepared by Grant Thornton, LLP. Failure by the Board to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Board with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner that would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Board with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds, or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue

Service is likely to treat the Board as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see "Collateral Federal Income Tax Consequences" below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

### **LEGAL INVESTMENTS IN TEXAS**

Pursuant to Chapter 1201, Texas Government Code, the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees, and for the sinking funds of cities, towns, villages, school districts and other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the “Investment Act”) provides that any “local government” and “state agency” (as those terms are defined in the Investment Act) may invest in the Bonds, provided the Bonds have received a rating of not less than “A” from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Board has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2), and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The Board assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### **RATINGS**

Fitch Ratings, Moody’s Investors Service, Inc., and Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc., have assigned ratings of AAA, Aaa and AAA to the Bonds, respectively. An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of any of the ratings may have an adverse effect on the market price of the Bonds.

## UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the principal amount of the Bonds, plus a net premium of \$ \_\_\_\_\_, less an underwriting discount of \$ \_\_\_\_\_. The purchase obligations of the Underwriters are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds of their respective maturities if any of such Bonds are purchased.

Piper Jaffray & Co. (“Piper”), one of the underwriters of the Bonds, has entered into an agreement (the “Piper Distribution Agreement”) with Advisors Asset Management, Inc. (“AAM”) for the distribution of certain municipal securities offerings, including the Bonds, allocated to Piper at the original offering prices. Under the Piper Distribution Agreement, Piper will share with AAM a portion of the fee or commission paid to Piper.

J.P. Morgan Securities Inc., one of the underwriters of the Bonds, has entered into an agreement (the “J.P. Morgan Distribution Agreement”) with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the J.P. Morgan Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

## OTHER MATTERS

The financial data and other information contained herein have been obtained from the Board’s records, primary financial statements and other sources that are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes and documents contained in this Official Statement are made subject to all of the provisions of such statutes and documents. The summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The statements contained in this Official Statement, and in other information provided by the Board, that are not purely historical are forward-looking statements, including statements regarding the Board’s expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements. Historical financial information in this Official Statement does not represent a guarantee of future results.

The Supplemental Resolution authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment hereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

The University of Texas System  
201 W. Seventh Street, 4<sup>th</sup> Floor  
Austin, Texas 78701

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Assistant Vice Chancellor for Finance  
The University of Texas System

**SCHEDULE I – REFUNDED BONDS**

**Board of Regents of The University of Texas System  
Revenue Financing System Bonds, Series \_\_\_\_\_**

<b>Original Issue <u>Date</u></b>	<b>Amount to be <u>Refunded</u></b>	<b>Maturities to <u>be Refunded</u></b>	<b><u>Interest Rate</u></b>	<b><u>CUSIP No.</u>*</b>	<b><u>Date of Redemption</u></b>	<b><u>Redemption Price</u></b>
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\* CUSIP numbers were assigned to the Refunded Bonds by the CUSIP Service Bureau and are included solely for the convenience of the holders of the Refunded Bonds. The CUSIP numbers shown above represent the CUSIP numbers assigned on the original date of issuance of the Refunded Bonds. Neither the Board nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown above.

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**APPENDIX A**

**THE UNIVERSITY OF TEXAS SYSTEM**

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# THE UNIVERSITY OF TEXAS SYSTEM

## GENERAL DESCRIPTION

### **Background and History**

The University of Texas System was established pursuant to 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 first opened in 1883, and eight years later, John Sealy Hospital in Galveston (now a part of the University System's Medical Branch at Galveston) established a program for university-trained medical professionals.

In addition to the original academic campus located in Austin, the University System now includes eight additional academic campuses in Arlington, Dallas, El Paso, the Permian Basin (Odessa), San Antonio, Tyler and the Rio Grande Valley (Brownsville and Edinburg). Health Institutions for medical education and research have expanded beyond the original Galveston medical campus to include the University System's M. D. Anderson Cancer Center (Houston), U.T. Southwestern (Dallas), the Health Science Center at Houston, the Health Science Center at San Antonio and the Health Science Center at Tyler.

Many of the University System programs in science, engineering, liberal arts and humanities rank among the very best in the country. Library facilities on The University of Texas at Austin campus, long considered among the finest libraries in the world, are available to other institutions within the University System through a sophisticated statewide computerized telecommunications network.

### **Governance**

The Board is the governing body of the University System, and its members are officers of the State, appointed by the Governor with the advice and consent of the State Senate. The nine regents constituting the Board serve without pay and are appointed to staggered six-year terms. Additionally, under State law the Governor also appoints one student regent with the right to attend and participate in meetings of the Board to a one year term, but the student regent may not vote on any matter before the Board.

The University System is subject to the supervisory powers of the Texas Higher Education Coordinating Board (the "Coordinating Board"). The Coordinating Board is the highest authority in the State in matters of public higher education and prescribes the scope and role of each institution of higher education. The Coordinating Board periodically reviews all degree and certificate programs offered by the State's institutions of higher education and annually reviews the academic courses offered by such institutions. The Coordinating Board also determines space utilization formulas designed to promote the efficient use of construction funds and the development of physical plants to meet projected growth estimates.

### **Administration**

The University System is managed through administrative officers in the System Administration Office, including the Chancellor, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs and Vice Chancellors for Administration, External Relations, Federal Relations, Finance and Business Development, Governmental Relations, Health Affairs, Legal Affairs, Research and Technology Transfer, and Strategic Management. The chief administrative officers at all of the institutions within the University System report to either the Executive Vice Chancellor for Academic Affairs or the Executive Vice Chancellor for Health Affairs and meet on a quarterly basis in Austin. The Executive Vice Chancellor for Business Affairs and the chief business officers at each institution meet quarterly to consider topics of mutual concern.

At each institution, a president serves as the chief administrative officer. The president prepares biennial budgets for submission to the State Legislature, capital expenditure budgets, reports and requests to the Coordinating Board and conducts the ongoing affairs of his or her institution.

The principal administrative officers of the University System, along with the officer of the University System responsible for finance, are listed below. All such officers reside in Austin, the headquarters for the University System.

Francisco Cigarroa, M.D., Chancellor  
David B. Prior, Ph.D., Executive Vice Chancellor for Academic Affairs  
Scott C. Kelley, Ph.D., Executive Vice Chancellor for Business Affairs  
Kenneth I. Shine, M.D., Executive Vice Chancellor for Health Affairs

Following is summary biographical information relating to each of the administrative officers identified above:

Francisco Cigarroa, M.D. was named Chancellor on January 9, 2009. Prior to being named Chancellor, Dr. Cigarroa served as President of The University of Texas Health Science Center – San Antonio since 2000. Cigarroa received a bachelor's degree from Yale University and his medical degree from UT Southwestern Medical Center at Dallas. He was the chief resident

at Harvard University's teaching hospital, Massachusetts General Hospital, and he completed a fellowship at Johns Hopkins Hospital.

David B. Prior, Ph.D. was named Executive Vice Chancellor for Academic Affairs of the University System effective June 15, 2007. Formerly Executive Vice President and Provost of Texas A&M University, he served as the Chief Operating Officer of Texas A&M until June 2007. He joined Texas A&M in 1996 in the College of Geosciences holding joint Professorships in the Departments of Geology and Geophysics, Geography and Oceanography. In 1997 he was promoted to Dean of the College, and to Provost in 2003. Dr. Prior earned his bachelors and doctoral degrees from the Queen's University of Belfast, Northern Ireland. He has held teaching and research positions at the Queen's University, and Louisiana State University, as well as visiting positions at The University of Manitoba, and Clark University in Massachusetts.

Scott C. Kelley, Ph.D. was named Executive Vice Chancellor for Business Affairs of the University System effective June 15, 2004. Before joining the University System, Mr. Kelley served from 1995 to 2004 as Vice President for Administration, Finance and Human Resources at West Virginia University. Mr. Kelley earned a bachelor's degree in economics from Brigham Young University, an MBA in finance from Oklahoma City University, and a master's degree and doctoral degree in higher education administration from Harvard University.

Kenneth I. Shine, M.D. was named Executive Vice Chancellor for Health Affairs of the University System effective November 24, 2003. Dr. Shine, a cardiologist and physiologist, worked at the RAND Corporation from 2002 to 2003 where he studied public health preparedness, bioterrorism, stress, and health as part of American foreign policy. From 1992 to 2002, Dr. Shine was president of the Institute of Medicine at the National Academy of Sciences. Dr. Shine earned a bachelor's degree in biochemical sciences with highest honors from Harvard University and his M.D. from Harvard Medical School.

### **University System Institutions**

A summary description of the University System's institutions, which include nine general academic institutions and six Health Institutions, each of which is a Member of the Revenue Financing System, follows:

#### **General Academic Institutions**

The University of Texas at Arlington ("U.T. Arlington"), with approximately 28,000 students, offers 78 baccalaureate, 74 master's and 33 doctoral degrees within nine academic units including Architecture, Business, Engineering, Liberal Arts, Nursing, Science, Social Work, Education and Urban and Public Affairs.

The University of Texas at Austin ("U.T. Austin"), which opened in 1883, is the oldest and largest institution within the University System with approximately 51,000 students. U.T. Austin offers 100 undergraduate and 170 graduate degree programs in virtually every field, except most health-related professions and agriculture. It is a major comprehensive research university with a broad mission of undergraduate education, graduate education and research and public service. U.T. Austin's academic resources include a library system that is ranked among the nation's top university research libraries with holdings that exceed eight million volumes.

The University of Texas at Brownsville ("U.T. Brownsville"), through a partnership with Texas Southmost College ("TSC"), offers certificate, associate, baccalaureate and graduate programs within six academic units including Liberal Arts, Science, Mathematics and Technology, Business, Education, Health Sciences and Applied Technology and General Studies. The partnership with TSC operates with a consolidated administrative and academic structure under the direction of U.T. Brownsville. U.T. Brownsville/TSC offers 45 baccalaureate, 21 master's degree programs, 30 associate's, one doctorate degree and 21 certificates to approximately 17,000 students, in addition to associate degrees and certificates of completion.

The University of Texas at Dallas ("U.T. Dallas"), with approximately 16,000 students, offers over 100 academic programs within seven academic units including Arts and Humanities; Behavioral and Brain Sciences; Economic, Political and Policy Sciences; Natural Sciences and Mathematics; General Studies; Management; and the Erik Jonsson School of Engineering and Computer Science.

The University of Texas at El Paso ("UTEP"), is a major research university committed to the ideals of access and excellence. UTEP enrolls approximately 21,000 students and is a leader among Hispanic-serving institutions. Uniquely positioned in the heart of the U.S.-Mexico border, UTEP is the only doctoral research university in the nation with a student body that is comprised of a majority of Mexican American students. UTEP ranks among the top three academic institutions within the University System in research spending – about \$46 million a year – and offers 71 baccalaureate, 80 master's and 16 doctoral degrees within its seven colleges, and the School of Nursing.

The University of Texas-Pan American ("U.T. Pan American"), with approximately 18,000 students, offers 57 baccalaureate, 57 master's, three doctoral and two cooperative degrees through six academic colleges including Business Administration, Education, Health Sciences and Human Services, Arts and Humanities, Science and Engineering, and Social and Behavioral Sciences. Located in Edinburg, Texas, most of U.T. Pan American's students come from the four southern-most counties of the State, known as the Rio Grande Valley.

The University of Texas of the Permian Basin (“U.T. Permian Basin”), with approximately 3,500 students, offers 33 bachelor’s, and 20 graduate degrees within three academic units including Arts and Sciences, Business and Education. Located in Odessa, Texas, most of U.T. Permian Basin’s students come from the West Texas region.

The University of Texas at San Antonio (“U.T. San Antonio”), serving approximately 29,000 students, offers 64 baccalaureate, 46 master’s and 21 doctoral degrees within eight colleges: including Architecture, Business, Education and Human Development, Engineering, Honors, Liberal and Fine Arts, Sciences and Public Policy. The Institute of Texan Cultures is a campus of U.T. San Antonio that serves as a cultural experience museum, dedicated to enhancing the understanding of Texas’ ethnic and cultural history and its influence upon the people of the State.

The University of Texas at Tyler (“U.T. Tyler”), with approximately 6,000 students, offers 42 baccalaureate, 35 master’s and one doctoral degree within five academic units including Arts and Sciences, Business and Technology, Education and Psychology, Engineering and Computer Science and Nursing and Health Sciences. U.T. Tyler is centrally located between Dallas and Shreveport, Louisiana.

### **Health Institutions**

The University of Texas Southwestern Medical Center at Dallas (“U.T. Southwestern”), one of the premier medical centers in the nation, integrates pioneering biomedical research with exceptional clinical care and education. Its more than 1,400 full-time faculty members – including four active Nobel Prize winners, more than any other medical school in the world – are responsible for groundbreaking medical advances and are committed to translating science-driven research quickly to new clinical treatments. U.T. Southwestern physicians provide medical care in 40 specialties to nearly 92,000 hospitalized patients and oversee 1.7 million outpatient visits a year. Physicians care for patients in the Dallas-based U.T. Southwestern Medical Center; in Parkland Health & Hospital System, which is staffed primarily by U.T. Southwestern physicians; and in its affiliated hospitals, Children’s Medical Center Dallas and the VA North Texas Health Care System. U.T. Southwestern programs are offered in Waco, Wichita Falls, Richardson, Plano/Frisco and Fort Worth. Three degree-granting institutions – U.T. Southwestern Medical School, U.T. Southwestern Graduate School of Biomedical Sciences and U.T. Southwestern Allied Health Sciences School – train more than 4,200 students, residents and fellows each year. U.T. Southwestern researchers undertake more than 3,500 research projects annually, totaling more than \$361 million.

The University of Texas Medical Branch at Galveston (“UTMB”) trains approximately 2,500 students enrolled in four schools and three institutes, including the School of Medicine, the School of Nursing, the School of Health Professions, the Graduate School of Biomedical Sciences, the Institute for Human Infections and Immunity, the Institute for the Medical Humanities, and the Institute for Translational Sciences. UTMB also trains more than 500 medical residents each year. UTMB’s faculty of approximately 1,084 oversees approximately \$158 million per year in research projects. Additionally, in 2009, UTMB’s physicians and medical residents treated more than 20,000 hospitalized patients and approximately 523,000 outpatients. UTMB’s patient care facilities include a network of 85 clinics and three hospitals. In addition, UTMB cares for approximately 80% of the State’s inmates through a contract with the Texas Department of Criminal Justice. UTMB also offers numerous continuing education programs for practitioners.

On September 13, 2008 Hurricane Ike made landfall at Galveston, Texas resulting in temporary closure of a significant portion of UTMB. Research and education activities have been largely restored to pre-storm levels; however, clinical operations have only been partially restored. Currently, UTMB is operating about 400 beds compared to 680 beds prior to Hurricane Ike. Full restoration of clinical activities will take several years due to the extent and nature of damages to related facilities. Physical structures at UTMB sustained significant physical damage. Costs for protecting and restoring facilities, replacement of infrastructure and equipment exceed \$650 million. Through a combination of State, FEMA, insurance, philanthropic and other support, UTMB has secured the funding necessary to replace, restore and renovate damaged facilities. UTMB incurred a net loss of approximately \$140.8 million in fiscal year 2009, as a result of the Hurricane Ike. However, through a combination of cost reductions, revenue enhancements and other measures, UTMB’s operating performance has stabilized. For the first quarter of fiscal year 2010, UTMB reported net income of \$9.3 million (2.5%). Also, with positive operating results and receipt of insurance and FEMA proceeds, UTMB has been able to maintain cash balances at acceptable levels, and is expected to do so while facility restorations occur. Viewing UTMB as a component of the University System, such Hurricane Ike related losses are not anticipated to have a material adverse impact on the University System’s ability to meet its obligations.

The University of Texas Health Science Center at Houston (“Health Science Center at Houston”) trains approximately 4,000 students enrolled in six professional schools, including Medicine, Dentistry, Nursing, Public Health, Biomedical Sciences and Health Information Sciences. The Health Science Center at Houston’s faculty of approximately 1,300 oversees approximately \$192 million per year in research projects. Additionally, Health Science Center at Houston’s 900+ physicians and medical and dental residents treat more than 816,000 patients annually, at more than 50 outpatient and inpatient sites. The Health Science Center of Houston also operates the UT-Harris County Psychiatric Center, the only public psychiatric hospital in the Houston region, where annual in-patient admissions total more than 6,000 annually.

The University of Texas Health Science Center at San Antonio (“Health Science Center at San Antonio”) trains approximately 3,000 students enrolled in five schools, including Medicine, Dentistry, Nursing, the School of Health Professions, and the Graduate School of Biomedical Sciences. The Health Science Center at San Antonio’s faculty of approximately 1,650

oversees approximately \$200 million per year in research projects. Additionally, the Health Science Center at San Antonio's faculty and medical residents treat more than 214,000 hospitalized patients and more than 1.1 million outpatients annually at the University Hospital, the South Texas Veterans Health Care System, the University Health Care Center Downtown, and many other military and civilian hospitals and institutions.

The University of Texas M. D. Anderson Cancer Center at Houston ("M. D. Anderson") is one of the world's most respected centers devoted to cancer patient care, research, education and prevention. Research expenditures exceeded \$510 million in fiscal year 2009. More than 96,000 patients were served last year in M. D. Anderson's Houston facilities, which include 507 inpatient beds and extensive outpatient centers that totaled more than one million patient visits, treatments and procedures. M. D. Anderson awards bachelor of science degrees in seven allied health disciplines and jointly confers master of science and Ph.D. degrees to students at the Graduate School of Biomedical Sciences, which it operates in partnership with the Health Science Center at Houston. In addition to its Houston facilities, M. D. Anderson operates a two-unit Science Park in Bastrop County near Austin and has affiliations that offer comprehensive cancer care at centers bearing its name in Orlando, Florida, and Madrid, Spain. M. D. Anderson also provides medical oncology and radiation therapy services at several centers in the greater Houston area, and radiation treatment services in Albuquerque, New Mexico, and Istanbul, Turkey.

The University of Texas Health Science Center at Tyler ("Health Science Center at Tyler") is the State's referral hospital for cardiopulmonary diseases and currently has 125 patient beds. The Health Science Center at Tyler has 60 board-certified physicians who see almost 150,000 outpatient visits in 28 clinics and nearly 3,000 hospitalized patients. Additionally, 27 principal scientists are involved with nationally-sponsored research at the Health Science Center at Tyler, The Center for Biomedical and Clinical Research. The Health Science Center at Tyler, the only academic teaching center in East Texas, is home to two residency programs established in Family Practice and Occupational Medicine. In addition, the Health Science Center at Tyler is home to the Center for Pulmonary and Infectious Disease Control (CPIDC), a major initiative to lead the State's battle against infectious diseases of the lungs, including drug-resistant tuberculosis.

### Enrollment

The Fall 2005-2009 headcount enrollments at the teaching institutions of the University System are:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
U.T. Arlington	25,216	24,825	24,888	25,084	28,085
U.T. Austin	49,233	49,697	50,170	49,984	50,995
U.T. Brownsville <sup>(1)</sup>	13,250	15,677	17,214	17,197	17,139
U.T. Dallas	14,399	14,523	14,556	14,943	15,783
U.T. El Paso	19,257	19,842	20,155	20,458	20,977
U.T. Pan American	17,048	17,337	17,435	17,534	18,337
U.T. Permian Basin	3,406	3,462	3,559	3,496	3,546
U.T. San Antonio	27,291	28,379	28,533	28,413	28,955
U.T. Tyler	5,746	5,926	6,137	6,117	6,163
U.T. Southwestern	2,350	2,396	2,395	2,415	2,424
Medical Center at Dallas					
U.T. Medical Branch at Galveston	2,172	2,255	2,422	2,338	2,430
U.T. Health Science Center at Houston	3,587	3,651	3,774	3,865	3,969
U.T. Health Science Center at San Antonio	2,775	2,825	2,822	3,060	3,223
U.T. M.D. Anderson	86	108	139	203	214
U.T. Health Science Center at Tyler <sup>(2)</sup>	-	-	-	-	-
Total	<u>185,816</u>	<u>190,903</u>	<u>194,199</u>	<u>195,107</u>	<u>202,240</u>

<sup>(1)</sup> The University of Texas at Brownsville shares an educational partnership with Texas Southmost College ("TSC"). Figures for Brownsville/TSC represent unduplicated enrollment information.

<sup>(2)</sup> The University of Texas Health Science Center at Tyler does not have enrolled students.

The following are the combined headcount and full-time equivalent enrollment figures for undergraduate and graduate and professional students at all of the teaching institutions of the University System during the previous five Fall semesters:

Enrollment By Classification\*

<u>Fall Term</u>	<u>Undergraduate</u>	<u>Graduate and Professional</u>	<u>Total</u>	<u>Total Full-Time Equivalent</u>
2009	155,619	46,621	202,240	156,787
2008	150,607	44,500	195,107	151,161
2007	150,425	43,774	194,199	149,942
2006	147,576	43,327	190,903	147,766
2005	143,045	42,771	185,816	144,856

\* Full-time equivalent (FTE) data is produced annually by the Coordinating Board.

The following are the historical undergraduate admissions figures for the teaching institutions of the University System for the previous five Fall semesters:

	<u>2005</u>	<u>%</u>	<u>2006</u>	<u>%</u>	<u>2007</u>	<u>%</u>	<u>2008</u>	<u>%</u>	<u>2009</u>	<u>%</u>
Freshman:										
Applications	51,789	100.0	59,949	100.0	59,642	100.0	62,769	100.0	68,231	100.0
Acceptances	39,563	76.4	42,833	71.4	41,545	69.7	42,820	68.2	45,024	66.0
Matriculants	20,443	51.7	21,882	51.1	20,945	50.4	21,182	49.5	22,192	49.3
Transfers:										
Applications	25,796	100.0	27,309	100.0	26,616	100.0	25,930	100.0	29,713	100.0
Acceptances	18,492	71.7	20,057	73.4	20,628	77.5	19,864	76.6	23,114	77.8
Matriculants	12,904	69.8	12,605	62.8	13,126	63.6	12,975	65.3	15,135	65.5

The following table sets forth, by percentage, a breakdown of the University System's enrollment by residency classification for the previous five Fall semesters:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
In-State Students	87.2%	87.5%	87.3%	87.6%	87.9%
Out-of-State Students	4.6%	4.7%	4.6%	4.7%	4.7%
Foreign Students	<u>8.2%</u>	<u>7.8%</u>	<u>8.1%</u>	<u>7.7%</u>	<u>7.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Faculty and Employees**

The number of faculty and employees employed by the University System as of Fall 2009\* are set forth in the following table:

	<u>Faculty and Employees</u>
General Academic Institutions:	
Faculty*	10,204
All Other Employees (excludes student employees)	<u>24,656</u>
Subtotal	34,860
Health Institutions:	
Faculty*	8,403
All Other Employees (excludes student employees)	<u>41,191</u>
Subtotal	49,594
University System Administration:	<u>746</u>
Total	<u>85,200</u>

\* Represents totals from Fall 2009 and excludes 21,483 student employees.

A wide range of honors, awards and grants evidences the quality of the faculty in the University System, including six Nobel Prize Laureates; one Shaw Laureate; 2 Pulitzer Prize recipients; 37 Members of the National Academy of Sciences; 48

Members of the National Academy of Engineering; 53 Members of the American Academy of Arts and Sciences; 27 Members of the American Law Institute; 57 members of the American Academy of Nursing; and 31 members of the Institute of Medicine.

University System faculty members have received such prestigious awards as the Field Medal in mathematics, Presidential Young Investigator Awards, and numerous fellowships from organizations such as the McArthur, Guggenheim, Mellon, Rockefeller, Ford, Sid Richardson, Welch and Meadows Foundations.

## **FINANCIAL MANAGEMENT**

Financial management of the University System is the responsibility of the Executive Vice Chancellor for Business Affairs. The Office of Business Affairs, which includes the Office of Finance, has debt administration responsibility, as well as offices that coordinate the operational activities of the University System, including budget matters. The Associate Vice Chancellor, Controller and Chief Budget Officer of the University System, reporting to the Chancellor and the Executive Vice Chancellor for Business Affairs, prepares for the Board an annual operating budget for the University System, monthly financial reports and the annual Combined Primary Financial Statements of the University System.

### **Financial Statements**

Not later than November 20 of each year, the Combined Primary Financial Statements of the University System dated as of August 31, prepared from the books of the University System, must be delivered to the Governor, the Comptroller of Public Accounts of the State (the "Comptroller"), the Legislative Reference Library, the State Auditor and the Legislative Budget Board. Each year, the State Auditor must certify the financial statements of the State as a whole, inclusive of the University System. The unaudited Combined Primary Financial Statements of the University System for the fiscal year ended August 31, 2009, are attached to this Official Statement as "APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2009."

The Board commissioned Deloitte & Touche LLP to audit the Combined Primary Financial Statements of the University System for the fiscal years ended August 31, 2005 and August 31, 2006. The audited Combined Primary Financial Statements of the University System for fiscal years ended August 31, 2005 and August 31, 2006 were filed with each then existing nationally recognized municipal securities information repository and the state information depository for the State, the Municipal Advisory Council of Texas. Deloitte & Touche LLP has not undertaken any procedures in connection with this Official Statement. The Board has not commissioned an external audit for any fiscal year subsequent to the fiscal year ended August 31, 2006. The Board has not commissioned audits with respect to any future fiscal years.

In August 2009, the Board adopted a motion directing that the University System implement a process to solicit proposals for the performance of an independent external audit of the Combined Primary Financial Statements of the University System for the fiscal year ending August 31, 2011 with the understanding that any such audit be accomplished with a neutral financial impact on the total budget expenditures of the University System. The University System is in the process of preparing a solicitation for such proposals, and the Board is currently expected to consider such proposals at its July 2010 meeting. No assurances can be given as to whether the Board will in fact commission an audit for the fiscal year ending August 31, 2011 or any subsequent fiscal year.

The financial records of the University 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 University 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.

The Combined Primary Financial Statements of the University System have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Combined Primary Financial Statements of the University System have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The University System applies all GASB pronouncements and applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

### **Incorporation by Reference of Other Documents**

The annual audited financial statements for fiscal years ended August 31, 2009 and 2008 for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Intermediate Term Fund and the Long Term Fund have been filed with the MSRB and are also incorporated by reference herein. The Board has not requested Deloitte and Touche LLP to reissue their auditors' reports on such funds, and Deloitte and Touche LLP has not undertaken any procedures in connection with this Official Statement.

When reference is made in this APPENDIX A to a document that is incorporated by reference, (i) copies of such documents may be obtained from the MSRB in accordance with the procedures of the MSRB at the MSRB's Electronic Municipal Market Access system via the MSRB's internet website, [www.emma.msrb.org](http://www.emma.msrb.org), or (ii) from the University System free

of charge at the following location: Office of Finance of The University of Texas System, 201 West 7th Street, 4th Floor, Austin, Texas 78701, Attention: Assistant Vice Chancellor for Finance, Telephone: (512) 499-4494.

The address of the MSRB is 1900 Duke Street Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

The following table reflects the condensed balance sheets of the University System at August 31 in each of the years 2005 through 2009.

**Condensed Balance Sheet  
(In Thousands)**

	Audited 2005*	Audited 2006*	Unaudited 2007	Unaudited 2008*	Unaudited 2009
<b>Assets:</b>					
Current Assets	\$ 6,010,682	\$ 5,783,397	\$ 6,205,590	\$ 5,260,665	\$ 5,005,189
Noncurrent Investments	18,635,803	22,249,709	25,865,290	25,127,901	20,890,178
Other Noncurrent Assets	211,170	225,760	226,867	281,935	266,955
Capital Assets, net	<u>7,054,725</u>	<u>7,578,218</u>	<u>8,321,001</u>	<u>9,300,142</u>	<u>10,130,722</u>
Total Assets	<u>\$31,912,380</u>	<u>\$35,837,084</u>	<u>\$40,618,748</u>	<u>\$39,970,643</u>	<u>\$36,293,044</u>
<b>Liabilities:</b>					
Current Liabilities	\$5,046,595	\$6,291,356	\$7,135,840	\$7,405,704	\$6,112,416
Noncurrent Liabilities	<u>4,000,859</u>	<u>4,770,358</u>	<u>5,133,319</u>	<u>4,947,359</u>	<u>6,155,362</u>
Total Liabilities	<u>\$9,047,454</u>	<u>\$11,061,714</u>	<u>\$12,269,159</u>	<u>\$12,353,063</u>	<u>\$12,267,778</u>
<b>Net Assets:</b>					
Invested in Capital Assets**	\$3,610,695	\$3,807,124	\$4,061,463	\$4,492,554	\$4,475,108
Restricted, nonexpendable net assets	8,596,201	9,159,640	9,772,978	10,186,311	10,224,551
Restricted, expendable net assets	8,411,060	9,355,977	11,392,679	10,191,327	6,972,457
Unrestricted	<u>2,246,970</u>	<u>2,452,629</u>	<u>3,122,469</u>	<u>2,747,388</u>	<u>2,353,150</u>
Net Assets	<u>22,864,926</u>	<u>24,775,370</u>	<u>28,349,589</u>	<u>27,617,580</u>	<u>24,025,266</u>
<b>Liabilities and Net Assets</b>	<u>\$31,912,380</u>	<u>\$35,837,084</u>	<u>\$40,618,748</u>	<u>\$39,970,643</u>	<u>\$36,293,044</u>

\* As restated.

\*\* Net of Related Debt.

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The table below presents the Consolidated Statements of Revenues, Expenses and Changes in Net Assets of the University System for the fiscal years ended August 31 in each of the years 2005 through 2009.

**Consolidated Statement of Revenues, Expenses and Changes in Net Assets (In Thousands)**

	<u>Audited</u> <u>FY2005*</u>	<u>Audited</u> <u>FY2006</u>	<u>Unaudited</u> <u>FY2007</u>	<u>Unaudited</u> <u>FY2008*</u>	<u>Unaudited</u> <u>FY2009</u>
<b>Operating Revenues:</b>					
Net Student Tuition and Fees	\$ 786,460	\$ 854,461	\$ 968,296	\$ 1,024,009	\$ 1,104,314
Federal Sponsored Programs	1,257,344	1,320,197	1,327,738	1,435,980	1,332,686
Federal Sponsored Programs Pass- Through from Other State Agencies	60,604	58,633	78,027	73,280	163,470
State Sponsored Programs	40,976	66,257	76,645	51,245	-
State Sponsored Programs Pass- Through from Other State Agencies	102,084	114,121	105,326	136,728	175,100
Local Sponsored Programs	281,675	323,030	352,670	354,224	455,562
Private Sponsored Programs	232,112	254,508	306,153	357,310	390,212
Net Sales and Services of Educational Activities	247,279	252,494	308,473	293,709	373,313
Net Sales and Services of Hospitals	2,302,552	2,574,850	2,763,559	3,016,628	3,133,438
Net Professional Fees	772,365	793,311	1,012,411	982,678	989,524
Net Auxiliary Enterprises	287,052	299,921	327,422	342,064	372,323
Other Operating Revenues	<u>97,008</u>	<u>109,848</u>	<u>147,187</u>	<u>95,464</u>	<u>74,229</u>
Total Operating Revenues	6,467,511	7,021,631	7,773,907	8,163,319	8,564,171
<b>Operating Expenses:</b>					
Instruction	2,110,017	2,257,109	2,384,322	2,446,162	2,598,088
Research	1,317,751	1,435,286	1,542,919	1,697,237	1,780,927
Public Services	216,724	223,373	222,109	257,963	284,209
Hospitals and Clinics	2,371,851	2,512,902	2,635,149	2,866,500	2,963,655
Academic Support	276,399	353,541	390,409	423,835	456,569
Student Services	133,024	146,053	157,350	177,553	180,549
Institutional Support	580,867	623,715	634,649	1,103,323	1,173,700
Operations and Maintenance of Plant	467,531	537,415	554,598	699,150	861,569
Scholarships and Fellowships	208,768	223,085	257,277	262,220	296,530
Auxiliary Expenses	327,378	351,666	373,634	401,932	438,536
Depreciation and Amortization	<u>477,825</u>	<u>557,751</u>	<u>626,913</u>	<u>679,831</u>	<u>740,831</u>
Total Operating Expenses	<u>8,488,135</u>	<u>9,221,896</u>	<u>9,779,329</u>	<u>11,015,706</u>	<u>11,775,162</u>
Operating Loss	<u>(2,020,624)</u>	<u>(2,200,265)</u>	<u>(2,005,422)</u>	<u>(2,852,387)</u>	<u>(3,210,991)</u>
<b>Nonoperating Revenues (Expenses):</b>					
State Appropriations	1,557,538	1,735,759	1,760,723	1,956,650	2,114,967
Nonexchange Sponsored Programs	-	-	-	-	189,076
Gift Contributions for Operations	265,765	254,782	284,498	368,786	289,642
Net Investment Income	1,922,343	1,601,941	1,833,673	1,648,348	(1,304,932)
Net Increase (Decrease) in Fair Value of Investments	1,338,188	703,194	1,628,788	(1,880,622)	(1,332,920)
Interest Expenses on Capital Asset Financings	(135,005)	(170,568)	(157,987)	(161,687)	(158,859)
Gain/(Loss) on Sale of Capital Assets	(11,005)	(24,731)	(12,254)	(25,281)	(6,894)
Other Nonoperating Revenues	15,475	2,139	9,434	1,174	41,405
Other Nonoperating Expenses	<u>(13,045)</u>	<u>(7,390)</u>	<u>(559)</u>	<u>(4,747)</u>	<u>(7,613)</u>
Net Nonoperating Revenues (Expenses)	<u>4,940,254</u>	<u>4,095,126</u>	<u>5,346,316</u>	<u>1,902,621</u>	<u>(176,128)</u>
Income/(Loss) Before Other Revenues, Expenses, Gains/(Losses) and Transfers	2,919,630	1,894,861	3,340,894	(949,766)	(3,387,119)
H.E.A.F. Appropriations	7,132	11,380	11,380	17,069	17,461
Gifts and Sponsored Programs for Capital Acquisitions	125,424	147,940	178,289	194,447	66,264
Additions to Permanent Endowments	94,389	102,351	163,901	143,566	99,214
Extraordinary Items	-	(505)	321	724	-
Transfers to/from Other State Agencies	(145,626)	(245,583)	(120,566)	(138,046)	(387,189)
Legislative Appropriations Lapsed	<u>(802)</u>	<u>-</u>	<u>-</u>	<u>(9)</u>	<u>(939)</u>
Change in Net Assets	<u>3,000,147</u>	<u>1,910,444</u>	<u>3,574,219</u>	<u>(732,015)</u>	<u>(3,592,308)</u>
Net Assets – As Previously Reported	20,393,722	22,864,926	24,775,370	28,349,589	27,617,580
Restatements	<u>(528,943)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6)</u>
Net Assets – As Restated	<u>19,864,779</u>	<u>22,864,926</u>	<u>24,775,370</u>	<u>28,349,589</u>	<u>27,617,574</u>
<b>Ending Net Assets</b>	<u>\$ 22,864,926</u>	<u>\$24,775,370</u>	<u>\$28,349,589</u>	<u>\$27,617,574</u>	<u>\$24,025,266</u>

\*As restated.

## **Funding for the University System**

Funding for the University System is derived from operating and non-operating revenues. For a discussion of the funding sources for the Fiscal Year ended August 31, 2009 see “APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2009”. The amounts and the sources of such funding vary from year to year and there is no guarantee that the source or amounts of such funding will remain the same in future years. Following are brief discussions of certain funding sources.

### **State Appropriations**

The operations of the University System are dependent upon the continued support of the State through appropriations of general revenues, and levels of continued State support of the University System are dependent on the results of biennial legislative sessions. Based on the operating budget for the University System for the fiscal year ending August 31, 2010, State appropriations comprise approximately 17.7% of University System revenues. The State Legislature adopted a budget for the State for the 2010-11 biennium beginning September 1, 2009, which appropriated approximately \$2.2 billion for the University System from the general revenue and Federal American Recovery and Reinvestment funds for fiscal year 2010 and \$2.1 billion for fiscal year 2011. These budget and appropriation amounts include certain employee benefits costs paid directly by the State.

The University System has no assurance that the State Legislature will continue to appropriate to it the general revenue funds of the State at the same levels as in previous years. Future levels of State support are dependent upon the ability and willingness of the State Legislature to make appropriations to the University System taking into consideration the availability of financial resources and other potential uses of such resources.

Due to the ongoing national economic recession, in January 2010 the State's Governor, Lieutenant Governor and Speaker of the House of Representatives jointly requested that each state agency, including the University System, submit a plan to the Legislative Budget Board and the Office of the Governor's Budget, Planning and Policy division to identify reductions in priority increments totaling 5 percent of its general revenue appropriations for the 2010-2011 biennium. With respect to the University System as a whole, such 5 percent reduction equates to approximately \$175.3 million. In order to achieve the requested reductions, the University System submitted a plan identifying potential 5 percent reductions at each component institution by reducing staffing levels through hiring freezes, reducing travel and operational expense, and deferring capital spending.

### **Tuition and Fees**

#### *Tuition and Fees*

Each University System institution granting degrees charges tuition and fees as authorized by the State Legislature and the Board pursuant to Chapters 54 and 55 of the Education Code. Tuition charges are composed of “State Mandated tuition” and “Board Designated tuition” as further described below.

**State Mandated Tuition.** Section 54.051, Texas Education Code requires (i) undergraduate tuition applicable to state residents to be charged at \$50 per semester credit hour; and (ii) tuition of a nonresident student at a general academic teaching institution or medical and dental unit to be an amount per semester credit hour equal to the average of the nonresident undergraduate tuition charged to a resident of the State at a public state university in each of the five most populous states other than the State (the amount of which would be computed by the Coordinating Board for each academic year). For the 2009-10 and 2010-11 academic years, the Coordinating Board has computed \$327 and \$360, respectively, per semester credit hour for nonresident undergraduate tuition. The tuition rates described above are referred to in this document as “State Mandated tuition.”

**Board Designated Tuition.** In 2003, the Texas Legislature approved and the Governor signed into law House Bill 3015, which provided for the deregulation of a portion of tuition that a governing board of an institution of higher education, such as the Board, has the authority to charge under Section 54.0513 of the Texas Education Code. Prior to the amendment to Section 54.0513, Texas Education Code, the amount of tuition that a board of regents could independently charge students was capped at the levels described above with respect to State Mandated tuition. Effective with the tuition that was charged for the Fall 2003 semester, a governing board may charge any student an amount (referred to in this document as “Board Designated tuition”) that it considers necessary for the effective operation of the institution. The legislation also provides authority to the governing board to set a different tuition rate for each program and course level offered by the institution. This authority offers more opportunity for the Board to develop a tuition schedule that assists in meeting the strategic objectives of each Member in terms of access, affordability, effective use of campus resources, and improvement of graduation rates. The Board must authorize any changes in Board Designated tuition only after they have been thoroughly evaluated by the Chancellor of the University System and the administration of each Member. In connection with the authorization of Board Designated tuition, building use fees, historically included in Pledged General Fees under the Master Resolution, were rededicated as Board Designated tuition. This rededication does not impact the pledge of Revenue Funds for the payment and security of Parity Debt. Both the State Mandated tuition and the Board Designated tuition are included in Revenue Funds and are pledged for the benefit of Parity Debt.

No less than 20% of the Board Designated tuition charged in excess of \$46 per semester hour shall be set aside to provide financial assistance to resident undergraduate students, consistent with the provisions of Subchapter B, Chapter 56, Texas Education Code, which were contained in House Bill 3015.

The University System has no assurance that the State Legislature will not place future limits on the Board's ability to charge Board Designated tuition in an amount that it considers necessary for the effective operation of its institutions. However, Section 55.16 of the Texas Education Code specifically allows the Board to levy and collect any necessary fees, tuition, rentals, rates, or other charges necessary to provide funds sufficient for the payment of outstanding Parity Debt.

At its meeting on March 3, 2010, the Board approved tuition and fee plans for the 2010 and 2011 academic years submitted by each academic and health institution in the University System. These tuition and fee plans generally increase the total academic costs (excluding certain student approved fees) for the majority of full time resident undergraduate students in the University System by the greater of 3.95 percent per year or \$140 per semester hour. The increases vary, in some cases significantly, from one campus to another and from one academic year to the next. Each of the plans was developed in a collaborative process which included the appointment of a tuition advisory committee, public open forums, various kinds of surveys and other general input from student organizations, individual students, academic deans, alumni associations, faculty governance groups, staff council representatives and others.

The Board may set rates for graduate tuition at different levels for different institutions. State Mandated tuition for a resident student enrolled in a program leading to an M.D. or D.O. degree is \$6,550 per academic year. State Mandated tuition for a nonresident student enrolled in a program leading to an M.D. or D.O. degree is an amount per year equal to three times the rate that a resident student enrolled in a program leading to an M.D. or D.O. degree would pay during the corresponding academic year. In addition, various other programs, including programs leading to a D.V.M. degree, have specific annual rates for resident students and maximum rates that may be charged to nonresident students.

The Board is authorized by Chapter 55 of the Texas Education Code to set the Pledged General Tuition and any other necessary fees, rentals, rates, or other revenue funds of the Board at the level necessary, without limit, to enable the Board to meet its obligations with respect to the payment of debt service on the Parity Debt.

Set forth below is a table prepared by the University System showing average total academic cost, which includes tuition, mandatory fees and course fees, but excluding student-initiated fees approved via student referendum, for each teaching institution in the University System, excluding the health institutions, for resident undergraduates enrolled in 15 semester credit hours for the Fall 2009 semester.

**Average Total Academic Cost for Resident Undergraduates  
Enrolled for 15 Semester Credit Hours<sup>(1)</sup>  
Fall 2009**

U.T. Arlington	\$4,272
U.T. Austin	4,468
U.T. Brownsville	2,807
U.T. Dallas	4,915
U.T. El Paso	3,144
U.T. Pan American	2,764
U.T. Permian Basin	2,875
U.T. San Antonio	4,023
U.T. Tyler	3,257

<sup>(1)</sup> Excludes health institutions.

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**Federally-Sponsored Research Expenditures**

Federal agencies continue to provide the largest portion of funding for the University System’s research and training projects. The Department of Health and Human Services is typically the single largest sponsor. The following table sets forth the amounts of research expenditures sponsored by federal agencies during fiscal year 2009.

**Federally-Sponsored Research Expenditures  
(In Thousands)**

	<b><u>FY 2009</u></b>
<b>Federal Sources</b>	
Department of Health and Human Services	\$ 588,514
Department of Defense	165,305
National Science Foundation	66,587
Department of Education	33,614
Department of Energy	25,257
National Aeronautics and Space Administration	16,422
Other Federal Agencies	<u>26,193</u>
<b>Total Federal Sources</b>	<b><u>\$ 921,892</u></b>

**Private Sector Campaigns**

Comprehensive fund raising efforts at the University System are directed toward support of annual programs to address facilities expansion and renovation and establishment of endowments for instruction, research and patient care activities.

For the year ended August 31, 2009, the University System received \$612.4 million of private sector support, including \$289.7 million of gift contributions for operations and \$165.5 million in gifts for capital acquisitions and additions to permanent endowments. For more information relating to gift contributions, capital gifts and additions to permanent endowments, see “APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2009.”

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## **Investment Funds**

The Board is responsible for the investment of various operating and endowment funds held outside of the State Treasury. In order to enhance the process by which the various funds' investments are governed and managed, the Board on February 8, 1996, contracted with The University of Texas Investment Management Company ("UTIMCO") to invest funds under its fiduciary control. UTIMCO is the first investment management corporation formed by a public university system. UTIMCO (a) recommends investment policy for the funds to the Board, (b) recommends the neutral policy allocation and ranges, expected return and risk, and performance objectives by asset class, subject to Board approval and (c) monitors each fund's performance against its objectives. UTIMCO must invest the funds' assets in conformity with the Board's investment policy. Set forth below is the market value for each of the below-listed funds managed by the Board as of the end of the most recent five fiscal years.

### **Market Value of UTIMCO Assets Under Management (In Millions)**

Fiscal Year Ending <u>August 31</u>	Operating Funds				Endowment Funds <sup>(5)</sup>	Total Assets Under Management
	Short Term Fund <sup>(1)</sup>	Short Intermediate Term Fund <sup>(2)</sup>	Intermediate Term Fund <sup>(3)</sup>	Institutional Index Funds <sup>(4)</sup>		
2005	\$2,380.1	\$1,222.4	-	\$173.9	\$14,548.6	\$18,325.0
2006	1,282.3	-	\$3,048.8	-	16,087.3	20,418.4
2007	1,404.0	-	3,720.6	-	18,387.0	23,511.6
2008	1,489.1	-	3,874.8	-	17,843.1	23,207.0
2009	1,787.4	-	3,571.6	-	15,161.1	20,520.1

- (1) The Short Term Fund ("STF") is the designation given to the money market mutual funds which the Board has approved as investment vehicles for operating funds and other short term monies with an investment horizon less than one year. The STF consists of the Dreyfus Institutional Preferred Money Market Fund. In order to diversify its operating funds, the Board may consider investing a portion of its short term monies in other money market funds in the future.
- (2) The Short Intermediate Term Fund ("SITF") served as a pooled investment vehicle for operating funds and other intermediate term funds with an investment horizon greater than one year. The SITF was closed effective February 1, 2006, when it was replaced with a newly-effective Intermediate Term Fund.
- (3) The Intermediate Term Fund ("ITF") serves as a pooled investment vehicle for operating funds and other intermediate term funds with an investment horizon significantly longer than that of the STF or the SITF. The ITF was initiated effective February 1, 2006.
- (4) Institutional Index Funds consisted of a U.S. debt index fund and a U.S. equity index fund designed to offer higher expected returns for operating funds and other intermediate term funds than those available with the STF or the SITF. The Institutional Index Funds were closed effective February 1, 2006.
- (5) Endowment Funds are permanent funds generally invested with the primary objective of preserving the purchasing power of endowment assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to a target distribution rate, as determined by the Board from time to time, plus the annual expected expense. The Permanent University Fund is classified as an Endowment Fund.

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UTIMCO reviews the Board's Investment Policy Statements for the Endowment Funds and Intermediate Term Fund and other related investment policies on a periodic basis. These reviews may result in UTIMCO proposing to the Board a material change in the asset allocation ranges, investment type ranges, liquidity, and benchmarks for the Endowment Funds and Intermediate Term Fund.

As of January 31, 2010, the market value of the Board's operating funds was approximately \$5.631 billion and the market value of the Board's Endowment Funds was approximately \$16.145 billion.

As of January 31, 2010, approximately 74.74% of the Intermediate Term Fund (or, approximately \$2.928 billion) and approximately 49.16% of the Endowment Funds (or, approximately \$7.878 billion) was invested in "liquid" investments within the meaning of the Board's liquidity policy.

For a discussion of investment results for fiscal year 2009, see "APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2009."

**Amendment of Investment Policies and Procedures.** The Board has the right to amend its policies and procedures relating to the management of investments, at its discretion and at any time, subject to applicable State law. Further, pursuant to the Board's Investment Policies, UTIMCO may recommend the establishment of new neutral allocations and ranges for each asset class of the Permanent University Fund and the General Endowment Fund, at its discretion and at any time, subject to the approval of the Board and the broad policy guidelines established by the Board and described above.

**Operating Funds.** As stated above, operating funds managed by the Board included the Short Term Fund ("STF"), the Short Intermediate Term Fund ("SITF"), and the Institutional Index Funds prior to February 1, 2006. On February 1, 2006, the SITF and the Institutional Index Funds were closed and were reinvested in the Intermediate Term Fund ("ITF"). A description of all operating funds in existence both pre- and post-February 1, 2006 are provided below.

*Intermediate Term Fund.* The ITF employs an asset allocation with an investment horizon significantly longer than that of the STF or the SITF and includes such asset classes as domestic equities, global non-domestic equities, absolute return hedge funds, directional hedge funds, commodities, REITs, TIPS, and traditional fixed income. Beginning August 23, 2007, approximately 90% of the operating funds and other short and intermediate term funds of the University System, exclusive of bond proceeds, were invested in the ITF with the remainder invested in the STF.

*Short Term Fund.* The STF is the designation given by the University System administration to the money market mutual fund approved by the Board as an investment for University System funds. The institutions of the University System and System Administration utilize the STF as an investment option when overnight liquidity is the primary investment objective.

*Short Intermediate Term Fund.* The SITF served as a pooled investment vehicle for operating funds of the University System institutions and System Administration prior to February 1, 2006. Operating funds are defined as those with an investment horizon of one to five years. The SITF's investment objective was to provide both income through investment in high grade fixed income and floating rate obligations and capital appreciation when consistent with income generation, reasonable preservation of capital and maintenance of adequate fund liquidity.

*Institutional Index Funds.* The Board established the Institutional Index Funds, consisting of a domestic debt index fund and a domestic equity index fund, for the investment of permanent working capital and long-term capital reserves by institutions of the University System. The Institutional Index Funds were designed to offer higher expected returns for operating funds and other intermediate term funds than those available with the STF or the SITF. The Institutional Index Funds were closed on February 1, 2006.

**Endowment Funds.** Endowment funds managed by the Board include the Permanent University Fund, the Permanent Health Fund, the Long Term Fund and the Separately Invested Funds. The Board has established the General Endowment Fund as a pooled fund for the collective investment of the Long Term Fund and the Permanent Health Fund.

*Permanent University Fund.* The Permanent University Fund is a state endowment contributing to the support of eligible institutions of the University System and The Texas A&M University System (the "A&M System"). The Permanent University Fund was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to the University of Texas plus one million acres. Additional land grants to the Permanent University Fund were completed in 1883 with the contribution of another one million acres. As of August 31, 2009, the Permanent University Fund contained 2,109,190 acres located in 24 counties primarily in West Texas.

Article VII, Section 18 of the Texas Constitution (the "Constitutional Provision") provides for distributions to the Available University Fund from the "total return" on all Permanent University Fund investment assets, including current income as well as capital gains (realized and unrealized), in the amounts determined by the Board, subject to the limitations set forth in the Constitutional Provision. Distributions to the Available University Fund are then

allocated two-thirds to the Board and one-third to the Board of Regents of the A&M System (the “A&M Board”). The Constitutional Provision requires an appropriation from the first money distributed to each board of an annual sum sufficient to pay debt service due on bonds and notes issued by such board and payable from the Available University Fund. (The remainder of each board’s annual distributions would continue to be appropriated to such board for prescribed university proposes.)

At its meeting on February 7, 2008, the Board amended the Permanent University Fund Investment Policy Statement to increase the annual distribution from the Permanent University Fund from 4.75% to 5.0% under certain circumstances. Specifically, the distribution will be 4.75% of the trailing twelve quarter average of the Permanent University Fund investments unless the average annual rate of return of the Permanent University Fund investments over the trailing twelve quarters is greater than the expected return plus 0.25%, in which case the distribution shall be 5.0% of the trailing twelve quarter average.

*Permanent Health Fund.* The Board established the Permanent Health Fund in 1999 as an internal fund for the pooled investment of state endowment funds for health-related institutions of higher education, created with proceeds from the state tobacco litigation. Included within the Permanent Health Fund is the Permanent Health Fund for Higher Education established by the State Legislature in 1999 as a permanent endowment to benefit a number of medical institutions in the State, six of which are institutions of the University System. The Permanent Health Fund for Higher Education was funded on August 30, 1999, in the amount of \$350 million. Also included within the Permanent Health Fund are separate permanent endowments also created by the State Legislature in 1999 to benefit eight institutions of the University System (collectively, the “UT Health Funds”). The UT Health Funds were also funded on August 30, 1999, in the amount of \$470 million.

*Long Term Fund.* The Board established the Long Term Fund as a pooled fund for the investment of private endowments donated to benefit various programs and purposes at the fifteen institutions comprising the University System. The Long Term Fund is structured as a mutual fund in which each endowment or account purchases units at the Long Term Fund’s market value per unit. The Long Term Fund was established in 1948 and provides for diversification of security holdings and enhancement of investment management. It encompasses the investment of approximately 98% of the University System’s non-state endowment.

*Separately Invested Funds.* The Board is also responsible for managing separately invested funds consisting of privately raised endowments and charitable trusts where the nature of the underlying asset or donor restrictions preclude investment in the Long Term Fund.

The PUF and the General Endowment Fund are pooled for efficient investment purposes. The Board’s investment policy statements provide that the primary investment objective of the Permanent University Fund and the General Endowment Fund is to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of such fund plus the annual expected expense. The target is subject to adjustment from time to time consistent with the primary investment objectives for the funds.

The secondary investment objectives are to generate (i) average annual returns adjusted for downside risk in excess of the Policy Portfolio adjusted for downside risk over rolling five-year periods and (ii) average annual returns in excess of the median return of the universe of the college and university endowments with assets greater than \$1 billion as reported by Cambridge Associates over rolling five-year periods. The Policy Portfolio benchmark will be approved by the Board and maintained by UTIMCO and will comprise a blend of asset class and investment type weighted to reflect asset class and investment type allocation policy targets.

Pursuant to its contract with the Board, UTIMCO is required to review the current investment policies for each fund at least annually. After UTIMCO completes its review, any recommended changes are forwarded to University System staff for review and appropriate action.

For more investment information, see “APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2009.” A copy of the Board’s current investment policy statements may be obtained from the Office of Finance of The University of Texas System, 201 W. Seventh Street, 4<sup>th</sup> Floor, Austin, Texas 78701.

### **Management of Funds Held in the State Treasury**

The Texas Education Code requires that the University System deposit into the State Treasury all funds except those derived from auxiliary enterprises and non-instructional services, agency, designated, and restricted funds, endowment and other gift funds, student loan funds, funds for the payment of overhead expenses of conducting research and H.E.A.F. Funds. All such funds held in the State Treasury, including the Available University Fund and certain cash balances of the Permanent University Fund, are administered by the State Comptroller of Public Accounts. The State Comptroller of Public Accounts invests money in the State Treasury in authorized investments consistent with applicable law. The State Comptroller of Public Accounts pools funds within the State Treasury for investment purposes and allocates investment earnings on pooled funds proportionately

among the various State agencies whose funds are so pooled. As of August 31, 2009, the amount of University System funds held by the State Treasury was \$403 million.

### **Capital Improvements Planning and Authorization**

Planning and authorization of University System capital improvements is governed by a six-year capital improvements program ("CIP") approved by the Board and administered by System Administration. The CIP approves in principle the expenditure of funds from all sources for capital projects at all University System institutions for construction, repair and rehabilitation, equipment and library materials. The Board revises the CIP quarterly, most recently February 2010, to apply to fiscal year 2010 through fiscal year 2015 and reflects major construction projects with a total project cost of \$8.7 billion. Of this total, \$3.6 billion or 41.3% has been or is expected to be funded with Parity Debt.

### **Debt Management and Anticipated Financing**

In addition to Parity Debt under the Revenue Financing System, the Board is authorized to issue Permanent University Fund bonds and notes and Higher Education Assistance Fund bonds and notes.

**Permanent University Fund Bonds.** Article VII, Section 18 of the Texas Constitution authorizes the Board to issue bonds and notes, payable from all or part of its interest in the Available University Fund in an aggregate amount not exceeding, at the time of issuance, 20% of the cost value of Permanent University Fund assets, excluding real estate. Proceeds may be used for the purpose of (i) acquiring land with or without permanent improvements, (ii) constructing and equipping buildings or other permanent improvements, (iii) making major repairs and rehabilitations and other permanent improvements, (iv) acquiring capital equipment, library books and library materials, and (v) refunding bonds or notes issued under said section or prior law, at or for System Administration and the institutions of the University System (except U.T. Pan American and U.T. Brownsville). Proceeds may not be used to finance permanent improvements of auxiliary enterprises.

As of January 31, 2010, the Board's constitutionally authorized Permanent University Fund bond capacity was \$1,933 million. The aggregate principal amount of Permanent University Fund bonds and notes outstanding as of January 31, 2010 was \$1,524 million.

**Higher Education Assistance Fund ("H.E.A.F.") Bonds.** U.T. Pan American and U.T. Brownsville are ineligible to receive proceeds from Permanent University Fund bonds until such time as the Texas Constitution is amended to provide otherwise. Pursuant to the Higher Education Assistance Fund Program, U.T. Pan American and U.T. Brownsville are qualified to receive an annual allocation from amounts constitutionally appropriated to institutions of higher education that are not entitled to participate in Permanent University Fund bond financing in order to fund permanent improvements (except those for auxiliary enterprises). Under this constitutional provision, the Board is authorized to issue bonds and notes to finance permanent improvements at U.T. Pan American and U.T. Brownsville, and to pledge up to 50% of its allocation to secure the payment of principal of and interest on the bonds and notes. As of March 9, 2010, the Board had no H.E.A.F. Bonds outstanding and does not currently anticipate issuing any additional H.E.A.F. Bonds.

### **Insurance**

The University System has seven funded self-insurance plans providing coverage in the following areas: employee health and dental; workers' compensation; unemployment compensation; medical professional liability; property protection; directors & officers/employment practices liability; and construction contractor insurance. For details on each insurance plan, see "APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2009."

### **Retirement Plans and OPEB Liabilities**

University System employees participate in the various retirement plans or programs. In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), in accordance with State statutes. Employees 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 are provided for active employees through the same self-funded plan. For details on retirement plans and OPEB liabilities, see "APPENDIX D — UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2009."

### **Internal Revenue Service University Compliance Project and Current Examination of University System**

In October 2008, the Internal Revenue Service (the "Service") sent compliance check questionnaires to approximately 400 colleges and universities as part of the Service's "college and universities compliance project." The questionnaires focused on information related to the entities' unrelated business income, endowments and executive compensation practices and were sent to a cross-section of small, mid-sized and large private and public four-year colleges and institutions. Four UT System institutions received and responded (coordinated by The University System) to such questionnaires.

On October 9, 2009, the University System received formal notice from the Service that University System has been selected for an examination by the Service. Although the examination is of the University System as a whole, the Service has indicated that The University of Texas at Austin is the sole focus of the examination. While the examination has just begun and is not formally limited, the Service has indicated that it is focusing on matters related to executive compensation and unrelated

business taxable income. Such examinations typically extend over more than a year and involve a number of Service agents reviewing a broad range of activities. As the University System is an agency of the State of Texas, the examination cannot have an adverse effect on its tax-exempt status, and the University System has no reason to believe that the examination will have an adverse effect on any other aspect of the University System's operations. According to published reports, the Service is also conducting similar examinations at a number of other colleges and universities and may initiate approximately 40 to 60 such examinations by the end of 2010.

**APPENDIX B**  
**GLOSSARY OF TERMS**

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## GLOSSARY OF TERMS

As used in this Official Statement, the following terms and expressions have the meanings set forth below:

Annual Direct Obligation means the amount budgeted each fiscal year by the Board with respect to each Member of the Revenue Financing System to satisfy the Member's proportion of debt service (calculated based on the Member's Direct Obligation) due by the Board in such fiscal year on outstanding Parity Debt.

Annual Obligation means, with respect to each Member of the Revenue Financing System and for each fiscal year, the Member's Annual Direct Obligation plus the amount budgeted by the Board for such fiscal year to allow the Member to retire its obligation for any intra-system advances made to it to satisfy part or all of a previous Annual Direct Obligation payment.

Board means the Board of Regents of The University of Texas System.

Credit Agreement means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the Board as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity Debt and on a parity therewith.

Direct Obligation means the proportionate share of outstanding Parity Debt attributable to and the responsibility of each respective Revenue Financing System Member of the Revenue Financing System.

Health Institutions means U.T. Southwestern, UTMB (Galveston), Health Science Center at Houston, Health Science Center at San Antonio, M.D. Anderson, Health Science Center at Tyler, and any other health institutions which become part of the University System and are hereafter made a Member of the Revenue Financing System.

Master Resolution means the Amended and Restated Master Resolution of the Board adopted on February 14, 1991 establishing the Revenue Financing System, as amended by the Board on October 8, 1993, and August 14, 1997.

Member means each of the institutions currently constituting the University System and such institutions hereafter designated by the Board to be Members of the Revenue Financing System.

Parity Debt means all indebtedness of the Board that may be issued or assumed in accordance with the terms of the Master Resolution and a Supplement, secured by a pledge of the Pledged Revenues subject only to the liens securing Prior Encumbered Obligations.

Paying Agent/Registrar means the entity designated in accordance with the Supplemental Resolution as the Paying Agent/Registrar for the Bonds, initially Bank of Texas, N.A., Houston, Texas.

Pledged General Fee means the gross collections of a student use fee to be fixed, charged, and collected pursuant to Section 55.16, Texas Education Code, as it existed prior to the effective date of S.B. 1907, from the students (excepting, with respect to each series or issue of Parity Debt issued prior to such date, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, was exempt by law from paying fees) regularly enrolled at the institutions and branches thereof now or hereafter constituting a Member of the Revenue Financing System, respectively, for the general use and availability of the such institutions or branches thereof, respectively, in the manner and amounts, at the times, and to the extent provided in the Master Resolution, and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered General Fee.

Pledged General Tuition means all of the aggregate amount of student tuition charges now or hereafter required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school, now or hereafter constituting a Member of the Revenue Financing System, but specifically excluding and excepting, with respect to each series or issue of Parity Debt, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt (1) was exempt by law from paying such tuition, (2) the amount of tuition scholarships provided for by law at the time of the adoption of each Supplement, and (3) the Prior Encumbered Tuition Fees; and it is provided by law and hereby represented and covenanted that the aggregate amount of student tuition charges which are now required or authorized by law to be imposed, and which are pledged to the payment of the Parity Debt, shall never be reduced or abrogated while such obligations are outstanding; it being further covenanted that the aggregate amount of student tuition charges now required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school operated by or under the jurisdiction of the Board are set forth in the Texas Education Code, as amended, to which Code reference is hereby made for all purposes.

Pledged Practice Plan Funds means that portion of the Practice Plan Funds of a Health Institution now or hereafter constituting a Member of the Revenue Financing System which has been pledged to the payment of Parity Debt by the Board by

the adoption of an amendment to the Master Resolution; provided, however, that any such pledge may be limited in amount and in any manner, extent or duration as provided in such amendment. The Board pledged \$4,500,000 from the Practice Plan Funds from Southwestern Medical Center commencing in the fiscal year in which Parity Debt was first issued for the project and ending when such Health Institution's Direct Obligation relating to the project for which such pledge was made has been fully paid and satisfied. Except as provided above, Pledged Revenues do not currently include any other Practice Plan Funds.

Pledged Revenues means, subject to the provisions of the Prior Encumbered Obligations, the Revenue Funds, including all of the funds and balances now or hereafter lawfully available to the Board and derived from or attributable to any Member of the Revenue Financing System which are lawfully available to the Board for payments on Parity Debt; provided, however, that the following shall not be included in Pledged Revenues unless and to the extent set forth in a Supplement: (a) the interest of the University System in the Available University Fund (see "APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—Amendment of Investment Policies and Procedures—Endowment Funds"); (b) funds held in the Permanent Health Fund and amounts distributed to any Member from the Permanent Health Fund (see "APPENDIX A — THE UNIVERSITY OF TEXAS—FINANCIAL MANAGEMENT— Amendment of Investment Policies and Procedures— Permanent Health Fund"); (c) amounts appropriated to any Member from the Higher Education Assistance Fund (see "APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—Debt Management and Anticipated Financing—Financing Programs—Higher Education Assistance Fund ("H.E.A.F.") Bonds"); (d) except to the extent so appropriated, general revenue funds appropriated to the Board by the State (see "APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM—FINANCIAL MANAGEMENT—State Appropriations"); and (e) Practice Plan Funds of any Member, including the income therefrom and any fund balances related thereto not included in Pledged Practice Plan Funds.

Pledged Tuition Fee means, as authorized by Section 55.17, Texas Education Code, as it existed prior to the effective date of S.B. 1907, the following specified amounts out of the tuition charges now or hereafter required or permitted by law to be imposed on each tuition paying student enrolled at each and every institution or branch thereof now or hereafter constituting a Member of the Revenue Financing System (excepting the Health Institutions), and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered Tuition Fees, respectively:

\$5.00 from each enrolled student for each regular semester, and  
\$2.50 from each enrolled student for each summer term of each summer session.

Practice Plan means any agreement entered into by and between a Health Institution Member and faculty appointees of that Member that: (a) assigns to the Member patient fees collected for professional services rendered by the appointee and (b) regulates the collection and expenditure of such patient fees. Practice Plan also includes such agreements existing between an institution which becomes a Member after the date of the adoption of the Master Resolution and such institution's faculty.

Practice Plan Funds means the Practice Plan income and fund balances of a Health Institution Member.

Principal Office means the business address designated to the Board as a principal office Paying Agent/Registrar.

Principal Office for Payment means the principal office of the Paying Agent/Registrar for payment of bonds, initially the office of the Paying Agent/Registrar in Houston, Texas.

Prior Encumbered General Fee means the Pledged General Fee securing Prior Encumbered Obligations and that portion of the student use fee charged and collected at an institution which becomes a Member of the Revenue Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Revenue Financing System.

Prior Encumbered General Tuition means the Pledged General Tuition securing Prior Encumbered Obligations and the tuition charges in the maximum amount permitted in the definition of Pledged General Tuition charged and collected at an institution which becomes a Member of the Revenue Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Revenue Financing System.

Prior Encumbered Obligations means those bonds or other obligations of an institution outstanding on the date it becomes a Member of the Revenue Financing System and which are secured by a lien on and pledge of the Prior Encumbered General Fee, the Prior Encumbered Revenues, the Prior Encumbered Tuition Fee, the Prior Encumbered General Tuition, and/or the Prior Encumbered Practice Plan Funds charged and collected at such institution and all existing obligations of the Board secured by a lien on a portion of the Pledged Revenues which is superior to the lien established by this Resolution on behalf of Parity Debt.

Prior Encumbered Practice Plan Funds means the Pledged Practice Plan Funds which are pledged to the payment of bonds or other obligations of an institution which becomes a Member of the Revenue Financing System after the date of adoption of the Master Resolution.

Prior Encumbered Revenues means the revenues pledged to the payment of Prior Encumbered Obligations and the revenues of any revenue producing system or facility of an institution which hereafter becomes a Member of the Revenue Financing System and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Revenue Financing System.

Prior Encumbered Tuition Fee means the Pledged Tuition Fee securing Prior Encumbered Obligations and that portion of the tuition charges in the maximum amount permitted in the definition of Pledged Tuition Fee charged and collected at an institution which becomes a Member of the Revenue Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Revenue Financing System.

Resolution means, collectively, the Master Resolution and the Supplemental Resolution.

Revenue Funds means the “revenue funds” of the Board (as defined in Section 55.01 of the Texas Education Code to mean the revenues, incomes, receipts, rentals, rates, charges, fees, grants, and tuition levied or collected from any public or private source by an institution of higher education, including interest or other income from those funds) derived by the Board from the operations of each of the Members, including specifically the Pledged General Tuition and, to the extent and subject to the provisions of the Master Resolution, the Pledged General Fee and the Pledged Tuition Fee. Revenue Funds does not include, with respect to each series or issue of Parity Debt, any tuition, rentals, rates, fees, or other charges attributable to any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, is exempt by law from paying such tuition, rentals, rates, fees, or other charges.

S.B. 1907 means Senate Bill 1907 passed by the State Legislature in the Seventy-fifth Regular Legislative Session.

State means the State of Texas.

Supplement means a resolution adopted by the Board pursuant to the Master Resolution authorizing the issuance of Parity Debt.

Supplemental Resolution means the Twenty-Second Supplemental Resolution to the Master Resolution adopted by the Board on August 20, 2009, providing for the issuance of the Bonds, including the terms and provisions set forth in a resolution adopted by the Board on August 23, 2007, containing certain standard terms and procedures applicable to Supplements which have been specifically incorporated into such Twenty-Second Supplemental Resolution.

U.T. System Representative means one or more of the following officers or employees of the University System, to-wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Finance and Business Development, the Assistant Vice Chancellor of Finance, or such other officer or employee of the University System authorized by the Board to act as a U.T. System Representative.

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**APPENDIX C**

**SUMMARY OF THE MASTER RESOLUTION**

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## SUMMARY OF THE MASTER RESOLUTION

### Establishment of the Revenue Financing System

The Board has established the Revenue Financing System for the purpose of providing a system-wide financing structure for revenue-supported indebtedness of institutions of the University System included as Members of the Revenue Financing System. The Master Resolution establishes a master plan under which revenue-supported indebtedness of the Revenue Financing System can be incurred. Each issue or series of Parity Debt is to be provided for under a Supplement consistent with the provisions of the Master Resolution.

### Security and Pledge: Membership in the Revenue Financing System

Subject to the provisions of resolutions authorizing Prior Encumbered Obligations, Parity Debt issued under the Master Resolution is payable from and secured by a lien on all Pledged Revenues. The Board has assigned and pledged the Pledged Revenues to the payment of the principal of and interest on Parity Debt and to the establishment and maintenance of any funds that may be created under the Master Resolution or a Supplement to secure the repayment of Parity Debt. The Board may additionally secure Parity Debt with one or more Credit Agreements.

All of the institutions currently constituting the University System have been included under the Master Resolution as Members of the Revenue Financing System. If an additional institution hereafter becomes a component of the University System, the Board may include the new component as a Member of the Revenue Financing System. In that event, the lien on and pledge of Pledged Revenues established pursuant to the Master Resolution and effective when such institution becomes a Member of the Revenue Financing System will apply to the revenues, funds and balances of such Member that constitute Pledged Revenues; provided, that, if at the time a new Member is admitted, it has outstanding debt obligations secured by any of such sources, such obligations will constitute Prior Encumbered Obligations of the Board secured by a lien on the portion of the Pledged Revenues providing such security which is superior to the lien established by the Master Resolution on behalf of Parity Debt. The Board has reserved the right to refund Prior Encumbered Obligations with the proceeds of refunding bonds issued as Prior Encumbered Obligations secured by the same sources as the sources securing the refunded Prior Encumbered Obligations. Otherwise, while any Parity Debt is outstanding, the Board has agreed not to issue additional obligations on a parity with any Prior Encumbered Obligations.

### Rate Covenant

The Board has covenanted in the Master Resolution that in each fiscal year it will establish, charge and use its reasonable efforts to collect at each Member the Pledged Revenues, which, if collected, would be sufficient to meet all financial obligations of the Board relating to the Revenue Financing System, including all deposits or payments due on or with respect to outstanding Parity Debt for such fiscal year.

### Annual and Direct Obligation of Members

The Master Resolution provides that each Member of the Revenue Financing System is responsible for its Direct Obligation. The Board covenants in the Master Resolution that in establishing the annual budget for each Member of the Revenue Financing System, it will provide for the satisfaction by each Member of its Annual Obligation. Each Member's Direct Obligation and Annual Obligation shall be evidenced by a financing agreement between the Board and each Member.

### Pledged Revenues

Pledged General Fee Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of the Master Resolution and any Supplement, the Board covenants and agrees at all times to fix, levy, charge, and collect at each Member which has students the Pledged General Fee from each student (excepting, with respect to each series or issue of Parity Debt, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, was exempt by law from paying fees) enrolled at each Member, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability of such institution or branch thereof, respectively, in such amounts, without any limitation whatsoever, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money, to make or pay the principal of, interest on, and other payments or deposits with respect to the Parity Debt Outstanding on August 1, 1997, when and as required. The Pledged General Fee shall be adjusted, if and when permitted or required by this Resolution or any Supplement, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with such Outstanding Parity Debt.

The Board may fix, levy, charge, and collect the Pledged General Fee in any manner it may determine within its discretion, and in different amounts from students enrolled in different Members, respectively, and in addition it may totally suspend the collection of the Pledged General Fee from the students enrolled in any Member, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits in connection with such outstanding Parity Debt. All changes in the Pledged General Fee shall be made by a resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of the Master Resolution or any Supplement, but merely the carrying out of the provisions and requirements thereof. Notwithstanding the foregoing, it is recognized that certain Members do not and will not enroll students, and, therefore, the Board will not levy or collect the Pledged General Fee at such Member. Notwithstanding the foregoing provisions, so long as there is no default or anticipated default in the payment of the outstanding Parity Debt referenced above, the Board does not intend to and will not assess and collect the Pledged General Fee.

Pledged General Tuition and Other Pledged Revenues Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of the Master Resolution and any Supplement, the Board covenants and agrees at all times to fix, levy, charge, and collect at each Member which has students the Pledged General Tuition and other Pledged Revenues from each student enrolled at each Member, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability of such institution or branch thereof, respectively, in such amounts, without any limitation whatsoever, as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to the Parity Debt then outstanding when and as required. The Pledged General Tuition and the other rentals, rates, fees, and charges included in Pledged Revenues shall be adjusted, if and when permitted or required by the Master Resolution or any Supplement, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with the Parity Debt then outstanding. The Board may fix, levy, charge, and collect the Pledged Revenues in any manner it may determine within its discretion, and in different amounts from students enrolled in different Members, respectively, and in addition it may totally suspend the collection of any item included in Pledged Revenues from the students enrolled in any Member, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits in connection with the Parity Debt then outstanding. All changes in the Pledged General Tuition shall be made by a resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of the Master Resolution or any Supplement, but merely the carrying out of the provisions and requirements thereof. Notwithstanding the foregoing, it is recognized that certain Members do not and will not enroll students, and, therefore, the Board will not levy or collect the Pledged General Tuition at such Member.

Annual Obligation If, in the judgment of the Board, any Member has been or will be unable to satisfy its Annual Obligation, the Board shall fix, levy, charge, and collect rentals, rates, fees, and charges for goods and services furnished by such Member and, with respect to each Member with enrolled students, the Pledged General Tuition, and, if necessary as discussed above, the Pledged General Fee, effective at the next succeeding regular semester or semesters or summer term or terms, in amounts sufficient, without limit (subject to the provisions discussed below), together with other legally available funds, including other Pledged Revenues attributable to such Member, to enable it to make its Annual Obligation payments.

Anticipated Deficit If the Board determines, for any reason whatsoever, (i) that there are not anticipated to be sufficient legally available funds, including Pledged Revenues, to meet all financial obligations of the Board relating to the Revenue Financing System, including the deposits and payments due on or with respect to the Parity Debt outstanding at that time as the same mature or come due, or (ii) that any Member will be unable to pay its Annual Direct Obligation in full, then the Board shall fix, levy, charge, and collect the Pledged General Tuition, and, if necessary as discussed above, the Pledged General Fee, at each Member with enrolled students, effective at the next succeeding regular semester or semesters or summer term or terms, in such amounts, without any limitation whatsoever (other than as provided below), as will be at least sufficient to provide, together with other legally available funds, including other Pledged Revenues, the money for making when due all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits due on or with respect to outstanding Parity Debt when and as required by the Master Resolution or any Supplement.

Economic Effect of Adjustments Any adjustments in the rate or manner of charging for any rentals, rates, fees, tuition, or other charges included in Pledged Revenues, including the Pledged General Tuition and the Pledged General Fee, if any, at any of the Members pursuant to the provisions described above will be based upon a certificate and recommendation of a U.T. System Representative, delivered to the Board, as to the rates and anticipated collection of the Pledged Revenues at the various Members (after taking into account the anticipated effect the proposed adjustments in such rentals, rates, fees, tuition, or other charges would have on enrollment and the receipt of Pledged Revenues and other funds at each Member) which will be anticipated to result in (i) Pledged Revenues attributable to each Member being sufficient (to the extent possible) to satisfy the Annual Obligation of such Member and (ii) Pledged Revenues being sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System including all deposits and payments due on or in connection with outstanding Parity Debt when and as required by the Master Resolution and any Supplement.

Under the Master Resolution, the Board has excepted from the Pledged General Tuition, with respect to any particular series or issue of Parity Debt, collections from any student permitted by the Texas Education Code to be exempted (currently, any student for whom payment would cause an undue economic hardship, as long as the total number of students exempted does not exceed 5% of the total enrollment at any Member) as of the date on which the issue of Parity Debt is authorized.

#### General Covenants

In the Master Resolution, the Board has covenanted that it will (a) make available to the Paying Agent or other paying agent, on or before each payment date, money sufficient to pay the principal of and the premium, if any, and interest on all Parity Debt as it becomes due and payable and the fees and expenses related to the Parity Debt, including the fees and expenses of the paying agent and any registrar, trustee, remarketing agent, tender agent or credit provider; (b) faithfully perform all covenants and undertakings under the Master Resolution and each Supplement; (c) cause all Parity Debt to be called for redemption and redeemed prior to maturity, to the extent required under the provisions of the Master Resolution or any Supplement; (d) maintain all real and tangible property of the Revenue Financing System in good condition, repair and working order and not impair or permit any impairment of the Revenue Financing System; (e) not incur additional debt secured by the Pledged Revenues, except as Parity Debt permitted under the Master Resolution or as debt that is junior and subordinate in all respects to the liens, pledges and covenants of the Master Resolution and any Supplement; (f) invest and secure money in all funds and accounts established under the Master Resolution and any Supplement as prescribed by law and the policies of the Board; (g) keep proper books of record and account relating to all dealings, activities and transactions of the Board; (h) permit any owner or owners of at least 25% of the principal amount of the then outstanding and unpaid principal amount of Parity Debt to inspect the records and accounts of the Board relating to the University System; and (i) provide for the satisfaction by each Member of its Annual Obligation. In addition, the Board has warranted that it lawfully owns and has title to or lawfully possesses the lands, buildings and facilities constituting the University System, that it will defend the title to all properties that become a part of the Revenue Financing System and that it is lawfully qualified to pledge the Pledged Revenues in the manner prescribed in the Master Resolution and has exercised such right.

#### Additional Parity Debt: Non-Recourse Debt and Subordinated Debt

In the Master Resolution, the Board reserves the right to issue or incur additional Parity Debt for any purpose authorized by law. The Board may incur, assume, guarantee or otherwise become liable in respect of additional Parity Debt if the Board determines that it will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System.

In addition, the Board covenants not to issue or incur Parity Debt unless (i) it determines that the Member or Members for whom Parity Debt is being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations after taking into account the then proposed additional Parity Debt, and (ii) a U.T. System Representative delivers to the Board a certificate stating that, to the best of his or her knowledge, the Board is in compliance with all covenants contained in the Master Resolution and any Supplement authorizing outstanding Parity Debt, and is not in default in the performance and observance of any of the terms, provisions and conditions thereof.

The Board has reserved the right to issue, without limit, debt secured by a lien other than a lien on Pledged Revenues and debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Debt.

#### Waiver of Covenants

The Board may omit in any particular instance to comply with any covenant or condition set forth above as a general covenant or with its rate covenant (see "Rate Covenant" in this APPENDIX C), its covenants relating to issuance of Parity Debt (see "Additional Parity Debt: Non-Recourse Debt and Subordinated Debt" in this APPENDIX C), its covenants governing disposition of Member assets (see "Disposition of Member Assets" in this APPENDIX C) or its covenants relating to admission and release of Members (see "Changes in Membership of the Revenue Financing System" in this APPENDIX C) if the holders of at least 51% of all Parity Debt outstanding shall waive such compliance.

#### Disposition of Member Assets

In the Master Resolution, the Board has reserved the rights to convey, sell or otherwise dispose of any properties of the Board attributable to a Member of the Revenue Financing System, provided that:

(i) such disposition shall occur in the ordinary course of business of the Member of the Revenue Financing System responsible for such properties; or

(ii) the Board determines that after the disposition, the Board shall have sufficient funds during each fiscal year to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all other financial obligations of the Board relating to the Revenue Financing System.

#### Changes in Membership of the Revenue Financing System

The Master Resolution recognizes that the State may combine or divide Member institutions and provides that so long as the combined or divided institutions continue to be governed by the Board such action shall not violate the Master Resolution or require any amendment thereof. The Master Resolution also provides that a Member institution or portion thereof may be closed and abandoned by law or otherwise removed from the Revenue Financing System (thus deleting the revenues, income, funds and balances attributable to such Member or portion thereof from Pledged Revenues) without violating the Master Resolution upon satisfaction of the following requirements:

(i) the Board specifically finds (based upon a certificate signed by a U.T. System Representative) that after the release of the Member or portion thereof, the Board will have sufficient funds during each fiscal year in which Parity Debt shall thereafter be outstanding to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System; and

(ii) the Board shall have received an opinion of legal counsel acceptable to the Board stating that such release will not affect the status for federal income tax purposes of interest on any outstanding Parity Debt and that all conditions precedent provided in the Master Resolution or any Supplement relating to such release have been complied with; and

(iii) (a) if the Member or portion thereof to be released is to remain under the governance and control of the Board, the Board must either (1) provide from lawfully available funds, including Pledged Revenues attributable to the withdrawing Member, for the payment or discharge of that Member's Direct Obligation; or (2) pledge to the payment of Parity Debt, additional resources not then pledged in an amount sufficient to satisfy the withdrawing Member's Direct Obligation; or

(b) if the Member or portion thereof to be released is no longer to be under the governance and control of the Board, the Board must receive a binding obligation of the new governing body of the withdrawing institution or portion thereof, obligating the new governing body to make payments to the Board at the times and in the amounts equal to the withdrawing Member's Annual Obligation or to pay or discharge that Member's Direct Obligation, or, in the case of a portion of a Member being withdrawn, the portion of the Member's Annual Obligation or Direct Obligation, as the case may be, attributable to the withdrawing portion of the Member.

#### Special Obligations: Absolute Obligation to Pay Parity Debt

The Master Resolution provides that all Parity Debt and the interest thereon shall constitute special obligations of the Board payable from the Pledged Revenues, and the owners thereof shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in the Master Resolution or any Supplement. The obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and each Supplement out of the Pledged Revenues shall be absolute, irrevocable, complete, and unconditional, and the amount, manner and time of payment of such amounts shall not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever.

#### Remedies

Any owner of Parity Debt in the event of default in connection with any covenant contained in the Master Resolution or in any Supplement, or default in the payment of Parity Debt, or of any interest due thereon, or other costs and expenses related thereto, may require the Board, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or any Supplement, by all legal and equitable

means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Board, its officials and employees, or any appropriate official of the State.

#### Defeasance of Parity Debt

Any Parity Debt and the interest thereon shall be deemed to be paid, retired, and no longer outstanding (a “Defeased Debt”) within the meaning of the Master Resolution, except that the Board must provide for the services of the Paying Agent or other paying agent, when the payment of all principal and interest payable with respect to such Parity Debt to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or provision for the giving of same having been made) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the paying agent for such Parity Debt for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) noncallable Government Obligations (as defined below) which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with each such paying agent for the payment of its services until after all Defeased Debt shall have become due and payable. At such time as Parity Debt shall be deemed to be Defeased Debt, such Parity Debt and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the Pledged Revenues, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding for any purposes other than payment, transfer, and exchange. Any money deposited with or made available to a paying agent as described in this paragraph may, at the written direction of the Board, also be invested in Government Obligations maturing in the amounts and times as described above, and all income from such Government Obligations received by the paying agent for an issue of Parity Debt which is not required for the payment of the Parity Debt and interest thereon, with respect to which such money has been so deposited, is to be turned over to the Board, or deposited as directed in writing by the Board. As used in this paragraph, the term “Government Obligations” means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government series, which may be in book-entry form. For a description of additional defeasance provisions contained in the Supplemental Resolution see “DESCRIPTION OF THE BONDS—Additional Defeasance Provisions.”

#### Amendments of Master Resolution

Amendments Without Consent. The Master Resolution and the rights and obligations of the Board and of the owners of the outstanding Parity Debt may be modified or amended at any time without notice to or the consent of any owner of the outstanding Parity Debt, solely for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Board contained in the Master Resolution, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in the Master Resolution;
- (ii) to cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Master Resolution, upon receipt by the Board of an approving opinion of bond counsel, that the same is needed for such purpose and will more clearly express the intent of the Master Resolution;
- (iii) to supplement the security for the outstanding Parity Debt, including, but not limited to, amending the definition of Pledged Revenues to add a portion or all of the Practice Plan Funds attributable to any Member (one or more) to Pledged Revenues; provided, however, any amendment to the definition of Pledged Revenues which results in the pledge of Practice Plan Funds may limit the amount of such pledge and the manner, extent and duration of such additional pledge all as set forth in such amendment; or
- (iv) to make such other changes in the provisions of the Master Resolution as the Board may deem necessary or desirable and which shall not, in the judgment of the Board, materially adversely affect the interests of the owners of outstanding Parity Debt; or
- (v) to make any changes or amendments requested by any bond rating agency then rating or requested to rate Parity Debt, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the outstanding Parity Debt.

Amendments With Consent. Subject to the other provisions of the Master Resolution, the owners of outstanding Parity Debt aggregating 51% in Outstanding Principal Amount shall have the right from time to time to approve any other amendment to the Master Resolution which may be deemed necessary or desirable by the Board; provided, however, that nothing contained in the Master Resolution shall permit or be construed to permit, without the approval of the owners of all of the outstanding Parity Debt, the amendment of the terms and conditions in the Master Resolution so as to:

- (i) grant to the owners of any outstanding Parity Debt a priority over the owners of any other outstanding Parity Debt; or
- (ii) materially adversely affect the rights of the owners of less than all Parity Debt then outstanding; or
- (iii) change the minimum percentage of owners of the Outstanding Principal Amount of Parity Debt necessary for consent to such amendment.

For purposes of determining whether the requisite owners of outstanding Parity Debt have approved a proposed amendment, “Outstanding Principal Amount” means, with respect to all Parity Debt or to a series of Parity Debt, the outstanding and unpaid principal amount of such Parity Debt paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Debt paying accrued, accreted or compounded interest only at maturity as of any record date established by the Registrar in connection with a proposed amendment or supplement to the Master Resolution.

Notice. If at any time the Board should desire to amend the Master Resolution with the consent of the owners of Parity Debt, the Board is required to cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice is required to briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each registrar for the Parity Debt for inspection by all owners of Parity Debt. Such publication is not required, however, if the Board gives or causes to be given such notice in writing, by certified mail, to each owner of Parity Debt.

Amendments of Supplements. Each Supplement may contain provisions governing the ability of the Board to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of outstanding Parity Debt under such Supplement a priority over the owners of any other outstanding Parity Debt.

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**APPENDIX D**

**UNAUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF  
THE UNIVERSITY OF TEXAS SYSTEM  
FOR THE FISCAL YEAR ENDED AUGUST 31, 2009**

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**The University of Texas System**  
Nine Universities. Six Health Institutions. Unlimited Possibilities.

**Office of the Controller**

201 West Seventh Street, ASH 5<sup>th</sup> Floor, Austin, Texas 78701-2981  
Phone: (512) 499-4527 Fax: (512) 499-4322

November 20, 2009

The University of Texas at Arlington

The University of Texas at Austin

The University of Texas at Brownsville

The University of Texas at Dallas

The University of Texas at El Paso

The University of Texas – Pan American

The University of Texas  
of the Permian Basin

The University of Texas at San Antonio

The University of Texas at Tyler

Dr. Francisco G. Cigarroa  
Chancellor  
The University of Texas System  
Austin, Texas

Dear Chancellor Cigarroa:

Submitted herein are the combined primary financial statements of The University of Texas System for the fiscal year ended August 31, 2009. Also presented are the primary financial statements of System Administration and the institutions of The University of Texas System for the same period.

The financial statements in this report have been prepared in compliance with the *Texas Government Code*, Ann. §2101.011, in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and in accordance with the requirements established by the State Comptroller of Public Accounts. The Annual Financial Report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report; therefore, an opinion has not been expressed on the statements and related information contained in this report.

If you have any questions regarding this report, please contact me at 499-4527.

Respectfully submitted,

Debbie L. Frederick, CPA  
Financial Reports and  
Investment Accounting Manager

Approved:

Randy Wallace  
Associate Vice Chancellor -  
Controller and Chief Budget Officer

DLF/kad

Enclosure

www.utsystem.edu

**THE UNIVERSITY OF TEXAS SYSTEM**  
**BOARD OF REGENTS**  
**As of August 31, 2009**

**Officers**

James R. Huffines, Chairman  
Colleen McHugh, Vice Chairman  
Paul Foster, Vice Chairman  
Francie A. Frederick, General Counsel to the Board of Regents

**Members**

---

*Terms scheduled to expire February 1, 2011\**

R. Steven "Steve" Hicks	Austin
Janiece Longoria	Houston
Colleen McHugh	Corpus Christi

---

*Terms scheduled to expire February 1, 2013\**

James D. Dannenbaum	Houston
Paul Foster	El Paso
Printice L. Gary	Dallas

---

*Terms scheduled to expire February 1, 2015\**

James R. Huffines	Austin
Wm. Eugene "Gene" Powell	San Antonio
Robert L. Stillwell	Houston

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*Term scheduled to expire May 31, 2010\**

Karim A. Meijer (Student Regent)	U. T. Southwestern Medical Center - Dallas
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\*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, 2009

\*\*\*\*\*

Francisco G. Cigarroa, M.D., Chancellor

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

David B. Prior, Executive Vice Chancellor for Academic Affairs

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

Philip Aldridge, Vice Chancellor for Finance and Business Development

Tonya Moten Brown, Vice Chancellor for Administration

Barry D. Burgdorf, Vice Chancellor and General Counsel

Vacant, Vice Chancellor for Strategic Management

Barry McBee, Vice Chancellor for Governmental Relations

Keith McDowell, Vice Chancellor for Research and Technology Transfer

Randa S. Safady, Vice Chancellor for External Relations

William H. Shute, Vice Chancellor for Federal Relations

Amy Shaw Thomas, Vice Chancellor and Counsel for Health Affairs

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

Cathy Iberg, President and Deputy Chief Investment Officer–UTIMCO

\*\*\*\*\*

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**THE UNIVERSITY OF TEXAS SYSTEM**  
**Management's Discussion and Analysis**  
For the Year Ended August 31, 2009  
(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 (UT) at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston (now a part of the Medical Branch at Galveston) established a program for university-trained medical professionals. In addition to the original academic campus located in Austin, the System now includes eight additional academic campuses in Arlington, Dallas, El Paso, Odessa, San Antonio, Tyler, Brownsville and Edinburg. Health institutions for medical education and research have expanded beyond the original Galveston medical campus to include M. D. Anderson Cancer Center, Southwestern Medical Center at Dallas, and Health Science Centers at Houston, San Antonio and Tyler.

The System's fifteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to over 195,000 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.

**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, 2009, with selected comparative information for the years ended August 31, 2008 and 2007. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on the current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended August 31. The System's consolidated financial report includes three primary financial statements: the balance sheet; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. The financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) pronouncements.

**FINANCIAL HIGHLIGHTS**

- In the fall of 2008, the System's enrollment increased 0.5% to 195,107 students. The System's academic institutions enroll 38.3% of the State's public college students, and the System's health-related institutions enroll 67.2% of the students attending the State's public health institutions. On March 26, 2008, the Board of Regents approved a motion to limit tuition and fee increases to a maximum of 4.95%, or \$150 per semester, whichever is greater, for full-time resident undergraduate students for each of academic years 2008-2009 and 2009-2010. Net tuition and fees increased \$80.3 million (Table 3) in 2009, or 7.8%, as a result of tuition and fee increases including resident, non-resident, and graduate tuition, and a 0.8% increase in student semester credit hours at the academic institutions. The plans approved by the System's Board of Regents include setting aside the statutorily required portion of at least 20% of new tuition revenues for financial aid programs, as well as a variety of ways that students can take advantage of special discounts in tuition rates. The approved plans also include pricing incentives to encourage students to graduate on time by taking more semester credit hours in each term they are enrolled.

- Net patient care revenues increased \$123.7 million in 2009, or 3.1%, as a result of an increase in patient volumes and higher rates (Table 3). This increase was in spite of the decrease in patient care revenue of \$164.5 million at UT Medical Branch at Galveston caused by Hurricane *Ike* which made landfall on September 13, 2008.
- As a result of poor market conditions in 2009, net investment income, excluding the decrease in fair value of investments, was a loss of \$1.3 billion (Table 3). Investment income decreased \$2.9 billion from 2008 including realized losses of \$1.9 billion. The net decrease in fair value of investments was \$1.3 billion in 2009, as compared to a \$1.9 billion decrease in 2008 (Table 3). These realized and unrealized losses were the largest contributor to the total decrease in net assets of \$3.6 billion during 2009 (Table 2).
- Investments in capital asset additions were \$1.7 billion in 2009, of which \$1.3 billion consisted of new projects under construction. Major capital projects completed in 2009 include:
  - ❖ The Darrell K Royal Texas Memorial Stadium expansion at UT Austin, \$123.5 million;
  - ❖ the Dell Pediatric Research Institute at UT Austin, \$81.1 million;
  - ❖ the Engineering/Biotech Building Phase II at UT San Antonio, \$75.2 million;
  - ❖ the Student Living/Learning Center at UT Dallas, \$39.5 million;
  - ❖ the Faculty Parking Garage at UT M. D. Anderson, \$35 million; and
  - ❖ the Research and Support Building at UT Southwestern Medical Center at Dallas, \$33.7 million.

### **The Balance Sheet**

The balance sheet presents the assets, liabilities and net assets of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2009, with comparative information for the previous years. The balance sheet presents information in current and noncurrent format for both assets and liabilities. The net assets section presents assets less liabilities. Over time, increases or decreases in net assets are one indicator of the improvement or decline of the System's financial health when considered with nonfinancial factors such as enrollment, patient levels, and the condition of facilities. A summarized comparison of the System's balance sheets at August 31, 2009, 2008 and 2007 follows:

**Table 1**

	2009	2008	2007
<b>Assets:</b>		(\$ in millions)	
Current assets	\$ 5,005.2	5,260.7	6,205.6
Noncurrent investments	20,890.2	25,127.9	25,865.3
Other noncurrent assets	266.9	281.9	226.8
Capital assets, net	10,130.7	9,300.1	8,321.0
Total assets	36,293.0	39,970.6	40,618.7
<b>Liabilities:</b>			
Current liabilities	6,112.4	7,405.7	7,135.8
Noncurrent liabilities	6,155.3	4,947.3	5,133.3
Total liabilities	12,267.7	12,353.0	12,269.1
<b>Net assets:</b>			
Invested in capital assets, net of related debt	4,475.1	4,492.6	4,061.5
Restricted	17,197.0	20,377.6	21,165.6
Unrestricted	2,353.2	2,747.4	3,122.5
Net assets	24,025.3	27,617.6	28,349.6
Liabilities and net assets	\$ 36,293.0	39,970.6	40,618.7

Assets decreased \$3.7 billion, or 9.2%, in 2009 primarily due to financial market conditions resulting in significant realized and unrealized losses in the System's investments. Liabilities decreased \$85.3 million, or 0.7%, due to investment payables and securities out on loan under the securities lending program decreasing.

### Current Assets and Current Liabilities

Current assets consist primarily of cash and cash equivalents; securities lending collateral; various student, patient, gift and investment trades receivables; and student notes receivable. The System's current assets decreased \$255.5 million, or 4.9%, in 2009 primarily as a result of decreasing collateral for securities out on loan under the securities lending program (Table 1).

Current liabilities consist primarily of accounts payable and accrued liabilities, investment trades payable, securities lending obligations, deferred revenues, commercial paper notes and the current portion of bonds payable. The System's current liabilities decreased \$1.3 billion in 2009 due to investment trades payable and securities out on loan under the securities lending program decreasing (Table 1).

### Noncurrent Investments

Noncurrent investments include permanent endowments, funds functioning as endowments, life income funds and other investments. These assets decreased by \$4.2 billion in 2009 due to realized losses and decreases in the fair value of investments (Table 1).

### Capital Assets and Liabilities

#### Capital Assets

The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its \$8.3 billion capital improvement program to upgrade its facilities. This capital improvement program is balanced between new construction to deal with space deficiencies and planned growth in patient care and student enrollment. Capital additions totaled \$1.7 billion in 2009, of which \$1.3 billion consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment.

On September 13, 2008, Hurricane *Ike* made landfall at Galveston, Texas resulting in the closure of a significant portion of UT Medical Branch at Galveston. UT Medical Branch at Galveston sustained significant physical damage and loss of patient care activity. Hurricane *Ike* resulted in a permanent impairment of capital assets for UT Medical Branch at Galveston of \$82.3 million, with \$66.4 million of insurance recoveries during 2009, for a net impairment of capital assets of \$15.9 million for 2009.

#### Bonds and Notes Payable

Bonds payable relating to financing of current and prior years' construction needs were the largest portion of the System's liabilities and totaled \$5.5 billion and \$4.4 billion at August 31, 2009 and 2008, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2009, the System issued par value of \$1.25 billion of new bonds of which \$621 million was used to current refund Revenue Financing System (RFS) commercial paper notes, \$16.1 million was used to current refund outstanding RFS bonds and \$400 million was used to current refund PUF flexible rate notes. Additionally, \$4 million of RFS bonds were optionally redeemed and \$230.9 million of RFS bonds proceeds were used to provide new money to finance the costs of campus improvements.

Of the \$1.25 billion of bonds issued during 2009, \$330.5 million were Build America Bonds. The American Recovery and Reinvestment Act of 2009 created Build America Bonds to stimulate the economy. The federal government provides a subsidy equal to 35% of the interest payments on Build America Bonds issued. During 2009, the System received \$1.2 million of Build America Bond subsidy payments.

Notes and loans payable decreased \$219.6 million due in part to a \$400 million decrease in outstanding Permanent University Fund (PUF) flexible rate notes, offset by a \$250 million increase in taxable commercial paper notes. RFS commercial paper notes outstanding decreased by \$66.8 million. These notes are issued periodically to provide interim financing for capital improvements and to finance the acquisition of capital

equipment. The System typically refunds a portion of these outstanding notes through the issuance of long-term debt to provide permanent financing for projects financed on an interim basis.

For additional information concerning capital assets and related debt activities, see Notes 5, 8, 9, 10 and 12 to the consolidated financial statements.

Other significant liabilities for the System include deferred revenues of \$1 billion and \$945.6 million for 2009 and 2008, respectively; securities lending obligations of \$381.7 million and \$984.3 million for 2009 and 2008, respectively; and payables related to investment trades of \$205.8 billion and \$1.1 billion for the same two periods.

Other Postemployment Benefits Liability

Due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) the System reported a net OPEB obligation liability of \$841 million for 2009. In the first year of the implementation, 2008, the liability was \$422.7 million. GASB 45 requires accrual-based measurement and recognition of OPEB expenses, such as retiree medical and dental costs, over the employees’ years of service, along with the related liability. Pursuant to GASB 45, the System has accrued the liability and is recognizing it over a 30 year period so that the increase in the liabilities does not occur all in one year. The System is not required to fund the OPEB liability; instead, the difference between the OPEB cost and the System’s contributions to the plan will increase the unfunded actuarial accrued liability. For the year ended August 31, 2009, the System’s annual OPEB cost was \$523.7 million. Employer contributions for 2009 were \$105.4 million, resulting in an increase in net OPEB obligation of \$418.3 million in 2009. The System’s total unfunded actuarial accrued liability was \$5.1 billion as of August 31, 2009. For additional information concerning the OPEB liability, see Note 7 to the consolidated financial statements.

Net Assets

Net assets represent the residual interest in the System’s assets after liabilities are deducted. The following table summarizes the composition of net assets at August 31, 2009, 2008 and 2007:

<b>Table 2</b>			
	2009	2008	2007
<b>Net assets:</b>	(\$ in millions)		
Invested in capital assets, net of related debt	\$ 4,475.1	4,492.6	4,061.5
Restricted:			
Nonexpendable	10,224.5	10,186.3	9,772.9
Expendable	6,972.5	10,191.3	11,392.7
Total restricted	17,197.0	20,377.6	21,165.6
Unrestricted	2,353.2	2,747.4	3,122.5
<b>Total net assets</b>	<b>\$ 24,025.3</b>	<b>27,617.6</b>	<b>28,349.6</b>

Net assets invested in capital assets, net of related debt represents the System’s capital assets, net of accumulated depreciation and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The \$17.5 million decrease in capital assets, net of related debt, in 2009 resulted primarily from a net increase in capital assets of \$1.4 billion offset by an increase in related debt of \$857.8 million and an increase in accumulated depreciation of \$621.2 million (Table 2). As stated previously under Financial Highlights, net assets decreased by \$3.6 billion in 2009.

Restricted net assets primarily include the System’s permanent endowment funds subject to externally imposed restrictions governing their use. The System’s permanent endowment funds include the PUF, which supports both the System and the Texas A&M University System. Per the Texas Constitution, distributions from the PUF must be not 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 academic 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 4 to the consolidated financial statements for additional information).

As of August 31, 2009 and 2008, restricted nonexpendable net assets include \$6.5 billion and \$6.6 billion, respectively, of the PUF corpus, \$820 million for both years of the PHF corpus, and \$2.9 billion and \$2.8 billion, respectively, of other endowments' corpus. As of August 31, 2009 and 2008, restricted expendable net assets include \$3.9 billion and \$6.1 billion, respectively, of the PUF appreciation, \$22.3 million and \$205.7 million, respectively, of the PHF appreciation, and \$1.3 billion and \$2.1 billion, respectively, of other endowments' appreciation (Table 2).

PUF appreciation consists of the market value of all investments in excess of the corpus, which is made up of all oil and gas revenue and future reserves. Although appreciation related to the PUF is included in the restricted, expendable line item, it should be noted that the Texas Constitution provides that the UT 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 UT 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 UT System Board of Regent's must adhere to the Texas Constitution as discussed further in Note 4 to the consolidated financial statements.

Restricted nonexpendable net assets increased by \$38.2 million to \$10.2 billion in 2009, resulting from new gifts. Restricted expendable net assets of \$7 billion primarily include appreciation on endowment funds of \$5.2 billion, restricted contract and grant and loan funds of \$1.3 billion, funds restricted to support cancer treatment and programs that benefit public health of \$92.9 million, debt service of \$10.7 million, and \$206.8 million of funds functioning as endowments (Table 2).

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the System's unrestricted net assets have been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. Unrestricted net assets also include funds functioning as endowments of \$256.6 million.

#### 2008 Highlights - Balance Sheet

In 2008, total assets decreased \$648.1 million from 2007 primarily due to financial market conditions, which resulted in significant unrealized losses in the System's investments. Noncurrent investments decreased by \$737.4 million as a result of decreases in the fair value of these investments. In 2008, the System's capital assets, net of related debt, increased \$431.1 million due to a net change in capital assets of \$1.6 billion which was offset by a \$544.9 million increase in related debt and an increase in accumulated depreciation of \$575.9 million. Bonds payable increased \$483.2 million, and flexible rate and commercial paper notes outstanding increased \$344 million. Due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* in 2008, the System reported a net OPEB obligation liability of \$422.7 million for 2008. Financial market conditions and recording the OPEB liability resulted in a \$732 million decrease in net assets in 2008.

### **The Statement of Revenues, Expenses and Changes in Net Assets**

The statement of revenues, expenses and changes in net assets details the changes in total net assets as presented on the balance sheet. The statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net assets for the years ended August 31, 2009, 2008 and 2007:

**Table 3**

	2009	2008	2007
	(\$ in millions)		
<b>Operating revenues:</b>			
Net student tuition and fees	\$ 1,104.3	1,024.0	968.3
Grants and contracts	2,517.0	2,408.8	2,246.6
Net patient care revenues	4,123.0	3,999.3	3,775.9
Net auxiliary enterprises	372.3	342.1	327.4
Other	447.6	389.1	455.7
<b>Total operating revenues</b>	<u>8,564.2</u>	<u>8,163.3</u>	<u>7,773.9</u>
<b>Total operating expenses</b>	<u>(11,775.2)</u>	<u>(11,015.7)</u>	<u>(9,779.3)</u>
<b>Operating loss</b>	<u>(3,211.0)</u>	<u>(2,852.4)</u>	<u>(2,005.4)</u>
<b>Nonoperating revenues (expenses):</b>			
State appropriations	2,115.0	1,956.7	1,760.7
Nonexchange Sponsored Programs	189.1	-	-
Gift contributions for operations	289.6	368.8	284.5
Net investment income excluding the change in fair value of investments	(1,304.9)	1,648.3	1,833.7
Net increase in fair value of investments	(1,332.9)	(1,880.6)	1,628.8
Interest expense on capital asset financings	(158.9)	(161.7)	(158.0)
Net other nonoperating revenues (expenses)	26.9	(28.9)	(3.4)
<b>Income before other revenues, expenses, gains or losses</b>	<u>(3,387.1)</u>	<u>(949.8)</u>	<u>3,340.9</u>
Capital appropriations – Higher Education Assistance Fund (HEAF)	17.5	17.1	11.4
Capital gifts and grants, additions to permanent endowments and extraordinary items	165.4	338.7	342.5
Net Transfers to other State entities	(388.1)	(138.0)	(120.6)
<b>Change in net assets</b>	<u>(3,592.3)</u>	<u>(732.0)</u>	<u>3,574.2</u>
<b>Net assets, beginning of the year</b>	<u>27,617.6</u>	<u>28,349.6</u>	<u>24,775.4</u>
<b>Net assets, end of the year</b>	<u>\$ 24,025.3</u>	<u>27,617.6</u>	<u>28,349.6</u>

### **Operating Revenues**

Student tuition and fees, a primary source of funding for the System's academic programs, are reflected net of associated discounts and allowances. Net student tuition and fees increased \$80.3 million, or 7.8%, as a result of tuition and fee increases and a 0.8% increase in student semester credit hours at the academic institutions (Table 3). Enrollment at the health institutions increased 2.8% in the fall of 2008.

Grant and contract revenues are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Governmental grants include grants from the federal government such as the National Institutes of Health (NIH). Other grants and contracts include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased \$108.3 million, or 4.5%, in 2009 largely due to an increase in federal awards and an increase in contracts with nongovernmental entities (Table 3). This increase was in spite of moving \$189.1 million of Pell grant revenues from the operating revenue section to the nonoperating section of the statement of revenues, expenses and changes in net assets, per the GASB *Implementation Guide*. The competition for federal grant awards remains steep; however, continued investments in research infrastructure have positioned the System's institutions well to compete for these federal funds and other funding opportunities.

Patient care revenues are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. These revenues are reported net of unreimbursed charges for financially or medically indigent patients, which are considered unsponsored charity care. Net patient care revenues increased \$123.7 million, or 3.1%, in 2009, as a result of an increase in patient volumes and higher rates. This increase was in spite of the decrease in patient care revenue of \$164.5 million caused by Hurricane *Ike*. UT Medical Branch at Galveston sustained significant physical damage and loss of patient care activity. UT Medical Branch at Galveston has now resumed operations for all education, research, patient and clinical activity, although patient and clinical activity is operating at reduced capacity levels. As currently reported, the System's health-related institutions calculate the amount of unsponsored charity care on the basis of what is billed for those services. Auxiliary enterprise revenues, which increased \$30.3 million, were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities (Table 3).

#### Operating Expenses

The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2009, 2008 and 2007:

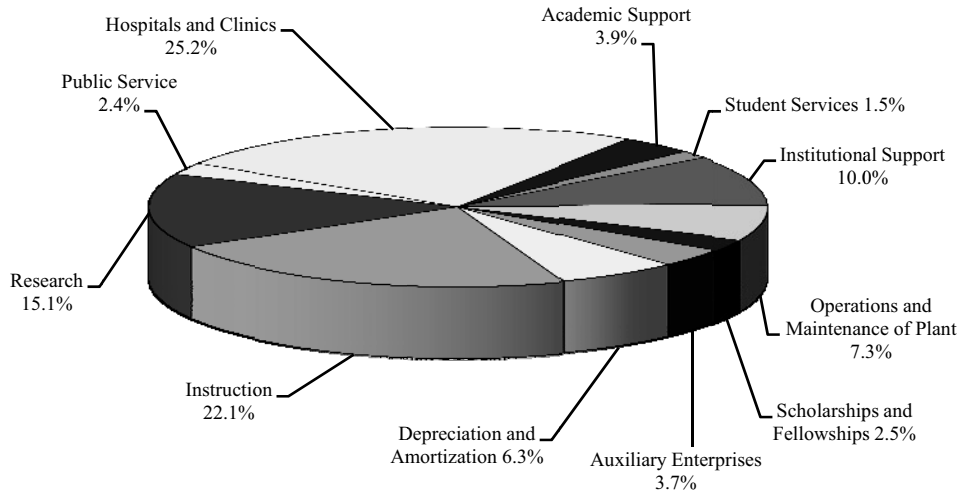
**Table 4**

	2009	2008	2007
<b>Functional classification of operating expenses:</b>		(\$ in millions)	
Instruction	\$ 2,598.1	2,430.5	2,384.3
Research	1,780.9	1,714.6	1,542.9
Public service	284.2	257.9	222.1
Hospitals and clinics	2,963.7	2,866.5	2,635.2
Academic support	456.6	423.8	390.4
Student services	180.6	177.6	157.4
Institutional support	1,173.7	1,103.3	634.6
Operations and maintenance of plant	861.6	699.2	554.6
Scholarships and fellowships	296.5	260.6	257.3
Auxiliary enterprises	438.5	401.9	373.6
Depreciation and amortization	740.8	679.8	626.9
<b>Total operating expenses</b>	<b>\$ 11,775.2</b>	<b>11,015.7</b>	<b>9,779.3</b>

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased \$759.5 million, or 6.9%, in 2009 in response to growing student enrollment, research, and patient care activities (Table 4). The System's full-time equivalent employees increased 0.6% from 80,467 in 2008 to 80,975 in 2009. Employee-related costs increased due to salary increases and higher medical costs. Additionally, due to the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) in 2008, the System reported \$418.3 million of net OPEB obligation expense which is included in the Institutional Support functional classification in the table above.

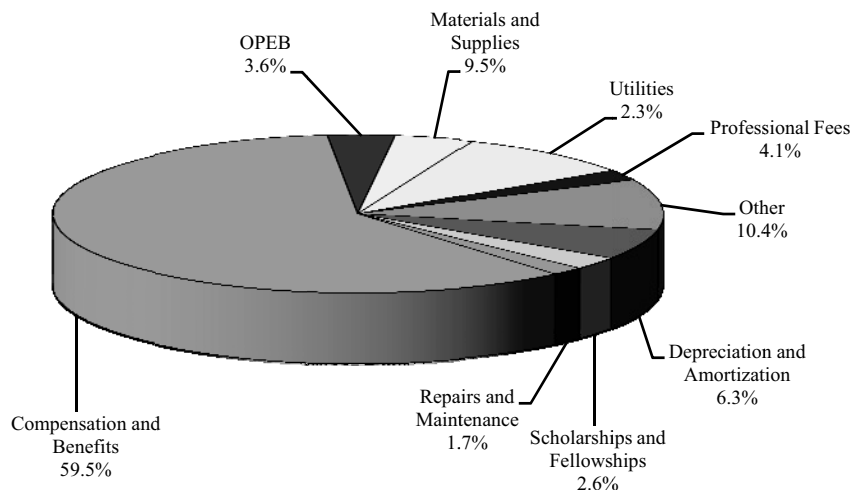
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2009.

**Functional Classification of Operating Expenses (\$11,775.2 million)**



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, 2009.

**Natural Classification of Operating Expenses (\$11,775.2 million)**



Nonoperating Revenues and Expenses

Certain significant recurring revenues are considered nonoperating, as required by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. State appropriations increased \$158.3 million, or 8.1% (Table 3). State appropriations include \$150 million of FEMA matching funds for UT Medical Branch at Galveston. On September 13, 2008 Hurricane *Ike* made landfall at

Galveston, Texas resulting in significant physical damage for UT Medical Branch at Galveston. It will take years to rebuild and the additional appropriations will be used to match FEMA funds in that effort.

The System reclassified Pell revenues of \$189.1 million to the nonoperating section in 2009 per the GASB *Implementation Guide* (Table 3).

Gift contributions for operations of \$289.6 million decreased \$79.1 million from 2008 as a result of the current economic environment. Net investment income, excluding the change in the fair value of investments, decreased \$2.9 billion from positive \$1.6 billion in 2008 to negative \$1.3 billion in 2009. Net investment income includes realized losses of \$1.9 billion in 2009. The change in the fair value of the System’s investments decreased \$1.3 billion due to unfavorable market conditions (Table 3). In 2008, the change in the fair value of investments was a decrease of \$1.9 billion. Included in the \$1.3 billion decrease is a \$362.1 million decrease in the value of the PUF lands. The fair value of the PUF Land’s interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2009. Probable and possible reserves of oil and gas are not included in the fair value estimate.

Finally, interest expense on capital asset financings decreased slightly from \$161.7 million in 2008 to \$158.9 million in 2009 (Table 3). Of the \$1.25 billion of bonds issued during 2009, \$330.5 million were Build America Bonds. The American Recovery and Reinvestment Act of 2009 created Build America Bonds to stimulate the economy. The federal government provides a subsidy equal to 35% of the interest payments on Build America Bonds issued. During 2009, the System received \$1.2 million of Build America Bond subsidy payments. In accordance with reporting requirements, the subsidy is reported as federal revenue and not as a credit to interest expense.

Income Before Other Revenues, Expenses, Gains or Losses

Income before other revenues, expenses, gains or losses, 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 loss before other revenues, expenses, gains or losses totaled \$3.4 billion in 2009, a decrease of \$2.4 billion over 2008. This decrease was largely a result of realized losses on investments, a decrease in the fair value of investments and OPEB expense. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. The following table summarizes the System’s view of its operating results for 2009, 2008 and 2007:

	2009	2008	2007
		(\$ in millions)	
<b>Operating results:</b>			
Income (loss) before other revenue, expenses gains/(losses) & transfers	\$ (3,387.1)	(949.8)	3,340.9
Add back nonoperating items:			
Change in fair value of investments	1,332.9	1,880.6	(1,628.8)
Loss on sale of capital assets	6.9	25.3	12.3
Other nonoperating	(33.8)	3.6	(8.9)
Realized (gains)/losses on investments	1,903.3	(695.5)	(1,026.9)
<b>Net operating results</b>	<u>\$ (177.8)</u>	<u>264.2</u>	<u>688.6</u>

Capital Appropriations, Capital Gifts and Grants, Additions to Permanent Endowments and Extraordinary Items

Capital appropriations, capital gifts and grants, additions to permanent endowments, and extraordinary items totaled \$182.9 million for the year ended August 31, 2009, a decrease of \$172.9 million over 2008 as a result of the current economic environment (Table 3). The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

### Transfers

Transfers to other State agencies include \$177 million and \$149.6 million for 2009 and 2008, respectively, for the AUF distributed to Texas A&M University System for its annual one-third participation in the PUF endowment. In accordance with tuition set-asides required by the Texas Education Code, the institutions transferred tuition revenues of \$15.1 million and \$11.4 million in 2009 and 2008, respectively, to the Texas Higher Education Coordinating Board.

### Change in Net Assets

The change in net assets results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline between the prior and current year's balance sheet. Net assets decreased by \$3.6 billion in 2009 as compared to a decrease of \$732 million in 2008, primarily due to realized and unrealized losses on investments (Table 3).

### 2008 Highlights - Statement of Revenues, Expenses and Changes in Net Assets

In 2008, the System's net tuition and fees increased \$55.7 million over 2007 due to increases in tuition and fee rates, as well as continued increases in semester credit hours. Contract and grant revenue from governmental and private sources increased \$162.2 million primarily attributable to increased federal awards and an increase in contracts with nongovernmental entities. Net patient care revenues grew by \$223.4 million due to higher patient volumes and rates. Total operating expenses increased \$1.2 billion due to the growth in student enrollment, research and patient care. Additionally, the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB) in 2008 resulted in the recording of \$422.7 million of net OPEB obligation expense.

Net investment income, excluding the change in the fair value of investments, decreased \$185.4 million between 2008 and 2007. The fair value of investments decreased \$3.5 billion from 2007, primarily as a result of unfavorable market conditions, as well as a \$310.1 million decrease in the value of the PUF lands. Both of these components of investment income were the largest contributors to the \$732 million decrease in net assets (Table 3).

### The Statement of Cash Flows

The statement of cash flows provides additional information about the System's financial results by reporting the major sources and uses of cash. The statement provides an assessment of the System's financial flexibility and liquidity to meet obligations as they come due and the need for external financing. The following table summarizes cash flows for the years ended August 31, 2009, 2008 and 2007:

**Table 6**

	2009	2008	2007
<b>Cash flows:</b>		(\$ in millions)	
Cash received from operations	\$ 8,816.8	8,237.9	7,855.8
Cash expended for operations	(10,731.3)	(9,940.5)	(9,235.5)
Net cash used in operating activities	(1,914.5)	(1,702.6)	(1,379.7)
Net cash provided by noncapital financing activities	2,398.8	2,067.3	2,137.3
Net cash used in capital and related financing activities	(790.3)	(758.0)	(833.6)
Net cash (used in)/provided by investing activities	706.4	456.0	184.6
Net (decrease)/increase in cash and cash equivalents	400.4	62.7	108.6
Cash and cash equivalents, beginning of year	1,944.3	1,881.6	1,773.0
Cash and cash equivalents, end of year	\$ 2,344.7	1,944.3	1,881.6

Pell grants, State appropriations and gift contributions for operations are significant sources of recurring revenues in support of operating expenses but are required to be classified as noncapital financing activities. Therefore, when considering cash flows related to operating activities, it is important to consider these noncapital financing activities which support operating expenses. The System's cash and cash equivalents increased \$400.4 million during 2009 compared to an increase of \$62.7 million in 2008 (Table 6).

### Economic Outlook

The mission of the System is to provide high-quality educational opportunities for the enhancement of the human resources of Texas, the nation, and the world through intellectual and personal growth. The achievement of the System's mission is dependent upon the ability to attract and support dedicated students from many cultures; acquire and retain the highest quality diverse faculty; recruit and appropriately recognize exemplary administrators and staff members; create and sustain physical environments that enhance and complement educational goals; and encourage ongoing public and private sector support of higher education. Philanthropic donations from the private sector provide valuable support for endowed faculty positions, student fellowships and scholarships, special facilities, enhancement of academic programs, and many other needs. The level of private support underscores the continued confidence among donors in the quality of the System's programs and the importance of its mission. At the same time, private support in 2010 will likely continue to reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Major strengths of the System include a diverse source of revenues, including those from the State of Texas, student tuition and fees, sponsored grants and contracts, patient care revenues, self-supporting enterprises and private support. The diversity of revenues is becoming increasingly important with the current economic crisis of the country. The Texas economy continues to fare better than those of many other states. But Texas is feeling the effects of the worldwide recession. Student tuition and fee increases have been necessary to address increasing costs exceeding the growth in State appropriations.

The System continues to face the challenge of reflecting the accrued costs of its healthcare and dental benefits costs for its 98,649 employees and retirees, as the costs continue to escalate. The unfunded actuarial accrued liability for these costs was \$5.1 billion as of August 31, 2009. Presently, the amount that the System contributes to the plan each year is equal to the cost of providing the benefits incurred during the year. The System will continue to recognize a portion of this liability over the next 28 years. Long-term strategic policy issues, such as funding the plan, will likely be considered in the future.

## UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT A - CONSOLIDATED BALANCE SHEET  
As of August 31, 2009

	Current Year Totals	Restated Prior Year Totals
<b>ASSETS</b>		
Current Assets:		
Cash & Cash Equivalents (Notes 2 & 3)	\$ 2,121,695,417.29	1,709,424,467.45
Restricted Cash & Cash Equivalents (Notes 2 & 3)	223,029,520.50	234,744,165.12
Balance in State Appropriations	239,618,663.47	105,838,008.41
Securities Lending Collateral (Notes 2 & 3)	381,688,392.78	984,342,778.76
Accounts Receivable, Net:		
Federal (allow. \$7,740,101.18 '09; \$8,161,257.33 '08)	267,031,469.00	233,277,022.51
Other Intergov. (allow. \$751,634.09 '09; & \$1,863,226.94 '08)	28,784,118.64	34,341,128.41
Student (allow. \$12,392,242.25 '09; & \$10,854,172.09 '08)	204,747,309.97	210,476,081.12
Patient (allow. \$1,212,321,274.13 '09; & \$1,084,236,899.69 '08)	616,752,938.03	624,222,806.56
Interest and Dividends	39,050,689.68	44,300,940.94
Contributions (allow. \$4,499,585.27 '09; & \$3,100,795.56 '08)	57,317,497.79	45,217,004.41
Investment Trades	95,927,542.45	224,650,596.69
Other (allow. \$11,220,833.51 '09; & \$3,713,562.30 '08) (Note 22)	225,132,325.73	393,010,057.78
Due From Other Funds	175,705,807.87	148,316,801.59
Due From Other Agencies	17,076,416.60	8,887,748.96
Inventories	65,894,678.92	69,817,640.76
Loans & Contracts (allow. \$7,188,128.82 '09; & \$7,011,494.19 '08)	47,842,873.67	42,506,699.96
Other Current Assets (Note 2)	197,893,674.38	147,291,036.62
Total Current Assets	<u>5,005,189,336.77</u>	<u>5,260,664,986.05</u>
Noncurrent Assets:		
Restricted:		
Cash & Cash Equivalents (Notes 2 & 3)	13,067.71	181,240.08
Investments (Notes 2 & 3)	18,123,777,500.72	21,834,829,399.71
Loans & Contracts (allow. \$16,657,111.57 '09; & \$13,211,521.63 '08)	89,223,643.07	94,875,572.96
Contributions Rec. (allow. \$10,656,480.58 '09; & \$9,792,568.16 '08)	139,724,593.77	152,141,097.58
Investments (Notes 2 & 3)	2,766,400,167.88	3,293,071,830.68
Other Noncurrent Assets/Held in Trust (Note 2)	37,993,355.88	34,736,433.66
Capital Assets (Note 5)	16,555,269,098.90	15,103,446,570.56
Less Accumulated Depreciation (Note 5)	<u>(6,424,546,934.23)</u>	<u>(5,803,304,363.27)</u>
Total Noncurrent Assets	<u>31,287,854,493.70</u>	<u>34,709,977,781.96</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>36,293,043,830.47</u></b>	<b><u>39,970,642,768.01</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable, Accrued Liabilities & Pollution Remediation	\$ 772,912,796.48	787,965,445.16
Salaries Payable	378,333,267.99	349,371,229.97
Federal Payables	33,274,468.35	27,663,462.24
Other Intergovernmental Payables	16,854.05	23,274.81
Investment Trades Payable	205,800,913.28	1,060,391,364.50
Incurred But Not Reported Self-Insurance Claims (Note 6)	85,403,589.63	81,060,666.02
Securities Lending Obligations (Notes 2 & 3)	381,688,392.78	984,342,778.76
Due to Other Funds	175,705,807.87	148,316,801.59
Due to Other Agencies	14,041,113.86	10,714,570.19
Interfund Payable (Note 2)	16,167,520.28	15,614,351.23
Deferred Revenue	1,030,074,482.88	945,647,756.93
Employees' Compensable Leave (Note 8)	261,831,782.92	270,920,183.46
Notes, Loans & Leases Payable (Notes 8, 10 & 11)	952,005,495.84	1,171,012,242.52
Payable From Restricted Assets	117,403,941.20	276,303,102.67
Revenue Bonds Payable (Notes 8 & 9)	1,619,983,483.85	1,209,148,486.94
Assets Held for Others	16,773,041.80	16,017,310.14
Other Current Liabilities	<u>50,998,998.44</u>	<u>51,197,141.50</u>
Total Current Liabilities	<u>6,112,415,951.50</u>	<u>7,405,710,168.63</u>
Noncurrent Liabilities:		
Incurred But Not Reported Self-Insurance Claims (Note 6)	30,181,103.37	35,071,830.98
Employees' Compensable Leave (Note 8)	173,224,314.10	139,642,110.98
Assets Held for Others (Note 2)	626,991,747.02	720,032,249.05
Liability to Beneficiaries (Note 2)	12,263,173.72	17,682,639.54
Notes, Loans and Leases Payable (Notes 8, 10 & 11)	31,760,845.21	33,972,141.34
Revenue Bonds Payable (Notes 8 & 9)	3,867,084,956.03	3,198,905,141.11
Interfund Payable (Note 2)	565,396,012.11	372,403,605.55
Net Other Postemployment Benefits Obligation (Note 7)	841,025,290.00	422,678,024.00
Other Noncurrent Liabilities	<u>7,434,881.81</u>	<u>6,971,000.38</u>
Total Noncurrent Liabilities	<u>6,155,362,323.37</u>	<u>4,947,358,742.93</u>
<b>TOTAL LIABILITIES</b>	<b><u>12,267,778,274.87</u></b>	<b><u>12,353,068,911.56</u></b>
<b>NET ASSETS (Note 13)</b>		
Invested in Capital Assets, Net of Related Debt	4,475,107,614.90	4,492,553,460.55
Restricted for:		
Nonexpendable		
Permanent University Fund Endowment (Note 4)	6,492,633,743.16	6,569,214,663.45
Permanent Health & True Endowments & Annuities (Note 4)	3,731,916,645.89	3,617,095,787.28
Expendable		
Capital Projects	113,389,303.92	(18,981,050.03)
Debt Service	10,652,127.76	11,201,992.53
Funds Functioning as Endowment - Restricted	206,793,039.82	232,809,744.69
Other Expendable	6,641,622,790.09	9,966,296,583.47
Unrestricted	<u>2,353,150,290.06</u>	<u>2,747,382,674.51</u>
<b>TOTAL NET ASSETS</b>	<b><u>24,025,265,555.60</u></b>	<b><u>27,617,573,856.45</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>36,293,043,830.47</u></b>	<b><u>39,970,642,768.01</u></b>

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT B - CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended August 31, 2009

	Current Year Totals	Restated Prior Year Totals
<b>Operating Revenues:</b>		
Student Tuition and Fees	\$ 1,404,680,263.64	1,290,956,405.78
Discounts and Allowances	(300,366,426.84)	(266,947,393.25)
Federal Sponsored Programs	1,332,686,209.82	1,435,979,853.44
Federal Sponsored Programs Pass-Through from Other St. Agencies	163,470,054.91	73,280,115.29
State Sponsored Programs		51,245,135.29
State Sponsored Programs Pass-Through from Other St. Agencies	175,100,483.93	136,728,315.89
Local Sponsored Programs	455,561,895.72	354,223,394.32
Private Sponsored Programs	390,211,619.29	357,309,952.98
Sales and Services of Educational Activities	373,833,897.67	294,038,262.20
Discounts and Allowances	(520,917.75)	(329,409.59)
Sales and Services of Hospitals	6,215,283,347.56	6,185,544,921.60
Discounts and Allowances	(3,081,845,532.06)	(3,168,916,890.41)
Professional Fees	3,348,755,837.90	3,130,651,432.89
Discounts and Allowances	(2,359,232,067.38)	(2,147,973,437.12)
Auxiliary Enterprises	381,469,484.24	350,927,147.60
Discounts and Allowances	(9,146,021.27)	(8,862,927.63)
Other Operating Revenues	74,228,734.32	95,464,193.97
<b>Total Operating Revenues</b>	<b>8,564,170,863.70</b>	<b>8,163,319,073.25</b>
<b>Operating Expenses: (Note 14 for Natural Classification of Expenses)</b>		
Instruction	2,598,087,500.44	2,446,161,796.40
Research	1,780,927,330.65	1,697,237,149.87
Public Service	284,209,160.90	257,962,967.93
Hospitals and Clinics	2,963,654,584.49	2,866,499,533.42
Academic Support	456,568,737.87	423,834,915.38
Student Services	180,548,583.54	177,553,196.03
Institutional Support	1,173,700,146.11	1,103,322,753.88
Operations and Maintenance of Plant	861,568,645.25	699,150,701.69
Scholarships and Fellowships	296,530,330.39	262,219,844.73
Auxiliary Enterprises	438,536,182.96	401,932,014.24
Depreciation and Amortization	740,830,606.12	679,831,345.96
<b>Total Operating Expenses</b>	<b>11,775,161,808.72</b>	<b>11,015,706,219.53</b>
<b>Operating Loss</b>	<b>(3,210,990,945.02)</b>	<b>(2,852,387,146.28)</b>
<b>Nonoperating Revenues (Expenses):</b>		
State Appropriations	2,114,967,490.17	1,956,650,090.63
Nonexchange Sponsored Programs	189,075,963.70	
Gift Contributions for Operations	289,642,192.86	368,785,870.42
Net Investment Income	(1,304,932,336.47)	1,648,348,287.87
Net Increase (Decrease) in Fair Value of Investments	(1,332,920,180.81)	(1,880,621,534.64)
Interest and Other Expenses on Capital Asset Financings	(158,858,505.63)	(161,687,051.86)
Gain/(Loss) on Sale of Capital Assets	(6,894,233.64)	(25,281,736.66)
Other Nonoperating Revenues	41,405,071.90	1,173,985.02
Other Nonoperating Expenses	(7,613,201.80)	(4,746,888.70)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(176,127,739.72)</b>	<b>1,902,621,022.08</b>
Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	(3,387,118,684.74)	(949,766,124.20)
Capital Appropriations - HEAF	17,461,477.00	17,069,138.00
Gifts and Sponsored Programs for Capital Acquisitions	66,263,720.17	194,447,231.32
Additions to Permanent Endowments	99,213,733.05	143,565,575.06
Extraordinary Items		723,793.70
Transfers From Other State Agencies	335,207,056.64	249,512,368.32
Transfers to Other State Agencies	(722,396,387.52)	(387,558,569.14)
Legislative Appropriations Lapsed	(939,215.45)	(8,661.30)
<b>Change in Net Assets</b>	<b>(3,592,308,300.85)</b>	<b>(732,015,248.24)</b>
Beginning Net Assets	27,617,579,553.45	28,349,589,104.69
Restatements (Note 26)	(5,697.00)	
<b>Beginning Net Assets</b>	<b>27,617,573,856.45</b>	<b>28,349,589,104.69</b>
<b>Ending Net Assets</b>	<b>\$ 24,025,265,555.60</b>	<b>27,617,573,856.45</b>

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

## UNAUDITED

THE UNIVERSITY OF TEXAS SYSTEM  
EXHIBIT C - CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Year Ended August 31, 2009

	Current Year Totals	Restated Prior Year Totals
<b>Cash Flows from Operating Activities:</b>		
Proceeds from Tuition and Fees	\$ 1,153,918,367.16	1,013,056,182.93
Proceeds from Patients and Customers	4,139,191,021.56	3,930,896,780.88
Proceeds from Sponsored Programs	2,566,242,475.66	2,442,486,617.61
Proceeds from Auxiliaries	382,828,793.34	370,259,100.78
Proceeds from Other Revenues	486,830,391.19	391,878,335.55
Payments to Suppliers	(3,647,086,252.58)	(3,215,652,416.29)
Payments to Employees	(6,991,586,255.95)	(6,621,128,389.98)
Payments for Loans Provided	(91,826,619.70)	(98,072,388.77)
Proceeds from Loan Programs	87,841,777.47	89,312,859.11
Payments for Other Expenses	(808,890.99)	(5,618,790.30)
Net Cash Provided (Used) by Operating Activities	<u>(1,914,455,192.84)</u>	<u>(1,702,582,108.48)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Proceeds from Nonexchange Sponsored Programs	157,597,984.29	
Proceeds from State Appropriations	1,981,326,944.39	1,918,133,272.28
Proceeds from Operating Gifts	288,767,413.52	323,347,222.56
Proceeds from Private Gifts for Endowment and Annuity Life Purposes	126,853,911.21	176,847,884.14
Proceeds from Other Nonoperating Revenues	25,758,312.08	12,304,386.79
Payments/Receipts for Transfers to/from Other Agencies	(160,642,755.43)	(357,865,958.07)
Payments for Other Uses	(20,901,148.72)	(5,421,720.76)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>2,398,760,661.34</u>	<u>2,067,345,086.94</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Proceeds from Insurance Recovery	66,340,503.61	
Proceeds from Issuance of Capital Debt	2,246,422,206.92	2,004,394,842.26
Payments of Other Costs on Debt Issuance	(1,326,027.98)	(30,367,486.65)
Proceeds from Capital Appropriations, Grants and Gifts	66,813,079.17	132,468,001.04
Proceeds from Sale of Capital Assets	1,549,426.53	1,042,353.08
Payments for Additions to Capital Assets	(1,630,054,093.36)	(1,563,028,987.53)
Payments of Principal on Capital Related Debt	(1,382,511,450.35)	(1,142,479,450.14)
Payments of Interest on Capital Related Debt	(157,489,198.77)	(160,045,891.42)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(790,255,554.23)</u>	<u>(758,016,619.36)</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sales of Investments	17,509,321,415.22	29,760,191,204.23
Proceeds from Interest and Investment Income	506,590,407.33	1,104,268,462.66
Payments to Acquire Investments	(17,309,573,603.97)	(30,408,493,002.73)
Net Cash Provided (Used) by Investing Activities	<u>706,338,218.58</u>	<u>455,966,664.16</u>
<b>Net Increase (Decrease) in Cash</b>	400,388,132.85	62,713,023.26
Cash & Cash Equivalents - Beginning of the Year	1,944,349,872.65	1,881,636,849.39
<b>Cash &amp; Cash Equivalents - End of the Year (Note 2)</b>	<u>\$ 2,344,738,005.50</u>	<u>1,944,349,872.65</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Loss	\$ (3,210,990,945.02)	(2,852,387,146.28)
Adjustments to Reconcile Operating Loss to Net Cash:		
Depreciation and Amortization Expense	740,830,606.12	679,831,345.96
Gross Loss on Impairment of Capital Assets	82,274,664.22	
Bad Debt Expense	195,623,291.88	240,457,655.72
Op. Income & Cash Flow Categories Classification Differences	(66,340,503.61)	
Changes in Assets and Liabilities:		
Receivables	(208,910,231.11)	(382,108,336.82)
Inventories	3,922,961.84	(2,927,324.50)
Loans and Contracts	(3,984,842.23)	(8,759,529.66)
Other Assets	(49,035,443.15)	(14,450,880.77)
Payables	67,712,771.14	117,434,915.86
Other Postemployment Benefits Obligation	418,347,266.00	422,678,024.00
Deferred Income	86,539,496.85	64,358,898.00
Deposits Held for Others	(3,028,569.98)	2,491,382.45
Compensated Absence Liability	24,493,802.58	25,482,450.23
Other Liabilities	8,090,481.63	5,316,437.33
Total Adjustments	<u>1,296,535,752.18</u>	<u>1,149,805,037.80</u>
Net Cash Provided (Used) by Operating Activities:	<u>\$ (1,914,455,192.84)</u>	<u>(1,702,582,108.48)</u>
<b>Noncash Transactions</b>		
Net Increase (Decrease) in Fair Value of Investments	(1,332,920,180.81)	(1,880,621,534.64)
Donated Capital Assets	20,651,623.02	72,489,801.18
Capital Assets Acquired Under Capital Lease Purchases	474,048.83	3,479,707.92
Miscellaneous Noncash Transactions	9,210,706.05	(23,911,526.29)

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2009**  
**(Unaudited)**

**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.

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

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

*Blended Component Units*

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

UT Southwestern Health Systems, 1301 Elmbrook, Dallas, Texas 75390, is governed by a three-member board appointed by the University of Texas (UT) Southwestern Medical Center at Dallas. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to UT Southwestern Medical Center at Dallas. The corporation's fiscal year end is August 31.

The National Pediatric Infectious Diseases Foundation, 4712 Wildwood Drive, Dallas, Texas 75209, is governed by a three-member board appointed by UT Southwestern Medical Center at Dallas. The foundation is blended rather than discretely presented because it has substantively the same governing board as UT Southwestern Medical Center at Dallas. The foundation's fiscal year end is August 31.

UT Southwestern Moncrief Cancer Center, 1701 River Run, Suite 500, Fort Worth, Texas 76107, is governed by a five-member board appointed by the president of UT Southwestern Medical Center at Dallas. The corporation is blended rather than discretely presented because it has substantively the same governing board as UT Southwestern Medical Center at Dallas. The corporation's fiscal year end is August 31.

UTMB Healthcare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by an eight-member board appointed by UT Medical Branch at Galveston. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to UT Medical Branch at Galveston. The corporation's fiscal year end is August 31.

UT Physicians, P. O. Box 20627, Houston, Texas 77225, is governed by a three-member board appointed by UT Health Science Center at Houston. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to UT Health Science Center at Houston. The corporation's fiscal year end is August 31.

UT Medicine, 6126 Wurzbach Road, San Antonio, Texas 78238, is governed by a twenty-six member board which includes three members at large appointed by UT Health Science Center at San Antonio. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to UT Health Science Center at San Antonio. The corporation's fiscal year end is August 31.

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

M. D. Anderson Services Corporation, 7505 South Main, Suite 500, Houston, Texas 77030, is governed by a seven-member board appointed by the president of UT M. D. Anderson Cancer Center and the UT System Board of Regents. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to UT M. D. Anderson Cancer Center. The corporation's fiscal year end is August 31.

East Texas Quality Care Network, Inc., P. O. Box 6053, Tyler, Texas 75711-6053, is governed by a four-member board appointed by UT Health Science Center at Tyler. The corporation is blended rather than discretely presented because it has substantively the same governing board as UT Health Science Center at Tyler. The corporation's fiscal year end is August 31.

University of Texas Investment Management Company (UTIMCO), 401 Congress Avenue, Suite 2800, Austin, Texas 78701, is governed by a nine-member board appointed by the UT System Board of Regents. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to UT System. The corporation's fiscal year end is August 31.

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

## **2. Summary of Significant Accounting Policies**

### BASIS OF ACCOUNTING

The financial statements of the System have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The System reports as a business type activity, as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB. The System applies all GASB pronouncements and applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

### 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 and the Long Term Fund are not considered cash and cash equivalents. Additionally, Funds Functioning as Endowments invested in money market accounts are also excluded from Cash and Cash Equivalents as it is management's intent 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 invested with custodians are not considered cash and cash equivalents according to the investment policies of the System.

### 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.

## INVESTMENTS

Investments of the System, except for PUF lands, are managed by the University of Texas Investment Management Company (UTIMCO), a private investment corporation that provides services entirely to the System. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. The System's investments are primarily valued on the basis of market valuations provided by independent pricing services.

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

Equity security market values are based on the New York Stock Exchange composite closing prices, if available. If not available, the market value is 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).

Private market investments and certain other equity securities are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other source. In rare cases the private market funds are valued at cost, but only when management feels this is the best approximation of value.

Securities held by the System in index and exchange traded funds are generally valued as follows:

- Long and short stock positions traded on security exchanges are valued at closing market prices on the valuation date.
- Long and short stock positions traded on the over-the-counter (OTC) market are valued at the last reported bid price, except for National Market System OTC stocks, which are valued at their closing market prices.
- Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.
- Investments in registered U.S. mutual funds are being valued at their respective net asset value per share amounts.

Hedge funds, developed country equity, emerging markets equity and fixed income investment funds and certain other investment funds are fair valued by management based on net asset value information provided by the investment manager, as well as other relevant factors as indicated above.

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](http://www.utimco.org).

The fair value of the PUF Land's interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2009. Probable and possible reserves of oil and gas are not included in the fair value estimate. The PUF lands' surface interests are reported at their appraised value as of January 1, 2009. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent State certified or other licensed appraiser, or by any other generally accepted industry standard, including tax assessments.

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

## CONTRIBUTIONS RECEIVABLE

Current and noncurrent contributions receivable are amounts pledged to the university by donors, net of allowances.

## INVENTORIES

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

### RESTRICTED ASSETS

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

### LOANS AND CONTRACTS

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

### SECURITIES LENDING COLLATERAL AND OBLIGATIONS

The collateral secured for securities lent are reported as an asset on the balance sheet. The obligations for securities lent are reported as a liability on the balance sheet that directly offsets the cash collateral received from brokers or dealers in exchange for securities loaned. The costs of securities lending transactions are reported as expenses in the statement of revenues, expenses and changes in net assets. See Note 3 for details regarding the securities lending program.

### CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. The System follows the State's capitalization policy with a cost equal to or greater than \$5,000 for equipment items, \$100,000 for buildings, building improvements and improvements other than buildings, and \$500,000 for infrastructure items, and an estimated useful life of greater than one year. Purchases of library books are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose (see Note 8).

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 is computed using the straight-line method over the estimated useful lives of the assets, generally two to fifteen years for equipment items, fifteen years for library books, ten to fifty years for buildings and their components and fifteen to forty years for infrastructure elements.

### OTHER ASSETS

Included in other current assets are prepaid expenses and lease receivables due within one year. Included in the other noncurrent assets are unamortized bond issuance costs and lease receivables that will be realized beyond one year. Unamortized bond issuance costs are amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method. The unamortized bond issuance costs as of August 31, 2009 and 2008 were \$14,872,409.90 and \$10,269,396.90, respectively.

### ASSETS HELD BY AFFILIATED ORGANIZATIONS

GASB Statement number 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government, the System. GASB 39 states that a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if *all* of the following criteria are met:

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

The System has defined significance as 5% of net assets. As of August 31, 2009, none of the System's potential component units meet the criteria for inclusion in the System's financial statements. See Note 23, Affiliated Organizations, for more information.

### DEFERRED REVENUE

Deferred 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, 2009 and 2008 is \$300,748,123.68 and \$355,715,727.12, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at UT M. D. Anderson Cancer Center. As of August 31, 2009 and 2008, assets held for others also included \$292,228,738.87 and \$343,141,959.48, 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 UT System Board of Regents as both trustee and remainder beneficiary. The System is required to pay to the donors (or other donor-designated income beneficiaries) either a fixed amount or the lesser of a fixed percentage of the fair value of the trusts' assets or the trusts' income during the beneficiaries' lives. Trust assets are measured at fair value when received and monthly thereafter. A corresponding liability to beneficiaries is measured at the present value of expected future cash flows to be paid to the beneficiaries based upon the applicable federal rate on the gift date. Upon death of the income beneficiaries, substantially all of the principal balance passes to the System to be used in accordance with the donors' wishes.

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

### REFUNDING AND DEFEASANCE OF DEBT

For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. The gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net assets as a component of interest expense.

### NET ASSETS

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

#### *Invested in Capital Assets, Net of Related Debt*

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

#### *Restricted:*

##### *Nonexpendable*

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

##### *Expendable*

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

##### *Unrestricted*

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for special purposes by action of management or the UT System Board of Regents. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs (see Note 13 for details on unrestricted net assets).

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

## REVENUES AND EXPENSES

Operating revenues include activities such as student tuition and fees, net of scholarship allowances; sales and services of auxiliary enterprises; most federal, state and local grants and contracts and federal appropriations; and interest on student loans. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating.

Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, GASB Statement No. 34, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as nonoperating expenses by GASB Statement Nos. 9, 34 and 42.

## 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 2009 and 2008 of \$176,977,540.00 and \$149,647,588.00, respectively, the System recorded a liability of \$577,105,000.00 and \$382,630,000.00 at August 31, 2009 and 2008, respectively, for future amounts due to TAMUS from the PUF to cover principal and interest on outstanding PUF bonds issued by TAMUS. This liability is reported as current and noncurrent interfund payable on the balance sheet. Additional details related to the operations of the PUF can be found in Note 4. Also included in interfund payables as of August 31, 2009 and 2008 is \$4,458,532.39 and \$5,387,956.78, respectively, related to the Loan Star program that is administered by the Texas Governor's Office.

In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of \$15,118,985.49 in 2009 and \$11,433,338.76 in 2008 to the Texas Higher Education Coordinating Board.

## CHARITY CARE

The System's health-related institutions provide charity care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care charges amounted to \$1,356,923,554.51 and \$1,418,092,516.01 for 2009 and 2008, 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*

UT Southwestern Medical Center at Dallas' and UT Medical Branch at Galveston'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.

UT M. D. Anderson Cancer Center'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 UT M. D. Anderson Cancer Center 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). UT M. D. Anderson Cancer Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by UT M. D. Anderson Cancer Center and audits thereof by the Medicare fiscal intermediary.

#### *Medicaid*

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Certain outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement cost methodology. The System's health-related institutions are reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System's health-related institutions and audits thereof by the Medicaid fiscal intermediary.

The System's health-related institutions have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System's health-related institutions under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The System's health-related institutions recognized bad debt expense of \$190,670,055.55 and \$236,517,926.93 in 2009 and 2008, 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.

### 3. Deposits, Investments and Repurchase Agreements

#### DEPOSITS OF CASH IN BANK

As of August 31, 2009 and 2008, the carrying amount of deposits was \$41,726,751.14 and \$37,532,934.34, respectively, as presented below:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents per statement of cash flows	\$ 2,344,738,005.50	1,944,349,872.65
Less: Cash in State Treasury	462,018,831.57	370,627,046.53
Cash equivalent investments	1,833,704,572.65	1,530,336,415.83
Other	7,287,850.14	5,853,475.95
Deposits of cash in bank	<u>\$ 41,726,751.14</u>	<u>37,532,934.34</u>

Deficit demand account balances of \$99,483,215.97 and \$128,736,591.43 are reported as payables at year end 2009 and 2008, respectively. As of August 31, 2009 and 2008, the total bank balances were \$46,487,523.77 and \$35,688,822.58, respectively.

#### DEPOSIT RISKS

##### *Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System maintains depository relationships with various banking institutions. The System's policy is that all deposits are governed by a bank depository agreement between the System and the respective banking institution. This agreement provides that the System's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with government securities.

As of August 31, 2009, the System had no bank balances that were exposed to custodial credit risk. As of August 31, 2008, UT Southwestern Medical Center at Dallas' blended component units, UT Southwestern Moncrief Cancer Center (Moncrief) and UT Southwestern Health Systems (UTSHS), and UT Health Science Center at Tyler's blended component unit, East Texas Quality Care Network (ETQCN), held deposits that were exposed to custodial credit risk. Moncrief, UTSHS and ETQCN had no policies regarding these deposits. The bank balances that were exposed to custodial credit risk as of August 31, 2008 were uninsured and uncollateralized deposits of \$672,395.26.

## INVESTMENT RISKS

The investment risk disclosure that follows relates to the System's investments. Risks associated with the System's investments in hedge funds, private investments, public market funds, and securities lending transactions are discussed in separate sections of this note.

As of August 31, 2009 and 2008, the investments including securities lending collateral were as follows:

<u>Type of Security</u>	<u>2009</u> <u>Fair Value</u>	<u>2008</u> <u>Fair Value</u>
U.S. Government:		
U.S. Treasury Securities	\$ 246,994,680.93	227,219,157.04
U.S. Treasury Strips	11,716,403.04	11,628,251.28
U.S. Treasury TIPS	14,908,084.29	548,857,318.46
U.S. Government Agency Obligations	561,971,660.77	784,041,728.67
Corporate Obligations	451,251,536.80	555,422,976.46
Corporate Asset and Mortgage Backed Securities	462,494,649.39	293,772,129.23
Equity	1,104,507,527.45	1,545,928,260.09
International Obligations (Government and Corporate)	739,674,537.04	797,058,860.94
International Equity	1,135,506,211.73	994,037,906.86
Fixed Income Money Market and Bond Mutual Fund	1,966,573,886.21	2,165,540,607.78
Other Commingled Funds	9,231,980.87	16,335,174.89
International Other Commingled Funds	104,218,936.66	104,795,981.20
Commercial Paper	5,697,308.99	46,659,743.91
PUF Lands	1,250,069,294.00	1,612,154,491.00
Other Real Estate	358,829,241.05	274,450,354.91
Investment Funds:		
U.S. Equity	566,157,666.32	1,642,645,291.30
Non-U.S. Developed Equity	666,380,126.91	749,431,461.46
Emerging Markets	1,468,324,746.98	1,843,414,920.39
Fixed Income	770,629,125.25	659,223,944.12
Real Estate	159,661,146.70	-
Alternative Investments:		
Hedge Funds	5,238,140,731.21	6,666,186,480.18
Limited Partnerships (Private Market)	3,432,836,132.55	3,312,400,444.86
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	164,402,053.46	276,695,745.36
Total securities	20,890,177,668.60	25,127,901,230.39
Securities Lending Collateral Investment Pool	381,688,392.78	984,342,778.76
TOTAL	\$ 21,271,866,061.38	26,112,244,009.15

(A) *Credit Risk* - Article VII, Section 11b of the Texas Constitution authorizes the UT 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 UT 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). During the year ended August 31, 2008, the System's investment policies were amended to remove requirements and limitations regarding investment ratings. The amendments became effective March 1, 2008. Prior to the amendments, the policies

limited investments in U.S. Domestic bonds and non-dollar denominated bond investments to those that were rated investment grade, Baa3 or better by Moody's Investor Services, BBB- or better by Standard & Poor's Corporation, or BBB- or better by Fitch Investors Service at the time of acquisition. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds. Per GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3* (GASB 40), 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. The following tables present each applicable investment type grouped by rating as of August 31, 2009 and 2008:

<u>Investment Type</u>	<b>August 31, 2009</b>					
	<b>MOODY'S</b>		<b>STANDARD &amp; POOR'S</b>		<b>FITCH</b>	
	<u>Fair Value</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Government Agency Obligations	\$ 487,440,508.31	Aaa	487,440,508.31	AAA	485,198,804.81	AAA
	-	-	-	-	2,241,703.50	NR
Corporate Obligations	8,437,119.56	Aaa	23,161,672.00	AAA	8,085,591.65	AAA
	64,360,215.62	Aa	42,469,848.74	AA	42,332,263.64	AA
	215,595,925.29	A	228,643,513.54	A	213,974,240.04	A
	133,724,773.51	Baa	147,448,316.14	BBB	98,453,259.61	BBB
	17,981,381.07	Ba	3,077,069.40	BB	5,518,020.80	BB
	142,662.50	B	914,483.62	B	8,361,279.24	B
	11,009,459.25	Unrated	5,536,633.36	NR	74,526,881.82	NR
Corporate Asset and Mortgage Backed Securities	119,236,407.31	Aaa	237,565,530.97	AAA	123,151,626.82	AAA
	12,263,149.94	Aa	12,896,428.06	AA	16,386,789.29	AA
	19,555,546.78	A	22,629,397.90	A	6,684,957.33	BB
	14,779,833.41	Baa	2,281,645.53	BBB	3,335,668.20	B
	21,152,099.75	Ba	13,172,310.10	BB	7,501,532.78	CCC
	50,383,936.09	B	1,528,097.81	B	27,484,332.30	CC
	112,212,235.55	Caa	111,582,830.54	CCC	22,210,105.25	C
	112,911,440.56	Unrated	6,069,064.10	CC	255,739,637.42	NR
	-	-	2,523,587.53	D	-	-
	-	-	52,245,756.85	NR	-	-
International Obligations (Government and Corporate)	439,654,745.84	Aaa	407,319,313.96	AAA	332,348,949.24	AAA
	80,804,919.28	Aa	64,101,794.45	AA	71,006,002.75	AA
	98,260,388.98	A	123,573,300.63	A	100,570,139.40	A
	63,591,461.71	Baa	62,462,144.44	BBB	46,365,983.34	BBB
	32,832,321.99	Ba	7,023,007.94	BB	11,821,469.45	BB
	2,010,000.00	B	1,896,554.50	B	2,041,258.00	B
	22,520,699.24	Unrated	1,470,000.00	CCC	175,520,734.86	NR
	-	-	71,828,421.12	NR	-	-
Fixed Income Money Market and Bond Mutual Fund	1,812,499,812.16	Aaa	1,812,211,517.47	AAA	1,887,262,724.74	NR
	61,298,516.00	Aa	69,569,679.28	Aa	-	-
	13,464,396.58	Unrated	8,367,882.00	CCC	-	-
	-	-	(2,886,354.01)	Unrated	-	-
Miscellaneous	6,397,969.23	Aaa	8,971,299.68	AAA	3,607,010.05	AAA
	653,506,535.08	Aa	652,991,864.63	AA	3,054,446.85	AA
	1,569,195.60	A	224,040.35	A	1,618,438.60	A
	3,780,605.95	Baa	4,482,773.00	BBB	1,710,601.20	BBB
	12,850,936.95	Ba	12,850,936.95	BB	773,543,009.90	NR
	103,949,340.79	B	103,949,340.79	B	-	-
	1,478,923.00	Unrated	63,251.20	NR	-	-
	\$ 4,811,657,462.88		4,811,657,462.88		4,811,657,462.88	

**August 31, 2008**

<u>Investment Type</u>	<u>MOODY'S</u>		<u>STANDARD &amp; POOR'S</u>		<u>FITCH</u>	
	<u>Fair Value</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Government Agency Obligations	\$ 682,407,910.27	Aaa	682,381,449.27	AAA	2,063,672.76	AAA
	-	-	26,461.00	NR	680,344,237.51	NR
Corporate Obligations	27,569,806.06	Aaa	27,388,468.85	AAA	9,689,335.46	AAA
	168,596,600.49	Aa	145,343,382.23	AA	139,227,051.96	AA
	225,122,104.78	A	260,336,915.41	A	240,393,027.50	A
	118,406,734.62	Baa	103,372,177.65	BBB	78,740,914.08	BBB
	7,448,700.37	Ba	3,051,263.25	BB	2,345,983.91	BB
	4,109,014.69	B	7,632,803.53	B	3,807,514.69	B
	6,554,018.20	Unrated	597,540.00	CCC	81,518,721.36	NR
	-	-	7,999,998.04	NR	-	-
Corporate Asset and Mortgage Backed Securities	172,751,357.96	Aaa	219,591,916.97	AAA	200,257.26	AAA
	3,345,094.60	Aa	5,488,809.17	AA	264,821,186.51	NR
	3,567,779.77	A	4,547,764.90	A	-	-
	499,951.57	Baa	195,322.16	BBB	-	-
	82,166,684.19	Unrated	499,951.57	BB	-	-
	-	-	34,697,679.00	NR	-	-
International Obligations (Government and Corporate)	337,013,237.38	Aaa	320,365,169.78	AAA	269,456,532.88	AAA
	230,705,884.81	Aa	136,679,188.78	AA	120,279,745.28	AA
	108,916,558.73	A	140,398,273.84	A	118,644,591.29	A
	68,025,531.97	Baa	70,329,662.50	BBB	44,947,250.00	BBB
	25,466,708.71	Ba	148,923,843.13	NR	8,902,995.53	BB
	46,568,216.43	Unrated	-	-	254,465,023.05	NR
Fixed Income Money Market and Bond Mutual Fund	1,999,232,705.58	Aaa	1,998,820,952.87	AAA	2,127,962,350.92	NR
	52,984,924.83	Aa	66,042,832.38	Aa	-	-
	75,744,720.51	Unrated	63,098,565.67	Unrated	-	-
Miscellaneous	3,240,746.33	Aaa	4,653,122.33	AAA	2,698,190.00	AAA
	643,701,126.20	Aa	642,090,834.35	AA	3,794,956.53	AA
	2,064,779.15	A	2,100,000.00	A	937,594.60	A
	4,847,248.80	Baa	6,078,358.80	BBB	2,701,115.15	BBB
	21,281,279.12	Ba	13,911,291.57	BB	681,589,745.62	NR
	3,533,334.93	B	3,533,334.93	B	-	-
	10,953,087.37	Unrated	19,354,659.92	NR	-	-
Commercial Paper	47,178,187.34	Prime-1	36,026,347.66	A	44,472,041.91	NR
	-	-	8,445,694.25	NR	-	-
	\$ <u>5,184,004,035.76</u>		<u>5,184,004,035.76</u>		<u>5,184,004,035.76</u>	

(B) *Concentrations of Credit Risk* – The System’s investment policy statements contain the limitation that no more than five percent of the market value of domestic fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2009 and 2008, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System’s domestic fixed income investments.

(C) *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 its deposits or will not be able to recover collateral securities that are in the possession of an outside party. 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, 2009 and 2008, the System did not have any deposits or investments that are exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System’s investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System’s investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the System’s modified duration by investment type as of August 31, 2009 and 2008:

Investment Type	August 31, 2009		August 31, 2008	
	Fair Value	Modified Duration	Fair Value	Modified Duration
<b>Investments in Securities:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 180,720,952.10	9.25	134,106,582.32	5.23
U.S. Treasury Strips	11,716,403.04	2.09	11,628,251.28	3.09
U.S. Treasury Bills	12,965,183.62	0.47	30,468,097.57	0.07
U.S. Treasury Inflation Protected	14,908,084.29	3.55	548,857,318.46	8.56
U.S. Agency Asset Backed	80,083,035.79	2.22	103,821,520.40	4.00
Total U.S. Government Guaranteed	<u>300,393,658.84</u>	6.44	<u>828,881,770.03</u>	7.06
U.S. Government Non-Guaranteed:				
U.S. Agency	12,971,134.26	2.57	7,954,246.70	3.34
U.S. Agency Asset Backed	468,772,065.06	3.49	674,453,663.57	5.93
U.S. Agency Commercial Paper	5,697,308.99	0.22	-	-
Total U.S. Government Non-Guaranteed	<u>487,440,508.31</u>	3.43	<u>682,407,910.27</u>	5.90
Total U.S. Government	<u>787,834,167.15</u>	4.57	<u>1,511,289,680.30</u>	6.54
Corporate Obligations:				
Domestic	913,746,186.19	5.02	820,444,420.23	5.03
Commercial Paper	-	-	44,472,041.91	0.10
Foreign	<u>273,604,679.37</u>	4.57	<u>282,362,933.36</u>	5.09
Total Corporate Obligations	<u>1,187,350,865.56</u>	4.92	<u>1,147,279,395.50</u>	4.86
Foreign Government and Provincial Obligations	466,069,857.67	6.33	543,446,613.04	7.76
Other Debt Securities	<u>12,904,381.35</u>	9.46	<u>19,484,249.41</u>	9.77
Total Debt Securities	<u>2,454,159,271.73</u>	5.10	<u>562,930,862.45</u>	7.83
Other Investment Funds - Debt	770,629,125.25	5.79	672,282,850.90	5.70
Money Market and Mutual Funds	1,795,730,009.74	0.10	1,980,165,732.23	0.08
Certificates of Deposit	-	-	4,199,572.50	0.78
Total	<u>\$ 5,020,518,406.72</u>	3.42	<u>5,878,148,093.88</u>	4.06
<b>Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury	\$ <u>53,453,970.87</u>	0.76	<u>62,644,477.15</u>	0.17
Total U.S. Government Guaranteed	<u>53,453,970.87</u>	0.76	<u>62,644,477.15</u>	0.17
Cash	48,777,275.62	-	53,151,758.07	0.06
<b>Total Deposit with Brokers for Derivative Contracts</b>	<u>\$ 102,231,246.49</u>	0.40	<u>115,796,235.22</u>	0.12

(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, 2009 and 2008, 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, 2009 and 2008, these securities amounted to \$607,164,579 and \$423,215,911, 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, 2009 and 2008, these securities amounted to \$330,638,497 and \$565,400,074, 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, 2009 and 2008 these securities amounted to \$97,100,875 and \$96,581,251, respectively.
- Step-up notes that grant the issuer the option to call the note on certain specified dates. At each call date, should the issuer not call the note, the coupon rate of the note increases (steps up) by an amount specified at the inception of the note. The call feature embedded within a step-up note causes the fair value of the instrument to be considered highly sensitive to interest rate changes. As of August 31, 2008, these securities amounted to \$440,868. The System did not hold any of these securities as of August 31, 2009.

(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. As of August 31, 2009, 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. The System’s investment policy statements were amended during the year ended August 31, 2008, to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendments, the policy statements limited investments in non-U.S. denominated bonds to 50% of the System’s total fixed income exposure.

One of the System’s external managers employs an investment strategy in which they hedge their long non-U.S. investment positions back to the U.S. dollar by utilizing currency transactions in amounts equal to the long investment position. In the following table the negative amounts shown for the British Pound, Danish Krone, Euro, Hong Kong Dollar, and Swiss Franc in the cash and cash equivalents section reflect this strategy. The negative amounts offset long positions presented in the foreign common stock section.

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 non-U.S. dollar investments by asset type as of August 31, 2009 and 2008.

Investment Type	2009 Fair Value	Investment Type	2009 Fair Value
Domestic Common Stock:		Corporate Obligations:	
Canadian Dollar	\$ 351,079	Australian Dollar	\$ 33,547,977
Foreign Common Stock:		British Pound	10,982,746
Australian Dollar	45,419,591	Canadian Dollar	7,776,960
Brazilian Real	9,372,252	Danish Krone	403,740
British Pound	108,408,308	Euro	91,524,773
Canadian Dollar	32,697,962	Hong Kong Dollar	1,553,248
Czech Koruna	1,079,205	Japanese Yen	2,581,997
Danish Krone	3,850,041	Total Corporate Obligations	148,371,441
Egyptian Pound	5,865,143	Purchased Options:	
Euro	217,371,065	Euro	1,102,398
Hong Kong Dollar	177,861,585	Indian Rupee	2,508,334
Hungarian Forint	3,421,587	Swiss Franc	2,547,495
Indonesian Rupian	7,710,154	Total Purchased Options	6,158,227
Israeli Shekel	747,353	Private Investments:	
Japanese Yen	99,301,437	Canadian Dollar	2,423,852
Malaysian Ringgit	9,587,001	British Pound	1,938,235
Mexican Peso	8,955,567	Euro	299,738,176
Moroccan Dirham	848,693	Total Private Investments	304,100,263
Norwegian Kroner	1,194,115	Cash and Cash Equivalents:	
Pakistan Rupee	2,043,367	Australian Dollar	1,276,181
Philippines Peso	2,715,741	Brazilian Real	312,250
Polish Zloty	2,981,991	British Pound	(13,237,070)
Singapore Dollar	22,955,791	Canadian Dollar	659,615
South African Rand	16,635,975	Czech Koruna	120,409
South Korean Won	36,877,895	Danish Krone	(3,861,174)
Swedish Krona	2,961,521	Euro	(146,854,773)
Swiss Franc	49,997,444	Hong Kong Dollar	(6,822,470)
Thai Baht	14,857,350	Hungarian Forint	104,427
Turkish Lira	6,701,937	Indonesian Rupian	37,675
Total Foreign Common Stock	892,420,071	Israeli Shekel	36,435
Other Equity Securities:		Japanese Yen	718,100
Canadian Dollar	158	Malaysian Ringgit	41,813
Foreign Preferred Stock:		Mexican Peso	14,258
Brazilian Real	17,687,599	Moroccan Dirham	41,225
Foreign Government and Provincial Obligations:		New Zealand Dollar	92,875
Australian Dollar	54,928,166	Norwegian Kroner	386
Brazilian Real	21,544,852	Philippines Peso	12,572
British Pounds	33,181,009	Polish Zloty	106,100
Canadian Dollar	31,973,362	Singapore Dollar	973
Euro	142,037,242	South African Rand	7,383
Indonesian Rupian	15,041,360	South Korean Won	30,732
Japanese Yen	17,089,267	Swedish Krona	17,031
Malaysian Ringgit	27,582,671	Swiss Franc	(53,474,560)
Mexican Peso	21,032,717	Taiwan Dollar	995,949
New Zealand Dollar	20,714,017	Thailand Baht	9,736
Norwegian Kroner	14,744,668	Turkish Lira	164,054
Polish Zloty	22,650,656	Total Cash and Cash Equivalents	(219,449,868)
South African Rand	8,219,018		
Swedish Krona	29,664,864	Total	\$ 1,610,042,839
Total Foreign Government and Provincial Obligations	460,403,869		

Investment Type	2008 Fair Value	Investment Type	2008 Fair Value
Domestic Common Stock:		Corporate Obligations:	
British Pound	\$ 536,852	Australian Dollar	\$ 13,599,833
Foreign Common Stock:		British Pound	9,668,453
Australian Dollar	37,872,043	Canadian Dollar	5,647,049
British Pound	149,920,115	Danish Krone	25,358,660
Canadian Dollar	101,967,569	Euro	93,897,636
Danish Krone	2,636,227	Hong Kong Dollar	1,542,481
Euro	127,014,800	Iceland Krona	7,299,906
Hong Kong Dollar	101,439,154	Japanese Yen	11,024,775
Japanese Yen	211,550,047	Total Corporate Obligations	168,038,793
Norwegian Krone	13,764,519	Other –Debt Securities	
Philippines Peso	2,292,627	Hong Kong Dollar	4,424,221
Singapore Dollar	28,595,194	Purchased Options:	
Swedish Krona	11,647,204	Euro	218,795
Swiss Franc	9,476,760	Private Investments:	
Thai Baht	3,597,644	British Pound	2,629,694
Total Foreign Common Stock	801,773,903	Euro	362,457,861
Other Equity Securities		Total Private Investments	365,087,555
Canadian Dollar	122	Cash and Cash Equivalents:	
Foreign Government and Provincial Obligations:		Australian Dollar	895,189
Australian Dollar	29,610,593	British Pound	1,932,213
Brazilian Real	16,563,713	Canadian Dollar	2,052,521
British Pound	45,764,242	Danish Krone	437,224
Canadian Dollar	27,227,839	Euro	2,560,658
Euro	147,184,376	Hong Kong Dollar	1,071,298
Indian Rupee	8,902,996	Hungarian Forint	1,110
Japanese Yen	143,778,512	Japanese Yen	2,318,009
Mexican Peso	18,992,941	Mexican Peso	16,315
Malaysian Ringgit	24,977,558	New Zealand Dollar	53,896
New Zealand Dollar	14,775,856	Norwegian Kroner	13,700
Polish Zloty	26,369,172	Polish Zloty	4,279
Swedish Krona	9,616,565	Singapore Dollar	383,478
Singapore Dollar	7,951,855	Swedish Krona	5,583
South African Rand	16,155,149	Swiss Franc	662,665
Total Foreign Government and Provincial Obligations	537,871,367	Taiwan Dollar	1,038,788
		Total Cash and Cash Equivalents	13,446,926
		Total	\$ 1,891,398,534

## 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, 2009 and 2008, there were a total of \$369,479,336 and \$968,988,576, respectively, of securities out on loan to brokers/dealers. This consisted of \$287,474,777 domestic and \$82,004,559 international loans at August 31, 2009 and \$877,846,702 domestic and \$91,141,874 international loans at August 31, 2008. The value of collateral held for these securities consisted of \$381,688,393 cash at August 31, 2009 and \$984,342,779 cash and \$20,696,795 noncash collateral at August 31, 2008. Investments received as collateral for securities lending activities are not recorded as assets because the investments 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 collateral received by the lending agent on behalf of the System 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 by the System and is stated in the security lending contract. Pool investments are valued at amortized cost which is indicative of fair value. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. The System was collateralized 103 percent on August 31, 2009 and 104 percent on August 31, 2008 for securities on loan collateralized by cash. The System's collateral pool investments, rating by NRSRO and weighted average maturity as of August 31, 2009 and 2008, are shown in the following table:

<b>Description</b>	<b>August 31, 2009</b>			<b>August 31, 2008</b>		
	<b>Fair Value</b>	<b>Rating</b>	<b>Weighted Average</b>	<b>Fair Value</b>	<b>Rating</b>	<b>Weighted Average</b>
Repurchase Agreements	\$ 253,125,381	No Rating	1	446,772,351	No Rating	2
Commercial Paper	67,390,338	P	44	415,169,754	P	23
Floating Rate Notes	6,992,230	AAA		25,007,001	AAA	
Floating Rate Notes	24,702,155	AA		74,765,984	AA	
Total Floating Rate Notes	31,694,385		21	99,772,985		9
Fixed Rate Notes	-	AAA	-	8,299,888	AAA	13
Certificates of Deposit	29,988,587	P	68	22,401,024	P	36
Other Receivables/Payables	(510,298)	Not Rated	-	(8,073,223)	Not Rated	-
Total Collateral Pool Investment	\$ 381,688,393		16	984,342,779		13

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

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

Loans that are collateralized with securities generate income when the borrower pays a loan premium or fee for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On August 31, 2009 and 2008, the System was collateralized 103 percent and 104 percent, respectively, for securities on loan which were collateralized by securities.

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

For non-United States issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. The System was collateralized 106 percent for international loans on August 31, 2009 and 108 percent for international loans on August 31, 2008.

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, 2009 and 2008, 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, 2009 and 2008.

#### DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives 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, swaps and mortgage derivatives.

(A) *Mortgage Derivatives* – Mortgage derivatives are used to manage portfolio duration and to enhance portfolio yield and are influenced by changes in interest rates, the current economic climate and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, certain Collateralized Mortgage Obligations (CMOs) such as Planned Amortization Class (PACs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's investment in CMOs, which was comprised almost exclusively of the lower risk investment class, was 2.9 percent of total investments with a fair value of \$607,164,579 at August 31, 2009 and 1.7 percent of total investments with a fair value of \$423,215,911 at August 31, 2008.

(B) *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 net liability is included in payables from restricted assets. Futures contracts are marked to market daily; that is, they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts. The amount of the net realized loss on the futures contracts was \$259,640,921 for the year ended August 31, 2009. The amount of the net realized gain on the futures contracts was \$3,963,663 for the year ended August 31, 2008. 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 manager's various trading and credit monitoring techniques.

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2009.

	Notional Value at August 31, 2009		Carrying and Fair Value at August 31, 2009	
	Long	Short	Assets	Liabilities
Domestic				
Equity Futures	\$ 360,463,950	-	-	2,721,950
International				
Equity Futures	119,673,158	-	-	1,140,626
Commodity				
Futures	428,162,601	-	-	-
Domestic Fixed				
Income				
Futures	7,970,875	-	21,633	-
International				
Fixed Income				
Futures	215,320,369	-	70,077	2,146
Totals	\$ <u>1,131,590,953</u>	<u>-</u>	<u>91,710</u>	<u>3,864,722</u>

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2008.

	Notional Value at August 31, 2008		Carrying and Fair Value at August 31, 2008	
	Long	Short	Assets	Liabilities
Domestic				
Equity Futures	\$ 979,265,100	534,947,700	3,687,300	11,834,250
International				
Equity Futures	315,906,843	-	5,597,213	-
Commodity				
Futures	332,140,695	-	-	-
Domestic Fixed				
Income				
Futures	55,239,750	2,656,500	4,312	193,596
International				
Fixed Income				
Futures	629,167,914	269,076,520	261,322	206,910
Totals	\$ <u>2,311,720,302</u>	<u>806,680,720</u>	<u>9,550,147</u>	<u>12,234,756</u>

(C) *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 other receivables. Realized and unrealized gains and losses are included in the consolidated statement of revenues, expenses and changes in net assets. These instruments involve market and/or credit risk in excess of the amount recognized in the consolidated balance sheet. Risks arise from the possible inability of counter-parties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

The tables below summarize, by currency, the contractual amounts of the System's foreign exchange contracts at August 31, 2009 and 2008. Foreign currency amounts are translated at exchange rates as of August 31, 2009 and 2008. 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, 2009	Net Sell August 31, 2009	Unrealized Gains on Foreign Exchange Contracts August 31, 2009	Unrealized Losses on Foreign Exchange Contracts August 31, 2009
Australian Dollar	\$ -	46,387,085	-	547,057
Brazilian Real	5,471,611	-	329,073	-
British Pound	83,264,885	-	783,671	1,362,229
Bulgarian Lev	-	2,479,866	-	57,633
Canadian Dollar	4,478,369	4,553,974	156,202	371,738
Chilean Peso	18,125	2,337	5,065	4,711
Chinese Yuan Renminbi	11,612,813	-	20,794	421,008
Danish Krone	2,591,770	-	61,841	-
Estonia Kroon	-	3,635,475	-	95,481
Euro	29,931,148	-	1,107,618	1,469,752
Hong Kong Dollar	-	1,064,744	-	21
Hungarian Forint	633	-	45	-
Indian Rupee	17,614	7,590	75	134
Indonesian Rupian	-	-	40,071	-
Japanese Yen	71,561,923	-	3,779,221	2,110,167
Malaysian Ringgit	1,268,041	-	17,102	72
Mexican Peso	1,614,414	-	155,578	-
New Zealand Dollar	-	5,646,111	1,011	164,353
Norwegian Kroner	2,558,261	-	742,295	466,988
Philippines Peso	6,003	17,332	87	30
Singapore Dollar	1,097,748	-	12,378	101
South African Rand	1,526,112	-	290,187	-
South Korean Won	35,915,498	-	304,037	62,179
Swedish Krona	4,026,543	-	1,449,985	393,265
Taiwan Dollar	2,801,781	-	6,189	6,495
Thailand Baht	1,262,632	-	12,091	-
Turkish Lira	5,435,511	-	244,900	-
<b>TOTAL</b>	<b>\$ 266,461,435</b>	<b>63,794,514</b>	<b>9,519,516</b>	<b>7,533,414</b>

Currency	Net Buy August 31, 2008	Net Sell August 31, 2008	Unrealized Gains on Foreign Exchange Contracts August 31, 2008	Unrealized Losses on Foreign Exchange Contracts August 31, 2008
Australian Dollar	\$ -	12,316,209	356,995	18,488
Brazilian Real	8,224,016	-	1,190,018	1,199,958
British Pound	-	37,938,144	4,766,853	1,667,732
Canadian Dollar	10,141,299	-	-	72,780
Chilean Peso	448,824	-	-	40,745
Chinese Yuan Renminibi	22,485,417	-	330,696	928,099
Danish Krone	-	23,024,540	1,010,831	1,755
Euro	384,332,182	-	13,802	17,968,419
Hong Kong Dollar	-	77,606	-	32
Hungarian Forint	3,260	-	-	61
Indian Rupee	538,111	-	6,343	450,813
Japanese Yen	92,532,460	-	2,155,132	976,080
Malaysian Ringgit	11,893,718	-	48,344	1,243,528
Mexican Peso	2,298,760	-	95,665	9,216
New Zealand Dollar	26,583	-	25	29
Norwegian Krone	1,006,900	-	-	34,454
Philippines Peso	2,434,127	-	61	89,679
Polish Zloty	-	2,661,649	98,985	56,967
Russian Rouble	703,090	-	29,504	56,985
Saudi Arabian Riyal	2,325,874	-	-	38,127
Singapore Dollar	7,024,931	-	-	127,606
South African Rand	1,558,406	-	107,496	2,901
South Korean Won	8,321,890	-	5,764	653,151
Swedish Krona	5,110,740	-	6,565	333,760
Swiss Franc	-	19,314,179	951,589	-
Taiwan Dollar	3,477,767	-	70,027	281,266
Turkish Lira	6,526,650	-	202,363	-
<b>TOTAL</b>	<b>\$ 571,415,005</b>	<b>95,332,327</b>	<b>11,447,058</b>	<b>26,252,631</b>

(D) *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. They are included in payables from restricted assets. During the year, call options were written on Treasury Notes, commodity, domestic and international equity indexes, and exchange traded funds. Transactions in call options written during the year ended August 31, 2009 were as follows:

	Number of Contracts	Premiums Received
Call Options Outstanding at August 31, 2008	82,045	\$ 10,626,548
Options Written	1,258,709,276	10,668,411
Options Expired	(7,936,993)	(1,804,721)
Options Exercised	-	-
Options Terminated in Closing Purchase Transactions	(1,250,854,328)	(19,490,238)
Call Options Outstanding at August 31, 2009	<u>-</u>	<u>\$ -</u>
	Number of Contracts	Premiums Received
Put Options Outstanding at August 31, 2008	39,610	\$ 1,561,519
Options Written	314,981,369	13,469,946
Options Expired	(12,889,725)	(1,948,643)
Options Exercised	-	-
Options Terminated in Closing Purchase Transactions	(211,331,254)	(12,279,745)
Put Options Outstanding at August 31, 2009	<u>90,800,000</u>	<u>\$ 803,077</u>

Transactions in call options written during the year ended August 31, 2008 were as follows:

	Number of Contracts	Premiums Received
Call Options Outstanding at August 31, 2007	972,770	\$ 7,949,552
Options Written	482,864	16,488,809
Options Expired	(1,220,606)	(4,506,301)
Options Exercised	-	-
Options Terminated in Closing Purchase Transactions	(152,983)	(9,305,512)
Call Options Outstanding at August 31, 2008	<u>82,045</u>	<u>\$ 10,626,548</u>
	Number of Contracts	Premiums Received
Put Options Outstanding at August 31, 2007	459,653	\$ 313,405
Options Written	530,995	10,043,387
Options Expired	(821,503)	(3,553,165)
Options Exercised	-	-
Options Terminated in Closing Purchase Transactions	(129,535)	(5,242,108)
Put Options Outstanding at August 31, 2008	<u>39,610</u>	<u>\$ 1,561,519</u>

(E) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, equity, inflation, credit default, and commodity swap contracts. They are included in other receivables and payables from restricted assets. The following discloses the notional amount (presented in local currency), the coupon rate and the fair values of the outstanding swap contracts as of August 31, 2009:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2009	
				Assets	Liabilities
Interest Rate:					
Australian Dollar	4.500%	31,100,000	12/15/2011	-	\$ 333,962
	5.400%	50,300,000	12/15/2011	-	346,996
	6.500%	54,500,000	6/15/2012	129,075	-
British Pound	3.500%	2,900,000	3/17/2015	-	52,609
	3.500%	3,900,000	5/17/2015	-	70,750
	4.500%	20,300,000	3/17/2020	909,485	-
Canadian Dollar	5.700%	1,000,000	12/19/2028	1,569	-
Euro	3.400%	25,700,000	9/15/2011	227,651	-
Japanese Yen	1.400%	470,000,000	12/16/2010	26,347	-
	1.400%	5,740,000,000	12/16/2014	353,026	-
U.S. Dollar	3.400%	2,900,000	12/16/2011	74,424	-
Swedish Krona	4.500%	19,000,000	3/18/2014	229,269	-
				<u>1,950,846</u>	<u>804,317</u>
Credit Default					
Euro	2.020%	400,000	3/20/2014	-	23,980
	2.350%	100,000	3/20/2014	-	8,101
British Pound	0.530%	1,000,000	9/20/2010	-	2,902
	0.670%	780,000	9/20/2014	-	15,093
	8.750%	600,000	6/20/2012	-	175,613
U.S. Dollar	0.110%	300,000	6/20/2010	10,232	-
	0.110%	298,510	5/25/2046	-	191,014
	0.160%	200,000	12/20/2013	19,196	-
	0.165%	300,000	3/20/2011	1,147	-
	0.210%	200,000	6/20/2011	636	-
	0.210%	600,000	9/20/2011	824	-
	0.220%	200,000	9/20/2011	7,870	-
	0.230%	200,000	3/20/2012	1,125	-
	0.240%	200,000	3/20/2011	3,839	-
	0.290%	800,000	3/20/2011	-	1,515
	0.310%	300,000	12/20/2011	712	-
	0.390%	500,000	6/20/2010	1,005	-
	0.450%	1,000,000	9/20/2014	-	341
	0.450%	1,000,000	6/20/2017	5,754	-
	0.460%	600,000	9/20/2011	23,718	-
	0.460%	600,000	3/20/2012	43,624	-
	0.460%	1,000,000	12/20/2013	-	8,867
	0.460%	300,000	12/20/2016	15,981	-
	0.510%	500,000	6/20/2011	2,528	-
	0.510%	800,000	3/20/2018	-	2,970
	0.550%	600,000	9/20/2011	22,544	-
	0.590%	1,000,000	9/20/2014	-	8,725
	0.590%	1,000,000	9/20/2016	-	15,032
	0.630%	700,000	9/20/2011	-	7,060
	0.700%	800,000	12/20/2018	-	3,712
	0.740%	700,000	3/20/2018	-	20,885
	0.750%	1,000,000	12/20/2013	22	-
	0.750%	1,000,000	9/20/2017	16,376	-
	0.770%	800,000	3/20/2012	-	9,664
	0.800%	488,000	12/20/2017	20,967	-
0.820%	2,000,000	3/20/2018	27,464	-	
0.840%	1,756,800	12/20/2017	75,482	-	
0.850%	600,000	12/20/2009	-	1,530	
0.860%	1,800,000	11/20/2016	269,719	-	

(Continued)

				Fair Value at August 31, 2009	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Credit Default (cont.)					
U.S. Dollar (cont.)	0.900%	1,000,000	6/20/2019	-	35,048
	0.940%	700,000	9/20/2014	28,452	-
	0.940%	1,000,000	6/20/2016	-	22,103
	0.940%	400,000	6/20/2018	43,518	-
	0.950%	1,000,000	12/20/2015	60,267	-
	0.950%	1,000,000	9/20/2017	-	23,635
	0.950%	500,000	9/20/2018	-	9,076
	0.990%	1,000,000	9/20/2015	-	31,922
	1.000%	700,000	6/20/2014	3,747	2,202
	1.000%	2,000,000	12/20/2016	179,400	-
	1.000%	7,800,000	6/20/2019	61,753	-
	1.030%	2,000,000	3/20/2013	-	34,288
	1.060%	1,000,000	3/20/2018	-	51,255
	1.090%	1,000,000	6/20/2018	32,655	-
	1.135%	500,000	9/20/2013	-	3,667
	1.140%	1,000,000	9/20/2018	99,795	-
	1.160%	2,000,000	3/20/2013	13,920	-
	1.170%	1,000,000	6/20/2013	4,183	-
	1.280%	1,000,000	6/20/2013	18	-
	1.290%	700,000	6/20/2011	-	3,350
	1.300%	900,000	6/20/2013	-	665
	1.300%	2,000,000	3/20/2017	-	293
	1.300%	2,100,000	6/20/2018	129,517	-
	1.350%	600,000	3/20/2018	-	31,755
	1.370%	200,000	6/20/2013	-	2,515
	1.380%	1,000,000	3/20/2017	-	46,021
	1.400%	200,000	6/20/2014	-	4,405
	1.400%	1,100,000	3/20/2018	-	64,115
	1.420%	400,000	12/20/2016	35,880	-
	1.420%	1,500,000	3/20/2018	-	89,705
	1.430%	2,800,000	6/20/2019	22,168	-
	1.450%	3,000,000	6/20/2013	-	21,501
	1.470%	500,000	12/20/2016	23,221	-
	1.500%	2,800,000	6/20/2010	-	21,302
	1.500%	1,854,400	6/20/2018	-	11,055
	1.530%	1,000,000	9/20/2016	-	29,312
	1.540%	1,200,000	6/20/2010	-	9,129
	1.540%	1,000,000	12/20/2013	275,045	-
	1.540%	400,000	6/20/2018	-	2,900
	1.543%	2,342,400	6/20/2018	-	13,964
	1.620%	1,000,000	6/20/2012	217,399	-
	1.640%	1,000,000	3/20/2013	-	37,836
	1.720%	300,000	12/20/2013	-	1,389
	1.743%	900,000	6/20/2013	-	15,744
	1.780%	800,000	6/20/2013	-	15,131
	1.820%	700,000	6/20/2013	-	14,301
	1.880%	1,000,000	12/20/2015	-	12,133
	1.920%	1,000,000	3/20/2017	37,523	-
	2.170%	1,000,000	8/20/2013	53,033	-
	2.250%	500,000	3/20/2014	-	25,942
	2.300%	400,000	3/20/2014	-	21,641
	2.700%	1,000,000	3/20/2019	1,812	-
	2.930%	300,000	6/20/2015	-	8,232
	2.980%	2,400,000	3/20/2019	-	340,089
	3.460%	1,700,000	6/20/2017	-	161,769
	4.230%	1,000,000	12/20/2013	-	125,751
	4.200%	500,000	12/20/2013	-	62,875
	5.400%	700,000	6/20/2011	81,696	-
				1,975,767	1,905,020

(Continued)				Fair Value at August 31, 2009	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Equity					
Euro		2,537,190	8/04/2010	-	28,204
U.S. Dollar		172,393,198	11/05/2009	3,528,068	-
		167,820,344	11/23/2009	-	1,944,081
				<u>3,528,068</u>	<u>1,972,285</u>
Inflation					
Euro	1.948%	600,000	3/15/2012	19,383	-
	1.955%	700,000	3/28/2012	20,408	-
	1.960%	600,000	3/30/2012	18,757	-
	2.080%	3,200,000	6/15/2012	116,920	-
				<u>175,468</u>	<u>-</u>
Total				\$ <u>7,630,149</u>	<u>4,681,622</u>

The following discloses the notional amount (presented in local currency), the coupon rate, and the fair values of the outstanding swap contracts as of August 31, 2008:

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2008	
				Assets	Liabilities
Interest Rate:					
Australian Dollar	6.403%	26,900,000	6/15/2010	-	\$ 472,392
	6.421%	24,000,000	6/15/2015	861,366	-
	6.542%	7,500,000	6/15/2017	83,633	-
	6.544%	9,900,000	1/15/2010	-	83,744
	7.254%	12,600,000	6/16/2011	92,839	-
	7.254%	9,300,000	6/15/2013	142,192	-
	7.403%	63,500,000	6/15/2010	-	92,559
	7.440%	5,800,000	9/15/2009	5,956	-
	7.544%	118,100,000	3/15/2010	790,790	-
	7.544%	7,700,000	3/15/2012	144,698	-
	7.754%	25,200,000	6/15/2010	216,849	-
Brazilian Real	10.115%	500,000	1/02/2012	-	27,236
	10.575%	8,200,000	1/02/2012	-	369,540
	10.684%	3,000,000	1/02/2012	-	129,674
	12.414%	2,000,000	1/04/2010	-	17,113
	12.544%	6,700,000	1/02/2012	-	89,864
	14.765%	400,000	1/02/2012	4,268	-
Canadian Dollar	4.254%	18,200,000	12/20/2013	-	555,038
	4.544%	2,300,000	9/20/2011	-	85,619
	5.421%	3,100,000	6/15/2015	242,084	-
Euro	3.754%	55,000,000	6/18/2013	-	3,466,995
	4.408%	2,500,000	12/15/2011	-	112,411
	4.411%	9,100,000	9/19/2012	-	452,519
	4.415%	45,200,000	9/17/2013	-	1,982,316
	4.419%	700,000	12/15/2014	-	32,869
	4.435%	9,900,000	6/18/2015	432,160	-
	4.440%	63,200,000	9/19/2009	-	1,666,572
	4.541%	38,800,000	3/18/2014	-	248,904
	4.542%	6,500,000	3/18/2016	54,966	-
	4.544%	9,600,000	3/19/2010	-	113,569
	5.404%	6,900,000	9/17/2010	26,590	-
	5.435%	300,000	3/18/2019	11,608	-
	5.506%	8,500,000	9/17/2038	-	643,609
	5.508%	14,700,000	3/18/2039	-	1,168,192
	6.482%	1,200,000	3/15/2032	149,277	-
6.491%	7,300,000	6/18/2034	-	1,320,017	
Japanese Yen	0.923% (A)	20,650,000,000	9/10/2009	190,669,213	-
	1.344%	2,560,000,000	12/17/2010	-	110,713
	1.398%	600,000,000	3/18/2009	-	2,008
	1.541%	14,290,000,000	6/17/2013	1,369,141	-
	1.984%	1,730,000,000	9/27/2016	-	656,875
	2.254%	200,000,000	6/20/2036	36,455	-
	2.434%	5,630,000,000	12/17/2017	-	1,670,169
	2.549%	110,000,000	6/20/2036	-	33,795
	3.498%	780,000,000	6/20/2036	-	1,003,261
	-	-	-	-	-
Mexican Peso	8.334%	7,400,000	2/14/2017	-	22,505
U.S. Dollar	2.696% (A)	175,000,000	9/10/2009	-	176,048,300
	4.401%	38,400,000	12/17/2009	326,064	-
	4.403%	154,700,000	6/17/2010	777,352	-
	4.405%	86,400,000	12/17/2010	-	371,601
	4.407%	6,500,000	6/17/2011	18,281	-
	4.416%	97,100,000	12/17/2013	-	630,287
	5.423%	20,800,000	12/17/2015	-	790,023
	5.423%	21,700,000	12/18/2015	4,787	-
	5.434%	194,564,000	12/17/2018	-	6,826,667

(A) These items represent a single swap and, therefore, could not be settled independently.

(Continued)

				Fair Value at August 31, 2008	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
<b>Interest Rate:</b>					
U.S. Dollar					
	5.452%	27,000,000	12/17/2023	193,587	-
	5.465%	1,500,000	6/20/2027	50,959	-
	5.471%	1,600,000	12/17/2028	-	36,195
	5.507%	72,500,000	12/17/2038	-	1,636,360
	5.539%	5,000,000	5/21/2009	106,800	-
British Pound					
	3.555%	7,500,000	12/17/2037	-	68,316
	4.254%	900,000	6/12/2036	22,446	-
	4.496%	11,800,000	12/15/2035	148,846	-
	4.542%	61,700,000	9/15/2017	303,739	-
	4.549%	900,000	12/15/2035	-	64,280
	5.322%	3,400,000	9/14/2009	32,726	-
	5.399%	11,400,000	6/15/2009	80,602	-
	5.402%	200,000	3/19/2010	-	3,805
	5.402%	29,700,000	3/20/2010	566,918	-
	5.404%	3,900,000	9/15/2010	-	78,117
	5.415%	15,000,000	9/17/2013	-	299,605
	5.422%	27,600,000	9/15/2015	-	680,961
	5.431%	400,000	3/20/2018	-	9,063
	5.508%	1,100,000	3/18/2039	-	127,189
	5.543%	1,000,000	9/17/2018	-	65,370
	5.555%	200,000	12/15/2036	-	57,423
				197,967,192	204,423,640
<b>Commodity</b>					
U.S. Dollar					
	DJAIG	145,440,128	10/05/2008	-	4,229,004
	DJAIG	54,306,118	10/28/2008	-	3,984,146
	DJAIG	138,314,597	11/26/2008	-	2,759,807
	DJAIG	47,472,998	1/05/2009	-	1,759,844
				-	12,732,801
<b>Credit Default</b>					
Euro					
	0.235%	200,000	6/20/2012	-	280
	0.254%	200,000	6/20/2012	-	298
	0.294%	200,000	6/20/2012	-	346
	0.365%	200,000	6/20/2012	-	436
	0.394%	100,000	6/20/2012	-	233
	0.454%	5,200,000	9/20/2012	194,286	-
	0.464%	4,000,000	9/20/2012	109,146	-
	0.474%	6,600,000	9/20/2012	494,111	-
	0.494%	4,000,000	9/20/2012	65,964	-
	0.534%	500,000	9/20/2010	2,265	-
	0.614%	100,000	5/20/2012	-	233
	0.741%	7,900,000	12/20/2012	330,984	-
	0.854%	7,600,000	12/20/2016	504,559	-
	1.484%	700,000	3/20/2013	12,405	-
	1.654%	1,000,000	3/20/2013	25,654	-
	1.754%	15,900,000	6/20/2018	-	1,396,921
	2.941%	800,000	6/20/2013	-	68,476
U. S. Dollar					
	0.054%	800,000	9/20/2009	427	-
	0.073%	4,100,000	9/20/2008	91	-
	0.085%	3,270,000	12/13/2049	-	132,114
	0.089%	300,000	6/20/2012	1,609	-
	0.114%	300,000	6/20/2010	6,088	-
	0.115%	1,400,000	5/25/2046	-	461,838
	0.124%	200,000	6/20/2012	1,761	-
	0.135%	300,000	3/20/2015	3,814	-
	0.144%	800,000	3/20/2011	1,414	-
	0.164%	200,000	3/20/2011	808	-
	0.164%	300,000	12/20/2011	3,862	-
	0.164%	1,100,000	6/20/2012	121,104	-
	0.165%	300,000	3/20/2011	7,821	-
	0.165%	200,000	12/20/2013	23,609	-
	0.174%	2,100,000	6/20/2010	344,479	-
	0.184%	800,000	3/20/2012	4,422	-
	0.214%	200,000	6/20/2011	5,425	-
	0.214%	900,000	9/20/2011	4,881	-
	0.214%	-	6/20/2012	-	36

(Continued)

				Fair Value at August 31, 2008	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Credit Default:					
U.S. Dollar					
	0.214%	500,000	12/20/2016	9,240	-
	0.224%	800,000	9/20/2009	251	-
	0.224%	200,000	9/20/2011	6,353	-
	0.233%	600,000	6/20/2009	7,174	-
	0.234%	200,000	3/20/2012	7,208	-
	0.239%	200,000	6/20/2009	1,175	-
	0.244%	200,000	3/20/2011	4,135	-
	0.274%	8,600,000	3/20/2013	-	28,943
	0.294%	500,000	6/20/2011	9,164	-
	0.314%	300,000	12/20/2011	8,883	-
	0.324%	500,000	6/20/2010	4,178	-
	0.324%	400,000	12/20/2012	1,562	-
	0.344%	500,000	12/20/2016	55,532	-
	0.354%	700,000	9/20/2011	2,962	-
	0.354%	700,000	6/20/2012	30,535	-
	0.394%	500,000	6/20/2010	2,663	-
	0.395%	800,000	9/20/2011	107,162	-
	0.434%	300,000	12/20/2012	4,337	-
	0.435%	5,700,000	3/20/2013	22,259	-
	0.441%	300,000	6/20/2014	11,493	-
	0.453%	2,000,000	1/20/2009	-	240
	0.454%	1,000,000	9/20/2014	723	-
	0.454%	1,000,000	6/20/2017	5,134	-
	0.455%	1,100,000	6/20/2012	-	4,367
	0.464%	600,000	9/20/2011	48,616	-
	0.464%	600,000	3/20/2012	46,196	-
	0.464%	1,000,000	12/20/2013	10,665	-
	0.464%	300,000	12/20/2016	19,529	-
	0.465%	17,700,000	3/20/2013	92,518	-
	0.474%	100,000	6/20/2011	2,527	-
	0.474%	4,200,000	3/20/2013	22,879	-
	0.493%	1,500,000	2/20/2009	-	979
	0.514%	500,000	6/20/2011	12,864	-
	0.514%	800,000	3/20/2018	1,521	-
	0.514%	2,000,000	6/20/2018	52,172	-
	0.524%	500,000	6/20/2012	-	3,210
	0.529%	300,000	12/20/2012	4,721	-
	0.534%	500,000	9/20/2010	-	1,423
	0.553%	5,600,000	12/20/2008	10,341	-
	0.554%	600,000	9/20/2011	47,048	-
	0.574%	700,000	12/20/2017	27,261	-
	0.594%	1,000,000	9/20/2014	2,281	-
	0.594%	1,000,000	9/20/2016	2,418	-
	0.614%	100,000	5/20/2012	1,171	-
	0.633%	600,000	12/20/2008	693	-
	0.641%	25,100,000	12/20/2012	847,974	-
	0.642%	200,000	6/20/2017	7,152	-
	0.643%	1,000,000	3/20/2018	6,283	-
	0.654%	9,600,000	12/20/2016	570,390	-
	0.664%	400,000	9/20/2012	-	37,988
	0.674%	1,400,000	1/20/2017	-	65,025
	0.684%	600,000	12/20/2012	15,518	-
	0.708%	2,000,000	12/20/2012	22,972	-
	0.714%	200,000	9/20/2012	-	2,520
	0.724%	200,000	9/20/2012	-	2,520
	0.724%	12,500,000	12/20/2012	150,172	-
	0.741%	400,000	6/20/2012	-	62,844
	0.741%	300,000	9/20/2012	-	28,071
	0.744%	700,000	3/20/2018	7,710	-
	0.754%	1,000,000	12/20/2013	18,495	-
	0.754%	1,000,000	9/20/2017	-	28,629
	0.754%	1,300,000	12/20/2017	-	21,844
	0.758%	2,100,000	12/20/2012	28,555	-
	0.774%	800,000	3/20/2012	-	6,963
	0.815%	5,000,000	3/20/2018	-	51,923
	0.824%	200,000	5/20/2012	-	14,599
	0.824%	2,000,000	3/20/2018	36,244	-
	0.843%	5,200,000	12/20/2017	217,015	-
	0.844%	200,000	6/20/2012	-	4,132

(Continued)

				Fair Value at August 31, 2008	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Credit Default:					
U. S. Dollar	0.844%	500,000	6/20/2013	12,858	-
	0.854%	600,000	12/20/2009	-	1,164
	0.862%	1,800,000	11/20/2016	2,993	-
	0.924%	1,000,000	6/20/2013	-	4,307
	0.944%	700,000	9/20/2014	28,715	-
	0.944%	1,000,000	6/20/2016	-	19,781
	0.944%	3,000,000	6/20/2018	158,198	-
	0.954%	1,000,000	12/20/2015	-	10,920
	0.954%	1,000,000	9/20/2017	-	10,080
	0.974%	200,000	9/20/2013	-	538
	0.984%	500,000	6/20/2013	-	389
	0.984%	600,000	9/20/2013	-	1,374
	0.994%	1,000,000	9/20/2015	-	20,919
	1.034%	2,000,000	3/20/2013	-	3,083
	1.034%	1,300,000	9/20/2018	19,128	-
	1.044%	1,000,000	6/20/2013	15,762	-
	1.054%	2,000,000	3/20/2013	-	21,450
	1.064%	1,000,000	3/20/2018	-	26,337
	1.094%	1,000,000	6/20/2018	10,655	-
	1.124%	1,000,000	6/20/2017	69,696	-
	1.135%	500,000	9/20/2013	13,184	-
	1.143%	1,200,000	6/20/2018	25,275	-
	1.144%	1,000,000	9/20/2018	68,868	-
	1.164%	2,000,000	3/20/2013	16,152	-
	1.174%	1,000,000	6/20/2013	-	4,902
	1.184%	1,900,000	9/20/2013	1,761	-
	1.254%	1,000,000	3/20/2013	-	19,410
	1.254%	1,700,000	6/20/2013	12,973	-
	1.284%	1,000,000	6/20/2013	-	9,859
	1.294%	700,000	6/20/2011	6,325	-
	1.306%	2,100,000	6/20/2018	46,597	-
	1.323%	1,500,000	12/20/2008	4,035	-
	1.324%	1,000,000	3/20/2017	23,553	-
	1.333%	2,200,000	12/20/2008	6,033	-
	1.341%	900,000	6/20/2013	-	9,684
	1.353%	700,000	12/20/2008	1,976	-
	1.374%	600,000	6/20/2013	-	5,073
	1.374%	100,000	6/20/2018	-	29
	1.384%	2,000,000	3/20/2017	-	57,612
	1.415%	500,000	9/20/2013	-	593
	1.434%	1,000,000	6/20/2018	67,727	-
	1.441%	100,000	6/20/2012	10,440	-
	1.441%	100,000	6/20/2013	-	980
	1.454%	3,000,000	6/20/2013	22,112	-
	1.474%	500,000	12/20/2016	4,560	-
	1.474%	500,000	6/20/2018	-	3,900
	1.524%	200,000	6/20/2013	-	861
	1.534%	1,000,000	9/20/2016	-	27,814
	1.534%	1,000,000	6/20/2018	9,488	-
	1.541%	1,700,000	6/20/2013	41,894	-
	1.543%	8,600,000	6/20/2018	-	118,716
	1.544%	4,000,000	6/20/2010	-	119,391
	1.544%	1,000,000	12/20/2013	101,439	-
	1.544%	400,000	6/20/2018	-	9,121
	1.554%	47,300,000	6/20/2013	-	399,413
	1.574%	3,300,000	3/20/2013	-	109,910
	1.574%	2,700,000	9/20/2013	7,114	-
	1.624%	1,000,000	6/20/2012	96,382	-
	1.664%	3,100,000	3/20/2018	46,462	-
	1.683%	1,700,000	4/20/2009	14,437	-
	1.713%	900,000	4/20/2009	7,794	-
	1.784%	300,000	12/20/2012	-	8,919
	1.834%	1,000,000	9/20/2018	18,955	-
	1.839%	1,900,000	12/20/2008	1,598	-
	1.843%	800,000	9/20/2018	16,895	-
	1.854%	300,000	9/20/2018	5,254	-
	1.884%	1,000,000	12/20/2015	30,613	-
	1.913%	200,000	4/20/2009	2,344	-
	1.924%	1,000,000	3/20/2017	60,414	-
	1.954%	1,300,000	3/20/2013	-	80,474

(Continued)						Fair Value at August 31, 2008	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities		
Credit Default:							
U. S. Dollar							
	2.084%	1,000,000	6/20/2018	13,530	-		
	2.141%	300,000	9/20/2013	-	6,384		
	2.154%	1,000,000	6/20/2018	8,666	-		
	2.174%	1,000,000	8/20/2013	15,077	-		
	2.741%	400,000	9/20/2013	-	430		
	2.754%	4,653,000	6/20/2012	438,502	-		
	2.934%	300,000	6/20/2015	-	5,596		
	3.053%	700,000	3/20/2009	-	8,491		
	3.054%	400,000	9/20/2012	-	141,879		
	3.153%	1,300,000	6/20/2009	-	25,049		
	3.239%	1,500,000	12/20/2008	-	5,262		
	3.739%	400,000	3/20/2009	-	2,911		
	3.841%	300,000	9/20/2012	-	76,317		
	3.854%	100,000	9/20/2012	-	25,305		
	4.339%	200,000	3/20/2009	-	560		
	4.854%	300,000	9/20/2012	94,161	-		
	5.239%	1,800,000	9/20/2008	-	13,893		
	5.441%	900,000	9/20/2012	-	271,256		
	5.454%	900,000	9/20/2012	-	270,236		
	6.854%	100,000	6/20/2012	-	26,454		
	7.411%	300,000	9/20/2012	-	79,533		
British Pound							
	0.214%	100,000	6/20/2012	1,109	-		
	0.235%	200,000	6/20/2012	6,075	-		
	0.254%	200,000	6/20/2012	23,040	-		
	0.294%	200,000	6/20/2012	6,530	-		
	0.344%	200,000	6/20/2012	-	11,504		
	0.365%	200,000	6/20/2012	2,598	-		
	0.394%	100,000	6/20/2012	1,171	-		
	0.674%	930,000	9/20/2014	-	5,389		
				<u>6,628,131</u>	<u>4,510,883</u>		
Equity							
	Developed	85,448,620	1/15/2009	-	2,515,276		
	Developed	103,141,465	3/16/2009	-	10,849,907		
				-	13,365,183		
Inflation:							
Euro							
	1.944%	200,000	3/15/2012	-	7,893		
	1.944%	1,500,000	4/10/2012	-	63,211		
	1.948%	1,700,000	3/15/2012	-	68,362		
	1.954%	700,000	3/28/2012	-	28,479		
	1.954%	100,000	3/30/2012	-	4,128		
	1.954%	500,000	3/30/2012	-	20,642		
	1.955%	200,000	3/28/2012	-	8,137		
	1.964%	100,000	4/05/2012	-	4,175		
	1.964%	600,000	3/30/2012	-	25,245		
	1.965%	500,000	3/15/2012	-	17,589		
	1.984%	600,000	4/30/2012	-	25,431		
	1.984%	200,000	4/30/2012	-	8,476		
	1.988%	800,000	12/15/2011	-	26,130		
	2.024%	400,000	10/15/2011	-	8,953		
	2.028%	700,000	10/15/2011	-	15,668		
	2.044%	3,300,000	2/21/2011	-	55,100		
	2.084%	1,300,000	6/15/2012	-	48,162		
	2.084%	4,200,000	6/15/2012	-	155,601		
	2.094%	900,000	10/15/2011	-	15,744		
	2.095%	1,600,000	10/15/2011	-	27,989		
	2.103%	2,000,000	10/15/2010	-	17,925		
	2.140%	1,000,000	10/15/2010	-	8,963		
	2.144%	200,000	10/15/2010	-	1,155		
	2.146%	500,000	10/15/2010	-	2,888		
	2.274%	200,000	10/15/2016	-	3,164		
	2.275%	700,000	10/15/2016	-	11,076		
	2.353%	600,000	10/15/2016	-	9,080		
	2.354%	400,000	10/15/2016	-	6,191		
	2.354%	700,000	10/15/2016	-	11,076		

(Continued)				Fair Value at August 31, 2008	
Currency	Coupon	Notional Value	Maturity Date	Assets	Liabilities
Inflation:					
British Pound	3.183%	1,000,000	12/19/2017	-	103,547
	3.184%	400,000	12/19/2017	-	41,419
	3.254%	300,000	12/14/2017	-	26,580
	3.254%	400,000	12/14/2017	-	35,440
	3.444%	300,000	9/10/2027	-	49,917
	3.444%	100,000	9/10/2027	-	16,639
				-	980,175
Total				\$ 204,595,323	236,012,682

(F) *Investment Funds* – The System’s investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated.

Hedge fund pools are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$98,077,673 and \$303,188,933 of future funding to various hedge fund investments as of August 31, 2009 and 2008, respectively.

Certain of the hedge fund pools’ investments were held through limited liability companies (LLCs), of which UTIMCO was the sole managing member. These investments were managed by an external investment manager under management agreements between the LLCs and the external manager. These management agreements were terminated during the year ended August 31, 2009. The external manager employed an investment strategy utilizing leveraged commodity futures and options. As of August 31, 2008, the fair value of these investments included \$49,988,235 of cash and cash equivalents, options on commodity futures with a fair value of \$21,917, net of liabilities for margin in the amount of \$1,232,497 related to the outstanding futures contracts.

Private investment pools are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The System had committed \$2,536,892,509 and \$2,909,146,371 of future funding to various private investments as of August 31, 2009 and 2008, respectively.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. 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.

Hedge funds, private investment 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:

- *Non-regulation risk* – Some of System’s general partners and investment managers are not registered with the Securities and Exchange Commission or other domestic or international regulators, and therefore are not subject to regulatory controls.
- *Key personnel risk* – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund’s performance.
- *Liquidity risk* – Many of the System’s investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.

- *Investment strategy risk* – These funds often employ sophisticated investment strategies and may use leverage, which could result in the loss of invested capital.

Investments in hedge funds, private investments, and public market funds are also subject to the investment risks previously discussed under the heading of Investment Risks, including custodial credit risk and foreign currency risk. 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 as of August 31, 2009 and 2008 were \$12,302,129,676 and \$14,873,302,542, respectively.

(G) *Securities Sold Short* – The System may sell securities it does not own in anticipation of a decline in the fair value of that security or as a means to adjust the duration of certain fixed income portfolios. When the System sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale and provide collateral for its obligation to deliver the security upon conclusion of the sale. As of August 31, 2009 and 2008 the Fund had no securities sold short. The System must pay dividends or interest on the securities sold short. Until the System covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold short at prices, which may be significantly higher than the market value reflected in the statements of fiduciary net assets.

#### 4. Endowments

Restricted investments include \$16,747,064,166.36 and \$20,278,420,441.31 of endowment funds as of August 31, 2009 and 2008, respectively. The net asset classifications on the balance sheet related to endowment funds as of August 31, 2009 and 2008 are as follows:

Net Asset Classification of Endowments	2009	2008
Restricted, nonexpendable	\$ 10,181,990,706.05	10,137,228,780.58
Restricted, expendable:		
Net Appreciation on True Endowments	5,162,444,352.64	8,413,687,826.43
Funds Functioning as Endowments	206,793,039.82	232,809,744.69
Term Endowments	26,186,264.65	33,133,396.32
Unrestricted:		
Funds Functioning as Endowments	256,570,982.88	287,221,797.88
Total	\$ 15,833,985,346.04	19,104,081,545.90

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 UT System Board of Regents. For donor restricted endowments, pursuant to the Uniform Prudent Management of Institutional Funds Act, as adopted by Texas, the UT System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. The System’s policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds. The System’s endowment distribution policy is further discussed below.

#### ENDOWMENTS AND SIMILAR FUNDS – STATE

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

The PUF was established by 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 Available University Fund (AUF). The Constitution, as amended, is summarized as follows: (i) The UT 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 UT 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 UT 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 UT 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 UT System Board of Regents on August 30, 1999, to be managed and invested in the same manner as the UT 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 UT System Board of Regents determines the amount of distributions to support the programs based on the PHF’s investment policy.

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

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

#### ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

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

#### ANNUITY AND LIFE INCOME FUNDS

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

#### AVAILABLE UNIVERSITY FUND

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

## 5. Capital Assets

A summary of changes in the capital assets for the year ended August 31, 2009, is presented below.

	Balance 09/01/08	Adjustments	Reclassifications Completed CIP
<u>Nondepreciable Assets:</u>			
Land and Land Improvements	\$ 420,696,765.77	-	2,347,159.15
Construction in Progress (CIP)	1,166,239,323.42	(20,575,584.37)	(985,312,692.33)
Other Capital Assets	208,269,471.30	(1.00)	-
Total Nondepreciable Assets	<u>1,795,205,560.49</u>	<u>(20,575,585.37)</u>	<u>(982,965,533.18)</u>
<u>Depreciable Assets:</u>			
Buildings and Building Improvements	9,274,149,212.79	3,930,321.24	756,044,936.66
Infrastructure	215,985,309.54	-	22,550,923.33
Facilities and Other Improvements	534,499,514.78	(4,942,957.63)	142,622,455.59
Furniture and Equipment	2,656,138,102.85	(102,453.95)	54,633,461.14
Vehicles, Boats and Aircraft	59,382,583.55	(131,652.86)	-
Other Capital Assets (including Library Books)	568,086,286.56	(1,342.35)	7,113,756.46
Total Depreciable Assets at Historical Cost	<u>13,308,241,010.07</u>	<u>(1,248,085.55)</u>	<u>982,965,533.18</u>
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(3,386,977,726.82)	-	-
Infrastructure	(105,686,684.01)	-	-
Facilities and Other Improvements	(183,226,228.74)	-	-
Furniture and Equipment	(1,687,377,239.32)	-	-
Vehicles, Boats and Aircraft	(38,926,857.52)	-	-
Other Capital Assets (including Library Books)	(401,109,626.86)	-	-
Total Accumulated Depreciation	<u>(5,803,304,363.27)</u>	<u>-</u>	<u>-</u>
Depreciable Assets, net	<u>7,504,936,646.80</u>	<u>(1,248,085.55)</u>	<u>982,965,533.18</u>
Capital Assets, net	<u>\$ 9,300,142,207.29</u>	<u>(21,823,670.92)</u>	<u>-</u>

A summary of changes in the capital assets for the year ended August 31, 2008, is presented below.

	Balance 09/01/07	Adjustments	Reclassifications Completed CIP
<u>Nondepreciable Assets:</u>			
Land and Land Improvements	\$ 347,756,952.04	(550.47)	953,704.75
Construction in Progress (CIP)	1,010,482,158.81	(2,392,736.45)	(967,762,977.40)
Other Capital Assets	210,976,516.07	(47,355.98)	30,308.00
Total Nondepreciable Assets	<u>1,569,215,626.92</u>	<u>(2,440,642.90)</u>	<u>(966,778,964.65)</u>
<u>Depreciable Assets:</u>			
Buildings and Building Improvements	8,287,855,055.41	(871,434.98)	847,878,143.26
Infrastructure	205,070,015.15	-	10,699,462.02
Facilities and Other Improvements	484,381,742.59	838,366.62	51,609,774.92
Furniture and Equipment	2,398,349,237.74	(172,792.00)	53,113,406.49
Vehicles, Boats and Aircraft	51,077,792.64	(10,092.90)	-
Other Capital Assets (including Library Books)	552,418,538.73	(35,311.19)	3,478,177.96
Total Depreciable Assets at Historical Cost	<u>11,979,152,382.26</u>	<u>(251,264.45)</u>	<u>966,778,964.65</u>
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(3,046,802,905.80)	-	-
Infrastructure	(98,882,745.29)	-	-
Facilities and Other Improvements	(169,664,082.53)	-	-
Furniture and Equipment	(1,496,768,861.81)	(12,023,969.20)	-
Vehicles, Boats and Aircraft	(37,072,738.36)	(93,698.98)	-
Other Capital Assets (including Library Books)	(378,176,141.51)	-	-
Total Accumulated Depreciation	<u>(5,227,367,475.30)</u>	<u>(12,117,668.18)</u>	<u>-</u>
Depreciable Assets, net	<u>6,751,784,906.96</u>	<u>(12,368,932.63)</u>	<u>966,778,964.65</u>
Capital Assets, net	<u>\$ 8,321,000,533.88</u>	<u>(14,809,575.53)</u>	<u>-</u>

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/09
-	-	9,608,242.96	(0.55)	432,652,167.33
-	-	1,335,776,101.97	-	1,496,127,148.69
-	-	17,709,729.61	(122,652.00)	225,856,547.91
-	-	1,363,094,074.54	(122,652.55)	2,154,635,863.93
-	-	39,967,943.79	(74,991,184.45)	9,999,101,230.03
-	-	(318,033.16)	(45,297.23)	238,172,902.48
-	-	842,861.48	(2,583,361.15)	670,438,513.07
1,554,803.32	(2,285,718.76)	256,938,162.74	(126,207,041.66)	2,840,669,315.68
-	(278,204.32)	7,096,230.48	(4,680,831.85)	61,388,125.00
2,664,429.40	(2,664,429.40)	19,204,913.17	(3,540,465.13)	590,863,148.71
4,219,232.72	(5,228,352.48)	323,732,078.50	(212,048,181.47)	14,400,633,234.97
-	-	(393,858,457.92)	3,563,061.65	(3,777,273,123.09)
-	-	(7,093,313.36)	(0.23)	(112,779,997.60)
-	-	(22,143,999.27)	(1.62)	(205,370,229.63)
(1,004,477.76)	1,406,959.25	(290,984,149.29)	108,574,121.98	(1,869,384,785.14)
-	182,357.88	(5,720,448.04)	4,573,461.94	(39,891,485.74)
-	-	(21,030,238.24)	2,292,552.07	(419,847,313.03)
(1,004,477.76)	1,589,317.13	(740,830,606.12)	119,003,195.79	(6,424,546,934.23)
3,214,754.96	(3,639,035.35)	(417,098,527.62)	(93,044,985.68)	7,976,086,300.74
3,214,754.96	(3,639,035.35)	945,995,546.92	(93,167,638.23)	10,130,722,164.67

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/08
-	-	71,986,659.45	-	420,696,765.77
-	-	1,126,089,576.98	(176,698.52)	1,166,239,323.42
-	-	6,496,579.47	(9,186,576.26)	208,269,471.30
-	-	1,204,572,815.90	(9,363,274.78)	1,795,205,560.49
584,240.75	(584,240.75)	151,205,745.51	(11,918,296.41)	9,274,149,212.79
-	-	215,832.37	-	215,985,309.54
-	-	4,587,346.92	(6,917,716.27)	534,499,514.78
1,364,276.00	(1,430,693.00)	312,195,726.53	(107,281,058.91)	2,656,138,102.85
95,456.25	(23,263.25)	11,498,994.04	(3,256,303.23)	59,382,583.55
2,509,251.07	(2,509,251.07)	19,115,258.85	(6,890,377.79)	568,086,286.56
4,553,224.07	(4,547,448.07)	498,818,904.22	(136,263,752.61)	13,308,241,010.07
-	-	(349,613,263.69)	9,438,442.67	(3,386,977,726.82)
-	-	(6,803,939.26)	0.54	(105,686,684.01)
-	-	(19,325,049.50)	5,762,903.29	(183,226,228.74)
(1,186,319.60)	1,004,535.66	(269,778,197.26)	91,375,572.89	(1,687,377,239.32)
(49,131.37)	23,263.25	(4,857,094.74)	3,122,542.68	(38,926,857.52)
-	-	(29,453,801.51)	6,520,316.16	(401,109,626.86)
(1,235,450.97)	1,027,798.91	(679,831,345.96)	116,219,778.23	(5,803,304,363.27)
3,317,773.10	(3,519,649.16)	(181,012,441.74)	(20,043,974.38)	7,504,936,646.80
3,317,773.10	(3,519,649.16)	1,023,560,374.16	(29,407,249.16)	9,300,142,207.29

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. This information is provided in the following table for the year ended August 31, 2009. The System did not have any impairment losses to report for the year ended August 31, 2008.

	<u>2009</u>
<b><u>OPERATING IMPAIRMENT LOSSES/RECOVERIES – CAPITAL ASSETS</u></b>	
Impairment Losses – Capital Assets	\$ (82,274,664.22)
Insurance Recovery – Current Year	<u>66,340,503.61</u>
Net Losses – Capital Assets	<u>(15,934,160.61)</u>
<b><u>OTHER NONOPERATING (REVENUE) EXPENSE</u></b>	
Insurance Recoveries for Other than Capital Assets – Current Year Losses	<u>39,509,200.00</u>
Net Losses – Other than Capital Assets	<u>39,509,200.00</u>

## 6. Risk Financing and Related Insurance

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

### EMPLOYEE AND RETIREE INSURANCE BENEFITS

The UT System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment (AD&D), long-term disability, short-term disability, long-term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of the System's cost of providing group health and basic life insurance coverage is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the *Texas Insurance Code* and complies with State laws and statutes pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans with a subsidy of up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The System recognized \$5,458,336.95 and \$6,215,345.60 of Medicare Part D payments from the federal government in 2009 and 2008, respectively. The Centers for Medicare and Medicaid Services, administrators of Medicare Part D subsidies, elected to strictly enforce plan year application deadlines for submission of retired employee lists which were not previously enforced, and as a result, the application for the period September 1, 2008 to August 31, 2009 was denied. UT System immediately applied for and received approval for a short period application for the period December 29, 2008 to August 31, 2009. The denied amount of Medicare Part D federal revenue for 2009 is estimated to be \$1,830,000.00. The revenue under the denied application has not been reported for August 31, 2009. The System hired counsel, and there is an appeal for the denied amount. The System is optimistic that the outcome will be favorable.

### UNEMPLOYMENT COMPENSATION INSURANCE

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

### WORKERS' COMPENSATION INSURANCE

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

#### PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

The coverage provided under the Professional Medical Liability Benefit Plan (Plan) is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of \$30,000,000, an annual aggregate of \$1,500,000 for each staff physician (\$500,000 per claim), an annual aggregate of \$300,000 for each resident or fellow (\$100,000 per claim) and a \$75,000 annual aggregate for each medical student (\$25,000 per claim). Other coverage is available for medical student externships outside of Texas and for approved international activities.

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

#### COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The Comprehensive Property Protection Plan (CPPP) was renewed in April of 2009 and is a combination of interim financing and commercial coverage and provides Fire and All Other Perils (Fire and AOP), as well as coverage for Named Windstorm and Flood (Wind and Flood). All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policy. The Fire and AOP program provides a \$1,000,000,000 per occurrence limit for most perils, with sub-limits that do apply. Deductibles for Fire and AOP are \$5,000,000 per occurrence with a \$15,000,000 annual aggregate limit. Coverage for Named Windstorm and resulting perils is included with a \$50,000,000 per occurrence deductible.

In addition, underlying policies are purchased on certain flood and wind exposed properties. These policies provide relatively low limits (\$1-4 million per building/contents for wind and \$500,000 maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) and the National Flood Insurance Program (NFIP) for facilities in Tier 1 seacoast territories and for properties located in various flood zones. 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 up to \$50,000,000. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to paying insurance premiums.

#### DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY SELF-INSURANCE PLAN

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

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

#### ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

### INCURRED BUT NOT REPORTED SELF-INSURANCE CLAIMS

Insurance claims that were Incurred But Not Reported (IBNR) were actuarially determined for the employee's health and dental, workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans. IBNR figures for the workers' compensation, professional medical liability, directors and officers/employment practices liability, and rolling owner controlled self-insurance plans include liabilities for unpaid reported claims and are reported on an undiscounted basis. The IBNR liability for the property protection self-insurance plan is not actuarially determined but rather estimated based on unpaid reported claims. Since an annual accrual is recorded for the third quarter TWC billing, no IBNR liability is recorded for Unemployment Compensation Insurance. In the past three fiscal years only losses from Hurricane *Ike* in fiscal year 2009 exceeded insurance coverage.

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

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2009 and 2008 were as follows:

<u>Fiscal Year 2009</u>		Current Year		
Plan	IBNR Liability 09/01/08	Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/09
Employee Health and Dental	\$ 64,900,000.00	659,617,436.67	(652,717,436.67)	71,800,000.00
Workers' Compensation	10,208,000.00	3,329,671.41	(4,819,671.41)	8,718,000.00
Medical Professional Liability	29,867,984.00	(3,154,626.29)	(2,771,909.71)	23,941,448.00
Property Protection – Fire & AOP	850,000.00	(122,277.52)	(637,191.48)	90,531.00
Property Protection – Wind & Flood	150,000.00	106,559,641.00	(106,709,641.00)	-
Directors and Officers/EPL	3,410,789.00	(98,287.00)	-	3,312,502.00
ROCIP I, II, III, IV and V	6,745,724.00	2,458,945.94	(1,482,457.94)	7,722,212.00
TOTAL	\$ 116,132,497.00	768,590,504.21	(769,138,308.21)	115,584,693.00

<u>Fiscal Year 2008</u>		Current Year		
Plan	IBNR Liability 09/01/07	Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/08
Employee Health and Dental	\$ 58,200,000.00	610,521,347.97	(603,821,347.97)	64,900,000.00
Workers' Compensation	13,296,000.00	1,530,939.71	(4,618,939.71)	10,208,000.00
Medical Professional Liability	35,678,697.00	(1,132,043.77)	(4,678,669.23)	29,867,984.00
Property Protection – Fire & AOP	967,000.00	441,231.07	(558,231.07)	850,000.00
Property Protection – Wind & Flood	-	150,000.00	-	150,000.00
Directors and Officers/EPL	3,069,532.00	341,257.00	-	3,410,789.00
ROCIP I, II, III, IV and V	7,136,948.00	1,668,017.76	(2,059,241.76)	6,745,724.00
TOTAL	\$ 118,348,177.00	613,520,749.74	(615,736,429.74)	116,132,497.00

### **7. 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, 2009 and 2008, the contributions for the self-funded plan by the State per full-time retired employee are shown in the following table. The retiree contributes any premium over and above the State contributions.

<u>Level of Coverage</u>		<u>2009</u>		<u>2008</u>
Retiree Only	\$	369.12	\$	369.12
Retiree/Spouse		562.54		562.54
Retiree/Children		492.87		492.87
Retiree/Family		687.44		687.44

The number of systemwide retired employees who were eligible for these benefits, as well as the cost of providing the benefits for the years ended August 31, 2009 and 2008 are provided in the following table.

		<u>2009</u>	<u>2008</u>
Number of Retirees		17,674	16,616
Cost to the State	\$	49,890,043.21	42,162,628.43
Cost to the System	\$	36,438,499.69	39,695,647.04

#### PLAN DESCRIPTION AND FUNDING POLICY

OPEB are provided to the System's retirees under the UT System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. The authority under which the obligations of the plan members and the System are established and may be amended is Chapter 1601, *Texas Insurance Code*.

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

Because the OPEB plan described herein is not administered through a trust as defined under Paragraph No. 4 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 43 accounting is not required for this plan.

<b>2009 ANNUAL OPEB COST, EMPLOYER CONTRIBUTIONS AND NET OPEB OBLIGATION</b>							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ARC	Interest on Net OPEB Obligation	Adjustment to the ARC	Annual OPEB Cost {(1) + (2) - (3)}	Employer Contributions	Increase (Decrease) in Net OPEB Obligation {(4) - (5)}	Net OPEB Obligation at Beginning of Year	Net OPEB Obligation at End of Year {(6) + (7)}
\$514,764,689.00	29,587,462.00	20,648,694.00	523,703,457.00	105,356,191.00	418,347,266.00	422,678,024.00	841,025,290.00

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

Since 2009 is the second year of application of GASB Statement No. 45, only a two year history is shown below.

(1)	(2)	(3)	(4)	(5)
Fiscal Year Ending	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed {(3)/(2)}	Net OPEB Obligation at End of Year
August 31, 2008	\$522,570,019.00	99,891,995.00	19.1%	422,678,024.00
August 31, 2009	523,703,457.00	105,356,191.00	20.1%	841,025,290.00

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

**SCHEDULE OF FUNDING PROGRESS OF THE PLAN AS OF DECEMBER 31, 2008**

The Schedule of Funding Progress presents information as of the current valuation date and the two preceding valuation dates. Since this is the second year of application of GASB Statement No. 45, only a two year history is shown below.

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}	Funded Ratio {(2)/(3)}	Annual Covered Payroll	Ratio of UAAL to Covered Payroll {(4)/(6)}
December 31, 2007	\$-	5,014,216,756.00	5,014,216,756.00	0.0%	4,312,903,627.00	116.3%
December 31, 2008	-	5,102,764,529.00	5,102,764,529.00	0.0%	4,820,567,837.00	105.9%

**ACTUARIAL METHODS AND ASSUMPTIONS**

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

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

GASB Statement No. 45 calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

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

Summary of Actuarial Methods and Assumptions	
Actuarial cost method	Entry Age Normal (Level percent of pay)
Asset valuation method	Market
Actuarial assumptions:	
Annual investment return assumption (discount rate) <sup>1</sup>	7.00%
Projected annual salary increases <sup>1</sup>	5.25% to 8.50%
Weighted-average at valuation date <sup>1</sup>	7.01%
Annual Healthcare Trend Rates <sup>1</sup>	8.00% in FYE 2010 Declining to 6.00% in FYE 2015
Amortization method	Level percent
Amortization period	30 year open period

<sup>1</sup>Includes inflation assumption of 4.00%

**SIGNIFICANT FACTORS AFFECTING THE COMPARABILITY OF AMOUNTS REPORTED**

The following assumptions have been changed since the previous valuation:

- the Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect claims and expense experience in the twelve months following the date as of which the prior valuation's assumptions were determined; and
- the Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs.

The benefit provisions have been changed since the prior valuation. These changes will become effective September 1, 2009 and are incorporated into this valuation in accordance with question number 49 of the *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits*. The primary effect of these changes was a reduction to the employer's cost of providing OPEB for physician office visits and prescription drugs.

## 8. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2009, is summarized as follows:

	Balance 09/01/08	Additions	Reductions	Balance 08/31/09	Amounts due within one year
<b>Bonds Payable:</b>					
Permanent University Fund:					
Refunding Bonds Series 2002A	30,240,000.00	-	14,740,000.00	15,500,000.00	15,500,000.00
Refunding Bonds Series 2004A	59,920,000.00	-	6,275,000.00	53,645,000.00	6,590,000.00
Bonds Series 2004B	223,535,000.00	-	-	223,535,000.00	-
Refunding Bonds Series 2005A	100,345,000.00	-	-	100,345,000.00	-
Bonds Series 2005B	72,720,000.00	-	-	72,720,000.00	-
Refunding Bonds Series 2006A	50,400,000.00	-	24,635,000.00	25,765,000.00	25,765,000.00
Refunding Bonds Series 2006B	284,065,000.00	-	-	284,065,000.00	-
Bonds Series 2006C	97,755,000.00	-	-	97,755,000.00	-
Bonds Series 2008A	-	400,905,000.00	-	400,905,000.00	400,905,000.00
Revenue Financing System:					
Bonds Series 1998B	16,115,000.00	-	16,115,000.00	-	-
Bonds Series 1999A	4,450,000.00	-	4,450,000.00	-	-
Bonds Series 1999B	7,900,000.00	-	7,900,000.00	-	-
Refunding Bonds Series 2001A	19,965,000.00	-	4,000,000.00	15,965,000.00	15,965,000.00
Bonds Series 2001B	22,740,000.00	-	7,255,000.00	15,485,000.00	7,590,000.00
Bonds Series 2001C	10,670,000.00	-	3,385,000.00	7,285,000.00	3,555,000.00
Refunding Bonds Series 2002A	52,185,000.00	-	350,000.00	51,835,000.00	5,050,000.00
Refunding Bonds Series 2002B	104,480,000.00	-	680,000.00	103,800,000.00	9,040,000.00
Bonds Series 2003A	29,005,000.00	-	4,245,000.00	24,760,000.00	4,460,000.00
Bonds Series 2003B	65,920,000.00	-	11,895,000.00	54,025,000.00	12,495,000.00
Refunding Bonds Series 2004A	129,670,000.00	-	7,895,000.00	121,775,000.00	8,285,000.00
Refunding Bonds Series 2004B	277,205,000.00	-	21,880,000.00	255,325,000.00	22,975,000.00
Bonds Series 2004C	101,000,000.00	-	7,710,000.00	93,290,000.00	8,100,000.00
Bonds Series 2004D	69,270,000.00	-	10,055,000.00	59,215,000.00	10,520,000.00
Bonds Series 2006A	15,865,000.00	-	2,335,000.00	13,530,000.00	2,425,000.00
Bonds Series 2006B	523,070,000.00	-	13,735,000.00	509,335,000.00	14,390,000.00
Refunding Bonds Series 2006C	174,740,000.00	-	395,000.00	174,345,000.00	405,000.00
Refunding Bonds Series 2006D	340,090,000.00	-	270,000.00	339,820,000.00	280,000.00
Bonds Series 2006E	53,930,000.00	-	2,145,000.00	51,785,000.00	2,235,000.00
Bonds Series 2006F	315,005,000.00	-	6,140,000.00	308,865,000.00	6,405,000.00
Refunding Bonds Series 2007B	337,760,000.00	-	955,000.00	336,805,000.00	336,805,000.00
Bonds Series 2008B	685,485,000.00	-	11,425,000.00	674,060,000.00	674,060,000.00
Bonds Series 2008A	-	256,735,000.00	-	256,735,000.00	14,055,000.00
Taxable Bonds Series 2009B	-	330,545,000.00	-	330,545,000.00	-
Bonds Series 2009D	-	260,005,000.00	-	260,005,000.00	5,555,000.00
Subtotal Bonds Payable – Par	4,275,500,000.00	1,248,190,000.00	190,865,000.00	5,332,825,000.00	1,613,410,000.00
Unamortized Net Premiums	188,113,031.55	27,528,520.45	14,532,294.06	201,109,257.94	15,442,257.52
Unamortized Net (Losses)	(55,559,403.50)	9,362,191.70	668,606.26	(46,865,818.06)	(8,868,773.67)
Total Bonds Payable	4,408,053,628.05	1,285,080,712.15	206,065,900.32	5,487,068,439.88	1,619,983,483.85

Notes & Loans Payable:

Permanent University Fund					
Flexible Rate Notes, Series A	400,000,000.00	-	400,000,000.00	-	-
Taxable Commercial Paper Notes, Series B	-	250,000,000.00	-	250,000,000.00	250,000,000.00
Revenue Financing System					
Commercial Paper Notes, Series A	750,000,000.00	689,904,000.00	742,296,000.00	697,608,000.00	697,608,000.00
Taxable Commercial Paper Notes, Series B	14,400,000.00	30,737,000.00	45,137,000.00	-	-
Other Notes and Loans	34,824,934.36		2,770,674.04	32,054,260.32	3,095,385.41
Subtotal Notes & Loans Payable – Par	1,199,224,934.36	970,641,000.00	1,190,203,674.04	979,662,260.32	950,703,385.41
Unamortized Net Premiums	686,641.29	-	686,641.29	-	-
Total Notes and Loans Payable	<u>1,199,911,575.65</u>	<u>970,641,000.00</u>	<u>1,190,890,315.33</u>	<u>979,662,260.32</u>	<u>950,703,385.41</u>
<u>Leases Payable:</u>					
Lease Obligations	5,072,808.21	474,048.83	1,442,776.31	4,104,080.73	1,302,110.43
Total Notes, Loans and Leases Payable	1,204,984,383.86	971,115,048.83	1,192,333,091.64	983,766,341.05	952,005,495.84
Pollution Remediation Obligation	5,697.00	-	-	5,697.00	5,697.00
Employee Compensable Leave Incurred But Not Reported Self-Insurance Claims	410,562,294.44	140,247,360.6	115,753,558.02	435,056,097.02	261,831,782.92
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	<u>116,132,497.00</u>	<u>768,590,504.21</u>	<u>769,138,308.21</u>	<u>115,584,693.00</u>	<u>85,403,589.63</u>
\$	<u>6,139,738,500.35</u>	<u>3,165,033,625.79</u>	<u>2,283,290,858.19</u>	<u>7,021,481,267.95</u>	<u>2,919,230,049.24</u>

Long-term liability activity for the year ended August 31, 2008, is summarized as follows:

	Balance 09/01/07	Additions	Reductions	Balance 08/31/08	Amounts due within one year
<u>Bonds Payable:</u>					
Permanent University Fund:					
Bonds Series 1997	6,090,000.00	-	6,090,000.00	-	-
Refunding Bonds Series 2002A	44,280,000.00	-	14,040,000.00	30,240,000.00	14,740,000.00
Refunding Bonds Series 2004A	59,920,000.00	-	-	59,920,000.00	6,275,000.00
Bonds Series 2004B	223,535,000.00	-	-	223,535,000.00	-
Refunding Bonds Series 2005A	100,345,000.00	-	-	100,345,000.00	-
Bonds Series 2005B	72,720,000.00	-	-	72,720,000.00	-
Refunding Bonds Series 2006A	73,915,000.00	-	23,515,000.00	50,400,000.00	24,635,000.00
Refunding Bonds Series 2006B	284,065,000.00	-	-	284,065,000.00	-
Bonds Series 2006C	97,755,000.00	-	-	97,755,000.00	-
Revenue Financing System:					
Bonds Series 1998B	56,185,000.00	-	40,070,000.00	16,115,000.00	-
Bonds Series 1998D	4,425,000.00	-	4,425,000.00	-	-
Bonds Series 1999A	8,665,000.00	-	4,215,000.00	4,450,000.00	4,450,000.00
Bonds Series 1999B	15,385,000.00	-	7,485,000.00	7,900,000.00	7,900,000.00
Refunding Bonds Series 2001A	23,765,000.00	-	3,800,000.00	19,965,000.00	19,965,000.00
Bonds Series 2001B	29,630,000.00	-	6,890,000.00	22,740,000.00	7,255,000.00
Bonds Series 2001C	13,875,000.00	-	3,205,000.00	10,670,000.00	3,385,000.00
Refunding Bonds Series 2002A	52,525,000.00	-	340,000.00	52,185,000.00	350,000.00
Refunding Bonds Series 2002B	105,140,000.00	-	660,000.00	104,480,000.00	680,000.00
Bonds Series 2003A	33,130,000.00	-	4,125,000.00	29,005,000.00	4,245,000.00
Bonds Series 2003B	246,480,000.00	-	180,560,000.00	65,920,000.00	11,895,000.00
Refunding Bonds Series 2004A	135,175,000.00	-	5,505,000.00	129,670,000.00	7,895,000.00
Refunding Bonds Series 2004B	288,770,000.00	-	11,565,000.00	277,205,000.00	21,880,000.00
Bonds Series 2004C	108,350,000.00	-	7,350,000.00	101,000,000.00	7,710,000.00
Bonds Series 2004D	228,730,000.00	-	159,460,000.00	69,270,000.00	10,055,000.00
Bond Series 2006A	18,105,000.00	-	2,240,000.00	15,865,000.00	2,335,000.00
Bonds Series 2006B	534,105,000.00	-	11,035,000.00	523,070,000.00	13,735,000.00
Refunding Bonds Series 2006C	175,115,000.00	-	375,000.00	174,740,000.00	395,000.00
Refunding Bonds Series 2006D	340,350,000.00	-	260,000.00	340,090,000.00	270,000.00
Bonds Series 2006E	55,985,000.00	-	2,055,000.00	53,930,000.00	2,145,000.00
Bonds Series 2006F	318,525,000.00	-	3,520,000.00	315,005,000.00	6,140,000.00
Refunding Bonds Series 2007B	-	345,460,000.00	7,700,000.00	337,760,000.00	337,760,000.00
Bonds Series 2008B	-	685,485,000.00	-	685,485,000.00	685,485,000.00
Subtotal Bonds Payable – Par	3,755,040,000.00	1,030,945,000.00	510,485,000.00	4,275,500,000.00	1,201,580,000.00
Unamortized Net Premiums	201,477,346.58	-	13,364,315.03	188,113,031.55	11,895,492.49
Unamortized Net (Losses)	(31,702,395.33)	(23,857,008.17)	-	(55,559,403.50)	(4,327,005.55)
Total Bonds Payable	3,924,814,951.25	1,007,087,991.83	523,849,315.03	4,408,053,628.05	1,209,148,486.94

Notes & Loans Payable:

Permanent University Fund					
Flexible Rate Notes, Series A	100,000,000.00	300,000,000.00	-	400,000,000.00	400,000,000.00
Revenue Financing System					
Commercial Paper Notes, Series A	694,631,000.00	596,846,000.00	541,477,000.00	750,000,000.00	750,000,000.00
Taxable Commercial Paper Notes, Series B	26,313,000.00	75,658,000.00	87,571,000.00	14,400,000.00	14,400,000.00
Other Notes and Loans	36,706,883.33	-	1,881,948.97	34,824,934.36	4,537,207.96
Subtotal Notes & Loans Payable – Par	857,650,883.33	972,504,000.00	630,929,948.97	1,199,224,934.36	1,168,937,207.96
Unamortized Net Premiums	166,304.35	540,001.00	19,664.06	686,641.29	686,641.29
Total Notes and Loans Payable	857,817,187.68	973,044,001.00	630,949,613.03	1,199,911,575.65	1,169,623,849.25
<u>Leases Payable:</u>					
Lease Obligations	2,657,601.46	3,479,707.92	1,064,501.17	5,072,808.21	1,388,393.27
Total Notes, Loans and Leases Payable	860,474,789.14	976,523,708.92	632,014,114.20	1,204,984,383.86	1,171,012,242.52
Employee Compensable Leave Incurred But Not Reported Self-Insurance Claims	385,079,844.21	128,448,240.47	102,965,790.24	410,562,294.44	270,920,183.46
	118,348,177.00	613,520,749.74	615,736,429.74	116,132,497.00	81,060,666.02
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	\$ 5,288,717,761.60	2,725,580,690.96	1,874,565,649.21	6,139,732,803.35	2,732,141,578.94

The consolidated balance sheets at August 31, 2009 and 2008 do not include \$1,450,817,000 and \$1,734,212,000, respectively, of revenue bonds payable, which were fully defeased in prior fiscal years. Direct obligations of the United States of America and noncallable obligations of an agency or instrumentality of the United States of America, including obligations unconditionally guaranteed by the United States of America, rated not less than AAA or its equivalent, in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, if any, and interest to maturity or redemption on the defeased bonds, are being held by escrow agents.

### PROJECTED BOND DEBT SERVICE REQUIREMENTS

Bond obligations are due in annual installments varying from \$1,802,265,672.49 in fiscal year 2010 to \$13,322,163.00 in fiscal year 2041. The debt service requirements in fiscal year 2010 reflect the entire outstanding balance of Permanent University Fund Bonds, Series 2008A, Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, and Revenue Financing System Bonds, Series 2008B, which are variable rate demand bonds supported by internal liquidity, with an option to tender on seven days notice. These bonds have final maturity dates of July 1, 2038, August 15, 2013, August 15, 2034, and August 15, 2039, respectively. The principal and interest expense for the next five years and beyond are projected below for bonds issued and outstanding:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$	1,613,410,000.00	188,855,672.49	1,802,265,672.49
2011		164,000,000.00	180,089,128.99	344,089,128.99
2012		168,960,000.00	172,125,403.99	341,085,403.99
2013		177,240,000.00	163,684,641.49	340,924,641.49
2014		181,975,000.00	154,898,016.49	336,873,016.49
2015 – 2019		1,001,305,000.00	631,445,782.95	1,632,750,782.95
2020 – 2024		787,020,000.00	394,385,898.70	1,181,405,898.70
2025 – 2029		493,775,000.00	236,859,542.95	730,634,542.95
2030 – 2034		460,780,000.00	127,751,779.13	588,531,779.13
2035 – 2039		254,305,000.00	31,760,093.06	286,065,093.06
2040 – 2044		30,055,000.00	1,748,226.87	31,803,226.87
Total Requirements	\$	<u>5,332,825,000.00</u>	<u>2,283,604,187.11</u>	<u>7,616,429,187.11</u>

Total interest expense for the years ended August 31, 2009 and 2008 was \$230,476,832.70 and \$208,115,806.78, respectively. Interest expense of \$67,018,394.93 and \$39,756,814.50 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2009 and 2008, respectively. Interest expense was also adjusted \$4,599,932.14 and \$6,671,940.42 for the amortization of premiums, issuance costs, and deferred losses on refundings for the years ended August 31, 2009 and 2008, respectively. The remaining amounts of 158,858,505.63 in 2009 and \$161,687,051.86 in 2008 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, 2009, which in substance are not bonds, is summarized as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$	950,703,385.41	2,697,671.04	953,401,056.45
2011		2,594,620.67	1,498,362.22	4,092,982.89
2012		2,640,724.55	1,352,063.09	3,992,787.64
2013		2,690,594.33	1,202,496.05	3,893,090.38
2014		1,733,988.98	1,055,220.42	2,789,209.40
2015 – 2019		19,298,947.37	2,021,679.89	21,320,627.26
Total Requirements	\$	<u>979,662,261.31</u>	<u>9,827,492.71</u>	<u>989,489,754.02</u>

#### POLLUTION REMEDIATION OBLIGATION

GASB Statement No. 49, *Accounting for Pollution Remediation Obligations*, was adopted by the System during the year ended August 31, 2009. GASB Statement No. 49 establishes criteria to ascertain whether certain events result in a requirement to estimate the components of an expected pollution remediation and determine whether those costs should be accrued as a liability or, if appropriate, capitalized. The costs must be estimated using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Previously, pollution remediation costs were accrued only if they were both probable of occurring and could be reasonably estimated. In accordance with GASB Statement No. 49, the cumulative effect of the accounting change was recorded as a restatement to net assets as of August 31, 2008. The pollution remediation obligation recorded is for a special *de minimis* settlement to resolve the Malone Service Company Superfund Site, under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as the federal “Superfund” law. In September 2008, the United States Environmental Protection Agency (EPA) notified the System, on behalf of UT Austin, UT Health Science Center at Houston, and UT M. D. Anderson Cancer Center, that they were a potentially responsible party for the Malone Service Company Superfund Site, an inactive waste disposal facility located in Texas City, Texas. The settlement amount of \$5,697.00 is based on the expected cash flow technique allocated to the various parties by the EPA based on the System’s percentage share of volume and there is no potential for change once the settlement is accepted. The System has signed the *de minimis* settlement but does not have the signed acceptance from the EPA as of the end of 2009 and as such has not paid the settlement amount. There are no estimated recoveries reducing the liability.

UT M. D. Anderson Cancer Center purchased contaminated land in June 2007 with plans to provide a ground lease to the American Cancer Society for a lodging facility for visiting cancer patients with the remaining land to be used for a warehouse with offices and work areas. The land, known as the Almeda property, was previously used by the seller as a solvent storage site and contains solvent contamination. The estimated outlays for the pollution remediation are \$271,738.36 using the expected cash flow technique. The potential for a change in the estimate is unlikely but dependent upon the Texas Commission for Environmental Quality acceptance. These pollution remediation outlays qualify for capitalization under GASB Statement No. 49 and \$185,858.96 was capitalized through August 31, 2009. The purchase price of \$4,287,882.00 and total expected outlays of \$271,738.36 do not exceed the fair market value of the uncontaminated property of \$4,737,882.00, and as such, no pollution remediation liability was established. There are no estimated recoveries reducing the liability.

#### 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 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.

## 9. Bonded Indebtedness

At August 31, 2009 and 2008, the System had outstanding bonds payable of \$5,332,825,000 and \$4,275,500,000, respectively. 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, 2009, is summarized in the following table.

Bond Series	Purpose	Issue Date	Amount Authorized
Permanent University Fund:			
Refunding Bonds Series 2002A	To refund \$108,515,000 principal amount of Permanent University Fund Refunding Bonds, Series 1992A, maturing on July 1 in the years 2003 through 2007, both inclusive, and in the years 2009 and 2013	April 2, 2002	115,000,000
Refunding Bonds Series 2004A	To refund \$61,495,000 principal amount of Permanent University Fund Bonds, Series 1997, maturing on July 1 in the years 2009 through 2016, both inclusive	April 6, 2004	500,000,000 <sup>1</sup>
Bonds Series 2004B	To refund \$400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	April 6, 2004	439,335,000 <sup>1</sup>
Refunding Bonds Series 2005A	To refund \$102,670,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2012 through 2019, both inclusive	April 5, 2005	375,000,000 <sup>2</sup>
Bonds Series 2005B	To refund \$125,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	July 7, 2005	274,655,000 <sup>2</sup>
Refunding Bonds Series 2006A	To refund \$97,395,000 principal amount of Permanent University Fund Refunding Bonds, Series 1996, maturing on July 1 in the years 2007 through 2010, both inclusive	April 4, 2006	300,000,000 <sup>3</sup>
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	400,000,000 <sup>4</sup>
Bonds Series 2006C	To refund \$100,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	January 24, 2007	115,935,000 <sup>4</sup>
Revenue Financing System:			
Bonds Series 1999B	To refund \$82,490,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$99,050,000 and pay the cost of issuance	September 21, 1999	193,000,000
Bonds Series 2001B	To refund \$110,070,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$76,000,000 and pay the cost of issuance	October 2, 2001	580,000,000 <sup>5</sup>
Bonds Series 2001C	To refund \$503,000 principal of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$87,800,000 and pay the cost of issuance.	October 2, 2001	400,390,000 <sup>5</sup>
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	215,000,000 <sup>6</sup>

<b>Amount Issued</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Source of Revenue For Debt Service</b>
105,290,000	3.00%-5.00%	2003-2010	Available University Fund
60,665,000	3.00%-5.00%	2004-2016	Available University Fund
396,520,000	4.50%-5.00%	2023-2033	Available University Fund
100,345,000	5.00%-5.25%	2011-2019	Available University Fund
124,625,000	4.25%-5.00%	2018, 2019 and 2035	Available University Fund
96,380,000	4.00%-5.00%	2007-2010	Available University Fund
284,065,000	5.00%-5.25%	2020-2023, 2026, 2028- 2030, and 2034-2035	Available University Fund
97,755,000	4.00%-5.00%	2011-2035	Available University Fund
180,830,000	4.50%-5.75%	2001-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
179,610,000	3.25%-5.38%	2003-2022	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
84,590,000	4.00%-5.38%	2003-2022	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
54,430,000	2.00%-5.25%	2003-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

(Continued)

<u>Bond Series</u>	<u>Purpose</u>	<u>Issue Date</u>	<u>Amount Authorized</u>	
Revenue Financing System: (continued)				
Refunding Bonds Series 2002B	To advance refund \$109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	160,570,000	<sup>6</sup>
Bonds Series 2003A	To refund \$39,050,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$80,798,250 and pay the cost of issuance	January 23, 2003	635,000,000	<sup>7</sup>
Bonds Series 2003B	To refund \$201,039,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$296,078,000 and pay the cost of issuance	January 23, 2003	522,960,000	<sup>7</sup>
Refunding Bonds Series 2004A	To refund \$143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay the cost of issuance	March 9, 2004	496,000,000	<sup>8</sup>
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	358,085,000	<sup>8</sup>
Bonds Series 2004C	To refund \$147,012,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$88,800,000 and pay the cost of issuance	November 4, 2004	650,000,000	<sup>9</sup>
Bonds Series 2004D	To refund \$201,512,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$172,544,000 and pay the cost of issuance	November 4, 2004	431,390,000	<sup>9</sup>
Bonds Series 2006A	To refund \$24,485,000 principal amount of Revenue Financing System Bonds, Series 1996A, and pay the cost of issuance	May 17, 2006	600,000,000	<sup>10</sup>
Bonds Series 2006B	To refund \$413,161,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$147,764,140 and pay the cost of issuance	May 10, 2006	579,685,000	<sup>10</sup>
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	900,000,000	<sup>11</sup>
Refunding Bonds Series 2006D	To refund \$340,735,000 principal amount of portions of Revenue Financing System Bonds, 2001B, 2003B and 2004D and pay the cost of issuance	January 4, 2007	724,885,000	<sup>11</sup>
Bonds Series 2006E	To refund \$58,300,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	378,045,000	<sup>11</sup>

<b>Amount Issued</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Source of Revenue For Debt Service</b>
108,855,000	2.00%-5.25%	2003-2020	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
112,040,000	3.00%-5.38%	2004-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
481,060,000	2.00%-5.38%	2004-2033	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
137,915,000	2.00%-5.25%	2004-2018	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
300,330,000	4.50%-5.25%	2007-2019	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
218,610,000	4.00%-5.25%	2005-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
352,170,000	3.00%-5.25%	2006-2034	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
20,315,000	4.00%-4.50%	2007-2015	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
540,570,000	4.00%-5.00%	2007-2037	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
175,115,000	3.50%-5.00%	2008-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
346,840,000	4.00%-5.00%	2007-2026	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
55,985,000	3.50%-5.00%	2008-2023	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

(Continued)

<u>Bond Series</u>	<u>Purpose</u>	<u>Issue Date</u>	<u>Amount Authorized</u>
Revenue Financing System: (continued)			
Bonds Series 2006F	To refund \$330,187,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	322,060,000 <sup>11</sup>
Bonds Series 2008A	To refund \$265,386,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 6, 2009	800,000,000
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	700,000,000 <sup>12</sup>
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	369,455,000 <sup>12</sup>

<sup>1</sup>The Permanent University Fund Bonds, Series 2004A and B were authorized pursuant to an aggregate issuance and delivery of up to \$500 million in multiple installments starting March 11, 2004 and ending December 31, 2004. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>2</sup>The Permanent University Fund Bonds, Series 2005A and B were authorized pursuant to an aggregate issuance and delivery of up to \$375 million in multiple installments starting March 10, 2005 and ending December 31, 2005. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>3</sup>The Permanent University Fund Refunding Bonds, Series 2006A were authorized pursuant to an aggregate issuance and delivery of up to \$300 million in multiple installments starting August 11, 2005 and ending December 31, 2006. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments. There are no planned additional issuances pursuant to this authority.

<sup>4</sup>The Permanent University Fund Refunding Bonds, Series 2006B and C were authorized pursuant to an aggregate issuance and delivery of up to \$400 million in multiple installments starting September 1, 2006 and ending August 31, 2007. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments. There are no planned additional issuances pursuant to this authority.

<sup>5</sup>The Revenue Financing System Bonds, Series 2001B and C were authorized pursuant to an aggregate issuance and delivery of up to \$580 million in multiple installments starting August 9, 2001 and ending August 31, 2002. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>6</sup>The Revenue Financing System Refunding Bonds, Series 2002A and B were authorized pursuant to an aggregate issuance and delivery of up to \$215 million in multiple installments starting August 8, 2002 and ending August 31, 2003. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>7</sup>The Revenue Financing System Bonds, Series 2003A and B were authorized pursuant to an aggregate issuance and delivery of up to \$635 million in multiple installments starting November 13, 2002 and ending November 30, 2003. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>8</sup>The Revenue Financing System Bonds, Series 2004A and B were authorized pursuant to an aggregate issuance and delivery of up to \$496 million in multiple installments starting November 13, 2003 and ending November 1, 2004. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>9</sup>The Revenue Financing System Bonds, Series 2004C and D were authorized pursuant to an aggregate issuance and delivery of up to \$650 million in multiple installments starting August 12, 2004 and ending November 1, 2005. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>10</sup>The Revenue Financing System Bonds, Series 2006A and B were authorized pursuant to an aggregate issuance and delivery of up to \$600 million in multiple installments starting August 11, 2005 and ending August 31, 2006. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

<sup>11</sup>The Revenue Financing System Bonds, Series 2006C, D, E and F were authorized pursuant to an aggregate issuance and delivery of up to \$900 million in multiple installments starting November 16, 2006 and ending August 31, 2007. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

Amount Issued	Interest Rates	Maturity Dates	Source of Revenue For Debt Service
318,525,000	4.00%-5.00%	2008-2038	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
256,735,000	3.25%-5.25%	2010-2024	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
330,545,000	6.276%	2041	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt
260,005,000	2.00%-5.00%	2010-2026	All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt

<sup>12</sup>The Revenue Financing System Taxable Bonds, Series 2009B and Revenue Financing System Bonds, Series 2009D were authorized pursuant to an aggregate issuance and delivery of up to \$700 million in multiple installments starting May 14, 2009 and ending April 15, 2010. Each subsequent issuance of bonds during this period reduces the authority by the amount of principal issued in earlier installments.

#### DEMAND BONDS

Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, and Permanent University Fund Bonds, Series 2008A are variable rate demand bonds with an option to tender on seven days notice. The System has entered into corresponding interest rate swap agreements to effectively convert the System's interest rate exposure to a fixed rate. The Revenue Financing System Refunding Bonds, Series 2001A and the corresponding swap agreement extend to August 15, 2013. The Revenue Financing System Refunding Bonds, Series 2007B and the corresponding swap agreements extend to August 15, 2034. The Revenue Financing System Bonds, Series 2008B and the corresponding swap agreements extend to August 15, 2039. The Permanent University Fund Bonds, Series 2008A and the corresponding swap agreements extend to July 1, 2038. General information related to these demand bonds is summarized below:

- Revenue Financing System Refunding Bonds, Series 2001A**  
 Purpose: To refund \$38,500,000 of Revenue Financing System Refunding Bonds, Series 1991A and \$42,030,000 of Revenue Financing System Refunding Bonds, Series 1991B, and pay costs of issuance.  
 Issue Date: May 17, 2001  
 Authorized: \$85,000,000 Issued: \$81,665,000  
 Interest Rates: Variable Maturity Date: 2013  
 Interest Rate Terms: Interest rates are established by the respective dealer/remarking agent based on prevailing market conditions.  
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Refunding Bonds, Series 2007B**  
 Purpose: 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.  
 Issue Date: December 20, 2007  
 Authorized: \$675,000,000 Issued: \$345,460,000  
 Interest Rates: Variable Maturity Date: 2034

Interest Rate Terms: Interest rates are established by the respective dealer/remarketing agents based on prevailing market conditions.

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Bonds, Series 2008B

Purpose: 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.

Issue Date: March 18, 2008

Authorized: \$950,000,000 Issued: \$685,485,000

Interest Rates: Variable Maturity Date: 2039

Interest Rate Terms: Interest rates are established by the respective dealer/remarketing agents based on prevailing market conditions.

Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Permanent University Fund Bonds, Series 2008A

Purpose: To refund \$400,000,000 of Permanent University Fund Flexible Notes, Series A and pay costs of issuance.

Issue Date: October 30, 2008

Authorized: \$450,000,000 Issued: \$400,905,000

Interest Rates: Variable Maturity Date: 2038

Interest Rate Terms: Interest rates are established by the respective dealer/remarketing agents based on prevailing market conditions.

Source of Revenue for Debt Service: Available University Fund.

#### EARLY EXTINGUISHMENTS IN FISCAL YEAR 2009

Revenue Financing System Bonds, Series 2008A were issued January 6, 2009 to current refund \$265,386,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series (including a premium of \$10,652,720.10) were \$266,168,228.79 – after the payment of \$1,219,491.31 in underwriting fees. The net proceeds were used to pay cost of issuance of \$301,420.76, and deposit \$265,866,808.03 with the escrow agent. These funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of \$480,808.03 resulted from the transaction as the reacquisition price of \$265,866,808.03 exceeded the net carrying amount of \$265,386,000 par value.

Revenue Financing System Taxable Bonds, Series 2009B were issued June 17, 2009 to current refund \$96,639,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to provide \$230,860,000 of new money to finance the costs of campus improvements, to fund \$104,697.99 of capitalized interest and to pay the costs of issuance related thereof.

- Net proceeds related to the refunding were \$327,651,527.71 – after the payment of \$2,893,472.29 in costs of issuance, including underwriting fees. The net proceeds were used to fund a construction fund deposit of \$230,860,000.00, fund capitalized interest fund of \$104,697.99 and deposit \$96,686,829.72 with the escrow agent for the refunded commercial paper notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of \$47,829.72 resulted from the transaction as the reacquisition price of \$96,686,829.72 exceeded the net carrying amount of \$96,639,000 par value.

Revenue Financing System Bonds, Series 2009D were issued July 15, 2009 to current refund \$16,115,000 principal amount of Revenue Financing System Bonds, Series 1998B, maturing on August 15 in the years 2017 and 2018, to current refund \$258,995,000 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 refunding were \$275,595,965.19 – after the payment of \$1,284,835.16 in underwriting fees. The net proceeds were used to pay cost of issuance of \$129,098.05 and deposit \$259,321,651.54 with the escrow agent for the refunded commercial paper notes. The remaining \$16,145,215.60 of net proceeds along with \$251,796.90 of other funds were deposited with the escrow agent for the refunded bonds. The funds deposited with the refunded bonds escrow agent were used to optionally redeem the refunded bonds on August 3, 2009 and the liability for these obligations has been removed from the consolidated balance sheet.
- The current refunding resulted in gross debt service savings through 2016 of \$437,672.90.
- An accounting loss of \$668,606.26 resulted from the transaction as the reacquisition price of \$275,466,867.14 exceeded the net carrying amount of \$274,798,260.88 par value, \$(217,209.75) of unamortized discounts, and \$(94,529.37) of unamortized bond issuance costs.
- An economic gain from the transaction resulted in a net present value savings of \$379,638.19 between the old and new debt service payments.

Permanent University Fund Bonds, Series 2008A were issued October 30, 2008 to current refund \$400,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds related to the refunding were \$400,324,286.66 – after the payment of \$580,713.34 in underwriting fees. The net proceeds along with \$1,790,674.43 of other funds were used to pay cost of issuance of \$400,905.00 and deposit \$401,714,056.09 with the escrow agent for the refunded flexible rate notes. These funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting gain of \$686,641.29 resulted from the transaction as the net carrying amount of \$400,000,000.00 par value and \$686,641.29 of unamortized premiums exceeded the reacquisition price of \$400,000,000.00.

On August 3, 2009, \$4,000,000.00 of outstanding Revenue Financing System Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. No accounting gain or loss resulted from the transaction.

#### EARLY EXTINGUISHMENTS IN FISCAL YEAR 2008

Revenue Financing System Refunding Bonds, Series 2007B were issued December 20, 2007 to advance refund \$169,015,000 principal amount of Revenue Financing System Bonds, Series 2003B, maturing on August 15 in the years 2028 and 2033, to advance refund \$149,860,000 principal amount of Revenue Financing System Bonds, Series 2004D, maturing on August 15 in the years 2022 through 2027, 2029 and 2034, and to pay the costs of issuance related thereof.

- Net proceeds from the refunding series were \$345,071,194.28 – after the payment of \$388,805.72 in underwriting fees. The net proceeds were used to pay cost of issuance of \$365,807.00, purchase \$344,705,038.72 of eligible defeasance securities, and deposit \$348.56 with the escrow agent. These securities were deposited in an irrevocable trust with an escrow agent, to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- The advance refunding resulted in gross debt service savings through 2034 of \$49,438,773.86.
- An accounting loss of \$25,830,038.72 resulted from the transaction as the reacquisition price of \$344,705,038.72 exceeded the net carrying amount of \$318,875,000.00 par value.
- An economic gain from the transaction resulted in a net present value savings of \$30,192,495.47 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2008B were issued March 18, 2008 to current refund \$34,715,000 principal amount of Revenue Financing System Bonds, Series 1998B, maturing on August 15 in the years 2012 through 2016, to current refund \$461,922,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to provide \$182,590,000 of new money to finance the costs of campus improvements, and to pay the costs of issuance related thereof.

- Net proceeds related to the refunding were \$684,649,149.38 – after the payment of \$835,850.62 in underwriting fees. The net proceeds were used to pay cost of issuance of \$431,839.25, deposit \$34,858,199.38 with the escrow agent and purchase \$465,472,715.98 of eligible defeasance securities. An additional \$110.65 was retained by the escrow agent. The funds deposited with the escrow agent were used to optionally redeem the refunded bonds on March 18, 2008 and the liability for these obligations has been removed from the consolidated balance sheet.
- The current refunding resulted in gross debt service savings through 2016 of \$1,873,273.89.

- An accounting loss of \$4,365,296.45 resulted from the transaction as the reacquisition price of \$500,330,915.36 exceeded the net carrying amount of \$496,637,000 par value, \$(467,796.65) of unamortized discounts, and \$(203,584.44) of unamortized bond issuance costs.
- An economic gain from the transaction resulted in a net present value savings of \$1,582,898.96 between the old and new debt service payments.

On August 1, 2008, \$3,800,000.00 of outstanding Revenue Financing System Bonds, Series 2001A were optionally redeemed. The liability for these obligations has been removed from the consolidated balance sheet. No accounting gain or loss resulted from the transaction.

#### SWAP AGREEMENTS

*Objective of the interest rate swap:* In June 1999, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements (“2001A Swap Agreements”) with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank (“Morgan”), and Goldman Sachs Mitsui Marine Derivative Products, L.P. (“Goldman”). The 2001A Swap Agreements were used to create a synthetic fixed-rate refunding of \$80,530,000 of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B (“Refunded Bonds”) on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the UT System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The 2001A Swap Agreements effectively change the UT System Board of Regents’ interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in estimated present value debt service savings of approximately \$5.6 million.

*Terms:* Pursuant to the terms of the 2001A Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of \$80,530,000 at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the UT System Board of Regents, Morgan and Goldman agreed to pay to the UT System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate (“LIBOR”). The Morgan 2001A Swap Agreement was for 60% of the notional amount and the Goldman 2001A Swap Agreement was for 40% of the notional amount. On February 6, 2007, the Goldman 2001A Swap Agreement was ended and the Morgan 2001A Swap Agreement was increased to 100% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Morgan 2001A Swap Agreement is scheduled to terminate on August 15, 2013. As of August 31, 2009, there was \$15,965,000 of the Series 2001A Bonds outstanding and the notional amount of the Morgan 2001A Swap Agreement was \$15,740,000.

*Fair Value:* The 2001A Swap Agreements, the 2001A Swap Agreements had a negative fair value of \$1,292,533.26 as of August 31, 2009 and a negative fair value of \$1,230,518.00 as of August 31, 2008. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

*Basis and Termination Risk:* The Morgan 2001A Swap Agreement exposes the UT System Board of Regents to basis risk as the variable rate received under the Morgan 2001A Swap Agreement does not perfectly match the variable rate paid on the Series 2001A Bonds. The Morgan 2001A Swap Agreement may be terminated if Morgan does not maintain a credit rating of at least Baa2 by Moody’s Investors Service (“Moody’s”) or BBB- by Standard & Poor’s Corporation (“S&P”). As of August 31, 2009, Morgan’s ratings by Moody’s/S&P were Aa1/AA-. The Morgan 2001A Swap Agreement may also be terminated by Morgan if the UT System Board of Regents does not maintain a credit rating of at least Baa2 by Moody’s or BBB by S&P. As of August 31, 2009, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody’s and AAA by S&P.

*Objective of the interest rate swap:* On December 4, 2007, the System executed floating-to-fixed rate interest rate swap agreements (“2007B Swap Agreements”) with J.P. Morgan Chase Bank (“Morgan”), and UBS AG (“UBS”). On December 20, 2007, the UT System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2007B, in the form of variable rate demand bonds for the purpose of refunding portions of the outstanding Revenue Financing System Bonds, Series 2003B and Revenue Financing System Bonds, Series 2004D (“Series 2007B Refunded Bonds”). The 2007B Swap Agreements effectively change the UT System Board of Regents’ interest rate on the Series 2007B Bonds to a fixed rate of 3.805%. The difference between the swap rate and the rates on the Series 2007B Refunded Bonds resulted in estimated present value debt service savings of approximately \$30.2 million.

*Terms:* Pursuant to the terms of the 2007B Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of \$345,460,000.00 at a fixed rate of 3.805% per annum, with such obligation commencing on December 20, 2007. In consideration of receiving the payments from the UT System Board of Regents, Morgan and UBS agreed to pay to the UT System Board of Regents a variable rate based on the SIFMA Municipal Swap Index. The Morgan 2007B Swap Agreement was for 50% of the notional amount and the UBS 2007B Swap Agreement is for 50% of the notional amount. The 2007B Swap Agreements are scheduled to terminate on August 1, 2034. As of August 31, 2009, the aggregate notional amount of the Series 2007B Swap Agreements was \$336,805,000.

*Fair Value:* The 2007B Swap Agreements had a negative fair value of \$25,261,924.48 as of August 31, 2009 and a negative fair value of \$7,314,729.00 as of August 31, 2008. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

*Basis and Termination Risk:* The 2007B Swap Agreements expose the UT System Board of Regents to basis risk as the variable rate received under the 2007B Swap Agreements does not perfectly match the variable rate paid on the Series 2007B Bonds. The 2007B Swap Agreements expose the UT System Board of Regents to termination risk. Each 2007B Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2009, the swap providers' respective ratings by Moody's/S&P are as follows: Morgan, Aa1/AA- and UBS, Aa2/A+. The 2007B Swap Agreements may also be terminated by Morgan or UBS, respectively, if the UT System Board of Regents Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P. As of August 31, 2009, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

*Objective of the interest rate swap:* In March 2007, the System executed forward-starting, floating-to-fixed rate interest rate swap agreements ("2008B Initial Swap Agreements") with J.P. Morgan Chase Bank ("Morgan"), and Morgan Stanley Capital Services, Inc. ("MSCS") to hedge interest rate risk on Revenue Financing System Bonds expected to be issued in February 2008. In February 2008, the System executed an additional floating-to-fixed rate interest rate swap agreement ("2008B Additional Swap Agreement", together with the 2008B Initial Swap Agreements, the "2008B Swap Agreements") with Morgan to hedge the remainder of the Revenue Financing System Bonds expected to be issued. On March 18, 2008, the UT System Board of Regents issued its Revenue Financing System Bonds, Series 2008B, in the form of variable rate demand bonds for the purpose of refunding portions of the outstanding Revenue Financing System Bonds, Series 1998B ("Series 2008B Refunded Bonds"), refinancing a portion of the Board's tax-exempt commercial paper notes and financing the costs of campus improvements. The 2008B Swap Agreements effectively change the UT System Board of Regents' interest rate on the Series 2008B Bonds to a fixed rate of 3.743%. The difference between the swap rate and the rates on the Series 2008B Refunded Bonds resulted in estimated present value debt service savings of approximately \$1.6 million.

*Terms:* Pursuant to the terms of the amended 2008B Initial Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of \$310,000,000 at a fixed rate of 3.90% per annum, with such obligation commencing on March 18, 2008. The Morgan 2008B Initial Swap Agreement was for a notional amount of \$155,000,000 and the MSCS Swap Agreement was for a notional amount of \$155,000,000. Pursuant to the terms of the 2008B Additional Swap Agreement, the UT System Board of Regents has agreed to pay interest on a notional amount of \$375,485,000 at a fixed rate of 3.614% per annum, with such obligation commencing on March 18, 2008. In consideration of receiving the payments from the UT System Board of Regents, Morgan and MSCS agreed to pay to the UT System Board of Regents a variable rate based on the SIFMA Municipal Swap Index. The 2008B Initial Swap Agreements are scheduled to terminate on August 1, 2036 and the 2008B Additional Swap Agreement is scheduled to terminate on August 1, 2039. As of August 31, 2009, the aggregate notional amount of the Series 2008B Swap Agreements was \$674,060,000.

*Fair Value:* The 2008B Swap Agreements had a negative fair value of \$45,483,691.89 as of August 31, 2009 and a negative fair value of \$13,489,375.00 as of August 31, 2008. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

*Basis and Termination Risk:* The 2008B Swap Agreements expose the UT System Board of Regents to basis risk as the variable rate received under the 2008B Swap Agreements does not perfectly match the variable rate paid on the Series 2008B Bonds. The 2008B Swap Agreements expose the UT System Board of Regents to termination risk. Each 2008B Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2009, the swap providers' respective ratings by Moody's/S&P are as follows: Morgan, Aa1/AA- and MSCS, A2/A. The 2008B Swap Agreements may also be terminated by Morgan or MSCS, respectively, if the UT System Board of Regents Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P. As of August 31, 2009, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

*Objective of the interest rate swap:* On September 10, 2008 and September 11, 2008, the System executed floating-to-fixed rate interest rate swap agreements ("2008A Swap Agreements") with Morgan Stanley Capital Services, Inc. ("MSCS"), and Royal Bank of Canada ("RBC"), respectively, to hedge interest rate risk on its Permanent University Fund Bonds, Series 2008A ("Series 2008A Bonds"), that were issued on October 30, 2008 in the form of variable rate demand bonds. The 2008A Swap Agreements effectively change the UT System Board of Regents' interest rate on the Series 2008A Bonds to a fixed rate of 3.677%.

*Terms:* Pursuant to the terms of the 2008A Swap Agreements, the UT System Board of Regents has agreed to pay interest on a notional amount of \$200,452,500 to MSCS at a fixed rate of 3.696% per annum and to pay interest on a notional amount of \$200,452,500 to RBC at a fixed rate of 3.6575% per annum, with such obligations becoming effective on November 3, 2008. In consideration of receiving the payments from the UT System Board of Regents, MSCS and RBC have each agreed to pay to the UT System Board of Regents a variable rate based on the SIFMA Municipal Swap Index calculated on a notional amount of \$200,452,500. The 2008A Swap Agreements are scheduled to terminate on July 1, 2038. As of August 31, 2009, the aggregate notional amount of the Series 2008A Swap Agreements was \$400,905,000.

*Fair Value:* The 2008A Swap Agreements had a negative fair value of \$22,748,536.46 as of August 31, 2009. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

*Basis and Termination Risk:* The 2008A Swap Agreements expose the UT System Board of Regents to basis risk as the variable rate received under the 2008A Swap Agreements does not perfectly match the variable rate paid on the 2008A Bonds. The 2008A Swap Agreements expose the UT System Board of Regents to termination risk. Each 2008A Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2009, the swap providers' respective ratings by Moody's/S&P are as follows: MSCS, A2/A and RBC, Aaa/AA-. The 2008A Swap Agreements may also be terminated by MSCS or RBC, respectively, if the UT System Board of Regents Permanent University Fund obligations are not rated at least Baa2 by Moody's or BBB by S&P. As of August 31, 2009, the UT System Board of Regents Permanent University Fund obligations were rated Aaa by Moody's and AAA by S&P.

*Objective of the interest rate swap:* On September 23, 2008, the System executed a basis swap agreement ("2006B Basis Swap") with Bank of America, N.A. ("BOFA") to modify the UT System's interest rate exposure on its outstanding Permanent University Fund Bonds, Series 2006B. As of August 31, 2009, the aggregate notional amount of the Series 2006B Swap Agreement was \$284,065,000.

*Terms:* Pursuant to the terms of the 2006B Basis Swap with BOFA, the UT System Board of Regents has agreed to pay interest on an aggregate notional amount of \$284,065,000 based on the SIFMA Municipal Swap Index. In consideration of receiving the payments from the UT System Board of Regents, BOFA has agreed to pay to the UT System Board of Regents a variable rate based on 82.04% of the one-month London Interbank Offered Rate ("LIBOR") on a notional amount of \$284,065,000. The effective date of 2006B Basis Swap was January 1, 2009 with a termination date of July 1, 2035.

*Fair Value:* The 2006B Basis Swap had a negative fair value of \$2,189,804.12 as of August 31, 2009. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

*Basis and Termination Risk:* The 2006B Basis Swap exposes the UT System Board of Regents to basis risk as the variable rate received under the 2006B Basis Swap does not perfectly match the variable rate paid on the 2006B Basis Swap. The 2006B Basis Swap may be terminated if BOFA does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2009, BOFA's ratings by Moody's/S&P were Aa3/A+. The 2006B Basis Swap may also be terminated by BOFA if the UT System Board of Regents does not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P. As of August 31, 2009, the UT System Board of Regents Permanent University Fund obligations were rated Aaa by Moody's and AAA by S&P.

*Objective of the interest rate swap:* Between November 21, 2008 and December 16, 2008, the System executed three basis swap agreements ("2008B Basis Swaps") with Royal Bank of Canada ("RBC") to modify the UT System's interest rate exposure on a portion of its outstanding Revenue Financing System Bonds, Series 2008B.

*Terms:* Pursuant to the terms of the 2008B Basis Swaps with RBC, the UT System Board of Regents has agreed to pay interest on an aggregate notional amount of \$299,505,000 based on the SIFMA Municipal Swap Index, with such obligation becoming effective on August 1, 2009. In consideration of receiving the payments from the UT System Board of Regents, RBC has agreed to pay to the UT System Board of Regents, effective August 1, 2009, a variable rate based on 96% of the three-month London Interbank Offered Rate ("LIBOR") on a notional amount of \$92,045,000 through the termination date of August 1, 2030, 103% of the three-month LIBOR on a notional amount of \$117,190,000 through the termination date of August 1, 2035, and 102.5% of the three-month LIBOR on a notional amount of \$90,270,000 through the termination date of August 1, 2039.

*Fair Value:* The 2008B Basis Swaps had a positive fair value of \$33,908,565.00 as of August 31, 2009. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

*Basis and Termination Risk:* The 2008B Basis Swaps expose the UT System Board of Regents to basis risk as the variable rate received under the 2008B Basis Swaps does not perfectly match the variable rate paid on the 2008B Basis Swaps. The 2008B Basis Swaps expose the UT System Board of Regents to termination risk. Each 2008B Basis Swap may be terminated if RBC does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). As of August 31, 2009, RBC's credit ratings by Moody's/S&P were Aaa/AA-. The 2008B Basis Swaps may also be terminated by RBC, if the UT System Board of Regents Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P. As of August 31, 2009, the UT System Board of Regents Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

The following tables reflect the scheduled payments on the swap agreements which differ from the presentation in the projected bond debt service requirements table for the related demand bonds. The debt service requirements reflect the entire outstanding balance of the demand bonds in 2010 because the bonds are supported by internal liquidity.

**As of August 31, 2009**

Fiscal Year	Associated Variable Rate Bonds		Pay-Fixed Receive-Variable Interest Rate Swaps <sup>3</sup>	Total
	Principal <sup>1</sup>	Interest <sup>2</sup>	Swaps <sup>3</sup>	
2010	\$ 22,035,000.00	2,302,848.75	47,985,351.32	72,323,200.07
2011	22,990,000.00	2,267,285.25	47,202,173.41	72,459,458.66
2012	33,550,000.00	2,230,197.00	46,384,294.72	82,164,491.72
2013	34,925,000.00	2,175,510.75	45,235,479.76	82,335,990.51
2014	32,425,000.00	2,118,601.50	44,039,809.10	78,583,410.60
2015	33,645,000.00	2,065,273.50	42,964,185.86	78,674,459.36
2016	34,900,000.00	2,009,939.25	41,847,540.59	78,757,479.84
2017	25,970,000.00	1,952,541.75	40,688,792.53	68,611,334.28
2018	26,930,000.00	1,909,885.50	39,822,401.15	68,662,286.65
2019	27,940,000.00	1,865,652.75	38,923,605.44	68,729,258.19
2020	26,835,000.00	1,819,761.75	37,990,837.90	66,645,599.65
2021	27,825,000.00	1,775,701.50	37,097,240.35	66,697,941.85
2022	46,180,000.00	1,730,016.00	36,170,417.63	84,080,433.63
2023	47,930,000.00	1,656,651.00	34,617,412.33	84,204,063.33
2024	49,525,000.00	1,580,504.25	33,005,371.34	84,110,875.59
2025	57,060,000.00	1,501,839.00	31,339,075.69	89,900,914.69
2026	50,075,000.00	1,411,707.75	29,416,120.14	80,902,827.89
2027	59,315,000.00	1,331,883.75	27,732,359.70	88,379,243.45
2028	61,555,000.00	1,238,022.00	25,733,764.98	88,526,786.98
2029	58,230,000.00	1,140,617.25	23,660,450.68	83,031,067.93
2030	59,880,000.00	1,048,858.50	21,690,685.11	82,619,543.61
2031	62,145,000.00	954,546.00	19,663,743.80	82,763,289.80
2032	64,530,000.00	856,667.25	17,559,741.89	82,946,409.14
2033	66,980,000.00	755,035.50	15,374,546.65	83,109,582.15
2034	41,970,000.00	649,548.00	13,105,906.84	55,725,454.84
2035	35,635,000.00	581,445.00	11,690,967.06	47,907,412.06
2036	36,965,000.00	522,647.25	10,492,610.14	47,980,257.39
2037	96,325,000.00	461,655.00	9,155,640.16	105,942,295.16
2038	99,825,000.00	302,718.75	6,006,648.96	106,134,367.71
2039	83,640,000.00	138,007.50	2,743,239.60	86,521,247.10

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

<sup>2</sup>As required by GASB Statement No. 38, annual debt service requirements are computed using the System's interest rates in effect on August 31, 2008 on its Series 2008A Bonds, Series 2001A Bonds, Series 2007B Bonds, and Series 2008B Bonds.

<sup>3</sup>Reflects net payments on pay-fixed, receive-variable interest rate swaps based on interest rates in effect at August 31, 2009, applied on the respective notional amounts of the swaps through their respective termination dates.

**As of August 31, 2008**

Fiscal Year	Associated Variable Rate Bonds		Pay-Fixed Receive-Variable Interest Rate	Total
	Principal <sup>1</sup>	Interest <sup>2</sup>	Swaps <sup>3</sup>	
2009	\$ 16,380,000.00	16,862,149.00	20,271,632.44	53,513,781.44
2010	22,035,000.00	16,595,780.25	19,918,397.02	58,549,177.27
2011	22,990,000.00	16,234,558.00	19,455,199.58	58,679,757.58
2012	28,870,000.00	15,857,912.25	18,971,011.69	63,698,923.94
2013	30,080,000.00	15,379,460.50	18,395,072.64	63,854,533.14
2014	27,400,000.00	14,881,202.25	17,794,729.45	60,075,931.70
2015	28,435,000.00	14,420,625.50	17,281,565.40	60,137,190.90
2016	29,505,000.00	13,942,654.00	16,748,467.30	60,196,121.30
2017	20,380,000.00	13,446,707.00	16,194,861.90	50,021,568.90
2018	21,135,000.00	13,105,069.25	15,807,709.85	50,047,779.10
2019	21,935,000.00	12,750,779.50	15,405,838.80	50,091,618.30
2020	20,615,000.00	12,383,088.00	14,988,498.10	47,986,586.10
2021	21,375,000.00	12,037,812.00	14,598,253.90	48,011,065.90
2022	39,500,000.00	11,679,810.25	14,193,364.05	65,373,174.30
2023	41,005,000.00	11,052,852.25	13,432,663.65	65,490,515.90
2024	42,345,000.00	10,401,975.50	12,642,802.60	65,389,778.10
2025	49,620,000.00	9,730,076.00	11,826,498.10	71,176,574.10
2026	42,370,000.00	8,949,085.75	10,867,566.75	62,186,652.50
2027	51,325,000.00	8,273,162.50	10,051,415.40	69,649,577.90
2028	53,275,000.00	7,463,218.00	9,059,644.50	69,797,862.50
2029	49,655,000.00	6,622,511.50	8,030,960.60	64,308,472.10
2030	50,985,000.00	5,845,272.75	7,063,031.35	63,893,304.10
2031	52,930,000.00	5,047,975.75	6,067,728.95	64,045,704.70
2032	54,985,000.00	4,220,259.25	5,034,086.05	64,239,345.30
2033	57,085,000.00	3,360,425.50	3,959,893.60	64,405,319.10
2034	31,720,000.00	2,467,778.50	2,844,210.20	37,031,988.70
2035	25,005,000.00	1,948,158.00	2,226,102.30	29,179,260.30
2036	25,955,000.00	1,525,573.50	1,739,699.40	29,220,272.90
2037	27,045,000.00	1,086,934.00	1,140,948.10	29,272,882.10
2038	28,030,000.00	629,873.50	661,169.80	29,321,043.30
2039	9,240,000.00	156,166.50	163,917.60	9,560,084.10

<sup>1</sup>Reflects scheduled principal and interest payments of Revenue Financing System Refunding Bonds, Series 2001A, Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B to be optionally or mandatorily redeemed in the fiscal years reflected.

<sup>2</sup>As required by GASB Statement No. 38, annual debt service requirements are computed using the System's interest rates in effect on August 31, 2008 on its Series 2001A Bonds, Series 2007B Bonds, and Series 2008B Bonds.

<sup>3</sup>Reflects net payments on pay-fixed, receive-variable interest rate swaps based on interest rates in effect at August 31, 2008, applied on the respective notional amounts of the swaps through their respective termination dates.

## 10. Note Indebtedness

General information related to notes and loans payable at August 31, 2009, which in substance are not bonds, is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B  
Purpose: To provide new money  
Issue Date: September 1, 2008 through August 31, 2009  
Authorized Amount: Aggregate principal amount not to exceed \$500 million  
Source of revenue for debt service: Available University Fund
- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B  
Purpose: To provide new money  
Issue Date: September 1, 2008 through August 31, 2009  
Authorized Amount: Aggregate principal amount not to exceed \$1.25 billion  
Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.  
Terms: Interest payable in periodic installments not to exceed 270 days at a variable rate

Other Notes Payable includes:

- Note or loan payable issue name: University Hospital  
Purpose: Reimburse University Hospital for clinical practice expenses under terms of a mediator-negotiated contractual settlement  
Institution: UT Health Science Center at San Antonio  
Issue Date: April 1, 2001  
Authorized Amount: \$2,862,717  
Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by UT Medicine  
Terms: January 1, 2002 through January 1, 2009. Interest is computed at five percent (5%) annually.
- Note or loan payable issue name: Frost Bank  
Purpose: Remodel/renovation-UT Medicine Administrative Service Building  
Institution: UT Health Science Center at San Antonio  
Issue Date: January 31, 2004  
Authorized Amount: \$1,334,799  
Source of revenue for debt service: Patient service revenue from MSRDP Designated funds collected by UT Medicine  
Terms: January 31, 2004 through November 7, 2008
- Note or loan payable issue name: Charitable Remainder Trust  
Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection  
Component Unit: UT Austin's Blended Component Unit  
Issue Date: January 4, 1999  
Authorized Amount: \$12,000,000  
Source of revenue for debt service: Gift  
Terms: January 4, 1999 through April 17, 2016
- Note or loan payable issue name: Charitable Lead Trust  
Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection  
Component Unit: UT Austin's Blended Component Unit  
Issue Date: January 4, 1999  
Authorized Amount: \$10,713,200  
Source of revenue for debt service: Gift  
Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Memorial Hermann Hospital System  
 Purpose: Reimburse Memorial Hermann Hospital System for equipment purchased and operating funds advanced in association with the transfer of clinics from Memorial Hermann Hospital System to UT Physicians  
 Component Unit: UT Health Science Center at Houston's Blended Component Unit  
 Issue Date: July 10, 2000  
 Authorized Amount: \$7,000,000  
 Source of revenue for debt service: Debt and interest to be forgiven upon attainment of specified performance goals.  
 Terms: July 2000 through June 2012
  
- Note or loan payable issue name: Premier Purchasing Partners L.P.  
 Purpose: To purchase an ownership stake in this limited partnership  
 Institution: UT Southwestern Medical Center at Dallas  
 Issue Date: September 1, 2005  
 Authorized Amount: \$369,190  
 Source of revenue for debt service: Rebates earned  
 Terms: Payment time as well as payment amount is dependent on calculation of rebates which is based on the purchasing volume of the medical center.
  
- Note or loan payable issue name: City of Shavano Park Health Facilities Development Corporation  
 Purpose: Purchase EPIC Patient and Sales Tracking Software Package  
 Institution: UT Health Science Center at San Antonio  
 Issue Date: December 1, 2006  
 Authorized Amount: \$9,000,000  
 Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by UT 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: UT Health Science Center at San Antonio  
 Issue Date: January 1, 2007  
 Authorized Amount: \$3,000,000  
 Source of revenue for debt service: Patient service from MSRDP Designated Funds collected by UT Medicine San Antonio  
 Terms: February 1, 2007 through January 1, 2018. Interest is computed at 4.15% annually.

General information related to notes and loans payable retired in 2009 is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Flexible Rate Notes, Series A  
 Purpose: To provide new money  
 Issue Date: September 1, 2007 through August 31, 2008  
 Authorized Amount: Aggregate principal amount not to exceed \$400 million  
 Source of revenue for debt service: Available University Fund  
 Terms: Interest payable in periodic installments not to exceed 270 days at a flexible rate

## 11. 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, 2009 and 2008 is as follows:

Assets Under Capital Lease		2009	2008
Furniture and Equipment	\$	3,412,828.82	3,307,758.28
Less: Accumulated Depreciation		(771,680.78)	(210,896.52)
Museums and Art Collections		5,632,687.50	2,615,000.00
Total	\$	8,273,835.54	5,711,861.76

Capital lease obligations are due in annual installments through 20\_\_\_. 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, 2009.

Fiscal Year		Principal	Interest	Total
2010	\$	1,302,110.43	107,207.96	1,409,318.39
2011		970,127.95	67,168.57	1,037,296.52
2012		281,697.63	36,350.73	318,048.36
2013		272,187.38	30,104.18	302,291.56
2014		273,124.88	24,166.68	297,291.56
2015 – 2019		1,004,832.46	40,104.24	1,044,936.70
Total Minimum Lease Payments		4,104,080.73	305,102.36	4,409,183.09
			Less: Interest	(305,102.36)
		Present Value of Net Minimum Lease Payments		4,104,080.73

## 12. Short-Term Debt

The System had RFS Commercial Paper Notes, Series A, outstanding at August 31, 2009 and 2008. Additionally, the System had RFS Taxable Commercial Paper Notes, Series B, and PUF Flexible Rate Notes, Series A, outstanding at August 31, 2008 and PUF Taxable Commercial Paper Notes, Series B, outstanding at August 31, 2009. The notes are issued to provide interim financing for capital improvements and to finance equipment purchases. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Information pertaining to the balances and activity of these notes is reflected in Note 8.

### 13. Net Assets

The System's net assets at August 31, 2009 and 2008 were comprised of the following:

	2009	2008
Invested in capital assets, net of related debt	\$ 4,475,107,614.90	4,492,553,460.55
Restricted		
Nonexpendable	10,224,550,389.05	10,186,310,450.73
Expendable	6,972,457,261.59	10,191,327,270.66
Total restricted	17,197,007,650.64	20,377,637,721.39
Unrestricted net assets:		
Unrestricted		
Reserved		
Encumbrances	418,607,610.36	277,102,137.98
Accounts receivable (less deferred revenue portion)	791,955,026.45	806,286,354.38
Inventories	65,471,955.53	69,803,894.76
Self-insurance plans	274,899,785.75	306,051,531.80
Higher Education Assistance Fund (HEAF)	7,370,738.13	6,348,354.76
Other specific purposes:	-	-
Advanced Research/Advanced Technology Programs	7,749,898.69	10,391,632.35
Notes Receivable	67,899.52	82,585.47
Deposits	5,896,826.22	3,559,288.61
Prepaid expenses	78,474,937.24	85,929,804.09
Deferred charges	11,638,296.23	12,698,210.12
Imprest funds	1,087,609.14	1,040,831.93
Travel advances	268,777.58	348,990.97
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	256,570,982.88	287,221,797.88
Provision for 2009 & 2008 operating budgets	24,098,617.00	45,615,407.93
Capital projects	223,659,898.96	203,901,358.00
Debt service	162,449,655.65	137,265,649.92
Start-up/matching	25,867,916.52	25,646,498.03
Utilities reserve	36,395,858.84	31,680,829.01
Research enhancement and support	108,453,977.83	96,607,787.16
Market adjustments	6,170,142.61	50,123,116.24
Student fees	70,555,099.09	58,039,339.36
Texas Tomorrow Fund shortfall	8,398,826.69	8,317,762.51
Instructional program support	124,124,442.90	119,731,028.95
Dean, chair and faculty recruitment packages	2,640,997.66	15,394,918.37
Self-supporting enterprises	66,835,856.25	83,186,764.47
Patient care support	188,122,347.59	101,076,807.94
Practice plan minimum operating reserve of 90 days	203,282,900.14	262,766,577.50
Uncompensated Patient Care	1,038,877.36	1,253,806.56
Unallocated	(819,005,468.75)	(360,084,695.54)
Total unrestricted	2,353,150,290.06	2,747,388,371.51
Total net assets	\$ 24,025,265,555.60	27,617,579,553.45

As of August 31, 2009 and 2008, restricted nonexpendable net assets include \$6,492,633,743.16 and \$6,569,214,663.45, respectively, of the Permanent University Fund corpus, and \$820,000,000.00 for both years of the Permanent Health Fund corpus. As of August 31, 2009 and 2008, restricted expendable net assets include \$3,890,154,223.14 and \$6,110,212,422.58, respectively, of the Permanent University Fund appreciation, and \$22,276,740.97 and \$205,693,080.91, respectively, of the Permanent Health Fund appreciation.

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

#### 14. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2009, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses	Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Goods Sold	\$ 19,388,048.00	715.63	54,336,265.61	85,625.56	384.39
Salaries and Wages	1,800,232,078.12	986,108,458.28	1,406,838,221.38	150,082,930.39	251,756,332.06
Payroll Related Costs	431,389,025.31	226,834,721.09	374,314,854.86	34,211,567.92	59,029,237.02
Professional Fees and Services	41,578,559.87	83,424,869.26	135,607,653.79	17,220,039.59	15,345,828.92
Scholarships and Fellowships	9,595,811.70	25,111,439.50	78,004.01	2,431,770.48	2,551,881.90
Travel	29,824,540.42	35,681,628.66	9,945,581.85	5,291,286.07	8,095,979.90
Materials and Supplies	90,917,970.21	186,259,959.01	608,823,950.98	22,666,155.08	38,394,090.30
Utilities	2,817,839.95	1,174,509.33	7,526,615.74	933,934.02	248,556.50
Communications	25,308,100.30	7,699,499.26	13,002,804.97	1,917,779.68	23,182,850.69
Repairs and Maintenance	6,846,021.26	14,764,476.41	45,783,099.44	1,279,519.25	5,538,129.19
Rentals and Leases	15,754,199.39	9,294,666.80	35,219,124.47	4,137,843.84	5,618,483.53
Printing and Reproduction	6,894,933.29	4,539,554.34	1,864,264.42	2,837,542.43	3,514,773.85
Impairment of Capital Assets	-	-	-	-	-
Depreciation and Amortization	-	-	-	-	-
Bad Debt Expense	(3,481.78)	2,506.06	5,007.57	(4,122.08)	13,493.88
Claims and Losses	-	-	-	-	-
Increase in Net OPEB Obligation	-	-	-	-	-
Other Operating Expenses	116,441,726.92	195,006,534.02	270,309,135.40	39,915,330.43	43,278,715.74
Federal Sponsored Pass-through to State Agencies	1,102,127.48	4,816,609.00	-	1,201,958.24	-
State Sponsored Pass-through to State Agencies	-	207,184.00	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 2,598,087,500.44</b>	<b>1,780,927,330.65</b>	<b>2,963,654,584.49</b>	<b>284,209,160.90</b>	<b>456,568,737.87</b>

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
114,463.84	3,305,578.24	25,559.50	-	4,047,453.48	-	81,304,094.25
100,288,841.25	558,432,899.11	218,519,821.77	32,311,450.59	153,512,063.04	-	5,658,083,095.99
23,328,863.53	106,867,290.19	54,968,514.20	5,279,682.48	34,800,769.27	-	1,351,024,525.87
3,266,980.22	55,754,431.06	121,001,559.72	811,330.45	13,720,745.45	-	487,731,998.33
5,453,364.16	2,327,454.02	-	252,790,968.54	8,824,246.26	-	309,164,940.57
3,191,023.62	9,729,156.93	1,360,731.55	899,807.12	17,778,879.84	-	121,798,615.96
12,247,337.43	47,027,923.74	51,734,598.94	1,267,636.04	57,036,679.05	-	1,116,376,300.78
132,287.59	(22,527,021.97)	245,808,106.00	2,408.90	31,580,280.39	-	267,697,516.45
2,186,693.90	(12,301,940.00)	3,351,658.77	25,402.68	4,992,237.94	-	69,365,088.19
3,510,153.83	19,060,556.66	93,773,340.86	140,013.66	14,398,107.28	-	205,093,417.84
3,430,034.61	10,863,819.91	26,462,052.27	99,381.10	11,356,293.54	-	122,235,899.46
2,652,240.59	(4,852,467.67)	299,229.09	74,397.03	4,858,132.09	-	22,682,599.46
-	-	15,934,160.61	-	-	-	15,934,160.61
-	-	-	-	-	740,830,606.12	740,830,606.12
4,303,071.05	262,824.23	-	11,234.46	362,702.91	-	4,953,236.30
-	43,175,079.25	-	-	-	-	43,175,079.25
-	418,347,266.00	-	-	-	-	418,347,266.00
16,443,227.92	(61,772,703.59)	28,329,311.97	2,816,617.34	81,267,592.42	-	732,035,488.57
-	-	-	-	-	-	7,120,694.72
-	-	-	-	-	-	207,184.00
<u>180,548,583.54</u>	<u>1,173,700,146.11</u>	<u>861,568,645.25</u>	<u>296,530,330.39</u>	<u>438,536,182.96</u>	<u>740,830,606.12</u>	<u>11,775,161,808.72</u>

For the year ended August 31, 2008, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses	Instruction	Research	Hospitals and Clinics	Public Service	Academic Support
Cost of Goods Sold	\$ 20,465,064.68	1,847.76	70,719,317.54	(352,335.46)	8.81
Salaries and Wages	1,668,586,013.97	926,133,200.09	1,380,698,954.59	136,854,858.60	233,145,803.70
Payroll Related Costs	410,114,525.27	215,134,027.36	364,739,245.48	30,621,660.95	55,497,945.26
Professional Fees and Services	51,070,540.73	94,369,133.58	122,562,582.45	15,701,499.91	16,167,114.22
Scholarships and Fellowships	8,712,671.98	25,929,576.04	136,508.95	2,135,133.73	1,521,777.34
Travel	31,041,327.12	37,328,720.71	12,070,756.91	4,871,241.19	8,114,538.37
Materials and Supplies	102,211,117.67	177,194,379.87	570,891,105.86	22,023,851.46	37,815,720.07
Utilities	4,605,884.43	2,361,369.31	6,914,831.98	798,440.62	144,600.73
Communications	23,132,050.01	7,583,408.74	12,835,012.41	2,099,647.52	25,059,960.57
Repairs and Maintenance	6,992,960.21	13,411,616.71	50,024,027.98	1,739,733.97	5,736,015.67
Rentals and Leases	14,360,086.58	7,893,827.59	35,068,322.90	3,455,422.38	4,766,364.88
Printing and Reproduction	6,553,227.99	3,741,422.00	2,231,682.55	3,019,220.45	3,373,786.40
Depreciation and Amortization	-	-	-	-	-
Bad Debt Expense	6,359.50	(7,493.07)	-	(5,879.88)	(49,637.69)
Claims and Losses	-	-	-	-	-
Increase in Net OPEB Obligation	-	-	-	-	-
Other Operating Expenses	81,714,269.00	197,474,713.74	237,607,183.82	33,966,611.95	32,540,917.05
Federal Sponsored Pass-through to State Agencies	906,551.37	5,876,687.79	-	1,033,860.54	-
State Sponsored Pass-through to State Agencies	-	141,360.68	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 2,430,472,650.51</b>	<b>1,714,567,798.90</b>	<b>2,866,499,533.42</b>	<b>257,962,967.93</b>	<b>423,834,915.38</b>

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operations and Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation and Amortization</u>	<u>Total Expenses</u>
89,523.07	806,850.52	29,637.00	-	4,590,997.79	-	96,350,911.71
100,092,544.41	520,507,956.08	195,737,001.27	28,280,516.96	143,001,471.35	-	5,333,038,321.02
23,923,814.51	125,924,567.58	49,519,640.14	4,831,241.14	32,721,433.05	-	1,313,028,100.74
2,907,449.50	33,789,692.62	33,933,432.17	499,950.50	12,067,502.86	-	383,068,898.54
5,443,023.95	1,909,417.07	3,084.15	221,980,610.27	8,272,507.18	-	276,044,310.66
3,636,536.50	13,148,026.22	1,783,523.67	695,680.88	17,307,601.83	-	129,997,953.40
12,186,610.03	44,059,724.47	70,042,446.03	1,107,721.38	53,522,179.45	-	1,091,054,856.29
919,943.03	(16,379,505.81)	255,271,188.65	838.85	29,835,153.38	-	284,472,745.17
2,210,871.81	(21,635,577.25)	2,851,714.17	162,682.53	4,958,623.33	-	59,258,393.84
2,840,592.24	22,155,042.12	69,391,958.43	114,957.99	14,082,617.14	-	186,489,522.46
3,458,240.05	9,377,450.95	22,918,855.30	76,147.52	8,263,253.67	-	109,637,971.82
2,701,909.87	(5,842,551.33)	227,233.42	85,951.74	4,773,185.06	-	20,865,068.15
-	-	-	-	-	679,831,345.96	679,831,345.96
2,752,368.90	666,248.01	-	277,530.15	300,232.87	-	3,939,728.79
-	11,837,862.80	-	-	-	-	11,837,862.80
-	422,678,024.00	-	-	-	-	422,678,024.00
14,389,768.16	(59,578,702.34)	(2,559,012.71)	2,353,836.68	68,235,255.28	-	606,144,840.63
-	(107,468.83)	-	110,675.00	-	-	7,820,305.87
-	-	-	-	-	-	141,360.68
<u>177,553,196.03</u>	<u>1,103,317,056.88</u>	<u>699,150,701.69</u>	<u>260,578,341.59</u>	<u>401,932,014.24</u>	<u>679,831,345.96</u>	<u>11,015,700,522.53</u>

## 15. Commitments and Contingent Liabilities

On August 31, 2009, 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 \$8.3 billion capital improvement program, planned for fiscal years 2010 through 2015, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

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

The System has invested in certain hedge funds. These agreements commit the System to future funding amounting to \$98,077,673.00 as of August 31, 2009 and \$303,188,933.00 as of August 31, 2008.

The System has invested in certain private investment funds. These agreements commit the System to future capital contributions amounting to \$2,536,892,509.00 as of August 31, 2009 and \$2,909,326,821.00 as of August 31, 2008.

## 16. Operating Lease Obligations

The System has entered into various operating leases for buildings, equipment and land. Rental expenses for operating leases were \$81,653,987.94 in 2009 and \$69,109,421.84 in 2008. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2009, were as follows:

Fiscal Year	Lease Payments
2010	\$ 52,470,738.17
2011	46,060,065.92
2012	32,083,211.00
2013	24,023,676.34
2014	18,080,522.26
2015 – 2019	22,828,244.92
2020 – 2024	3,958,976.00
2025 – 2029	3,965,719.00
2030 – 2034	3,353,740.00
2035 – 2039	2,917,723.00
Total Minimum Future Payments	\$ <u>209,742,616.61</u>

The System has also leased buildings, equipment and land to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2009 and 2008 were as follows:

Assets Leased	2009	2008
Buildings:		
Cost	\$ 98,310,506.86	88,478,489.50
Less: Accumulated Depreciation	(26,975,329.50)	(21,333,685.62)
Carrying Value of Buildings	<u>71,335,177.36</u>	<u>67,144,803.88</u>
Land	3,307,895.00	3,338,447.79
Total Carrying Value	<u>\$ 74,643,072.36</u>	<u>70,483,251.67</u>

Minimum future lease rental income under noncancelable operating leases as of August 31, 2009, was as follows:

Fiscal Year	Lease Income
2010	\$ 16,825,777.08
2011	17,241,807.03
2012	16,264,459.09
2013	10,105,241.72
2014	7,456,034.02
2015 – 2019	9,304,677.33
2020 – 2024	4,815,781.56
2025 – 2029	46,748.36
2030 – 2034	37,477.21
2035 – 2039	75,622.93
Total	\$ <u>82,173,626.33</u>

## 17. Employees' Retirement Plans

### TEACHER RETIREMENT SYSTEM (TRS)

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the System participates is a cost-sharing multi-employer defined benefit pension plan administered by the Teacher Retirement System of Texas. TRS is primarily funded through State and employee contributions. Depending upon the source of funding for a participant's salary, the System may be required to make contributions in lieu of the State.

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 6.58 percent of annual compensation. The System's contributions to TRS for the years ended August 31, 2009, 2008 and 2007, were \$158,498,895.20, \$149,218,315.67 and \$124,742,870.22, respectively, which equaled the amounts of the required contributions for those years.

TRS does not separately account for each of its component government agencies since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the Retirement System's annual financial report, which may be found on the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us).

### OPTIONAL RETIREMENT PROGRAM (ORP)

The State has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS and is available to certain eligible employees. 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 contributions made by participants and the System for the fiscal years ended August 31, 2009, 2008 and 2007, respectively, are provided in the following table.

	2009	2008	2007
Participant Contributions	\$ 119,352,442.00	112,917,966.00	106,444,299.00
System Contributions	147,000,144.00	135,439,626.00	125,152,891.00
Total	\$ <u>266,352,586.00</u>	<u>248,357,592.00</u>	<u>231,597,190.00</u>

#### EMPLOYEES RETIREMENT SYSTEM (ERS)

Certain employees at UT Medical Branch at 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 biennium beginning September 1, 2005, the required contribution for both the State and employees is 6 percent of pay.

Additional information can be obtained from the separately issued ERS *Comprehensive Annual Financial Report*.

#### 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 \$49,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2009 and 2008, there were 728 and 714 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 \$49,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6.58 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed \$4,651,690.11 for the year ended August 31, 2009 and \$4,002,425.67 for the year ended August 31, 2008. Plan provisions are established and may be amended at any time by the UT System Board of Regents.

Plan assets are valued at fair value and are invested in contracts and accounts in a similar manner to the ORP. Participants are immediately vested in the plan, both for the employee deferrals and the employer contributions. However, deferrals, contributions, purchased investments and earnings attributable to the plan are the property of the System and subject only to the claims of the System's general creditors. Participant's rights under the plan are equal to those of the general creditors of the System in an amount equal to the fair value of the participant's account balance. The System has no liability under the UTGRA that would exceed the aggregate value of the investments, and it is unlikely that any of UTGRA's assets will be used to satisfy the claims of general creditors in the future.

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

UT M. D. Anderson Cancer Center (the Cancer Center) 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 the Cancer Center.

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

### **18. Voluntary Retirement Plans**

#### 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 do not 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. The System has no liability under the plan.

#### TAX-SHELTERED ANNUITY-403(b)

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

#### **19. Subsequent Events**

On September 17, 2009, the UT System Board of Regents issued \$250,000,000 in PUF Taxable Bonds, Series 2009A to refund \$250,000,000 of outstanding PUF Taxable Commercial Paper Notes, Series B.

On September 9, 2009, The University of Texas System, on behalf of The University of Texas Medical Branch at Galveston, The University of Texas Health Science Center at Houston, The University of Texas M. D. Anderson Cancer Center, and The University of Texas Health Center at Tyler, filed a lawsuit seeking a refund of the \$10 million paid in calendar year 2005 for FICA taxes on stipends awarded to medical residents. These institutions pay medical residents a stipend, as required by the laws of the State of Texas, to provide a minimum level of financial support during their enrollment and it is an amount far lower than comparable salary and benefits paid to practicing medical professionals. These medical residents are students of the respective institutions and participate in medical residency programs in order to pursue a course of study and not to earn a livelihood. The State of Texas entered into a Section 218 Agreement with the federal government in the 1950's, and although it has been amended numerous times since originally entered, this agreement controls the taxability of payments made to these medical residents. Under the terms of this agreement students, as determined in accordance with the laws of the State of Texas not federal regulation, are not subject to FICA taxes. Accordingly, the institutions have filed suit seeking a refund of the FICA taxes paid and a declaration that the Section 218 Agreement controls FICA obligations of these institutions when awarding stipends to their medical residents.

#### **20. 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, 2009, related to pass-through grants were \$338,570,538.84 and \$7,327,878.72 respectively. Funds received and provided during the year ended August 31, 2008, related to pass-through grants were \$210,008,431.18 and \$7,961,666.55, 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.

#### **21. Stewardship, Compliance and Accountability**

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

## 22. Disaggregation of Other Receivable Balances

Net other receivables at August 31, 2009 and 2008 are detailed by type as follows:

<b>Net Other Receivables</b>	<b>2009</b>	<b>2008</b>
Receivables related to investments	\$ 56,970,825.82	246,555,467.54
Receivables related to healthcare	56,931,659.17	48,227,022.94
Receivables related to gifts, grants and sponsored programs	44,801,849.33	41,996,551.58
Receivables related to external parties/other companies	17,778,657.05	17,815,515.87
Receivables related to auxiliary enterprises	8,496,994.20	10,382,481.45
Receivables related to facilities/construction projects	291,902.07	525.00
Receivables related to payroll	5,480,059.83	4,012,481.36
Receivables related to patents	1,509,012.74	1,269,500.13
Receivables related to travel	1,168,053.29	1,074,574.21
Receivables related to loan funds and financial aid	1,737,654.10	1,906,866.26
Receivables related to agency funds	1,396,979.44	978,679.79
Receivables related to other various activities	28,568,678.69	18,790,391.65
Total	\$ <u>225,132,325.73</u>	<u>393,010,057.78</u>

## 23. Affiliated Organizations

The balances, or transactions, of funds held by others on behalf of the System are not reflected in the financial statements. Based upon the most recent available information, the net assets of these funds are reported by the organizations at values totaling \$2,008,342,476.00 at August 31, 2009 and \$2,029,678,141.00 at August 31, 2008. See Note 2, Summary of Significant Accounting Policies, Assets Held by Affiliated Organizations for more information.

## 24. Joint Ventures

UT Southwestern Health Systems (UTSHS), a blended component unit of UT Southwestern Medical Center at Dallas (UTSWMC), is a participating member of UT 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, 2009 and 2008 was \$3,661,240.16 and \$3,557,345.17, 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](http://www.davita.com).

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of Physician's Dialysis of Houston. Physician's Dialysis of Houston is a joint venture entered into by UT Physicians and DaVita, Inc. UT Physician's equity interest in Physician's Dialysis of Houston at August 31, 2009 and 2008 was \$771,010.99 and \$893,221.03, respectively, or 35.6%. 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.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of UT Imaging. UT Imaging is a Limited Liability Partnership entered into by UT Physicians, Outpatient Imaging Affiliates, LLC, and Memorial Hermann Hospital System. UT Physician's equity interest in UT Imaging at August 31, 2009 and 2008 was \$(23,889.16) and \$67,045.55, respectively, or 60.7% and 60.2%, respectively. Separate financial statements for UT Imaging may be obtained at Outpatient Imaging Affiliates, LLC, Attention: Laura Cottingham, 840 Crescent Center Drive, Suite 200, Franklin, Tennessee 37067.

UT Health Science Center at Houston's blended component unit, UT Physicians, is a participating member of TMC Holding Company, L.L.C. (TMC Holding). TMC Holding is a Limited Liability Corporation entered into by UT Physicians, Baylor College of Medicine and Memorial Hermann/USP Surgery Centers III, L.L.P. UT Physicians' equity interest in TMC Holding at August 31, 2009 and 2008 was \$287,100.00, or 14.5%. UT Physicians has expressed intent to purchase an additional 36 units from Baylor for approximately \$52,460.00 in early fiscal 2010. This would increase UT Physicians' ownership in TMC Holding Company, L.L.C. to 18.1%. Separate financial statements for TMC Holding Company, L.L.C. may be obtained by contacting Wendy Frazier, 3050 Post Oak Blvd, Suite 620, Houston, TX 77056.

UTMDA 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. UTMDA's equity interest in the Association at August 31, 2009 and 2008 was \$1,212,460.00 and \$840,978.00, respectively, or 43% and 40% respectively. Separate financial statements for the Association may be obtained at 1601 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operations to TECO Corporation, and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. UTMDA's equity interest in TECO at August 31, 2009 and 2008 was \$23,032,586.00 and \$20,746,269.00, respectively, or 40.4% and 39%, respectively. Separate financial statements for TECO may be obtained at Thermal Energy Corporation, 1615 Braeswood Boulevard, Houston, Texas 77030.

UTMDA is a participating member of P.E.T. Net Houston, LLC (PETNet). PETNet is a joint venture entered into by UTMDA and P.E.T. Pharmaceuticals, Inc. to lease and operate a facility located on UTMDA's campus to produce positron radiopharmaceuticals and isotopes. Construction of the facility commenced in 2003. UTMDA's equity interest in PETNet at August 31, 2009 and 2008 was \$3,974,207.80 and \$4,299,683.00, respectively, or 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, Pennsylvania 19355.

UTMDA entered into a limited partnership agreement on December 19, 2002 with PTC-Houston Management, L.P. and PTC-Houston Investors, LLC to create The Proton Therapy Center-Houston LTD., L.L.P. (PTC Partnership). PTC Partnership was established to develop and operate a proton therapy facility, which will provide cancer treatment to patients utilizing proton therapy technology. Under the Staffing and Operations Agreement between UTMDA and PTC Partnership, UTMDA shall be the exclusive supplier of all technical and operational services to support PTC Partnership operations, and for which, UTMDA will be reimbursed on a monthly basis. Under a separate agreement, the Professional Services Agreement, UTMDA shall provide services of physicians, medical physicists and medical dosimetrists to PTC Partnership, for which, UTMDA shall bill patients and retain all professional fees associated with such services. The initial capital contribution of UTMDA will be determined by the general partner in order to fund the obtaining of licenses for intellectual property deemed necessary to operate the facility, and costs directly related thereto, unless otherwise agreed to in writing by UTMDA. As of August 31, 2009, the general partner had not required UTMDA to make any payments related to the initial capital contribution. However, at the time the contract was executed, the value of the intellectual property was estimated to be \$3,000,000.00, which equates to an approximate 8.95% interest. The investment has not been recorded on the balance sheet of UTMDA.

UTMDA entered into a limited liability company agreement on December 19, 2002 to form PTC-Houston Investors, L.L.C (Investors). Investors was established to invest in and be a limited partner in the PTC Partnership. Investors entered into a ground lease with UTMDA on December 19, 2002 to lease approximately four acres on UTMDA's property for an initial term of sixty years. UTMDA's initial capital contribution of \$2,500,000 to Investors was provided through the ground lease. UTMDA's equity interest in Investors at August 31, 2009 and 2008 was \$2,500,000.00, or approximately 8.2%. Separate financial statements for PTC may be obtained at 1840 Old Spanish Trail, Houston, Texas 77030.

UTMDA entered into a limited partnership agreement on January 10, 1990, with Premier Purchasing Partners, L.P. (Premier). The principal business of Premier is to operate and manage healthcare-related programs and investments for the benefit of its partners including UTMDA and to otherwise assist the partners in providing superior healthcare services in their communities. Premier negotiates and executes reduced cost purchase contracts between its partners and vendors of healthcare products and services by leveraging the aggregated demand of its partners and to operate group purchasing and other programs to increase both individual participant and aggregate purchasing volumes. As of August 31, 2009 and 2008, UTMDA's investment in Premier was \$3,942,549.00 and \$4,032,000.00, respectively, or 1.41% and 1.44%, respectively. Separate financial statements for Premier may be obtained at Premier, Inc., 12225 El Camino Real, San Diego, California 92130 or [www.premierinc.com](http://www.premierinc.com).

## 25. Termination Benefits

As a result of the financial losses incurred by UT Medical Branch at Galveston stemming from Hurricane *Ike*, on November 12, 2008, the UT System Board of Regents found that a financial exigency existed at UT Medical Branch at Galveston. The UT System Board of Regents instructed the System to work with UT Medical Branch at Galveston to implement a reduction in force of 3,746 employees. Most affected employees were carried on the payroll until mid-January 2009, while others were carried for longer periods ranging to the end of the fiscal year. The benefits package provided to the terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered. There were expenditures of \$136,933.09 paid for job fair services to assist terminated employees in obtaining subsequent employment.

In 2009, UT M. D. Anderson Cancer Center implemented a reduction in force effective April 20, 2009. The benefits package provided to the 557 terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

Healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in the group benefits program for 18 months or 29 months, if disabled. Dependents are eligible to remain in the program for 36 months. In addition, as part of the American Recovery and Reinvestment Act (ARRA) stimulus funding from the federal government, employees involuntarily terminated between September 1, 2008 and December 31, 2009 are eligible for a 65% subsidy of COBRA premiums for up to a nine month period. The maximum end of the nine month payment period will be September 30, 2010. The 65% subsidy will be paid to the former employer by the federal government in the form of a reduction in a payroll deposit or a credit on the IRS Form 941. No federal funding was received in 2009, although \$292,507.80 was accrued for System's self-insured plans. COBRA benefits for the self-insured plans offered by System for the year ended August 31, 2009 are provided below:

		2009
Number of Participants <sup>1</sup>		2,501
Premium Revenue <sup>2</sup>	\$	4,855,775.15
2% Administrative Fee Revenue <sup>3</sup>		(95,317.69)
Net Revenue for COBRA Premium		4,760,457.46
Federal COBRA Subsidy <sup>4</sup>		292,507.80
Net COBRA Premium & Subsidy		5,052,965.26
Less Claims Paid		(8,679,297.05)
Cost to State	\$	(3,626,331.79)

<sup>1</sup>The participants above are for the self-insured program.

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

<sup>3</sup>The 2 percent administrative fee is retained by the vendor administering the COBRA benefit.

<sup>4</sup>The Federal COBRA subsidy is funding that the System will receive from the federal government under ARRA for the self-insured plans offered. This subsidy does not include \$411.09 that the System will receive for the fully-insured dental plan.

There were no other nonroutine, widespread voluntary or involuntary termination arrangements that involved a substantial number of individual employees or group of employees meeting the criteria for liability recognition.

## 26. Restatements

GASB Statement No. 49, *Accounting for Pollution Remediation Obligations*, was adopted by the System during the year ended August 31, 2009. In accordance with GASB Statement No. 49, \$5,697.00 was recorded as a restatement to net assets as of August 31, 2008. The pollution remediation obligation recorded is for a special *de minimis* settlement to resolve the Malone Service Company Superfund Site, under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as the federal "Superfund" law. The System has signed the *de minimis* settlement but does not have the signed acceptance from the EPA as of the end of 2009 and as such has not paid the settlement amount. There are no estimated recoveries reducing the liability.

## 27. Upcoming Accounting Pronouncements

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective in 2010, addresses accounting and financial reporting standards for intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This Statement requires that all intangible assets not specifically excluded to be classified as capital assets. Implementation of this statement is not expected to have a significant impact on the System's net assets as the System is already applying Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, also effective in 2010, requires derivative instruments to be reported at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as investment revenue. The System is evaluating the effect that Statement 53 will have on its financial statements.

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**APPENDIX E**  
**FORM OF BOND COUNSEL OPINION**

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LAW OFFICES  
McCALL, PARKHURST & HORTON L.L.P.

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1525 ONE RIVERWALK PLACE  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE: 210 225-2800  
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**Proposed Form of Opinion of Bond Counsel**

*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM  
REVENUE FINANCING SYSTEM REFUNDING BONDS,  
SERIES 2010B  
DATED APRIL 1, 2010  
IN THE PRINCIPAL AMOUNT OF \$ \_\_\_\_\_

AS BOND COUNSEL for the Board of Regents of The University of Texas System (the "Board"), we have examined the legality and validity of the issue of bonds described above (the "Bonds"), which bear interest from the dates and mature on the dates specified on the face of the Bonds, and being subject to redemption, all in accordance with the Twenty-Second Supplemental Resolution to the Master Resolution authorizing the issuance of such Bonds (the "Bond Resolution"). Terms used herein and not otherwise defined shall have the meaning given in the Bond Resolution and the Master Resolution establishing The University of Texas System Revenue Financing System, as amended (collectively, with the Bond Resolution the "Resolution").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Board, and other pertinent instruments relating to the authorization, issuance, and delivery of the Bonds; and we have examined various certificates and documents executed by officers and officials of the Board upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds which we found to be in due form.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued, and delivered, all in accordance with law; and that, except as may be limited by laws, applicable to the Board relating to bankruptcy, reorganization, and other similar matters affecting creditors' rights or by general principles of equity which permit the exercise of judicial discretion, the covenants and provisions in the Resolution constitute valid and legally binding obligations of the Board, and the Bonds constitute valid and legally binding special obligations of the Board secured by and payable from, together with the Board's other outstanding Parity Debt, a lien on and pledge of the Pledged Revenues, subject only to the provisions of Prior Encumbered Obligations.

THE BOARD has reserved the right, subject to the restrictions stated in the Resolution to amend the Resolution. The Board also has reserved the right, subject to the restrictions stated in the Resolution, to issue additional Parity Debt which also may be secured by and payable from a lien on and pledge of the Pledged Revenues on parity with the lien securing the Bonds.

THE REGISTERED OWNERS of the Bonds shall never have the right to demand payment of the principal thereof or interest thereon out of any funds raised or to be raised by taxation, or from any source whatsoever other than specified in the Resolution.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) is not includable in an owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on the Verification Report of Grant Thornton L.L.P., and certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Board fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of a result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Board as the taxpayer. We observe that the Board has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation.

WE HAVE ACTED AS BOND COUNSEL for the Board in connection with the issuance of the Bonds, and, in that capacity, we have been engaged by the Board for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Board and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Board as to the current outstanding indebtedness of the Board and the sufficiency of the Pledged Revenues of the Board. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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