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, assuming compliance with certain covenants and based on certain representations, interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporation.

$206,040,000
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
Revenue Financing System Bonds, Series 2016B (Green Bonds)

Dated: January 1, 2016
Interest Accrual: Date of Delivery

Due: August 15, as shown on inside front cover

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, will be used for the purpose of (i) financing the costs of campus improvements of certain Members of the Revenue Financing System, (ii) refunding a portion of the Board's Revenue Financing System Commercial Paper Notes, Series A and (iii) 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, 2016, 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 Cover Page)

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 U.S. Bank National Association, 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."

Concurrently with offering and sale of the Bonds, the Board is offering for sale its Revenue Financing System Bonds, Taxable Series 2016A (the "Taxable Series 2016A Bonds"), which will be secured by a lien on and pledge of Pledged Revenues of the Revenue Financing System on parity with the Bonds and the Board's outstanding Parity Debt, pursuant to a separate offering document. **The Taxable Series 2016A Bonds are not being offered by means of this Official Statement.** Investors interested in purchasing the Taxable Series 2016A Bonds should review the separate offering document related thereto.

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., Austin and 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 January 22, 2016.

BofA Merrill Lynch

Estrada Hinojosa & Company, Inc. **Fidelity Capital Markets** **Frost Bank**

FTN Financial Capital Markets **Jefferies** **Morgan Stanley** **Ramirez & Co., Inc.**

January 6, 2016

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

$206,040,000[1] Revenue Financing System Bonds, Series 2016B (Green Bonds)

Due August 15	Maturing Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP Numbers[2]
2026	56,040,000	5.00	1.95	91514ADC6
***	***	***	***	***
2036	35,000,000	4.00	2.94[3]	91514ADD4
2036	87,500,000	[4]	2.50[5]	91514ADA0
***	***	***	***	***
2046	27,500,000	[6]	2.50[5]	91514ADB8

(interest accrues on the Bonds from the Date of Delivery)

(1) The Bonds are subject to optional redemption prior to stated maturity. See "DESCRIPTION OF THE BONDS – Redemption" herein.

(2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services provided by CUSIP Global Services. CUSIP numbers are included herein solely for the convenience of the purchasers of the Bonds. Neither the Board nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(3) Yield calculated to first optional redemption date of February 15, 2026.

(4) Bonds maturing on August 15, 2036 and initially bearing interest at 2.5000% shall bear interest:
- From their Date of Delivery through and including August 14, 2021 at 2.500%;
- From August 15, 2021 through and including August 14, 2026 at 3.000%;
- From August 15, 2026 through and including August 14, 2031 at 3.625%; and
- From August 15, 2031 through August 15, 2036 at 5.125%.

(5) Yield calculated to first optional redemption date of August 15, 2021.

(6) Bonds maturing on August 15, 2046 shall bear interest:
- From their Date of Delivery through and including August 14, 2021 at 2.500%;
- From August 15, 2021 through and including August 14, 2026 at 3.250%;
- From August 15, 2026 through and including August 14, 2031 at 4.000%;
- From August 15, 2031 through and including August 14, 2036 at 4.250%;
- From August 15, 2036 through and including August 14, 2041 at 5.000%; and
- From August 15, 2041 through August 15, 2046 at 5.500%.

(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.

TABLE OF CONTENTS

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OFFICIAL STATEMENT

relating to

$206,040,000
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
Revenue Financing System Bonds, Series 2016B (Green Bonds)

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 Bonds, Series 2016B (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 twelve other state-supported institutions included in the University System by operation of Texas law. Preliminary enrollment for the University System for the 2015 Fall Semester was 221,825 students. 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" and "APPENDIX A — THE UNIVERSITY OF TEXAS SYSTEM-GENERAL DESCRIPTION." 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-Ninth 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, 2015. Following the issuance of the Bonds and the Taxable Series 2016A Bonds (as defined herein), long-term Parity Debt in the principal amount of $5,401,260,000 will be outstanding. 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 commercial paper notes (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 $1.75 billion. As of the date of delivery of the Bonds, $859,115,000 in aggregate principal amount of Tax-Exempt Commercial Paper Notes and no Taxable Commercial Paper Notes will be outstanding. As described in "PLAN OF FINANCE," a portion of the outstanding Tax-Exempt Commercial Paper Notes will be refunded with a portion of the proceeds of the Bonds. See "DESCRIPTION OF THE REVENUE FINANCING SYSTEM—Outstanding Parity Debt" and "ANNUAL CASH BASIS DEBT SERVICE REQUIREMENTS ON PARITY DEBT."

Concurrently with offering and sale of the Bonds, the Board is offering for sale its Revenue Financing System Bonds, Taxable Series 2016A (the "Taxable Series 2016A Bonds"), which will be secured by a lien on and pledge of Pledged Revenues of the Revenue Financing System on parity with the Bonds and the Board's outstanding Parity Debt, pursuant to a separate offering document. **The Taxable Series 2016A Bonds are not being offered by means of this Official Statement.** Investors interested in purchasing the Taxable Series 2016A Bonds should review the separate offering document related thereto. Upon the delivery of the Taxable Series 2016A Bonds (which delivery is anticipated to occur through the facilities of DTC on or about January 14, 2016), a portion of the proceeds thereof will be used to refund a portion of the Board's Revenue Financing System Commercial Paper Notes, Series A and a portion of the Board's Revenue Financing System Taxable Commercial Paper Notes, Series B in the aggregate principal amount of $156,124,000. See "Description of the Revenue Financing System — Outstanding 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, 4th 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 will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See "CONTINUING DISCLOSURE OF INFORMATION" for information regarding the Electronic Municipal Market Access system and for a description of the Board's undertaking to provide certain information on a continuing basis.

PLAN OF FINANCE

Plan of Finance

The Bonds are being issued for the purpose of (i) financing the costs of campus improvements of certain Members of the Revenue Financing System, (ii) refunding a portion of the Board's Revenue Financing System Commercial Paper Notes, Series A in the aggregate principal amount of $105,478,000 (the "Refunded Notes") and (iii) paying the costs of issuance of the Bonds.

Refunded Notes

The Resolution provides that from the proceeds of the sale of the Bonds and other available funds, if any, the Board will deposit with U.S. Bank National Association, New York, New York, in its capacity as issuing and paying agent for the Refunded Notes (the "Refunded Notes Paying Agent"), the amount necessary to accomplish the discharge, defeasance and final payment of the Refunded Notes. Thereafter, the Refunded Notes, together with interest due thereon, will be paid on the scheduled maturity dates therefor, from the amounts deposited with the Refunded Notes Paying Agent. The amounts so deposited with the Refunded Notes Paying Agent will be in the form of cash and will be sufficient to provide for payment of the principal of and interest on the Refunded Notes when due, as evidenced by a certificate of sufficiency executed by the Refunded Notes Paying Agent.

By the deposit of cash with the Refunded Notes Paying Agent, the Board will have effected the defeasance of the Refunded Notes in accordance with applicable laws and pursuant to the terms of the resolution authorizing their issuance. As a result of such defeasance, the Refunded Notes will no longer be payable from Pledged Revenues but will be payable solely from the cash held for such purpose by the Refunded Notes Paying Agent and the Refunded Notes will not be considered to be indebtedness of the Board for any other purpose.

Designation of Bonds as Green Bonds

The Board has designated the Bonds as "Green Bonds" in order to allow investors to invest directly in Parity Debt issued for certain projects that have been identified by the University System as promoting environmental sustainability purposes. As described below, several such projects at institutions within the University System were financed with the proceeds of the Refunded Notes or are anticipated to be financed with proceeds of the Bonds (collectively, the "Green Projects"). All of the proceeds of the Refunded Notes used to finance Green Projects have been expended. Construction on all Green Projects has either been completed or is anticipated to be completed in the current fiscal year.

The Board has either obtained or intends to pursue LEED® (Leadership in Energy & Environmental Design) Silver certifications for all of the Green Projects. LEED is a green building certification program offered by the U.S. Green Building Council. Projects submitted for LEED certification are reviewed by the Green Building Certification Institute, a third-party organization, and assigned points based on the project's implementations of strategies and solutions aimed at achieving high performance in: sustainable site development, water efficiency, energy efficiency, materials selection and indoor environmental quality, among other sustainable qualities. The Board presently intends to achieve a LEED Silver certification for all the Green Projects; however, there can be no assurance that such certification or any particular minimum LEED certification level will be achieved for those Green Projects that have not already received such certification, and the failure to achieve any particular LEED certification level will not constitute a default under the Resolution.

Current project descriptions for the Green Projects are as follows:

Bioengineering and Sciences Building at The University of Texas at Dallas– This project containing approximately 220,000 gross square feet will house instructional laboratories, faculty and teaching assistant offices, computational infrastructure and research space. The purpose of the new building will be primarily research. The building will be designed to focus on learning and research of the functions of the brain, the nervous system, the cell, the gene and the disciplines of science and engineering as they relate to improvement of human functions and electronic sensing devices. The building will bring together interdisciplinary groups of scientists and engineers from multiple fields in research facilities and teaching laboratories. Facility will focus on innovation at the intersection of classic disciplines, ensuring dynamic interactions, continuous learning and ingenious discovery.

Dell Medical School (Phase I) at The University of Texas at Austin– This project will be located in a new campus medical district of approximately 40 acres, bounded by Martin Luther King, Jr. Boulevard, Interstate Highway 35, 15th Street, and Trinity Street. The potential location for this district was identified in the U. T. Austin Campus Master Plan and was subsequently confirmed in the recent Medical District Master Plan. Of significance is the immediate adjacency of the medical district to the existing University Medical Center Brackenridge, specifically because of the substantial investment in facilities in the Medical Center, which will continue to serve the new teaching hospital.

Naveen Jindal School of Management (Phase II) at The University of Texas at Dallas– This project is an addition to the School of Management building, including classrooms, a trading lab, staff and faculty offices, computer labs and other instructional space. The new design includes a central courtyard facing north and elevated bridge connections to the existing School of Management building.

Student Housing Living Learning Center (Phase IV) at The University of Texas at Dallas–This residence/dining hall will house approximately 600 students and provide an approximately 800 seat dining hall with a full kitchen and serving area as well as classrooms, gathering spaces, and offices to support living/learning communities within the building. The project also includes a recreation facility.

The terms "Green Bonds" and "Green Projects" are neither defined in, nor related to the Resolution, and their use in this Official Statement is for identification purposes only and is not intended to provide or to imply that any owner of the Bonds is entitled to any additional security other than as provided in the Resolution. The Bonds constitute Parity Debt payable from and secured by a lien on Pledged Revenues on a parity with the Board's outstanding Parity Debt. See "SECURITY FOR THE BONDS." Owners of the Bonds will not assume any specific project risks related to the Green Projects.

Upon the completion of the construction of all Green Projects, the Board intends to provide a notice through the Municipal Securities Rulemaking Board (the "MSRB") of such completion. Such notice 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. The Board will not provide any other continuing disclosure related to the Green Projects.

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	$206,040,000.00
Premium	19,456,335.60
Total Sources of Funds	$225,496,335.60
Applications of Funds	
Refunded Notes Deposit	$105,481,365.56
Construction Fund Deposit	118,490,125.00
Costs of Issuance(1)	1,524,845.04
Total Applications of Funds	$225,496,335.60

(1) Includes Underwriters' discount and rounding amount. See "UNDERWRITING" herein.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated January 1, 2016 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, 2016. Principal of and interest on the Bonds are payable by the Paying Agent/Registrar for the Bonds, initially U.S. Bank National Association, Houston, Texas. The record date for the interest payable on any interest payment date is the last day of the month immediately preceding such interest payment date.

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." Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or any integral multiple thereof.

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 February 15, 2026, or on any date thereafter, the Bonds scheduled to mature on August 15, 2036 bearing interest at 4.00% may be redeemed prior to their scheduled maturities, at the option of the Board. On August 15, 2021, or on any date thereafter, the Bonds scheduled to mature on August 15, 2036 initially bearing interest at 2.50% and the Bonds scheduled to mature on August 15, 2046 may be redeemed prior to their scheduled maturities, at the option of the Board. Such redemption may be effected 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."

Notice of Redemption. Not less than 30 days prior to the date fixed for redemption, notice of redemption will be sent by the Paying Agent/Registrar by United States mail, first-class, postage prepaid, to each registered owner of a Bond, 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 receive such notice, or any defect therein, will not affect the proceedings for redemption of any Bond. 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 the Bonds to be redeemed at least 30 days but not more than 90 days prior to the actual redemption date. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent their 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 dated date of the Bonds, the interest rate, the maturity date, the CUSIP number and amount of each maturity called for redemption, mailing date for the notice, the date of redemption, the redemption price, the name of the Paying Agent/Registrar and the address at which the Bonds may be redeemed or paid, along with any other applicable contact information of the Paying Agent/Registrar.

If at the time of mailing of notice of any 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, and thereafter the Board will have no further responsibility with respect to amounts available to such bank or trust company for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such bank or trust company to receive payment when due on the Government Obligations.

The term "Government Obligations" means (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, (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, and (iv) any other then authorized securities or obligations under applicable State law in existence at the time of such defeasance that may be used to defease obligations such as the Bonds.

Because the Resolution provides that securities or obligations that may be authorized under future State law may also be used to defease Bonds, registered owners are deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law.

There is no assurance that the ratings for U.S. Treasury securities or any other Government Obligations that may be used to defease Bonds as described in this section will be maintained at any particular rating category.

To the extent that 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 a Standard & Poor's rating of: "AA+". 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.

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 of 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, 2015 totaled approximately $9.15 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.

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Outstanding Parity Debt

Following the issuance of the Bonds and the Taxable Series 2016A Bonds, the following Parity Debt will be outstanding:

Revenue Financing System Bonds:	
Series 2002A	$17,235,000
Series 2002B	41,945,000
Series 2004A	48,250,000
Series 2004B	97,175,000
Series 2006B	19,200,000
Series 2006C	156,060,000
Series 2006D	116,875,000
Series 2006E	34,970,000
Series 2006F	185,615,000
Series 2007B	330,230,000
Series 2008A	160,770,000
Series 2008B	536,790,000
Series 2009B	330,545,000
Series 2009D	195,690,000
Series 2010A	282,470,000
Series 2010B	381,065,000
Series 2010C	604,310,000
Series 2010D	471,910,000
Series 2010E	26,315,000
Series 2012A	171,410,000
Series 2012B	226,235,000
Series 2014A	256,280,000
Series 2014B	248,050,000
Series 2016A	255,825,000
Series 2016B	206,040,000
	$5,401,260,000
Revenue Financing System Commercial Paper Notes[(1)]:	
Series A	$859,115,000
Taxable Series B	--
Total	$6,260,375,000

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(1) Excludes the Refunded Notes in the aggregate principal amount of $105,478,000 being refunded and defeased in connection with the issuance of the Bonds as well as Commercial Paper Notes in the aggregate principal amount of $156,124,000 being refunded and defeased in connection with the issuance of the Taxable Series 2016A Bonds.

Anticipated Financings

Following the delivery of the Bonds, the Board anticipates the issuance of additional Parity Debt in fiscal year 2016 for equipment and construction needs in the approximate principal amount of $360 million. This Parity Debt will be issued through the commercial paper note program 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."

BAB Subsidy Payments

Pursuant to the American Recovery and Reinvestment Act of 2009, signed into law on February 17, 2009 (the "Recovery Act"), the Board previously issued three series of long-term Parity Debt as taxable "Build America Bonds" (the "Parity Debt BABs") and elected to receive subsidy payments from the United States Treasury equal to 35% of the amount of each interest payment on the Parity Debt BABs ("BAB Subsidy Payments"). The Board's receipt of BAB Subsidy Payments is subject to certain requirements, including the filing of a form with the Internal Revenue Service prior to each interest payment date of the Parity Debt BABs. In the event the Board fails to make such filings on a timely basis or otherwise fails to comply with such requirements, the Board's receipt of such BAB Subsidy Payments could be delayed, reduced or eliminated. The Board's right to receive BAB Subsidy Payments is also subject to offset against certain amounts that may, for unrelated reasons, be determined to be owed by the Board to an agency of the United States of America. Such Subsidy Payments do not constitute a full faith and credit guarantee of the United States Government, but are required to be paid by the United States Treasury under the Recovery Act, except as described below.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Bipartisan Budget Act of 2013, certain automatic reductions in federal spending (the "Sequester Cuts") took effect as of March 1, 2013 and currently extend through federal fiscal year 2024. The Sequester Cuts include a reduction to BAB Subsidy Payments to be made by the federal government to issuers of "direct-pay" tax credit bonds, such as Build America Bonds. The current sequestration reduction rate is 6.8% for BAB Subsidy Payments processed on or after October 1, 2015 through the federal fiscal year ended September 30, 2016. The sequestration reduction rate for BAB Subsidy Payments in federal fiscal years 2017 through 2024 will be set from time to time in the future, unless Congress takes additional action to change or eliminate the sequestration percentage.

The Board received approximately $1.82 million less in BAB Subsidy Payments than it otherwise expected to receive during federal fiscal year 2015 as a result of the Sequester Cuts, and the Board expects to receive approximately $1.69 million less in BAB Subsidy Payments than it otherwise expected to receive during federal fiscal year 2016. The Board is obligated to make payments of principal and interest on its Parity Debt BABs without regard to the receipt of any BAB Subsidy Payments. At this time, the Board makes no representations as to the length of time that the Sequester Cuts will remain in effect or as to the amount of any reductions in the federal subsidy that would otherwise be payable to the Board in the future. BAB Subsidy Payments received by the Board constitute "Pledged Revenues" for purposes of the Resolution and may be used for any lawful purpose of the Board, including but not limited to, the payment of the Board's obligations with respect to Parity Debt.

The Board has covenanted in the supplemental resolutions authorizing the Parity Debt BABs that it will use its best efforts to take all actions necessary to ensure the future collection of BAB Subsidy Payments to be received with respect to such Parity Debt BABs to the extent that the Board determines that it is in the best interests of the Board to do so. Any failure by the Board to collect BAB Subsidy Payments does not constitute an event of default under the Resolution.

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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.

		The Bonds		Taxable Series 2016A Bonds		
Fiscal Year Ending 8/31	Annual Debt Service on Outstanding Parity Debt[(1)]	Principal	Interest	Principal	Interest	Total Annual Debt Service on Parity Debt
2016	$486,533,789	--	$3,990,642	--	$5,775,761	$496,300,192
2017	479,043,940	--	7,077,000	--	9,854,379	495,975,319
2018	478,402,982	--	7,077,000	--	9,854,379	495,334,361
2019	469,570,895	--	7,077,000	--	9,854,379	486,502,274
2020	445,137,598	--	7,077,000	--	9,854,379	462,068,977
2021	427,024,255	--	7,077,000	--	9,854,379	443,955,634
2022	424,746,188	--	7,720,750	--	9,854,379	442,321,317
2023	392,532,557	--	7,720,750	--	9,854,379	410,107,686
2024	362,976,901	--	7,720,750	--	9,854,379	380,552,030
2025	307,165,891	--	7,720,750	--	9,854,379	324,741,020
2026	297,712,484	$56,040,000	7,720,750	--	9,854,379	371,327,613
2027	276,932,470	--	5,671,875	--	9,854,379	292,458,724
2028	255,007,873	--	5,671,875	--	9,854,379	270,534,127
2029	243,713,887	--	5,671,875	--	9,854,379	259,240,141
2030	236,106,188	--	5,671,875	--	9,854,379	251,632,442
2031	232,683,246	--	5,671,875	--	9,854,379	248,209,500
2032	230,252,959	--	7,053,125	--	9,854,379	247,160,463
2033	223,436,315	--	7,053,125	--	9,854,379	240,343,819
2034	194,280,641	--	7,053,125	--	9,854,379	211,188,145
2035	184,489,973	--	7,053,125	--	9,854,379	201,397,477
2036	183,091,453	122,500,000	7,053,125	--	9,854,379	322,498,957
2037	172,354,177	--	1,375,000	--	9,854,379	183,583,556
2038	159,721,560	--	1,375,000	--	9,854,379	170,950,939
2039	128,753,917	--	1,375,000	--	9,854,379	139,983,296
2040	108,929,740	--	1,375,000	--	9,854,379	120,159,119
2041	99,984,910	--	1,375,000	--	9,854,379	111,214,289
2042	80,371,507	--	1,512,500	--	9,854,379	91,738,386
2043	44,255,243	--	1,512,500	--	9,854,379	55,622,122
2044	37,847,504	--	1,512,500	--	9,854,379	49,214,383
2045	23,077,757	--	1,512,500	--	9,854,379	34,444,636
2046	22,724,579	27,500,000	1,512,500	$255,825,000	9,854,379	317,416,458

(1) Includes debt service on all outstanding Parity Debt as of the delivery of the Bonds. Does not include debt service on the Bonds, the Taxable Series 2016A Bonds or on the currently outstanding Commercial Paper Notes. See “INTRODUCTION,” “PLAN OF FINANCE” and “DESCRIPTION OF THE REVENUE FINANCING SYSTEM—Outstanding Parity Debt.” Also does not take into account BAB Subsidy Payments anticipated to be received by the Board from the United States Treasury. See “DESCRIPTION OF THE REVENUE FINANCING SYSTEM—BAB Subsidy Payments.” 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 $257,620,000 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 $279,170,000 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.

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THE SWAP AGREEMENTS

General

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 Wells Fargo Bank, N.A. (as successor to 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 $165,115,000 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 $257,620,000 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 $279,170,000 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"). (RBC Capital Markets, LLC, an underwriter, is an indirect wholly-owned subsidiary of the Royal Bank of Canada.) 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.

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 — AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2015" – Note 13.

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. The Board has entered into ISDA Master Agreements with multiple 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, 2016, 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 Commercial Paper Notes authorized to be outstanding in the aggregate principal amount not to exceed $750 million, (ii) the Board's Permanent University Fund Bonds, Series 2008A outstanding in the aggregate principal amount of $375,750,000, (iii) 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 $1,750,000,000, (iv) the Board's Revenue Financing System Refunding Bonds, Series 2007B outstanding in the aggregate principal amount of $330,230,000, and (v) the Board's Revenue Financing System Bonds, Series 2008B outstanding in the aggregate principal amount of $536,790,000. As of the date of delivery of the Bonds and the Taxable Series 2016A Bonds, there will be $422,500,000 of Permanent University Fund Commercial Paper Notes outstanding, $859,115,000 of Revenue Financing System Commercial Paper Notes, Series A outstanding and no Revenue Financing System Taxable Commercial Paper Notes, Series B outstanding. As described in "Introduction," a portion of the proceeds of the Taxable Series 2016A Bonds will be used to refund a portion of the Board's Revenue Financing System Commercial Paper Notes, Series A in the aggregate principal amount of $48,494,000 and a portion of the Board's Revenue Financing System Taxable Commercial Paper Notes, Series B in the aggregate principal amount of $107,630,000.

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 $125 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 the date hereof, 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 certain specified 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.

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 audited Combined Primary Financial Statements of the University System for the fiscal year ended August 31, 2015, 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" and "APPENDIX D — AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2015." 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. *Although the Board obtained an outside audit of the Combined Primary Financial Statements of the University System for the fiscal year ended August 31, 2015, the Board is not legally or contractually required to obtain such an audit in any future fiscal year.* 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, 2015 and 2014 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 on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the University System, including any of the information contained in this Official Statement.

The Board's current fiscal year end is August 31. Annually, not later than November 20 of each 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. 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."

Notice of Certain Events. The Board will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of Bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The Board will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the Board (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Board in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board). Neither the Bonds nor the Supplemental Resolution make any provision for debt service reserves, credit enhancement, or liquidity enhancement.

The Board will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event).

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 “Notice of Certain Events” 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 complied in all material respects with all continuing disclosure agreements 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., Austin and 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 for the information under 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.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin and 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"), (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the owners thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) 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 and (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 Notes and the property financed or refinanced therewith. Failure by the Board to observe such 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 projects financed or refinanced with proceeds of the Bonds or the Refunded Notes. No assurances can be given as to whether or not 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 accrual period and ratably within each such accrual 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.

Stepped Coupon Bonds

The Bonds maturing on August 15, 2036 initially bearing interest at 2.50% in the amount of $87,500,000 and the Bonds maturing on August 15, 2046 in the amount of $27,500,000, each bear interest at an initial fixed rate of 2.50% and that fixed rate is increased at certain specified points in time (collectively, the "Stepped Coupon Bonds"). The Treasury Department has issued regulations under Section 1271 through 1275 of the Code (the "OID Regulations"). Pursuant to the OID Regulations, a stepped coupon bond such as the Stepped Coupon Bonds can be treated as issued with OID. However, pursuant to section 1.1272-1(c)(5) of the Regulations, it is presumed that the Stepped Coupon Bonds will be called on August 15, 2021, and that, accordingly, the amount of OID with respect to the Stepped Coupon Bonds is treated as zero. However, there is no guarantee that the Stepped Coupon Bonds will be called on August 15, 2021 and Owners may wish to consult their tax advisors with respect to the tax consequences of holding the Stepped Coupon 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, taxpayers qualifying for the health insurance premium assistance credit 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.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, owners 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 owner at a purchase price which is less than the stated redemption price at maturity or, in the case of an obligation 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 owner holds the obligation bears to the number of days between the acquisition date and the final maturity date.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

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 Standard & Poor's Financial Services LLC business, 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 of the Bonds, for which Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative, have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the principal amount of the Bonds, plus a premium of $19,456,335.60, and less an underwriting discount of $1,346,287.07. 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. The Underwriters' obligation to purchase the Bonds is not conditioned upon the sale or delivery of the Taxable Series 2016A Bonds.

The Underwriters have provided the following paragraphs for inclusion in this Official Statement, and the Board takes no responsibility for the accuracy thereof.

Fidelity Capital Markets, an Underwriter of the Bonds, is a division of National Financial Services LLC.

Jefferies LLC ("Jefferies"), an Underwriter of the Bonds, has entered into an agreement (the "Agreement") with E*TRADE Securities LLC ("E*TRADE") for the retail distribution of municipal securities. Pursuant to the Agreement, Jefferies will sell Bonds to E*TRADE and will share a portion of its selling concession compensation with E*TRADE.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an Underwriter of the Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of the Bonds and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Board and to persons and entities with relationships with the Board, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Board (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Board. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

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, 4th Floor
Austin, Texas 78701

/s/ Terry A. Hull
Associate Vice Chancellor for Finance
The University of Texas System

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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 (the "University 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, Brownsville, Dallas, Edinburg, El Paso, Odessa, San Antonio, and Tyler. Health institutions for medical education and research have expanded beyond the original Galveston medical campus to include M. D. Anderson Cancer Center, Southwestern Medical Center, and Health Science Centers at Houston, San Antonio and Tyler.

Effective June 14, 2013, the Legislature of the State of Texas established a new university within the University System, The University of Texas Rio Grande Valley ("U.T. Rio Grande Valley"), which began offering classes September 1, 2015. In accordance with the statute creating U.T. Rio Grande Valley, the Board transferred to U.T. Rio Grande Valley all assets, facilities, operations, programs and liabilities of The University of Texas-Pan American ("U.T. Pan American"), The University of Texas at Brownsville ("U.T. Brownsville") and the Lower Rio Grande Valley Academic Center, effective August 30, 2015. U.T. Pan American was abolished by the Board effective September 1, 2015. U.T. Brownsville has remained operational as a non-degree granting institution with minimal administrative staff for the purpose of maintaining the accreditation of Texas Southmost College ("TSC"), a community college with which it has a contractual partnership. TSC achieved independent accreditation in December 2015, and the Board is expected to take action at its meeting on February 11, 2016 to abolish U.T Brownsville effective September 1, 2016. On August 21, 2014, U.T. Rio Grande Valley became a Member of the Revenue Financing System.

The University System is also in the process of purchasing approximately 332 acres of mostly undeveloped land in southwest Houston located approximately 3.5 miles from the Texas Medical Center. The University System has no immediate plans for the development of the property but currently anticipates that the property would ultimately provide a venue for the University System's institutions across the State to have a presence in Houston, which has approximately 30 percent of the State's population. The Chancellor has announced his intention to convene a task force in early 2016 of civic leaders, legislators, academic and health presidents, faculty, students, regents and other constituents to begin planning for the development of the property. The property is anticipated to be purchased with the proceeds of Permanent University Fund debt.

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 specific powers of the Texas Higher Education Coordinating Board (the "Coordinating Board") related to statewide planning and efficient use of resources. The Coordinating Board reviews and approves the degree and certificate programs offered by the State's institutions of higher education and reviews the academic courses offered by such institutions. The Coordinating Board also prescribes state standards for facilities related to cost, efficiency, space need, and space use, and reviews construction and major rehabilitation projects for compliance with those standards.

Administration

The University System is managed through administrative officers in the System Administration Office, including the Chancellor, the Deputy 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 External Relations, Governmental Relations, Health Affairs, Federal Relations, Legal Affairs, Research and Innovation, and Strategic Initiatives. 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 regularly 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.

William H. McRaven, Chancellor
David E. Daniel, Deputy Chancellor
Steven Leslie, Ph.D., Executive Vice Chancellor for Academic Affairs
Scott C. Kelley, Ph.D., Executive Vice Chancellor for Business Affairs
Raymond S. Greenberg, M.D., Executive Vice Chancellor for Health Affairs

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

William H. McRaven became Chancellor on January 5, 2015. Prior to being named Chancellor, Admiral McRaven served as the ninth commander of the United States Special Operations Command from August 2011, to August 2014. He previously served from June 2008 to August 2011 as Commander, Joint Special Operations Command and from June 2006 to March 2008 as Commander, Special Operations Command Europe. Admiral McRaven was also designated as the first director of the NATO Special Operations Forces Coordination Centre, where he was charged with enhancing the capabilities and inter-operability of all NATO Special Operations Forces. Chancellor McRaven earned a bachelor's degree from The University of Texas at Austin and a master's degree from the Naval Postgraduate School.

David E. Daniel, Ph.D. was appointed Deputy Chancellor of the University System in July 2015. He earned bachelor's, master's and Ph.D. degrees in engineering from The University of Texas at Austin. Between degrees, he worked for three years as an engineer in the San Francisco Bay Area. He served on the faculty at UT Austin from 1980 to 1996. In 1996, he moved to the University of Illinois serving first as Head of the Department of Civil and Environmental Engineering and from 2001-2005 as Dean of Engineering. Dr. Daniel was appointed President of The University of Texas at Dallas in 2005 and served in that role until 2015.

Steven Leslie, Ph.D. was named Executive Vice Chancellor for Academic Affairs at the University System effective May 2015 after having spent nearly 40 years in numerous academic leadership positions within the University of Texas at Austin. Dr. Leslie received a B.S. in Pharmacy, an M.S. in Pharmacology/Toxicology and a Ph.D. in Pharmacology/Toxicology, all from Purdue University. He joined the faculty of the College of Pharmacy at The University of Texas at Austin in 1974, where he currently holds the James E. Bauerle Centennial Professorship in Drug Dynamics in the Division of Pharmacology and Toxicology.

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, Dr. Kelley served from 1995 to 2004 as Vice President for Administration, Finance and Human Resources at West Virginia University. Dr. 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.

Raymond S. Greenberg, M.D. joined the University System as Executive Vice Chancellor for Health Affairs on September 9, 2013. Before coming to the University System, Dr. Greenberg served for 13 years as president of the Medical University of South Carolina ("MUSC"). Prior to that, he served for five years as vice president for academic affairs and provost of MUSC. Dr. Greenberg holds a medical degree from Duke University, a master's of public health degree from Harvard University, and a doctorate in epidemiology from the University of North Carolina.

University System Institutions

A summary description of the University System's institutions, which include eight 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 51,557 students, offers 85 baccalaureate, 74 master's and 27 doctoral degrees within ten colleges and schools including Architecture, Planning and Public Affairs, Business Administration, Engineering, Education, Nursing and Health Innovation, Honors, Liberal Arts, Science, Social Work, and University College.

The University of Texas at Austin ("U.T. Austin"), is one of the largest public universities in the United States and is the largest institution of the University System. Founded in 1883, the university has grown to a 350-acre main campus with 17 colleges and schools, about 24,000 faculty and staff, and approximately 52,000 undergraduate and graduate students. U.T. Austin offers 100 undergraduate and 170 graduate degree programs in virtually every field, except most health-related professions and agriculture. Construction and accreditation of a new medical school and related medical research facilities is underway. The Dell Medical School will admit its first class in 2016. Seton Healthcare, part of the Ascension Health system, will construct and operate a teaching hospital in collaboration with the Dell Medical School. The University of Texas at Austin is a major comprehensive research university with a broad mission of undergraduate education, graduate education, research and public service.

The University of Texas at Dallas ("U.T. Dallas"), with approximately 24,500 students, offers 134 academic programs within eight academic units including Arts and Humanities; Arts, Technology and Emerging Communication; Behavioral and Brain Sciences; Economic, Political and Policy Sciences; Natural Sciences and Mathematics; Interdisciplinary Studies; the Naveen Jindal School of Management; and the Erik Jonsson School of Engineering and Computer Science.

The University of Texas at El Paso ("UTEP"), enrolls more than 23,000 students, a majority of whom are Hispanic and many who are the first in their families to attend college. UTEP invests more than $83 million in research annually and maintains one of the lowest net cost of any research university in the country.

The University of Texas of the Permian Basin ("U.T. Permian Basin"), with approximately 6,000 students, offers 35 bachelor's, and 19 graduate degrees within four academic units including Arts and Sciences, Business, Education and Nursing. Located in Odessa, Texas, most of U.T. Permian Basin's students come from the West Texas region.

The University of Texas Rio Grande Valley ("U.T. Rio Grande Valley") was created by the Texas Legislature in 2013. U.T. Rio Grande Valley enrolled its first class in Fall 2015 and currently serves over 28,000 students through eleven academic units, including the School of Medicine, Health Affairs, Sciences, Liberal Arts, Fine Arts, Engineering and Computer Science, Business and Entrepreneurship, Education and P-16 Integration, Honors College, Graduate College and University College. The U.T. Rio Grande Valley School of Medicine is expected to open in Fall 2016. U.T. Rio Grande Valley has campuses in Brownsville, Texas, Harlingen, Texas, and Edinburg, Texas.

The University of Texas at San Antonio ("U.T. San Antonio"), serving approximately 29,000 students, offers 68 baccalaureate, 66 master's and 24 doctoral degrees within nine colleges: including Architecture, Business, Education and Human Development, Engineering, Honors, Liberal and Fine Arts, Sciences, Public Policy and University College. The Institute of Texan Cultures is a campus of U.T. San Antonio that serves as the forum for the understanding and appreciation of Texas and Texans through its research, collections, exhibits and programs..

The University of Texas at Tyler ("U.T. Tyler"), with approximately 8,900 students, offers 42 baccalaureate, 31 master's and three doctoral degree within seven academic units including Arts and Sciences, Business and Technology, Education and Psychology, Engineering , Nursing and Health Sciences, The Ben and Maytee Fisch College of Pharmacy and University College. U.T. Tyler is centrally located between Dallas and Shreveport, Louisiana.

Health Institutions

The University of Texas Southwestern Medical Center ("U.T. Southwestern"), founded in 1943, is one of the premier academic medical centers in the nation, integrating pioneering biomedical research with exceptional clinical care and education. With an operating budget of nearly $2.5 billion, U.T. Southwestern has more than 2,700 faculty members, including six who have been awarded Nobel Prizes since 1985. Faculty members are responsible for groundbreaking medical advances and are committed to translating science-driven research quickly to new clinical treatments. The Harold C. Simmons Comprehensive Cancer Center, the only NCI-designated Comprehensive Cancer Center in North Texas, is a multidisciplinary program responsible for the cancer care and cancer research conducted at U.T. Southwestern Medical Center. U.T. Southwestern physicians provide medical care in 40 specialties to about 92,000 hospitalized patients and oversee approximately 2.1 million outpatient visits a year. U.T. Southwestern physicians care for patients in the U.T. Southwestern University Hospitals & Clinics, including William P. Clements Jr. Hospital and Zale Lipshy University Hospital, and at Parkland Health & Hospital System, Children's Health System of Texas, Texas Scottish Rite Hospital for Children, and VA North Texas Health Care System, the U.T. Southwestern Accountable Care Network, and has announced an integrated regional health network with Texas Health Resources to be named Southwestern Health Resources. U.T. Southwestern programs are offered in Dallas, Fort Worth, Austin, Waco, Wichita Falls, the Park Cities, Irving/Las Colinas, and Richardson/Plano, and internationally in Peru, China, Israel, South Africa, and France. Three degree-granting institutions – U.T. Southwestern Medical School, U.T. Southwestern Graduate School of Biomedical Sciences, and U.T. Southwestern School of Health Professions – train more than 4,700 medical, graduate, and health professions students, residents, and postdoctoral fellows each year. Ongoing support from federal agencies such as the National Institutes of Health, along with foundations, individuals, and corporations, provide approximately $415.5 million per year to fund more than 3,300 research projects.

The University of Texas Medical Branch at Galveston ("UTMB") trains approximately 3,200 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 almost 600 medical residents each year. UTMB's faculty of approximately 920 oversees approximately $120 million per year in research projects. Additionally, in fiscal year 2015, UTMB's physicians and medical residents treated 29,959 hospitalized patients and completed 943,490 outpatient encounters. Clinic visits completed in fiscal year 2015 totaled 876,215. UTMB's patient care facilities include 46 primary care and specialty clinic locations, 28 Women, Infants & Children (WIC) and RMCHC clinic locations, 1 TDCJ specialty clinic location, and three hospitals with a combined bed capacity of 616; John Sealy Hospital (430 beds), a maximum TDCJ security prison hospital (136 beds) and Angleton Danbury Hospital (50 beds) which became a part of UTMB in August of 2014. UTMB also offers numerous continuing education programs for practitioners. In addition, UTMB cares for approximately 80% of the State's inmates through a contract with TDCJ.

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 fully restored and clinical operations have largely been restored to or near pre-storm levels. Physical structures at UTMB sustained significant physical damage. The cost for restoring facilities, replacement of infrastructure and equipment and FEMA approved mitigation is budgeted at approximately $1.0 billion. Through a combination of State, FEMA, insurance, philanthropic and other support, UTMB has secured the funding for this effort. Through a rigorous risk management analysis, UTMB has identified additional opportunities for mitigation of future storm impacts and will continue to put these improvements in place as part of its annual capital program. Since the storm, UTMB has increased its clinical presence off Galveston Island in one of the most rapidly growing areas of the State. These facilities include a 110,000 square foot ambulatory and specialty clinical facility with a 140,000 square foot in-patient addition currently under construction to include labor and delivery beds, medical/surgical beds, emergency department, and expanded surgery suites. UTMB has also leased a small community hospital in neighboring Brazoria County to extend its service area and meet the growing needs for this geographic area. In addition, other sites in the UTMB service area include clinics for family medicine, pediatrics, dermatology, ear, nose and throat, oral surgery, and ophthalmology. More recently three build-to-suit clinics have been completed. These include a 10,000 square foot family medicine and pediatric clinic in Alvin TX.; a 35,000 square foot facility in Texas City housing cardiology, family medicine, pediatrics and imaging space; and a 7,500 square foot pediatric clinic in Galveston. Other existing sites on Galveston Island include the Primary Care Pavilion, housing family medicine, pediatrics, internal medicine, occupational and physical therapy, and imaging; and 700 University Boulevard, housing an ophthalmology clinic. During the year ended August 31, 2015, clinic visits in facilities both on and off Galveston Island increased over previous year levels. This clinical expansion and a combination of cost reductions, revenue enhancements and other measures have resulted in stabilizing and improving UTMB's operating performance.

In addition, 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 continue to occur. FEMA reimbursements are expected to continue over the next several years. Viewing UTMB as a component of the University System, the impact of Hurricane Ike has not had a material adverse effect 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 4,800 students enrolled in six professional schools, including Medicine, Dentistry, Nursing, Public Health, and Biomedical Informatics. The Health Science Center at Houston's faculty of approximately 2,000 oversees approximately $222 million per year in research projects. Additionally, Health Science Center at Houston's 2,100+ physicians and medical and dental residents treat more than 1.3 million patients annually, at more than 250 outpatient and inpatient sites. The Health Science Center at Houston also operates the UT-Harris County Psychiatric Center, the only public psychiatric hospital in the Houston region, where in-patient admissions total more than 8,800 annually. Its primary hospital partner, Memorial Hermann Healthcare System (MHHS) is the inpatient market share leader in the greater Houston area. The MHHS flagship hospital, Memorial Hermann – Texas Medical Center, is predominantly staffed by the Health Science Center at Houston's faculty and serves as the primary training site for its medical students and residents.

The University of Texas Health Science Center at San Antonio ("Health Science Center at San Antonio") trains approximately 3,200 students and over 1,000 residents 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 over 1,700 oversees approximately $150 million per year in research and sponsored projects. Additionally, the Health Science Center at San Antonio's faculty and medical residents treat more than 300,000 hospitalized patients and nearly 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 healthcare institutions, providing significant levels of uncompensated health care to uninsured and underinsured populations of San Antonio and the South Texas Border Region. The Health Science Center has oversight responsibilities for the Regional Campus in Laredo, providing professional health education to rotational students and conducting research throughout South Texas. The Health Science Center has acquired an international reputation in Longevity and Aging Studies and oversees a National Cancer Center Institute designated cancer center, the Cancer Therapy and Research Center, which conducts clinical research trials, fosters drug development and provides patient care, and is the leading economic generator in San Antonio's biosciences and health care industry.

The University of Texas MD Anderson Cancer Center in Houston ("MD Anderson") is one of the world's most respected centers devoted to cancer patient care, research, education and prevention. Research expenditures exceeded $780 million in fiscal year 2015. More than 135,000 patients were served last year in MD Anderson's Houston facilities, which include more than 660 inpatient beds and extensive outpatient centers that totaled more than 1.4 million patient visits, treatments and procedures. MD Anderson awards Bachelor of Science degrees in nine allied health disciplines and one Master of Science degree in Diagnostic Genetics through its School of Health Professions, and jointly confers Master of Science and Ph.D. degrees to students through The University of Texas Graduate School of Biomedical Sciences, which it operates in partnership with the Health Science Center at Houston. In addition to MD Anderson's campus in the Texas Medical Center there are two research campuses near Austin in Bastrop County. Through the MD Anderson Cancer Network, the institution has partner members in Banner MD Anderson Cancer Center (Gilbert, Ariz.); Baptist MD Anderson Cancer Center (Jacksonville, Fla.); and MD Anderson Cancer Center at Cooper (Camden, N.J.), and an associate member in São Paulo's Hospital Israelita Albert Einstein. Currently, 12 hospitals and health systems in 11 states constitute the network's certified membership. The network certifies board-certified medical oncologists, radiation oncologists and surgical oncologists at member hospitals. It also has affiliates offering comprehensive cancer care in Madrid as well as radiation treatment centers in Istanbul, Turkey and Albuquerque, N.M.

The University of Texas Health Science Center at Tyler ("Health Science Center at Tyler") is the State's referral hospital for pulmonary diseases and currently has 130 patient beds. The Health Science Center at Tyler has 68 board-certified physicians who see almost 200,000 outpatient visits in 28 clinics and nearly 1,800 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 three residency programs established in Family Practice, Occupational Medicine and Internal Medicine. In addition, the Health Science Center at Tyler is home to the Center for Pulmonary and Infectious Disease Control, a major initiative to lead the State's battle against infectious diseases of the lungs, including drug-resistant tuberculosis.

Enrollment

The Fall 2011-2015 headcount enrollments at the teaching institutions of the University System are:

	2011	2012	2013	2014	2015[(4)]
U.T. Arlington	33,439	33,239	33,329	34,868	37,008
U.T. Austin	51,112	52,186	52,059	51,312	50,972
U.T. Brownsville[(1) (2)]	14,912	13,601	8,570	8,009	-
U.T. Dallas	18,864	19,727	21,193	23,095	24,534
U.T. El Paso	22,582	22,728	22,926	23,043	23,397
U.T. Pan American[(2)]	19,034	19,302	20,053	21,015	-
U.T. Permian Basin	3,831	4,021	5,131	5,560	6,012
U.T. Rio Grande Valley[(2)]	-	-	-	-	28,546
U.T. San Antonio	30,968	30,474	28,623	28,628	28,787
U.T. Tyler	6,628	6,858	7,476	8,036	8,769
U.T. Southwestern Medical Center at Dallas	2,456	2,424	2,349	2,310	2,288
U.T. Medical Branch at Galveston	2,824	3,012	3,112	3,211	3,125
U.T. Health Science Center at Houston	4,600	4,489	4,615	4,556	4,847
U.T. Health Science Center at San Antonio	3,294	3,249	3,148	3,147	3,203
U.T. M.D. Anderson	317	290	317	303	320
U.T. Health Science Center at Tyler[(3)]	-	6	17	19	17
Total	214,861	215,606	212,918	217,112	221,825

(1) Prior to Fall 2013, U.T. Brownsville shared an educational partnership with Texas Southmost College ("TSC") with enrollment numbers representing unduplicated UTB/TSC enrollment information. Beginning in Fall 2013, U.T. Brownsville began functioning as a separate educational entity with enrollment numbers reflecting only students of U.T. Brownsville.

(2) Effective June 14, 2013, the Legislature of the State of Texas established U.T. Rio Grande Valley, which began offering classes September 1, 2015. In accordance with the statute creating U.T. Rio Grande Valley, U.T. Pan American was abolished by the Board effective September 1, 2015. Pursuant to the legislation that created U.T. Rio Grande Valley, U.T. Brownsville has remained operational as a non-degree granting institution with minimal administrative staff for the purpose of maintaining the accreditation of TSC. The Board is expected to take action at its meeting on February 11, 2016 to abolish U.T Brownsville effective September 1, 2016. See "- Background and History" above.

(3) Prior to Fall 2012, The University of Texas Health Science Center at Tyler did not have enrolled students.

(4) Preliminary enrollment for the Fall 2015 semester.

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The following are the 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*

Fall Term	Undergraduate	Graduate and Professional	Total	Total Full-Time Equivalent
2014	163,660	53,452	217,112	172,091
2013	161,777	51,141	212,918	168,811
2012	165,044	50,562	215,606	169,739
2011	163,883	50,978	214,861	167,815
2010	161,275	49,938	211,213	163,556

* 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:

	2010	%	2011	%	2012	%	2013	%	2014	%
Freshman:										
Applications	71,532	100.0	77,280	100.0	83,218	100.0	85,216	100.0	88,163	100.0
Acceptances	46,888	65.5	50,294	65.1	52,346	62.9	52,134	61.2	56,437	64.0
Matriculants	22,981	49.0	23,661	47.0	23,882	45.6	23,553	45.2	25,382	45.0
Transfers:										
Applications	35,703	100.0	35,952	100.0	36,447	100.0	36,853	100.0	N/A	N/A
Acceptances	27,619	77.4	28,447	79.1	29,037	79.7	28,278	76.7	N/A	N/A
Matriculants	15,462	56.0	15,626	54.9	15,606	53.7	15,606	55.2	N/A	N/A

* Reflects only general academic institutions excluding U.T. Brownsville.

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

	2010	2011	2012	2013	2014
In-State Students	87.9%	87.6%	87.1%	85.5%	85.8%
Out-of-State Students	4.8%	5.0%	5.2%	5.3%	5.4%
Foreign Students	7.3%	7.4%	7.8%	8.2%	8.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Faculty and Employees

The number of faculty and employees employed by the University System as of Fall 2014 are set forth in the following table:

	Faculty and Employees*
General Academic Institutions:	
Faculty	11,048
All Other Employees (excludes student employees)	25,958
Subtotal	37,002
Health Institutions:	
Faculty	9,371
All Other Employees (excludes student employees)	48,194
Subtotal	57,565
University System Administration:	686
Total	95,257

* Estimated. Excludes student employees.

A wide range of honors, awards and grants evidences the quality of the faculty in the University System, including seven Nobel Prize Laureates; one Shaw Laureate; two Pulitzer Prize recipients; 42 Members of the National Academy of Sciences; 59 Members of the National Academy of Engineering; 58 Members of the American Academy of Arts and Sciences; 33 Members of the American Law Institute; 57 members of the American Academy of Nursing; and 42 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 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, 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 Board commissioned Deloitte & Touche LLP to audit the Combined Primary Financial Statements of the University System for the fiscal year ended August 31, 2015. The audited Combined Primary Financial Statements of the University System for the fiscal year ended August 31, 2015, have been filed with the MSRB at the MSRB's Electronic Municipal Market Access system ("EMMA") via the MSRB's internet website, www.emma.msrb.org and are attached to this Official Statement as "APPENDIX D — AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2015." Deloitte & Touche LLP has not reviewed, commented on, or approved, and is not associated with, this Official Statement. Deloitte & Touche LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the University System, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

At its meeting on February 6, 2014, the Board approved engaging Deloitte & Touche LLP to audit the Combined Primary Financial Statements of the University System for fiscal years ending August 31, 2014 and August 31, 2015, subject to approval by the Texas State Auditor's Office. The Board is expected to consider and discuss engaging an external auditor to provide independent financial auditing services for U. T. System for fiscal year 2016 at its meeting on February 11, 2016. No assurances can be given as to whether the Board will commission an audit for any subsequent fiscal year. The Board is not legally or contractually required to commission such an independent external audit in any 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.

Additionally, the State Auditor performs annual audits of the State's general purpose financial statements in accordance with generally accepted auditing standards, and such audits are on file with the MSRB on EMMA.

Incorporation by Reference of Other Documents

The annual audited financial statements for fiscal years ended August 31, 2015 and 2014 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 Official Statement to a document that is incorporated by reference, copies of such documents may be obtained from (i) EMMA or (ii) 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: Associate 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 2011 through 2015.

Condensed Statement of Net Position
(In Thousands)

Assets and Deferred Outflows:	Audited 2011	Audited 2012	Audited 2013	Audited 2014	Audited 2015
Current Assets	$5,545,993	$6,181,300	$6,585,770	$7,367,600	$7,280,147
Noncurrent Investments	27,833,117	30,646,389	34,003,120	42,240,778	39,881,336
Other Noncurrent Assets	511,057	274,632	379,243	335,494	413,962
Capital Assets, net	11,785,436	12,422,556	13,144,564	14,057,461	14,827,027
Total Assets	$45,675,603	$49,524,877	$54,112,697	$64,001,333	$62,402,472
Total Deferred Outflows	265,779	392,305	184,144	249,213	739,978
Total Assets and Deferred Outflows	$45,941,382	$49,917,182	$54,296,841	$64,250,546	$63,142,451
Liabilities and Deferred Inflows:					
Current Liabilities	$6,271,496	$6,546,250	$7,203,967	$8,121,625	$8,493,502
Noncurrent Liabilities	9,238,597	10,001,029	10,104,606	11,051,131	14,257,830
Total Liabilities	$15,510,093	$16,547,279	$17,308,573	$19,172,756	$22,751,333
Total Deferred Inflows	10,238	9,205	8,173	7,139	709,990
Total Liabilities and Deferred Inflows	$15,520,331	$16,556,484	$17,316,746	$19,179,895	$23,461,323
Net Position:					
Net Investment in Capital Assets	$5,029,154	$5,243,460	$5,552,398	$6,109,146	$6,441,685
Restricted, Nonexpendable	12,233,570	15,128,697	17,340,736	22,555,209	20,681,736
Restricted, Expendable	9,782,538	9,504,849	10,500,424	12,564,507	11,545,484
Unrestricted	3,375,788	3,483,692	3,586,538	3,841,790	1,012,224
Total Net Position	$30,421,050	$33,360,698	$36,980,096	$45,070,651	$39,681,128

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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 2011 through 2015.

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

	Audited FY2011	Audited FY2012	Audited FY2013	Audited FY2014	Audited FY2015
Operating Revenues:					
Net Student Tuition and Fees	$1,290,645	$1,393,214	$1,401,813	$1,504,515	$1,565,243
Federal Sponsored Programs	1,514,900	1,394,471	1,369,700	1,247,905	1,246,800
Federal Sponsored Programs Pass-through from Other State Agencies	111,066	93,568	83,641	76,125	82,669
State Sponsored Programs	557	-	-	53	0
State Sponsored Programs Pass-Through from Other State Agencies	263,594	250,904	260,378	283,148	311,747
Local Sponsored Programs	565,725	595,212	647,615	701,186	761,535
Private Sponsored Programs	405,054	419,631	400,861	419,254	489,884
Net Sales and Services of Educational Activities	421,375	386,928	415,657	475,355	497,480
Net Sales and Services of Hospitals	3,812,091	4,138,249	4,472,285	4,748,988	5,260,355
Net Professional Fees	1,175,167	1,231,154	1,306,092	1,409,013	1,488,966
Net Auxiliary Enterprises	407,727	439,336	471,935	485,052	539,550
Other Operating Revenues	91,380	111,642	211,735	292,468	391,222
Total Operating Revenues	10,059,281	10,454,309	11,041,712	11,643,062	12,635,451
Operating Expenses:					
Instruction	2,880,823	2,846,036	2,977,935	3,157,745	3,393,739
Research	1,990,269	1,974,216	2,026,973	2,029,647	2,086,716
Public Services	275,579	267,238	286,057	286,433	313,038
Hospitals and Clinics	3,315,279	3,677,409	4,003,968	4,260,964	4,874,649
Academic Support	541,054	575,245	644,043	665,310	747,125
Student Services	186,349	214,852	222,684	233,524	245,744
Institutional Support	1,221,807	1,287,300	1,428,050	1,532,506	1,472,138
Operations and Maintenance of Plant	730,463	730,197	753,242	765,151	759,847
Scholarships and Fellowships	419,643	353,328	432,521	364,752	367,838
Auxiliary Expenses	457,743	481,493	510,805	530,107	572,209
Depreciation and Amortization	902,392	1,015,622	1,105,012	1,117,335	1,178,905
Total Operating Expenses	12,921,401	13,422,936	14,391,290	14,943,474	16,011,948
Operating Loss	-2,862,120	-2,968,627	-3,349,578	-3,300,412	-3,376,497
Nonoperating Revenues (Expenses):					
State Appropriations	1,857,302	1,918,989	1,829,392	2,044,999	2,079,135
Nonexchange Sponsored Programs	337,717	338,058	448,604	334,661	331,235
Federal Nonexchange Pass-Through	46,701	793	-	-	-
State Nonexchange Pass-Through	10,485	4,713	31,313	2,991	8,097
Gift Contributions for Operations	325,481	331,826	445,301	414,202	475,876
Net Investment Income	2,246,340	1,948,257	2,128,403	3,159,694	2,808,692
Net Increase (Decrease) in Fair Value of Investments	1,896,945	1,619,143	2,135,065	5,436,272	-4,675,875
Interest Expenses on Capital Asset Financings	-262,698	-267,384	-270,571	-258,318	-249,858
Gain/(Loss) on Sale of Capital Assets	-41,632	-14,735	-21,458	-35,331	-36,455
Other Nonoperating Revenues	15,333	17,851	22,186	16,748	16,652
Other Nonoperating Expenses	-6,561	-52,010	-48,581	-19,027	-10,990
Net Nonoperating Revenues (Expenses)	6,425,413	5,845,501	6,699,654	11,096,891	746,508
Income/(Loss) Before Other Revenues, Expenses, Gains/(Losses) and Transfers	3,563,293	2,876,874	3,350,076	7,796,479	-2,629,989
H.E.A.F. Appropriations	17,369	17,369	17,369	17,369	17,369
Gifts and Sponsored Programs for Capital Acquisitions	250,218	260,928	367,830	530,223	137,656
Additions to Permanent Endowments	102,748	119,071	106,191	183,462	141,855
Extraordinary Items	-	-	-	-	-
Transfers to/from Other State Agencies	-219,726	-334,582	-222,064	-436,861	-447,527
Legislative Appropriations Lapsed	140	-13	-4	-116	-126
Change in Net Position	3,714,042	2,939,647	3,619,398	8,090,556	-2,780,761
Net Position, Beginning of Year (as Restated)	26,707,008	30,421,050	33,360,698	36,980,096	42,461,889
Net Position, End of Year	$30,421,050	33,360,698	36,980,096	45,070,651	39,681,128

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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, 2015 see "APPENDIX D - AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2015." 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, 2016, State appropriations comprise approximately 13.1% of University System revenues. The State Legislature adopted a budget for the State for the 2016-17 biennium beginning September 1, 2015, which appropriated approximately $2.2 billion for the University System from the general revenue for each year of the fiscal 2016-2017 biennium. 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.

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 2015-16 academic year, the Coordinating Board has computed $440 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 is required to 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.

Traditionally, the Board has considered undergraduate and graduate tuition and fee plans for the academic institutions in the University System for two year periods; however, currently tuition and fee plans are only in place for academic institutions for the 2015-2016 academic year. In October 2015, the Board authorized the academic institutions in the University System to present their respective proposals for tuition and fees for academic years 2016-2017 and 2017-2018, which may include an increase of two percent per year to account for escalation of costs on campuses for salaries, technology, infrastructure and other expenses, as well as reasonable additional increases that would address student success and other needs of greatest institutional priority. The Board may consider such proposals for both the 2016 – 2017 academic year and the 2017 – 2018 academic year at its meeting in February 2016. Tuition and fee plans are developed in a collaborative process that includes the appointment of a tuition advisory committee at each institution, open forums, surveys and input from student organizations, individual students, academic deans, and student and faculty governance. Primary issues addressed in proposals include the impact on students, especially on affordability, and issues of greatest institutional funding priority for institutions.

Additionally, as required by Section 54.017 of the Texas Education Code, each academic institution has now established a fixed rate tuition plan, also referred to as a guaranteed tuition plan, for undergraduate students for four year as an option for each academic campus. Participation in such guaranteed tuition plans is optional at all of the University System's academic institutions except for U.T. Dallas and U.T. Rio Grande Valley which have mandatory guaranteed tuition plans.

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, including 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 2015 semester.

Average Total Academic Cost for Resident Undergraduates
Enrolled for 15 Semester Credit Hours[1]
Fall 2015

U.T. Arlington	$4,690
U.T. Austin	4,905
U.T. Dallas	5,903
U.T. El Paso	3,530
U.T. Permian Basin	3,388
U.T. Rio Grande Valley	3,646
U.T. San Antonio	4,681
U.T. Tyler	3,656

[1] Excludes health institutions.

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Clinical Enterprise

The following table presents unaudited clinical enterprise revenue derived from physician practice plans and hospitals owned by the University System during the past five fiscal years:

University System
Clinical Enterprise Revenue
(In Millions)

University System Hospitals[1]	2011	2012	2013	2014	2015
Net patient revenue	$ 3,304.7	$ 3,657.5	$ 3,982.4	$ 4,232.8	$ 4,708.9
Correctional managed care	443.8	375.2	390.2	407.4	448.4
Other	43.0	44.8	51.9	65.0	76.0
Total	$ 3,791.5	$ 4,077.5	$ 4,417.2	$ 4,705.2	$ 5,233.3
University System Physician Practice Plans[2]					
Net patient revenue	$ 1,158.7	$ 1,213.2	$ 1,287.2	$ 1,388.2	$ 1,467.1
Affiliated hospital contracts	438.2	475.9	584.7	697.2	865.4
Other	54.5	51.4	72.6	101.1	120.9
Total	$ 1,651.5	$ 1,740.6	$ 1,944.5	$ 2,186.5	$ 2,453.4

(1) Excludes revenues from hospitals operated but not owned by the University System.
(2) Practice Plan Funds are not included in Pledged Revenues unless and to the extent they are specifically pledged pursuant to an amendment to the Master Resolution. Currently, only $4.5 million of Practice Plan Funds from U.T. Southwestern each fiscal year through 2016 are included in Pledged Revenues as Pledged Practice Plan Funds. Pledged Revenues do not currently include any other Practice Plan Funds.

The following table presents unaudited utilization statistics for hospitals owned by the University System during the past five fiscal years:

University System Hospital Operating Statistics

	2011	2012	2013	2014	2015
Staffed beds	1,651	1,744	1,760	1,835	1,901
Average daily census[1]	1,211	1,216	1,271	1,290	1,382
Admissions	76,651	76,092	77,149	78,140	83,435
Patient days	442,170	443,729	463,878	470,833	504,391
Average length of stay[2]	5.77	5.83	6.01	6.03	6.05
Outpatient visits[3]	2,176,979	2,472,129	2,432,526	2,579,997	2,847,024

(1) Average daily census calculated by dividing Patient days by 365 days per year.
(2) Average length of stay calculated by dividing Patient days by Admissions.
(3) Outpatient services provided by the University System include clinic visits, primary care network, home health and hospice, and emergency visits.

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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 University System received approximately 43% of its total research funding from federal sources in Fiscal Year 2015 as compared to 45% in Fiscal Year 2014. The following table sets forth the amounts of research expenditures sponsored by federal agencies during fiscal year 2015.

Federally-Sponsored Research Expenditures
(In Thousands)

	FY 2015
Federal Sources	
Department of Health and Human Services	$ 491,951
Department of Defense	146,619
National Science Foundation	79,240
Department of Energy	33,705
National Aeronautics and Space Administration	18,479
Department of Education	9,580
Department of Commerce	6,712
Department of Veteran's Affairs	5,773
Other Federal Agencies	441
Total Federal Sources	$ 882,489

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, 2015, the University System received $475.9 million of gift contributions for operations and $279.5 million in gifts and grants 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 - AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2015."

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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)

	Operating Funds				
Fiscal Year Ending August 31	Short Term Fund[1]	Debt Proceeds Fund[2]	Intermediate Term Fund[3]	Endowment Funds[4]	Total Assets Under Management
2011	$1,356.3	$816.2	$4,661.6	$19,865.6	$26,699.7
2012	1,499.4	671.6	4,893.0	20,707.3	27,771.3
2013	1,624.7	308.7	5,519.7	22,549.2	30,002.3
2014	1,808.4	391.0	6,664.9	25,859.5	34,723.8
2015	1,774.2	285.3	7,036.5	26,094.2	35,190.2

(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 currently consists of investments in the Dreyfus Institutional Preferred Money Market Fund.

(2) The Debt Proceeds Fund provides for the pooled investment for debt proceeds with primary objectives to provide for safety of principal and adequate liquidity but with higher expected returns compared to the STF. Prior to fiscal year 2011, debt proceeds were invested in the STF.

(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.

(4) 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.

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 November 30, 2015, the market value of the Board's operating funds was approximately $9.0 billion and the market value of the Board's Endowment Funds was approximately $26.1 billion.

As of November 30, 2015, approximately 58.10% of the Intermediate Term Fund (or, approximately $4.1 billion) and approximately 35.54% of the Endowment Funds (or, approximately $9.1 billion) was invested in "liquid" investments within the meaning of the Board's liquidity policy. To be considered liquid, an investment must be capable of being converted to cash within a period of one day to less than 90 days in an orderly market at a discount of 10% or less. For a discussion of investment results for fiscal year 2015, see "APPENDIX D - AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2015."

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. Operating funds managed by the Board include the Short Term Fund ("STF"), the Intermediate Term Fund ("ITF") and the Debt Proceeds Fund.

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.

Intermediate Term Fund. The ITF employs an asset allocation with an investment horizon significantly longer than that of the STF 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. Approximately 80% of the operating funds and other short and intermediate term funds of the University System, exclusive of bond proceeds, are invested in the ITF with the remainder invested in the STF.

Debt Proceeds Funds. The Board approved amendments to the Separately Invested Funds Investment Policy effective March 1, 2011 to provide for the pooled investment for debt proceeds to provide for safety of principal and adequate liquidity but with higher expected returns compared to the STF. Debt Proceeds Fund investments include money market mutual funds approved by the Board as an investment for University System funds and investments in U.S. government obligations, including obligations of an agency or instrumentality of the United States.

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 the date hereof, the Permanent University Fund contains 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 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.)

Unless otherwise determined by the Board of Regents, current Board rules provide for an annual distribution from the Permanent University Fund of either 4.75% or 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 fourteen 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 95% 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 - AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2015." 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, 4th 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, 2015, the amount of University System funds held by the State Treasury was $722.3 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 November 5, 2015, to apply to fiscal year 2016 through fiscal year 2021 and reflects major construction projects with a total project cost of $6.5 billion. Of this total, $3.07 billion or 47% 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.

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. Proceeds may not be used to finance permanent improvements of auxiliary enterprises.

As of November 30, 2015, the Board's constitutionally authorized Permanent University Fund bond capacity was $2,985 million. As of the date hereof, the aggregate principal amount of Permanent University Fund bonds and notes outstanding totaled $2,450 million.

Insurance

The University System has eight funded self-insurance and/or high retention plans providing coverage in the following areas: employee health and dental; workers' compensation; unemployment compensation; medical professional liability; property protection; directors and officers/employment practices liability; construction contractor insurance, and auto/property & liability. For details on each insurance plan, see "AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2015" on file with EMMA.

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 - AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE YEAR ENDED AUGUST 31, 2015."

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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 U.S. Bank National Association, 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, if any, to any Member from the Higher Education Assistance Fund; (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 Fund (see "APPENDIX A ─ THE UNIVERSITY OF TEXAS—FINANCIAL MANAGEMENT— Clinical Enterprise").

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-Ninth Supplemental Resolution to the Master Resolution adopted by the Board on August 20, 2015, 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-Ninth 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 Associate Vice Chancellor for Finance, the Assistant Vice Chancellor for 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; or

(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; or

(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

AUDITED COMBINED PRIMARY FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM FOR THE FISCAL YEAR ENDED AUGUST 31, 2015

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THE UNIVERSITY OF TEXAS SYSTEM

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014 AND INDEPENDENT AUDITORS' REPORT

The University of Texas at Arlington ◆ The University of Texas at Austin ◆ The University of Texas at Brownsville ◆ The University of Texas at Dallas ◆ The University of Texas at El Paso ◆ The University of Texas – Pan American ◆ The University of Texas of the Permian Basin ◆ The University of Texas at San Antonio ◆ The University of Texas at Tyler ◆ The University of Texas Southwestern Medical Center ◆ The University of Texas Medical Branch at Galveston ◆ The University of Texas Health Science Center at Houston ◆ The University of Texas Health Science Center at San Antonio ◆ The University of Texas M. D. Anderson Cancer Center ◆ The University of Texas Health Science Center at Tyler ◆ The University of Texas System Administration

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THE UNIVERSITY OF TEXAS SYSTEM

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THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2015

Officers

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

Members

*Terms scheduled to expire February 1, 2017**

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

*Terms scheduled to expire February 1, 2019**

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

*Terms scheduled to expire February 1, 2021**

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

*Term scheduled to expire May 31, 2016**

Justin A. Drake (Student Regent)	Galveston

*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.

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THE UNIVERSITY OF TEXAS SYSTEM
SENIOR ADMINISTRATIVE OFFICIALS
As of August 31, 2015

****

William H. McRaven, Chancellor

David E. Daniel, Deputy Chancellor

Raymond S. Greenberg, Executive Vice Chancellor for Health Affairs

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Steven W. Leslie, Executive Vice Chancellor for Academic Affairs

Stephanie A. Bond Huie, Vice Chancellor for Strategic Initiatives

Patricia D. Hurn, Vice Chancellor for Research and Innovation

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

Randa S. Safady, Vice Chancellor for External Relations

Daniel H. Sharphorn, Vice Chancellor and General Counsel

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Texas System (the System), which comprise the consolidated statements of net position as of and for the years ended August 31, 2015 and 2014, and the related consolidated statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System, as of August 31, 2015 and 2014, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the consolidated financial statements, the System restated its beginning net position as of September 1, 2014, to reflect the impact of implementation of Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date –An Amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this change.

Other Matters

As discussed in Note 6, the consolidated financial statements include investments valued at approximately $29 billion and $30 billion as of August 31, 2015 and 2014, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Post-Employment Benefits Schedule of Funding Progress, the Schedule of the System's Proportionate Share of the Net Pension Liability, and the Schedule of the System's Contributions be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 11, 2015

THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2015
(Unaudited)

INTRODUCTION

The University of Texas System (the System) was established by the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston (now a part of The University of Texas Medical Branch at Galveston) established a program for university-trained medical professionals. In addition to the original academic campus located in Austin, the System now includes eight additional academic campuses in Arlington, Brownsville, Dallas, Edinburg, El Paso, Odessa, San Antonio, and Tyler. Health institutions for medical education and research have expanded beyond the original Galveston medical campus to include The University of Texas M. D. Anderson Cancer Center, The University of Texas Southwestern Medical Center, and The University of Texas Health Science Centers at Houston, San Antonio and Tyler.

The System's fifteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to over 217,000 undergraduate, graduate and professional school students from a wide range of social, ethnic, cultural and economic backgrounds. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a non-voting student Regent for a one-year term.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended August 31, 2015, with selected comparative information for the years ended August 31, 2014 and 2013. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on the current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended August 31. The System's consolidated financial report includes three primary financial statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. The financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

FINANCIAL HIGHLIGHTS

- The System implemented two new GASB statements in 2015. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, established new accounting and financial reporting requirements for institutions that provide their employees with pensions. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, amended GASB Statement 68 to require that, at transition, a beginning deferred outflow of resources be recognized for pension contributions made subsequent to the measurement date of the beginning net pension liability. The cumulative effect of implementing GASB Statements 68 and 71 was a $2.6 billion reduction of the unrestricted beginning net position for 2015.

- As a result of less favorable market conditions in 2015, net investment income, excluding the change in fair value of investments, decreased $351.0 million, from $3.2 billion in 2014 to $2.8 billion in 2015 (Table 3). The net decrease in fair value of investments was $4.7 billion in 2015, as compared to an increase of $5.4 billion in 2014, a year-over-year decrease of $10.1 billion. These decreases in fair value were the largest contributor to the decrease in net position of $2.8 billion during 2015, which excludes the $2.6 billion restatement mentioned above.

- Other Postemployment Benefits (OPEB) liability increased $625.6 million to $4.0 billion for 2015 related to retiree medical and dental costs. The System's total unfunded actuarial accrued liability was $8.3 billion as of August 31, 2015. 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.

- Net patient care revenues, which consists of net sales and services of hospitals and net professional fees, increased $591.4 million in 2015, or 9.6%, as a result of increases in patient volumes and rates.

- Investments in capital asset additions were $2.0 billion in 2015, of which $1.4 billion consisted of new projects under construction. Major capital projects completed in 2015 include:

    - The Clements University Hospital at U. T. Southwestern Medical Center at Dallas, $602.9 million;
    - the Zayed Research Building at U. T. M. D. Anderson Cancer Center, $227.4 million;
    - the Clinical Services Wing at U. T. Medical Branch at Galveston, $114.3 million;
    - the Center for Oral Health and Research at U. T. Health Science Center at San Antonio, $90.8 million;
    - the North Paseo Building at U. T. San Antonio, $44.9 million;
    - the Pharmacy School at U. T. Tyler, $23.2 million; and
    - the Darrell K. Royal Texas Memorial Stadium renovation project at U. T. Austin, $16.9 million.

- Bonds payable represent the largest portion of the System's liabilities. The par value of bonds payable decreased $76.5 million to $6.7 billion at August 31, 2015. All bonds, which relate to financing of current and prior years' construction needs, continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies.

The Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2015, with comparative information for the previous years. The statement of net position presents information in current and noncurrent format for both assets and liabilities. The net position section presents assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Over time, increases or decreases in net position are one indicator of the improvement or decline of the System's financial health when considered with nonfinancial factors such as enrollment, patient levels, and the condition of facilities. A summarized comparison of the System's statement of net position at August 31, 2015, 2014 and 2013 follows:

Table 1

		2015	2014	2013
Assets			($ in millions)	
Current assets	$	7,280.1	7,367.6	6,585.8
Noncurrent investments		39,881.3	42,240.8	34,003.1
Capital/intangible assets, net		14,827.0	14,057.5	13,144.6
Other noncurrent assets		414.0	335.4	379.2
Total assets		62,402.4	64,001.3	54,112.7
Total deferred outflows		740.0	249.2	184.1
Total assets and deferred outflows	$	63,142.4	64,250.5	54,296.8
Liabilities				
Current liabilities	$	8,493.5	8,121.6	7,203.9
Noncurrent liabilities		14,257.8	11,051.1	10,104.6
Total liabilities		22,751.3	19,172.7	17,308.5
Total deferred inflows		710.0	7.1	8.2
Total liabilities and deferred inflows	$	23,461.3	19,179.8	17,316.7
Net Position:				
Net investment in capital assets	$	6,441.7	6,109.2	5,552.4
Restricted		32,227.2	35,119.7	27,841.2
Unrestricted		1,012.2	3,841.8	3,586.5
Net position	$	39,681.1	45,070.7	36,980.1

Assets and Deferred Outflows (Table 1)
The System's assets and deferred outflows primarily consist of current assets, noncurrent investments, capital assets, other noncurrent assets, pension related deferred outflows, and deferred outflows related to the fair market value of derivatives and unamortized losses on refunding of debt. Assets and deferred outflows decreased $1.1 billion, or 1.7%, in 2015 primarily due to a significant decrease in the fair value of investments, discussed below.

Current Assets
Current assets consist primarily of cash and cash equivalents; securities lending collateral; various student, patient, gift and investment trades receivables; and student notes receivable. The System's current assets decreased $87.5 million in 2015 primarily as a result of a decrease in securities lending collateral due to less securities being out on loan.

Noncurrent Investments
Noncurrent investments include permanent endowments, funds functioning as endowments, annuity and life income funds and other investments including investment derivative instruments. These assets decreased $2.4 billion in 2015 primarily due to decreases in the fair value of investments. Included in permanent endowments is the fair value of Permanent University Fund (PUF) investments including the PUF lands. The fair value of the PUF lands at August 31, 2015 was $5.2 billion, a $2.8 billion decrease from the prior year due to a decrease in the value of proved and possible oil and gas reserves as a result of lower oil and gas prices. Partially offsetting this decrease was $739.2 million of PUF lands mineral income earned in 2015 that is required to be added to the endowment in accordance with the Texas Constitution.

Capital and Intangible Assets
The development and renewal of its capital assets is one of the critical factors in continuing the System's quality academic, health and research programs. The System continues to implement its $6.5 billion capital improvement program to upgrade its facilities and address planned growth in patient care and student enrollment. Capital additions totaled $2.0 billion in 2015, of which $1.4 billion consisted of new projects under construction. These capital additions were comprised of replacement, renovation, and new construction of academic, research and health care facilities, as well as significant investments in equipment and software.

Computer software is the biggest component of the System's intangible assets. During 2015 and 2014, the System placed $127.8 million and $111.0 million, respectively, of computer software into service.

Other Noncurrent Assets
Other noncurrent assets consist primarily of deposit with brokers for derivative contracts, loans and contracts, contributions receivable, and noncurrent cash and cash equivalents. Other noncurrent assets increased $78.6 million to $414.0 million in 2015 primarily due to a $28.8 million increase in noncurrent contributions receivable and an increase in deposits with brokers for derivative contracts of $18.2 million.

Deferred Outflows
Deferred outflows consist of pension related outflows, the fair market value of derivatives, and unamortized losses on refunding of debt. The pension related deferred outflows are new in 2015 as a result of implementing the two new GASB statements. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions subsequent to the measurement date of the net pension liability are also required to be reported as pension related deferred outflows of resources. As a result, pension related deferred outflows of resources of $430.0 million were recognized in 2015. Additionally, changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows and deferred outflows in the statement of net position. Deferred outflows related to hedging derivatives increased $53.7 million to $261.6 million in 2015 with an offsetting hedging derivative liability.

Liabilities and Deferred Inflows (Table 1)
The System's liabilities and deferred inflows primarily consist of current liabilities, bonds payable, other postemployment benefits, the new pension liability, assets held for others, amounts due to the Texas A&M University System (TAMUS), hedging derivative liabilities, investment derivatives – liability positions, other liabilities, and deferred inflows. Liabilities and deferred inflows increased $4.3 billion or 22.3%, primarily due to the new pension liability and the new pension related deferred inflows. Also contributing to the increase was an increase in the other postemployment benefit liability and new short-term debt issued to fund construction projects.

Current Liabilities

Current liabilities consist primarily of accounts payable and accrued liabilities, salaries payable, investment trades payable, securities lending obligations, unearned revenues, current portion of employee compensable leave, commercial paper notes, the current portion of bonds payable and the current portion of amounts due to TAMUS. The System's current liabilities increased $371.9 million, or 4.6%, in 2015 primarily due to increases in commercial paper notes. Commercial paper notes increased $384.5 million in 2015. 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.

Bonds Payable

Bonds payable relating to financing of current and prior years' construction needs were the largest portion of the System's liabilities and the par value of bonds payable totaled $6.7 billion and $6.8 billion at August 31, 2015 and 2014, respectively. All bonds continue to reflect the highest uninsured "Aaa" and "AAA" credit ratings from the three major bond-rating agencies. During 2015, the System issued new bonds of $669.2 million and $745.8 million of bonds were retired.

For additional information concerning capital assets and related debt activities, see Notes 9, 10, 11, 12 and 13 to the consolidated financial statements.

Other Postemployment Benefits Liability

The System reported an OPEB liability of $4.0 billion for 2015 and $3.4 billion for 2014 related to retiree medical and dental costs. The System is not required to fund the OPEB liability; instead, the difference between the OPEB cost and the System's contributions to the plan will increase the unfunded actuarial accrued liability. For the year ended August 31, 2015, the System's annual OPEB cost was $811.0 million. Employer contributions for 2015 were $185.3 million, resulting in an increase in net OPEB obligation of $625.6 million in 2015. The System's total unfunded actuarial accrued liability was $8.3 billion as of August 31, 2015. For additional information concerning the OPEB liability, see Note 16 to the consolidated financial statements.

Pension Liability

The System participates in a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Teacher Retirement System of Texas (TRS). TRS is primarily funded through State and employee contributions. The System receives a proportional share of the net pension liability, pension related deferred outflows and pension related deferred inflows from the Texas Comptroller of Public Accounts. Due to the implementation of GASB Statement No. 68 in 2015 the System recorded a pension liability of $2.3 billion for 2015.

Liability to the Texas A&M University System

The System recorded a liability to TAMUS of $1.0 billion and $850.4 million at August 31, 2015 and 2014, respectively, for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. This liability is reported as current and noncurrent statewide interfund payable on the statement of net position.

Hedging Derivative Liability and Investment Derivatives – Liability Positions

The System recorded a hedging derivative liability with an offsetting deferred outflow of $261.6 million and $207.9 million for 2015 and 2014, respectively. The System also recorded investment derivatives – liability positions of $158.3 million and $61.5 million for 2015 and 2014, respectively.

Other Liabilities

Other significant liabilities for the System include assets held for others of $752.5 million and $790.1 million for 2015 and 2014, respectively; and employees' compensable leave of $556.8 million and $527.3 million for 2015 and 2014, respectively.

Deferred Inflows

Deferred inflows consist of certain changes in the net pension liability and unamortized gains on refunding of debt. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Due to the implementation of GASB Statement No. 71 the System recorded pension related deferred inflows of $703.9 million for 2015.

Net Position (Table 2)

Net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows are deducted. As stated previously under Financial Highlights, net position decreased by $2.8 billion in 2015 due to current year activity. Additionally, unrestricted beginning net position was reduced by $2.6 billion due to the restatements related to pension benefits discussed earlier. The following table summarizes the composition of net position at August 31, 2015, 2014 and 2013:

Table 2

		2015	2014	2013
Net position:			($ in millions)	
Net investment in capital assets	$	6,441.7	6,109.2	5,552.4
Restricted:				
Nonexpendable		20,681.7	22,555.2	17,340.7
Expendable		11,545.5	12,564.5	10,500.5
Total restricted		32,227.2	35,119.7	27,841.2
Unrestricted		1,012.2	3,841.8	3,586.5
Total net position	$	39,681.1	45,070.7	36,980.1

Net Investment in Capital Assets

Net investment in capital assets represents the System's capital and intangible assets, net of accumulated depreciation and amortization and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The $332.5 million increase in net investment in capital assets in 2015 resulted primarily from a net increase in gross capital and intangible assets of $1.6 billion offset by a net increase in related debt of capital assets placed in service of $445.2 million and an increase in accumulated depreciation of $821.3 million.

Restricted Net Position

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

Restricted Nonexpendable Net Position

As of August 31, 2015 and 2014, restricted nonexpendable net position includes $15.5 billion and $17.6 billion, respectively, of the PUF corpus, $820 million for both years of the PHF corpus, and $4.3 billion and $4.2 billion, respectively, of other endowments' corpus. Restricted nonexpendable net position decreased by $1.9 billion to $20.7 billion in 2015, resulting primarily from the decrease in the value of the PUF lands due to the decrease in the value of proved and possible oil and gas reserves as a result of lower oil and gas prices discussed earlier.

Restricted Expendable Net Position

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

As of August 31, 2015, restricted expendable net position includes $6.3 billion of the PUF investment appreciation, $255.7 million of PHF appreciation, $2.3 billion of other endowments' appreciation, $445.0 million of restricted funds functioning as endowments, restricted contract and grant and loan funds of $2.0 billion, funds restricted to support programs that benefit public health and cancer treatment of $112.8 million, and bond proceeds for capital projects of $161.0 million.

Unrestricted Net Position

Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the System's unrestricted net position has been committed for various future operating budgets related to academic, patient, and research programs and initiatives, as well as capital projects. Unrestricted net position of $1.0 billion also includes funds functioning as endowments of $304.6 million. The $2.6 billion restatement related to pension benefits discussed earlier occurred in unrestricted net position.

2014 Highlights - Statement of Net Position

Due to an improvement in financial market conditions in 2014, net investment income, excluding the change in fair value of investments, increased $1.1 billion to $3.2 billion. In addition, the net increase in fair value of investments increased $3.3 billion to $5.4 billion in 2014 primarily due to a $3.3 billion increase in the value of the PUF lands. These realized and unrealized gains were the biggest contributor to the total increase in net position of $8.1 billion during 2014. In addition, the System reported an OPEB liability of $3.4 billion for 2014, an increase of $559.9 million as compared to 2013.

The Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position details the changes in total net position as presented on the statement of net position. The statement presents both operating and nonoperating revenues and expenses for the System. The following table summarizes the System's revenues, expenses and changes in net position for the years ended August 31, 2015, 2014 and 2013:

Table 3

		2015	2014	2013
Operating revenues:			($ in millions)	
Net student tuition and fees	$	1,565.2	1,504.5	1,401.8
Sponsored programs		2,892.6	2,727.7	2,762.2
Net sales and services of hospitals		5,260.4	4,749.0	4,472.3
Net professional fees		1,489.0	1,409.0	1,306.1
Net auxiliary enterprises		539.6	485.1	471.9
Other		888.7	767.8	627.4
Total operating revenues		12,635.5	11,643.1	11,041.7
Total operating expenses		(16,012.0)	(14,943.5)	(14,391.3)
Operating loss		(3,376.5)	(3,300.4)	(3,349.6)
Nonoperating revenues (expenses):				
State appropriations		2,079.1	2,045.0	1,829.4
Nonexchange Sponsored Programs		339.3	337.7	479.9
Gift contributions for operations		475.9	414.2	445.3
Net investment income excluding the change in fair value of investments		2,808.7	3,159.7	2,128.4
Net increase (decrease) in fair value of investments		(4,675.9)	5,436.3	2,135.1
Interest expense on capital asset financings		(249.9)	(258.3)	(270.6)
Net other nonoperating revenues (expenses)		(30.7)	(37.7)	(47.8)
Income (loss) before other revenues, expenses, gains or losses and transfers		(2,630.0)	7,796.5	3,350.1
Capital appropriations – Higher Education Assistance Fund (HEAF)		17.4	17.4	17.4
Capital gifts and grants and additions to permanent endowments		279.5	713.7	474.0
Net Transfers to other State entities		(447.7)	(437.0)	(222.1)
Change in net position		(2,780.8)	8,090.6	3,619.4
Net position, beginning of the year		45,070.7	36,980.1	33,360.7
Restatement – Pensions		(2,608.8)	-	-
Net position, beginning of the year (as restated)		42,461.9	36,980.1	33,360.7
Net position, end of the year	$	39,681.1	45,070.7	36,980.1

Operating Revenues (Table 3)

Operating revenues totaled $12.6 billion for the fiscal year ended August 31, 2015, an increase of $992.4 million over 2014. The System's primary sources of operating revenues come from net student tuition and fees, sponsored programs, net sales and services of hospitals, net professional fees, and net auxiliary enterprises.

Net Student Tuition and Fees

Student tuition and fees, a primary source of funding for the System's academic programs, representing 12.4% of operating revenues, are reflected net of associated discounts and allowances. Net student tuition and fees increased $60.7 million, or 4.0%, in 2015, primarily as a result enrollment increases of 9.0% at U. T. Dallas. Additionally, U. T. Permian Basin and U. T. Tyler had enrollment increases of 8.4% and 7.5% respectively. Overall, the combined enrollment for both academic and health institutions increased 2.0% in 2015. The System's academic institutions enroll 33.7% of the State's public college students, and the System's health-related institutions enroll 58.8% of the students attending the State's public health institutions.

Sponsored Programs
Sponsored program revenues, representing 22.9% of operating revenues, are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Governmental sponsored programs include grants from the federal government such as the U.S. Department of Health and Human Services. Sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. These revenues increased $164.9 million, or 6.0%, in 2015.

Net Patient Care Revenues
Net patient care revenues, which consist of net sales and services of hospitals and net professional fees, are principally generated within the System's hospitals and physicians' practice plans under contractual arrangements with governmental payors and private insurers. These revenues, which represent 53.4% of operating revenues, are reported net of contractual allowances, bad debt expense, and unreimbursed charges for financially or medically indigent patients. Net patient care revenues increased $591.4 million, or 9.6%, in 2015, as a result of increases in patient volumes and rates. The System's health-related institutions provide uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured as well as the unreimbursed costs from government-sponsored health programs. To calculate uncompensated care, charges are converted to costs and providers recognize appropriate patient specific funding and lump sum funding available to offset costs. Uncompensated care costs amounted to $592.6 million and $599.8 million for 2015 and 2014, respectively.

Net Auxiliary Enterprises
Net auxiliary enterprise revenues, representing 4.3% of operating revenues, were earned from a host of activities such as athletics, housing and food service, bookstores, parking, student health and other activities. These revenues increased $54.5 million, or 11.2%, in 2015 due to increased athletic, housing and food service revenues.

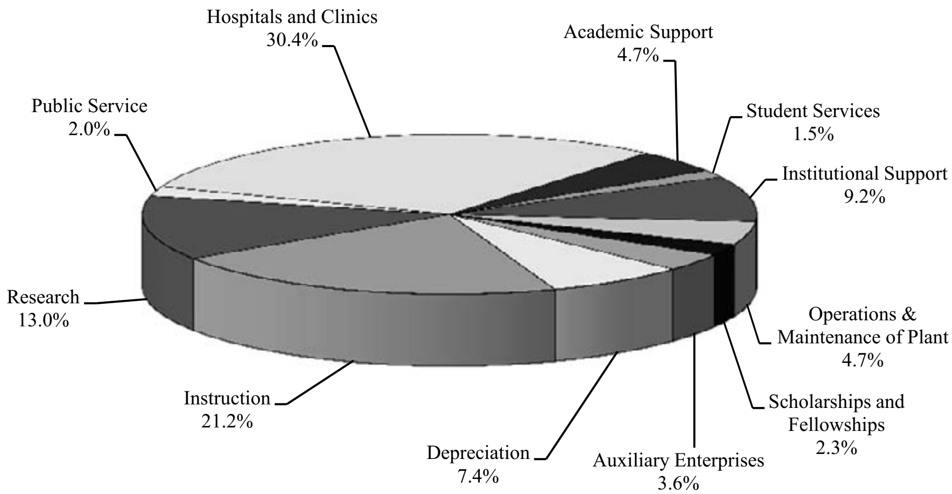
Operating Expenses (Table 4)
Operating expenses totaled $16.0 billion for the fiscal year ended August 31, 2015, an increase of $1.1 billion over 2014. The following data summarizes the composition of operating expenses by programmatic function for the years ended August 31, 2015, 2014 and 2013:

Table 4	2015	2014	2013
Functional classification of operating expenses:		($ in millions)	
Instruction	$ 3,393.8	3,157.7	2,977.9
Research	2,086.7	2,029.6	2,027.0
Public service	313.1	286.5	286.1
Hospitals and clinics	4,874.7	4,261.0	4,004.0
Academic support	747.1	665.3	644.0
Student services	245.7	233.5	222.8
Institutional support	1,472.1	1,532.5	1,428.0
Operations and maintenance of plant	759.9	765.2	753.2
Scholarships and fellowships	367.8	364.8	432.5
Auxiliary enterprises	572.2	530.1	510.8
Depreciation and amortization	1,178.9	1,117.3	1,105.0
Total operating expenses	$ 16,012.0	14,943.5	14,391.3

The operating expenses reflect the System's commitment to promoting instruction, research, patient care, public service and student support. Total operating expenses increased $1.1 billion, or 7.2%, in 2015 in response to the growing cost of providing support for the institution's primary missions of instruction, research, public service and patient care activities. Additionally, operating expenses includes $625.6 million related to the increase in the net OPEB obligation and $212.9 million due to the implementation of GASB Statement No. 68. The System's full-time equivalent employees increased 4.1% from 88,057 in 2014 to 91,633 in 2015.

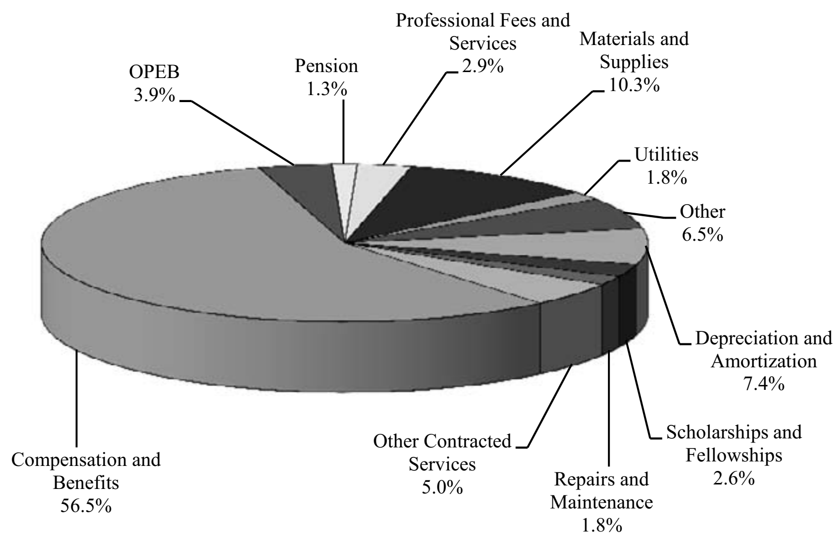
The following is a graphic illustration of operating expenses by their functional classification for the year ended August 31, 2015.

Functional Classification of Operating Expenses ($16.0 billion)



In addition to programmatic (functional) classification of operating expenses, the following graph also illustrates the System's operating expenses by natural classification for the year ended August 31, 2015.

Natural Classification of Operating Expenses ($16.0 billion)



Nonoperating Revenues and Expenses (Table 3)
Certain significant recurring revenues are considered nonoperating. The System's primary sources of nonoperating revenues and expenses come from State appropriations, nonexchange sponsored programs, gift contributions for operations, net investment income (loss) excluding the change in fair value of investments, net increase (decrease) in fair value of investments, and interest expense.

State Appropriations
State appropriations increased $34.1 million, or 1.7% between 2014 and 2015. The System's appropriations for the 2014-15 biennium offset some of the reductions made in the previous biennium.

Nonexchange Sponsored Programs
Federal nonexchange sponsored programs includes primarily Pell revenues and Build America Bond subsidy revenues. Pell grants of $298.9 million reflect a decrease of 2.4% from 2014 to 2015.

The System previously issued $1.7 billion of Build America Bonds. The subsidy from the federal government of 35% of the interest payments on Build America Bonds is reported as federal nonexchange sponsored programs and not as a credit to interest expense. During 2015, the System received $27.4 million of Build America Bond subsidy revenues compared to $27.5 million in 2014.

State nonexchange pass-throughs consist of the Higher Education Coordinating Board's *Texas Research Incentive Program* which awards matching funds based on how much an institution raises in private gifts and endowments to enhance research activities. Awards totaled $8.1 million in 2015, an increase of 170.7% over 2014 due to increases in fund raising efforts for research, which were matched.

Gift Contributions for Operations
Gift contributions for operations of $475.9 million increased $61.7 million from 2014 due to increased donations to support various programs and gifts to support the new U. T. Rio Grande Valley institution that will become operational in 2016.

Net Investment Income (Loss) Excluding the Change in Fair Value of Investments
Due to declining market conditions, net investment income, excluding the change in the fair value of investments, decreased $351.0 million from $3.2 billion in 2014 to $2.8 billion in 2015. Net investment income includes realized gains of $1.5 billion in 2015 and 2014.

Net Increase (Decrease) in Fair Value of Investments
The change in the fair value of the System's investments in 2015 was a decrease of $4.7 billion as compared to an increase of $5.4 billion in 2014 primarily due to a $2.8 billion decrease in the value of the PUF lands and as a result of declining market conditions. The fair value of the PUF land's interest in oil and gas is based on a third party reserve study of proved reserves and a percentage of probable and possible reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2015. The fair value of the PUF lands at August 31, 2015 was $5.2 billion.

Interest Expense
Finally, interest expense on capital asset financings decreased by $8.4 million from $258.3 million in 2014 to $249.9 million in 2015 as a result of principal amortization associated with outstanding debt.

Income (Loss) Before Other Revenue, Expenses, Gains or Losses and Transfers (Table 3)
Income before other revenue, expenses, gains or losses and transfers, is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions and transfers. The loss before other revenues, expenses, gains or losses totaled $2.6 billion in 2015, a decrease of $10.4 billion over 2014. This decrease was largely a result of the decrease in change in the fair value of investments. The System measures its operating results by considering operating activities, including certain significant recurring nonoperating revenues and expenses. The following table summarizes the System's view of its operating results for 2015, 2014 and 2013:

Table 5		2015	2014	2013
Operating results:			($ in millions)	
Income (loss) before other revenue, expenses, gains/(losses) & transfers	$	(2,630.0)	7,796.5	3,350.1
Remove nonoperating items:				
Net (increase)/decrease in fair value of investments		4,675.9	(5,436.3)	(2,135.1)
Loss on sale of capital assets		36.5	35.3	21.5
Other nonoperating (income)/expense		(5.7)	2.3	26.4
Realized gains on investments		(1,459.9)	(1,497.5)	(864.6)
Net operating results	$	616.8	900.3	398.3

Capital Appropriations, Capital Gifts and Grants, and Additions to Permanent Endowments (Table 3)
Capital appropriations, capital gifts and grants and additions to permanent endowments totaled $296.9 million for the year ended August 31, 2015, a decrease of $434.2 million over 2014. Capital appropriations, capital gifts and grants decreased primarily due to a large gift received in 2014 for the Harry Ransom Center with no comparable gift in 2015. Additions to permanent endowments fluctuate from year to year depending on the generosity of donors. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

Net Transfers to Other State Entities (Table 3)
Net transfers to and from other State agencies totaled $447.7 million for the year ended August 31, 2015, an increase of $10.7 million over 2014. These transfers include $271.1 million and $302.4 million for 2015 and 2014, respectively, for the AUF distribution to TAMUS for its annual one-third participation in distributions from the PUF endowment and PUF land surface income. In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the distributions from the total return of PUF investments and net income from the surface lands to TAMUS. In addition to the transfer of the current year earnings, the System recorded a liability of $1.0 billion and $850.4 million at August 31, 2015 and 2014, respectively, for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. The $162.0 million increase in PUF debt issued by TAMUS in 2015 is reflected as a transfer to other State agencies.

Change in Net Position (Table 3)
The change in net position results from all revenues, expenses, gains, losses, gifts and transfers that occurred during the accounting period. It is an overall indication of the improvement or decline between the prior and current year's statement of net position. Net position decreased in 2015 by $2.8 billion due to current year activity as compared to an increase of $8.1 billion in 2014, primarily due to less favorable market conditions in 2015 and the significant decrease in the value of the PUF lands discussed above. Net investment income, excluding the change in fair value of investments, decreased $351.0 million, from $3.2 billion in 2014 to $2.8 billion in 2015. The net decrease in fair value of investments was $4.7 billion in 2015, as compared to a net increase of $5.4 billion in 2014, a decrease of $10.1 billion. These unrealized net losses were the largest contributor to the decrease in net position of $2.8 billion from 2015 activity. Additionally, the beginning net position was restated due to the implementation of the new GASB pension statements discussed above. Restatement of all prior periods presented was not practical, and the cumulative effect of applying GASB Statements 68 and 71 was reported as a restatement of unrestricted beginning net position for 2015, causing a decrease of $2.6 billion.

2014 Highlights - Statement of Revenues, Expenses and Changes in Net Position
In 2014, net investment income, excluding the change in fair value of investments, increased $1.1 billion to $3.2 billion. In addition, the net increase in fair value of investments increased $3.3 billion to $5.4 billion in 2014. These realized and unrealized gains were the biggest contributor to the total increase in net position of $8.1 billion during 2014. Net patient care revenues grew by $379.6 million as a result of increased patient volumes and higher rates. Total operating expenses increased $552.2 million due to the growth in student enrollment, research, and patient care activities. Additionally, the System recorded a net OPEB obligation expense of $559.9 million in 2014.

Economic Outlook

The mission of the System is to improve the human condition in Texas, our nation and our world. The System will use its size, diversity, and quality to advance education, push the bounds of discovery, enhance population health, build stronger communities, and shape public policy for the common good. Producing high quality human capital with a sense of service and the ability to lead, we will pursue solutions to the problems of our state, our nation and our world. We are a state university system with global impact.

On November 5, 2015, Chancellor McRaven laid out a bold and sweeping path forward for the System. One theme that ran through every aspect of his presentation was the need to use the System's size, talent and diversity to collaborate in ways never done before. To provide the citizens of Texas the very best in higher education, research and health care, the Chancellor has outlined several initiatives:

- Texas Prospect Initiative - the System will work aggressively to ensure that its college preparatory programs – dual-credits, early college high schools, math and science academies – meet the standards necessary to ensure that their students can successfully enter higher education.
- The American Leadership Program - the System will look to build a leadership institute that can provide executive level leadership training to all those who desire to improve the skills necessary to run today's complex organizations.
- The U. T. Health Care Enterprise – the system will develop a collaborative Health Care Enterprise that will leverage its size and expertise and connects its regional capabilities to ensure it provides Texas, the nation and the world with the finest health care possible.

In addition, the System plans to: launch an effort to understand, prevent, treat and cure the diseases of the brain; invest in the pursuit of the next generation of outstanding faculty; ramp up efforts in driving equal opportunity and fairness in hiring and promotion processes; establish a network for national security; and expand its footprint in Houston, Texas, to provide a venue for all U. T. institutions to have a presence in Houston.

On October 2, 2015, the U. T. System Board of Regents approved the creation of an integrated regional health network (Integrated Network) including the U. T. Southwestern Medical Center and Texas Health Resources (Texas Health) systems. The new Integrated Network, to be named Southwestern Health Resources, leverages the strengths of two local health care systems to provide increased access to primary care and specialized care for the people of North Texas. Plans call for the Integrated Network to include twenty seven hospitals throughout North Texas, as well as an expansive network of physicians from both organizations and will be operational in the first quarter of 2016.

In 2013, Governor Rick Perry signed a bill to create a new university and medical school in the lower Rio Grande Valley that subsequently was named University of Texas Rio Grande Valley. U. T. Rio Grande Valley was operational September 1, 2015. U. T. Rio Grande Valley is an accounting merger that will occur in fiscal year 2016 combining student enrollment from U. T. Brownsville and U. T. Pan American as well as new medical school students. U. T. Rio Grande Valley enrolled its first academic class in the fall of 2015 and is expected to enroll its first medical student class in the fall 2016. In accordance with the statute creating U. T. Rio Grande Valley, U. T. Pan American was abolished by the U. T. System Board of Regents effective September 1, 2015. U. T. Brownsville remains operational as an institution with minimal administrative staff for the purpose of maintaining the accreditation of Texas Southmost College, a community college with which it had a contractual partnership. U. T. Brownsville will be abolished by the U. T. System Board of Regents on a future date when Texas Southmost College achieves independent accreditation, which is expected in 2016.

In 2012, Travis County, Texas voters elected to pass a five cent property tax rate increase to support a new teaching hospital and medical school at U. T. Austin. The Dell Medical School at U. T. Austin is currently admitting students that will matriculate in the fall of 2016. The medical school received preliminary accreditation during 2015. The new medical school will improve health in Travis County and throughout the country by training new physicians, providing treatment in a new teaching hospital and conducting research to expand knowledge of medicine and medical technology.

State appropriations will assist in funding the System's mission, and in operating the new Rio Grande Valley institution and the Dell Medical School. The 84th Legislature met and the System's appropriations for the 2016-17 biennium were increased \$262.2 million or 7.8% compared to the 2014-15 biennium. An additional \$459.5 million was appropriated for the cost of employee group health insurance for the System.

The cost of the System's health and retirement benefits for its employees and retirees has increased significantly over the last several years. In 2015, the System continued to recognize the annual accounting expense attributable to projected future healthcare benefits for current and prospective retirees, and for the first time, recognized the annual accounting expense for projected future pension benefits. It continued to address the rising costs of healthcare related to the *Patient Protection and Affordable Care Act* which became law in 2010. Long-term policy issues, such as plan changes, are continuously evaluated and adjusted annually if necessary, to address these rising costs. The System's ability to continue providing healthcare and retirement benefits is dependent upon continued support from the State at its current level.

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION
AUGUST 31, 2015 AND 2014

ASSETS AND DEFERRED OUTFLOWS		2015	2014
CURRENT ASSETS			
Cash and cash equivalents	$	2,633,531,290	2,647,462,619
Restricted cash and cash equivalents		279,549,764	245,413,608
Balance in State appropriations		108,384,121	101,987,448
Accounts receivable, net:			
Federal (net of allowances of $1,126,492 and $451,699, respectively)		485,516,635	558,343,143
Other intergovernmental (net of allowances of $445,753 and $512,483, respectively)		100,662,076	97,899,533
Student (net of allowances of $14,833,133 and $12,233,504, respectively)		300,164,248	284,979,774
Patient and healthcare (net of allowances of $230,484,415 and $223,714,790, respectively)		954,695,568	899,826,090
Interest and dividends		56,478,209	62,113,092
Contributions – current portion (net of allowances of $8,767,849 and $7,057,910, respectively)		138,347,645	145,416,362
Investment trades		171,875,846	64,710,495
Other (net of allowances of $5,227,349 and $5,875,122, respectively)		363,856,209	411,588,495
Due from other agencies		57,629,990	44,979,425
Inventories		108,300,779	98,078,746
Restricted loans and contracts - current portion (net of allowances of $10,782,685 and $9,012,903, respectively)		60,115,959	52,781,801
Securities lending collateral		687,047,330	997,969,911
Other current assets		773,991,371	654,049,139
Total current assets		7,280,147,040	7,367,599,681
NONCURRENT ASSETS			
Cash and cash equivalents – noncurrent restricted		7,480,545	(11,514,803)
Restricted investments		33,815,120,050	36,678,341,697
Deposit with brokers for derivative contracts		34,801,816	16,648,305
Loans and contracts (net of allowances of $20,799,109 and $21,687,765, respectively)		77,119,112	74,972,116
Contributions receivable (net of allowances of $2,423,190 and $4,080,632, respectively)		265,807,567	236,976,693
Unrestricted Investments		6,066,215,879	5,562,435,869
Other noncurrent assets		28,753,341	18,412,255
Gross capital/intangible assets		26,190,655,745	24,599,831,665
Less accumulated depreciation		(11,363,628,834)	(10,542,370,201)
Net capital assets		14,827,026,911	14,057,461,464
Total noncurrent assets		55,122,325,221	56,633,733,596
TOTAL ASSETS		62,402,472,261	64,001,333,277
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - fair market value of derivatives		261,612,901	207,898,478
Deferred outflows - unamortized loss refunding debt		48,366,830	41,314,652
Deferred outflows – pension related		429,998,697	-
TOTAL DEFERRED OUTFLOWS		739,978,428	249,213,130
TOTAL ASSETS AND DEFERRED OUTFLOWS	$	63,142,450,689	64,250,546,407

See accompanying notes to consolidated financial statements (Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION (Continued)
AUGUST 31, 2015 AND 2014

LIABILITIES AND DEFERRED INFLOWS		2015	2014
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$	1,086,908,427	1,087,123,094
Salaries payable		503,460,137	462,098,284
Investment trades payable		223,527,264	328,991,842
Incurred but not reported self-insurance claims – current portion		100,133,339	86,468,574
Securities lending obligations		687,047,330	997,969,911
Due to other State agencies		18,925,770	16,026,002
Statewide interfund payable– current portion		38,994,454	30,231,049
Unearned revenue		1,467,400,379	1,380,186,060
Employees' compensable leave – current portion		370,764,913	346,600,637
Short-term debt – commercial paper notes		1,505,717,000	1,121,230,000
Notes, loans and leases payable – current portion		4,568,395	23,555,035
Payable from restricted assets		194,077,252	169,519,678
Bonds payable – current portion		1,544,551,736	1,549,169,615
Assets held for others– current portion		12,803,646	20,176,335
Other current liabilities		734,622,372	502,278,733
Total current liabilities		8,493,502,414	8,121,624,849
NONCURRENT LIABILITIES			
Incurred but not reported self-insurance claims		19,657,985	19,503,044
Employees' compensable leave		186,058,207	180,689,105
Assets held for others		739,735,258	769,898,407
Liability to beneficiaries		13,770,993	13,171,975
Net other postemployment benefits obligation		3,984,975,778	3,359,347,883
Net pension liability		2,302,987,541	-
Notes, loans and leases payable		40,207,199	21,720,373
Bonds payable		5,519,804,382	5,558,189,139
Statewide interfund payable		980,450,920	828,553,462
Hedging derivative liability		261,612,901	207,898,478
Payable to brokers for collateral held		35,330,000	22,455,000
Investment derivatives - liability positions		158,316,331	61,506,189
Other noncurrent liabilities		14,922,893	8,197,603
Total noncurrent liabilities		14,257,830,388	11,051,130,658
TOTAL LIABILITIES		22,751,332,802	19,172,755,507
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - unamortized gain refunding debt		6,045,238	7,139,418
Deferred inflows - pension related		703,944,906	-
TOTAL DEFERRED INFLOWS		709,990,144	7,139,418
TOTAL LIABILITIES AND DEFERRED INFLOWS	$	23,461,322,946	19,179,894,925
NET POSITION			
Net investment in capital assets	$	6,441,684,724	6,109,145,658
Restricted:			
Nonexpendable		20,681,735,999	22,555,208,627
Expendable		11,545,483,514	12,564,507,110
Total Restricted		32,227,219,513	35,119,715,737
Unrestricted		1,012,223,506	3,841,790,087
TOTAL NET POSITION	$	39,681,127,743	45,070,651,482

See accompanying notes to consolidated financial statements (Concluded)

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THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2015 AND 2014

		2015	2014
OPERATING REVENUES			
Net student tuition and fees (net of discounts and allowances of $558,477,036 and $526,190,346, respectively)	$	1,565,243,052	1,504,515,308
Sponsored programs		2,892,633,706	2,727,670,178
Net sales and services of educational activities (net of discounts and allowances of $397,022 and $476,374, respectively)		497,479,874	475,355,387
Net sales and services of hospitals (net of discounts and allowances of $6,649,944,930 and $5,995,654,003, respectively)		5,260,354,995	4,748,987,649
Net professional fees (net of discounts and allowances of $3,663,217,253 and $3,295,052,362, respectively)		1,488,966,035	1,409,013,338
Net auxiliary enterprises (net of discounts and allowances of $15,199,344 and $14,507,534, respectively)		539,551,004	485,052,194
Other		391,222,121	292,468,253
Total operating revenues		12,635,450,787	11,643,062,307
OPERATING EXPENSES			
Instruction		3,393,738,529	3,157,745,567
Research		2,086,716,290	2,029,646,771
Public service		313,037,789	286,433,453
Hospitals and clinics		4,874,649,155	4,260,963,682
Academic support		747,125,029	665,309,852
Student services		245,743,506	233,524,024
Institutional support		1,472,138,086	1,532,506,189
Operations and maintenance of plant		759,847,391	765,150,768
Scholarships and fellowships		367,837,737	364,752,259
Auxiliary enterprises		572,208,789	530,106,935
Depreciation and amortization		1,178,905,432	1,117,334,640
Total operating expenses		16,011,947,733	14,943,474,140
Operating loss		(3,376,496,946)	(3,300,411,833)
NONOPERATING REVENUES (EXPENSES)			
State appropriations		2,079,134,959	2,044,999,174
Nonexchange sponsored programs		339,331,288	337,651,770
Gift contributions for operations		475,876,390	414,201,992
Net investment income (loss)		(1,867,183,112)	8,595,966,661
Interest expense on capital asset financings		(249,858,394)	(258,318,376)
Loss on sale of capital assets		(36,454,727)	(35,330,676)
Other		5,661,984	(2,279,266)
Net nonoperating revenues		746,508,388	11,096,891,279
Income (loss) before other changes in net position		(2,629,988,558)	7,796,479,446
OTHER CHANGES IN NET POSITION			
Capital appropriations – Higher Education Assistance Fund (HEAF)		17,368,543	17,368,543
Capital gifts and grants		137,656,399	530,222,944
Additions to permanent endowments		141,855,500	183,462,432
Net transfers to other State agencies		(447,527,133)	(436,861,199)
Legislative appropriations lapsed		(126,204)	(116,496)
Change in net position		(2,780,761,453)	8,090,555,670
NET POSITION			
Net position, beginning of year		45,070,651,482	36,980,095,812
Restatement		(2,608,762,286)	-
Net position, beginning of year (as restated)		42,461,889,196	36,980,095,812
Net position, end of year	$	39,681,127,743	45,070,651,482

See accompanying notes to consolidated financial statements

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from tuition and fees	$ 1,588,911,668	1,533,014,559
Proceeds from patients and customers	6,692,910,340	6,146,237,259
Proceeds from sponsored programs	2,970,317,888	2,733,244,888
Proceeds from auxiliaries	555,580,734	484,706,676
Proceeds from other revenues	972,863,914	769,721,600
Payments to suppliers	(4,956,449,809)	(4,437,666,926)
Payments to employees	(9,227,701,305)	(8,724,979,100)
Payments for loans provided	(120,048,059)	(117,815,189)
Proceeds from loan programs	109,316,711	109,311,057
Net cash used in operating activities	(1,414,297,918)	(1,504,225,176)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from State appropriations	2,068,762,723	2,002,960,101
Proceeds from operating gifts	456,074,265	344,415,659
Proceeds from private gifts for endowment and annuity life purposes	270,552,225	120,599,445
Proceeds from other nonoperating revenues	6,153,654	3,178,616
Receipts for transfers from other agencies	634,665,381	639,608,950
Payments for transfers to other agencies	(1,598,208,286)	(1,434,086,874)
Payments for other uses	(2,916,927)	(3,741,386)
Proceeds from nonexchange sponsored programs	368,167,456	358,183,173
Net cash provided by noncapital financing activities	2,203,250,491	2,031,117,684
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	1,469,428,626	1,555,300,629
Payments of other costs on debt issuance	(4,711,241)	(4,894,738)
Proceeds from capital appropriations, grants and gifts	141,872,421	388,427,640
Proceeds from sale of capital assets	3,071,116	19,798,824
Payments for additions to capital assets	(1,955,743,585)	(1,803,405,937)
Payments of principal on capital related debt	(1,109,358,725)	(1,087,224,096)
Payments of interest on capital related debt	(280,788,751)	(280,974,203)
Net cash used in capital and related financing activities	(1,736,230,139)	(1,212,971,881)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	14,375,223,454	16,084,244,825
Proceeds from interest and investment income	1,489,202,157	1,821,218,895
Payments to acquire investments	(14,877,947,870)	(16,865,437,375)
Net cash provided by investing activities	986,477,741	1,040,026,345
NET INCREASE IN CASH	39,200,175	353,946,972
Cash and cash equivalents, beginning of year	2,881,361,424	2,527,414,452
Cash and Cash equivalents, end of year	$ 2,920,561,599	2,881,361,424

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEARS ENDED AUGUST 31, 2015 AND 2014

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		2015	2014
Operating loss	$	(3,376,496,946)	(3,300,411,833)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		1,178,905,432	1,117,334,640
Gross loss on impairment of capital assets		3,251,116	-
Bad debt expense		324,688,027	333,794,936
Changes in assets and liabilities:			
Accounts receivable		(383,094,196)	(463,452,667)
Inventories		(10,222,033)	(6,910,820)
Loans and contracts		(10,719,729)	(8,173,494)
Other current and noncurrent assets		(21,368,094)	(28,049,940)
Accounts payable and accrued liabilities		31,985,560	137,785,738
Unearned revenue		91,895,349	129,458,243
Assets held for others		3,511,562	(1,030,827)
Employees' compensable leave		29,533,378	30,999,545
Pension related obligations		(31,828,535)	-
Other postemployment benefits obligation		625,627,895	559,870,205
Other current and noncurrent liabilities		130,033,296	(5,438,902)
Total adjustments		1,962,199,028	1,796,186,657
Net cash used in operating activities	$	(1,414,297,918)	(1,504,225,176)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION			
Net increase (decrease) in fair value of investments		(5,167,604,866)	5,436,272,550
Donated capital assets		19,322,479	248,511,102
Capital assets acquired under capital lease purchases		3,429,051	1,542,401
Miscellaneous noncash transactions		229,642,391	(31,487,700)

See accompanying notes to consolidated financial statements

(Concluded)

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1. The Financial Reporting Entity

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

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

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

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

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

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

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

St. Paul Medical Foundation, 5909 Harry Hines Boulevard, Dallas, Texas 75390, has no members appointed. The management of the foundation is vested in its board of directors and such committees of the board that the board may, from time to time establish. The number of directors shall be no less than three. The president of the foundation shall be a voting ex-officio member, and non-voting ex-officio members shall be the president of St. Paul Hospital and the president of U. T. Southwestern Medical Center or his or her designee. St. Paul Medical Foundation supports the advancement, through philanthropy, of excellent and innovative patient care and promotes and supports scientific, educational, charitable, religious and research activities of the programs and facilities at St. Paul Hospital. The foundation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Southwestern Medical Center. The foundation's fiscal year end is December 31.

U. T. Southwestern Accountable Care Network, 5323 Harry Hines Boulevard, Dallas, Texas 75390, is governed by a nine-member board appointed by U. T. Southwestern Health Systems, the sole member of U. T. Southwestern Accountable Care Network. U. T. Southwestern Accountable Care Network owns, operates and manages an Accountable Care Organization in accordance with the requirements of the Medicare Shared Savings Program, as set forth at section 1899 of the Social Security Act and related regulations. U. T. Southwestern Accountable Care Network is a newly blended entity for the System beginning in fiscal year 2015. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Southwestern Medical Center. The corporation's fiscal year end is August 31.

UTMB Healthcare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555, is governed by an eight-member board appointed by U. T. Medical Branch - Galveston. UTMB Healthcare Systems, Inc. establishes business for U. T. Medical Branch - Galveston in selected markets, providing referrals, temporary staffing, and medical facilities. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to U. T. Medical Branch - Galveston. The corporation's fiscal year end is August 31.

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

U. T. Physicians, 6431 Fannin Street, Suite JJL 475, Houston, Texas 77030, is governed by a five-member board appointed by U. T. Health Science Center - Houston. The corporation is blended rather than discretely presented because it provides management services for the physician practice plan entirely or almost entirely to U. T. Health Science Center - Houston. The corporation's fiscal year end is August 31.

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

University Physicians Group, 6126 Wurzbach Road, San Antonio, Texas 78238, is governed by a five-member board. The Dean of the School of Medicine is the Chairman of the Board, and four board members are members of and elected by the physician practice plan board. The corporation is blended rather than discretely presented because it provides health care education and research activity services entirely to U. T. Health Science Center - San Antonio. The corporation's fiscal year end is August 31.

M. D. Anderson Physician's Network, 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030, is governed by a four-member board appointed by M. D. Anderson. M. D. Anderson Physicians Network transfers programs representative of M. D. Anderson to the broad community. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to M. D. Anderson. The corporation's fiscal year end is August 31.

M. D. Anderson Services Corporation, 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030, is governed by a seven-member board appointed by the president of M. D. Anderson and the U. T. System Board of Regents. M. D. Anderson Services Corporation serves as an instrument of M. D. Anderson in its efforts to achieve its mission beyond the M. D. Anderson main campus. The corporation is blended rather than discretely presented because it provides services entirely or almost entirely to M. D. Anderson. The corporation's fiscal year end is August 31.

East Texas Quality Care Network, Inc., 11937 US Highway 271, Tyler, Texas 75708-3154, is governed by a four-member board appointed by U. T. Health Science Center - Tyler. The corporation is blended rather than discretely presented because it provides agency nursing services entirely or almost entirely to U. T. Health Science Center - Tyler. The corporation’s fiscal year end is August 31.

The University of Texas Investment Management Company (UTIMCO), 401 Congress Avenue, Suite 2800, Austin, Texas 78701, is governed by a nine-member board consisting of at least three members of the U. T. System Board of Regents, the Chancellor of the System, three independent directors with substantial background and expertise in investments appointed by the U. T. System Board of Regents, and two members appointed by the Texas A&M System Board of Regents, one of whom must have a substantial background and expertise in investments. The corporation is blended rather than discretely presented because it provides investment management services entirely or almost entirely to the System. The corporation’s fiscal year end is August 31.

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

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

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2015 is as follows:

	Southwestern Health Systems	Southwestern Moncrief Cancer Center	Moncrief Cancer Foundation	St. Paul Medical Foundation	Southwestern Accountable Care Network	UTMB Healthcare Systems	The University Medical Branch Student Book Store, Inc.
Condensed Statement of Net Position							
Current Assets	$ 14,758,277	3,947,302	78,659,141	13,700,600	3,628,806	17,888,813	3,028,340
Noncurrent Assets	-	38,583,118	6,659,733	103,800	-	2,225,278	6,376
Total Assets	14,758,277	42,530,420	85,318,874	13,804,400	3,628,806	20,114,091	3,034,716
Current Liabilities	1,438,960	2,110,040	20,567,001	33,595	1,584,164	2,829,918	78,410
Noncurrent Liabilities	-	-	-	-	-	1,558,364	-
Total Liabilities	1,438,960	2,110,040	20,567,001	33,595	1,584,164	4,388,282	78,410
Net Investment in Capital Assets	-	35,445,052	-	-	-	2,225,278	6,376
Restricted Nonexpendable	-	1,510,241	-	-	-	-	-
Restricted Expendable	-	-	64,751,873	13,770,805	-	-	-
Unrestricted	13,319,317	3,465,087	-	-	2,044,642	13,500,531	2,949,930
Total Net Position	$ 13,319,317	40,420,380	64,751,873	13,770,805	2,044,642	15,725,809	2,956,306
Condensed Statement of Revenues, Expenses and Changes in Net Position							
Operating Revenues	$ 460,989	7,736,670	4,160	402,458	3,340,017	32,099,512	1,685,122
Operating Expenses	(758,160)	(10,400,235)	(491,413)	(215,192)	(6,527,379)	(30,239,087)	(1,878,868)
Operating Income/(Loss)	(297,171)	(2,663,565)	(487,253)	187,266	(3,187,362)	1,860,425	(193,746)
Nonoperating Revenues (Expenses)	1,841,970	10,512,583	(189,137)	(788,813)	-	-	1,933
Income/(Loss) Before Other Changes in Net Position	1,544,799	7,849,018	(676,390)	(601,547)	(3,187,362)	1,860,425	(191,813)
Other Changes in Net Position	319,662	(1,761,693)	(8,784,185)	856,071	4,916,533	(392,727)	-
Change in Net Position	1,864,461	6,087,325	(9,460,575)	254,524	1,729,171	1,467,698	(191,813)
Net Position - August 31, 2014	11,454,856	34,333,055	74,212,448	13,516,281	315,471	14,258,111	3,148,119
Net Position-August 31, 2015	$ 13,319,317	40,420,380	64,751,873	13,770,805	2,044,642	15,725,809	2,956,306
Condensed Statement of Cash Flows							
Net Cash provided (used) by:							
Operating Activities	$ (89,160)	(3,733,793)	(6,681,268)	(500,294)	986	3,767,960	8,184
Noncapital Financing Activities	-	3,797,596	6,060,387	277,269	-	(4,717)	-
Capital and Related Financing	-	1,005,377	-	-	-	(925,715)	-
Investing Activities	-	-	-	-	-	(5,817)	38,836
Net Increase (Decrease) in Cash and Cash Equivalents	(89,160)	1,069,180	(620,881)	(223,025)	986	2,831,711	47,020
Cash and Cash Equivalents - August 31, 2014	4,579,501	951,635	5,026,116	547,216	1,500	2,823,828	2,616,440
Cash and Cash Equivalents - August 31, 2015	$ 4,490,341	2,020,815	4,405,235	324,191	2,486	5,655,539	2,663,460

U. T. Physicians	U. T. System Medical Foundation	University Physicians Group	M. D. Anderson Physician's Network	M. D. Anderson Services Corp	East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation	University of Texas Communication Foundation
54,923,871	15,346,043	-	30,899,571	100,887,284	287,604	11,006,730	3,006	211
26,174,025	-	5,202,066	40,113,257	600,055,475	-	1,193,178	17,342,154	158,055
81,097,896	15,346,043	5,202,066	71,012,828	700,942,759	287,604	12,199,908	17,345,160	158,266
47,289,222	7,087,752	1,359,964	14,521,983	123,825,369	2,062	9,254,837	-	98,116
105,615	250,000	1,906,480	157,330	301,618,447	-	1,193,178	17,342,154	39,052
47,394,837	7,337,752	3,266,444	14,679,313	425,443,816	2,062	10,448,015	17,342,154	137,168
18,537,246	-	-	1,280,865	965	-	-	-	-
-	-	-	-	50,000,000	-	-	-	-
-	-	-	-	205,084,108	-	-	-	-
15,165,813	8,008,291	1,935,622	55,052,650	20,413,870	285,542	1,751,893	3,006	21,098
33,703,059	8,008,291	1,935,622	56,333,515	275,498,943	285,542	1,751,893	3,006	21,098
121,614,937	117,133,973	1,579,136	38,227,186	1,326,682	42,974	25,436,194	835,132	-
(107,317,371)	(128,278,704)	(1,400,357)	(16,231,443)	(1,334,594)	(23,246)	(26,624,471)	(746)	(254)
14,297,566	(11,144,731)	178,779	21,995,743	(7,912)	19,728	(1,188,277)	834,386	(254)
443,262	12,244,927	(178,779)	(1,255,973)	5,407,174	-	9,069	(1,269,846)	-
14,740,828	1,100,196	-	20,739,770	5,399,262	19,728	(1,179,208)	(435,460)	(254)
-	-	-	-	-	-	-	434,724	-
14,740,828	1,100,196	-	20,739,770	5,399,262	19,728	(1,179,208)	(736)	(254)
18,962,231	6,908,095	1,935,622	35,593,745	270,099,681	265,814	2,931,101	3,742	21,352
33,703,059	8,008,291	1,935,622	56,333,515	275,498,943	285,542	1,751,893	3,006	21,098
20,208,099	7,864,942	1,304,071	12,369,874	826,697	5,017	52,673	834,386	-
-	-	-	-	(19,762,056)	-	-	(1,269,856)	-
(5,726,359)	-	(1,304,071)	(410,032)	-	-	(1,441,673)	434,724	-
(2,482,662)	266	-	(8,053,116)	27,465,488	-	9,069	10	-
11,999,078	7,865,208	-	3,906,726	8,530,129	5,017	(1,379,931)	(736)	-
15,026,604	1,159,782	-	18,889,618	91,590,249	154,663	11,711,398	3,742	211
27,025,682	9,024,990	-	22,796,344	100,120,378	159,680	10,331,467	3,006	211

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2014 is as follows:

		Southwestern Health Systems	Southwestern Moncrief Cancer Center	Moncrief Cancer Foundation	St. Paul Medical Foundation	UTMB Healthcare Systems	The University Medical Branch Student Book Store, Inc.	U. T. Physicians
Condensed Statement of Net Position								
Current Assets	$	11,564,619	1,437,604	86,699,201	13,404,348	16,400,810	3,187,157	30,802,460
Noncurrent Assets		-	33,647,378	6,578,722	124,034	2,335,154	14,902	21,226,747
Total Assets		11,564,619	35,084,982	93,277,923	13,528,382	18,735,964	3,202,059	52,029,207
Current Liabilities		109,763	751,927	19,065,475	12,101	1,989,057	53,940	32,461,501
Noncurrent Liabilities		-	-	-	-	2,488,796	-	605,475
Total Liabilities		109,763	751,927	19,065,475	12,101	4,477,853	53,940	33,066,976
Net Investment in Capital Assets		-	30,757,833	-	-	2,335,154	14,903	16,538,991
Restricted Nonexpendable		-	1,630,134	-	-	-	-	-
Restricted Expendable		-	-	74,212,448	13,516,281	-	-	-
Unrestricted		11,454,856	1,945,088	-	-	11,922,957	3,133,216	2,423,240
Total Net Position	$	11,454,856	34,333,055	74,212,448	13,516,281	14,258,111	3,148,119	18,962,231
Condensed Statement of Revenues, Expenses and Changes in Net Position								
Operating Revenues	$	313,100	5,160,317	1,576	255,568	26,124,825	1,339,799	87,433,984
Operating Expenses		(1,804,759)	(5,760,234)	(498,817)	(109,196)	(23,975,439)	(1,509,594)	(83,388,021)
Operating Income/(Loss)		(1,491,659)	(599,917)	(497,241)	146,372	2,149,386	(169,795)	4,045,963
Nonoperating Revenues (Expenses)		2,503,998	402,821	13,256,403	1,590,101	845,572	7,722	587,558
Income/(Loss) Before Other Changes in Net Position		1,012,339	(197,096)	12,759,162	1,736,473	2,994,958	(162,073)	4,633,521
Other Changes in Net Position		43,223	(2,696,500)	(1,367,922)	(332,606)	-	-	-
Change in Net Position		1,055,562	(2,893,596)	11,391,240	1,403,867	2,994,958	(162,073)	4,633,521
Net Position - August 31, 2013		10,399,294	37,226,651	62,821,208	12,112,414	11,263,153	3,310,192	14,328,710
Net Position-August 31, 2014	$	11,454,856	34,333,055	74,212,448	13,516,281	14,258,111	3,148,119	18,962,231
Condensed Statement of Cash Flows								
Net Cash provided (used) by:								
Operating Activities	$	92,464	355,867	(609,057)	221,138	1,314,070	(190,125)	12,580,789
Noncapital Financing Activities		-	(2,555,778)	(3,339,812)	(241,409)	(4,580)	-	1,000
Capital and Related Financing		(288,205)	-	-	-	(898,752)	(16,559)	(5,628,032)
Investing Activities		2,001,056	(498,129)	-	-	684,023	5,496	686,628
Net Increase (Decrease) in Cash and Cash Equivalents		1,805,315	(2,698,040)	(3,948,869)	(20,271)	1,094,761	(201,188)	7,640,385
Cash and Cash Equivalents - August 31, 2013		2,774,186	3,649,675	8,974,985	567,487	1,729,067	2,817,628	7,386,219
Cash and Cash Equivalents - August 31, 2014	$	4,579,501	951,635	5,026,116	547,216	2,823,828	2,616,440	15,026,604

U. T. System Medical Foundation	University Physicians Group	M. D. Anderson Physician's Network	M. D. Anderson Services Corp	East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation	University of Texas Communication Foundation
8,543,561	-	13,177,829	92,310,953	310,530	12,376,038	3,742	211
-	6,506,137	32,579,801	622,849,856	-	1,094,969	16,907,430	132,478
8,543,561	6,506,137	45,757,630	715,160,809	310,530	13,471,007	16,911,172	132,689
1,385,466	-	9,990,149	115,957,172	44,716	9,219,694	-	-
250,000	4,570,515	173,736	329,103,956	-	1,320,212	16,907,430	111,337
1,635,466	4,570,515	10,163,885	445,061,128	44,716	10,539,906	16,907,430	111,337
-	-	920,702	2,008	-	-	-	-
-	-	-	50,000,000	-	-	-	-
-	-	-	199,178,732	-	-	-	-
6,908,095	1,935,622	34,673,043	20,918,941	265,814	2,931,101	3,742	21,352
6,908,095	1,935,622	35,593,745	270,099,681	265,814	2,931,101	3,742	21,352
132,402,126	1,932,386	21,347,094	3,090,609	45,618	24,477,011	1,317,925	-
(132,285,979)	(1,700,258)	(12,334,729)	(1,300,624)	(27,840)	(25,161,082)	(771)	(275)
116,147	232,128	9,012,365	1,789,985	17,778	(684,071)	1,317,154	(275)
230	(232,128)	2,877,362	81,209,600	-	7,220	(1,247,996)	-
116,377	-	11,889,727	82,999,585	17,778	(676,851)	69,158	(275)
-	-	-	-	-	-	(69,912)	-
116,377	-	11,889,727	82,999,585	17,778	(676,851)	(754)	(275)
6,791,718	1,935,622	23,704,018	187,100,096	248,036	3,607,952	4,496	21,627
6,908,095	1,935,622	35,593,745	270,099,681	265,814	2,931,101	3,742	21,352
(764,895)	1,250,850	11,001,326	1,531,546	66,576	2,549,234	1,317,153	(274)
-	-	-	(7,491,700)	-	-	(1,248,011)	-
-	(1,250,850)	(475,934)	-	-	(1,079,180)	(69,912)	-
229	-	(3,719,209)	26,123,649	-	7,220	16	(742)
(764,666)	-	6,806,183	20,163,495	66,576	1,477,274	(754)	(1,016)
1,924,448	-	12,083,435	71,426,754	88,087	10,234,124	4,496	1,227
1,159,782	-	18,889,618	91,590,249	154,663	11,711,398	3,742	211

ASSETS HELD BY AFFILIATED ORGANIZATIONS

GASB authoritative guidance provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government, the System. This guidance states that a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

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

The System has defined significance as 5% of System's net position. As of August 31, 2015, none of the System's potential component units meet the criteria for inclusion in the System's financial statements. Based upon the most recent available information, the combined net position of these potential component units reported by the organizations total $2,470,614,575 at August 31, 2015, and $2,162,933,730 at August 31, 2014.

2. Related Parties

Through the normal course of operations, the System both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2015, related to pass-through grants were $402,512,055 and $9,059,915, respectively. Funds received and provided during the year ended August 31, 2014, related to pass-through grants were $362,263,476 and $19,529,698, respectively.

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

3. Joint Ventures

U. T. Southwestern Health Systems (UTSHS), a blended component unit of U. T. Southwestern Medical Center, is a participating member of U. T. Southwestern DVA Healthcare, LLP (DVA). DVA is a joint venture between UTSHS and Davita Inc. to provide care for dialysis patients in the Dallas-Fort Worth area. UTSHS's equity interest in DVA at August 31, 2015 and 2014 was $7,494,299 and $6,635,673, respectively, or 49%. Separate financial statements for DaVita may be obtained at DaVita Inc., 601 Hawaii Street, El Segundo, California 90245 or www.davita.com.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of Physician's Dialysis of Houston. Physician's Dialysis of Houston is a joint venture entered into by U. T. Physicians and DaVita, Inc. U. T. Physician's equity interest in Physician's Dialysis of Houston at August 31, 2015 and 2014 was $569,944 and $482,399, respectively, or 35.62%. Separate financial statements for Physician's Dialysis of Houston may be obtained at Physician's Dialysis of Houston, Attention: Marie Sinfield, 1423 Pacific Avenue, Tacoma, Washington 98402.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of TMC Holding Company, L.L.C. (TMC Holding). TMC Holding is a Limited Liability Corporation entered into by U. T. Physicians, Baylor College of Medicine and Memorial Hermann/USP Surgery Centers III, L.L.P. U. T. Physicians' equity interest in TMC Holding at August 31, 2015 and 2014 was $353,111 and $324,843 respectively, or 18.1%. Separate financial statements for TMC Holding may be obtained by contacting Vanessa Smith, 3050 Post Oak Boulevard, Suite 620, Houston, Texas 77056.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of Bluesky MOB, L.L.P. Bluesky MOB, L.L.P. is a Limited Liability Partnership of which U. T. Physicians purchased an 18.7% interest in for $380,755 on August 1, 2012. U. T. Physicians' equity interest in Bluesky MOB, LLP at August 31, 2015 and 2014 was $380,755, or 18.7%. Separate financial statements for Bluesky MOB, L.L.P. may be obtained at Moore, Reichl, & Baker, P.C., c/o Doug Reichl, CPA, 11200 Westheimer Suite 410, Houston, Texas, 77042.

U. T. Health Science Center - Houston is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operation to TECO Corporation, and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. U. T. Health Science Center - Houston's equity interest in TECO at August 31, 2015 and 2014 was $12,836,850 and $12,723,230 respectively, or 12.9% and 13.6% respectively. Separate financial statements for TECO may be obtained at Thermal Energy Corporation, 1615 Braeswood Boulevard, Houston, Texas 77030 or http://teco.tmc.edu/home/teco_home.php.

M. D. Anderson is a participating member of the Texas Medical Center Hospital Laundry Cooperative Association (the Association). The Association was established on April 30, 1971, for the purpose of acquiring, owning, and operating a laundry system on a cooperative basis solely for the benefit of members of the Association. Net earnings of the Association may be refunded to the members on a patronage basis or retained by the Association as equity allocated to the members. M. D. Anderson's equity interest in the Association at August 31, 2015 and 2014 was $4,234,774 and $3,628,754, respectively, or 40%. Separate financial statements for the Association may be obtained at 1601 Braeswood Boulevard, Houston, Texas 77030 or http://www.texasmedicalcenter.org/root/en/GetToKnow/TMCInstitutions/OtherInstitutions/Laundry/Laundry.

M. D. Anderson is a participating member of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operations to TECO Corporation, and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. UTMDA's equity interest in TECO at August 31, 2015 and 2014 was $39,959,794 and $37,692,012, respectively, or 40.3% and 40.2%, respectively. Separate financial statements for TECO may be obtained at Thermal Energy Corporation, 1615 Braeswood Boulevard, Houston, Texas 77030 or http://teco.tmc.edu/home/teco_home.php.

M. D. Anderson is a participating member of P.E.T. Net Houston, LLC (PETNet). PETNet is a joint venture entered into by M. D. Anderson and P.E.T. Pharmaceuticals, Inc. to lease and operate a facility located on M. D. Anderson's campus to produce positron radiopharmaceuticals and isotopes. Construction of the facility commenced in 2003. M. D. Anderson's equity interest in PETNet at August 31, 2015 and 2014 was $1,988,999 and $2,038,785, respectively, or 49%. Separate financial statements for PETNet may be obtained at Siemens Medical Solutions USA, Inc., 51 Valley Stream Parkway, Malvern, Pennsylvania 19355.

M. D. Anderson entered into an amended and restated Limited Partnership agreement dated March 30, 2010 between Proton Therapy Center-Houston LTD., L.L.P., (PTC Partnership), PTC-Houston Investors, L.L.C., (Investors), PTC-Houston Management, L.P., and M. D. Anderson. The purposes of PTC Partnership are to assume the lease formerly held by Investors with M. D. Anderson to lease approximately four acres on the M. D. Anderson's property for an initial term of 60 years, develop and/or acquire other proton therapy related business opportunities in the area and engage in any other activities that are reasonably incidental to the foregoing or that are contemplated by the agreement or the related agreements. As part of the agreement, each partner has made or is deemed to have made the Initial Contribution which equaled $15,621,950 for M. D. Anderson or 51.22%. However, M. D. Anderson's only capital contribution to PTC Partnership has been through the ground lease which equals $2,500,000. M. D. Anderson has recorded cash distributions and has adjusted its carrying value based on the operating results of PTC Partnership as required by the agreement, which does not equal the initial contribution. Until the carrying value of the investment equals or exceeds the initial contribution value, M. D. Anderson has elected to record the carrying value on the statement of net position. As of August 31, 2015 and 2014, M. D. Anderson's equity interest in PTC Partnership was $0. M. D. Anderson received cash contributions totaling $6,126,225 and $4,936,966 during the fiscal years ended August 31, 2015 and 2014, respectively. Separate financial statements for PTC Partnership may be obtained at http://www.mdanderson.org/patient-and-cancer-information/proton-therapy-center/index.html.

M. D. Anderson is a participating member in the National Center for Therapeutics Manufacturing (the "NCTM"). M. D. Anderson entered into a Collaboration, Investment and Facility Use Agreement as of May 19, 2010 with Texas A&M University System to collaborate on the design of the NCTM and on grants and proposals relating to cancer therapeutics that could be developed at the NCTM. M. D. Anderson's cost-based interest in NCTM at August 31, 2015 and 2014 was $1,245,000 and $2,490,000, respectively, or approximately 2.5% and 5%, respectively. Separate financial statements for NCTM may be obtained at http://www.tamus.edu/iit/nctm/.

4. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting. The System reports as a business type activity, as defined by GASB. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2014

GASB Statement No. 66, *Technical Corrections - 2012*, effective 2014, enhanced the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance. Implementation of Statement No. 66 had no effect on the System's net position or changes in net position for the years ended August 31, 2014 and 2013.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective 2014, established new accounting and financial reporting requirements for financial guarantees that are nonexchange transactions. Implementation of Statement No. 70 had no effect on the System's net position or changes in net position for the years ended August 31, 2014 and 2013.

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2015

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective 2015, established new accounting and financial reporting requirements for institutions that provide their employees with pensions. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective 2015, amended GASB Statement 68 to require that, at transition, a beginning deferred outflow of resources is recognized for its pension contributions made subsequent to its measurement date of the beginning net pension liability. Restatement of all prior periods presented was not practical, and the cumulative effect of applying GASB Statements 68 and 71 was reported as a restatement of beginning net position for 2015, causing a decrease of $2,608,762,285.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective 2015, established accounting and financial reporting standards related to government combinations and disposals of government operations. GASB Statement 69 had no effect for 2015; however, it will govern the accounting and financial reporting of the merger of U. T. Brownsville and U. T. Pan American which created The University of Texas Rio Grande Valley in 2016.

CASH AND CASH EQUIVALENTS

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

BALANCE IN STATE APPROPRIATIONS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Changes in the fair value of derivatives that are not effective are recorded as investment income in the statement of revenues, expenses and changes in net position.

INVESTMENTS

The majority of the investments of the System, except for PUF lands, are managed by UTIMCO, a private investment corporation that provides services entirely to the System and its related foundations. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. Restricted investments include investments restricted by legal or contractual requirements, including those related to donors and constitutional restrictions. The System's investments with readily available fair values are primarily valued on the basis of market valuations provided by independent pricing services.

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

Equity security and publicly traded mutual fund fair values are based on the closing price on the primary exchange on which they are traded (if a closing price is not available, the average of the last reported bid and ask price is used).
Physical commodities, specifically gold, are valued using the composite closing price from Bloomberg for the XAU currency code which represents the standard for one troy ounce of gold.

Private investment funds, which consist of non-regulated investment funds, are fair valued by management. The fair values of these investments are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources. In rare cases the private investments are valued at cost, but only when management believes this is the best approximation of value. As of August 31, 2015 and 2014, investments in private investment funds in the amount of $8,264,760,634 and $7,206,241,053, respectively, have been estimated by management.

Hedge funds, developed country equity, emerging markets equity, natural resources, real estate and fixed income investment funds and certain other private placements 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. As of August 31, 2015 and 2014, investments in these funds in the amount of $15,402,199,737 and $15,183,422,554, respectively, have been estimated by management.

The audited financial statements of the funds managed by UTIMCO may be found on UTIMCO's website and inquiries may be directed to UTIMCO via www.utimco.org.

The fair value of the PUF land's interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a ten percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31. A percentage of probable and possible reserves of oil and gas are included in the fair value estimate. The remaining minerals, the trust minerals, because of size, distribution, and limited production histories are valued at three times the previous 12 months' revenue. As a rule of thumb, this measure has been used historically to determine the selling price of these types of properties by willing parties. The PUF lands' surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. Other real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent State certified or other licensed appraiser, or by any other generally accepted industry standard, including tax assessments.

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

CONTRIBUTIONS RECEIVABLE

Current and noncurrent contributions receivable are amounts pledged to the university by donors, net of allowances. Multi-year gift pledges greater than $10,000 must be reported at the discounted present value. At the beginning of each fiscal year, the System re-establishes the scale of discount rates applicable for present valuing new multi-year gift pledges that are received during the new fiscal year. The scale of discount rates are based upon U.S. Treasury Notes and Bonds asked yields as listed in the Wall Street Journal on the first day of the fiscal year. Existing gift pledges are not recalculated since these pledges were previously calculated at historical discount rates.

INVENTORIES

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

RESTRICTED ASSETS

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

LOANS AND CONTRACTS

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

SECURITIES LENDING COLLATERAL AND OBLIGATIONS

The collateral secured for securities lent are reported as an asset on the statement of net position. The obligations for securities lent are reported as a liability on the statement of net position that directly offsets the cash collateral received from brokers or dealers in exchange for securities loaned. The costs of securities lending transactions are reported as expenses in the statement of revenues, expenses and changes in net position. See Note 6 for details regarding the securities lending program.

CAPITAL AND INTANGIBLE ASSETS

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. The System follows the State's capitalization policy with a cost equal to or greater than $5,000 for equipment items, $100,000 for buildings, building improvements and improvements other than buildings, and $500,000 for infrastructure items, and an estimated useful life of greater than one year. Purchases of library books are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on the resources reserved for this purpose (see Note 12). The thresholds for software are $100,000 for purchased software and $1,000,000 for internally developed software including Enterprise Resource Planning replacements. The System capitalizes, but does not depreciate works of art and historical treasures that are held for exhibition, education, research and public service. These collections are protected and preserved.

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

OTHER ASSETS

Included in other current assets are prepaid expenses and lease receivables due within one year. Included in the other noncurrent assets are lease receivables that will be realized beyond one year.

DEFERRED OUTFLOWS

Deferred outflows consist of the fair market value of derivatives, unamortized losses on refunding of debt, and certain changes in the net pension liability. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows and deferred outflows in the statement of net position. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is amortized, using the straight line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net position as a component of interest expense. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions subsequent to the measurement date of the net pension liability are also required to be reported as deferred outflows of resources.

UNEARNED REVENUE

Unearned revenue represents revenues such as tuition recorded in August for the fall semester and payments received in advance for sponsored programs.

ASSETS HELD FOR OTHERS – CURRENT AND NONCURRENT

Assets held for others represent funds held by the System as custodial or fiscal agent for students, faculty members, foundations, and others. Included in assets held for others as of August 31, 2015 and 2014 is $409,600,706 and $432,420,744, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at M. D. Anderson. As of August 31, 2015 and 2014, assets held for others also included $190,422,371 and $202,858,887, respectively, from foundations that invest their assets with UTIMCO.

LIABILITY TO BENEFICIARIES

The System holds numerous irrevocable charitable remainder trusts and a pooled income fund. Together, these assets are reflected in the accompanying consolidated financial statements within restricted investments.

The charitable remainder trusts designate the U. T. System Board of Regents as both trustee and remainder beneficiary. The System is required to pay to the donors (or other donor-designated income beneficiaries) either a fixed amount or the lesser of a fixed percentage of the fair value of the trusts' assets or the trusts' income during the beneficiaries' lives. Trust assets are measured at fair value when received and monthly thereafter. A corresponding liability to beneficiaries is measured at the present value of expected future cash flows to be paid to the beneficiaries based upon the applicable federal rate on the gift date. Upon death of the income beneficiaries, substantially all of the principal balance passes to the System to be used in accordance with the donors' wishes.

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

NET PENSION LIABILITY

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

DEFERRED INFLOWS

Deferred inflows consist of unamortized gains on refunding of debt and certain changes in the net pension liability. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is amortized, using the straight line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net position as a component of interest expense. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

NET POSITION

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

Net Investment in Capital Assets

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

Restricted:

Nonexpendable

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

Expendable

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

Unrestricted

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

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

REVENUES AND EXPENSES

Operating revenues include activities such as student tuition and fees; net sales and services of hospitals; net professional fees; net sales and services of auxiliary enterprises; the exchange basis federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, scholarships and fellowships, and impairment losses and insurance recoveries received in the same year as the associated loss. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating.

Nonoperating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income, the nonexchange basis federal and state grants and contracts, and other revenue sources that are defined as nonoperating revenues by GASB. The System's institutions are the named beneficiaries in certain lawsuits, wills, trusts, and insurance policies. The System does not recognize these potential refunds, gifts and contributions until realized. Nonoperating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as nonoperating expenses by GASB.

SCHOLARSHIP ALLOWANCES AND STUDENT AID

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

STATEWIDE INTERFUND TRANSFERS AND INTERFUND PAYABLES

In accordance with the provisions set forth in Article 7, Section 18 of the Texas Constitution, the System transfers one-third of the annual earnings of the PUF investments and lands to the Texas A&M University System (TAMUS). In addition to the transfer of the current year earnings in 2015 and 2014 of $271,051,532 and $302,400,532, respectively, the System recorded a liability of $1,012,423,633 and $850,417,528 at August 31, 2015 and 2014, respectively, for future amounts due to TAMUS from the PUF to cover principal on outstanding PUF bonds and notes issued by TAMUS. This liability is reported as current and noncurrent statewide interfund payable on the statement of net position. Additional details related to the operations of the PUF can be found in Note 8. Also included in statewide interfund payables as of August 31, 2015 and 2014 is $7,021,741 and $8,366,983, respectively, related to the revolving loan programs administered by the Texas State Comptroller's Office.

In accordance with tuition set-asides required by Section 61.539, Section 61.910, Section 61.9660, Section 61.9731, Section 56.095 and Section 56.465 of the Texas Education Code, the institutions transferred tuition revenues of $23,427,189 in 2015 and $23,106,664 in 2014 to the Texas Higher Education Coordinating Board.

UNCOMPENSATED CARE AND CHARITY CARE

The System's health-related institutions provide uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured as well as the unreimbursed costs from government-sponsored health programs. To calculate uncompensated care, charges are converted to costs and providers recognize appropriate patient specific funding and lump sum funding available to offset costs. Hospital charges are converted to cost by the application of the Medicare cost to charge ratio, as calculated in the most recent Medicare cost report. Since a standard cost report does not exist for physician charges, a proxy cost to charge ratio was developed through a process involving all Texas public academic medical centers and the State Auditor's Office. Uncompensated care costs amounted to $592,644,587 and $599,827,754 for 2015 and 2014, respectively.

The American Institute of Certified Public Accountants (AICPA) defines charity care as care for which hospitals never expected to be reimbursed. Charity care occurs when a patient applies to the hospital for financial assistance and the hospital waives all or part of its charges, consistent with its internal charity care policy. The cost of charity care is calculated using the uncompensated care calculation methodology discussed above. Charity care costs amounted to $58,829,663 and $70,768,675 for 2015 and 2014, respectively.

NET PATIENT SERVICE REVENUE

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

Medicare

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

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

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

The System's health-related institutions have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System's health-related institutions under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The System's health-related institutions recognized bad debt expense of $323,586,879 and $332,372,420 in 2015 and 2014, respectively.

USE OF ESTIMATES
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Disaggregation of Other Receivable Balances

Net other receivables at August 31, 2015 and 2014 are detailed by type as follows:

Net Other Receivables		**2015**	**2014**
Receivables related to investments	$	135,689,949	191,732,433
Receivables related to gifts, grants and sponsored programs		58,144,884	60,140,589
Receivables related to external parties/other companies		108,867,637	88,833,644
Receivables related to auxiliary enterprises		18,585,596	20,736,165
Receivables related to payroll		7,221,643	16,096,664
Receivables related to patents		1,378,286	1,418,440
Receivables related to travel		1,499,131	1,679,342
Receivables related to loan funds and financial aid		1,641,208	1,897,921
Receivables related to agency funds		4,750,594	1,637,204
Receivables related to other various activities		26,077,281	27,416,093
Total	$	363,856,209	411,588,495

6. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2015 and 2014, the carrying amount of deposits was $90,636,918 and $214,005,862, respectively, as presented below:

		2015	2014
Cash and cash equivalents per statement of cash flows and statement of net position	$	2,920,561,599	2,881,361,424
Less: Cash in State Treasury		898,640,192	824,214,671
Repurchase agreement – Texas Treasury Safekeeping Trust Co.		1,015,335	616,631
Other cash equivalent investments		1,904,814,097	1,835,413,019
Other		25,455,057	7,111,241
Deposits of cash in bank	$	90,636,918	214,005,862

As of August 31, 2015 and 2014, the total bank balances were $126,577,215 and $104,327,961, 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, 2015 and 2014, the System had no bank balances that were exposed to custodial credit risk.

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, 2015 and 2014, the investments including securities lending collateral were as follows:

Type of Security		2015 Fair Value	2014 Fair Value
Investments:			
U.S. Government:			
U.S. Treasury Securities	$	433,814,528	514,611,750
U.S. Treasury Strips		-	299,896
U.S. Treasury TIPS		46,893,192	8,074,383
U.S. Government Agency Obligations		144,603,163	109,375,695
Corporate Obligations		480,583,282	327,754,768
Corporate Asset and Mortgage Backed Securities		80,028,130	62,853,293
Equity		1,543,111,831	1,767,268,264
International Obligations (Government and Corporate)		2,045,632,519	2,140,118,952
International Equity		2,571,009,549	2,955,342,856
Fixed Income Money Market and Bond Mutual Fund		2,256,522,053	2,458,660,209
Other Commingled Funds:			
Hedge Funds		11,028,882,087	10,668,009,355
Fixed Income		26,066,797	27,801,898
U. S. Equity		1,654,707,830	1,798,578,203
International Other Commingled Funds:			
Non-U.S. Developed Equity		1,472,892,992	1,415,926,961
Emerging Markets		1,163,680,045	1,344,717,233
Real Estate		151,475,887	208,390,828
Natural Resources		2,365,325	6,056,979
PUF Lands		5,228,895,607	8,000,787,874
Other Real Estate		318,737,644	312,988,606
Physical Commodity		641,277,604	726,213,446
Investment Derivatives – Asset Positions		218,291,687	92,771,171
Alternative Investments:			
Limited Partnerships (Private Investments)		8,353,086,105	7,272,639,504
Miscellaneous (guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)		18,778,072	21,535,442
Total Investments		39,881,335,929	42,240,777,566
Securities Lending Collateral Investment Pool		687,047,330	997,969,911
Total Investments & Securities Lending	$	40,568,383,259	43,238,747,477
Investments Classified as Cash Equivalents:			
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	$	1,015,335	616,631
Fixed Income Money Market Funds		1,903,972,048	1,834,242,769
Time Deposits		842,049	1,170,250
Total Investments Classified as Cash Equivalents	$	1,905,829,432	1,836,029,650
Deposit with Brokers for Derivative Contracts, net:			
U.S. Treasury Bonds and Notes	$	4,518,031	1,984,606
U.S. Treasury Bills		2,999,633	7,980,223
U.S. Treasury Inflation Protected		-	2,529,524
Fixed Income Money Market and Mutual Funds		(8,045,848)	(18,301,048)
Total Deposit with Brokers for Derivative Contracts, net	$	(528,184)	(5,806,695)

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System's investment policy does not provide specific requirements and limitations regarding investment ratings. Per GASB authoritative guidance, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. In 2011, some of the U.S. government direct obligations were downgraded and thus U.S. government direct obligations have been added to the credit risk disclosure. The following tables present each applicable investment type grouped by rating as of August 31, 2015 and 2014:

	August 31, 2015					
	MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type	**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Direct Obligations	$ 488,225,384	Aaa	488,225,384	Aa	488,225,384	Aaa
U.S. Government Agency Obligations	123,849,425	Aaa	123,849,425	AA	123,849,425	AAA
	20,753,738	Aa	20,753,738	NR	20,753,738	NR
Corporate Obligations	5,964,835	Aaa	4,846,417	AAA	5,828,965	AAA
	36,940,629	Aa	54,431,435	AA	40,154,423	AA
	273,299,893	A	297,208,303	A	248,002,913	A
	146,527,955	Baa	115,597,727	BBB	69,277,702	BBB
	8,421,344	Ba	1,985,795	BB	3,026,111	BB
	9,428,626	NR	2,234,732	CCC	114,293,168	NR
	-	-	4,278,873	NR	-	-
Corporate Asset and Mortgage Backed Securities	35,543,692	Aaa	13,914,990	AAA	26,306,684	AAA
	4,050,477	Aa	11,933,219	AA	1,596,555	AA
	1,277,173	A	6,862,179	A	137,814	A
	2,919,988	Baa	1,721,533	BBB	139,516	BBB
	2,406,566	Ba	477,810	BB	146,671	BB
	729,080	B	1,463,507	B	1,650,554	B
	10,045,994	Caa	11,827,774	CCC	1,764,736	C
	1,617,229	Ca	466,450	CC	210,988	D
	21,437,931	NR	1,069,927	D	48,074,612	NR
	-	-	30,290,741	NR	-	-
International Obligations (Government and Corporate)	471,583,612	Aaa	149,644,892	AAA	220,278,480	AAA
	336,758,223	Aa	305,104,363	AA	406,752,664	AA
	492,776,952	A	390,318,680	A	586,629,929	A
	494,621,347	Baa	291,840,398	BBB	488,153,322	BBB
	70,808,329	Ba	45,229,874	BB	32,395,577	BB
	18,174,929	B	20,842,272	B	3,798,312	B
	684,689	Caa	3,035,935	CCC	1,522,777	CCC
	160,224,438	NR	839,616,105	NR	306,101,458	NR
Fixed Income Money Market and Bond Mutual Fund	3,650,940,882	Aaa	3,552,202,211	AAA	306,104,359	AAA
	404,901,463	NR	503,640,134	NR	3,749,737,986	NR
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	1,015,335	Aaa	1,015,335	AA	1,015,335	NR
Miscellaneous	1,663,395	Aaa	2,171,215	AAA	1,144,150	AAA
	3,735,246	Aa	4,820,673	AA	1,463,619	AA
	8,403,491	A	7,837,310	A	9,049,736	A
	700,374	Baa	500,880	BBB	500,880	BBB
	26,066,797	Ba	199,494	BB	30,280,033	NR
	1,869,115	NR	26,908,846	NR	-	-
	$ 7,338,368,576		7,338,368,576		7,338,368,576	

	August 31, 2014					
	MOODY'S		STANDARD & POOR'S		FITCH	
Investment Type	**Fair Value**	**Rating**	**Fair Value**	**Rating**	**Fair Value**	**Rating**
U.S. Government Direct Obligations	$ 535,380,400	Aaa	535,480,382	Aa	535,480,382	Aaa
	99,982	NR	-	-	-	-
U.S. Government Agency Obligations	109,375,695	Aaa	109,375,695	AA	109,375,695	AAA
Corporate Obligations	7,234,911	Aaa	6,126,036	AAA	6,029,574	AAA
	36,545,169	Aa	36,690,439	AA	32,655,958	AA
	153,965,566	A	203,696,648	A	169,949,434	A
	113,775,638	Baa	73,110,270	BBB	39,121,882	BBB
	3,503,325	Ba	1,384,544	BB	1,837,750	BB
	2,330,883	B	1,282,063	B	1,282,063	B
	10,399,276	NR	2,517,640	CCC	76,878,107	NR
	-	-	2,947,128	NR	-	-
Corporate Asset and Mortgage Backed Securities	9,417,555	Aaa	17,896,562	AAA	21,940,405	AAA
	1,582,810	Aa	14,350,399	AA	1,738,639	AA
	2,491,083	A	5,296,646	A	79,467	A
	1,913,909	Baa	1,973,901	BBB	158,731	BBB
	2,212,146	Ba	278,000	BB	65,576	BB
	1,294,235	B	1,909,945	B	1,884,968	B
	12,746,950	Caa	15,664,057	CCC	351,665	CCC
	1,720,513	Ca	1,123,604	D	2,357,189	C
	29,474,092	NR	4,360,179	NR	225,154	D
	-	-	-	-	34,051,499	NR
International Obligations (Government and Corporate)	487,325,661	Aaa	141,406,160	AAA	257,165,356	AAA
	435,210,326	Aa	313,116,722	AA	413,058,707	AA
	358,943,663	A	430,991,041	A	504,643,895	A
	613,838,628	Baa	355,688,984	BBB	637,546,502	BBB
	90,799,908	Ba	45,270,584	BB	4,797,105	B
	15,079,536	B	16,934,632	B	322,907,387	NR
	507,455	Caa	836,710,829	NR	-	-
	138,413,775	NR	-	-	-	-
Fixed Income Money Market and Bond Mutual Fund	3,907,236,682	Aaa	3,898,431,974	AAA	8,804,707	AAA
	274,857,590	NR	96,132,232	Aa	4,173,289,565	NR
	-	-	187,530,066	NR	-	-
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	616,631	Aaa	616,631	AA	616,631	NR
Miscellaneous	1,725,700	Aaa	2,235,060	AAA	1,185,800	AAA
	3,966,779	Aa	3,258,172	AA	2,223,991	AA
	8,159,963	A	9,408,470	A	9,208,569	A
	3,535,326	Baa	3,315,933	BBB	504,610	BBB
	30,023,440	NR	219,393	BB	34,288,238	NR
			28,974,180	NR	-	-
	$ 7,405,705,201		7,405,705,201		7,405,705,201	

(B) *Concentrations of Credit Risk* – The System's investment policy statements for funds managed by UTIMCO contain the limitation that no more than five percent of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2015 and 2014, these funds did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the fund's fixed income investments.

(C) *Custodial Credit Risk* – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2015 and 2014, 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, 2015 and 2014:

		August 31, 2015		August 31, 2014	
Investment Type		**Fair Value**	**Modified Duration**	**Fair Value**	**Modified Duration**
Investments:					
U.S. Government Guaranteed:					
U.S. Treasury Bonds and Notes	$	433,814,528	12.15	513,833,828	8.08
U.S. Treasury Strips		-	-	299,896	0.38
U.S. Treasury Bills		-	-	777,922	0.04
U.S. Treasury Inflation Protected		46,893,192	8.25	8,074,383	10.20
U.S. Agency Asset Backed		23,579,578	3.92	4,841,445	3.10
Total U.S. Government Guaranteed		504,287,298	11.40	527,827,474	8.05
U.S. Government Non-Guaranteed:					
U.S. Agency		53,220,833	0.44	14,863,281	0.88
U.S. Agency Asset Backed		67,802,752	2.67	89,670,969	3.02
Total U.S. Government Non-Guaranteed		121,023,585	1.69	104,534,250	2.72
Total U.S. Government		625,310,883	9.52	632,361,724	7.17
Corporate Obligations:					
Domestic		560,611,412	5.77	390,608,061	5.68
Foreign		464,055,439	4.43	337,428,663	4.37
Total Corporate Obligations		1,024,666,851	5.16	728,036,724	5.07
Foreign Government and Provincial Obligations		1,581,577,080	6.94	1,802,690,289	6.61
Other Debt Securities		15,529,572	10.66	18,439,060	9.68
Total Debt Securities		3,247,084,386	6.89	3,181,527,797	6.39
Other Investment Funds - Debt		26,066,797	7.00	27,801,898	7.70
Fixed Income Money Market and Mutual Funds		2,159,916,145	0.23	2,366,152,551	0.28
Total Investments	$	5,433,067,328	4.25	5,575,482,246	3.80
Investments Classified as Cash Equivalents:					
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	$	1,015,335	0.00	616,631	0.01
Fixed Income Money Market Funds		1,903,972,048	0.08	1,834,242,769	0.08
Time Deposits		842,049	0.00	1,170,250	0.00
Total Investments Classified as Cash Equivalents	$	1,905,829,432	0.08	1,836,029,650	0.08
Deposit with Brokers for Derivative Contracts:					
U.S. Government Guaranteed:					
U.S. Treasury Bonds and Notes	$	4,518,031	5.27	1,984,606	8.07
U.S. Treasury Bills		2,999,633	0.22	7,980,223	0.20
U.S. Treasury Inflation Protected		-	-	2,529,524	8.55
Total U.S. Government Guaranteed		7,517,664	3.25	12,494,353	3.14
Fixed Income Money Market and Mutual Funds		(8,045,848)	0.00	(18,301,048)	0.00
Total Deposit with Brokers for Derivative Contracts	$	(528,184)	0.00	(5,806,695)	(6.75)

The System has purchased options on ten year constant maturity swaps, with expiries ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2015, these options had a notional value of $10,000,000,000 and a fair value of $33,376. As of August 31, 2014, these options had a notional value of $10,000,000,000 and a fair value of $1,371,292. The risk of loss on these options is limited to the premiums paid by the System upon the purchase of the options, which totaled $57,013,750 as of August 31, 2015 and 2014. The System also purchased puts on the Japanese Yen, with expiries ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2015, the puts had a notional value of $1,000,000,000 with a fair value of $55,405. As of August 31, 2014, the puts had a notional value of $1,000,000,000 with a fair value of $540,179. The risk of loss on these options is limited to the premiums paid by the System upon the purchase of the options, which totaled $10,727,217 and $7,452,315 as of August 31, 2015 and 2014, respectively. It is estimated that these options would not change the 2015 duration of total debt securities of 6.89, and the total duration of 4.25. It is estimated that these options would adjust the 2014 duration of total debt securities of 6.39 downward by approximately 0.03, and the total duration of 3.80 downward by approximately 0.03. One of the System's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolio in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the duration as presented above.

(E) *Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes* – The System may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The System also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped treasury and agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2015 and 2014, 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, 2015 and 2014, these securities amounted to $156,730,194 and $138,667,376, 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, 2015 and 2014, these securities amounted to $53,991,676 and $40,622,557, 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 2015 and 2014 these securities amounted to $11,861,972 and $14,992,213, respectively.

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

Classification between domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following tables summarize the System's exposure to non-U.S. dollar investments by asset type as of August 31, 2015 and 2014.

Investment Type	2015 Fair Value
Domestic Common Stock:	
Indian Rupee	$ 7,087
Taiwan Dollar	25,408
Total Domestic Common Stock	32,495
Foreign Common Stock:	
Australian Dollar	34,026,523
Brazilian Real	131,604,648
British Pound	183,830,805
Canadian Dollar	51,405,953
Chilean Peso	1,049,038
Chinese Yuan Renminbi	158,537,265
Colombian Peso	370,282
Czech Koruna	3,633,975
Danish Krone	10,330,166
Egyptian Pound	5,656,981
Euro	96,202,021
Hong Kong Dollar	295,088,291
Hungarian Forint	272,826
Indian Rupee	84,960,919
Indonesian Rupiah	22,462,556
Japanese Yen	423,089,992
Malaysian Ringgit	19,770,321
Mexican Peso	101,046,718
Norwegian Kroner	610,640
Philippine Peso	19,133,851
Polish Zloty	7,360,016
Qatari Riyal	6,408,395
Singapore Dollar	32,914,204
South African Rand	35,941,831
South Korean Won	306,831,904
Swedish Krona	6,237,813
Swiss Franc	11,602,840
Taiwan Dollar	73,671,431
Thai Baht	38,046,238
Turkish Lira	22,010,683
United Arab Emirates Dirham	4,213,847
Vietnamese Dong	14,955,371
Total Foreign Common Stock	2,203,278,344
Other Equity Securities:	
South African Rand	288
Taiwan Dollar	2,147
Thai Baht	3,870
Total Other Equity Securities	6,305
Foreign Preferred Stock:	
Brazilian Real	40,679,879
Chilean Peso	27,069
Colombian Peso	80,114
South African Rand	41,410
South Korean Won	17,645,598
Total Foreign Preferred Stock	58,474,070
Foreign Government & Provincial Obligations:	
Australian Dollar	158,054,690
Brazilian Real	123,576,345
British Pound	58,870,960

Investment Type	2015 Fair Value
Foreign Government & Provincial Obligations (cont.):	
Canadian Dollar	$ 36,184,327
Columbian Peso	13,393,862
Euro	354,908,825
Hungarian Forint	33,705,800
Indonesian Rupiah	34,517,604
Japanese Yen	174,354,425
Malaysian Ringgit	58,593,955
Mexican Peso	196,938,099
New Zealand Dollar	112,384,182
Norwegian Kroner	38,254,676
Polish Zloty	40,047,416
Singapore Dollar	13,300,579
South African Rand	61,570,422
South Korean Won	19,775,973
Swedish Krona	1,121,051
Total Foreign Government & Provincial Obligations	1,529,553,191
Corporate Obligations:	
Australian Dollar	31,283,239
British Pound	58,042,670
Danish Krone	8,368,541
Euro	80,296,474
Indian Rupee	917
Swedish Krona	2,387,468
Total Corporate Obligations	180,379,309
Investment Funds - Emerging Markets:	
Brazilian Real	23,712,422
Private Investments:	
Australian Dollar	24,338,164
British Pound	76,979,595
Canadian Dollar	187,769,600
Euro	275,980,718
Total Private Investments	565,068,077
Cash and Cash Equivalents:	
Australian Dollar	891,974
Brazilian Real	4,589,284
British Pound	809,361
Canadian Dollar	63,796
Chilean Peso	1,259
Chinese Yuan Renminbi	102,099,949
Colombian Peso	1,078,822
Czech Koruna	12,490
Danish Krone	1,085
Egyptian Pound	9,484
Euro	3,787,143
Hong Kong Dollar	265,088
Hungarian Forint	300
Indian Rupee	185,968
Indonesian Rupiah	146,606
Israeli Shekel	29,308
Japanese Yen	15,398,909
Malaysian Ringgit	73,010
Mexican Peso	1,203,016
New Zealand Dollar	1,078

Investment Type (cont.)		2015 Fair Value
Cash and Cash Equivalents (cont.):		
Norwegian Kroner	$	165,265
Peruvian Nuevo Sol		5,338
Philippine Peso		213,843
Polish Zloty		35,897
Qatari Riyal		39,878
Singapore Dollar		734
South African Rand		1,976,357
South Korean Won		4,568,309
Swedish Krona		29,134
Swiss Franc		1,891
Taiwan Dollar		409,530
Thai Baht		32,483
Turkish Lira		41,241
Vietnamese Dong		231,104
Total Cash and Cash Equivalents		138,398,934
Purchased Options:		
Euro		100,781
Japanese Yen		55,405
Total Purchased Options		156,186
Written Options:		
Brazilian Real		(60,495)
British Pound		(826)
Chinese Yuan Renminbi		(39,262)
Euro		(541,199)
Japanese Yen		(82,683)
Mexican Peso		(5,988)
Total Written Options		(730,453)
Swaps:		
Brazilian Real		(169,015)
British Pound		(143,395)
Euro		95,730,109
Japanese Yen		(586,375)
Mexican Peso		54,263
Swedish Krona		(56,669)
Swiss Franc		6,940,462
Total Swaps		101,769,380

Investment Type		2015 Fair Value
Futures:		
Australian Dollar	$	133
British Pound		(1,707)
Canadian Dollar		6,839
Euro		(140,253)
Total Futures		(134,988)
Foreign Exchange Contracts:		
Australian Dollar		7,445,421
Brazilian Real		6,427,020
British Pound		(315,413)
Canadian Dollar		708,361
Chilean Peso		(4,228,406)
Chinese Yuan Renminbi		(263,099)
Colombian Peso		851,156
Czech Koruna		5,246
Danish Krone		(162,448)
Euro		(1,613,010)
Hong Kong Dollar		(1)
Indian Rupee		(337,875)
Indonesian Rupiah		(938)
Israeli Shekel		(35,502)
Japanese Yen		10,061,028
Malaysian Ringgit		294,694
Mexican Peso		(1,153,615)
New Zealand Dollar		7,161,516
Norwegian Kroner		(748,027)
Philippine Peso		(739)
Polish Zloty		174,410
Russian Ruble		(7,728)
Singapore Dollar		728,622
South African Rand		173,188
South Korean Won		18,585
Swedish Krona		233,141
Swiss Franc		77,842
Taiwan Dollar		(4,058,656)
Thai Baht		22,034
Turkish Lira		(59,046)
Total Foreign Exchange Contracts		21,397,761
Total	$	4,821,361,033

Investment Type		2014 Fair Value
Domestic Common Stock:		
Indian Rupee	$	91,437
Taiwan Dollar		51,458
Total Domestic Common Stock		142,895
Foreign Common Stock:		
Australian Dollar		38,103,967
Brazilian Real		173,259,824
British Pound		238,945,447
Canadian Dollar		83,808,073
Chilean Peso		2,940,801
Chinese Yuan Renminbi		171,404,884
Colombian Peso		1,126,112
Czech Koruna		1,879,231
Danish Krone		14,798,399
Egyptian Pound		4,374,993
Euro		165,442,326
Hong Kong Dollar		325,592,002
Hungarian Forint		513,791
Indian Rupee		71,082,092
Indonesian Rupiah		36,328,351
Japanese Yen		490,750,862
Malaysian Ringgit		27,846,522
Mexican Peso		97,969,517
Philippines Peso		31,145,661
Polish Zloty		8,144,900
Qatari Riyal		475,382
Singapore Dollar		39,867,251
South African Rand		39,110,392
South Korean Won		267,227,000
Swedish Krona		23,052,023
Swiss Franc		21,200,157
Taiwan Dollar		76,552,068
Thai Baht		25,471,457
Turkish Lira		15,208,740
United Arab Emirates Dirham		2,494,785
Vietnamese Dong		8,009,250
Total Foreign Common Stock		2,504,126,260
Other Equity Securities:		
Brazilian Real		230
Canadian Dollar		26,544
Hong Kong Dollar		406,681
Indonesian Rupiah		146
South Korean Won		11,344
Taiwan Dollar		417
Thai Baht		9,850
Total Other Equity Securities		455,212
Foreign Preferred Stock:		
Brazilian Real		77,145,000
Colombian Peso		278,690
South African Rand		40,996
South Korean Won		11,191,737
Total Foreign Preferred Stock		88,656,423
Foreign Government & Provincial Obligations:		
Australian Dollar		178,797,281
Brazilian Real		173,465,291

Investment Type		2014 Fair Value
Foreign Government & Provincial Obligations (cont.):		
British Pound	$	87,774,534
Canadian Dollar		12,047,201
Columbian Peso		11,639,701
Euro		492,703,134
Hungarian Forint		34,126,611
Indonesian Rupiah		29,036,720
Japanese Yen		43,136,924
Malaysian Ringgit		55,117,871
Mexican Peso		223,137,043
New Zealand Dollar		122,870,064
Norwegian Kroner		44,865,587
Polish Zloty		83,606,184
Singapore Dollar		5,956,571
South African Rand		63,639,974
South Korean Won		55,493,986
Swedish Krona		28,601,089
Swiss Franc		327,525
Thai Baht		11,876,568
Total Foreign Government & Provincial Obligations		1,758,219,859
Corporate Obligations:		
Australian Dollar		46,564,003
British Pound		30,086,503
Danish Krone		569,006
Euro		92,390,236
Mexican Peso		1,646,048
Swedish Krona		2,925,068
Total Corporate Obligations		174,180,864
Investment Funds - Emerging Markets:		
Brazilian Real		30,417,079
British Pound		117,920,691
Hong Kong Dollar		3,304,556
Swedish Krona		1,996,093
Total Investment Funds - Emerging Markets		153,638,419
Investment Funds - Natural Resources:		
British Pound		2,883,615
Private Investments:		
Australian Dollar		21,005,663
British Pound		55,469,773
Canadian Dollar		193,653,508
Euro		328,917,853
Total Private Investments		599,046,797
Cash and Cash Equivalents:		
Australian Dollar		2,889,835
Brazilian Real		4,565,514
British Pound		949,932
Canadian Dollar		231,446
Chilean Peso		34,438
Chinese Yuan Renminbi		15,071,075
Colombian Peso		183,385
Czech Koruna		1,888
Danish Krone		986
Egyptian Pound		56,615
Euro		3,964,488
Hong Kong Dollar		3,351,052

Investment Type (cont.)	2014 Fair Value
Cash and Cash Equivalents (cont.):	
Hungarian Forint	327
Indian Rupee	291,868
Indonesian Rupiah	16,725
Israeli Shekel	1,860
Japanese Yen	10,089,912
Malaysian Ringgit	357,332
Mexican Peso	6,432,179
New Zealand Dollar	1,634
Norwegian Kroner	713
Peruvian Nuevo Sol	6,070
Philippine Peso	19,121
Polish Zloty	158,618
Singapore Dollar	1,203
South African Rand	24,774
South Korean Won	860,271
Swedish Krona	1,162
Swiss Franc	1,121
Taiwan Dollar	736,369
Thai Baht	20,395
Turkish Lira	39,806
Vietnamese Dong	166,181
Total Cash and Cash Equivalents	50,528,295
Purchased Options:	
Japanese Yen	540,179
Written Options:	
Australian Dollar	(25,204)
Brazilian Real	(402,839)
Euro	7,420
Japanese Yen	(539,180)
Mexican Peso	(1,170)
Total Written Options	(960,973)
Swaps:	
Brazilian Real	229,871
British Pound	(362,529)
Euro	36,109,832
Japanese Yen	1,480,770
Mexican Peso	281,825
Total Swaps	37,739,769

Investment Type		2014 Fair Value
Futures:		
Australian Dollar	$	(9,311)
British Pound		(7,820)
Canadian Dollar		(29,611)
Euro		(194,953)
Total Futures		(241,695)
Foreign Exchange Contracts:		
Australian Dollar		(1,237,891)
Brazilian Real		(2,434,806)
British Pound		(215,453)
Canadian Dollar		421,554
Chilean Peso		(2,959,887)
Chinese Yuan Renminbi		(202,289)
Colombian Peso		4,187
Czech Koruna		744,414
Danish Krone		(15,197)
Euro		3,938,769
Hong Kong Dollar		(4)
Hungarian Forint		116,892
Indian Rupee		386,227
Israeli Shekel		131,045
Japanese Yen		2,862,169
Malaysian Ringgit		211,700
Mexican Peso		1,046,974
New Zealand Dollar		2,900,903
Norwegian Kroner		7,262
Polish Zloty		1,256,773
Russian Ruble		16,437
Singapore Dollar		3,340
South African Rand		(109,094)
South Korean Won		4,005,572
Swedish Krona		324,446
Swiss Franc		873,678
Taiwan Dollar		278,108
Thai Baht		6,943
Turkish Lira		(12,195)
Total Foreign Exchange Contracts		12,350,577
Total	$	5,381,306,496

(G) *Counterparty (Credit) Risk* – The derivative instruments utilized by the System contain varying degrees of off-statement of net position risk whereby changes in the fair values of securities underlying the financial instruments may exceed the amounts recognized in the statement of net position. The System manages these risks on an aggregate basis along with the risks associated with its other investments as part of its overall risk management process.

The System had gross counterparty exposure as follows as of August 31, 2015 and 2014 for options, swaps, and foreign currency exchange contracts:

Options

	Assets	Liabilities	Assets	Liabilities	
	Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	Counterparty Rating
$	7,161,569,751	4,325,383,920	39,626,150	23,731,630	A
$	7,161,569,751	4,325,383,920	39,626,150	23,731,630	

Swaps

	Assets	Liabilities	Assets	Liabilities	
	Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	Counterparty Rating
$	110,158,339	206,719,746	99,922,415	104,204,008	A
$	110,158,339	206,719,746	99,922,415	104,204,008	

Foreign Currency Exchange Contracts

	Assets	Liabilities	Assets	Liabilities	
	Notional	Notional	Fair Value as of August 31, 2015	Fair Value as of August 31, 2015	Counterparty Rating
$	1,505,585,014	926,426,714	46,372,524	24,932,219	A
	-	2,763,208	-	42,544	AA
$	1,505,585,014	929,189,922	46,372,524	24,974,763	

Options

Assets	Liabilities	Assets	Liabilities	
Notional	Notional	Fair Value as of August 31, 2014	Fair Value as of August 31, 2014	Counterparty Rating
$ 11,025,640,000	131,383,410	2,154,651	1,298,885	A
$ 11,025,640,000	131,383,410	2,154,651	1,298,885	

Swaps

Assets	Liabilities	Assets	Liabilities	
Notional	Notional	Fair Value as of August 31, 2014	Fair Value as of August 31, 2014	Counterparty Rating
$ 221,557,729	79,716,494	39,176,207	37,581,607	A
$ 221,557,729	79,716,494	39,176,207	37,581,607	

Foreign Currency Exchange Contracts

Assets	Liabilities	Assets	Liabilities	
Notional	Notional	Fair Value as of August 31, 2014	Fair Value as of August 31, 2014	Counterparty Rating
$ 1,871,213,349	1,083,534,045	26,859,671	14,833,457	A
39,229,960	5,329,455	407,402	83,039	AA
$ 1,910,443,309	1,088,863,500	27,267,073	14,916,496	

As of August 31, 2015 and 2014, the System also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures contracts and exchange-cleared swaps expose the System to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees the futures against default, and therefore, they are not presented in the previous tables.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the System and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the System to cover the System's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the System in one of its accounts at the System's custodian bank. As of August 31, 2015 and 2014, the System held $34,057,232 and $22,455,000, respectively, as collateral related to derivative instruments other than futures, and had on deposit with brokers $27,585,416 and $8,238,291, respectively, as collateral related to derivative instruments other than futures.

SECURITIES LENDING

In accordance with the prudent investor investment standards, the System participates in a securities lending program. The System began the program, under a contract with the System's lending agent, on September 1, 1995. The lending agent is authorized to lend any securities held by the System's custodian except those securities, which the policy guidelines prohibit lending. At August 31, 2015 and 2014, there were a total of $853,955,197 and $1,049,551,284, respectively, of securities out on loan to brokers/dealers. A combination of cash and qualified non-cash securities are held as collateral against the outstanding securities on loan. The value of cash collateral held for these securities consisted of $687,047,330 at August 31, 2015 and $997,969,911 at August 31, 2014. These amounts are recorded as assets, with an offsetting liability to return the collateral on the consolidated statement of net position. The qualified non-cash securities received as collateral for securities lending activities are not recorded as assets because these securities remain under the control of the transferor, except in the event of default.

In security lending transactions, the System transfers its securities to brokers/dealers for collateral, which may be cash, securities issued or guaranteed by the United States government or its agencies, and irrevocable bank letters of credit, and simultaneously agrees to return the collateral for the same securities in the future.

Cash received as collateral for securities lending activities is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established in the securities lending contract between the System and its securities lending agent. Pool investments are valued at cost which is indicative of fair value. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. The System was collateralized 104 percent on August 31, 2015 and 103 percent on August 31, 2014 for securities on loan collateralized by cash. The System's collateral pool investments, rating by NRSRO and weighted average maturity in days as of August 31, 2015 and 2014, are shown in the following table:

		August 31, 2015			August 31, 2014		
Description		**Fair Value**	**Rating**	**Weighted Average**	**Fair Value**	**Rating**	**Weighted Average**
Repurchase Agreements	$	397,094,667	No Rating	1	249,215,702	No Rating	2
Commercial Paper		51,650,824	P	18	488,769,723	P	59
Corporate Obligations		21,232,860	AA		27,299,285	AA	
Corporate Obligations		36,167,832	A		25,183,356	A	
Total Corporate Obligations		57,400,692		44	52,482,641		38
International Obligations		102,095,975	AA		128,617,796	AA	
International Obligations		78,809,161	A		45,114,474	A	
Total International Obligations		180,905,136		24	173,732,270		41
Negotiable Certificates of Deposit		-			33,816,832	P	71
Other Receivables/Payables		(3,989)	Not Rated		(47,257)	Not Rated	
Total Collateral Pool Investment	$	687,047,330		12	997,969,911		41

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

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

Loans that are collateralized with securities generate income when the borrower pays a loan premium or fee for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. On both August 31, 2015 and 2014, the System held collateral equal to 102 percent of the securities on loan that were collateralized by non-cash securities.

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

For non-U. S. issuers, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. The System was collateralized 109 percent for international loans on August 31, 2015 and 108 percent for international loans on August 31, 2014.

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, 2015 and 2014, 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, 2015 and 2014.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During the years ended August 31, 2015 and 2014, the asset classes that used futures include domestic and foreign debt and commodities. The change in fair value of open futures contracts for the year ending August 31, 2015 was an increase of $72,492,652. The change in fair value of open futures contracts for the year ending August 31, 2014 was an increase of $36,178,067, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System had $5,943,633 and $8,410,014 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2015 and 2014, respectively. Short futures may be used by internal managers and a limited number of external managers of the System to hedge the System's interest rate or currency risk associated with security positions. The amount of the net realized loss on the futures contracts was $281,118,507 for the year ended August 31, 2015. The amount of the net realized gain on the futures contracts was $8,866,299 for the year ended August 31, 2014. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

During the years ended August 31, 2015 and 2014, certain of the System's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the carrying and fair value as of August 31, 2015 and 2014.

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2015:

		Notional Value at August 31, 2015		Carrying and Fair Value at August 31, 2015	
		Long	Short	Assets	Liabilities
Commodity Futures	$	937,002,476	214,202,851	19,866,783	63,370,536
Domestic Fixed Income		190,379,282	-	-	226,568
International Fixed Income Futures		114,976,424	104,555,662	19,961	149,886
Totals	$	1,242,358,182	318,758,513	19,886,744	63,746,990

The following discloses the notional, carrying and fair values of futures contracts at August 31, 2014:

		Notional Value at August 31, 2014		Carrying and Fair Value at August 31, 2014	
		Long	Short	Assets	Liabilities
Commodity Futures	$	887,726,488	158,203,161	8,495,443	17,847,796
Domestic Fixed Income		45,874,352	213,531	1,187	29,687
International Fixed Income Futures		247,662,178	80,146,626	7,417	243,537
Totals	$	1,181,263,018	238,563,318	8,504,047	18,121,020

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

The following tables summarize, by currency, the contractual amounts of the System's foreign exchange contracts at August 31, 2015 and 2014. Foreign currency amounts are translated at exchange rates as of August 31, 2015 and 2014. 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, 2015	Net Sell August 31, 2015	Unrealized Gains on Foreign Exchange Contracts August 31, 2015	Unrealized Losses on Foreign Exchange Contracts August 31, 2015
Australian Dollar	$	-	125,522,949	7,630,326	184,905
Brazilian Real		-	52,655,976	9,031,797	2,604,777
British Pound		-	36,592,567	796,586	1,111,999
Canadian Dollar		14,369,158	-	1,404,504	696,143
Chilean Peso		58,075,202	-	-	4,228,406
Chinese Yuan Renminbi		-	8,811,460	286,327	549,426
Columbian Peso		-	13,416,517	851,156	-
Czech Koruna		151,238	-	5,246	-
Danish Krone		-	6,769,088	-	162,448
Euro		80,171,943	-	2,433,225	4,046,236
Hong Kong Dollar		-	5,054	-	1
Indian Rupee		46,572,772	-	-	337,875
Indonesian Rupiah		-	272,943	-	938
Israeli Shekel		851,347	-	-	35,502
Japanese Yen		67,259,071	220,970,382	12,270,135	2,209,107
Malaysian Ringgit		-	8,597,985	369,185	74,491
Mexican Peso		-	25,883,025	1,924,325	3,077,940
New Zealand Dollar		-	130,855,481	7,377,229	215,713
Norwegian Kroner		34,288,206	-	-	748,027
Philippines Peso		-	571,365	-	739
Polish Zloty		11,850,735	-	175,123	713
Russian Ruble		447,719	-	4,304	12,032
Singapore Dollar		-	55,834,180	756,352	27,730
South African Rand		-	7,857,635	201,545	28,357
South Korean Won		-	8,619,058	485,805	467,220
Swedish Krona		32,242,900	-	247,968	14,827
Swiss Franc		4,761,016	-	77,842	-
Taiwan Dollar		156,638,438	-	10,066	4,068,722
Thailand Baht		-	3,034,360	22,034	-
Turkish Lira		835,771	-	11,443	70,489
TOTAL	$	508,515,516	706,270,025	46,372,523	24,974,763

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2015 was an increase in the amount of $21,224,691, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

Currency		Net Buy August 31, 2014	Net Sell August 31, 2014	Unrealized Gains on Foreign Exchange Contracts August 31, 2014	Unrealized Losses on Foreign Exchange Contracts August 31, 2014
Australian Dollar	$	-	147,134,776	195,958	1,433,849
Brazilian Real		-	97,249,403	500,490	2,935,296
British Pound		21,370,433	-	650,938	866,391
Canadian Dollar		45,336,083	-	442,895	21,341
Chilean Peso		59,057,658	-	-	2,959,887
Chinese Yuan Renminbi		406,707	-	-	202,289
Columbian Peso		-	11,124,964	93,717	89,530
Czech Koruna		-	33,679,118	749,848	5,434
Danish Krone		1,438,311	-	20,479	35,676
Euro		-	229,670,052	4,163,956	225,187
Hong Kong Dollar		-	408,876	-	4
Hungarian Forint		-	11,428,060	127,379	10,487
Indian Rupee		45,354,591	-	482,255	96,028
Israeli Shekel		-	10,670,672	152,209	21,164
Japanese Yen		54,278,869	263,023,379	7,494,259	4,632,090
Malaysian Ringgit		25,590,198	-	231,788	20,088
Mexican Peso		1,962,382	32,051,170	1,756,771	709,797
New Zealand Dollar		-	157,739,919	3,056,850	155,947
Norwegian Kroner		532,767	-	10,746	3,484
Polish Zloty		-	35,240,810	1,308,014	51,241
Russian Ruble		761,109	-	160,022	143,585
Singapore Dollar		851,572	-	5,128	1,788
South African Rand		-	16,384,560	30,753	139,847
South Korean Won		106,767,304	-	4,047,864	42,292
Swedish Krona		-	22,867,775	377,057	52,611
Swiss Franc		-	42,973,120	921,438	47,760
Taiwan Dollar		177,616,647	-	278,108	-
Thailand Baht		1,008,455	-	7,011	68
Turkish Lira		1,145,267	-	1,140	13,335
TOTAL	$	543,478,353	1,111,646,654	27,267,073	14,916,496

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2014 was an increase in the amount of $12,452,576, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

(C) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks, so that the actual risk/return profile is more closely aligned with the target risk/return profile. The fair value is included on the consolidated statement of net position in investment derivatives-liability positions. During the year, the System wrote call options on interest rate swaps, commodities, currencies, and equities. The following discloses the contracts outstanding, the expiration date and the fair values of the outstanding written call options contracts as of August 31, 2015 and 2014:

				Fair Value at August 31, 2015	
Type	**Underlying**	**Contracts**	**Expiration Date**	**Assets**	**Liabilities**
Interest Rate Swap					
	5 year EURIBOR Rate	8,200,000	04/29/2016	-	4,665
	30 year EURIBOR Rate	4,600,000	11/26/2015	-	190,596
				-	195,261
Commodity					
	Crude Oil Futures	197	09/17/2015	-	7,880
				-	7,880
Currency					
	BRL/USD Spot Option	3,400,000	11/25/2015	-	55,672
	CNY/USD Spot Option	3,350,000	02/05/2016	-	44,585
				-	100,257
Equity					
	Private Investment	100,000	01/07/2016	-	225,635
	Private Investment	3,200,000	01/15/2016	-	6,874,522
				-	7,100,157
				-	7,403,555

The change in fair value of open call options for the year ending August 31, 2015, was an increase in the amount of $12,474,781, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System recognized gains in the amount of $12,779,375 on call options written, which are included in investment income on the consolidated statement of revenues, expenses and changes in net position for the year ended August 31, 2015.

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2014 Assets	Fair Value at August 31, 2014 Liabilities
Currency					
	AUD/USD Spot	4,900,000	11/26/2014	$ -	$ 25,204
	BRL/USD Spot	2,500,000	09/09/2014	-	86
	BRL/USD Spot	1,000,000	09/11/2014	-	241
	BRL/USD Spot	2,400,000	09/25/2014	-	979
	BRL/USD Spot	2,100,000	09/26/2014	-	720
	BRL/USD Spot	2,200,000	03/11/2015	-	22,557
	BRL/USD Spot	4,400,000	05/29/2015	-	65,340
	BRL/USD Spot	1,700,000	06/02/2015	-	24,109
	BRL/USD Spot	4,200,000	06/08/2015	-	61,524
	BRL/USD Spot	2,000,000	06/10/2015	-	37,382
	BRL/USD Spot	3,300,000	06/15/2015	-	63,710
	BRL/USD Spot	4,200,000	06/21/2016	-	126,189
	MXN/USD Spot	4,400,000	09/11/2014	-	1,170
				-	429,211
Equity					
	Laredo Petroleum Inc.	6	01/17/2015	-	282
	Rosetta Resources, Inc.	12	01/17/2015	-	2,400
				-	2,682
Other					
	Euro-Bund Futures	57	09/26/2014	-	7,218
				-	7,218
				$ -	$ 439,111

The change in fair value of open call options for the year ending August 31, 2014, was an increase in the amount of $255,934, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System recognized gains in the amount of $26,624,940 on call options written, which are included in investment income on the consolidated statement of revenues, expenses and changes in net position for the year ended August 31, 2014.

The System also wrote put options on interest rate and credit default swaps, commodities, equities and other options for the years ended August 31, 2015 and 2014. The following discloses the contracts outstanding, the expiration date and the fair values of the outstanding written put options contracts as of August 31, 2015 and 2014:

				Fair Value at August 31, 2015	
Type	**Underlying**	**Contracts**	**Expiration Date**	**Assets**	**Liabilities**
Interest Rate Swap					
	5 year EURIBOR rate	8,200,000	04/29/2016	-	263,511
	30 year EURIBOR rate	1,900,000	09/11/2015	-	155,881
	U.S. 3 month LIBOR	23,600,000	09/21/2015	-	21
				-	419,413
Credit Default Swap					
	Markit ITraxx Europe Index Series 23	13,900,000	09/16/2015	-	3,905
				-	3,905
Commodity					
	Crude Oil Futures	7	11/17/2015	-	137,690
	Crude Oil Futures	71	11/26/2017	-	45,420
	Natural Gas Futures	256	09/25/2015	-	332,800
				-	515,910
Equity					
	Private Investment	100,000	01/07/2016	-	333,436
	Private Investment	3,200,000	01/15/2016	-	15,566,336
				-	15,899,772
Currency					
	BRL/USD Spot Option	3,400,000	09/23/2015	-	4,825
	MCN/USD Spot Option	6,600,000	10/08/2015	-	6,815
				-	11,640
Other					
	CPI Urban Consumer Not Seasonally Adjusted	1,300,000	09/29/2020	-	1,225
				-	1,225
				-	16,851,865

The change in fair value of open put options for the year ending August 31, 2015, was a decrease in the amount of $4,523,162, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System recognized losses in the amount of $2,832,396 on put options written which are included in investment income on the consolidated statement of revenues, expenses and changes in net position for the year ended August 31, 2015.

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2014 Assets	Liabilities
Interest Rate Swap					
	U.S. 3 month LIBOR	23,600,000	09/21/2015	$ -	$ 300,633
				-	300,633
Credit Default Swap					
	Markit ITraxx Europe Index Series 21	4,600,000	09/17/2014	-	142
	Markit ITraxx Europe Index Series 21	8,300,000	12/14/2014	-	12,882
	Markit ITraxx Europe Index Series 21	9,800,000	12/17/2014	-	9,347
	Markit CDX North America Inv. Grade Index Series 22	12,400,000	12/17/2014	-	6,797
				-	29,168
Commodity					
	Crude Oil Futures	7	11/17/2015	-	5,320
				-	5,320
Equity					
	Apple Inc.	98	01/17/2015	-	686
				-	686
Currency					
	JPY/USD Spot	9,200,000	02/18/2016	-	94,512
	JPY/USD Spot	3,500,000	04/21/2016	-	61,587
	JPY/USD Spot	3,200,000	05/19/2016	-	47,718
	JPY/USD Spot	3,900,000	02/18/2019	-	139,647
	JPY/USD Spot	5,400,000	02/28/2019	-	195,718
				-	539,182
Other					
	CPI Urban Consumer Not Seasonally Adjusted	1,300,000	09/29/2020	-	690
	Euro-Bund Futures	214	09/26/2014	37,007	-
				37,007	690
				$ 37,007	$ 875,679

The change in fair value of open put options for the year ending August 31, 2014, was an increase in the amount of $1,335,686, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position. The System recognized gains in the amount of $2,867,793 on put options written which are included in investment income on the consolidated statement of revenues, expenses and changes in net position for the year ended August 31, 2014.

(D) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. During the year, the System entered into interest rate, equity, credit default, currency, inflation, volatility and commodity swap contracts. The fair value of the asset positions is included in investments, and the fair value of the liability positions is included in investment derivatives-liability positions on the consolidated statement of net position. The following discloses the notional amount (presented in US dollar equivalents), the coupon rate and the fair values of the outstanding swap contracts as of August 31, 2015:

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2015 Assets	Liabilities
Interest Rate (Pay-Fixed Receive-Variable):					
British Pound	Receive 6 month British LIBOR Pay 1.500%	$ 11,842,600	9/16/2020	$ -	51,926
Euro	Receive 6 month EURIBOR Pay 0.150%	29,357,100	9/16/2017	31,337	-
Japanese Yen	Receive 6 month Yen LIBOR Pay 0.150%	76,331,000	3/22/2018	20,944	-
	Receive 6 month Yen LIBOR Pay 1.250%	2,805,680	6/17/2035	44,467	-
Mexican Peso	Receive Mexican Interbank Rate Pay 4.300%	5,828,392	9/01/2016	17,497	-
	Receive Mexican Interbank Rate Pay 5.560%	166,866	11/11/2021	-	2,307
	Receive Mexican Interbank Rate Pay 5.610%	1,960,676	07/07/2021	-	10,605
	Receive Mexican Interbank Rate Pay 5.615%	6,180,003	06/02/2020	56,775	-
	Receive Mexican Interbank Rate Pay 5.620%	1,013,115	11/09/2021	-	10,448
	Receive Mexican Interbank Rate Pay 5.630%	524,436	07/07/2021	-	2,281
	Receive Mexican Interbank Rate Pay 5.630%	727,060	10/11/2021	-	5,981
	Receive Mexican Interbank Rate Pay 5.640%	297,975	06/04/2021	-	744
	Receive Mexican Interbank Rate Pay 6.000%	3,736,607	07/18/2022	12,356	-
Swedish Krona	Receive 3 month STIBOR Pay 1.013%	801,394	01/23/2025	-	14,076
	Receive 3 month STIBOR Pay 1.023%	648,185	01/23/2025	-	10,761
	Receive 3 month STIBOR Pay 1.033%	683,542	01/23/2025	-	10,690
	Receive 3 month STIBOR Pay 1.036%	777,824	01/23/2025	-	11,884
	Receive 3 month STIBOR Pay 1.080%	353,556	01/26/2025	-	4,429
	Receive 3 month STIBOR Pay 1.085%	400,697	01/26/2025	-	4,827

(Continued)

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2015 Assets	Fair Value at August 31, 2015 Liabilities
U.S. Dollar	Receive 3 month US Dollar LIBOR Pay 2.500%	2,300,000	12/16/2035	-	65,242
	Receive 3 month US Dollar LIBOR Pay 2.750%	4,400,000	12/16/2045	-	3,725
		151,136,708		183,376	209,926
Interest Rate (Pay-Variable Receive-Fixed):					
Brazilian Real	Receive 11.320% Pay Brazil Cetip Interbank Deposit	3,294,672	01/04/2016	-	23,461
	Receive 12.230% Pay Brazil Cetip Interbank Deposit	3,377,039	01/04/2021	-	145,555
British Pound	Receive 1.500% Pay 6 month British LIBOR	10,766,000	09/16/2017	-	99,557
	Receive 1.500% Pay 6 month British LIBOR	1,845,600	03/16/2018	-	9,402
	Receive 1.750% Pay 6 month British LIBOR	32,144,200	09/16/2018	-	179,686
	Receive 2.000% Pay 6 month British LIBOR	6,613,400	09/16/2025	-	7,566
	Receive 2.000% Pay 6 month British LIBOR	5,459,900	09/16/2045	207,965	-
	Receive 2.250% Pay 6 month British LIBOR	2,383,900	03/16/2046	-	29,650
	Receive 3.000% Pay 6 month British LIBOR	307,600	09/16/2045	-	58,646
Euro	Receive 0.750% Pay 6 month EURIBOR	9,636,300	09/16/2025	306,962	-
	Receive 1.500% Pay 6 month EURIBOR	12,101,400	03/16/2046	379,822	-
	Receive 2.307% Pay 6 month EURIBOR	1,120,500	10/21/2044	-	61,518
Japanese Yen	Receive 0.250% Pay 6 month Yen LIBOR	825,200	09/18/2015	-	465
	Receive 0.500% Pay 6 month Yen LIBOR	36,556,360	09/17/2021	-	526,508
	Receive 1.500% Pay 6 month Yen LIBOR	5,446,320	12/20/2044	-	124,812
U.S. Dollar	Receive 1.300% Pay 3 month US Dollar LIBOR	214,600,000	05/06/2017	-	635,400
	Receive 1.500% Pay 3 month US Dollar LIBOR	105,800,000	12/16/2017	-	889,517

(Continued)

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2015 Assets	Liabilities
	Receive 2.250% Pay 3 month US Dollar LIBOR	130,300,000	12/16/2022	-	1,527,498
	Receive 2.300% Pay 3 month US Dollar LIBOR	8,600,000	01/13/2023	-	109,339
	Receive 2.500% Pay 3 month US Dollar LIBOR	26,600,000	12/16/2025	-	395,637
		617,778,391		894,749	4,824,217
Credit Default:					
Euro	1.000%	6,947,100	12/20/2019	63,056	75,833
	1.000%	1,568,700	03/20/2020	-	34,496
	1.000%	161,127,900	06/20/2020	2,416,986	-
	1.000%	1,344,600	03/20/2025	-	28,278
U.S. Dollar	0.250%	14,500,000	03/20/2020	-	6,067
	0.250%	1,300,000	06/20/2020	-	1,659
	0.510%	800,000	03/20/2018	-	8,780
	0.750%	1,000,000	09/20/2017	-	14,836
	0.862%	1,800,000	11/20/2016	22,409	-
	0.900%	1,000,000	06/20/2019	-	25,712
	0.990%	200,000	09/20/2015	-	103
	1.000%	2,800,000	03/20/2017	-	6,462
	1.000%	4,900,000	03/20/2019	-	328,144
	1.000%	200,000	06/20/2019	-	5,985
	1.000%	2,200,000	09/20/2019	3,909	119,204
	1.000%	27,600,000	06/20/2020	284,949	-
	1.000%	1,000,000	09/20/2022	36,617	-
	1.060%	680,000	03/20/2018	-	13,939
	1.350%	400,000	03/20/2018	-	12,408
	1.530%	500,000	09/20/2016	-	9,206
	2.700%	1,000,000	03/20/2019	-	75,709
		232,868,300		2,827,926	766,821
Inflation:					
British Pound	3.310%	922,800	05/15/2030	14,300	-
	3.311%	769,000	05/15/2030	12,053	-
	3.313%	538,300	05/15/2030	8,581	-
	3.493%	307,600	15/15/2045	381	-
	3.495%	307,600	15/15/2045	723	-
	3.503%	153,800	15/15/2045	875	-
	3.535%	922,800	15/15/2045	18,668	-
	3.537%	615,200	15/15/2045	12,998	-
	3.543%	692,100	15/15/2045	16,492	-
		5,229,200		85,071	-
Commodity:					
U.S. Dollar	Gold	915,375	01/29/2016	-	108,587
	Platinum	990,576	10/30/2015	-	202,245
	S&P GSCI Grains	3,453,497	01/29/2016	-	127,435
	S&P GSCI Grains	4,490,859	02/26/2016	-	165,736
	S&P GSCI Grains	6,121,971	03/30/2016	-	225,933
	S&P GSCI Industrial Metals	703,116	02/26/2016	-	13,735
	S&P GSCI Industrial Metals	896,906	03/30/2016	-	17,516
	Uranium Physical Spot Price	2,041,140	12/18/2015	45,143	-
	Uranium Physical Spot Price	1,037,173	09/25/2015	-	51,887
	Uranium Physical Spot Price	686,980	01/29/2016	32,582	-
	Uranium Physical Spot Price	7,893,973	02/26/2016	-	15,445
		29,231,566		77,725	928,519

(Continued) Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2015 Assets	Liabilities
Currency:					
Euro		76,418,100	12/16/2020	77,252,319	-
		15,306,030	12/16/2025	15,479,751	-
Swiss Franc		6,928,290	12/16/2017	6,943,365	-
U.S. Dollar		7,139,409	12/16/2017	-	7,139,409
		75,380,180	12/16/2020	-	75,380,180
		14,987,350	12/16/2025	-	14,987,350
		196,159,359		99,675,435	97,506,939
Volatility:					
Swiss Franc/Euro	8.350%	16,545	08/16/2016	-	502
	8.450%	8,272	08/16/2016	-	21,291
	8.650%	8,272	08/16/2016	2,260	-
	8.700%	7,238	08/16/2016	1,915	-
Swiss Franc/U.S. Dollar	10.250%	8,272	08/16/2016	5,849	-
	10.450%	8,272	08/16/2016	4,551	-
	10.550%	16,545	08/16/2016	6,675	-
	10.900%	7,238	08/16/2016	-	2,361
		80,654		21,250	24,154
Equity:					
U.S. Dollar	MSCI Taiwan Index	40,183,345	01/13/2016	-	4,808,559
Total		1,272,667,523		103,765,532	109,069,135

The change in fair value of open swap positions for the year ending August 31, 2015, was a decrease in the amount of $5,142,178, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

The following discloses the notional amount (presented in US dollar equivalents), the coupon rate and the fair values of the outstanding swap contracts as of August 31, 2014:

Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2014 Assets	Liabilities
Interest Rate (Pay-Fixed Receive-Variable):					
Brazilian Real	Receive Brazil Cetip Interbank Deposit Pay 11.000%	$ 19,619,655	01/04/2021	$ 5,782	$ 822
Japanese Yen	Receive 6 month Yen LIBOR Pay 1.500%	32,632,140	06/19/2033	1,362,057	-
Mexican Peso	Receive Mexican Interbank Rate Pay 5.610%	9,812,257	07/07/2021	49,426	-
	Receive Mexican Interbank Rate Pay 5.630%	1,001,875	07/07/2021	5,756	-
	Receive Mexican Interbank Rate Pay 5.640%	382,395	06/04/2021	2,904	-
	Receive Mexican Interbank Rate Pay 6.600%	443,579	05/21/2029	7,707	-
U.S. Dollar	Receive 3 month US Dollar LIBOR Pay 3.000%	21,100,000	06/20/2023	-	152,059
	Receive 3 month US Dollar LIBOR Pay 3.500%	500,000	12/17/2044	39,207	-
	Receive 3 month US Dollar LIBOR Pay 4.500%	2,700,000	06/19/2024	138,912	-
		88,191,901		1,611,751	152,881
Interest Rate (Pay-Variable Receive-Fixed):					
Brazilian Real	Receive 10.910% Pay Brazil Cetip Interbank Deposit	39,239,314	01/02/2017	224,912	-
British Pound	Receive 1.750% Pay 6 month British LIBOR	107,118,375	12/17/2016	-	259,897
	Receive 3.500% Pay 6 month British LIBOR	664,300	09/17/2044	-	102,633
Euro	Receive 2.000% Pay 6 month EURIBOR	6,059,120	09/17/2024	-	537,082
	Receive 2.750% Pay 6 month EURIBOR	2,107,520	09/17/2044	-	518,951
Japanese Yen	Receive 0.250% Pay 6 month Yen LIBOR	962,600	09/18/2015	-	1,008
Mexican Peso	Receive 5.610% Pay Mexican Interbank Rate	4,864,065	07/07/2021	17,664	-
	Receive 6.600% Pay Mexican Interbank Rate	1,674,890	05/21/2029	28,588	-
	Receive 6.985% Pay Mexican Interbank Rate	688,311	05/19/2034	25,763	-

(Continued) Currency		USD Notional Value	Maturity Date	Fair Value at August 31, 2014 Assets	Liabilities
Interest Rate (Pay-Variable Receive-Fixed):					
Mexican Peso	Receive 7.140% Pay Mexican Interbank Rate	520,058	04/26/2034	28,521	-
	Receive 7.380% Pay Mexican Interbank Rate	1,223,664	02/09/2029	115,494	-
U.S. Dollar	Receive 0.750% Pay 3 month US Dollar LIBOR	24,200,000	12/17/2016	88,509	-
	Receive 1.000% Pay 3 month US Dollar LIBOR	3,800,000	12/17/2016	-	5,020
	Receive 1.250% Pay 3 month US Dollar LIBOR	3,900,000	03/18/2017	-	7,889
	Receive 1.250% Pay 3 month US Dollar LIBOR	126,000,000	06/17/2017	310,909	-
	Receive 2.500% Pay 3 month US Dollar LIBOR	51,100,000	06/18/2021	-	1,526,609
	Receive 3.000% Pay 3 month US Dollar LIBOR	1,900,000	12/17/2024	-	69,010
		376,022,217		840,360	3,028,099
Credit Default:					
Euro	0.250%	1,448,920	12/20/2014	1,630	-
	1.000%	1,448,920	03/20/2019	16,358	-
	1.000%	9,615,560	06/20/2019	138,416	7,305
	1.000%	658,600	03/20/2021	-	2,265
Japanese Yen	1.000%	924,096	12/20/2018	20,359	-
	1.000%	5,005,520	06/20/2019	99,363	-
U.S. Dollar	0.510%	800,000	03/20/2018	-	12,162
	0.590%	1,000,000	09/20/2014	-	1,531
	0.750%	1,000,000	09/20/2017	-	20,498
	0.820%	1,000,000	03/20/2018	-	22,306
	0.862%	1,800,000	11/20/2016	35,530	-
	0.900%	1,000,000	06/20/2019	-	29,123
	0.990%	200,000	09/20/2015	-	2,396
	1.000%	1,300,000	06/20/2015	11,318	-
	1.000%	9,100,000	06/20/2018	276,114	-
	1.000%	10,800,000	03/20/2019	38,545	30,258
	1.000%	41,000,000	06/20/2019	872,574	6,882
	1.000%	7,800,000	09/20/2019	153,876	15,272
	1.060%	680,000	03/20/2018	-	14,155
	1.350%	400,000	03/20/2018	-	17,967
	1.380%	2,000,000	03/20/2017	-	55,683
	1.530%	500,000	09/20/2016	-	14,991
	2.700%	1,000,000	03/20/2019	-	95,334
	2.930%	300,000	06/20/2015	-	8,697
	5.000%	2,700,000	06/20/2019	550,233	-
		103,481,616		2,214,316	356,825
Commodity:					
U.S. Dollar	Gold	900,497	01/30/2015	14,068	-
	Platinum	1,114,555	10/31/2014	-	6,534
	S&P GSCI Grains	5,231,908	02/27/2015	-	-
	S&P GSCI Grains	7,132,175	03/31/2015	-	54,586
	S&P GSCI Grains	4,023,369	07/31/2015	-	30,793
	S&P GSCI Industrial Metals	972,295	02/27/2015	7,501	-
	S&P GSCI Industrial Metals	1,240,272	03/31/2015	9,571	-
	Uranium Physical Spot Price	722,313	11/21/2014	-	94,797
	Uranium Physical Spot Price	125,742	12/19/2014	-	73

(Continued)				Fair Value at August 31, 2014	
Currency		USD Notional Value	Maturity Date	Assets	Liabilities
Commodity:					
	Uranium Physical Spot Price	62,968	01/30/2015	-	160
		21,526,094		31,140	186,943
Currency:					
Euro		37,013,320	12/17/2019	37,019,030	-
U.S. Dollar		37,037,019	12/17/2019	-	37,037,018
		74,050,339		37,019,030	37,037,018
Equity:					
U.S. Dollar	MSCI Taiwan Index	41,535,851	01/13/2015	241,987	-
	MSCI Korea Index	38,836,364	05/29/2015	228,336	-
		80,372,215		470,323	-
Total		$ 743,644,382		$ 42,186,920	$ 40,761,766

The change in fair value of open swap positions for the year ending August 31, 2014, was an increase in the amount of $1,513,713, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

(E) *Investment Funds* – The System's investment funds include exchange traded funds, index funds, Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures, which are generally unrated and may be unregulated. These investments are recorded on System's statement of net position at fair value.

The System invests in hedge fund pools which are invested in private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed $360,204,563 and $211,315,684 of future funding to various hedge fund investments as of August 31, 2015 and 2014, respectively.

The System invests in private investments through private investment pools which are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The System had committed $6,131,575,809 and $4,772,443,769 of future funding to various private investments as of August 31, 2015 and 2014, respectively.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain of these investments are held through limited liability companies of which UTIMCO is the sole managing member. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. As of August 31, 2015, future fundings in the amount of $54,244,444 have been committed to certain public market funds. As of August 31, 2014, future fundings in the amount of $54,744,444 have been committed to certain public market funds. Due to the differences between international time zones, it may be necessary for the System to provide funding for certain managers in advance of the desired investment date to facilitate trading in the international market by the investment manager.

Hedge funds, private investments and public market funds include investments in private placement vehicles that are subject to risk, which could result in the loss of invested capital. The risks include the following:

- *Key personnel risk* – The success of certain funds is substantially dependent upon key investment managers and the loss of those individuals may adversely impact the fund's performance.
- *Liquidity risk* – Many of the System's investment funds may impose lock-up periods, which would cause the System to incur penalties to redeem its units or prevent the System from redeeming its shares until a certain period of time has elapsed.
- *Limited transparency* – As private placement investment vehicles, these funds may not disclose the holdings of their portfolios.
- *Investment strategy risk* – These funds often employ sophisticated investment strategies and may use leverage, wh*ic*h could result in the loss of invested capital.

Investments in hedge funds, private investments and public market funds are also subject to the investment risks previously discussed under the heading of Investment Risks. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

The fair values of these various investment funds, excluding the publicly traded funds, as of August 31, 2015 and 2014 were $23,666,960,371 and $22,389,663,607, respectively.

7. Derivative Instruments

Derivatives are financial instruments the value of which is derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include forwards, futures, options and swaps. Hedging derivative contracts are entered into for the purpose of reducing the overall cost of borrowing long-term capital and to protect the System against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the System to issue bonds at a cost less than what the System would have paid to issue conventional fixed-rate debt. Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives. The following disclosures summarize the System's derivative activity as reported in the consolidated financial statements.

	Change in Fair Value (FV) 8/31/14 to 8/31/15		Fair Value at 8/31/15		
	Classification	Amount	Classification	Amount	Notional Amount
Cash Flow -Interest Rate Swaps					
Hedging Derivative Liabilities Pay-Fixed Receive-Variable	Def Outflows	$ (53,714,423)	Hedging Derivative Liab	$ (261,612,901)	1,242,770,000
Investment Derivative Assets Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	6,237,179	Investments	27,397,516	487,380,000
Investment Derivative Liabilities Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	4,533,130	Invest Deriv - Liab Positions	(17,013)	284,065,000
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		183,376		183,376	124,238,782
Pay-Variable Receive-Fixed		894,749		894,749	27,197,600
Credit Default		2,790,478		2,827,926	200,609,954
Commodity		77,725		77,725	2,728,120
Currency		99,675,435		99,675,435	98,652,420
Inflation		85,071		85,071	5,229,200
Volatility		21,250		21,250	48,599
Total Swaps	Net Incr. (Decr.) in FV of Invest	103,728,084	Investments	103,765,532	458,704,675
Futures	Net Incr. (Decr.) in FV of Invest	19,886,744	Other Accounts Receivable	19,886,744	1,242,358,182
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	46,372,524	Investments	46,372,524	1,505,585,014
Purchased Options	Net Incr. (Decr.) in FV of Invest	(3,488,808)	Investments	40,756,115	11,223,822,250
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		(266,123)		(209,926)	26,897,926
Pay-Variable Receive-Fixed		(4,823,210)		(4,824,217)	590,580,791
Credit Default		(512,758)		(766,821)	32,258,346
Commodity		(928,519)		(928,519)	26,503,446
Currency		(97,506,939)		(97,506,939)	97,506,939
Equity		(4,808,559)		(4,808,559)	40,183,345
Volatility		(24,154)		(24,154)	32,055
Total Swaps	Net Incr. (Decr.) in FV of Invest	(108,870,262)	Invest Deriv - Liab Positions	(109,069,135)	813,962,848
Futures	Net Incr. (Decr.) in FV of Invest	(63,746,990)	Current Accounts Payable	(63,746,990)	318,758,513
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(25,147,833)	Invest Deriv - Liab Positions	(24,974,763)	929,189,922
Options Written	Net Incr. (Decr.) in FV of Invest	7,951,619	Invest Deriv - Liab Positions	(24,255,420)	351,673,919

	Change in Fair Value (FV) 8/31/13 to 8/31/14		Fair Value at 8/31/14		
	Classification	Amount	Classification	Amount	Notional Amount
Cash Flow -Interest Rate Swaps					
Hedging Derivative Liabilities Pay-Fixed Receive-Variable	Def Outflows	$ (70,930,383)	Hedging Derivative Liab	$ (207,898,478)	1,276,600,000
Investment Derivative Assets Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	(4,995,671)	Investments	21,160,337	490,077,500
Investment Derivative Liabilities Pay-Variable Receive-Variable	Net Incr. (Decr.) in FV of Invest	2,893,409	Invest Deriv - Liab Positions	(4,550,143)	474,637,500
Investment Derivatives					
Investment Derivative Assets:					
Swaps:					
Pay-Fixed Receive-Variable		1,645,147		1,611,751	65,393,616
Pay-Variable Receive-Fixed		840,360		840,360	198,410,302
Credit Default		1,996,449		2,214,316	92,943,016
Commodity		31,140		31,140	8,344,972
Currency		37,019,030		37,019,030	37,013,320
Equity		470,323		470,323	80,372,215
Total Swaps	Net Incr. (Decr.) in FV of Invest	42,002,449	Investments	42,186,920	482,477,441
Futures	Net Incr. (Decr.) in FV of Invest	8,504,047	Other Accounts Receivable	8,504,047	1,181,263,018
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	27,267,073	Investments	27,267,073	1,910,443,309
Purchased Options	Net Incr. (Decr.) in FV of Invest	(28,814,341)	Investments	2,156,841	11,038,925,000
Investment Derivative Liabilities:					
Swaps:					
Pay-Fixed Receive-Variable		(152,881)		(152,881)	22,798,285
Pay-Variable Receive-Fixed		(3,028,392)		(3,028,099)	177,611,915
Credit Default		(83,502)		(356,825)	10,538,600
Commodity		(186,943)		(186,943)	13,181,122
Currency		(37,037,018)		(37,037,018)	37,037,019
Total Swaps	Net Incr. (Decr.) in FV of Invest	(40,488,736)	Invest Deriv - Liab Positions	(40,761,766)	261,166,941
Futures	Net Incr. (Decr.) in FV of Invest	(18,121,020)	Current Accounts Payable	(18,121,020)	238,563,318
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(14,814,497)	Invest Deriv - Liab Positions	(14,916,496)	1,088,863,500
Options Written	Net Incr. (Decr.) in FV of Invest	1,591,620	Invest Deriv - Liab Positions	(1,277,784)	168,263,552

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

8. Endowments

Restricted investments include $31,536,340,131 and $34,269,430,996 of endowment funds, including annuity and life income funds, as of August 31, 2015 and 2014, respectively. The net position classifications on the statement of net position related to endowment funds, including annuity and life income funds, as of August 31, 2015 and 2014 are as follows:

Net Position Classification of Endowments		2015	2014
Restricted, nonexpendable	$	20,681,735,999	22,555,208,627
Restricted, expendable:			
Net Appreciation on True Endowments		8,763,123,927	9,892,460,307
Funds Functioning as Endowments		445,037,410	441,475,377
Book Value of Term Endowments		34,206,759	31,443,488
Net Appreciation on Term Endowments		34,766,928	35,588,881
Unrestricted:			
Funds Functioning as Endowments		304,584,211	247,981,487
Total	$	30,263,455,234	33,204,158,167

In the table above, amounts reported as "Net Appreciation" represent net appreciation on investments of donor or constitutionally restricted endowments that are available for authorization for expenditure by the U. T. System Board of Regents. For donor restricted endowments, pursuant to the Uniform Prudent Management of Institutional Funds Act, as adopted by Texas, the U. T. System Board of Regents may distribute net appreciation, realized and unrealized, in the fair market value of the assets of endowment holdings over the historic dollar value of the gifts, to the extent prudent. The System's policy is to retain all undistributed net realized and unrealized appreciation within the endowment funds. The System's endowment distribution policy is further discussed below.

ENDOWMENTS AND SIMILAR FUNDS – STATE

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

The PUF was established by Chapter 7, Section 11 of the Texas Constitution of 1876 through the appropriation of land grants. Amendments to the Constitution, approved by voters in 1999, were related to the investment of the PUF and the distributions from the PUF to the AUF. The Constitution, as amended, is summarized as follows: (i) The U. T. System Board of Regents is held to a "prudent investor" rather than a "prudent person" standard; (ii) distributions to the AUF are made from the total return on all PUF investment assets; (iii) the U. T. System Board of Regents determines the amount of distributions to the AUF, which may not exceed an amount equal to 7% of the average net fair value of investment assets, except as necessary to pay debt service on PUF bonds and notes; (iv) the U. T. System Board of Regents determines the amount of distributions to the AUF in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain, over time, the purchasing power of PUF investments and annual distributions to the AUF; and (v) the expenses of managing PUF land and investments are paid by the PUF.

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

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

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

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

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

ANNUITY AND LIFE INCOME FUNDS

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

AVAILABLE UNIVERSITY FUND

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

9. Capital Assets

A summary of changes in the capital assets for the year ended August 31, 2015, is presented below.

	Balance 09/01/14	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 585,406,749	-	-
Construction in Progress (CIP)	2,133,078,326	(32,126)	(1,655,247,821)
Nondepreciable Collections	501,984,888	-	1,123,529
Nonamortizable Intangible Assets	9,242,470	-	-
Total Nondepreciable/Nonamortizable Assets	3,229,712,433	(32,126)	(1,654,124,292)
Depreciable Assets:			
Buildings and Building Improvements	15,185,085,335	-	1,413,568,996
Infrastructure	354,411,994	-	36,273,023
Facilities and Other Improvements	794,369,323	-	41,636,637
Furniture and Equipment	3,273,969,987	-	50,982,652
Vehicles, Boats and Aircraft	80,932,938	-	-
Other Depreciable Assets (including Library Books)	649,588,690	(1,463,000)	8,375,874
Total Depreciable Assets at Historical Cost	20,338,358,267	(1,463,000)	1,550,837,182
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(6,539,077,473)	-	-
Infrastructure	(162,371,448)	-	-
Facilities and Other Improvements	(372,514,335)	-	-
Furniture and Equipment	(2,180,660,837)	-	-
Vehicles, Boats and Aircraft	(58,473,115)	-	-
Other Depreciable Assets (including Library Books)	(449,108,358)	-	-
Total Accumulated Depreciation	(9,762,205,566)	-	-
Depreciable Assets, net	10,576,152,701	(1,463,000)	1,550,837,182
Amortizable Intangible Assets:			
Computer Software	1,031,760,965	-	103,287,110
Total Amortizable Intangible Assets	1,031,760,965	-	103,287,110
Less Accumulated Amortization for:			
Computer Software	(780,164,635)	-	-
Total Accumulated Amortization	(780,164,635)	-	-
Intangible Capital Assets, net	251,596,330	-	103,287,110
Capital Assets, net	$ 14,057,461,464	(1,495,126)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/15
-	-	18,085,911	(738,927)	602,753,733
-	-	1,382,973,501	(3,257,433)	1,857,514,447
-	-	14,756,899	(101,458)	517,763,858
-	-	-	-	9,242,470
-	-	1,415,816,311	(4,097,818)	2,987,274,508
-	-	129,109,538	(17,708,078)	16,710,055,791
-	-	12,505,563	-	403,190,580
-	-	25,604,573	(112,935)	861,497,598
404,233	(1,692,121)	362,713,053	(183,569,445)	3,502,808,359
95,543	-	7,865,630	(7,888,069)	81,006,042
-	-	27,072,809	(2,105,428)	681,468,945
499,776	(1,692,121)	564,871,166	(211,383,955)	22,240,027,315
-	-	(697,997,955)	10,558,895	(7,226,516,533)
-	-	(12,434,011)	-	(174,805,459)
-	-	(36,014,800)	90,505	(408,438,630)
(388,948)	1,144,556	(291,920,695)	142,575,358	(2,329,250,566)
(95,543)	-	(7,442,694)	5,431,701	(60,579,651)
-	-	(29,278,979)	2,090,484	(476,296,853)
(484,491)	1,144,556	(1,075,089,134)	160,746,943	(10,675,887,692)
15,285	(547,565)	(510,217,968)	(50,637,012)	11,564,139,623
-	(7,598)	24,542,217	(196,228,772)	963,353,922
-	(7,598)	24,542,217	(196,228,772)	963,353,922
-	7,598	(103,816,298)	196,232,193	(687,741,142)
-	7,598	(103,816,298)	196,232,193	(687,741,142)
-	-	(79,274,081)	3,421	275,612,780
15,285	(547,565)	826,324,262	(54,731,409)	14,827,026,911

A summary of changes in the capital assets for the year ended August 31, 2014, is presented below.

	Balance 09/01/13	Adjustments	Reclassifications Completed CIP
Nondepreciable Assets:			
Land and Land Improvements	$ 552,319,270	-	2,189,089
Construction in Progress (CIP)	1,480,730,905	(500,744)	(727,143,605)
Nondepreciable Collections	279,242,312	-	-
Nonamortizable Intangible Assets	9,242,470	-	-
Total Nondepreciable/Nonamortizable Assets	2,321,534,957	(500,744)	(724,954,516)
Depreciable Assets:			
Buildings and Building Improvements	14,646,036,964	-	521,609,811
Infrastructure	338,184,820	-	16,224,601
Facilities and Other Improvements	749,674,222	-	45,006,766
Furniture and Equipment	3,108,733,823	(9,038,717)	17,396,820
Vehicles, Boats and Aircraft	78,180,810	-	34,910
Other Depreciable Assets (including Library Books)	592,660,609	(36,039)	41,573,677
Total Depreciable Assets at Historical Cost	19,513,471,248	(9,074,756)	641,846,585
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(5,897,724,835)	-	-
Infrastructure	(150,777,741)	-	-
Facilities and Other Improvements	(344,388,162)	-	-
Furniture and Equipment	(2,059,593,862)	-	-
Vehicles, Boats and Aircraft	(56,726,037)	-	-
Other Depreciable Assets (including Library Books)	(429,200,758)	-	-
Total Accumulated Depreciation	(8,938,411,395)	-	-
Depreciable Assets, net	10,575,059,853	(9,074,756)	641,846,585
Amortizable Intangible Assets:			
Computer Software	962,868,227	-	83,107,931
Total Amortizable Intangible Assets	962,868,227	-	83,107,931
Less Accumulated Amortization for:			
Computer Software	(714,899,199)	-	-
Total Accumulated Amortization	(714,899,199)	-	-
Intangible Capital Assets, net	247,969,028	-	83,107,931
Capital Assets, net	$ 13,144,563,838	(9,575,500)	-

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/14
-	-	32,294,323	(1,395,933)	585,406,749
-	-	1,380,992,358	(1,000,588)	2,133,078,326
-	-	227,436,595	(4,694,019)	501,984,888
-	-	-	-	9,242,470
-	-	1,640,723,276	(7,090,540)	3,229,712,433
-	-	68,924,466	(51,485,906)	15,185,085,335
-	-	2,573	-	354,411,994
-	-	4,601,550	(4,913,215)	794,369,323
83,112	(2,931,392)	329,915,770	(170,189,429)	3,273,969,987
-	-	8,672,407	(5,955,189)	80,932,938
-	-	20,873,523	(5,483,080)	649,588,690
83,112	(2,931,392)	432,990,289	(238,026,819)	20,338,358,267
-	-	(669,476,332)	28,123,694	(6,539,077,473)
-	-	(11,593,707)	-	(162,371,448)
-	-	(33,653,100)	5,526,927	(372,514,335)
(66,611)	2,681,794	(265,282,006)	141,599,848	(2,180,660,837)
-	-	(7,853,084)	6,106,006	(58,473,115)
-	-	(25,131,023)	5,223,423	(449,108,358)
(66,611)	2,681,794	(1,012,989,252)	186,579,898	(9,762,205,566)
16,501	(249,598)	(579,998,963)	(51,446,921)	10,576,152,701
-	-	27,885,191	(42,100,384)	1,031,760,965
-	-	27,885,191	(42,100,384)	1,031,760,965
-	-	(104,345,387)	39,079,951	(780,164,635)
-	-	(104,345,387)	39,079,951	(780,164,635)
-	-	(76,460,196)	(3,020,433)	251,596,330
16,501	(249,598)	984,264,117	(61,557,894)	14,057,461,464

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. In 2015 U. T. Medical Branch - Galveston impaired the University Boulevard Research Building Project which was in construction in progress. The planning and design work was placed on hold shortly after U. T. Medical Branch – Galveston was impacted by Hurricane Ike. As U. T. Medical Branch - Galveston focuses on changing priorities, it has been determined that this project will not be moving forward. The impairment loss is provided in the following table for the year ended August 31, 2015. The System did not have any impairment losses to report for the year ended August 31, 2014.

		2015
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS		
Impairment Losses – Capital Assets	$	(3,251,116)
Net Losses – Capital Assets		(3,251,116)

10. Short-Term Debt

The System had RFS Commercial Paper Notes, Series A and PUF Taxable Commercial Paper Notes, Series B, outstanding at August 31, 2015 and 2014. The notes are issued to provide interim financing for capital improvements and to finance equipment purchases. While the interest is payable on these notes in periodic installments not to exceed 270 days, they are generally intended to be refinanced with long-term debt. Short-term debt activity for the year ended August 31, 2015, is summarized below:

		Balance 09/01/14	Additions	Reductions	Balance 8/31/15
Commercial Paper Notes:					
Permanent University Fund CP Notes	$	358,000,000	294,500,000	267,500,000	385,000,000
Revenue Financing System CP Notes		763,230,000	449,497,000	92,010,000	1,120,717,000
Total Commercial Paper Notes	$	1,121,230,000	743,997,000	359,510,000	1,505,717,000

Short-term debt activity for the year ended August 31, 2014, is summarized below:

		Balance 09/01/13	Additions	Reductions	Balance 8/31/14
Commercial Paper Notes:					
Permanent University Fund CP Notes	$	410,000,000	267,500,000	319,500,000	358,000,000
Revenue Financing System CP Notes		519,255,000	511,135,000	267,160,000	763,230,000
Total Commercial Paper Notes	$	929,255,000	778,635,000	586,660,000	1,121,230,000

The commercial paper notes were reclassified within current liabilities from current notes and loans payable in 2014 (Note 12) to short-term debt in 2015.

General information related to the commercial paper notes at August 31, 2015, is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B
  Purpose: To provide interim financing for capital improvements and to finance capital equipment purchases
  Issue Date: September 1, 2014 through August 31, 2015
  Authorized Amount: Aggregate principal amount not to exceed $750 million
  Source of revenue for debt service: Available University Fund
  Terms: Interest payable in periodic installments not to exceed 270 days at interest rates established by the System's commercial paper dealers

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B
  Purpose: To provide interim financing for capital improvements and to finance capital equipment purchases
  Issue Date: September 1, 2014 through August 31, 2015
  Authorized Amount: Aggregate principal amount not to exceed $1.75 billion
  Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the U. T. System Board of Regents and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the U. T. System Board of Regents for payments on parity debt.
  Terms: Interest payable in periodic installments not to exceed 270 days at interest rates established by the System's commercial paper dealers

11. Leases

OPERATING LEASES

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were $121,404,223 in 2015 and $103,285,389 in 2014. There were no contingent rental expenses for the period ending August 31, 2015. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2015, were as follows:

Fiscal Year		Lease Payments
2016	$	79,734,145
2017		64,305,120
2018		42,874,900
2019		31,991,467
2020		24,854,965
2021 – 2025		59,709,545
2026 – 2030		5,223,672
2031 – 2035		299,693
Total Minimum Future Payments	$	308,993,507

The System has also leased buildings, land, and other capital assets to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2015 and 2014 were as follows:

Assets Leased		2015	2014
Buildings:			
Cost	$	135,615,008	137,834,631
Less: Accumulated Depreciation		(41,906,656)	(33,862,039)
Carrying Value of Buildings		93,708,352	103,972,592
Equipment:			
Cost		2,956,665	2,817,688
Less: Accumulated Depreciation		(2,534,922)	(2,475,113)
Carrying Value of Equipment		421,743	342,575
Land		11,613,866	4,444,863
Total Carrying Value	$	105,743,961	108,760,030

The System reported contingent rental income in the amount of $250,046 for the period ending August 31, 2015. Rental income from operating leases was $22,942,410 in 2015 and $28,739,158 in 2014. Future minimum lease rental income under noncancelable operating leases as of August 31, 2015, was as follows:

Fiscal Year		Lease Income
2016	$	20,066,944
2017		16,172,139
2018		13,144,199
2019		10,124,352
2020		8,881,512
2021 and beyond		230,688,461
Total	$	299,077,607

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, 2015 and 2014 is as follows:

Assets Under Capital Lease		2015	2014
Furniture and Equipment	$	2,772,020	2,725,521
Less: Accumulated Depreciation		(2,125,912)	(1,991,547)
Nondepreciable Collections		3,612,813	7,535,846
Land		-	738,927
Total	$	4,258,921	9,008,747

Capital lease obligations are due in annual installments through 2020. 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, 2015.

Fiscal Year		Principal	Interest	Total
2016	$	2,926,135	173,291	3,099,426
2017		1,506,222	64,354	1,570,576
2018		546,183	12,605	558,788
2019		12,749	-	12,749
2020		10,847	-	10,847
Total Minimum Lease Payments	$	5,002,136	250,250	5,252,386
			Less: Interest	(250,250)
		Present Value of Net Minimum Lease Payments		5,002,136

12. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2015 is summarized as follows:

		Balance 09/01/14	Additions	Reductions	Balance 08/31/15	Amounts due within one year
Bonds Payable:						
Permanent University Fund	$	1,602,470,000	418,535,000	236,920,000	1,784,085,000	407,380,000
Revenue Financing System		5,197,530,000	250,700,000	508,835,000	4,939,395,000	1,093,575,000
Subtotal Bonds Payable – Par		6,800,000,000	669,235,000	745,755,000	6,723,480,000	1,500,955,000
Unamortized Net Premiums		307,358,754	88,848,377	55,331,013	340,876,118	43,596,736
Total Bonds Payable		7,107,358,754	758,083,377	801,086,013	7,064,356,118	1,544,551,736
Notes, Loans and Leases Payable:						
Notes and Loans Payable		40,781,789	164,860	1,173,191	39,773,458	1,642,260
Lease Obligations		4,493,619	3,429,051	2,920,534	5,002,136	2,926,135
Total Notes, Loans and Leases Payable		45,275,408	3,593,911	4,093,725	44,775,594	4,568,395
Net Other Postemployment Benefits Obligation		3,359,347,883	810,956,215	185,328,320	3,984,975,778	-
Net Pension Liability		-	2,827,302,899 [1]	524,315,358	2,302,987,541	-
Hedging Derivative Liability		207,898,478	53,714,423	-	261,612,901	-
Employee Compensable Leave		527,289,742	300,830,963	271,297,585	556,823,120	370,764,913
Incurred But Not Reported Self-Insurance Claims		105,971,618	1,062,829,234	1,049,009,528	119,791,324	100,133,339
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$	11,353,141,883	5,817,311,022	2,835,130,529	14,335,322,376	2,020,018,383

[1] The net pension liability additions relate to the 2015 restatement for GASB Statement 68. Refer to Note 4.

Long-term liability activity for the year ended August 31, 2014 is summarized as follows:

		Balance 09/01/13	Additions	Reductions	Balance 08/31/14	Amounts due within one year
Bonds Payable:						
Permanent University Fund	$	1,406,750,000	461,920,000	266,200,000	1,602,470,000	402,075,000
Revenue Financing System		5,169,335,000	259,135,000	230,940,000	5,197,530,000	1,111,365,000
Subtotal Bonds Payable – Par		6,576,085,000	721,055,000	497,140,000	6,800,000,000	1,513,440,000
Unamortized Net Premiums		281,101,227	60,791,699	34,534,172	307,358,754	35,729,615
Total Bonds Payable		6,857,186,227	781,846,699	531,674,172	7,107,358,754	1,549,169,615
Notes, Loans and Leases Payable:						
Notes and Loans Payable		42,229,238	303,844	1,751,293	40,781,789	20,645,324
Lease Obligations		4,655,093	1,542,402	1,703,876	4,493,619	2,909,711
Total Notes, Loans and Leases Payable		46,884,331	1,846,246	3,455,169	45,275,408	23,555,035
Net Other Postemployment Benefits Obligation		2,799,477,678	726,386,814	166,516,609	3,359,347,883	-
Hedging Derivative Liability		136,968,095	70,930,383	-	207,898,478	-
Employee Compensable Leave		496,290,197	284,643,123	253,643,578	527,289,742	346,600,637
Incurred But Not Reported Self-Insurance Claims		113,072,076	941,113,406	948,213,864	105,971,618	86,468,574
Total Bonds, Notes, Loans, Leases, and Compensable Leave Payable	$	10,449,878,604	2,806,766,671	1,903,503,392	11,353,141,883	2,005,793,861

PROJECTED BOND DEBT SERVICE REQUIREMENTS

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

Fiscal Year		Principal	Interest	Total
2016	$	1,500,955,000	264,604,804	1,765,559,804
2017		271,040,000	254,402,990	525,442,990
2018		283,090,000	241,836,576	524,926,576
2019		287,600,000	228,489,243	516,089,243
2020		278,495,000	215,264,891	493,759,891
2021 – 2025		1,196,780,000	886,236,767	2,083,016,767
2026 – 2030		825,635,000	640,964,593	1,466,599,593
2031 – 2035		857,164,000	439,582,925	1,296,746,925
2036 – 2040		826,126,000	234,921,301	1,061,047,301
2041 – 2045		374,910,000	39,881,920	414,791,920
2046 – 2050		21,685,000	1,039,579	22,724,579
Total Requirements	$	6,723,480,000	3,447,225,589	10,170,705,589

The System's variable rate demand bonds mature at various dates through 2039. Outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities.

Although it is the System's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the System does not have "take-out" agreements in place. Accordingly, the System has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. The obligations totaled $1,242,770,000 and $1,276,600,000 at August 31, 2015 and 2014, respectively.

Total interest expense for the years ended August 31, 2015 and 2014 was $312,454,156 and $316,520,306, respectively. Interest expense of $31,979,820 and $34,084,408 associated with financing projects during the construction phase was capitalized during the years ended August 31, 2015 and 2014, respectively. Interest expense was also adjusted $30,615,942 and $24,117,522 for the amortization of premiums and deferred gains and losses on refundings for the years ended August 31, 2015 and 2014, respectively. The remaining amounts of $249,858,394 in 2015 and $258,318,376 in 2014 were reported as interest expense.

Notes and loans payable obligations are due in annual installments through 2018. General information related to notes and loans payable at August 31, 2015, which in substance are not bonds, is summarized as follows:

Fiscal Year		Principal	Interest	Total
2016	$	1,642,260	954,609	2,596,869
2017		37,594,009	218,703	37,812,712
2018		537,189	4,866	542,055
Total Requirements	$	39,773,458	1,178,178	40,951,636

General information related to other notes and loans payable at August 31, 2015, is summarized as follows:

- Note or loan payable issue name: Charitable Remainder Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: U. T. Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $12,000,000
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

- Note or loan payable issue name: Charitable Lead Trust
  Purpose: Fine Arts Foundation (a blended component unit) purchase of the Suida Manning Art Collection
  Component Unit: U. T. Austin's Blended Component Unit
  Issue Date: January 4, 1999
  Authorized Amount: $10,713,200
  Source of revenue for debt service: Gift
  Terms: January 4, 1999 through April 17, 2016

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

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

- Note or Loan Payable issue name: JP Morgan Private Bank, Client Services
  Purpose: To provide financing for the construction of the new Moncrief Cancer Center building
  Component Unit: U. T. Southwestern Medical Center's Blended Component Unit
  Issue Date: August 8, 2011, Renewed on August 31, 2015
  Authorized Amount: $19,000,000
  Source of revenue for debt service: Assets of Luther King and Wilkinson O'Grady
  Terms: LIBOR rate plus 0.65%. Interest is paid monthly. Renewal on August 31, 2017.

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

- Note or loan payable issue name: GE Government Finance, Inc.
  Purpose: To provide financing for medical equipment
  Institution: U. T. Medical Branch - Galveston
  Issue Date: November 12, 2010
  Authorized Amount: $409,554
  Source of revenue for debt service: Operating Funds
  Terms: November 12, 2010 through December 1, 2015

POLLUTION REMEDIATION OBLIGATION

M. D. Anderson purchased contaminated land in June 2007 with plans to provide a ground lease to the American Cancer Society for a lodging facility for visiting cancer patients with the remaining land to be used for a warehouse with offices and work areas. The land, known as the Almeda property, was previously used by the seller as a solvent storage site and contains solvent contamination. The original estimated outlays for the pollution remediation were $350,000 using the expected cash flow technique. These pollution remediation outlays qualify for capitalization and $381,584 and $381,236 were capitalized through August 31, 2015 and 2014 respectively. The purchase price of $4,287,882 and total expected outlays do not exceed the fair market value of the uncontaminated property of $4,737,882, and as such, no pollution remediation liability was established. M. D. Anderson received a $450,000 credit against the purchase price for anticipated environmental remediation costs. M. D. Anderson is awaiting closure on the Voluntary Cleanup Program (VCP).

M. D. Anderson purchased contaminated land in 2013. The tenant was the generator of the contamination and the tenant has vacated the property. M. D. Anderson commenced cleanup activities in 2014. The original estimated cost of the remediation was $106,345 based on the expected cash flow technique, of which $1,935 and $101,794 were incurred 2015 and 2014 respectively. This pollution remediation does not qualify for capitalization. M. D. Anderson received a "no further action" letter from TCEQ in 2015.

EMPLOYEES' COMPENSABLE LEAVE

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

13. Bonded Indebtedness

At August 31, 2015 and 2014, the System had outstanding bonds payable of $6,723,480,000 and $6,800,000,000, respectively. Permanent University Fund bonds are secured by and payable from the System's interest in the Available University Fund, which consists of distributions from the investment income of the Permanent University Fund. Revenue Financing System debt is secured by and payable from Pledged Revenues as defined in the Master Resolution establishing the Revenue Financing System. Pledged Revenues consist of all lawfully available revenues, funds and balances, with certain exceptions, pledged to secure revenue-supported indebtedness issued under the Master Resolution.

Bonded Indebtedness	Interest Rates	Maturity Dates		Outstanding Principal
Permanent University Fund	0.010%-5.262%	2016-2041	$	1,784,085,000
Revenue Financing System	0.010%-6.276%	2016-2046		4,939,395,000

As of August 31, 2015, the following amounts were authorized, but unissued: Permanent University Fund bonds up to a maximum aggregate amount of $600 million and Revenue Financing System bonds up to a maximum aggregate amount of $600 million, each authorized to be issued on or before August 31, 2016. 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, 2015, is summarized in the following table.

Bond Series	**Purpose**	**Issue Date**	**Amount Issued**
Permanent University Fund:			
Refunding Bonds Series 2006B	To refund $85,545,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2020 through 2022, both inclusive; to refund $172,985,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2023, 2026 and 2028 through 2030, both inclusive; to refund $51,905,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the year 2035	January 24, 2007	$284,065,000
Bonds Series 2006C	To refund $100,000,000 principal amount of Permanent University Fund Flexible Rate Notes, Series A	January 24, 2007	97,755,000
Taxable Bonds Series 2009A	To refund $250,000,000 principal amount of Permanent University Taxable Commercial Paper Notes, Series B	September 17, 2009	250,000,000
Bonds Series 2014A	To refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	February 10, 2014	240,340,000
Bonds Series 2014B	To refund $17,240,000 principal amount of Permanent University Fund Bonds, Series 2004A, maturing on July 1 in the years 2015 and 2016; and to refund $223,535,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2024, 2025, 2027 and 2033	April 2, 2014	221,580,000
Bonds Series 2015A	To refund $50,390,000 principal amount of Permanent University Fund Refunding Bonds, Series 2005A, maturing on July 1 in the years 2016 through 2019, both inclusive; to refund $72,720,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the years 2018, 2019, 2034 and 2035; and to refund $87,485,000 principal amount of Permanent University Fund Bonds, Series 2006C, maturing on July 1 in the years 2017 through 2035, both inclusive	April 2, 2015	197,970,000
Bonds Series 2015B	To refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	August 25, 2015	220,565,000
Revenue Financing System:			
Refunding Bonds Series 2002A	To advance refund $54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	54,430,000
Refunding Bonds Series 2002B	To advance refund $109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	108,855,000

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
Refunding Bonds Series 2004A	To refund $143,155,000 principal amount of portions of Revenue Financing System Bonds, Series 1995A, 1996A, 1998A, 1998C, 1999A and 2001C, and pay the cost of issuance	March 9, 2004	137,915,000
Refunding Bonds Series 2004B	To refund $310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay the cost of issuance	March 9, 2004	300,330,000
Bonds Series 2006B	To refund $413,161,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $147,764,140 and pay the cost of issuance	May 10, 2006	540,570,000
Refunding Bonds Series 2006C	To refund $177,835,000 principal amount of portions of Revenue Financing System Bonds, 2001C, 2003A and 2004C and pay the cost of issuance	January 4, 2007	175,115,000
Refunding Bonds Series 2006D	To refund $340,735,000 principal amount of portions of Revenue Financing System Bonds, 2001B, 2003B and 2004D and pay the cost of issuance	January 4, 2007	346,840,000
Bonds Series 2006E	To refund $58,300,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	55,985,000
Bonds Series 2006F	To refund $330,187,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 4, 2007	318,525,000
Bonds Series 2008A	To refund $265,386,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	January 6, 2009	256,735,000
Taxable Bonds Series 2009B	To refund $96,639,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $230,860,000 and pay the cost of issuance	June 17, 2009	330,545,000
Bonds Series 2009D	To refund $258,995,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund $16,115,000 principal amount of Revenue Financing System Bonds, 1998B and pay the cost of issuance	July 15, 2009	260,005,000
Bonds Series 2010A	To refund $258,392,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $134,369,000 and pay the cost of issuance	March 25, 2010	331,415,000
Refunding Bonds Series 2010B	To refund $393,690,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F and pay the cost of issuance	April 14, 2010	385,380,000
Taxable Bonds Series 2010D	To refund $349,415,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $163,441,000 and pay the cost of issuance	June 30, 2010	516,245,000
Taxable Bonds Series 2010C	To provide new money of $600,741,596 and pay the cost of issuance	September 23, 2010	604,310,000
Bonds Series 2010E	To refund $21,328,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $23,080,404 and pay the cost of issuance	September 23, 2010	39,785,000

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
Refunding Bonds Series 2012A	To refund $53,990,000 principal amount of portions of Revenue Financing System Bonds, 2003A and 2004C, to refund $186,296,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	March 1, 2012	195,850,000
Bonds Series 2012B	To refund $96,542,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $184,128,000 and pay the cost of issuance	March 21, 2012	238,135,000
Bonds Series 2014A	To refund $179,411,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of $103,148,328 and pay the cost of issuance	May 1, 2014	259,135,000
Refunding Bonds Series 2014B	To refund $261,840,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F, and pay the cost of issuance	November 24, 2014	250,700,000

DEMAND BONDS

Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, and Permanent University Fund Bonds, Series 2008A are variable rate demand bonds with an option to tender on seven days' notice. The System has entered into corresponding interest rate swap agreements to convert the System's interest rate exposure to a fixed rate. The Revenue Financing System Refunding Bonds, Series 2007B and the corresponding swap agreements extend to August 15, 2034. The Revenue Financing System Bonds, Series 2008B and the corresponding swap agreements extend to August 15, 2039. The Permanent University Fund Bonds, Series 2008A and the corresponding swap agreements extend to July 1, 2038. The Board of Regents is obligated to pay the purchase price of demand bonds tendered for purchase and not remarketed by using lawfully available funds. General information related to these demand bonds is summarized in the following table:

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

PLEDGED FUTURE REVENUES

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

		2015	2014
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	$	10,170,705,589	10,454,866,355
Term of Commitment Year Ending 8/31		2046	2046
Percentage of Revenue Pledged		95.3%	85.8%
Current Year Pledged Revenue	$	9,696,056,336	8,966,585,801
Current Year Principal and Interest Paid	$	583,788,939	568,974,263

BUILD AMERICA BONDS

The American Recovery and Reinvestment Act of 2009 authorized the issuance of Build America Bonds (BABs), whereby certain issuers are authorized to issue taxable bonds and receive from the federal government a subsidy equal to 35% of the interest payments on Direct Payment BABs. The System did not issue any BABs during 2015 or 2014. The System had $1,656,765,000 and $1,669,740,000 outstanding at August 31, 2015 and 2014, respectively.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2015

Revenue Financing System Refunding Bonds, Series 2014B were issued on November 24, 2014 to advance refund $200,225,000 principal amount of Revenue Financing System Bonds, Series 2006B, $4,435,000 principal amount of Revenue Financing System Refunding Bonds, Series 2006D, $57,180,000 principal amount of Revenue Financing System Bonds, Series 2006F and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $286,360,854, which represents the principal amount of the 2014B Bonds of $250,700,000, plus an original issue premium of $36,989,279, and less an underwriting discount of $1,328,425. The net proceeds were used to pay costs of issuance of $292,412 and to deposit $286,068,442 with the escrow agent for the refunded bonds. These escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $13,121,532 resulted from the transaction as the reacquisition price of $286,068,442 exceeded the net carrying amount of $261,840,000 par value, $11,041,476 of unamortized premiums, and $65,434 of unamortized gain from Revenue Financing System Bonds, Series 2006D.
- As a result of this refunding, the System reduced its aggregate debt service payments by $41,882,142 over the next 23 years, and an economic gain from the transaction resulted in a net present value savings of $31,794,676 between the old and new debt service payments.

Permanent University Fund Refunding Bonds, Series 2015A were issued on April 2, 2015 to current refund $50,390,000 principal amount of Permanent University Fund Refunding Bonds, Series 2005A and $72,720,000 principal amount of Permanent University Fund Bonds, Series 2005B, to advance refund $87,485,000 principal amount of Permanent University Fund Bonds, Series 2006C, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $216,466,523, which represents the principal amount of the 2015A Bonds of $197,970,000, plus an original issue premium of $19,016,101, and less an underwriting discount of $519,578. The net proceeds along with $2,961,284 of System funds were used to pay costs of issuance of $243,398 and to deposit $219,184,409 with the escrow agent for the refunded bonds. These escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $4,978,000 resulted from the transaction as the reacquisition price of $219,184,409 exceeded the net carrying amount of $210,595,000 par value, $3,933,297 of unamortized premiums, and $321,888 of unamortized loss from Permanent University Fund Bonds, Series 2005A.
- As a result of this refunding, the System reduced its aggregate debt service payments by $47,802,589 over the next 21 years, and an economic gain from the transaction resulted in a net present value savings of $30,456,423 between the old and new debt service payments.

Permanent University Fund Bonds, Series 2015B were issued on August 25, 2015 to current refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $252,819,184, which represents the principal amount of the 2015B Bonds of $220,565,000, plus an original issue premium of $32,842,997, and less an underwriting discount of $588,813. The net proceeds were used to pay costs of issuance of $275,606 and to deposit $252,543,578 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated balance sheet.
- An accounting loss of $43,578 resulted from the transaction as the reacquisition price of $252,543,578 exceeded the net carrying amount of $252,500,000 par value.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2014

Permanent University Fund Bonds, Series 2014A were issued on February 10, 2014 to current refund $252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $252,812,894, which represents the principal amount of the 2014A Bonds of $240,340,000, plus an original issue premium of $13,447,023, and less an underwriting discount of $974,129. The net proceeds were used to pay costs of issuance of $235,880 and to deposit $252,577,014 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $77,014 resulted from the transaction as the reacquisition price of $252,577,014 exceeded the net carrying amount of $252,500,000 par value.

Permanent University Fund Bonds, Series 2014B were issued on April 2, 2014 to current refund $17,240,000 principal amount of Permanent University Fund Bonds, Series 2004A and $223,535,000 principal amount of Permanent University Fund Bonds, Series 2004B, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $243,416,322, which represents the principal amount of the 2014B Bonds of $221,580,000, plus an original issue premium of $22,643,861, and less an underwriting discount of $807,539. The net proceeds along with $3,052,921 of System funds were used to pay costs of issuance of $209,308, purchase $246,259,914 of eligible defeasance securities, and deposit $21 with the refunded bonds escrow agent. These escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $5,154,154 resulted from the transaction as the reacquisition price of $246,259,914 exceeded the net carrying amount of $240,775,000 par value, $1,087,110 of unamortized premiums, and $756,350 of unamortized loss from Permanent University Fund Bonds, Series 2004A.
- An economic gain from the transaction resulted in a net present value savings of $25,852,034 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2014A were issued on May 1, 2014 to current refund $179,411,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to finance the cost of campus improvements, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were $282,874,868, which represents the principal amount of the 2014A Bonds of $259,135,000, plus an original issue premium of $24,700,814, and less an underwriting discount of $960,946. The net proceeds were used to pay costs of issuance of $288,932, to deposit $103,148,328 in a construction fund to finance various projects, and to deposit $179,437,608 with the issuing and paying agent for the refunded notes sufficient to provide for all future debt service payments on the refunded notes.
- The refunded debt is considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of $26,608 resulted from the transaction as the reacquisition price of $179,437,608 exceeded the net carrying amount of $179,411,000 par value.

CASH FLOW DERIVATIVES – INTEREST RATE SWAPS

The following table outlines the terms of the System's interest rate swap agreements in effect at August 31, 2015:

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Effective Date	Maturity Date	Terms*	Embedded Options?	Cash Paid or Received	Counterparty Credit Rating (Moody's/S&P)	Weighted Average Maturity As of 8/31/15
Pay Fixed; receive variable	PUF Bonds 2008A	$187,875,000	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	A3/A-	17.45 yrs
	PUF Bonds 2008A	187,875,000	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	Aa3/AA-	17.45 yrs
	RFS Bonds 2007B	165,115,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa2/AA-	12.95 yrs
	RFS Bonds 2007B	165,115,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa3/A+	12.95 yrs
	RFS Bonds 2008B	128,810,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa3/A+	13.27 yrs
	RFS Bonds 2008B	128,810,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	A3/A-	13.27 yrs
	RFS Bonds 2008B	279,170,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa3/A+	11.90 yrs
Pay variable; receive variable	PUF Bonds 2006B	284,065,000	1/1/2009	7/1/2035	Pay SIFMA; receive 82.04% of 1M LIBOR	No	No	A1/A	11.71 yrs
	PUF Bonds 2008A	187,875,000	11/1/2011	7/1/2038	Pay SIFMA; receive 93.4% of 3M LIBOR	No	No	A3/BBB+	17.45 yrs
	RFS Bonds 2008B	90,270,000	8/1/2009	8/1/2039	Pay SIFMA; receive 102.5% of 3M LIBOR	No	No	Aa3/AA-	22.15 yrs
	RFS Bonds 2008B	92,045,000	8/1/2009	8/1/2030	Pay SIFMA; receive 96% of 3M LIBOR	No	No	Aa3/AA-	13.34 yrs
	RFS Bonds 2008B	117,190,000	8/1/2009	8/1/2035	Pay SIFMA; receive 103% of 3M LIBOR	No	No	Aa3/AA-	17.98 yrs
TOTAL		**$2,014,215,000**							

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

CASH FLOW DERIVATIVES – INTEREST RATE SWAPS

The following table outlines the terms of the System's interest rate swap agreements in effect at August 31, 2014:

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Effective Date	Maturity Date	Terms*	Embedded Options?	Cash Paid or Received	Counterparty Credit Rating (Moody's/S&P)	Weighted Average Maturity As of 8/31/14
Pay Fixed; receive variable	PUF Bonds 2008A	$190,572,500	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	Baa2/A-	18.20 yrs
	PUF Bonds 2008A	190,572,500	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	Aa3/AA-	18.20 yrs
	RFS Bonds 2007B	165,715,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa3/A+	13.90 yrs
	RFS Bonds 2007B	165,715,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	A2/A	13.90 yrs
	RFS Bonds 2008B	133,420,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa3/A+	13.81 yrs
	RFS Bonds 2008B	133,420,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Baa2/A-	13.81 yrs
	RFS Bonds 2008B	297,185,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa3/A+	12.17 yrs
Pay variable; receive variable	PUF Bonds 2006B	284,065,000	1/1/2009	7/1/2035	Pay SIFMA; receive 82.04% of 1M LIBOR	No	No	A2/A	12.71 yrs
	PUF Bonds 2008A	190,572,500	11/1/2011	7/1/2038	Pay SIFMA; receive 93.4% of 3M LIBOR	No	No	A3/A	18.20 yrs
	PUF Bonds 2008A	190,572,500	1/1/2015	7/1/2038	Pay SIFMA; receive 95% of 3M LIBOR	Yes	Yes	A3/A	18.20 yrs
	RFS Bonds 2008B	90,270,000	8/1/2009	8/1/2039	Pay SIFMA; receive 102.5% of 3M LIBOR	No	No	Aa3/AA-	23.15 yrs
	RFS Bonds 2008B	92,045,000	8/1/2009	8/1/2030	Pay SIFMA; receive 96% of 3M LIBOR	No	No	Aa3/AA-	14.34 yrs
	RFS Bonds 2008B	117,190,000	8/1/2009	8/1/2035	Pay SIFMA; receive 103% of 3M LIBOR	No	No	Aa3/AA-	18.98 yrs
TOTAL		**$2,241,315,000**							

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

The following is the fair market value of the swap agreements in effect at August 31, 2015 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Interest Rate Swaps by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/15)	Fair Value as of 8/31/15	Fair Value as of 8/31/14	Change in Fair Value 8/31/14 - 8/31/15	Change in Fair Value Recorded as
Hedging Derivative Liabilities	PUF Bonds 2008A	$187,875,000	1,154,325	(42,960,426)	(31,915,020)	(11,045,406)	Def Outflow
	PUF Bonds 2008A	187,875,000	1,142,269	(40,893,640)	(30,418,400)	(10,475,240)	Def Outflow
	RFS Bonds 2007B	165,115,000	486,025	(36,050,048)	(29,314,821)	(6,735,227)	Def Outflow
	RFS Bonds 2007B	165,115,000	486,025	(35,928,536)	(28,916,529)	(7,012,007)	Def Outflow
	RFS Bonds 2008B	128,810,000	388,677	(28,393,420)	(23,527,616)	(4,865,804)	Def Outflow
	RFS Bonds 2008B	128,810,000	388,677	(28,366,675)	(23,413,172)	(4,953,503)	Def Outflow
	RFS Bonds 2008B	279,170,000	780,280	(49,020,156)	(40,392,920)	(8,627,236)	Def Outflow
		1,242,770,000	4,826,278	(261,612,901)	(207,898,478)	(53,714,423)	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(23,271)	7,124,856	5,958,830	1,166,026	Incr. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(22,125)	4,677,204	3,631,452	1,045,752	Incr. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(30,368)	9,060,754	7,842,776	1,217,978	Incr. in Fair Value of Inv
	PUF Bonds 2008A	187,875,000	(75,251)	6,534,702	3,727,279	2,807,423	Incr. in Fair Value of Inv
		487,380,000	(151,015)	27,397,516	21,160,337	6,237,179	
Investment Derivatives-Liability Positions	PUF Bonds 2006B	284,065,000	(33,895)	(17,013)	(4,195,285)	4,178,272	Incr. in Fair Value of Inv
	PUF Bonds 2008A	-	-	-	(354,858)	354,858	Incr. in Fair Value of Inv
		284,065,000	(33,895)	(17,013)	(4,550,143)	4,533,130	
TOTAL		**$2,014,215,000**	**4,641,368**	**(234,232,398)**	**(191,288,284)**	**(42,944,114)**	

The following is the fair market value of the swap agreements in effect at August 31, 2014 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Interest Rate Swaps by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/14)	Fair Value as of 8/31/14	Fair Value as of 8/31/13	Change in Fair Value 8/31/13 - 8/31/14	Change in Fair Value Recorded as
Hedging Derivative Liabilities	PUF Bonds 2008A	$190,572,500	1,165,521	(31,915,020)	(18,184,881)	(13,730,139)	Def Outflow
	PUF Bonds 2008A	190,572,500	1,153,292	(30,418,400)	(16,782,482)	(13,635,918)	Def Outflow
	RFS Bonds 2007B	165,715,000	518,144	(29,314,821)	(19,880,155)	(9,434,666)	Def Outflow
	RFS Bonds 2007B	165,715,000	518,144	(28,916,529)	(19,711,586)	(9,204,943)	Def Outflow
	RFS Bonds 2008B	133,420,000	427,729	(23,527,616)	(16,852,790)	(6,674,826)	Def Outflow
	RFS Bonds 2008B	133,420,000	427,729	(23,413,172)	(16,841,759)	(6,571,413)	Def Outflow
	RFS Bonds 2008B	297,185,000	881,913	(40,392,920)	(28,714,442)	(11,678,478)	Def Outflow
		1,276,600,000	5,092,472	(207,898,478)	(136,968,095)	(70,930,383)	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(14,511)	5,958,830	7,213,167	(1,254,337)	Dec. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(13,600)	3,631,452	4,584,101	(952,649)	Dec. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(18,955)	7,842,776	9,705,442	(1,862,666)	Dec. in Fair Value of Inv
	PUF Bonds 2008A	190,572,500	(53,461)	3,727,279	4,653,298	(926,019)	Dec. in Fair Value of Inv
		490,077,500	(100,527)	21,160,337	26,156,008	(4,995,671)	
Investment Derivatives-Liability Positions	PUF Bonds 2006B	284,065,000	(18,391)	(4,195,285)	(4,385,211)	189,926	Incr. in Fair Value of Inv
	PUF Bonds 2006B	-	-	-	(2,128,711)	2,128,711	Incr. in Fair Value of Inv
	PUF Bonds 2008A	190,572,500	-	(354,858)	-	(a) 370,142	Incr. in Fair Value of Inv
	RFS Bonds 2008B	-	-	-	(204,630)	204,630	Incr. in Fair Value of Inv
		474,637,500	(18,391)	(4,550,143)	(6,718,552)	2,893,409	
TOTAL		**$2,241,315,000**	**4,973,554**	**(191,288,284)**	**(117,530,639)**	**(73,032,645)**	

(a) The positive $370,142 included in investment income on the consolidated statement of revenues, expenses and changes in net position does not agree to the change in fair value of this interest rate swap from August 31, 2013 to August 31, 2014 due to the $725,000 payment received upon executing this swaption.

Derivative Instrument Objectives

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/15?	Evaluation for Effectiveness
Hedging Derivative Liabilities	PUF Bonds 2008A	$187,875,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	187,875,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	165,115,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	165,115,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	128,810,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	128,810,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	279,170,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
Investment Derivatives	PUF Bonds 2006B	284,065,000	Manage changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2008A	187,875,000	Manage changes in cash flows on Series 2008A bonds	N/A	N/A
	RFS Bonds 2008B	90,270,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	92,045,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	117,190,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
TOTAL		**$2,014,215,000**			

Derivative Instrument Objectives

Interest Rate Swaps - by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/14?	Evaluation for Effectiveness
Hedging Derivative Liabilities	PUF Bonds 2008A	$190,572,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	190,572,500	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	165,715,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	165,715,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	133,420,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	133,420,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	297,185,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
Investment Derivatives	PUF Bonds 2006B	284,065,000	Manage changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2008A	190,572,500	Manage changes in cash flows on Series 2008A bonds	N/A	N/A
	PUF Bonds 2008A	190,572,500	Manage changes in cash flows on Series 2008A bonds	N/A	N/A
	RFS Bonds 2008B	90,270,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	92,045,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	117,190,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
TOTAL		**$2,241,315,000**			

No derivative instruments were reclassified from a hedging derivative instrument to an investment derivative instrument in 2015 or 2014. The fair value of interest rate swaps reported as investment derivatives-asset positions of $27,397,516 and $21,160,337 as of August 31, 2015 and 2014, respectively, is included on the consolidated statement of net position as noncurrent unrestricted investments and in the summary of investments in Note 6. The fair value of interest rate swaps reported as investment derivatives-liability positions of $17,013 and $4,550,143 as of August 31, 2015 and 2014, respectively, are included on the consolidated statement of net position as investment derivatives-liability positions. The change in fair value of interest rate swaps reported as investment derivatives included in investment income on the consolidated statement of revenues, expenses and changes in net position, was an increase in the amount of $10,770,309 and a decrease in the amount of $2,102,262 for the years ending August 31, 2015 and 2014, respectively.

Hedging Derivative Instrument and Investment Derivative Risks

Credit Risk: The System is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. Contracts with a positive fair value expose the System to credit risk. The System faces a maximum possible loss equivalent to the amount of the swap contract's fair value, less any collateral held by the System provided by the counterparty. Contracts with a negative fair value do not expose the System to credit risk. All of the counterparties associated with swap contracts with the System are creditworthy financial institutions. Additionally, each of the System's swap counterparties has agreed to provide collateral to the System to the extent the positive fair value exceeds certain threshold amounts. Should a counterparty fail to meet its contractual agreements, or if the System's credit rating falls below investment grade (Baa2 by Moody's or BBB by S&P), the System could be required to pay or receive a substantial termination payment. As of August 31, 2015, the System's credit ratings were Aaa by Moody's and AAA by S&P. The System does not have to post collateral due to changes in fair value of its swap agreements unless the System does not have a credit rating or the System commits a specified event of default and the event of default is continuing. As of August 31, 2015, the maximum loss due to credit risk was $15,217,515. It is the System's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require collateralization of the aggregate fair value of derivative instruments in asset positions, net of the effect of applicable threshold amounts based on each counterparty's credit rating. Collateral posted is in the form of cash, U.S. Treasury or U.S. agency securities held directly by the System or by a third-party custodian approved by the System. The System has not entered into master netting arrangements.

Interest Rate Risk: Interest rate risk involves the risk that the value of the System's interest rate swaps will fluctuate because of changes in interest rates. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

Basis Risk: The System is exposed to basis risk when the variable rate received under an interest rate swap does not match the variable rate paid on hedged bonds. The interest rate on the System's variable rate bonds is a tax-exempt interest rate based on the System's credit ratings. The variable receipt on the System's interest rate swaps is based on either a tax-exempt index (SIFMA) or a taxable index (LIBOR). Tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. None of the System's interest rate swaps are subject to automatic early termination. The System is subject to termination risk if the System's credit rating falls below investment grade (Baa2 by Moody's or BBB by S&P), or if the System commits a specified event of default or other specified event of termination. As of August 31, 2015, the System's credit ratings were Aaa by Moody's and AAA by S&P. The System has the right to optionally terminate any of its swaps at any time. At termination, if the fair value of the swap is negative, the System would be liable to pay a termination payment to the appropriate counterparty in the amount of the swap's fair value. If the fair value of the swap is positive at termination, the counterparty would owe a termination payment to the System in the amount of the swap's fair value.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. The System is not exposed to rollover risk by exactly matching the notional amounts and amortization schedules of its swap contracts with the principal amounts and amortization schedules of the associated hedged bonds.

Market Access Risk: Each swap associated with underlying variable rate debt that is subject to tender at the option of the bondholder is subject to market access risk. In the event the System is unable to remarket its variable rate bonds, the System may choose to refund the variable rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. Should an early termination event occur, the System could be required to pay or to receive a substantial termination payment. As of August 31, 2015, the System had market risk associated with $1,242,770,000 aggregate notional amount of pay-fixed, receive-variable interest rate swaps used to hedge interest rate risk on variable rate bonds subject to tender. As of August 31, 2015, the System's variable rate bonds carried the highest short term ratings from Moody's and S&P of VMIG1 and A-1+, respectively.

Swap Scheduled Payments

The following tables reflect the scheduled payments on the swap agreements which differ from the presentation in the projected bond debt service requirements table for the related demand bonds. The debt service requirements reflect the entire outstanding balance of the demand bonds in 2016 because the bonds are supported by internal liquidity.

As of August 31, 2015

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2016	$	35,095,000	124,277	46,268,469	81,487,746
2017		26,175,000	120,767	44,973,461	71,269,228
2018		27,140,000	118,150	44,003,484	71,261,634
2019		28,155,000	115,436	42,997,368	71,267,804
2020		27,065,000	112,621	41,953,360	69,130,981
2021-2025		229,775,000	509,805	189,952,622	420,237,427
2026-2030		290,565,000	378,432	140,873,171	431,816,603
2031-2035		273,055,000	227,244	84,174,843	357,457,087
2036-2040		305,745,000	63,716	23,311,654	329,120,370

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

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2015 on its Series 2008A Bonds, Series 2007B Bonds, and Series 2008B Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2015 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2015

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Variable Receive-Variable Interest Rate Swaps[3]	Total
2016	$	2,795,000	48,738	(1,351,427)	1,492,311
2017		2,897,500	48,458	(1,344,593)	1,601,365
2018		3,002,500	48,169	(1,337,509)	1,713,160
2019		3,110,000	47,869	(1,330,168)	1,827,701
2020		3,225,000	47,557	(1,322,563)	1,949,994
2021-2025		17,965,000	232,710	(6,488,672)	11,709,038
2026-2030		113,522,500	208,477	(5,840,026)	107,890,951
2031-2035		142,855,000	142,810	(3,975,912)	139,021,898
2036-2040		198,007,500	41,913	(1,143,501)	196,905,912

[1]Principal and interest requirements on Permanent University Fund Bonds, Series 2008A and a portion of the outstanding Revenue Financing System Bonds, Series 2008B are reflected in both tables above as the Series 2008A bonds and a portion of the Series 2008B bonds have associated pay-fixed, receive-variable and pay-variable, receive-variable interest rate swaps that modify the System's interest rate exposure on the related Series 2008A bonds and Series 2008B bonds, respectively.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2015 on its Series 2008A bonds and a portion of its Series 2008B Bonds.

[3]Reflects net payments on pay-variable, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2015 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2015

Fiscal Year		Associated Fixed Rate Bonds Principal[1]	Associated Fixed Rate Bonds Interest[1]	Pay-Variable Receive-Variable Interest Rate Swaps[2]	Total
2016	$	-	14,851,563	(404,620)	14,446,943
2017		-	14,851,563	(404,620)	14,446,943
2018		-	14,851,563	(404,620)	14,446,943
2019		-	14,851,562	(404,620)	14,446,942
2020		24,740,000	14,851,562	(404,620)	39,186,942
2021-2025		78,975,000	55,617,450	(1,508,972)	133,083,478
2026-2030		133,790,000	35,819,175	(971,820)	168,637,355
2031-2035		46,560,000	11,031,037	(299,286)	57,291,751

[1]Reflects scheduled principal and interest payments of Permanent University Fund Bonds, Series 2006B.

[2]Reflects net payments on pay-variable, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2015 and applied on the respective notional amounts of the swaps through its respective termination dates.

As of August 31, 2014

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Fixed Receive-Variable Interest Rate Swaps[3]	Total
2015	$	33,830,000	399,553	47,133,386	81,362,939
2016		35,095,000	389,344	45,895,639	81,379,983
2017		26,175,000	378,753	44,611,158	71,164,911
2018		27,140,000	370,836	43,649,034	71,159,870
2019		28,155,000	362,627	42,651,060	71,168,687
2020-2024		199,515,000	1,667,133	195,793,418	396,975,551
2025-2029		287,690,000	1,275,197	150,412,234	439,377,431
2030-2034		297,240,000	788,599	94,560,470	392,589,069
2035-2039		341,760,000	293,677	35,624,074	377,677,751

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

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2014 on its Series 2008A Bonds, Series 2007B Bonds, and Series 2008B Bonds.

[3]Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2014 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2014

Fiscal Year		Associated Variable Rate Bonds Principal[1]	Associated Variable Rate Bonds Interest[2]	Pay-Variable Receive-Variable Interest Rate Swaps[3]	Total
2015	$	2,697,500	147,023	(741,422)	2,103,101
2016		2,795,000	146,214	(738,823)	2,202,391
2017		2,897,500	145,376	(736,130)	2,306,746
2018		3,002,500	144,506	(733,338)	2,413,668
2019		3,110,000	143,606	(730,445)	2,523,161
2020-2024		17,337,500	703,332	(3,605,023)	14,435,809
2025-2029		91,712,500	652,944	(3,384,238)	88,981,206
2030-2034		138,007,500	469,831	(2,380,528)	136,096,803
2035-2039		228,517,500	194,294	(922,079)	227,789,715

[1]Principal and interest requirements on Permanent University Fund Bonds, Series 2008A and a portion of the outstanding Revenue Financing System Bonds, Series 2008B are reflected in both tables above as the Series 2008A bonds and a portion of the Series 2008B bonds have associated pay-fixed, receive-variable and pay-variable, receive-variable interest rate swaps that modify the System's interest rate exposure on the related Series 2008A bonds and Series 2008B bonds, respectively.

[2]Annual debt service requirements are computed using the System's interest rates in effect on August 31, 2014 on its Series 2008A bonds and a portion of its Series 2008B Bonds.

[3]Reflects net payments on pay-variable, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2014 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2014

Fiscal Year		Associated Fixed Rate Bonds Principal[1]	Associated Fixed Rate Bonds Interest[1]	Pay-Variable Receive-Variable Interest Rate Swaps[2]	Total
2015	$	-	14,851,562	(223,152)	14,628,410
2016		-	14,851,562	(223,152)	14,628,410
2017		-	14,851,563	(223,152)	14,628,411
2018		-	14,851,563	(223,152)	14,628,411
2019		-	14,851,563	(223,152)	14,628,411
2020-2024		103,715,000	61,000,638	(913,689)	163,801,949
2025-2029		97,320,000	40,928,475	(612,420)	137,636,055
2030-2034		59,155,000	14,136,675	(211,530)	73,080,145
2035-2039		23,875,000	1,253,437	(18,755)	25,109,682

[1]Reflects scheduled principal and interest payments of Permanent University Fund Bonds, Series 2006B.

[2]Reflects net payments on pay-variable, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2014 and applied on the respective notional amounts of the swaps through its respective termination dates.

14. Stewardship, Compliance and Accountability

The System had no significant violations of bond or note covenants. Per State law, the System cannot spend amounts in excess of appropriations granted by the Texas Legislature. There are no deficits reported in net position.

15. Risk Management and Related Insurance

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

EMPLOYEE AND RETIREE INSURANCE BENEFITS

The U. T. System Employee Benefits program provides health insurance, dental insurance, vision insurance, life insurance, accidental death and dismemberment (AD&D), long-term disability, short-term disability, long-term care and flexible spending account coverage to all benefits-eligible employees and retirees of the System and its fifteen institutions. These insurance benefits are provided through both self-funded and fully-insured arrangements. A portion of the System's cost of providing group health and basic life insurance coverage is paid by the State as specified in the General Appropriations Act. The System's Office of Employee Benefits (OEB) is responsible for the overall administration of the insurance plans. OEB was established by Chapter 1601 of the *Texas Insurance Code* and complies with State laws and statues pertinent to employee benefits for the System.

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans with a subsidy of up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. The System recognized $10,735,937 and $10,062,288 of Medicare Part D payments from the federal government in 2015 and 2014, respectively.

UNEMPLOYMENT COMPENSATION INSURANCE

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

WORKERS' COMPENSATION INSURANCE

The Workers' Compensation Insurance (WCI) program provides coverage to all employees of the System and its fifteen institutions. Under the oversight of the System's Office of Risk Management (ORM), the System self-insures and administers the systemwide program through the use of a third party administrator. The coverage provides income and medical benefits to all employees who have sustained compensable job-related injuries or occupational diseases. The program's statutory authority is embodied in Chapter 503 of the *Texas Labor Code.*

PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

The coverage provided under the Professional Medical Liability Benefit Plan (the "Plan") is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all of the System staff physicians, dentists, residents, fellows, and medical students who have been enrolled. The limits of liability of the Plan include an annual policy aggregate of $30 million, an annual aggregate of $1.5 million for each staff physician ($500,000 per claim), an annual aggregate of $300,000 for each resident or fellow ($100,000 per claim) and a $75,000 annual aggregate for each medical student ($25,000 per claim). Additional coverage is available outside of Texas and for approved international activities. Liability is limited to $2 million per claim, regardless of the number of claimants or plan participants involved in an incident.

The limits of liability are prescribed by law as $100,000 per health care liability claim per physician determined to be a public servant. U. T. institutions are covered under the Plan for actions that could have been brought against an individual plan participant. The liability of a U. T. institution is limited by law to $250,000 per claimant and $500,000 per occurrence for bodily injury or death.

COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The Comprehensive Property Protection Plan (CPPP) uses a combination of interim financing and commercial insurance to provide Fire and All Other Perils (Fire and AOP) coverage, as well as coverage for Named Windstorm and Flood (Wind and Flood). All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policies. The Fire and AOP program provides a $1 billion per occurrence limit for most perils, with sub-limits that do apply. The System participates in a seven percent (7%) quota share of the primary $75 million layer excess of the $25 million layer of commercial insurance coverage. Deductibles for Fire and AOP are $5 million per occurrence with a $15 million annual aggregate limit. The commercial insurance coverage for Named Windstorm and resulting perils provides a $200 million per occurrence limit with the System participating in a seven percent (7%) quota share of the $75 million layer excess of the $25 million layer. Deductibles for Wind and Flood are $100 million per occurrence for U. T. Medical Branch - Galveston (locations in Galveston only), and $50 million per occurrence for U. T. Health Science Center - Houston (locations in Texas Medical Center only) and M. D. Anderson (locations in Texas Medical Center Only). Named Windstorm coverage is provided for other locations with a lower deductible.

In addition, primary policies are purchased on certain flood and wind exposed properties. These policies provide underlying limits (up to $4.4 million per building/contents for wind and $1 million maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) and the National Flood Insurance Program (NFIP) for facilities in Tier 1 seacoast territories and for properties located in various flood zones. U. T. Medical Branch - Galveston also purchased a five-year aggregate, $50 million Named Windstorm policy to reduce the $100 million Wind and Flood deductible for locations in Galveston only. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to the payment of insurance premiums.

DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY 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.

Coverage applies to individual board members, employees, faculty, etc., as well as to the System itself. The limit of liability is a $10 million annual aggregate (Coverages A, B and C combined), except for $5 million annual aggregate sublimit for Coverage C. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a U. T. institution that is required to indemnify a covered individual with deductibles of $100,000 per individual and $300,000 per occurrence. Coverage C applies to a U. T. institution and related entities with a $300,000 deductible. An excess coverage commercial insurance policy provides $10 million limit of liability in excess of a $5 million aggregate retention which is satisfied by payment of losses under the Plan.

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

The Rolling Owner Controlled Insurance Program (ROCIP) was established for the centralized purchase of construction contractor insurance on various capital projects. This program provides workers' compensation, employers' liability and general liability insurance coverage for all contractors enrolled on projects participating in the program. Each coverage carries a $250,000 per occurrence deductible with a maximum $375,000 per occurrence clash deductible, if more than one coverage is triggered by the same occurrence. Deductibles are paid through the program's self-insurance fund.

AUTOMOBILE, PROPERTY & LIABILITY PLAN

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

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, rolling owner controlled, and automobile, property and liability self-insurance plans. IBNR figures for the workers' compensation, professional medical liability, directors and officers/employment practices liability, rolling owner controlled, and automobile, property and liability self-insurance plans include liabilities for unpaid reported claims and are reported on an undiscounted basis. The IBNR liability for the property protection self-insurance plan is not actuarially determined but estimated based on unpaid reported claims. Since an annual accrual is recorded for the third quarter TWC billing, no IBNR liability is recorded for Unemployment Compensation Insurance. No settlements exceeded insurance coverage in the past three fiscal years.

Since the responsibility for processing all claims for 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, rolling owner controlled, and automobile, property and liability self-insurance plans includes a related accrual for allocated loss adjustment expenses (ALAE), which are the claim-specific defense and settlement costs associated with the ultimate settlement of those claims. They do not include a provision for ULAE, which are general administrative expenses associated with claims settlement, but are not specifically attributable to individual claims.

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2015 and 2014 were as follows:

Fiscal Year 2015 Plan		IBNR Liability 09/01/14	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/15
Employee Health and Dental	$	74,000,000	1,050,718,117	(1,036,918,117)	87,800,000
Workers' Compensation		8,216,000	3,095,001	(3,600,001)	7,711,000
Professional Medical Liability		15,784,597	2,111,476	(1,781,920)	16,114,153
Property Protection – Fire & AOP		331,000	1,631,183	(597,183)	1,365,000
Directors and Officers/EPL		2,514,978	568,295	(1,997,788)	1,085,485
ROCIP		4,996,361	4,146,214	(3,696,381)	5,446,194
Automobile, Property & Liability		128,682	558,948	(418,138)	269,492
TOTAL	$	105,971,618	1,062,829,234	(1,049,009,528)	119,791,324

Fiscal Year 2014 Plan		IBNR Liability 09/01/13	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/14
Employee Health and Dental	$	78,600,000	934,699,753	(939,299,753)	74,000,000
Workers' Compensation		7,946,000	4,320,440	(4,050,440)	8,216,000
Professional Medical Liability		17,801,004	(394,646)	(1,621,761)	15,784,597
Property Protection – Fire & AOP		250,000	81,000	-	331,000
Directors and Officers/EPL		2,949,439	(434,461)	-	2,514,978
ROCIP		5,525,633	2,499,505	(3,028,777)	4,996,361
Automobile, Property & Liability		-	341,815	(213,133)	128,682
TOTAL	$	113,072,076	941,113,406	(948,213,864)	105,971,618

16. Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Similar benefits for active employees are provided through the same self-funded plan. For the years ended August 31, 2015 and 2014, the State and retiree contribution rates for the self-funded plan per full-time retired employee are shown in the following table. The retiree contributes any premium charged over and above the State contributions.

	2015		2014	
Level of Coverage	**Employer**	**Retiree**	**Employer**	**Retiree**
Retiree Only	$ 527.40	-	$ 497.55	-
Retiree/Spouse	803.88	227.07	758.37	214.22
Retiree/Children	704.30	237.49	664.43	224.05
Retiree/Family	982.42	447.17	926.81	421.86

The number of systemwide retired employees who were eligible for these benefits, as well as the premium expense of providing the benefits for the years ended August 31, 2015 and 2014 are provided in the following table.

	2015	**2014**
Number of Retirees	24,456	23,276
Cost to the State	$ 67,058,551.87	67,229,964.64
Cost to the System	98,369,912.60	84,263,916.65

PLAN DESCRIPTION AND FUNDING POLICY

OPEB are provided to the System's retirees under the U. T. System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. The authority under which the obligations of the plan members and the System are established and may be amended is Chapter 1601, *Texas Insurance Code*.

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

The OPEB plan described herein is not administered through a trust.

2015 ANNUAL OPEB COST, EMPLOYER CONTRIBUTIONS AND NET OPEB OBLIGATION

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ARC	**Interest on Net OPEB Obligation**	**Adjustment to the ARC**	**Annual OPEB Cost {(1) + (2) - (3)}**	**Employer Contributions**	**Increase (Decrease) in Net OPEB Obligation {(4) - (5)}**	**Net OPEB Obligation at Beginning of Year**	**Net OPEB Obligation at End of Year {(6) + (7)}**
$749,869,282	235,154,352	174,067,419	810,956,215	185,328,320	625,627,895	3,359,347,883	3,984,975,778

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

(1)	(2)	(3)	(4)	(5)
Fiscal Year Ending	**Annual OPEB Cost**	**Employer Contributions**	**Percentage of Annual OPEB Cost Contributed {(3)/(2)}**	**Net OPEB Obligation at End of Year**
August 31, 2013	682,064,563	146,453,476	21.5%	2,799,477,678
August 31, 2014	726,386,814	166,516,609	22.9%	3,359,347,883
August 31, 2015	810,956,215	185,328,320	22.9%	3,984,975,778

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

SCHEDULE OF FUNDING PROGRESS OF THE PLAN AS OF DECEMBER 31, 2014

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

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}**	**Funded Ratio {(2)/(3)}**	**Annual Covered Payroll**	**Ratio of UAAL to Covered Payroll {(4)/(6)}**
December 31, 2010	$-	5,956,797,788	5,956,797,788	0.0%	5,309,413,147	112.2%
December 31, 2012	-	6,939,197,076	6,939,197,076	0.0%	5,674,297,785	122.3%
December 31, 2014	-	8,274,414,043	8,274,414,043	0.0%	5,842,409,902	141.6%

The plan benefit obligations as of December 31, 2011 were determined based on an actuarial roll-forward of the December 31, 2010 valuation results, and the plan benefit obligations as of December 31, 2013 were determined based on an actuarial roll-forward of the December 31, 2012 valuation results.

ACTUARIAL METHODS AND ASSUMPTIONS

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

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

Actuarial calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

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

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

Summary of Actuarial Methods and Assumptions	
Actuarial cost method	Entry Age Normal (Level percent of pay)
Asset valuation method	Market
Actuarial assumptions:	
Annual investment return assumption (discount rate)[1]	7.00%
Projected annual salary increases[1]	4.75% to 7.75%
Weighted-average at valuation date[1]	6.40%
Annual Healthcare Trend Rates[1]	8.00% in FYE 2016
	Declining to 5.50% in FYE 2022
Amortization method	Level percent
Amortization period	30 year open period

[1]Includes inflation assumption of 3.50%

SIGNIFICANT FACTORS AFFECTING THE COMPARABILITY OF AMOUNTS REPORTED

The following assumptions used in the most recent valuation (as of December 31, 2014) were changed from those used in the prior valuation (as of December 31, 2012):

- the Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect claims and expense experience in the 24 months following the date as of which the prior valuation's assumptions were determined;
- the Assumed Per Capita Health Benefit Costs reflect the impact of benefit changes that occurred on September 1, 2015; and
- the Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs.

17. Pension Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

All System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in the TRS retirement plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service have a vested right to unreduced retirement benefits at age 65 or provided they have a combination of age plus years of service totaling 80 or more. However, members who began TRS participation on or after September 1, 2007 must be age 60 to retire with unreduced benefits and members who are not vested in TRS on August 31, 2014 must be age 62 to retire with unreduced benefits under the second option. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

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

Contributions by employees were 6.7 percent of gross earnings for 2015 and 6.4 percent of gross earnings for 2014 and 2013. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 6.8 percent of annual compensation for 2015 and 2014 and 6.4 percent of annual compensation for 2013. The System's actual contributions excluding the State match to TRS for the years ended August 31, 2015, 2014 and 2013 were $244,723,301, $230,251,025 and $210,973,194, respectively.

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2014 measurement date.

Summary of Actuarial Methods and Assumptions – TRS Plan	
Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Actuarial Assumptions:	
Discount Rate	8.00%
Investment Rate of Return	8.00%
Inflation	3.00%
Salary Increase	4.25% to 7.25% including inflation
Mortality:	
Active	1994 Group Annuity Mortality Table set back 6 years for males and females
Post-Retirement	Client specific tables multiplied by 80%
Ad Hoc Post-Employment Benefit Changes	None

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the summer of 2014, the methods and assumptions are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011, they contained significant margin for possible future mortality improvements. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees have decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards practice No. 35.

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

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

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

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio are presented below:

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

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

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

1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
$4,114,929,424	$2,302,987,541	$947,992,489

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2014 Comprehensive Annual Financial Report. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in the TRS' annual financial report, which may be obtained from the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701 or found on the TRS website at www.trs.state.tx.us.

At August 31, 2015, the System reported a liability of $2,302,987,541 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System's proportion at August 31, 2014 was 8.6199871 percent. The System's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period September 1, 2013 through August 31, 2014. At August 31, 2015, the amount of the net pension liability related to the System reported by the State was $892,687,939. The amount reported by the State is related to the on-behalf contributions, which are recognized as State appropriation general revenue on the System's financial statements in the fiscal year that the State contributed the amounts to TRS on the System's behalf.

For the year ending August 31, 2015, the System recognized pension expense of $212,894,767. At August 31, 2015, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	35,609,182	-
Changes of assumptions		149,666,214	-
Net difference between projected and actual investment return		-	703,743,453
Change in proportion and contribution difference		-	201,453
Contributions subsequent to the measurement date		244,723,301	-
Total	$	429,998,697	703,944,906

The $244,723,301 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2016.

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

Fiscal Year		Increase (Reduction) of Pension Expense
2016	$	(144,781,781)
2017		(144,781,781)
2018		(144,781,781)
2019		(144,781,781)
2020		31,154,083
Thereafter		29,303,531
Total	$	(518,669,510)

OPTIONAL RETIREMENT PROGRAM (ORP)

The State has also established an optional defined contribution retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. ORP is available to certain eligible employees who hold faculty positions and other professional positions including but limited to director-level and above, librarians and coaches. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program. The employee and employer contribution rates are established by the State Legislature each biennium. The State provides an option for a local supplement on top of the state base rate. Each institution within the System can decide to adopt and fund a local supplement each year to provide each ORP employee the maximum employer rate. The chancellor then approves the employer rates each fiscal year. The contributions made by participants (6.65 percent of annual compensation) and the System (6.6 percent state base rate for 2015 and 2014 and 6.0 percent state base rate for 2013) for the fiscal years ended August 31, 2015, 2014 and 2013, respectively, are provided in the following table.

		2015	2014	2013
Participant Contributions	$	145,565,462	137,902,022	133,016,555
System Contributions		191,455,373	177,123,850	170,719,638
Total	$	337,020,835	315,025,872	303,736,193

EMPLOYEES RETIREMENT SYSTEM (ERS)

Certain employees at U. T. Medical Branch - Galveston participate in the Employees Retirement System of Texas. The Board of Trustees of the Employees Retirement System of Texas is the administrator of the ERS, which is considered to be a single employer defined benefit pension plan. ERS covers the eligible System employees who are not covered by the TRS or the ORP. Benefits vest after five years of credited service. Employees may retire at age 60 with five years of service or any combination of age plus years of service that equals 80.

The ERS plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. Additional payment options are available. The benefit and contribution provisions are authorized by State law and may be amended by the Texas Legislature. Contribution requirements are not actuarially determined. The ERS contribution requirement, calculated using entry age normal actuarial cost method, is established through State statute.

The funding policy requires monthly contributions by both the State and employees. For the year beginning September 1, 2014, the required contribution for the State and the employee is 7.50 and 6.90 percent of pay, respectively. For Law Enforcement and Custodial Officers Supplemental Retirement Fund eligible employees, the State and the employee contribution is an additional 0.50 percent of pay, respectively.

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

18. Deferred Compensation

DEFERRED COMPENSATION-457(b)

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

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)
The University of Texas System Governmental Retirement Arrangement (UTGRA) is a defined contribution pension plan established by the System to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the $50,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC). At August 31, 2015 and 2014, there were 689 and 747 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 $52,000 cap under IRC Section 415(c), defer 6.65 percent of their excess compensation while the System contributes between 6.58 percent and 8.5 percent depending upon the institution and the date of employment. The System contributed $3,773,336 for the year ended August 31, 2015 and $3,613,604 for the year ended August 31, 2014. The participants contributed $2,952,080 for the year ended August 31, 2015 and $2,827,114 for the year ended August 31, 2014. Plan provisions are established and may be amended at any time by the U. T. System Board of Regents.

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

PHYSICIANS REFERRAL SERVICE SUPPLEMENTAL RETIREMENT PLAN (SRP)/RETIREMENT BENEFIT PLAN (RBP)
M. D. Anderson has established, primarily for the physicians of its Physicians Referral Service, the Physicians Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP) of the Anderson Hospital (collectively "the SRP/RBP"). The SRP/RBP is a non-qualified plan described by Section 457(f) of the Internal Revenue Code of 1986, as amended. The SRP/RBP is reported on the accrual basis of accounting. Assets of the SRP/RBP remain subject to the claims of the general creditors of M. D. Anderson.

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

19. Commitments and Contingent Liabilities

On August 31, 2015, various lawsuits and claims involving the System were pending. After conferring with legal counsel concerning pending litigation and claims, the System's management believes that the outcome of pending litigation should not have a material adverse effect on the financial statements of the System.

The System continues to implement its $6.5 billion capital improvement program, planned for fiscal years 2016 through 2021, 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 $360,204,563 as of August 31, 2015 and $211,315,684 as of August 31, 2014.

The System has invested in certain private investment funds. These agreements commit the System to future capital contributions amounting to $6,131,575,809 as of August 31, 2015 and $4,772,443,769 as of August 31, 2014.

The System has invested in certain public market fund private placements. These agreements commit the System to future fundings amounting to $54,244,444 as of August 31, 2015 and $54,744,444 as of August 31, 2014.
Based on the credit support annex agreements with all counterparties, the System does not have to post any collateral for any hedging derivative instruments.

Laws and regulations governing the Medicare and Medicaid programs and certain other third-party programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates of third-party settlements will change by a material amount in the near term. The System's intent is to be in compliance with all applicable laws and regulations, and it is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future review and interpretation. Changes in the Medicare and Medicaid programs and a reduction of funding could have an adverse effect on the System.

In August 2013, U. T. Health Science Center – San Antonio received a letter from the Office of the Director of the National Institute of Health (NIH) indicating that, as a result of a review and determination of scientific and budgetary overlap in the federally funded research efforts of one of the university's investigators, the NIH planned to recommend to the sponsoring institute that it recover $981,245 in previously paid grant funding from the university. A liability for this amount was recorded in August 2013. While the university has presented its arguments to NIH for reducing or eliminating the entire recovery effort, the effort was unsuccessful. The amount was demanded and paid in full to NIH in fiscal year 2014.

In August 2015, The System Audit Office became aware of an issue on U. T. Brownsville's Center for Gravitational Wave Analysis grants. It has been determined that, over a seven-year period, effort certification reports were falsified and six grants were knowingly overcharged salaries for three faculty members in U. T. Brownsville's Center for Gravitational Wave Analysis. The estimated amount overcharged, including indirect cost, was $1.4 million. A liability for this amount was recorded in August 2015. In addition, financial support totaling approximately $272,000 was provided to foreign students in violation of a grant agreement. The System Audit Office expects to complete the initial review by mid-November, 2015.

The U.S. Department of Health and Human Services Office of Inspector General has been auditing physician supplemental payments for the period May 1, 2004 through September 30, 2007 to determine if the Texas Health and Human Services Commission calculated supplemental payments to the System health institutions in accordance with Federal regulations and the State plan. While a draft report has not been issued, the exit conference has been conducted and estimated payments have been provided. As a result, an accrual was recorded for $57.9 million in 2015. It is unknown at this time when payment will be made.

20. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2015, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	1,529,097	26,984	5,093,194	96,314,307	554,603
Salaries and Wages		2,404,788,175	1,135,293,037	143,213,101	2,252,290,273	417,475,154
Payroll Related Costs		491,020,347	268,472,595	31,684,768	532,211,852	106,746,082
Professional Fees and Services		53,950,203	85,660,378	18,765,180	222,549,317	18,251,179
Other Contracted Services		86,573,512	160,436,471	37,436,460	242,856,760	48,638,375
Scholarships and Fellowships		11,258,620	39,389,653	4,721,650	6,787	3,498,929
Travel		30,614,448	39,061,956	5,940,868	16,577,457	11,552,096
Materials and Supplies		84,691,522	181,260,551	20,333,257	1,154,987,078	59,463,827
Utilities		605,700	1,197,207	474,926	11,763,588	1,221,188
Communications		22,499,881	6,152,806	2,369,970	14,674,124	11,604,748
Repairs and Maintenance		7,541,811	17,884,197	1,202,340	104,809,925	6,289,526
Rentals and Leases		13,374,370	7,114,662	4,451,994	67,454,722	6,688,125
Printing and Reproduction		6,108,967	4,799,024	2,931,936	5,222,739	4,080,025
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		-	-	-	-	-
Impairment of Capital Assets		-	-	-	-	-
Claims and Losses		-	-	-	-	-
Increase in Net OPEB Obligation		-	-	-	-	-
Pension Expense		70,283,319	33,586,310	4,239,685	61,184,594	11,252,560
Other Operating Expenses		107,870,894	100,569,796	28,930,722	91,745,632	39,808,612
Federal Sponsored Pass-through to State Agencies		1,027,663	5,196,175	1,219,642	-	-
State Sponsored Pass-through to State Agencies		-	614,488	28,096	-	-
Total Operating Expenses	$	3,393,738,529	2,086,716,290	313,037,789	4,874,649,155	747,125,029

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
185,912	1,122,538	61,363	(55)	24,994,109	-	129,882,052
113,875,788	466,969,623	220,334,651	16,164,855	207,106,438	-	7,377,511,095
27,385,201	110,854,052	59,975,451	1,659,656	44,546,723	-	1,674,556,727
6,427,601	28,419,822	18,451,281	635,553	9,926,641	-	463,037,155
38,104,275	43,225,554	43,692,573	885,650	96,678,962	-	798,528,592
5,465,029	2,953,645	5,797	342,383,515	10,427,070	-	420,110,695
3,480,563	8,558,535	1,170,815	654,400	23,149,617	-	140,760,755
15,071,428	32,313,543	57,260,943	1,405,733	38,583,329	-	1,645,371,211
51,851	6,916,326	227,633,489	137,593	30,637,097	-	280,638,965
1,975,740	30,635,405	3,955,907	52,945	8,716,235	-	102,637,761
2,908,791	40,366,122	93,053,838	128,160	21,808,070	-	295,992,780
4,845,361	17,231,770	25,551,884	683,546	11,007,222	-	158,403,656
2,932,386	6,030,588	187,190	79,131	4,527,343	-	36,899,329
-	-	-	-	-	1,178,905,432	1,178,905,432
1,101,148	-	-	-	-	-	1,101,148
-	-	3,251,116	-	-	-	3,251,116
-	25,885,835	-	-	-	-	25,885,835
-	625,627,895	-	-	-	-	625,627,895
3,481,620	15,840,568	6,351,009	471,936	6,203,166	-	212,894,767
18,450,812	8,212,414	(1,089,916)	2,495,119	33,896,767	-	430,890,852
-	-	-	-	-	-	7,443,480
-	973,851	-	-	-	-	1,616,435
245,743,506	1,472,138,086	759,847,391	367,837,737	572,208,789	1,178,905,432	16,011,947,733

For the year ended August 31, 2014, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses		Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	$	796,421	45,082	2,381,249	83,672,720	444,966
Salaries and Wages		2,291,179,941	1,094,886,834	138,210,343	1,994,568,795	366,824,445
Payroll Related Costs		540,630,218	295,392,832	35,718,261	531,910,434	102,761,551
Professional Fees and Services		21,848,410	100,631,021	14,712,125	167,378,920	6,610,819
Other Contracted Services		88,225,653	150,142,439	30,323,226	222,560,513	40,565,286
Scholarships and Fellowships		14,013,062	38,894,036	4,141,994	10,300	3,980,494
Travel		30,975,422	39,446,392	5,451,644	11,973,973	10,680,255
Materials and Supplies		80,851,012	183,768,710	17,167,017	1,001,785,159	42,856,329
Utilities		(2,294,510)	1,349,407	222,373	8,299,390	23,209
Communications		22,388,036	7,829,352	2,036,508	11,778,627	29,233,703
Repairs and Maintenance		(373,049)	14,969,805	1,061,635	89,073,531	7,796,834
Rentals and Leases		12,822,513	5,544,275	4,775,265	53,199,826	6,835,791
Printing and Reproduction		5,810,663	4,953,777	3,804,988	4,257,799	3,428,005
Depreciation and Amortization		-	-	-	-	-
Bad Debt Expense		-	-	-	-	-
Claims and Losses		-	-	-	-	-
Increase in Net OPEB Obligation		-	-	-	-	-
Other Operating Expenses		49,932,632	84,365,424	25,421,345	80,493,695	34,037,540
Federal Sponsored Pass-through to State Agencies		933,332	6,980,250	952,318	-	-
State Sponsored Pass-through to State Agencies		5,811	447,135	53,162	-	9,230,625
Total Operating Expenses	$	3,157,745,567	2,029,646,771	286,433,453	4,260,963,682	665,309,852

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
210,598	1,468,369	80,584	24,910	22,321,451	-	111,446,350
113,498,026	516,389,832	207,037,821	15,384,748	202,218,231	-	6,940,199,016
30,514,563	147,656,924	63,995,935	1,286,710	49,498,187	-	1,799,365,615
3,736,841	50,065,354	21,908,606	493,635	7,533,056	-	394,918,787
34,866,722	61,532,427	41,052,459	843,520	75,771,669	-	745,883,914
4,769,399	1,848,699	3,500	341,585,347	10,502,014	-	419,748,845
3,428,798	8,744,505	953,803	704,811	23,526,884	-	135,886,487
14,556,152	45,678,327	74,130,058	1,277,684	36,504,842	-	1,498,575,290
43,671	6,535,648	232,719,360	110,645	29,651,545	-	276,660,738
1,983,332	33,063,722	4,196,315	65,460	8,357,342	-	120,932,397
2,324,616	43,765,875	82,448,119	411,558	19,570,165	-	261,049,089
4,613,135	17,276,766	28,989,857	407,024	10,808,688	-	145,273,140
2,369,887	5,868,723	235,944	37,426	4,092,259	-	34,859,471
-	-	-	-	-	1,117,334,640	1,117,334,640
1,414,404	8,112	-	-	-	-	1,422,516
-	26,160,788	-	-	-	-	26,160,788
-	559,870,205	-	-	-	-	559,870,205
15,193,880	5,644,848	7,398,407	2,118,781	29,750,602	-	334,357,154
-	-	-	-	-	-	8,865,900
-	927,065	-	-	-	-	10,663,798
233,524,024	1,532,506,189	765,150,768	364,752,259	530,106,935	1,117,334,640	14,943,474,140

21. Net Position

The System's net position at August 31, 2015 and 2014 were comprised of the following:

		2015	2014
Net investment in capital assets	$	6,441,684,724	6,109,145,658
Restricted			
Nonexpendable		20,681,735,999	22,555,208,627
Expendable		11,545,483,514	12,564,507,110
Total restricted		32,227,219,513	35,119,715,737
Unrestricted net position:			
Unrestricted			
Reserved			
Encumbrances		1,275,588,165	1,229,353,905
Accounts receivable (less unearned revenue portion)		1,195,171,388	1,031,204,932
Inventories		108,300,473	98,078,440
Self-insurance plans		434,533,473	447,498,441
Higher Education Assistance Fund (HEAF)		1,626,427	11,345,849
Other specific purposes:			
Advanced Research/Advanced Technology Programs		813,120	565,745
Deposits		4,601,322	2,507,817
Prepaid expenses		144,197,479	122,426,946
Deferred charges		756,887	136,426
Imprest funds		1,337,608	1,260,717
Travel advances		353,835	227,981
Unreserved			
Allocated			
Funds functioning as endowment-unrestricted		304,584,211	247,981,487
Provision for operating budgets		64,177,343	20,752,538
Capital projects		1,665,889,849	1,343,055,874
Debt service		151,152,254	162,631,613
Start-up/matching		78,728,604	66,891,955
Utilities reserve		12,128,105	30,489,964
Research enhancement and support		221,193,216	241,217,520
Market adjustments		14,062,524	88,140,887
Student fees		132,553,255	145,930,256
Texas Tomorrow Fund shortfall		5,390,305	7,526,561
Instructional program support		644,794,553	540,358,432
Dean, chair and faculty recruitment packages		9,009,555	11,033,244
Self-supporting enterprises		150,203,566	169,519,269
Patient care support		353,549,205	410,023,181
Practice plan minimum operating reserve of 90 days		412,302,989	363,799,755
Unallocated		(6,374,776,205)	(2,952,169,648)
Total unrestricted		1,012,223,506	3,841,790,087
Total net position	$	39,681,127,743	45,070,651,482

As of August 31, 2015 and 2014, restricted nonexpendable net position includes $15,532,160,890 and $17,564,806,332, respectively, of the Permanent University Fund corpus, and $820,000,000 for both years of the Permanent Health Fund corpus. As of August 31, 2015 and 2014, restricted expendable net position includes $6,290,149,987 and $7,133,689,251, respectively, of the Permanent University Fund appreciation, and $255,710,483 and $293,609,279, respectively, of the Permanent Health Fund appreciation.

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

22. Termination Benefits

U. T. System Administration contracted with NextJob to provide outplacement services to employees of the System who implemented a reduction in force as a result of the budget cuts implemented by the State. U. T. System Administration incurred expenses of $155,340 for 368 terminated employees of the System as of August 31, 2015, and $225,300 for 430 terminated employees of the System as of August 31, 2014. While U. T. System Administration contracted with NextJob, the U. T. institutions may incur travel expenses for NextJob if they request NextJob to come to their campus or if the institution requests services that fall outside of the standard service in the contract.

In 2015, U. T. Brownsville implemented reduction in force as a direct result of the merger of U. T. Brownsville and U. T. Pan American which will create The University of Texas Rio Grande Valley in 2016 and incurred early exit incentive expenses of $927,591 for 25 terminated employees in 2015.

In 2015, the University of Texas – Pan American implemented reduction in force as a direct result of the merger of U. T. Brownsville and U. T. Pan American which will create The University of Texas Rio Grande Valley in 2016 and incurred early exit incentive expenses of $1,852,378 for 56 terminated employees in 2015.

In 2015, U. T. San Antonio implemented a reduction in force that affected 12 employees. The benefits package provided to the 12 involuntarily terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered.

In both 2015 and 2014, U. T. Medical Branch - Galveston implemented reductions in force throughout the year. The benefits package provided to the 68 terminated employees in 2015 and 45 terminated employees in 2014 consisted of normal benefits and salaries with no special benefits or severance packages offered.

In 2015, U. T. Health Science Center – San Antonio implemented two reductions in force that affected 18 employees due to the divesture of the Transplant Center and transfer of the Lower Rio Grande Valley Academic Health Center to The University of Texas Rio Grande Valley in 2016. The benefits package provided to the 18 involuntarily terminated employees consisted of normal benefits and salaries with no special benefits or severance packages offered. In 2014, U. T. Health Science Center – San Antonio implemented a reduction in force that affected 42 employees due to the closing of the Ambulatory Surgical Center at the Medical Arts and Research Center. The benefits package provided to the 42 involuntarily 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. COBRA participants are eligible to continue group benefits for 18 to 36 months, depending upon the circumstances leading to loss of coverage. COBRA benefits for the self-insured plans offered by the System for the years ended August 31, 2015 and 2014 are provided below:

		2015	2014
Total Number of Participants[1]		2,165	2,104
Premium Revenue	$	3,995,445	4,527,769
2% Administrative Fee Revenue[2]		(78,415)	(88,791)
Net COBRA Premium		3,917,030	4,438,978
Less Claims Paid		(12,854,018)	(14,679,984)
Cost to State	$	(8,936,988)	(10,241,006)

[1]The participants above are for the self-insured program.

[2]The 2 percent administrative fee is retained by the vendor administering the COBRA benefit and is paid by the participant.

23. Deferred Outflows of Resources and Deferred Inflows of Resources

As of August 31, 2015 and 2014, the System reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, unamortized (losses)/gains on refunding debt and the TRS pension plan as presented in the table below:

		2015		2014	
		Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Derivatives	$	261,612,901	-	207,898,478	-
Unamortized (Loss)/Gain on Refunding Debt		48,366,830	6,045,238	41,314,652	7,139,418
Pension Related		429,998,697	703,944,906	-	-
Total	$	739,978,428	709,990,144	249,213,130	7,139,418

Deferred outflows of resources of $261,612,901 and $207,898,478 as of August 31, 2015 and 2014, respectively, were related to hedging derivatives in a liability position. The hedging derivative liability is disclosed in Note 7.

Deferred outflows of resources of $48,366,830 and $41,314,652 as of August 31, 2015 and 2014, respectively, were related to the unamortized losses on refunding debt. Deferred inflows of resources of $6,045,238 and $7,139,418 as of August 31, 2015 and 2014, respectively, were related to the unamortized gains on refunding debt. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows.

Deferred outflows of resources of $429,998,697 and deferred inflows of resources of $703,944,906 as of August 31, 2015 were related to the TRS pension plan. See Note 17 for additional information.

24. Subsequent Events

On June 14, 2013 Governor Rick Perry signed a bill to create a new university and medical school in the lower Rio Grande Valley that subsequently was named University of Texas Rio Grande Valley. U. T. Rio Grande Valley was operational September 1, 2015. U. T. Rio Grande Valley is an accounting merger that will occur in fiscal year 2016 combining student enrollment from U. T. Brownsville and U. T. Pan American as well as new medical school students. U. T. Rio Grande Valley enrolled its first academic class in the fall of 2015 and is expected to enroll its first medical student class in the fall 2016. In accordance with the statute creating U. T. Rio Grande Valley, U. T. Pan American was abolished by the U. T. System Board of Regents effective September 1, 2015. U. T. Brownsville remains operational as an institution with minimal administrative staff for the purpose of maintaining the accreditation of Texas Southmost College, a community college with which it had a contractual partnership. U. T. Brownsville will be abolished by the U. T. System Board of Regents on a future date when Texas Southmost College achieves independent accreditation, which is expected in 2016.

On October 2, 2015, the U. T. System Board of Regents approved the creation of an integrated regional health network (Integrated Network) including the U. T. Southwestern Medical Center and Texas Health Resources (Texas Health) systems. The new Integrated Network, to be named Southwestern Health Resources, leverages the strengths of two local health care systems to provide increased access to primary care and specialized care for the people of North Texas. Plans call for the Integrated Network to include twenty seven hospitals throughout North Texas, as well as an expansive network of physicians from both organizations and will be operational in the first quarter of 2016.

On October 22, 2015, the U. T. System Board of Regents issued $75,000,000 in PUF Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various UT System institutions. Subsequent to this issuance, the System had $460,000,000 of PUF Taxable Commercial Paper Notes, Series B outstanding.

On December 9, 2015, the U. T. System Board of Regents issued $126,020,000 in PUF Bonds, Taxable Series 2015C to current refund $125,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B and to pay the costs of issuance related thereof. The refunded debt is considered fully defeased. Subsequent to this issuance, the System had $334,500,000 of PUF Taxable Commercial Paper Notes, Series B outstanding.

On December 9, 2015, the U. T. System Board of Regents sold $117,270,000 in PUF Bonds, Series 2016A to current refund $137,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B and to pay the costs of issuance related thereof. The Series 2016A Bonds are expected to close on January 5, 2016. Once the Series 2016A bonds are closed, the refunded debt will be considered fully defeased. Subsequent to this issuance, the System will have $197,500,000 of PUF Taxable Commercial Paper Notes, Series B outstanding.

25. Upcoming Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*, effective 2016, clarifies the definition of fair value, establishes principles for measuring fair value, provides additional fair value guidance, and enhances disclosures about fair value measurements. The System is evaluating the effect that Statement 72 will have on its financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective 2016, completes the suite of pension standards. The System is evaluating the effect that Statement 73 will have on its financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective 2017, addresses reporting by OPEB plans that administer benefits on behalf of governments. This statement is not applicable to the System.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective 2018, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The System is evaluating the effect that Statement 75 will have on its financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective 2016, reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The System does not believe that Statement 76 will have an impact on its financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, effective 2017, requires disclosure of tax abatement information. The System does not believe that Statement 77 will have an impact on its financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
August 31, 2015

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

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}**	**Funded Ratio {(2)/(3)}**	**Annual Covered Payroll**	**Ratio of UAAL to Covered Payroll {(4)/(6)}**
December 31, 2010	$-	5,956,797,788	5,956,797,788	0.0%	5,309,413,147	112.2%
December 31, 2012	-	6,939,197,076	6,939,197,076	0.0%	5,674,297,785	122.3%
December 31, 2014	-	8,274,414,043	8,274,414,043	0.0%	5,842,409,902	141.6%

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

The plan benefit obligations as of December 31, 2011 were determined based on an actuarial roll-forward of the December 31, 2010 valuation results, and the plan benefit obligations as of December 31, 2013 were determined based on an actuarial roll-forward of the December 31, 2012 valuation results.

THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPPLEMENTARY INFORMATION
TEACHER RETIREMENT SYSTEM PENSION PLAN
August 31, 2015

Schedule of the System's Proportionate Share of the Net Pension Liability as of the August 31, 2014 Measurement Date

		2014
System's proportion of the net pension liability		8.6199871%
System's proportionate share of the net pension liability	$	2,302,987,541
State's proportionate share of the net pension liability related to System		892,687,939
Total net pension liability related to System	$	3,195,675,480
System's covered payroll	$	4,018,776,650
System's proportionate share of the net pension liability as a percentage of its covered payroll		57.31%
Plan fiduciary net position as a percentage of the total pension liability		83.25%

Schedule of the System's Contributions

		2015
Statutorily required contributions	$	304,139,034
Contributions in relation to the statutorily required contributions	$	244,723,301
Contribution deficiency (excess)	$	59,415,733
System's covered payroll	$	4,472,632,860
Contributions as a percentage of covered payroll		5.47%

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

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

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APPENDIX E

FORM OF BOND COUNSEL OPINION

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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 BONDS,
SERIES 2016B
DATED JANUARY 1, 2016
IN THE PRINCIPAL AMOUNT OF $206,040,000

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 date and mature on the dates specified on the face of the Bonds, and being subject to redemption, all in accordance with the Twenty-Ninth 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 sovereign immunity or 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 for federal income tax purposes existing on the date of this opinion, (i) the interest on the Bonds for federal income tax purposes will be excludable from the gross income of the owners thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest of which would be included as an alternative minimum tax preference under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the Board 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 upon a failure by the Board to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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,

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM • Revenue Financing System Bonds, Series 2016B (Green Bonds)

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