

THE UNIVERSITY OF TEXAS SYSTEM

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019 AND INDEPENDENT AUDITORS' REPORT



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

THE UNIVERSITY OF TEXAS SYSTEM

TABLE OF CONTENTS

	Page
THE UNIVERSITY OF TEXAS SYSTEM BOARD OF REGENTS	1
THE UNIVERSITY OF TEXAS SYSTEM SENIOR ADMINISTRATIVE OFFICIALS	3
INDEPENDENT AUDITORS' REPORT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	8
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019	
Consolidated Statement of Net Position	18
Consolidated Statement of Revenues, Expenses and Changes in Net Position	21
Consolidated Statement of Cash Flows	22
Consolidated Statements of Fiduciary Net Position	24
Consolidated Statements of Changes in Fiduciary Net Position	26
Notes to Consolidated Financial Statements	29
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	140

THE UNIVERSITY OF TEXAS SYSTEM
BOARD OF REGENTS
As of August 31, 2020

Officers

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

Members

*Terms scheduled to expire February 1, 2021**

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

*Terms scheduled to expire February 1, 2023**

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

*Terms scheduled to expire February 1, 2025**

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

*Term scheduled to expire May 31, 2021**

Patrick O. Ojeaga, II	McAllen
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*Each Regent's term expires when a successor has been appointed, qualified, and taken the oath of office. The Student Regent serves a one-year term.

THE UNIVERSITY OF TEXAS SYSTEM
SENIOR ADMINISTRATIVE OFFICIALS
As of August 31, 2020

James B. Milliken, Chancellor

Scott C. Kelley, Executive Vice Chancellor for Business Affairs

Steven W. Leslie, Executive Vice Chancellor for Academic Affairs

John M. Zerwas, Executive Vice Chancellor for Health Affairs

Amy Shaw Thomas, Senior Vice Chancellor for Health Affairs

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

Stacey Napier, Vice Chancellor for Governmental Relations

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

Daniel H. Sharphorn, Vice Chancellor and General Counsel

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business type-activities and the fiduciary activities of the University of Texas System (the System) as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the System's basic 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the System, as of August 31, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements of the System are intended to present the respective financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the State of Texas that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2020 and 2019, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 4 to the financial statements, the System (1) restated the beginning net position of the business type activities for the year ended August 31, 2019; (2) restated the statement of revenues, expenses and changes in net position and the statement of cash flow for the year ended August 31, 2019; and (3) added a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position for the year ended August 31, 2019 to reflect the impact of the implementation of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of the System's Proportionate Share of Changes in Employer Total OPEB Liability and Related Ratios, Schedule of the System's Proportionate Share of Total OPEB Liability, the Schedule of the System's Proportionate Share of the Net Pension Liability, and the Schedule of the System's Contributions for the Teachers Retirement System Pension Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

December 11, 2020

**THE UNIVERSITY OF TEXAS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended August 31, 2020
(Unaudited)**

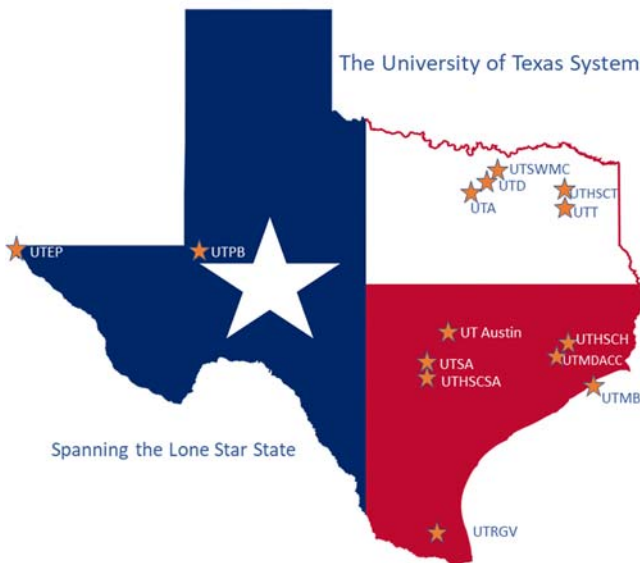
INTRODUCTION

The University of Texas System (the System) was established by the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin opened in 1883, and eight years later, the John Sealy Hospital in Galveston established a program for university-trained medical professionals. In addition to the original academic campus of The University of Texas at Austin, the System now includes seven additional academic institutions:

- The University of Texas at Arlington
- The University of Texas at Dallas
- The University of Texas at El Paso
- The University of Texas Permian Basin
- The University of Texas Rio Grande Valley
- The University of Texas at San Antonio
- The University of Texas at Tyler

Health institutions for medical education and research have expanded beyond The University of Texas Medical Branch at Galveston to include:

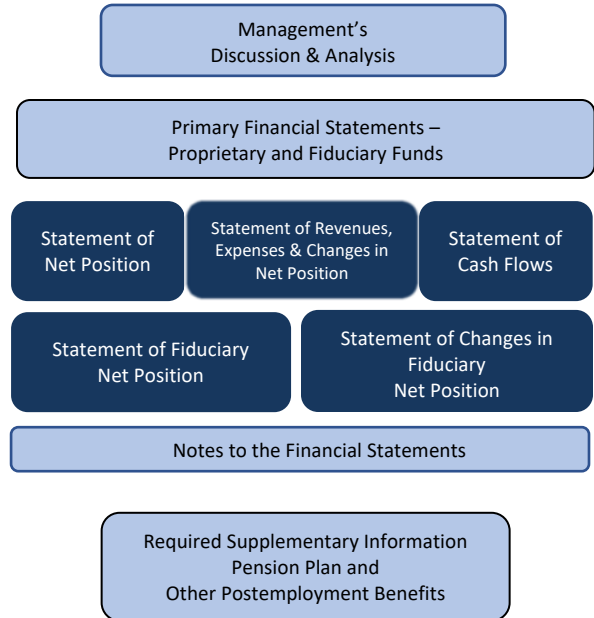
- The University of Texas M. D. Anderson Cancer Center
- The University of Texas Southwestern Medical Center
- The University of Texas Health Science Center at Houston
- The University of Texas Health Science Center at San Antonio
- The University of Texas Health Science Center at Tyler



The System's fourteen institutions are, collectively, one of the nation's largest educational enterprises. They provide instruction and learning opportunities to over 239,000 undergraduate, graduate and professional school students from a wide range of social, ethnic, cultural and economic backgrounds. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas Senate. In addition, the Governor appoints a Student Regent for a one-year term.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended August 31, 2020, with selected comparative information for the years ended August 31, 2019 and 2018. The complete set of financial statements includes:



The financial statements of the System were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The System's financial records are reported as a business-type activity in the State of Texas' Comprehensive Annual Financial Report and the System's custodial fund financial records are reported as fiduciary funds in the State of Texas' Comprehensive Annual Financial Report. For purposes of the MD&A, System refers to the business-type activity.

FINANCIAL HIGHLIGHTS

COVID-19

In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. On March 13, 2020, the Governor of the State of Texas declared a state of emergency. On March 19, 2020, the Governor signed Executive Orders to mitigate the spread of COVID-19 in Texas that closed all non-essential businesses and services statewide, canceled or postponed all non-essential gatherings of individuals, and emphasized social distancing practices in business and personal life. The orders resulted in work-from-home policies, travel restrictions, online education and closure of student residential buildings, and cancellation of events. In addition, the restrictions required rescheduling of elective or non-critical surgical and procedural cases along with non-urgent and routine provider appointments, as well as redeployment of resources to address the novel coronavirus needs. This resulted in reduced hospital and professional fees patient care revenues and operating cash flows.

To alleviate the economic impact, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provided economic grants to offset additional expenses and forgone revenue which was reported as Nonexchange Sponsored Programs. In mid-April, consistent with the guidance from regulatory agencies, the System resumed surgical and professional services that were postponed in March and early April. The outbreak of COVID-19 caused domestic and global disruption in operations for institutions of higher education and healthcare organizations and negatively impacted the financial markets and the value of the System's investments for a period.

In spite of COVID-19, the System continues to maintain and protect its strong financial condition, with net position of \$48.7 billion at August 31, 2020. Revenues totaled \$25.1 billion in 2020. Net patient care revenues, net investment income and sponsored program revenues were the largest contributors to the increase in net position. This increase in net position was reduced by expenses totaling \$21.7 billion in 2020. Compensation and benefits, including the Teacher Retirement System of Texas pension and other postemployment benefits continue to be the largest expense of the System. The System is committed to recruiting and retaining outstanding faculty and staff, and the compensation package is one way to successfully compete with peer institutions and nonacademic employers.

The Statement of Net Position

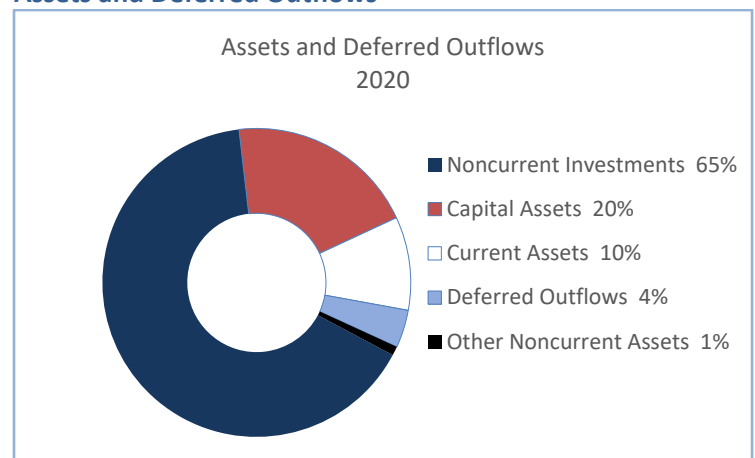
The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the System as of the end of the year. This is a point-in-time financial presentation of the financial status as of August 31, 2020, with comparative information for the

previous years. Net position is the residual value of the System's assets and deferred outflows of resources, after liabilities and deferred inflows of resources are deducted. Changes in net position are one indicator of the improvement or decline of the System's financial strength. A summarized comparison of the System's statement of net position at August 31, 2020, 2019 and 2018 follows:

Condensed Statement of Net Position			
(\$ in millions)			
	2020	*Restated 2019	2018
Assets			
Current assets	\$ 8,760.3	8,669.2	7,532.6
Noncurrent investments	58,531.5	54,209.6	54,007.2
Capital/intangible assets, net	17,813.0	17,540.6	16,889.3
Other noncurrent assets	847.2	644.7	560.7
Total assets	85,952.0	81,064.1	78,989.8
Total deferred outflows	3,543.4	3,376.0	1,001.8
Total assets and deferred Outflows	\$ 89,495.4	84,440.1	79,991.6
Liabilities			
Current liabilities	\$ 10,280.8	10,116.1	9,167.9
Noncurrent liabilities	27,487.7	25,704.1	23,641.7
Total liabilities	37,768.5	35,820.2	32,809.6
Total deferred inflows	3,063.2	2,761.6	1,791.2
Total liabilities and deferred Inflows	\$ 40,831.7	38,581.8	34,600.8
Net Position			
Net investment in capital assets	\$ 6,606.8	6,741.1	6,632.4
Restricted	43,846.3	41,848.1	42,050.2
Unrestricted	(1,789.4)	(2,730.9)	(3,291.8)
Net position	\$ 48,663.7	45,858.3	45,390.8

*Restatements in 2019 related to the implementation of GASB Statement 84 *Fiduciary Activities*

Assets and Deferred Outflows



Assets and deferred outflows increased \$5.1 billion, or 6.0%, to \$89.5 billion in 2020 primarily due to increases in noncurrent investments.

Noncurrent Investments

Noncurrent investments are comprised of permanent endowments, funds functioning as endowments, annuity and life income funds and other investments including investment derivative instruments. These assets increased \$4.3 billion in 2020 primarily due to an increase in the fair value of investments and converting cash and cash equivalent balances into noncurrent investments for a higher expected return.

The Permanent University Fund (PUF), which includes the fair value of PUF investment and the fair value of PUF lands, increased \$872.2 million due primarily to several factors. Assets invested increased \$705.3 million due to PUF lands mineral income earned in 2020 that was added to the endowment in accordance with requirements of the Texas Constitution. The \$705.3 million of mineral income in 2020 represents a \$289.3 million decrease from 2019 due to a decrease in the price of oil and gas. Investment income also increased the value of the PUF by \$1.5 billion. These increases were offset by \$1.5 billion in transfers to the Available University Fund and Texas A&M University System (TAMUS). Finally, the fair value of the PUF's investments increased \$547.4 million offset slightly by a decrease in the fair value of the PUF lands of \$437.4 million due to a decrease in the forecasted price of oil and gas.

Capital and Intangible Assets

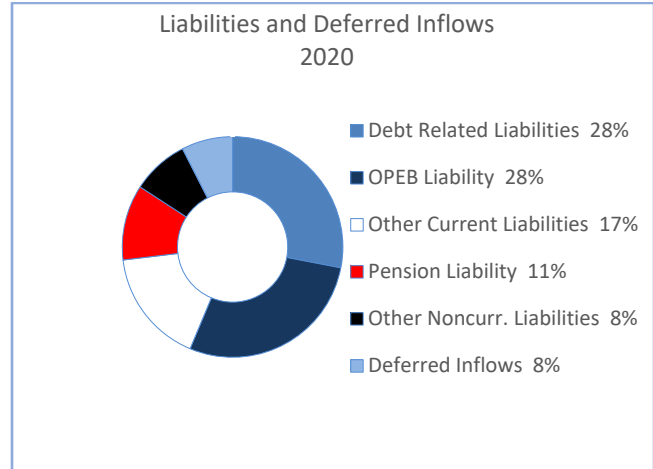
A critical factor in sustaining the quality of the System's academic and research programs and residential life is the development and maintenance of its capital assets. Capital additions totaled \$1.9 billion in 2020, of which \$1.1 billion consisted of new projects under construction. Capital additions were comprised of replacement, renovation, and new construction of academic, research and healthcare facilities, as well as significant investments in equipment and software. The table below depicts the System's capital improvement program for the next six years.

Capital Improvement Program 2021-2026	
Institution:	<i>(\$ in millions)</i>
UT Arlington	102.0
UT Austin	957.4
UT Dallas	18.0
UT El Paso	16.2
UT Permian Basin	37.0
UT Rio Grande Valley	30.0
UT San Antonio	230.0
UT Tyler	73.8
UTHSC Houston	150.9
UTHSC San Antonio	398.8
UTMB Galveston	190.3
UT MD Anderson Cancer Center	563.5
UT Southwestern Medical Center	1,220.2
Total	3,988.1

Deferred Outflows

Other postemployment benefits (OPEB) related deferred outflows increased \$393.9 million due to a decrease in the discount rate from 4.10% to 2.74% because of a decrease in the municipal bond rate.

Liabilities and Deferred Inflows



Liabilities and deferred inflows increased \$2.2 billion, 5.8%, to \$40.8 billion in 2020 primarily due to increases in the OPEB liability and pension-related deferred inflows.

Debt-Related Liabilities

Debt-related liabilities consist of both the current and noncurrent portions of short-term debt, or commercial paper, as well as leases, notes, loans and bonds payable. Several factors contributed to the \$276.1 million change in debt-related liabilities between 2020 and 2019 including an increase in bonds payable of \$341.2 million slightly offset by a \$76.8 million decrease in commercial paper. Bonds payable relate to the financing of the System's capital needs. Commercial paper notes are issued periodically to provide interim financing for capital improvements and to finance the acquisition of capital equipment. The System typically refunds a portion of these outstanding notes through the issuance of long-term debt to provide permanent financing for projects. The table below depicts the change in the System's debt-related liabilities over the past three years:

Current & Noncurrent Debt	2020	2019	2018
	<i>(\$ in millions)</i>		
Bonds Payable	\$ 9,841.6	9,500.4	9,498.0
Commercial Paper	1,413.7	1,490.5	1,185.8
Leases, Notes & Loans	188.6	176.9	26.4
Total Debt-Related Liabilities	\$ 11,443.9	11,167.8	10,710.2

OPEB Liabilities

The State provides certain health and life insurance benefits for retired employees in accordance with State statutes. OPEB are provided to the System’s retirees under the U. T. System Employee Group Insurance Program. The U. T. System Employee Group Insurance Program is a single-employer defined benefit OPEB plan; however, because State statute requires funding for the plan from State appropriations, the State’s governmental fund reports a proportionate share of the OPEB liability. The System reported a total OPEB liability of \$11.5 billion for 2020 compared to \$10.4 billion in 2019 due to a decrease in the municipal bond rate from 4.10% to 2.74%. It should be noted that these benefits are guaranteed in State statute.

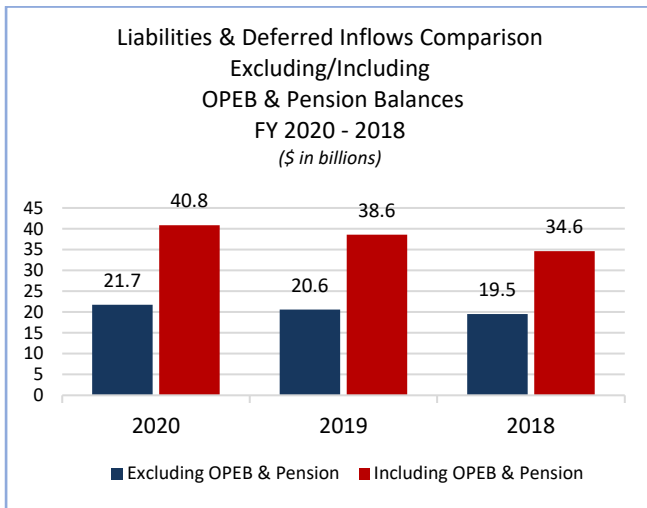
Pension Liabilities

The System participates in a cost-sharing multiple-employer defined benefit pension plan with a special funding arrangement administered by the Teacher Retirement System of Texas (TRS). The System receives a proportional share of the net pension liability, pension-related deferred outflows and pension-related deferred inflows, and pension expense from the Texas Comptroller of Public Accounts. The System’s proportion of the State’s collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers to the plan. The System recorded a net pension liability of \$4.5 billion in 2020 compared to \$4.9 billion in 2019 related to an increase in the discount rate from 6.907% to 7.25%.

Deferred Inflows

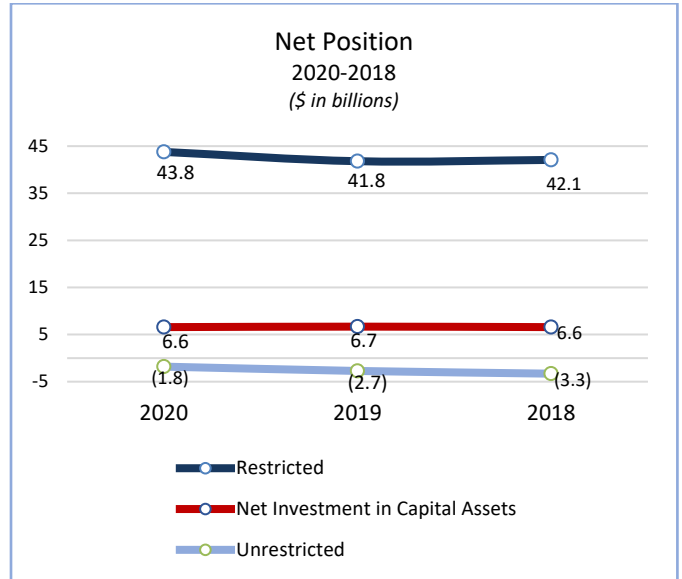
Pension-related deferred inflows increased \$544.9 million due to the change in the discount rate mentioned above.

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



Net Position

Net position represents the residual interest in the System’s assets and deferred outflows after liabilities and deferred inflows are deducted. Net position increased \$2.8 billion in 2020 compared to a \$466.1 million increase in 2019. The significant increase in change in net position was due to the fluctuating value of the fair value of investments. In 2020 there was an increase in fair value of investment of \$680.4 million compared to a decrease of \$2.5 billion in 2019, an increase between the years of \$3.2 billion. The PUF accounted for \$2.4 billion of this increase. The three-year trend of the classifications of net position is depicted here:



Net Investment in Capital Assets

Net investment in capital assets represents the System's capital and intangible assets, net of accumulated depreciation and amortization and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position

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

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

Restricted net position increased by \$2.0 billion to \$43.8 billion in 2020, primarily due to increases in both the PUF endowment and private endowments.

Unrestricted Net Position

System's unrestricted net position was a negative \$1.8 billion in 2020 as compared to a negative \$2.7 billion in 2019. This negative unrestricted net position includes negative net position related to OPEB and pensions of \$16.0 billion. The \$941.5 million increase in unrestricted net position between 2019 and 2020 was primarily due to significant net patient care revenues offset by OPEB and pension related expenses.

The Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position details the changes in total net position. The following table summarizes the System's revenues, expenses and changes in net position for the years ended August 31, 2020, 2019 and 2018:

Condensed Statement of Revenues, Expenses and Changes in Net Position

(\$ in millions)

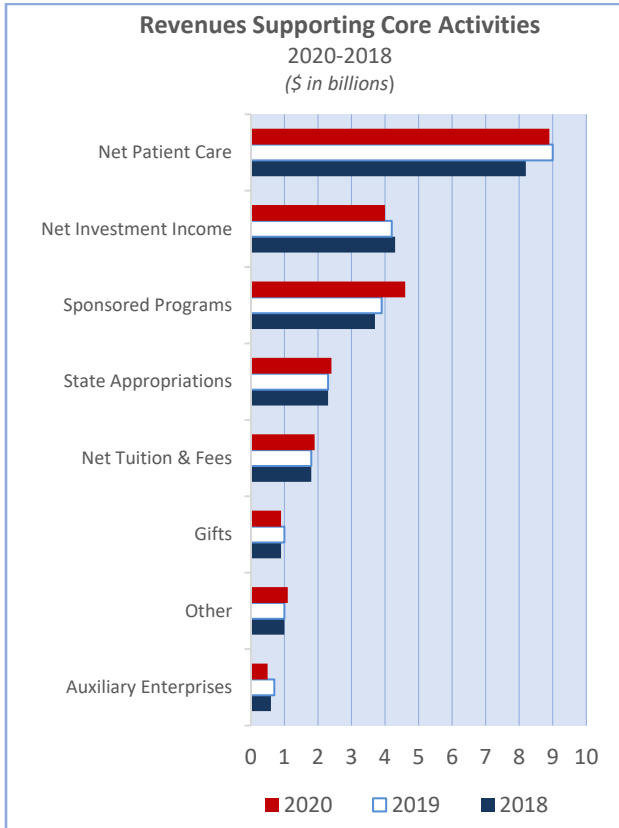
	2020	*Restated 2019	2018
Operating revenues:			
Net student tuition and fees	\$ 1,941.7	1,811.1	1,828.3
Sponsored programs	3,890.3	3,495.4	3,298.0
Net sales and services of hospitals	6,989.2	7,017.2	6,317.4
Net professional fees	1,924.8	2,026.7	1,878.5
Net auxiliary enterprises	538.6	689.5	625.8
Other	1,074.9	1,003.7	936.8
Total operating revenues	16,359.5	16,043.6	14,884.8
Total operating expenses	(21,341.2)	(20,285.1)	(18,741.8)
Operating loss	(4,981.7)	(4,241.5)	(3,857.0)
Nonoperating revenues (expenses):			
State appropriations	2,429.3	2,283.2	2,268.1
Nonexchange Sponsored Programs	747.6	442.6	424.3
Gift contributions for operations	603.8	436.6	448.1
Net investment income excluding the change in fair value of investments	3,996.4	4,240.6	4,279.3
Net increase (decrease) in fair value of investments	680.4	(2,521.9)	3,105.6
Interest expense on capital asset financings	(334.8)	(334.8)	(281.7)
Net other nonoperating revenues (expenses)	0.3	23.2	(61.4)
Income (loss) before other revenues, expenses, gains or losses and transfers	3,141.3	328.0	6,325.3
Capital gifts and grants and additions to permanent endowments	281.6	517.1	458.3
Net transfers to other State entities	(617.5)	(379.0)	(613.7)
Change in net position	2,805.4	466.1	6,169.9
Net position, beginning of the year	45,858.3	45,390.8	39,220.9
Restatement	-	1.4	-
Net position, beginning of the year (as restated)	45,858.3	45,392.2	39,220.9
Net position, end of the year	\$ 48,663.7	45,858.3	45,390.8

*Restatements in 2019 related to the implementation of GASB Statement 84 *Fiduciary Activities*

Revenues Supporting Core Activities

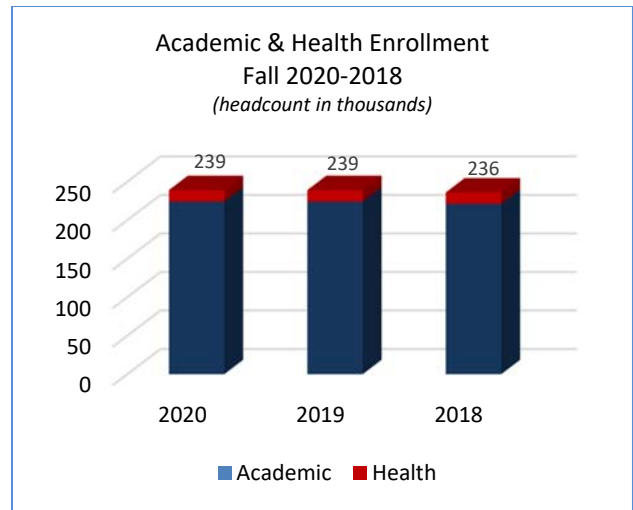
Revenues to support the System’s core activities, including those classified as nonoperating revenues, were \$24.4 billion, \$24.0 billion, and \$22.8 billion in 2020, 2019, and 2018, respectively. These diverse sources of revenues increased by \$454.5 million in 2020 primarily due to increases in sponsored programs revenue.

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



Net Student Tuition and Fees

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



The System’s academic institutions enroll 34.1% of the State’s public college students, and the System’s health-related institutions enroll 57.9% of the students attending the State’s public health institutions.

Sponsored Programs

Sponsored program revenues are primarily generated from governmental and private sources related to research programs that typically provide for the recovery of direct and indirect costs. Sponsored programs include student financial aid and contracts with affiliated hospitals for clinical activities. Sponsored programs revenues were \$4.6 billion, \$3.9 billion, and \$3.7 billion in 2020, 2019, and 2018, respectively. The increase in 2020 was attributable to the CARES Act that provided economic grants to offset additional COVID expenses and forgone revenue, slightly offset by decreases in other sponsored programs due to required closures.

Net Patient Care Revenues

Net patient care revenues, which consist of net sales and services of hospitals and net professional fees, are principally generated within the System’s hospitals and physicians’ practice plans under contractual arrangements with governmental payors and private insurers. These revenues are reported net of contractual allowances, bad debt expense, and unreimbursed charges for financially or medically indigent patients. Net patient care revenues were \$8.9 billion, \$9.0 billion, and \$8.2 billion in 2020, 2019, and 2018, respectively. Net patient care revenues decreased \$129.9 million, or 1.4%, in 2020, as a result of the COVID-19 restrictions that required rescheduling of elective or non-critical surgical and procedural cases along with non-urgent and routine provider appointments, as well as redeployment of resources to address the COVID-19 needs.

Net Auxiliary Enterprises

Net auxiliary enterprise revenues were earned from a host of activities such as athletics, housing and food services, bookstores, parking, student health and other activities. Net auxiliary enterprises were \$538.6 million, \$689.5 million, and \$625.8 million in 2020, 2019, and 2018, respectively. Net auxiliary enterprise revenues decreased \$150.9 million or 21.9% in 2020 because of COVID-19 that resulted in online education and closure of student residential buildings and cancellation of entertainment events including many athletic events.

State Appropriations

State appropriations, in conjunction with student tuition and fees, are core components that support the instructional mission of the System. State appropriations were \$2.4 billion in 2020 and \$2.3 billion in both 2019 and 2018.

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

The System carefully navigates the investment environment and works diligently to manage its financial resources. Net investment income, excluding the change in fair value of investments, was \$4.0 billion, \$4.2 billion, and \$4.3 billion in 2020, 2019, and 2018, respectively. Net investment income includes realized gains of \$2.9 billion in 2020 and \$2.6 billion in 2019. Net investment income, excluding the change in the fair value of investments, decreased \$244.2 million from 2019 to 2020, due to a decrease in the price of oil and gas related to the PUF.

Net Increase (Decrease) in Fair Value of Investments

Net increase (decrease) in fair value of investments reported an increase of \$680.4 million in 2020, a decrease of \$2.5 billion in 2019, and an increase of \$3.1 billion in 2018. In 2020, there was an increase from 2019 of \$3.2 billion primarily due to more favorable market conditions. COVID-19 caused the stock market to decrease initially, but the market was able to recover by the end of the fiscal year. This increase was in spite of the decrease in the fair value of the PUF lands discussed above. The fair value of the PUF land's interest in oil and gas is based on a third-party reserve study of proved reserves and a percentage of probable and possible reserves. The present value of the royalty cash flows is calculated by applying an annual ten percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on August 31, 2020.

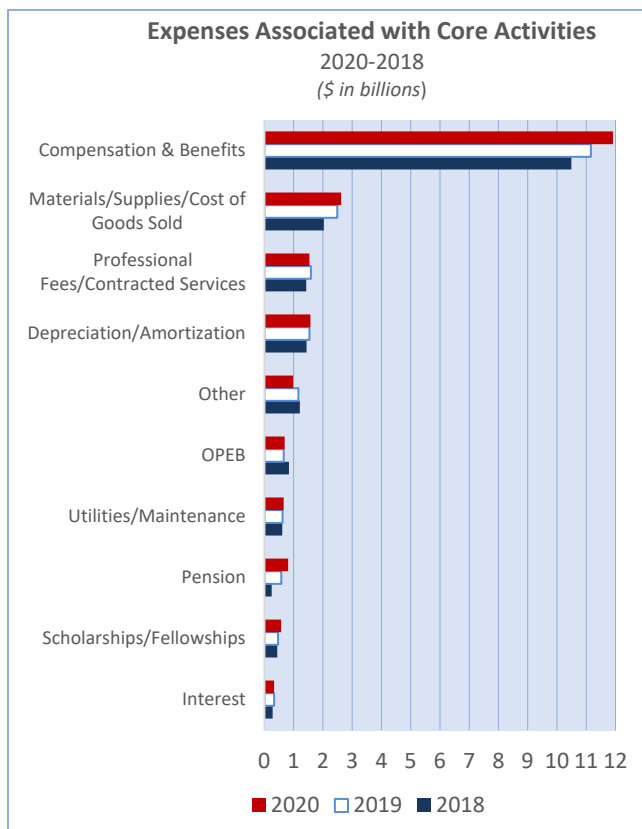
Gifts

The System receives gift contributions for operations as well as nonoperating gifts and grants of capital and gifts that are held in perpetuity which are added to the System's endowment holdings. In 2020, gifts for operations totaled \$603.8 million, an increase of \$167.2 million or 38.3% over 2019, primarily related to a pledge for the new Moody Arena at The University of Texas at Austin. Capital gifts and grants

and additions to permanent endowments totaled \$281.6 million for the year ended August 31, 2020, a decrease of \$235.5 million over 2019 primarily due to economic challenges during COVID-19 and no large gifts received by U. T. Dallas for capital acquisitions in the current year as compared to 2019. The System continues its fundraising efforts to address facilities expansion and renovation, and the establishment of endowments for instruction, research and patient care activities.

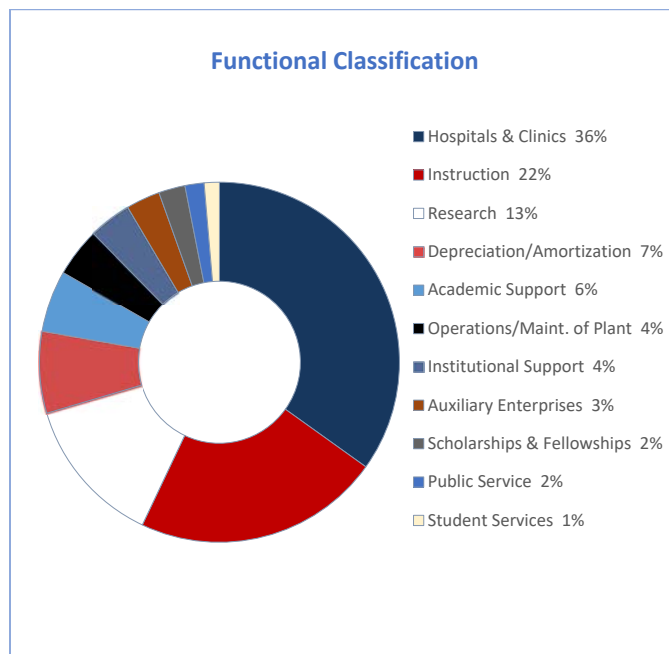
Expenses Supporting Core Activities

Expenses associated with the System's core activities, including interest expense classified as nonoperating, were \$21.7 billion, \$20.6 billion, and \$19.0 billion in 2020, 2019, and 2018, respectively. The changes, by category, for the three years are depicted below:



Operating expenses increased by \$1.1 billion in 2020 and \$1.6 billion in 2019 primarily due to the growing cost of providing support for the institution's primary missions of instruction, research, public service, patient care and student support activities. Additionally, operating expenses include \$686.4 million of OPEB expense and \$806.3 million of pension expense. Nonoperating expenses include interest expense which remained constant at \$334.8 million in 2020. Interest expense includes the amortization of premiums, amortization of deferred gains and losses on refunding of debt and the interest rate lock termination amortization.

The following charts illustrate the makeup of operating expenses by functional classification for the year ended August 31, 2020:



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

Income before other revenue, expenses, gains or losses and transfers is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions, discussed above, or transfers. The income before other revenues, expenses, gains or losses totaled \$3.1 billion in 2020, an increase of \$2.8 billion over 2019. This increase was largely a result of the net increase in the fair value of investments discussed above.

Net Transfers to Other State Entities

Net transfers to other State agencies totaled \$617.5 million for the year ended August 31, 2020, an increase of \$238.5 million over 2019. These transfers primarily include \$462.4 million and \$374.1 million for 2020 and 2019, respectively, for the AUF distribution to TAMUS for its one-third share of distributions from the PUF endowment and PUF land surface income, in accordance with the Texas Constitution. In addition to the transfers of the current year earnings, the net change in PUF debt outstanding at TAMUS is reflected as a transfer to other State agencies. In 2019, the PUF debt at TAMUS increased \$18.7 million, whereas in 2020 the debt increased \$175.3 million. The increase in TAMUS PUF debt, along with the increase in AUF distributions due to increased PUF distributions, contributed to the increase in net transfers to other State entities in 2020.

Change in Net Position

The change in net position is an overall indication of the improvement or decline between the prior and current year's statement of net position. Net position increased by \$2.8 billion in 2020 as compared to an increase of \$466.1 million in 2019 primarily due to more favorable capital market conditions.

Restatements

Assets, liabilities, beginning net position, operating revenues, operating expenses, and nonoperating revenues were restated by a total of \$4.3 million in 2019 to reflect the effects of implementing GASB Statement 84 *Fiduciary Activities*.

The Statement of Cash Flows

The Statement of Cash Flows provides information about the System's financial results by reporting the major sources and uses of cash and cash equivalents during the fiscal year. Ending cash and cash equivalents were \$4.0 billion in 2020 and 2019 and \$3.2 billion in 2018. A summarized three-year comparison of the System's changes in cash and cash equivalents follows:

Condensed Statement of Cash Flows

(\$ in millions)

	2020	*Restated 2019	2018
Net cash provided (used) by:			
Operating activities	\$ (2,205.0)	(1,775.5)	(1,532.0)
Noncapital financing activities	2,273.6	3,104.8	2,304.9
Capital and related financing activities	(1,804.1)	(1,840.4)	(1,887.9)
Investing activities	1,684.9	1,356.8	1,129.0
Net increase (decrease) in cash and cash equivalents	(50.6)	845.7	14.0
Beginning cash and cash equivalents	4,047.4	3,203.5	3,189.5
Restatement	-	(1.8)	-
Ending cash and cash equivalents	\$ 3,996.8	4,047.4	3,203.5

In 2020, cash and cash equivalents decreased \$50.6 million primarily due to \$2.2 billion of net cash used for operating activities such as payments to employees and suppliers, offset by the collection of cash related to tuition and fees, patient charges, and sponsored programs activities and \$1.8 billion of cash used for capital and related financing activities primarily for the purchase of capital assets and the net activity associated with issuing and retiring capital related debt. These decreases were offset by \$2.3 billion provided by noncapital financing activities such as state appropriations and gifts and \$1.7 billion provided by investing activities such as interest and investment income.

ECONOMIC OUTLOOK

The mission of the System is to improve the human condition in Texas, our nation and our world. The System will use its size, diversity, and quality to advance education, push the bounds of discovery, enhance population health, build stronger communities, and shape public policy for the common good. We are a state university system with global impact. The achievement of the System's mission is dependent upon the ability to attract and support dedicated students from many cultures; acquire and retain the highest quality diverse faculty; recruit and appropriately recognize exemplary administrators and staff members; create and sustain physical environments that enhance and complement educational goals; and encourage ongoing public and private sector support of higher education.

Adverse consequences of COVID-19 or any other similar outbreaks in the future may include, but are not limited to, decline in enrollment, decline in demand for housing, decline in demand for System programs that involve travel or that have international connections, and declines in patient care revenues. The System continues to carefully monitor developments and the directives of federal, state and local officials to determine what additional precautions and procedures may need to be implemented by the System. While the COVID-19 outbreak has adversely impacted the System's fiscal year 2020 results, the System cannot at this time accurately predict the full extent to which the COVID-19 outbreak will affect the System's future finances and operations.

The System is one of the largest and most comprehensive institutions of higher education in the country, as well as one of the largest employers in Texas. The System's operating budget provides a wide range of services for Texans. Budgeted revenues of the System include both operating and nonoperating revenues. Budgeted revenues for 2021 increased 1.8% to \$22.1 billion. The largest area of growth is sponsored programs. Local and private sponsored programs are up 11.4% due to growth in contracts with partner health organizations, and nonexchange federal sponsored programs is up 16.7% resulting from increased Pell grants and other federal financial aid for students along with CARES Act support. Declines in auxiliary enterprises and state appropriations offset these increases. Auxiliary enterprises have the most significant decreases due to COVID, with housing, food service, parking, conference centers, and athletics all being directly impacted by closures. State appropriations are impacted due to a directive from the Governor for the academic institutions to reduce biennial appropriations by five percent.

Budgeted expenses for 2021 increased 3.3% to \$21.7 billion. The most significant areas of growth include personnel costs and scholarships and fellowships. Personnel costs are up

4.5% due to additional faculty for instructional purposes, employees in support of patient care revenues, and increased benefit costs. Scholarships and fellowships are up 8.8% due to increases in institutional funds for scholarships along with CARES funding and increased Pell grants at some institutions.

A significant cost to the System is the cost of the benefits provided to its employees and retirees. The State provides certain health and life insurance benefits for retired employees in accordance with State statutes. The total OPEB liability is one of the System's largest liabilities; however, as noted previously, these benefits are guaranteed in statute. In addition to OPEB, the System also receives a proportional share of the State's net pension liability, which is also guaranteed in State statute. These significant costs will continue to be a challenge to both the System and the state of Texas as a whole. One way to reduce these liabilities is to change the statute to no longer require that all retirees are eligible for OPEB and pension; while this would reduce the liability, it would also impact recruiting and the retention of outstanding faculty and staff for the entire State.

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

***CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
AUGUST 31, 2020 AND 2019***

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION
AUGUST 31, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,089,636,623	3,202,770,061
Restricted cash and cash equivalents	867,604,874	840,998,546
Balance in State appropriations	170,981,822	129,459,929
Accounts receivable, net:		
Federal (net of allowances of \$3,701,161 and \$5,575,155, respectively)	616,713,586	544,136,189
Other intergovernmental (net of allowances of \$3,683,820 and \$1,578,065, respectively)	112,428,589	128,471,445
Student (net of allowances of \$38,416,284 and \$22,609,155, respectively)	329,212,938	333,672,031
Patient and healthcare (net of allowances of \$332,516,050 and \$354,846,571, respectively)	900,351,589	1,045,994,724
Interest and dividends	74,345,573	85,407,258
Contributions – current portion (net of allowances of \$2,003,247 and \$4,373,018, respectively)	172,460,075	122,818,011
Investment trades	952,085,414	717,741,082
Other (net of allowances of \$26,383,168 and \$12,282,247, respectively)	459,955,288	486,504,897
Due from other agencies	57,398,687	68,882,594
Inventories	180,089,467	161,424,610
Restricted loans and contracts - current portion (net of allowances of \$18,931,062 and \$19,167,874, respectively)	56,094,404	56,229,051
Securities lending collateral	418,831,991	450,955,438
Other current assets	302,121,021	293,690,242
Total current assets	8,760,311,941	8,669,156,108
NONCURRENT ASSETS		
Cash and cash equivalents – noncurrent restricted	39,554,189	3,645,372
Restricted investments	45,228,989,598	43,003,663,745
Deposit with brokers for derivative contracts	75,854,046	52,629,263
Loans and contracts (net of allowances of \$24,406,157 and \$25,841,033, respectively)	47,306,054	55,460,018
Contributions receivable (net of allowances of \$1,685,463 and \$1,681,548, respectively)	375,250,324	266,538,284
Unrestricted Investments	13,302,465,775	11,205,880,015
Hedging Derivative Asset	414,453	-
Other noncurrent assets	308,920,639	266,434,857
Gross capital/intangible assets	35,260,674,288	33,629,944,014
Less accumulated depreciation	(17,447,704,954)	(16,089,318,530)
Net capital assets	17,812,969,334	17,540,625,484
Total noncurrent assets	77,191,724,412	72,394,877,038
TOTAL ASSETS	85,952,036,353	81,064,033,146
Deferred Outflows of Resources	3,543,413,838	3,376,021,305
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 89,495,450,191	84,440,054,451

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF NET POSITION (Continued)
AUGUST 31, 2020 AND 2019

LIABILITIES AND DEFERRED INFLOWS	2020	2019
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,391,017,175	1,458,501,076
Salaries payable	721,026,060	645,283,175
Investment trades payable	1,565,176,537	1,213,899,526
Incurred but not reported self-insurance claims – current portion	134,652,727	140,388,415
Total other postemployment benefits liability - current portion	204,857,443	230,593,877
Securities lending obligations	418,831,991	450,955,439
Due to other State agencies	236,800,504	123,439,610
Statewide interfund payable – current portion	56,634,777	70,717,552
Unearned revenue	1,812,802,378	1,832,415,729
Employees’ compensable leave – current portion	425,645,326	428,376,654
Short-term debt	1,413,698,000	1,490,522,000
Notes, loans and leases payable – current portion	25,789,523	6,577,976
Bonds payable – current portion	1,777,147,962	1,789,490,558
Assets held for others – current portion	79	34,215
Other current liabilities	96,742,559	234,860,257
Total current liabilities	<u>10,280,823,041</u>	<u>10,116,056,059</u>
NONCURRENT LIABILITIES		
Incurred but not reported self-insurance claims	27,905,385	28,030,577
Employees’ compensable leave	334,594,094	244,173,830
Assets held for others	704,670,610	644,788,984
Liability to beneficiaries	15,832,411	14,041,657
Total other postemployment benefits liability	11,343,888,437	10,125,191,669
Net pension liability	4,517,470,315	4,919,537,167
Notes, loans and leases payable	162,789,404	170,301,063
Bonds payable	8,064,431,199	7,710,948,456
Statewide interfund payable	1,413,310,771	1,225,343,489
Hedging derivative liability	413,075,150	325,363,093
Payable to brokers for collateral held	117,821,177	97,923,085
Investment derivatives - liability positions	182,210,032	103,353,976
Asset retirement obligation	26,309,187	26,309,187
Other noncurrent liabilities	163,387,630	68,834,775
Total noncurrent liabilities	<u>27,487,695,802</u>	<u>25,704,141,008</u>
TOTAL LIABILITIES	<u>37,768,518,843</u>	<u>35,820,197,067</u>
Deferred Inflows of Resources	3,063,203,834	2,761,591,967
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>\$ 40,831,722,677</u>	<u>38,581,789,034</u>
NET POSITION		
Net investment in capital assets	\$ 6,606,751,520	6,741,035,811
Restricted:		
Nonexpendable	27,761,434,507	26,986,429,001
Expendable	16,084,898,251	14,861,691,231
Total Restricted	<u>43,846,332,758</u>	<u>41,848,120,232</u>
Unrestricted	(1,789,356,764)	(2,730,890,626)
TOTAL NET POSITION	<u>\$ 48,663,727,514</u>	<u>45,858,265,417</u>

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, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Net student tuition and fees (net of discounts and allowances of \$798,664,086 and \$761,301,656, respectively)	\$ 1,941,708,860	1,811,146,300
Sponsored programs	3,890,254,204	3,495,361,757
Net sales and services of educational activities (net of discounts and allowances of \$220,488 and \$278,677, respectively)	499,984,056	554,221,884
Net sales and services of hospitals (net of discounts and allowances of \$9,720,348,732 and \$9,452,269,548, respectively)	6,989,202,194	7,017,183,565
Net professional fees (net of discounts and allowances of \$5,216,703,372 and \$5,142,581,598, respectively)	1,924,833,553	2,026,681,532
Net auxiliary enterprises (net of discounts and allowances of \$18,173,011 and \$12,191,186, respectively)	538,639,264	689,465,693
Other	574,902,046	449,606,532
Total operating revenues	<u>16,359,524,177</u>	<u>16,043,667,263</u>
OPERATING EXPENSES		
Instruction	4,733,674,880	4,465,389,598
Research	2,855,592,735	2,653,356,266
Public service	363,767,731	385,242,283
Hospitals and clinics	7,441,518,592	6,880,363,931
Academic support	1,174,280,281	1,062,729,775
Student services	290,316,507	299,634,472
Institutional support	815,605,335	943,874,700
Operations and maintenance of plant	934,045,578	928,790,267
Scholarships and fellowships	508,117,643	410,441,793
Auxiliary enterprises	652,495,884	719,278,693
Depreciation and amortization	1,571,809,663	1,536,019,254
Total operating expenses	<u>21,341,224,829</u>	<u>20,285,121,032</u>
Operating loss	<u>(4,981,700,652)</u>	<u>(4,241,453,769)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	2,429,315,119	2,283,166,288
Nonexchange sponsored programs	747,588,574	442,559,789
Gift contributions for operations	603,794,489	436,649,734
Net investment income	4,676,841,900	1,718,724,680
Interest expense on capital asset financings	(334,776,454)	(334,790,350)
Loss on sale of capital assets	(31,048,078)	(36,714,696)
Other	31,316,430	59,881,124
Net nonoperating revenues	<u>8,123,031,980</u>	<u>4,569,476,569</u>
Income before other changes in net position	3,141,331,328	328,022,800
OTHER CHANGES IN NET POSITION		
Capital gifts and grants	127,791,501	292,781,993
Additions to permanent endowments	153,853,109	224,281,887
Net transfers to other State agencies	(615,410,252)	(378,873,588)
Legislative appropriations lapsed	(2,103,589)	(86,154)
Change in net position	<u>2,805,462,097</u>	<u>466,126,938</u>
NET POSITION		
Net position, beginning of year	45,858,265,417	45,390,788,016
Restatement	-	1,350,463
Net position, beginning of year (as restated)	<u>45,858,265,417</u>	<u>45,392,138,479</u>
Net position, end of year	<u>\$ 48,663,727,514</u>	<u>45,858,265,417</u>

See accompanying notes to consolidated financial statements

**THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2020 AND 2019**

CASH FLOWS FROM OPERATING ACTIVITIES	2020	2019
Proceeds from tuition and fees	\$ 1,995,240,536	1,865,803,386
Proceeds from patients and customers	9,079,293,684	8,985,690,162
Proceeds from sponsored programs	3,992,682,326	3,540,097,980
Proceeds from auxiliaries	400,143,264	694,589,402
Proceeds from other revenues	1,020,323,879	945,393,647
Payments to suppliers	(6,571,989,683)	(6,431,325,296)
Payments to employees	(12,130,369,069)	(11,396,086,922)
Payments for loans provided	(77,709,475)	(109,585,577)
Proceeds from loan programs	87,387,810	129,888,612
Net cash used in operating activities	<u>(2,204,996,728)</u>	<u>(1,775,534,606)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from State appropriations	2,385,689,638	2,278,717,455
Proceeds from operating gifts	451,207,398	420,611,112
Proceeds from private gifts for endowment purposes	133,375,518	486,467,350
Proceeds from other noncapital financing activities	499,437,427	145,275,304
Receipts for transfers from other agencies	958,639,298	621,785,681
Payments for transfers to other agencies	(2,331,861,135)	(1,277,440,911)
Payments for other uses	(518,465,676)	(28,877,255)
Proceeds from nonexchange sponsored programs	695,582,344	458,281,900
Net cash provided by noncapital financing activities	<u>2,273,604,812</u>	<u>3,104,820,636</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	1,722,759,379	1,854,957,282
Payments of other costs on debt issuance	(5,184,595)	(4,433,463)
Proceeds from capital appropriations, grants and gifts	123,329,261	228,706,765
Proceeds from sale of capital assets	6,579,291	3,944,927
Payments for additions to capital assets	(1,853,213,681)	(2,046,020,572)
Payments of principal on capital related debt	(1,376,861,059)	(1,465,417,886)
Payments of interest on capital related debt	(421,500,261)	(412,168,342)
Net cash used in capital and related financing activities	<u>(1,804,091,665)</u>	<u>(1,840,431,289)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	36,101,892,571	31,989,571,616
Proceeds from interest and investment income	1,591,025,623	2,010,674,008
Payments to acquire investments	(36,008,052,906)	(32,643,415,794)
Net cash provided by investing activities	<u>1,684,865,288</u>	<u>1,356,829,830</u>
NET INCREASE (DECREASE) IN CASH	(50,618,293)	845,684,571
Cash and cash equivalents, beginning of year	4,047,413,979	3,203,518,615
Restatement	-	(1,789,207)
Cash and Cash equivalents, end of year	\$ <u>3,996,795,686</u>	<u>4,047,413,979</u>

See accompanying notes to consolidated financial statements

(Continued)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
YEARS ENDED AUGUST 31, 2020 AND 2019

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	2020	2019
Operating loss	\$ (4,981,700,652)	(4,241,453,769)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,571,809,663	1,536,019,254
Gross loss on impairment of capital assets	1,565,374	33,807,632
Bad debt expense	396,442,852	364,422,782
Other postemployment benefits obligation expense	686,449,366	664,784,810
Pension expense	806,337,921	584,838,293
Changes in assets and liabilities:		
Accounts receivable	(277,960,648)	(444,492,296)
Inventories	(18,664,857)	(21,862,914)
Loans and contracts	9,680,726	20,308,435
Other current and noncurrent assets	(47,099,717)	(116,669,488)
Deferred Outflows-Other Postemployment Benefits	(393,894,320)	(364,048,918)
Deferred Outflows-Pension Related	295,166,148	(1,832,590,813)
Accounts payable and accrued liabilities	121,089,517	189,411,748
Unearned revenue	(17,626,194)	141,837,442
Employees' compensable leave	87,688,935	32,008,120
Other postemployment benefits obligation	506,510,968	(1,026,110,609)
Pension related obligations	(1,208,404,773)	1,684,654,712
Asset retirement obligations	2,641,092	1,783,272
Deferred Inflows-Other Postemployment Benefits	(246,280,948)	1,178,400,403
Deferred Inflows-Pension Related	544,853,606	(172,639,351)
Other current and noncurrent liabilities	(43,600,787)	12,056,649
Total adjustments	<u>2,776,703,924</u>	<u>2,465,919,163</u>
Net cash used in operating activities	\$ (2,204,996,728)	(1,775,534,606)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Net increase (decrease) in fair value of investments	680,435,642	(2,521,876,842)
Donated capital assets	13,227,017	84,142,184
Capital assets acquired under capital lease purchases or direct borrowings	19,346,947	150,480,838
Miscellaneous noncash transactions	(6,896,087)	(39,567,289)

See accompanying notes to consolidated financial statements

(Concluded)

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF FIDUCIARY NET POSITION
AUGUST 31, 2020

	Custodial Funds		
	External Investment Pool Fund	Custodial Funds - Other	Total Fiduciary Activities
ASSETS			
Cash and Cash Equivalents	\$ -	1,569,998	1,569,998
Accounts Receivable, Net:			
Interest and Dividends	195,572	-	195,572
Investment Trades	3,701,948	-	3,701,948
Other	114,288	4,735	119,023
Total Accounts Receivable, Net	4,011,808	4,735	4,016,543
Investments at Fair Value:			
Investment Derivatives - Asset Positions	779,588	-	779,588
Other Investments	253,073,780	-	253,073,780
Total Investments	253,853,368	-	253,853,368
Securities Lending Collateral	2,002,120	-	2,002,120
Deposit with Brokers for Derivative Contracts	344,648	-	344,648
Other Assets	5,397	-	5,397
Total Assets	260,217,341	1,574,733	261,792,074
LIABILITIES			
Accounts Payable and Accrued Liabilities	519,135	15,955	535,090
Investment Trades Payables	5,967,552	-	5,967,552
Securities Lending Obligations	2,002,120	-	2,002,120
Investment Derivatives - Liability Positions	492,293	-	492,293
Payable to Brokers for Collateral Held	593,943	-	593,943
Total Liabilities	9,575,043	15,955	9,590,998
NET POSITION			
Restricted for:			
Pool Participants	250,642,298	-	250,642,298
Individuals, Organizations, and Other Governments	-	1,558,778	1,558,778
Total Net Position	\$ 250,642,298	1,558,778	252,201,076

See accompanying notes to consolidated financial statements

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

	<u>Custodial Funds</u>		
	<u>External Investment Pool Fund</u>	<u>Custodial Funds - Other</u>	<u>Total Fiduciary Activities</u>
ASSETS			
Cash and Cash Equivalents	\$ -	1,789,207	1,789,207
Accounts Receivable, Net:			
Interest and Dividends	237,883	-	237,883
Investment Trades	3,046,455	-	3,046,455
Other	6,662	-	6,662
Total Accounts Receivable, Net	<u>3,291,000</u>	<u>-</u>	<u>3,291,000</u>
Investments at Fair Value:			
Investment Derivatives - Asset Positions	515,000	-	515,000
Other Investments	237,211,101	-	237,211,101
Total Investments	<u>237,726,101</u>	<u>-</u>	<u>237,726,101</u>
Securities Lending Collateral	2,103,782	-	2,103,782
Deposit with Brokers for Derivative Contracts	256,221	-	256,221
Other Assets	4,992	-	4,992
Total Assets	<u>243,382,096</u>	<u>1,789,207</u>	<u>245,171,303</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	281,586	11,570	293,156
Investment Trades Payables	5,192,006	-	5,192,006
Securities Lending Obligations	2,103,782	-	2,103,782
Investment Derivatives - Liability Positions	442,622	-	442,622
Payable to Brokers for Collateral Held	354,102	-	354,102
Total Liabilities	<u>8,374,098</u>	<u>11,570</u>	<u>8,385,668</u>
NET POSITION			
Restricted for:			
Pool Participants	235,007,998	-	235,007,998
Individuals, Organizations, and Other Governments	-	1,777,637	1,777,637
Total Net Position	<u>\$ 235,007,998</u>	<u>1,777,637</u>	<u>236,785,635</u>

See accompanying notes to consolidated financial statements

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED AUGUST 31, 2020

	Custodial Funds		Total Fiduciary Activities
	External Investment Pool Fund	Custodial Funds - Other	
ADDITIONS			
Contributions:			
Contributions from Student Organizations	\$ -	243,421	243,421
Contributions from Foundations or Associations	4,065,114	352,806	4,417,920
Contributions Faculty/Staff Organizations	-	2,863	2,863
Contributions from Participants	-	11,652	11,652
Other Contributions	-	48,983	48,983
Total Contributions	4,065,114	659,725	4,724,839
Investment Earnings:			
Interest, Dividends, and Other	2,307,917	3,160	2,311,077
Realized Gain (Loss) on Sale of Investments	58,583	-	58,583
Net Increase (Decrease) in Fair Value of Investments	9,723,025	-	9,723,025
Total Investment Earnings	12,089,525	3,160	12,092,685
Miscellaneous			
Total Additions	16,154,639	778,698	16,933,337
DEDUCTIONS			
Payments to Student Organizations	-	23,868	23,868
Payments to Foundations or Associations	520,339	360,317	880,656
Payments to Participants	-	1,598	1,598
Other Expenses	-	611,774	611,774
Total Deductions	520,339	997,557	1,517,896
Net Increase (Decrease) in Fiduciary Net Position	15,634,300	(218,859)	15,415,441
Beginning Net Position	235,007,998	1,777,637	236,785,635
Ending Net Position	\$ 250,642,298	1,558,778	252,201,076

See accompanying notes to consolidated financial statements

THE UNIVERSITY OF TEXAS SYSTEM
CONSOLIDATED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED AUGUST 31, 2019

	Custodial Funds		Total Fiduciary Activities
	External Investment Pool Fund	Custodial Funds - Other	
ADDITIONS			
Contributions:			
Contributions from Student Organizations	\$ -	485,682	485,682
Contributions from Foundations or Associations	4,127,278	1,023,127	5,150,405
Contributions Faculty/Staff Organizations	-	-	-
Contributions from Participants	-	9,396	9,396
Other Contributions	-	9,167	9,167
Total Contributions	4,127,278	1,527,372	5,654,650
Investment Earnings:			
Interest, Dividends, and Other	3,534,707	-	3,534,707
Realized Gain (Loss) on Sale of Investments	50,046	-	50,046
Net Increase (Decrease) in Fair Value of Investments	(1,309,013)	-	(1,309,013)
Total Investment Earnings	2,275,740	-	2,275,740
Miscellaneous			
Total Additions	6,403,018	1,527,372	7,930,390
DEDUCTIONS			
Payments to Student Organizations	-	74,072	74,072
Payments to Foundations or Associations	768,033	38,210	806,243
Payments to Participants	-	2,975	2,975
Other Expenses	-	1,447,576	1,447,576
Total Deductions	768,033	1,562,833	2,330,866
Net Increase (Decrease) in Fiduciary Net Position	5,634,985	(35,461)	5,599,524
Beginning Net Position	-	-	-
Restatements	229,373,013	1,813,098	231,186,111
Beginning Net Position (As Restated)	229,373,013	1,813,098	231,186,111
Ending Net Position	\$ 235,007,998	1,777,637	236,785,635

See accompanying notes to consolidated financial statements

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**THE UNIVERSITY OF TEXAS SYSTEM
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2020 AND 2019**

1. The Financial Reporting Entity

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

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

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

Blended Component Units

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

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

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

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

UTMB HealthCare Systems is governed by an eight-member board appointed by U. T. Medical Branch - Galveston. UTMB HealthCare Systems, Inc. provides temporary staffing and leased property, and manages the Medicare Select insurance product in selected markets for U. T. Medical Branch - Galveston. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Medical Branch – Galveston is the sole corporate member. The corporation’s fiscal year end is August 31. Separate financial statements may be obtained by contacting UTMB HealthCare Systems, Inc., 301 University Boulevard, Galveston, Texas 77555.

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

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

U. T. Physicians is governed by a nine-member board appointed by U. T. Health Science Center - Houston. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Health Science Center - Houston is the sole corporate member. The corporation’s fiscal year end is August 31. Separate financial statements may be obtained by contacting U. T. Physicians, 7000 Fannin Street, Suite 860, Houston, Texas 77030.

U. T. System Medical Foundation, which was dissolved August 13, 2020 was governed by a three-member board appointed by U. T. Health Science Center - Houston. The foundation was blended rather than discretely presented because it provided services to support the medical residency programs entirely or almost entirely to U. T. Health Science Center - Houston. U. T. System Medical Foundation funds were transferred to U. T. Health Science Center – Houston upon dissolution. The foundation’s fiscal year end was August 31. Separate financial statements may be obtained by contacting U. T. System Medical Foundation, 7000 Fannin, Suite 860, Houston, Texas 77030.

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

U. T. Health San Antonio Regional Physician Network is governed by a seven-member board. The Dean of the School of Medicine is the Chair of the Board of Directors. The corporation owns, operates, and manages an Accountable Care Organization in accordance with the requirements of the Medicare Shared Savings Program, as set forth in section 1899 of the Social Security Act and related regulations. The corporation is a newly blended entity for the System beginning in fiscal year 2018. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Health Science Center - San Antonio is the sole corporate member. The corporation’s fiscal year end is August 31. Separate financial statements may be obtained by contacting U. T. Health San Antonio Regional Physician Network, 1999 Bryan St, Suite 900, Dallas Texas 75201-3136.

M. D. Anderson Physician’s Network is governed by a nine-member board appointed by the president of M. D. Anderson. M. D. Anderson Physicians Network transfers programs representative of M. D. Anderson to the broad community. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and M. D. Anderson is the sole corporate member. The corporation’s fiscal year end is August 31. Separate financial statements may be obtained by contacting M. D. Anderson Physician’s Network, 1515 Holcomb Blvd, Unit 1670, Houston, TX 77030-4009.

M. D. Anderson Services Corporation is governed by a seven-member board appointed by the president of M. D. Anderson. M. D. Anderson Services Corporation serves as an instrument of M. D. Anderson in its efforts to achieve its mission beyond the M. D. Anderson main campus. The corporation is blended rather than discretely presented because it is organized as a not-for-profit corporation and M. D. Anderson is the sole corporate member. The corporation's fiscal year end is August 31. Separate financial statements may be obtained by contacting M. D. Anderson Services Corporation, 1515 Holcomb Blvd, Unit 1670, Houston, TX 77030-4009.

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

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

The University of Texas Fine Arts Foundation was governed by a three-member board appointed by U. T. Austin. The University of Texas Fine Arts Foundation provided services to acquire the Suida-Manning Art Collection for the Blanton Museum of Art. The foundation was blended rather than discretely presented because it provided services entirely to U. T. Austin. The foundation's fiscal year end was December 31. The foundation submitted their 2018 Form 990 marked as their final return and has since been terminated. There was no activity for fiscal year 2020, and cash balances will be liquidated during fiscal year 2021. Separate financial statements may be obtained by contacting The University of Texas Fine Arts Foundation, U. T. Austin, Main Building, P. O. Box T, Austin, Texas 78713.

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

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

The University of Texas at Austin – Mexico Institute, A.C., Centro de Ciencias de la Complejidad (Edificio C3), Planta Baja, Unidad Internacional de Sedes Universitarias, Circuito Cultural c/n, Zona Cultural, Ciudad Universitaria, Ciudad de México, México, CP. 04510, is governed by a four-member board appointed by U. T. Austin. The University of Texas at Austin – Mexico Institute, A.C. advances collaborative cross-disciplinary academic and scientific research partnerships in science, technology, engineering, and mathematics, and scholarly and cultural studies between The University of Texas at Austin and Mexico's academic institutions. The institute is blended rather than discretely presented because it is organized as a not-for-profit corporation and U. T. Austin is the sole corporate member. The Mexico Institute's fiscal year end is December 31. Separate financial statements may be obtained by contacting The University of Texas at Austin Jorge Rene Pinon, Director of Institutional Relations – Mexico, 2275 Speedway, Austin, TX, 78712.

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

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

Condensed financial statement information related to the System's blended component units for the year ended August 31, 2020 is as follows:

As of August 31, 2020	Southwestern Health Systems	Southwestern Moncrief Cancer Center	Moncrief Cancer Foundation	UTMB HealthCare Systems	The University Medical Branch Student Book Store, Inc.
Condensed Statement of Net Position					
Current Assets	\$ 13,575,650	3,376,385	1,872,991	17,357,710	2,012,378
Noncurrent Assets	-	30,352,901	103,489,906	8,390,013	374
Total Assets	13,575,650	33,729,286	105,362,897	25,747,723	2,012,752
Current Liabilities	-	2,685,745	19,060,462	2,165,855	37,069
Noncurrent Liabilities	-	-	-	-	-
Total Liabilities	-	2,685,745	19,060,462	2,165,855	37,069
Net Investment in Capital Assets	-	28,663,711	-	-	373
Restricted Nonexpendable	-	1,689,190	-	-	-
Restricted Expendable	-	-	86,302,435	-	-
Unrestricted	13,575,650	690,640	-	23,581,868	1,975,310
Total Net Position	\$ 13,575,650	31,043,541	86,302,435	23,581,868	1,975,683
Condensed Statement of Revenues, Expenses and Changes in Net Position					
Operating Revenues	\$ 25,098	7,024,178	311	38,954,808	537,570
Operating Expenses	(33,769)	(10,173,879)	(570,894)	(38,138,043)	(700,742)
Operating Income/(Loss)	(8,671)	(3,149,701)	(570,583)	816,765	(163,172)
Nonoperating Revenues (Expenses)	3,514,275	224,144	13,076,983	901,733	21,349
Income/(Loss) Before Other Changes in Net Position	3,505,604	(2,925,557)	12,506,400	1,718,498	(141,823)
Other Changes in Net Position	(7,452,403)	1,544,899	(1,331,434)	-	-
Change in Net Position	(3,946,799)	(1,380,658)	11,174,966	1,718,498	(141,823)
Net Position - August 31, 2019	17,522,449	32,424,199	75,127,469	21,863,370	2,117,506
Net Position-August 31, 2020	\$ 13,575,650	31,043,541	86,302,435	23,581,868	1,975,683
Condensed Statement of Cash Flows					
Net Cash provided (used) by:					
Operating Activities	\$ (1,123,651)	(1,951,700)	(1,302,857)	1,029,422	(117,210)
Noncapital Financing Activities	-	-	-	-	-
Capital and Related Financing	-	-	-	-	-
Investing Activities	(154,110)	66,946	2,446,404	(428,668)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(1,277,761)	(1,884,754)	1,143,547	600,754	(117,210)
Cash and Cash Equivalents – August 31, 2019	5,747,531	3,126,637	657,171	6,106,218	1,925,037
Cash and Cash Equivalents – August 31, 2020	\$ 4,469,770	1,241,883	1,800,718	6,706,972	1,807,827

(Continued)

As of August 31, 2020	Medical Branch Innovations	U. T. Physicians	U. T. System Medical Foundation	University Physicians Group	U. T. Health San Antonio Regional Physician Network
Condensed Statement of Net Position					
Current Assets	\$ 6,410,711	96,259,185	-	-	402
Noncurrent Assets	-	80,654,966	-	1,935,622	-
Total Assets	6,410,711	176,914,151	-	1,935,622	402
Current Liabilities	497,953	69,495,511	-	-	402
Noncurrent Liabilities	6,779,137	56,528,027	-	-	-
Total Liabilities	7,277,090	126,023,538	-	-	402
Net Investment in Capital Assets	-	20,172,666	-	-	-
Restricted Nonexpendable	-	-	-	-	-
Restricted Expendable	-	-	-	-	-
Unrestricted	(866,379)	30,717,947	-	1,935,622	-
Total Net Position	\$ (866,379)	50,890,613	-	1,935,622	-
Condensed Statement of Revenues, Expenses and Changes in Net Position					
Operating Revenues	\$ 1,399,555	188,838,433	334,104	65,000	-
Operating Expenses	(1,882,571)	(177,506,379)	(480,900)	(65,000)	(1,601,293)
Operating Income/(Loss)	(483,016)	11,332,054	(146,796)	-	(1,601,293)
Nonoperating Revenues (Expenses)	61,028	4,581,840	322,264	-	-
Income/(Loss) Before Other Changes in Net Position	(421,988)	15,913,894	175,468	-	(1,601,293)
Other Changes in Net Position	1,000	(15,000,000)	(11,169,701)	-	1,601,293
Change in Net Position	(420,988)	913,894	(10,994,233)	-	-
Net Position - August 31, 2019	(445,391)	49,976,719	10,994,233	1,935,622	-
Net Position-August 31, 2020	\$ (866,379)	50,890,613	-	1,935,622	-
Condensed Statement of Cash Flows					
Net Cash provided (used) by:					
Operating Activities	\$ 275,681	5,002,736	(11,093,282)	-	-
Noncapital Financing Activities	-	-	-	-	-
Capital and Related Financing	-	(4,818,235)	-	-	-
Investing Activities	61,029	1,212,225	3,954,093	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	336,710	1,396,726	(7,139,189)	-	-
Cash and Cash Equivalents – August 31, 2019	5,380,788	79,691,400	7,139,189	-	-
Cash and Cash Equivalents – August 31, 2020	\$ 5,717,498	81,088,126	-	-	-

(Continued)

As of August 31, 2020	M. D. Anderson Physician's Network	M. D. Anderson Services Corp	East Texas Quality Care Network	UTIMCO	University of Texas Fine Arts Foundation
Condensed Statement of Net Position					
Current Assets	\$ 82,927,327	99,433,912	462,115	34,380,057	436
Noncurrent Assets	132,531,129	702,782,552	-	2,712,919	-
Total Assets	215,458,456	802,216,464	462,115	37,092,976	436
Current Liabilities	21,477,589	121,822,024	89,718	16,144,217	-
Noncurrent Liabilities	-	154,234,242	-	5,989,661	-
Total Liabilities	21,477,589	276,056,266	89,718	22,133,878	-
Net Investment in Capital Assets	1,118,030	5,544	-	-	-
Restricted Nonexpendable	-	50,000,000	-	-	-
Restricted Expendable	-	443,301,270	-	-	-
Unrestricted	192,862,837	32,853,384	372,397	14,959,098	436
Total Net Position	\$ 193,980,867	526,160,198	372,397	14,959,098	436
Condensed Statement of Revenues, Expenses and Changes in Net Position					
Operating Revenues	\$ 54,365,965	3,870,907	14,036	49,881,196	-
Operating Expenses	(26,928,674)	(2,446,230)	(16,090)	(45,188,436)	-
Operating Income/(Loss)	27,437,291	1,424,677	(2,054)	4,692,760	-
Nonoperating Revenues (Expenses)	10,686,631	62,541,394	-	362,878	-
Income/(Loss) Before Other Changes in Net Position	38,123,922	63,966,071	(2,054)	5,055,638	-
Other Changes in Net Position	-	-	-	-	-
Change in Net Position	38,123,922	63,966,071	(2,054)	5,055,638	-
Net Position - August 31, 2019	155,856,945	462,194,127	374,451	9,903,460	436
Net Position-August 31, 2020	\$ 193,980,867	526,160,198	372,397	14,959,098	436
Condensed Statement of Cash Flows					
Net Cash provided (used) by:					
Operating Activities	\$ 50,080,042	63,412,161	226,246	6,350,614	-
Noncapital Financing Activities	-	(30,082,143)	-	-	-
Capital and Related Financing	-	-	-	(319,545)	-
Investing Activities	(24,615,229)	(32,252,059)	-	362,878	-
Net Increase (Decrease) in Cash and Cash Equivalents	25,464,813	1,077,959	226,246	6,393,947	-
Cash and Cash Equivalents – August 31, 2019	51,209,590	95,482,444	177,323	26,027,943	436
Cash and Cash Equivalents – August 31, 2020	\$ 76,674,403	96,560,403	403,569	32,421,890	436

(Concluded)

As of August 31, 2020	The University of Texas Communication	Centro Global de Innovacion y Emprendimiento A.C.	The University of Texas at Austin-Mexico Institute A.C.	The Crow Museum of Asian Art - Foundation	The Crow Museum of Asian Art - Trust	Combined Blended Component Unit Total
Condensed Statement of Net Position						
Current Assets	\$ 211	100,059	4,195	713,869	955,630	359,843,223
Noncurrent Assets	177,910	18,666	-	40,276,108	2,140,728	1,105,463,794
Total Assets	178,121	118,725	4,195	40,989,977	3,096,358	1,465,307,017
Current Liabilities	119,844	37,159	-	555,612	-	254,189,160
Noncurrent Liabilities	39,051	-	-	-	-	223,570,118
Total Liabilities	158,895	37,159	-	555,612	-	477,759,278
Net Investment in Capital Assets	-	912,065	-	40,276,108	-	91,148,497
Restricted Nonexpendable	-	-	-	-	-	51,689,190
Restricted Expendable	-	-	-	-	3,096,358	532,700,063
Unrestricted	19,226	(830,499)	4,195	158,257	-	312,009,989
Total Net Position	\$ 19,226	81,566	4,195	40,434,365	3,096,358	987,547,739
Condensed Statement of Revenues, Expenses and Changes in Net Position						
Operating Revenues	\$ -	83,794	21,043	211,721	-	345,627,719
Operating Expenses	(823)	(243,042)	(16,848)	(3,597,499)	(119,166)	(309,710,278)
Operating Income/(Loss)	(823)	(159,248)	4,195	(3,385,778)	(119,166)	35,917,441
Nonoperating Revenues (Expenses)	-	-	-	947,961	1,472,703	98,715,183
Income/(Loss) Before Other Changes in Net Position	(823)	(159,248)	4,195	(2,437,817)	1,353,537	134,632,624
Other Changes in Net Position	-	92,206	-	2,389,023	(23,584,749)	(52,909,866)
Change in Net Position	(823)	(67,042)	4,195	(48,794)	(22,231,212)	81,722,758
Net Position - August 31, 2019	20,049	148,608	-	40,483,159	25,327,570	905,824,981
Net Position-August 31, 2020	\$ 19,226	81,566	4,195	40,434,365	3,096,358	987,547,739
Condensed Statement of Cash Flows						
Net Cash provided (used) by:						
Operating Activities	\$ -	(159,248)	4,195	(2,863,835)	(119,166)	107,650,148
Noncapital Financing Activities	-	-	-	3,273,751	(23,584,749)	(50,393,141)
Capital and Related Financing	-	-	-	-	-	(5,137,780)
Investing Activities	-	101,686	-	63,233	23,826,512	(25,355,060)
Net Increase (Decrease) in Cash and Cash Equivalents	-	(57,562)	4,195	473,149	122,597	26,764,167
Cash and Cash Equivalents – August 31, 2019	211	86,874	-	61,656	833,033	283,653,481
Cash and Cash Equivalents – August 31, 2020	\$ 211	29,312	4,195	534,805	955,630	310,417,648

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

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

(Continued)

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

(Continued)

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

(Concluded)

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

ASSETS HELD BY AFFILIATED ORGANIZATIONS

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

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

The System has defined significance as 5% of System's net position. As of August 31, 2020, none of the System's potential component units individually meet the 5% of System's net position criteria for inclusion in the System's financial statements. Based upon the most recent available information, the combined net position of these potential component units reported by the organizations total \$2,770,619,257 at August 31, 2020 and \$2,707,624,087 at August 31, 2019.

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, 2020, related to pass-through grants were \$449,033,155 and \$19,000,256, respectively. Funds received and provided during the year ended August 31, 2019, related to pass-through grants were \$412,390,162 and \$9,054,947, respectively.

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

3. Joint Ventures

The University of Texas Southwestern Medical Center (UTSW) and Texas Health Resources (THR) are participating members of Southwestern Health Resources (SWHR) entities, including SWHR, SWHR Clinically Integrated Network (CIN), and SWHR Joint Operating Company (JOC). This integrated regional health network offers key advantages for patients in North Texas including: a) a broad, integrated continuum of physician-driven care utilizing UTSW's network of faculty and community-based physicians, THR's employed physicians, and independent physicians affiliated with both organizations; and b) an integrated hospital network consisting of UTSW's two university hospitals and THR's wholly-controlled and joint-ventured community hospitals. UTSW's equity interest in SWHR, SWHR CIN, and SWHR JOC at August 31, 2020 and 2019 was \$52,551,252 and \$23,681,501, respectively, or approximately 50%.

UTSW is a participating member of Texas Health Hospital Frisco (THHF). THHF is a joint venture entered into by UTSW and THR on August 27, 2018 whose purpose is to provide superior medical care to the residents of Collin County and other surrounding areas. UTSW's equity interest in THHF at August 31, 2020 and 2019 was \$100,635,710 and \$105,046,823, respectively, or 49%. No separate financial statements were completed for fiscal year 2019. THHF started operations in December of 2019.

UTSW is a participating member of Pediatric Health Management Services. Pediatric Health Management Services is a joint venture entered into by UTSW and Children's Health System of Texas on October 1, 2019. UTSW's equity interest in Pediatric Health Management Services at August 31, 2020 was 50%, however there were no financial transactions in fiscal year 2020.

U. T. Southwestern Health Systems (UTSHS), a blended component unit of UTSW, 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, 2020 and 2019 was \$8,038,643 and \$10,597,069, 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.

UTSHS is a participating member of Crowder Dialysis, LLC (Crowder). Crowder is a joint venture between UTSHS, Crowder, and Renal Treatment Centers-Southeast, LP, formed for the purpose of developing, establishing, owning or leasing, and operating one or more licensed outpatient dialysis and renal care service centers and for the purpose of doing such other things as are necessary, convenient, desirable or incidental to the foregoing, and for such other purposes as may be agreed upon from time to time. UTSHS's equity interest in Crowder at August 31, 2020 and 2019 was \$1,065,212 and \$1,124,414, respectively or 49%. Separate financial statements for Crowder may be obtained at c/o DaVita Inc., 2000 16th Street, Denver, Colorado, 80202 or www.DaVita.com.

U. T. Health Science Center - Houston's blended component unit, U. T. Physicians, is a participating member of Physician's Dialysis of Houston. Physician's Dialysis of Houston is a joint venture entered into by U. T. Physicians and DaVita, Inc. U. T. Physician's equity interest in Physician's Dialysis of Houston at August 31, 2020 and 2019 was \$849,020 and \$921,148, 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, 2020 and 2019 was \$467,238 and \$405,220, 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, 2020 and 2019 was \$380,755, or 18.7%. Separate financial statements for Bluesky MOB, L.L.P. may be obtained at Moore, Reichl, & Baker, P.C., c/o Doug Reichl, CPA, 11200 Westheimer Suite 410, Houston, Texas, 77042.

U. T. Health Science Center - Houston and M. D. Anderson are participating members of the Texas Medical Center Central Heating and Cooling Services Cooperative Association (TECO). TECO was incorporated on October 2, 1975, for the purpose of operating a central heating and cooling services facility on a cooperative basis solely for the benefit of eligible institutions. On June 1, 2003, TECO transferred substantially all of its assets and operation to TECO Corporation, and TECO Corporation assumed the liabilities and obligations of TECO. TECO still renders services to member and non-member patrons at cost. Savings or margins are refunded to the member and non-member patrons on a patronage basis in the form of cash or equity by TECO. In fiscal year 2016, U. T. Health Science Center – Houston purchased the Jessie Jones Library and obtained additional patronage equity in TECO in the amount of \$301,800 via the Houston Academy of Medicine's shares of TECO equity. U. T. Health Science Center - Houston's equity interest in TECO at August 31, 2020 and 2019 was \$14,498,887 and \$12,989,382, respectively, or 11.0% and 11.6%, respectively. M. D. Anderson's equity interest in TECO at August 31, 2020 and 2019 was \$46,810,037 and \$42,265,157, respectively, or 35.4% and 37.6%, 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, 2020 and 2019 was \$6,279,039 and \$5,924,560, respectively, or 40%. Separate financial statements for the Association may be obtained at 9424 Fannin Street, Building C, Houston, Texas 77045.

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, 2020 and 2019 was \$4,383,301 and \$2,849,145, 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 was 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. This joint venture was dissolved in fiscal year 2020, therefore, M. D. Anderson's cost-based interest in NCTM at August 31, 2020 was \$0. M. D. Anderson's cost-based interest in NCTM at August 31, 2019 was \$1,245,000, or approximately 2.5%. Separate financial statements for NCTM may be obtained at <http://www.tamus.edu/iit/nctm/>.

On March 1, 2018, U. T. Health Science Center – Tyler (UTHSC – Tyler) entered into a joint venture with AHS East Texas Health System, LLC, to form East Texas Health System, LLC, a Texas Limited Liability Company. The resulting health system, known as U. T. Health East Texas, is designed to expand medical education, research and community health in Northeast Texas. U. T. Health Science Center – Tyler's hospital and physician clinic operations are participants in the ten-hospital system, designed to advance the achievement of UTHSC – Tyler's mission through financial and clinical alignment and integration and to improve the delivery of cost effective, quality health care services in the Northeast Texas region. UTHSC – Tyler's equity interest in U. T. Health East Texas at August 31, 2020 and 2019 was \$17,254,300 and \$10,457,300, respectively, or approximately 30%.

In March 2016, U. T. Austin entered into a joint venture with Ascension Seton and Central Health to form Capital City Innovation (CCI), a nonprofit organization. CCI was created to provide a vision, focused strategic direction, advocacy for, and synergistic coordination of expertise, culture, uses and development to support the creation, growth and sustainability of an Innovation Zone in Austin, Texas. U. T. Austin's equity interest in CCI at August 31, 2020 was \$350,000, or 23.7%.

4. Summary of Significant Accounting Policies

BASIS OF ACCOUNTING

The proprietary financial statements of the System have been prepared using the economic resources measurement focus and the accrual basis of accounting and 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 System's fiduciary funds account for assets held in a custodial capacity and are accounted for on the accrual basis of accounting in accordance with GASB Statement No. 84, *Fiduciary Activities*. All 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 2019

GASB Statement No. 83, *Certain Asset Retirement Obligations (ARO)*, effective 2019, addressed accounting and financial reporting for AROs related to clean-up and decommissioning of items using radiation such as broadscope licenses, cyclotrons, and nuclear reactors.

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective 2019, addressed note disclosures based on liability type. The implementation of Statement 88 had no effect on the System's net position or changes in net position for the years ended August 31, 2019 and 2018.

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

GASB STATEMENTS IMPLEMENTED IN FISCAL YEAR 2020

GASB Statement No. 84, *Fiduciary Activities*, effective 2020, established criteria for identifying fiduciary activities which should be reported in a fiduciary fund in the financial statements. While GASB Statement No. 95 allowed for an extension of one year to implement the statement, the State Comptroller's Office decided to implement GASB Statement No. 84 in 2020.

As a result of this implementation, activities previously reported by the System within business type activities as internal agency-like funds were analyzed to determine if those activities qualified for fiduciary fund reporting. All activities not requiring fiduciary fund reporting were moved to other funds within System's business type activities, and financial reporting for those activities was adjusted. Activities requiring fiduciary fund reporting were moved out of System's internal agency-like funds into fiduciary funds, and therefore, those activities are now reported within separate fiduciary fund financial statements. All of System's fiduciary funds are reported as custodial funds. Almost all of System's custodial funds relate to the portion of System investment funds held for external organizations and are reported as custodial funds-external investment pool. All other custodial funds are reported as custodial funds-other and include activities such as student organizations and funds held for associations. The effect of implementing GASB Statement No. 84 on the System's financial statements for the year ended August 31, 2019 was as follows:

Statement of Net Position as of August 31, 2019

	<u>As Reported in Fiscal Year 2019</u>	<u>GASB Statement No. 84 Restatement</u>	<u>Restated Fiscal Year 2019</u>
ASSETS AND DEFERRED OUTFLOWS			
Total Current Assets	\$ 8,675,346,694	(6,190,586)	8,669,156,108
Total Noncurrent Assets	72,640,460,409	(245,583,371)	72,394,877,038
Total Assets	<u>81,315,807,103</u>	<u>(251,773,957)</u>	81,064,033,146
Total Deferred Outflows of Resources	3,376,021,305	-	3,376,021,305
Total Assets and Deferred Outflows	<u>\$ 84,691,828,408</u>	<u>(251,773,957)</u>	<u>84,440,054,451</u>
LIABILITIES AND DEFERRED INFLOWS			
Total Current Liabilities	\$ 10,015,688,598	100,367,461	10,116,056,059
Total Noncurrent Liabilities	26,051,932,332	(347,791,324)	25,704,141,008
Total Liabilities	<u>36,067,620,930</u>	<u>(247,423,863)</u>	35,820,197,067
Total Deferred Inflows of Resources	2,761,591,967	-	2,761,591,967
Total Liabilities and Deferred Inflows	<u>\$ 38,829,212,897</u>	<u>(247,423,863)</u>	<u>38,581,789,034</u>
NET POSITION			
Net Investment in Capital Assets	\$ 6,747,250,462	(6,214,651)	6,741,035,811
Restricted:			
Nonexpendable	26,986,429,001	-	26,986,429,001
Expendable	14,861,667,665	23,566	14,861,691,231
Unrestricted	<u>(2,732,731,617)</u>	1,840,991	<u>(2,730,890,626)</u>
Total Net Position	<u>\$ 45,862,615,511</u>	<u>(4,350,094)</u>	<u>45,858,265,417</u>

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended August 31, 2019

	<u>As Reported in Fiscal Year 2019</u>	<u>GASB Statement No. 84 Restatement</u>	<u>Restated Fiscal Year 2019</u>
Total Operating Revenues	\$ 16,049,319,499	(5,652,236)	16,043,667,263
Total Operating Expenses	<u>20,284,778,376</u>	342,656	<u>20,285,121,032</u>
Operating Income (Loss)	(4,235,458,877)	(5,994,892)	(4,241,453,769)
Net Nonoperating Revenues (Expenses)	<u>4,569,182,234</u>	294,335	<u>4,569,476,569</u>
Income/(Loss) Before Other Revenue, Expenses, Gains/(Losses), and Transfers	333,723,357	(5,700,557)	328,022,800
Other	138,104,138	-	138,104,138
Change in Net Position	<u>471,827,495</u>	<u>(5,700,557)</u>	<u>466,126,938</u>
Beginning Net Position	45,390,788,016	1,350,463	45,392,138,479
Ending Net Position	<u>\$ 45,862,615,511</u>	<u>(4,350,094)</u>	<u>45,858,265,417</u>

Statement of Cash Flows as of August 31, 2019

	<u>As Reported in Fiscal Year 2019</u>	<u>GASB Statement No. 84 Restatement</u>	<u>Restated Fiscal Year 2019</u>
Cash and Cash Equivalents	\$ 4,049,203,186	(1,789,207)	4,047,413,979

Paragraphs 4 and 5 of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans: an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, are effective in 2020. This statement clarifies that, for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, primary governments that perform the duties that a governing board typically performs in the absence of a governing board is not the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable. This statement also limits the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74. This additional guidance further solidifies the conclusion that U. T. System does not have any pension or OPEB-related fiduciary funds or component units.

GASB Statement No. 90, *Majority Equity Interests*, effective 2020, improved the consistency and comparability of reporting majority equity interests in a legally separate organization and improved the relevance of financial statement information for certain component units. While GASB Statement No. 95 allowed for an extension of one year to implement the statement, the State Comptroller's Office decided to implement GASB Statement No. 90 in 2020. The implementation of Statement 90 had no effect on the System's net position or changes in net position for the years ended August 31, 2020 and 2019.

GASB Statement No. 95, *Postponement of the Effective dates of Certain Authoritative Guidance*, effective immediately, provides temporary relief to governments in light of the COVID-19 pandemic by delaying the implementation dates of many standards by one year. GASB Statement No. 95 had no effect on the System's net position or changes in net position.

CASH AND CASH EQUIVALENTS

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

BALANCE IN STATE APPROPRIATIONS

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Changes in the fair value of derivative instruments that are not effective are recorded as net increase (decrease) in the fair value of investments in the statement of revenues, expenses and changes in net position.

INVESTMENTS

The majority of the investments of the System, except for PUF lands, are managed by UTIMCO, a private investment corporation that provides services to the System and its related foundations. All investments are reported as noncurrent as these funds have an investment horizon extending beyond one year. Restricted investments include investments restricted by legal or contractual requirements, including those related to donors and constitutional restrictions.

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

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants at the measurement date.

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

CONTRIBUTIONS RECEIVABLE

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

INVENTORIES

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

RESTRICTED ASSETS

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

LOANS AND CONTRACTS

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

SECURITIES LENDING COLLATERAL AND OBLIGATIONS

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

CAPITAL AND INTANGIBLE ASSETS

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

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

OTHER ASSETS

Other current assets are primarily made up of prepaid expenses, while other noncurrent assets are primarily made up of equity interests in joint ventures that do not meet the definition of an investment and beneficial interests in irrevocable split-interest agreements in which a third-party is the intermediary.

DEFERRED OUTFLOWS

Deferred outflows consist of the fair value of hedging derivative instruments in a liability position, unamortized losses on refunding of debt, unamortized interest rate lock termination payments, certain changes in the net pension and total OPEB liability, unamortized portions of asset retirement obligation, and excess consideration paid in a government acquisition. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows and deferred outflows in the statement of net position. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is amortized, using the straight-line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net position as a component of interest expense. When a Treasury Lock is used to hedge interest rate exposure on bonds, the lock termination payment is recorded as a deferred outflow and is amortized, using the straight-line method, over the remaining life of the related debt in the statement of revenues, expenses and changes in net position as a component of interest expense. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions, and employer contributions subsequent to the measurement date of the net pension liability are also required to be reported as deferred outflows of resources. Similarly, changes in the total OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB, and employer contributions subsequent to the measurement date of the total OPEB liability are also required to be reported as deferred outflows of resources. For asset retirement obligations, deferred outflows are recognized for anticipated clean-up and decommissioning costs, amortized over the life of the related assets. Deferred outflows are also recognized for excess consideration paid in a government acquisition, amortized over the estimated service life.

UNEARNED REVENUE

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

ASSETS HELD FOR OTHERS – CURRENT AND NONCURRENT

Assets held for others is the liability offsetting the assets held for defined contribution pension plans managed by the System. Included in assets held for others as of August 31, 2020 and 2019 is \$565,511,274 and \$516,598,582, respectively, for the Physician's Referral Service Supplemental Retirement Plan/Retirement Benefit Plan at M. D. Anderson.

LIABILITY TO BENEFICIARIES

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

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

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

TOTAL OPEB LIABILITY

OPEB are provided to the System's retirees under the U. T. System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan. The System and member contribution rates are determined annually by the System based on the recommendations of the Office of Employee Benefits staff and consulting actuary. The contribution rates are determined based on the benefit and administrative costs expected to be incurred and (i) the funds appropriated and (ii) the funding policy established by the Texas Legislature in connection with benefits provided through the EGIP. The System revises benefits when necessary to match expected benefit and administrative costs with available revenue. The plan is operated on a pay-as-you-go basis. The OPEB plan described herein is not administered through a trust.

NET PENSION LIABILITY

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

ASSET RETIREMENT OBLIGATION

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

DEFERRED INFLOWS

Deferred inflows consist of the fair value of hedging derivative instruments in an asset position, unamortized gains on refunding of debt, certain changes in the net pension and total OPEB liability, and beneficial interests in irrevocable split-interest agreements. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferred inflows and deferred outflows in the statement of net position. For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is amortized, using the straight-line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net position as a component of interest expense. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Similarly, changes in the total OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. For irrevocable split-interest agreements in which U. T. System has an unconditional beneficial interest, the fair value of the gift beneficial interest is deferred and reported as deferred inflows until the resources become applicable to the reporting period.

NET POSITION – Enterprise Funds

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.

NET POSITION – Fiduciary Funds

The System fiduciary funds classify resources into the following two net position categories:

Restricted for Pool Participants:

Net position related to custodial funds-external investment pool

Restricted for Individuals, Organizations, and Other Governments:

Net position related to custodial funds-other

REVENUES AND EXPENSES

Operating revenues include activities such as student tuition and fees; net sales and services of hospitals; net professional fees; net sales and services of auxiliary enterprises; the exchange basis federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, other contracted services, pension expense, postemployment benefits, and scholarships and fellowships. 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 2020 and 2019 of \$462,365,396 and \$374,118,285, respectively, the System recorded a liability of \$1,468,852,913 and \$1,293,585,081 at August 31, 2020 and 2019, 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, 2020 and 2019 is \$1,092,635 and \$2,475,960, respectively, related to the revolving loan programs administered by the Texas State Comptroller's Office.

UNCOMPENSATED CARE AND CHARITY CARE

The System's health-related institutions provide uncompensated care to patients who meet certain criteria. Uncompensated care includes the unreimbursed costs for the uninsured and the underinsured as well as the unreimbursed costs from government-sponsored health programs. To calculate uncompensated care, charges are converted to costs which is offset by appropriate patient specific and lump sum funding. 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 \$966,453,239 and \$952,693,885 for 2020 and 2019, respectively.

GASB requires health-related institutions to report the cost of providing "charity care." 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. The cost of charity care is calculated using the uncompensated care calculation methodology discussed above. Charity care costs amounted to \$127,251,751 and \$98,597,834 for 2020 and 2019, respectively.

NET PATIENT SERVICE REVENUE

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

Medicare

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

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

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

Medicaid

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

The System's health-related institutions have also entered into payment agreements with certain commercial, Medicaid and Medicare payors which offer benefit plans for health maintenance organizations, and preferred provider organizations. The basis for payment to the System's health-related institutions under these agreements includes prospectively determined rates for inpatient and outpatient services. The System's health-related institutions recognized bad debt expense of \$397,832,931 and \$361,141,031 in 2020 and 2019, respectively.

COVID-19

In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. On March 13, 2020, the Governor of the State of Texas declared a state of emergency. On March 19, 2020, the Governor signed Executive Orders to mitigate the spread of COVID-19 in Texas that closed all non-essential businesses and services statewide, canceled or postponed all non-essential gatherings of individuals, and emphasized social distancing practices in business and personal life. The orders resulted in work-from-home policies, travel restrictions, online education and closure of student residential buildings, and cancellation of events. In addition, the restrictions required rescheduling of elective or non-critical surgical and procedural cases along with non-urgent and routine provider appointments, as well as redeployment of resources to address the novel coronavirus needs. This resulted in reduced hospital and faculty practice patient care revenues and operating cash flows. To alleviate the economic impact, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provides economic grants to offset additional expenses and forgone revenue which was reported as Nonexchange Sponsored Programs. In mid-April, consistent with the guidance from regulatory agencies, the System resumed surgical and professional services that were postponed in March and early April. The outbreak of COVID-19 caused domestic and global disruption in operations for institutions of higher education and healthcare organizations and negatively impacted the financial markets and the value of the System's investments. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may include, but are not limited to, decline in enrollment, decline in demand for housing, decline in demand for System programs that involve travel or that have international connections, and declines in patient service revenues. The System continues to carefully monitor developments and the directives of federal, state and local officials to determine what additional precautions and procedures may need to be implemented by the System. While the COVID-19 outbreak has adversely impacted the System's fiscal year 2020 results, the System cannot at this time accurately predict the full extent to which the COVID-19 outbreak will affect the System's future finances and operations.

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, 2020 and 2019 for the System are detailed by type as follows:

Net Other Receivables	2020	*Restated 2019
Receivables related to investments	\$ 103,812,539	159,631,322
Receivables related to gifts, grants and sponsored programs	72,435,737	88,121,765
Receivables related to external parties/other companies	210,722,150	166,346,366
Receivables related to auxiliary enterprises	19,783,824	17,916,999
Receivables related to payroll	6,551,096	2,109,943
Receivables related to patents	1,471,065	1,132,059
Receivables related to travel	461,327	1,618,533
Receivables related to loan funds and financial aid	6,849,873	2,927,015
Receivables related to other various activities	37,867,677	46,700,895
Total	\$ <u>459,955,288</u>	<u>486,504,897</u>

*August 31, 2019 net other receivables for the System was restated due to implementing GASB Statement No. 84, resulting in a decrease of System net other receivables of \$546,804. See Note 4 for further details.

In addition, net other receivables at August 31, 2020 and 2019 for the System's fiduciary funds was \$119,023 and \$6,662, respectively.

6. Deposits, Investments and Repurchase Agreements

DEPOSITS OF CASH IN BANK

As of August 31, 2020 and 2019, the carrying amount of the System's deposits was \$190,196,810 and \$94,952,175, respectively, as presented below:

	2020	*Restated 2019
Cash and cash equivalents per statement of cash flows and statement of net position	\$ 3,996,795,686	4,047,413,979
Less: Cash in State Treasury	1,250,021,801	1,223,612,049
Repurchase agreement – Texas		
Treasury Safekeeping Trust Co.	2,147,665	374,109
Other cash equivalent investments	2,532,602,886	2,711,916,808
Other	21,826,524	16,558,838
Deposits of cash in bank	\$ <u>190,196,810</u>	<u>94,952,175</u>

*August 31, 2019 deposits of cash in bank for the System was restated due to implementing GASB Statement No. 84, resulting in a reclass of \$1,789,207 of cash in bank from System's enterprise funds to fiduciary funds. See Note 4 for further details.

In addition, cash and cash equivalents at August 31, 2020 and 2019 for the System's fiduciary funds was \$1,569,998 and \$1,789,207, respectively.

As of August 31, 2020 and 2019, the total bank balances held by System were \$231,600,370 and \$130,672,653, respectively.

DEPOSIT RISKS

Custodial Credit Risk

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

As of August 31, 2020, U. T. Health Science Center at Tyler's blended component unit, East Texas Quality Care Network (ETQCN), held deposits that were exposed to custodial credit risk. ETQCN has no policies regarding these deposits. As of August 31, 2020, the bank balances exposed to custodial risk as uninsured and uncollateralized deposits were \$12,707. As of August 31, 2019, there were no System bank balances exposed to custodial risk as uninsured and uncollateralized deposits.

INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following tables reflect fair value measurements of investments as of August 31, 2020 and 2019, respectively, as categorized by level of the fair value hierarchy, and include both the System's enterprise and fiduciary funds:

Type of Security	Fair Value as of August 31, 2020	Fair Value Measurement Using		
		Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt Securities:				
U.S. Government Treasury Securities	\$ 590,915,551	590,915,551	-	-
U.S. Government Treasury TIPS	657,178,003	657,178,003	-	-
U.S. Government Agency Obligations	996,848,793	-	996,848,793	-
Corporate Obligations	1,540,612,268	-	1,539,888,520	723,748
Corporate Asset and Mortgage Backed Securities	145,231,617	-	145,231,617	-
International Obligations (Government and Corporate)	2,937,242,363	-	2,937,242,363	-
Fixed Income Money Market and Bond Mutual Funds	2,570,766,997	2,570,766,997	-	-
Mutual Funds	552,600,958	548,669,520	3,931,438	-
Equity Securities:				
Equity	2,133,184,690	2,127,612,004	5,572,686	-
International Equity	3,192,542,011	3,192,263,914	278,097	-
Other Commingled Funds:				
Fixed Income	237,736,337	237,736,337	-	-
U. S. Equity	15,859,174	15,859,174	-	-
International Other Commingled Funds:				
Global Developed Equity	8,896,962	8,896,962	-	-
Emerging Markets	88,739,997	88,739,997	-	-
Real Estate and Other:				
PUF Lands	6,885,688,521	-	-	6,885,688,521
Other Real Estate	494,218,403	-	-	494,218,403
Investment Derivative Instruments – Asset Positions	171,769,567	10,378,344	161,391,223	-
Alternative Investments:				
Private Investments	536,021,738	-	-	536,021,738
Miscellaneous	17,214,362	1,689,190	15,525,147	25
Total Investments by Fair Value Level	23,773,268,312	10,050,705,993	5,805,909,884	7,916,652,435

Type of Security	Fair Value as of August 31, 2020	Fair Value Measurement Using		
		Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Funds Fair Valued Using Net Asset Value:				
Real Estate	29,147,134			
Hedge Funds	11,896,734,733			
Other Commingled Funds – U.S. Equity	2,945,805,659			
International Other Commingled Funds	5,521,925,617			
Private Investments	14,450,208,492			
Total Investment Funds Fair Valued Using Net Asset Value	34,843,821,635			
Investments Held in Cash (Not at Fair Value)	167,745,229			
Other Investments (Not at Fair Value)	473,565			
Total Investments	\$ 58,785,308,741			
Securities Lending Collateral Investment Pool (see Securities Lending section)	\$ 420,834,111	-	420,834,111	-
Investments Classified as Cash Equivalents:				
Repurchase Agreement – Texas Treasury Safekeeping Trust Co. (Not at Fair Value)	\$ 2,147,665			
Fixed Income Money Market Funds	2,532,435,989	2,532,435,989	-	-
Time Deposits (Not at Fair Value)	166,897			
Total Investments Classified as Cash Equivalents	\$ 2,534,750,551			
Deposit with Brokers for Derivative Contracts, net (related to investments):				
U.S. Government Direct Obligations	\$ 29,034,943	29,034,943	-	-
Held in Cash (Not at Fair Value)	(71,251,369)			
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	\$ (42,216,426)			

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

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

The following tables display the breakout of total investments, securities lending collateral, total investments classified as cash equivalents, and total deposit with brokers for derivative contracts, net between enterprise and fiduciary funds as of August 31, 2020 and 2019:

	August 31, 2020		
	Enterprise Funds	Fiduciary Funds	Total
Total Investments	\$ 58,531,455,373	253,853,368	58,785,308,741
Securities Lending Collateral	418,831,991	2,002,120	420,834,111
Total Investments Classified as Cash Equivalents	2,534,750,551	-	2,534,750,551
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	(41,967,131)	(249,295)	(42,216,426)

	August 31, 2019		
	Enterprise Funds	Fiduciary Funds	Total
Total Investments	\$ 54,209,543,760	237,726,101	54,447,269,861
Securities Lending Collateral	450,955,438	2,103,782	453,059,220
Total Investments Classified as Cash Equivalents	2,712,290,917	-	2,712,290,917
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	(33,963,822)	(97,881)	(34,061,703)

Investment funds fair valued at net asset value per share or based on the System's ownership interest in partner's capital include externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds that are fair valued using Net Asset Value (NAV) at August 31, 2020 and 2019 is summarized in the tables below as they are included within the asset mix of the System. Tables and disclosures that follow include both the System's enterprise and fiduciary funds.

	Fair Value as of August 31, 2020	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment Funds Fair Valued Using Net Asset Value				
Real Estate				
Redeemable Within One Year	\$ 29,147,134	-	Quarterly	60 days
Hedge Funds				
Redeemable Within One Year	4,784,850,341		Monthly to Annually	5 - 100 Days
Redeemable Beyond One Year	5,631,336,061		Quarterly to Annually	45 - 120 Days
Nonredeemable	1,480,548,331		Not Applicable	Not Applicable
Total Hedge Funds	11,896,734,733	1,316,518,693		
Other Commingled Funds – U. S. Equity				
Redeemable Within One Year	1,812,195,578		Daily to Annually	10 - 90 Days
Redeemable Beyond One Year	1,133,610,081		Annually	90 Days
Total Other Commingled Funds – U. S. Equity	2,945,805,659	82,877,646		
International Other Commingled Funds:				
Non-U.S. Developed Equity				
Redeemable Within One Year	1,079,283,772		Monthly to Quarterly	6 - 30 Days
Total Non-U.S. Developed Equity	1,079,283,772	-		
Global Developed Equity				
Redeemable Within One Year	2,546,122,157		Monthly to Quarterly	30 - 60 Days
Redeemable Beyond One Year	125,091,539		Monthly	45 Days
Total Global Developed Equity	2,671,213,696	-		
Emerging Markets				
Redeemable Within One Year	1,514,073,280		Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	218,858,431		Monthly to Quarterly	60 - 90 Days
Nonredeemable	38,496,438		Not Applicable	Not Applicable
Total Emerging Markets	1,771,428,149	132,825,744		
Total International Other Commingled Funds	5,521,925,617	132,825,744		
Limited Partnerships (Private Investments)				
Redeemable Within One Year	22,636,739		Quarterly	90 days
Nonredeemable	14,427,571,753		Not Applicable	Not Applicable
Total Limited Partnerships (Private Investments)	14,450,208,492	8,862,092,209		
Total Investment Funds Fair Valued Using NAV	\$ 34,843,821,635	10,394,314,292		

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

The System invests in hedge fund pools which are invested in private funds with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the manager without significant penalty. The amounts shown as nonredeemable are considered illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$1,316,518,693 and \$1,098,734,077 of future funding to various hedge fund investments as of August 31, 2020 and 2019, respectively. Hedge funds are fair valued by management based on net asset value information provided by the investment manager, as well as other relevant factors.

Public market funds are invested in exchange traded funds, index funds and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the funds. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. The amounts shown as nonredeemable are considered illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the sole managing member. There are certain risks associated with these investments, some of which are investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. As of August 31, 2020 and 2019, future fundings in the amount of \$215,703,390 and \$253,820,746, respectively, have been committed to certain public market funds. The fair value of private investment funds, are estimated using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for contributions and withdrawals subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources.

The System invests in private investments through private investment pools which are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments, domestic and international, are illiquid and typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over seven to ten years. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. Certain of these investments are held through LLCs, of which UTIMCO is the sole managing member. The System had committed \$8,862,092,209 and \$7,524,136,005 of future funding to various private investments as of August 31, 2020 and 2019, respectively.

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

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

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

The fair values of these various investment funds, excluding the publicly traded funds, as of August 31, 2020 and 2019 were \$34,843,821,635 and \$30,863,550,610, respectively.

INVESTMENT RISKS

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System's investment policy does not provide specific requirements and limitations regarding investment ratings. Per GASB authoritative guidance, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. In 2011, some of the U.S. government direct obligations were downgraded and thus U.S. government direct obligations are included in the credit risk disclosure. The following tables present each applicable investment type, in both the System's enterprise and fiduciary funds, grouped by rating as of August 31, 2020 and 2019:

August 31, 2020

Investment Type	MOODY'S		STANDARD & POOR'S		FITCH	
	Fair Value	Rating	Fair Value	Rating	Fair Value	Rating
Investments and Investments						
Classified as Cash Equivalents:						
U.S. Government Direct Obligations	\$ 1,248,093,554	Aaa	844,454,882	AA	834,357,609	AAA
	-	-	403,638,672	NR	413,735,945	NR
U.S. Government Agency Obligations	994,247,826	Aaa	994,247,826	AA	994,247,826	AAA
	775,599	Aa	2,600,967	NR	2,600,967	NR
	1,825,368	Ba	-	-	-	-
Corporate Obligations	28,957,838	Aaa	26,588,080	AAA	2,369,758	AAA
	178,963,748	Aa	152,222,782	AA	101,057,343	AA
	786,157,736	A	670,399,911	A	624,961,958	A
	492,055,720	Baa	645,731,812	BBB	351,949,075	BBB
	45,186,263	Ba	37,411,566	BB	37,639,028	BB
	1,633,231	Caa	1,633,230	CCC	422,635,106	NR
	7,657,732	NR	6,624,887	NR	-	-
Corporate Asset and Mortgage Backed Securities	78,334,844	Aaa	17,795,766	AAA	73,386,945	AAA
	5,162,211	Aa	1,103,073	AA	3,074,320	AA
	5,973,859	A	7,862,733	A	2,643,833	A
	4,192,844	Baa	9,112,718	BBB	6,690,163	BBB
	1,573,925	Ba	2,500,909	BB	1,904,531	BB
	7,788,244	B	1,591,636	B	57,531,825	NR
	1,748,441	Caa	8,040,577	CCC	-	-
	714,843	Ca	656,512	CC	-	-
	39,742,406	NR	13,300	D	-	-
	-	-	96,554,393	NR	-	-
International Obligations (Government and Corporate)	430,613,669	Aaa	349,505,432	AAA	337,996,225	AAA
	279,893,390	Aa	154,218,992	AA	419,459,390	AA
	692,352,305	A	223,581,479	A	470,952,982	A
	617,163,633	Baa	574,827,083	BBB	510,428,410	BBB
	175,361,680	Ba	152,794,696	BB	173,636,223	BB
	15,260,092	B	10,942,107	B	4,317,421	B
	726,597,594	NR	1,471,372,574	NR	1,020,451,712	NR
Fixed Income Money Market and Mutual Funds	4,952,844,801	Aaa	4,952,844,801	AAA	165,630,283	AAA
	318,103,414	NR	318,103,414	NR	5,105,317,932	NR
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	2,147,665	NR	2,147,665	AA	2,147,665	NR
Miscellaneous	535,593	Aaa	4,199,127	AAA	6,828,956	AAA
	8,259,406	Aa	8,005,788	AA	4,575,015	AA
	2,714,862	A	2,428,654	A	2,644,514	BBB
	140,124	Baa	355,985	BBB	239,379,896	NR
	241,778,396	NR	238,438,827	NR	-	-
Total Investments and Investments Classified as Cash Equivalents	\$ 12,394,552,856		12,394,552,856		12,394,552,856	
Deposit with Brokers for Derivative Contracts, net (related to investments):						
U.S. Government Direct Obligations	\$ 29,034,943	Aaa	29,034,943	AA	13,496,095	AAA
	-	-	-	-	15,538,848	NR
Cash	(71,251,369)	NR	(71,251,369)	NR	(71,251,369)	NR
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	\$ (42,216,426)		(42,216,426)		(42,216,426)	

August 31, 2019

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

(B) *Concentrations of Credit Risk* – The System’s investment policy statements for funds managed by UTIMCO contain the limitation that no more than five percent of the fair value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2020 and 2019, these funds did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the fair value of the fund’s fixed income investments.

(C) *Custodial Credit Risk* – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the System’s investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2020 and 2019, the System did not have any investments that are exposed to custodial credit risk.

(D) *Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the System’s investments is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the System’s investments to changes in interest rates. The System has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the System’s modified duration in years by investment type, in both the System’s enterprise and fiduciary funds, as of August 31, 2020 and 2019:

Investment Type	August 31, 2020		August 31, 2019	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 63,979	-	302,944,464	0.41
U.S. Treasury Bonds and Notes	590,851,572	3.67	782,226,925	10.40
U.S. Treasury Inflation Protected	657,178,003	8.50	50,904,129	11.34
U.S. Agency Asset Backed	36,944,066	3.75	12,814,861	1.83
Total U.S. Government Guaranteed	1,285,037,620	6.14	1,148,890,379	7.71
U.S. Government Non-Guaranteed:				
U.S. Agency	230,615,133	2.41	564,562,181	2.89
U.S. Agency Asset Backed	729,289,594	2.98	402,201,882	2.23
Total U.S. Government Non-Guaranteed	959,904,727	2.84	966,764,063	2.62
Total U.S. Government	2,244,942,347	4.73	2,115,654,442	5.38
Corporate Obligations:				
Domestic	1,685,843,885	8.68	1,244,438,778	5.00
Foreign	621,721,856	4.36	492,234,320	6.04
Total Corporate Obligations	2,307,565,741	7.52	1,736,673,098	5.30
Foreign Government and Provincial Obligations	2,315,520,507	7.32	2,237,975,812	4.17
Other Debt Securities	15,525,147	9.14	13,470,438	8.30
Total Debt Securities	6,883,553,742	6.55	6,103,773,790	4.92
Other Investment Funds - Debt	237,736,337	5.50	34,942,241	7.50
Fixed Income Money Market and Mutual Funds	2,738,512,226	0.29	2,443,065,364	0.31
Total Investments	\$ 9,859,802,305	4.78	8,581,781,395	3.62
Investments Classified as Cash Equivalents:				
Repurchase Agreement - Texas Treasury Safekeeping Trust Co.	\$ 2,147,665	-	374,109	0.01
Fixed Income Money Market Funds	2,532,435,989	0.08	2,711,750,688	0.08
Time Deposits	166,897	-	166,120	-
Total Investments Classified as Cash Equivalents	\$ 2,534,750,551	0.08	2,712,290,917	0.08
Deposit with Brokers for Derivative Contracts, net (related to investments):				
U.S. Government Guaranteed:				
U.S. Government Direct Obligations	\$ 29,034,943	1.91	4,189,700	2.53
Total U.S. Government Guaranteed	29,034,943	1.91	4,189,700	2.53
Cash	(71,251,369)	-	(38,251,403)	-
Total Deposit with Brokers for Derivative Contracts, net (related to investments)	\$ (42,216,426)	-	(34,061,703)	-

(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, 2020 and 2019, 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, 2020 and 2019, these securities amounted to \$145,735,861 and \$102,229,675, 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, 2020 and 2019, these securities amounted to \$763,744,456 and \$411,741,517, 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, 2020 and 2019 these securities amounted to \$45,599,782 and \$39,822,206, 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, 2020 and 2019.

Investment Type	August 31,	
	2020	2019
Foreign Common Stock:		
Australian Dollar	\$ 6,470,342	\$ 5,425,886
Brazilian Real	228,208,969	403,826,036
Canadian Dollar	6,197,840	10,669,542
Chilean Peso	221,122	3,221,506
Chinese Yuan Renminbi	789,756,647	623,642,930
Colombian Peso	-	404,253
Czech Koruna	-	628,087
Danish Krone	7,777,905	20,422,831
Egyptian Pound	4,374,168	13,873,210
Euro	238,630,362	269,837,940
Hong Kong Dollar	217,719,077	210,745,392
Hungarian Forint	2,687,155	3,972,174
Indian Rupee	60,534,449	87,340,129
Indonesian Rupiah	15,769,208	36,189,495
Japanese Yen	446,281,770	413,174,868
Malaysian Ringgit	10,167,074	23,976,599
Mexican Peso	21,025,436	113,128,500
Norwegian Krone	22,451,029	23,828,718
Peruvian Nuevo Sol	86,217	109,002
Philippine Peso	769,838	2,031,140
Polish Zloty	5,040,360	12,967,415
Qatari Riyal	785,473	4,087,547
Saudi Riyal	-	2,968,303
Singapore Dollar	-	15,663,806
South African Rand	24,639,144	41,313,039
South Korean Won	275,935,555	353,031,003
Sri Lankan Rupee	-	3,223,927
Swedish Krona	19,081,610	8,760,011
Swiss Franc	43,274,659	34,029,141
Taiwan Dollar	114,363,331	166,007,372
Thai Baht	6,496,597	26,520,901
Turkish Lira	25,878,308	45,992,854
UK Pound	123,242,427	154,628,203
United Arab Emirates Dirham	9,843,908	35,440,804
Vietnamese Dong	-	20,052,838
Total Foreign Common Stock	<u>2,727,709,980</u>	<u>3,191,135,402</u>
Other - Equity Securities:		
Chinese Yuan Renminbi	-	3,725,780
Malaysian Ringgit	-	18,091
Taiwan Dollar	-	9,846
Total Other - Equity Securities	<u>-</u>	<u>3,753,717</u>
Foreign Preferred Stocks:		
Brazilian Real	44,108,327	66,839,217
Colombian Peso	-	223,731
Euro	687,257	-
South African Rand	77,251	115,697
South Korean Won	40,377,761	34,381,640
Total Foreign Preferred Stock	<u>85,250,596</u>	<u>101,560,285</u>

(Continued)

Investment Type	August 31,	
	2020	2019
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 123,222,293	\$ 79,612,410
Brazilian Real	67,463,115	108,522,960
Canadian Dollar	148,995,917	141,485,939
Chinese Yuan Renminbi	74,415,163	-
Colombian Peso	89,578,119	90,838,499
Euro	479,807,763	451,234,471
Hungarian Forint	-	14,639,202
Indonesian Rupiah	86,266,828	64,223,472
Israeli Shekel	2,282,398	-
Japanese Yen	435,232,760	439,583,954
Malaysian Ringgit	86,909,748	86,859,246
Mexican Peso	284,619,722	300,553,525
New Zealand Dollar	3,163,393	1,044,054
Norwegian Krone	15,876,737	25,977,277
Peruvian Sol	13,479,646	17,611,955
Polish Zloty	25,345,174	109,955,894
Romanian Leu	16,710,233	9,599,848
Russian Ruble	8,946,945	944,010
Singapore Dollar	121,494,867	85,299,682
South African Rand	62,416,642	65,334,487
South Korean Won	12,466,307	12,227,486
UK Pound	59,894,623	29,063,273
Total Foreign Government and Provincial Obligations	<u>2,218,588,393</u>	<u>2,134,611,644</u>
Corporate Obligations:		
Australian Dollar	3,148,712	2,927,571
Canadian Dollar	532,677	1,365,625
Danish Krone	109,073,532	82,252,943
Euro	78,044,338	51,207,274
Indian Rupee	890	870
South African Rand	-	3,300,071
Swedish Krona	-	349,138
UK Pound	82,514,579	66,846,710
Total Corporate Obligations	<u>273,314,728</u>	<u>208,250,202</u>
Purchased Options:		
Australian Dollar	-	51
Brazilian Real	1,221,664	178,130
Canadian Dollar	63,287	-
Euro	14,517,143	5,708,406
Japanese Yen	-	8,386
Swiss Franc	173,758	438,932
Total Purchased Options	<u>15,975,852</u>	<u>6,333,905</u>
Investment Funds-Emerging Markets:		
Brazilian Real	<u>23,720,297</u>	<u>21,129,335</u>
Private Investments:		
Australian Dollar	131,211,294	138,102,249
Canadian Dollar	188,164,162	245,915,713
Euro	481,138,704	357,367,937
Swedish Krona	16,729,196	-
UK Pound	102,057,338	90,054,764
Total Private Investments	<u>919,300,694</u>	<u>831,440,663</u>

(Continued)

Investment Type	August 31,	
	2020	2019
Cash and Cash Equivalents:		
Australian Dollar	\$ 101,335	\$ 65,364
Brazilian Real	17,206,669	7,427,750
Canadian Dollar	7,939,675	504,445
Chilean Peso	-	30,689
Chinese Yuan Renminbi	65,455,962	26,724,376
Colombian Peso	5,919	1,286,407
Czech Koruna	115,135	83,918
Danish Krone	25,885	(151,810)
Egyptian Pound	2,171,607	10,015
Euro	3,981,551	4,336,301
Hong Kong Dollar	311,686	2,630,257
Hungarian Forint	72,137	99,434
Indian Rupee	821,654	492,900
Indonesian Rupiah	278,958	229,441
Israeli Shekel	250	2,499
Japanese Yen	6,363,712	25,463,593
Malaysian Ringgit	109,983	118,356
Mexican Peso	173,133	1,115,159
New Zealand Dollar	2,298	2,480
Norwegian Krone	1,059	1,519,484
Peruvian Nuevo Sol	-	8,790
Philippine Peso	8,014	18,184
Polish Zloty	106,746	642,837
Qatari Riyal	33,026	285,743
Romanian Leu	-	264
Russian Ruble	61,195	(72)
Singapore Dollar	33,850	47,619
South African Rand	2,883,036	1,785,363
South Korean Won	7,265,753	7,658,895
Swedish Krona	33,854	67,659
Swiss Franc	(409,094)	48,592
Taiwan Dollar	700,849	1,491,515
Thai Baht	(41)	63,037
Turkish Lira	21,358	125,604
UK Pound	2,620,371	(1,207,395)
United Arab Emirates Dirham	74,743	41,961
Total Cash and Cash Equivalents	<u>118,572,268</u>	<u>83,069,654</u>
Written Options:		
Australian Dollar	-	(69,560)
Brazilian Real	(196,044)	(565,609)
Canadian Dollar	(183,903)	-
Euro	(274,280)	-
Japanese Yen	-	(6,621)
Total Written Options	<u>(654,227)</u>	<u>(641,790)</u>

(Concluded)

Investment Type	August 31,	
	2020	2019
Swaps:		
Australian Dollar	\$ 110,479	\$ 11,595,964
Canadian Dollar	3,568,128	1,894,945
Chinese Yuan Renminbi	24,590	453,198
Czech Koruna	58,467	58,335
Euro	1,532,108	27,737,507
Israeli Shekel	436,353	649,045
Japanese Yen	(468,662)	604,048
Mexican Peso	(20,258)	27,387
New Zealand Dollar	-	9,424
Polish Zloty	116,024	76,855
South African Rand	175,518	71,719
South Korean Won	516,728	668,639
Swedish Krona	124,900	159,562
Swiss Franc	(2,191)	-
UK Pound	(2,966,999)	(2,692,953)
Total Swaps	<u>3,205,185</u>	<u>41,313,675</u>
Futures:		
Australian Dollar	545,302	-
Brazilian Real	(109,868)	-
Canadian Dollar	(641,490)	-
Euro	(2,944,641)	(100,069)
Japanese Yen	(14,899)	-
UK Pound	1,469,230	-
Total Futures	<u>(1,696,366)</u>	<u>(100,069)</u>
Total	<u>\$ 6,383,287,399</u>	<u>\$ 6,621,856,623</u>

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

The System had gross counterparty exposure as of August 31, 2020 for options, swaps, and foreign currency exchange contracts as shown in the following table:

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ 98,057,139	16,595,950	5,049,168	46,766	AA
Options	128,601,508	81,237,797	7,466,333	484,312	A
Swaps	248,195,965	207,964,674	13,293,935	3,783,346	AA
Swaps	854,116,061	140,265,634	52,439,935	5,172,077	A
Foreign Currency Exchange Contracts	301,972,700	638,867,340	6,152,619	18,948,401	AA
Foreign Currency Exchange Contracts	<u>2,282,043,931</u>	<u>3,380,273,288</u>	<u>66,619,255</u>	<u>71,692,380</u>	A
Total	<u>\$ 3,912,987,304</u>	<u>4,465,204,683</u>	<u>151,021,245</u>	<u>100,127,282</u>	

The System had gross counterparty exposure as of August 31, 2019 for options, swaps, and foreign currency exchange contracts as shown in the following table:

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

As of August 31, 2020 and 2019, 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, 2020 and 2019, the System held \$118,415,119 and \$86,947,187, respectively, as collateral related to derivative instruments other than futures, and had on deposit with brokers \$55,638,768 and \$49,085,725, 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, 2020 and 2019, there were a total of \$638,836,411 and \$782,945,047, 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 \$420,834,111 at August 31, 2020 and \$453,059,220 at August 31, 2019. These amounts are recorded as assets, with an offsetting liability to return the collateral on the consolidated statement of net position. The qualified non-cash securities received as collateral for securities lending activities are not recorded as assets because these securities remain under the control of the transferor, except in the event of default.

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

Cash received as collateral for securities lending activities is invested and reinvested in a non-commingled pool exclusively for the benefit of the System. The pool is managed in accordance with investment guidelines established in the securities lending contract between the System and its securities lending agent. The maturities of the investments in the pool do not necessarily match the term of the loans, rather the pool is managed to maintain a maximum dollar weighted average maturity of 60 days and an overnight liquidity of 20 percent. The System was collateralized 103 percent on August 31, 2020 and August 31, 2019 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, 2020 and 2019, are shown in the following table and include both the System's enterprise and fiduciary funds.:

<u>Description</u>	<u>August 31, 2020</u>			<u>August 31, 2019</u>		
	<u>Fair Value</u>	<u>Rating</u>	<u>Weighted Average</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Weighted Average</u>
Repurchase Agreements	\$ 254,552,268	Not Rated	1	\$ 283,087,060	Not Rated	3
U.S. Government Agency Obligations	4,623,523	AA		-		
U.S. Government Agency Obligations	<u>12,999,893</u>	A		<u>-</u>		
Total U.S. Government Agency Obligations	<u>17,623,416</u>		1	<u>-</u>		-
Commercial Paper	34,180,355	A		-		
Commercial Paper	<u>2,647,939</u>	P		<u>12,307,353</u>	P	
Total Commercial Paper	<u>36,828,294</u>		82	<u>12,307,353</u>		58
Corporate Obligations	16,807,609	AA		22,114,656	AA	
Corporate Obligations	<u>15,009,156</u>	A		<u>15,630,294</u>	A	
Total Corporate Obligations	<u>31,816,765</u>		52	<u>37,744,950</u>		43
International Obligations	41,426,523	AA		67,917,573	AA	
International Obligations	<u>26,544,737</u>	A		<u>52,099,574</u>	A	
Total International Obligations	<u>67,971,260</u>		36	<u>120,017,147</u>		38
Certificate of Deposit	7,050,485	A	12	-		
Interest Bearing	1,058,407	AAA		-		
Interest Bearing	2,403,732	AA		-		
Interest Bearing	<u>3,740,879</u>	A		<u>-</u>		
Total Interest Bearing	<u>7,203,018</u>		67	<u>-</u>		-
Other Receivables/Payables	(2,211,395)	Not Rated	-	(97,290)	Not Rated	-
Total Collateral Pool Investment	\$ <u>420,834,111</u>		19	\$ <u>453,059,220</u>		17

Collateral pool investments are uninsured and are held by the securities lending agent, in its name, on behalf of the System, except for the investments in repurchase agreements, which are held in the securities lending agent's name by a third party custodian not affiliated with the System or the borrower of the associated loaned securities. Therefore, the collateral pool is not exposed to custodial credit risk, because the pool investments are not held by counterparties to the lending transactions or a counterparties' trust department or agent. All collateral pool investments are categorized as Level 2 in the fair value hierarchy and are valued based upon prices supplied by major fixed income pricing services, external broker quotes and internal pricing matrices.

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

Loans that are collateralized with securities generate income when the borrower pays a loan premium or fee for the securities loan. This income is split with the same ratio as the earnings for cash collateral. The collateral pledged to the System by the borrower is custodied by the lending agent or through a third-party arrangement. These securities held as collateral are not available to the System for selling or pledging unless the borrower is in default of the loan. The System held collateral equal to 102 and 103 percent of the securities on loan that were collateralized by non-cash securities as of August 31, 2020 and August 31, 2019, respectively.

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, except those foreign securities that are denominated and payable in U.S. Dollars, the collateral should remain at 105 percent of the fair value of the loaned securities at the close of any business day. If it falls below 105 percent, the borrower must deliver additional collateral by the close of the following business day. The System was collateralized 106 percent for international loans on August 31, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instrument 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. Derivative instruments cover a broad range of financial instruments, such as forwards, futures, options and swaps.

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

The changes in fair value of open futures contracts were increases of \$38,742,900 and \$9,535,220 for the years ending August 31, 2020 and 2019, respectively, which are included in investment income on the consolidated statements of revenues, expenses and changes in net position. The System had \$20,559,925 and \$3,799,760 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2020 and 2019, respectively. Short futures may be used by internal managers and a limited number of external managers of the System to hedge the System’s interest rate or currency risk associated with security positions. The System executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers’ various trading and credit monitoring techniques.

The following discloses the type, notional value, and fair value of futures contracts at August 31, 2020:

	Notional Value at August 31, 2020		Fair Value at August 31, 2020	
	Long	Short	Assets	Liabilities
Commodity	\$ 64,214,021	-	6,840,769	-
Domestic Fixed Income	300,536,037	328,782,502	2,866,038	3,783,503
International Fixed Income	346,085,275	347,912,715	4,079,850	5,156,205
Domestic Equity	323,033,565	8,567,080	87,520	3,538,876
International Equity	41,535,200	19,200,726	18,277	638,289
Totals	\$ 1,075,404,098	704,463,023	13,892,454	13,116,873

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

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

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

The following tables summarize, by currency, the contractual amounts of the System's foreign exchange contracts at August 31, 2020 and 2019. Foreign currency amounts are translated at exchange rates as of August 31, 2020 and 2019. 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		Unrealized Gains	
	August 31, 2020	August 31, 2020	on Foreign Exchange Contracts	on Foreign Exchange Contracts
	August 31, 2020	August 31, 2020	August 31, 2020	August 31, 2020
Australian Dollar	\$ -	131,399,017	1,494,802	5,014,493
Brazilian Real	-	23,962,186	908,693	574,695
Canadian Dollar	-	92,441,122	1,012,625	3,227,521
Chilean Peso	40,619,839	-	978,571	101,268
Chinese Yuan Renminbi	-	75,443,759	828,881	3,341,796
Colombian Peso	-	22,370,439	1,280,908	46,281
Czech Koruna	33,902,062	-	1,942,075	-
Danish Krone	-	110,163,793	82,975	6,107,406
Egyptian Pound	-	2,035,975	-	10,716
Euro	-	843,340,093	10,153,795	27,192,918
Hong Kong Dollar	2,603,962	-	94,084	111,965
Hungarian Forint	34,578,098	-	9,993	149,849
Indonesian Rupiah	-	40,909,131	705,130	822,450
Israeli Shekel	201,974	1,537,929	67,679	123,446
Japanese Yen	-	598,110,626	11,393,235	2,259,219
Malaysian Ringgit	-	3,280,099	8,594	102,419
Mexican Peso	-	171,896,454	933,813	5,046,902
New Zealand Dollar	-	98,434,804	841,846	2,643,807
Norwegian Krone	34,059,837	-	15,467,784	7,962,849
Peruvian Sol	-	52,066,603	373,204	424,645
Polish Zloty	38,751,178	-	3,772,448	2,319,237
Qatari Riyal	-	28,009	-	112
Romanian Leu	-	17,165,138	-	354,403
Russian Ruble	44,737,356	-	91,476	291,886
Singapore Dollar	-	119,971,536	-	1,744,046
South African Rand	-	63,012,576	118,700	2,122,045
South Korean Won	60,924,983	-	372,803	244,090
Swedish Krona	79,177,729	-	9,304,082	2,082,430
Swiss Franc	-	96,137,864	85,505	2,275,922
Taiwan Dollar	-	3,029,369	49,911	18,941
Thailand Baht	-	48,557,809	66,114	381,160
Turkish Lira	802,285	-	27,907	1,339
Uae Dirham	-	34,404	-	3
UK Pound	5,511,233	57,611,617	10,304,241	13,540,522
TOTAL	\$ 375,870,536	2,672,940,352	72,771,874	90,640,781

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2020 was a decrease in the amount of \$17,858,296, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

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

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

(C) *Written Options* – Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities, and to hedge and control risks, so that the actual risk/return profile is more closely aligned with the target risk/return profile. The fair value is included on the consolidated statement of net position in investment derivatives-liability positions. The following discloses the fair values of the outstanding written call options contracts as of August 31, 2020 and 2019:

<u>Type</u>	Fair Value	
	at August 31, 2020	
	Assets	Liabilities
Commodity	\$ -	2,986,500
Currency	-	249,784
Equity	-	746,337
Interest Rate Swap	-	180,064
Other	-	8,422
	<u>\$ -</u>	<u>4,171,107</u>

The change in fair value of open call options for the year ending August 31, 2020, was a decrease in the amount of \$2,230,331, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

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

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

The following discloses the fair values of the outstanding written put options contracts as of August 31, 2020 and 2019:

<u>Type</u>	Fair Value	
	at August 31, 2020	
	Assets	Liabilities
Currency	\$ -	5,228
Equity	-	147,094
Interest Rate Swap	-	74,214
Other	-	24,123
	<u>\$ -</u>	<u>250,659</u>

The change in fair value of open put options for the year ending August 31, 2020, was an increase in the amount of \$1,484,722, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

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

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

(D) *Swaps* – Swaps are used to adjust interest rate and yield curve exposures. The fair value of the asset positions is included in investments, and the fair value of the liability positions is included in investment derivatives-liability positions on the consolidated statement of net position. The following discloses the notional amount (presented in US dollar equivalents) and the fair values of the outstanding swap contracts as of August 31, 2020:

Type	Fair Value at August 31, 2020		
	USD Notional Value	Assets	Liabilities
Interest Rate (Pay-Fixed Receive-Variable)	\$ 849,606,271	12,465,709	268,893
Interest Rate (Pay-Variable Receive-Fixed)	544,066,636	284,000	17,993,694
Credit Default	62,718,410	24,383	1,214,827
Currency	24,588,260	120,486	130,710
Equity	1,238,812,185	58,547,657	8,024,124
Fixed Income	49,999,983	641,299	113,684
Inflation	24,065,520	81,710	215,326
Volatility	32,250,355	509,995	160,456
Total	<u>\$ 2,826,107,620</u>	<u>72,675,239</u>	<u>28,121,714</u>

The change in fair value of open swap positions for the year ending August 31, 2020, was an increase in the amount of \$44,194,805, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

The following discloses the notional amount (presented in US dollar equivalents) and the fair values of the outstanding swap contracts as of August 31, 2019:

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

The change in fair value of open swap positions for the year ending August 31, 2019, was a decrease in the amount of \$6,675,200, which is included in investment income on the consolidated statement of revenues, expenses and changes in net position.

7. Derivative Instruments

Derivative instruments 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. Derivative instruments include forwards, futures, options and swaps. Hedging derivative instrument 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 derivative instruments primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative instrument 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 derivative instruments 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 derivative instruments. All derivative instruments are categorized as Level 2 in the fair value hierarchy, except for futures contracts and some of the purchased options which are categorized as Level 1. The fair values of the interest rate swaps are calculated using a forecast of expected discounted future net cash flows. Other swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Futures contracts and foreign exchange contracts are fair valued at closing market prices on the valuation date. The following disclosures summarize the System's derivative instrument activity, in both the System's enterprise and fiduciary funds, as reported in the consolidated financial statements.

	Change in Fair Value (FV) 8/31/19 to 8/31/20		Fair Value at 8/31/20		Notional Amount
	Classification	Amount	Classification	Amount	
Cash Flow-Interest Rate Swaps					
Hedging Derivative Instrument Assets			Hedging Derivative Instrument Asset		
Pay-Fixed Receive-Variable	Def Inflows	\$ 414,453	\$ 414,453		240,340,000
Hedging Derivative Instrument Liabilities			Hedging Derivative Instrument Liab		
Pay-Fixed Receive-Variable	Def Outflows	(87,712,057)	(413,075,150)		1,599,140,000
Investment Derivative Instrument Assets					
Basis Swaps	Net Incr. (Decr.) in FV of Invest	(17,070,791)	Investments Invest Deriv	7,973,847	641,855,000
Investment Derivative Instrument Liabilities			Instrument – Liab Positions	(59,518,065)	1,026,800,000
Basis Swaps	Net Incr. (Decr.) in FV of Invest	(59,074,660)			
Investment Derivative Instruments					
<u>Investment Derivative Instrument Assets:</u>					
Swaps:					
Pay-Fixed Receive-Variable		12,712,873		12,465,709	488,080,606
Pay-Variable Receive-Fixed		284,000		284,000	9,448,006
Credit Default		(2,774)		24,383	2,711,495
Currency		120,486		120,486	6,434,085
Equity		58,205,165		58,547,657	965,552,686
Fixed Income		641,299		641,299	25,000,000
Inflation		81,710		81,710	9,238,755
Volatility		509,995		509,995	19,950,355
Total Swaps	Net Incr. (Decr.) in FV of Invest	72,552,754	Investments Other Accounts Receivable	72,675,239	1,526,415,988
Futures	Net Incr. (Decr.) in FV of Invest	13,892,454		13,892,454	1,075,404,098
Unrealized Gains on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	72,771,874	Investments	72,771,874	2,584,016,631
Purchased Options	Net Incr. (Decr.) in FV of Invest	(1,621,094)	Investments	18,348,607	329,175,216
<u>Investment Derivative Instrument Liabilities:</u>					
Swaps:					
Pay-Fixed Receive-Variable		(305,900)		(268,893)	361,525,665
Pay-Variable Receive-Fixed		(17,993,694)		(17,993,694)	534,618,630
Credit Default		(495,770)		(1,214,827)	60,006,915
Currency		(130,710)		(130,710)	18,154,175
Equity		(8,942,409)		(8,024,124)	273,259,499
Fixed Income		(113,684)		(113,684)	24,999,983
Inflation		(215,326)		(215,326)	14,826,765
Volatility		(160,456)		(160,456)	12,300,000
Total Swaps	Net Incr. (Decr.) in FV of Invest	(28,357,949)	Invest Deriv – Liab Positions	(28,121,714)	1,299,691,632
Futures	Net Incr. (Decr.) in FV of Invest	(13,116,873)	Current Accounts Payable	(13,116,873)	704,463,023
Unrealized Losses on Foreign Forwards	Net Incr. (Decr.) in FV of Invest	(90,630,170)	Invest Deriv – Liab Positions	(90,640,781)	4,019,140,628
Options Written	Net Incr. (Decr.) in FV of Invest	(765,556)	Invest Deriv – Liab Positions	(4,421,765)	402,772,499

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

Fiduciary fund investment derivative instrument assets of \$779,588 and \$515,000 as of August 31, 2020 and 2019, respectively, are included in the numbers in the tables above. Fiduciary fund investment derivative instrument liabilities of \$492,293 and \$442,622 as of August 31, 2020 and 2019, respectively, are included in the numbers in the tables above.

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

8. Endowments

Investments include \$43,633,709,225 and \$41,239,330,109 of endowment funds as of August 31, 2020 and 2019, respectively. The net position classifications on the statement of net position related to endowment funds as of August 31, 2020 and 2019 are as follows:

Net Position Classification of Endowments	2020	2019
Restricted, nonexpendable	\$ 27,761,434,507	26,986,429,001
Restricted, expendable:		
Net Appreciation on True Endowments	12,497,357,474	11,522,342,880
Funds Functioning as Endowments	700,007,581	623,206,717
Book Value of Term Endowments	56,607,524	57,138,544
Net Appreciation on Term Endowments	44,714,604	45,596,870
Unrestricted:		
Funds Functioning as Endowments	731,631,279	491,292,177
Total	\$ 41,791,752,969	39,726,006,189

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

ENDOWMENTS AND SIMILAR FUNDS – STATE

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

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

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

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

The General Endowment Fund (GEF), created March 1, 2001, is a pooled fund established for the collective investment of long-term funds under the control and management of the U. T. System Board of Regents. The GEF is organized as a pooled investment and has two participants, the PHF and the LTF. The PHF and LTF initially purchased units of the GEF on March 1, 2001, in exchange for the contribution of their investment assets. The GEF provides for greater diversification of investments than would be possible if each account were managed separately. The annual payout of the LTF is also determined by the U. T. System Board of Regents. The annual payout is typically adjusted by the average consumer price index of the previous twelve quarters provided that the distribution rate remains within a range of 3.5% to 5.5% of the LTF's net position; however, the U. T. System Board of Regents may approve distribution amount above, within, or below this range.

ENDOWMENT AND SIMILAR FUNDS - OTHER THAN STATE

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

AVAILABLE UNIVERSITY FUND

The AUF consists of distributions made to it from the total return on the PUF investment assets and surface income from PUF lands. All surface income from the PUF lands (i.e., grazing leases and land easements) is deposited to the AUF. The AUF must be used first to pay debt service on the PUF bonds and notes. After debt service requirements are met, 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, 2020, is presented below.

	Balance 09/01/19	Adjustments	Reclassifications Completed CIP
<u>Nondepreciable Assets:</u>			
Land and Land Improvements	\$ 937,955,453	-	-
Construction in Progress (CIP)	1,525,954,050	-	(1,079,468,776)
Nondepreciable Collections	680,564,337	-	185,014
Nonamortizable Intangible Assets	22,125,708	-	410,550
Total Nondepreciable/Nonamortizable Assets	<u>3,166,599,548</u>	<u>-</u>	<u>(1,078,873,212)</u>
<u>Depreciable Assets:</u>			
Buildings and Building Improvements	21,749,990,217	-	915,787,531
Infrastructure	722,056,605	-	8,699,700
Facilities and Other Improvements	1,175,595,683	-	60,199,449
Furniture and Equipment	4,565,596,799	-	15,653,334
Vehicles, Boats and Aircraft	93,185,265	-	-
Other Depreciable Assets (including Library Books)	864,438,958	-	54,658,584
Total Depreciable Assets at Historical Cost	<u>29,170,863,527</u>	<u>-</u>	<u>1,054,998,598</u>
Less Accumulated Depreciation for:			
Buildings and Building Improvements	(10,470,366,605)	-	-
Infrastructure	(260,172,482)	-	-
Facilities and Other Improvements	(546,864,467)	-	-
Furniture and Equipment	(3,120,011,673)	-	-
Vehicles, Boats and Aircraft	(71,564,553)	-	-
Other Depreciable Assets (including Library Books)	(594,902,223)	-	-
Total Accumulated Depreciation	<u>(15,063,882,003)</u>	<u>-</u>	<u>-</u>
Depreciable Assets, net	<u>14,106,981,524</u>	<u>-</u>	<u>1,054,998,598</u>
<u>Amortizable Intangible Assets:</u>			
Computer Software	1,291,780,939	-	23,874,614
Other Intangibles	700,000	-	-
Total Amortizable Intangible Assets	<u>1,292,480,939</u>	<u>-</u>	<u>23,874,614</u>
Less Accumulated Amortization for:			
Computer Software	(1,025,436,527)	-	-
Other Intangibles	-	-	-
Total Accumulated Amortization	<u>(1,025,436,527)</u>	<u>-</u>	<u>-</u>
Intangible Capital Assets, net	<u>267,044,412</u>	<u>-</u>	<u>23,874,614</u>
Capital Assets, net	<u>\$ 17,540,625,484</u>	<u>-</u>	<u>-</u>

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/20
-	-	11,799,700	-	949,755,153
-	-	1,144,617,597	(2,508,317)	1,588,594,554
-	-	14,217,596	(23,760)	694,943,187
-	-	-	-	22,536,258
-	-	1,170,634,893	(2,532,077)	3,255,829,152
-	-	126,082,570	(3,649,033)	22,788,211,285
-	-	831,238	-	731,587,543
-	-	1,960,565	(1,637,183)	1,236,118,514
-	(514,411)	486,908,319	(178,289,068)	4,889,354,973
42,488	-	14,510,581	(8,641,150)	99,097,184
-	-	53,107,222	(12,227,832)	959,976,932
42,488	(514,411)	683,400,495	(204,444,266)	30,704,346,431
-	-	(929,361,493)	1,711,478	(11,398,016,620)
-	-	(28,072,207)	-	(288,244,689)
-	-	(56,786,413)	738,193	(602,912,687)
-	430,700	(414,527,310)	143,268,272	(3,390,840,011)
(42,488)	-	(7,217,812)	8,439,609	(70,385,244)
-	-	(39,970,003)	10,998,641	(623,873,585)
(42,488)	430,700	(1,475,935,238)	165,156,193	(16,374,272,836)
-	(83,711)	(792,534,743)	(39,288,073)	14,330,073,595
-	-	32,545,119	(48,401,967)	1,299,798,705
-	-	-	-	700,000
-	-	32,545,119	(48,401,967)	1,300,498,705
-	-	(95,276,623)	47,421,032	(1,073,292,118)
-	-	(140,000)	-	(140,000)
-	-	(95,416,623)	47,421,032	(1,073,432,118)
-	-	(62,871,504)	(980,935)	227,066,587
-	(83,711)	315,228,646	(42,801,085)	17,812,969,334

A summary of changes in the capital assets for the year ended August 31, 2019, is presented below and includes adjustments made for GASB Statement No. 84. See Note 4 for further details on the restatement.

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

Reclassifications Interagency Transfers - In	Reclassifications Interagency Transfers - Out	Additions	Deletions	Balance 08/31/19
-	-	23,756,295	(762,335)	937,955,453
-	-	1,223,399,265	(26,580,916)	1,525,954,050
-	-	57,912,064	(3,697,836)	680,564,337
-	-	-	-	22,125,708
-	-	1,305,067,624	(31,041,087)	3,166,599,548
-	-	313,387,353	(8,785,164)	21,749,990,217
-	-	983,346	-	722,056,605
-	-	19,556,662	(41,052,222)	1,175,595,683
336,891	(85,421)	550,295,297	(191,884,322)	4,565,596,799
-	-	7,268,130	(3,378,923)	93,185,265
-	-	44,934,240	(2,160,963)	864,438,958
336,891	(85,421)	936,425,028	(247,261,594)	29,170,863,527
-	-	(915,547,294)	4,638,978	(10,470,366,605)
-	-	(27,744,207)	-	(260,172,482)
-	-	(56,317,683)	41,003,778	(546,864,467)
(305,494)	72,078	(371,663,366)	160,421,874	(3,120,011,673)
-	-	(6,367,371)	2,971,703	(71,564,553)
-	-	(38,102,395)	2,160,963	(594,902,223)
(305,494)	72,078	(1,415,742,316)	211,197,296	(15,063,882,003)
31,397	(13,343)	(479,317,288)	(36,064,298)	14,106,981,524
-	-	20,215,288	(43,170,567)	1,291,780,939
-	-	700,000	-	700,000
-	-	20,915,288	(43,170,567)	1,292,480,939
-	-	(119,976,770)	34,909,133	(1,025,436,527)
-	-	(119,976,770)	34,909,133	(1,025,436,527)
-	-	(99,061,482)	(8,261,434)	267,044,412
31,397	(13,343)	726,688,854	(75,366,819)	17,540,625,484

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, requires the disclosure of impairment losses and associated insurance recoveries. On July 25, 2020, U. T. Rio Grande Valley suffered damage to buildings, facilities and improvements and equipment as a result of Hurricane *Hanna*, which resulted in an impairment of capital assets for the year ended August 31, 2020.

<u>U. T. RIO GRANDE VALLEY</u>	<u>2020</u>
OPERATING IMPAIRMENT LOSSES – CAPITAL ASSETS	
Impairment Losses – Capital Assets	\$ <u>(1,565,374)</u>
Net Losses – Capital Assets	\$ <u><u>(1,565,374)</u></u>

U. T. System Administration made the decision to discontinue the Institute for Transformational Learning resulting in the impairment of the technology platform that had been created for competency-based education for the year ended August 31, 2019:

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

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

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

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

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

U. T. Austin’s Marine Science Institute in Port Aransas suffered extensive physical damage as a result of Hurricane *Harvey*, which resulted in the following residual impairment losses and insurance recoveries for the years ended August 31, 2020 and 2019:

<u>U. T. AUSTIN</u>	<u>2020</u>
OTHER NONOPERATING (REVENUE) EXPENSE	
Insurance Recoveries for Other than Capital Assets – Current Year Losses	\$ <u>346,574</u>
Net Losses – Other than Capital Assets	\$ <u><u>346,574</u></u>

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

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

The Asset Retirement Obligation for the year ended August 31, 2020, is presented below (remaining life of the corresponding Deferred Outflows in months):

<u>Asset Retirement Obligation</u>	<u>Amount</u>	<u>Life</u>
Broadscope	\$ 8,078,863	0-77 months
Cyclotron	10,110,079	0-6 months
Gamma Knife	2,346,043	0-4 months
Proton Therapy	1,289,963	0 months
Gamma Pod	334,753	48 months
Irradiator	255,486	3 months
Nuclear Engineering Teaching Lab	3,894,000	3 months
Total	\$ <u><u>26,309,187</u></u>	

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

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

10. Short-Term Debt

The System had RFS Commercial Paper Notes and PUF Commercial Paper Notes outstanding at August 31, 2020 and 2019. 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, 2020, is summarized below:

	Balance 09/01/19	Additions	Reductions	Balance 8/31/20
<u>Commercial Paper Notes:</u>				
Permanent University Fund CP Notes	\$ 690,000,000	260,000,000	90,000,000	860,000,000
Revenue Financing System CP Notes	800,522,000	550,410,000	797,234,000	553,698,000
Total Commercial Paper Notes	<u>\$ 1,490,522,000</u>	<u>810,410,000</u>	<u>887,234,000</u>	<u>1,413,698,000</u>

Short-term debt activity for the year ended August 31, 2019, is summarized below:

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

General information related to the commercial paper notes at August 31, 2020, 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, 2019 through August 31, 2020
 Authorized Amount: Aggregate principal amount not to exceed \$1.25 billion
 Source of revenue for debt service: Available University Fund
 Terms: Interest payable in periodic installments not to exceed 270 days at interest rates established by the System's commercial paper dealers
- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A and Taxable Commercial Paper Notes, Series B
 Purpose: To provide interim financing for capital improvements and to finance capital equipment purchases
 Issue Date: September 1, 2019 through August 31, 2020
 Authorized Amount: Aggregate principal amount not to exceed \$1.25 billion
 Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the U. T. System Board of Regents and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the U. T. System Board of Regents for payments on parity debt.
 Terms: Interest payable in periodic installments not to exceed 270 days at interest rates established by the System's commercial paper dealers

11. Leases

OPERATING LEASES

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were \$173,783,403 in 2020 and \$140,038,470 in 2019. Contingent rental expense for the years ending August 31, 2020 and 2019 was \$937,082 and \$1,138,995, respectively. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2020, were as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2021	\$ 116,612,042
2022	93,468,825
2023	74,896,271
2024	61,844,291
2025	52,379,747
2026 – 2030	165,278,128
2031 – 2035	19,982,195
2036 – 2040	14,972,186
2041 – 2045	16,311,256
2046 – 2050	17,782,214
2051 and beyond	9,395,325
Total Minimum Future Payments	<u>\$ 642,922,480</u>

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, 2020 and 2019 were as follows:

<u>Assets Leased</u>	<u>2020</u>	<u>2019</u>
Buildings:		
Cost	\$ 240,581,862	253,877,983
Less: Accumulated Depreciation	(87,787,124)	(78,321,572)
Carrying Value of Buildings	<u>152,794,738</u>	<u>175,556,411</u>
Land	26,424,358	19,397,677
Total Carrying Value	<u>\$ 179,219,096</u>	<u>194,954,088</u>

The System reported no contingent rental income in 2020 and \$458,793 contingent rental income in 2019. Rental income from operating leases was \$36,683,624 in 2020 and \$34,346,629 in 2019. Future minimum lease rental income under noncancelable operating leases as of August 31, 2020, was as follows:

<u>Fiscal Year</u>	<u>Lease Income</u>
2021	\$ 33,882,173
2022	28,540,712
2023	24,824,034
2024	20,178,786
2025	17,297,388
2026 and beyond	737,724,868
Total	<u>\$ 862,447,961</u>

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, 2020 and 2019 is as follows:

Assets Under Capital Lease	2020	2019
Furniture and Equipment	\$ 146,167	146,167
Less: Accumulated Depreciation	(55,186)	(36,329)
Buildings	167,873,387	148,943,119
Less: Accumulated Depreciation	(20,297,293)	(9,102,080)
Total	\$ 147,667,075	139,950,877

Capital lease obligations are due in annual installments through 2034. The following is a schedule of the future minimum lease payments for leased property at August 31, 2020.

Fiscal Year	Principal	Interest	Total
2021	\$ 5,121,247	6,974,128	12,095,375
2022	7,341,975	6,710,623	14,052,598
2023	9,439,346	6,359,597	15,798,943
2024	10,602,123	5,931,629	16,533,752
2025	11,316,750	5,469,958	16,786,708
2026 – 2030	68,575,002	19,290,925	87,865,927
2031 – 2035	54,746,224	3,833,946	58,580,170
Total Minimum Lease Payments	\$ 167,142,667	54,570,806	221,713,473

12. Summary of Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2020, is summarized as follows:

	Balance 09/01/19	Additions	Reductions	Balance 08/31/20	Amounts due within one year
<u>Bonds Payable:</u>					
Permanent University Fund	\$ 2,416,760,000	-	53,570,000	2,363,190,000	395,175,000
Revenue Financing System	6,424,415,000	749,450,000	428,410,000	6,745,455,000	1,292,310,000
Subtotal Bonds Payable – Par	8,841,175,000	749,450,000	481,980,000	9,108,645,000	1,687,485,000
Unamortized Net Premiums	659,264,014	163,618,149	89,948,002	732,934,161	89,662,962
Total Bonds Payable	9,500,439,014	913,068,149	571,928,002	9,841,579,161	1,777,147,962
<u>Notes, Loans and Leases Payable:</u>					
Notes and Loans Payable	19,000,000	-	-	19,000,000	19,000,000
Notes from Direct Borrowings	4,958,181	416,678	2,938,599	2,436,260	1,668,276
Lease Obligations	152,920,858	18,930,269	4,708,460	167,142,667	5,121,247
Total Notes, Loans and Leases Payable	176,879,039	19,346,947	7,647,059	188,578,927	25,789,523
Total OPEB Liability	10,355,785,546	1,434,272,351	241,312,017	11,548,745,880	204,857,443
Net Pension Liability	4,919,537,167	-	402,066,852	4,517,470,315	-
Hedging Derivative Liability	325,363,093	87,712,057	-	413,075,150	-
Employee Compensable Leave Incurred But Not Reported Self-Insurance Claims	672,550,485	419,048,694	331,359,759	760,239,420	425,645,325
Asset Retirement Obligation	168,418,992	1,317,150,636	1,323,011,516	162,558,112	134,652,727
Asset Retirement Obligation	26,309,187	-	-	26,309,187	-
Total	\$ 26,145,282,523	4,190,598,834	2,877,325,205	27,458,556,152	2,568,092,980

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

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

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
2021	\$ 1,687,485,000	347,153,556	2,034,638,556
2022	337,675,000	331,380,888	669,055,888
2023	336,475,000	314,704,483	651,179,483
2024	332,550,000	298,062,231	630,612,231
2025	323,720,000	281,678,648	605,398,648
2026 – 2030	1,377,680,000	1,193,238,060	2,570,918,060
2031 – 2035	1,016,774,000	900,737,812	1,917,511,812
2036 – 2040	1,014,766,000	671,435,397	1,686,201,397
2041 – 2045	827,035,000	454,911,420	1,281,946,420
2046 – 2050	1,854,485,000	169,654,703	2,024,139,703
Total Requirements	\$ 9,108,645,000	4,962,957,198	14,071,602,198

The System's variable rate demand bonds mature at various dates through August 1, 2045. Outstanding principal balances on variable rate demand bonds may be classified as non-current liabilities if the issuer has entered into a "take-out agreement" to convert bonds "put" but not resold into some other form of long-term obligation. In the absence of such an agreement, the total outstanding principal balances for these bonds are required to be classified as current liabilities. Although it is the System's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the bond offering circulars, the System does not have "take-out" agreements in place. Accordingly, the System has classified the total outstanding principal balances on its variable rate demand bonds as current liabilities. The obligations totaled \$1,349,140,000 and \$1,376,205,000 at August 31, 2020 and 2019, respectively.

Total interest expense for the years ended August 31, 2020 and 2019 was \$416,436,679 and \$417,812,495, respectively. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, early implemented in 2019, discontinued the capitalization of interest costs during construction. Interest expense was reduced by \$81,660,225 and \$83,022,145 for the amortization of premiums, deferred gains and losses on refundings, and interest rate lock termination payments for the years ended August 31, 2020 and 2019, respectively. The remaining amounts of \$334,776,454 in 2020 and \$334,790,350 in 2019 were reported as interest expense.

PLEGGED FUTURE REVENUES

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

	<u>2020</u>	<u>2019</u>
Pledged Revenue Required for Future Principal and Interest on Existing Bonds	\$ 14,071,602,198	13,696,645,891
Term of Commitment Year Ending 8/31	2050	2049
Percentage of Revenue Pledged	92.4%	91.7%
Current Year Pledged Revenue	\$ 12,997,300,062	12,556,776,250
Current Year Principal and Interest Paid	\$ 746,245,896	746,533,594

Notes and loans payable obligations are due in annual installments through 2021. General information related to notes and loans payable at August 31, 2020, which in substance are not bonds, is summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 19,000,000	477,628	19,477,628
Total Requirements	\$ <u>19,000,000</u>	<u>477,628</u>	<u>19,477,628</u>

General information related to notes and loans payable at August 31, 2020, is summarized as follows:

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

DIRECT BORROWINGS

Certain direct borrowings to finance the purchase of property are capitalized at the present value of future minimum direct borrowing payments. The original capitalized cost of all such property financed with direct borrowings as of August 31, 2020 and 2019 is as follows:

Assets - Direct Borrowings		2020	2019
Furniture and Equipment	\$	13,708,152	16,177,786
Less: Accumulated Depreciation		(11,125,701)	(9,710,957)
Nondepreciable Collections		808,025	2,239,047
Total	\$	3,390,476	8,705,876

Direct borrowing obligations are due in annual installments through 2024. The following is a schedule of the future minimum payments for direct borrowings at August 31, 2020.

Fiscal Year		Principal	Interest	Total
2021	\$	1,668,276	57,148	1,725,424
2022		636,940	28,314	665,254
2023		129,810	12,831	142,641
2024		1,234	2	1,236
Total Minimum Payments	\$	2,436,260	98,295	2,534,555

POLLUTION REMEDIATION OBLIGATION

The University of Texas System Administration purchased contaminated land with plans to remediate. The estimated outlays for the pollution remediation are \$3,500,000 using the expected cash flow technique. These pollution remediation outlays qualify for capitalization and \$2,733,125 and \$941,177 were capitalized through August 31, 2020 and 2019 respectively. The purchase price of \$213,584,352 and total expected outlays did not exceed the fair market value of the uncontaminated property of \$232,290,000, and as such, no pollution remediation liability was established.

EMPLOYEES' COMPENSABLE LEAVE

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

13. Bonded Indebtedness

At August 31, 2020 and 2019, the System had outstanding bonds payable of \$9,108,645,000 and \$8,841,175,000, 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.

<u>Bonded Indebtedness</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Principal</u>
Permanent University Fund	0.06%-5.262%	2021-2047	\$ 2,363,190,000
Revenue Financing System	0.06%-5.375%	2021-2050	6,745,455,000

As of August 31, 2020, the following amounts were authorized, but unissued: Permanent University Fund bonds up to a maximum aggregate amount of \$750 million and Revenue Financing System bonds up to a maximum aggregate amount of \$850 million, each authorized to be issued on or before August 31, 2021. 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, 2020, is summarized in the following table.

Bond Series	Purpose	Issue Date	Amount Issued
Permanent University Fund:			
Refunding Bonds Series 2006B	To refund \$85,545,000 principal amount of Permanent University Fund Bonds, Series 2002B, maturing on July 1 in the years 2020 through 2022, both inclusive; to refund \$172,985,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2023, 2026 and 2028 through 2030, both inclusive; to refund \$51,905,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the year 2035	January 24, 2007	\$284,065,000
Taxable Bonds Series 2009A	To refund \$250,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	September 17, 2009	250,000,000
Bonds Series 2014A	To refund \$252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	February 10, 2014	240,340,000
Bonds Series 2014B	To refund \$17,240,000 principal amount of Permanent University Fund Bonds, Series 2004A, maturing on July 1 in the years 2015 and 2016; and to refund \$223,535,000 principal amount of Permanent University Fund Bonds, Series 2004B, maturing on July 1 in the years 2024, 2025, 2027 and 2033	April 2, 2014	221,580,000
Refunding Bonds Series 2015A	To refund \$50,390,000 principal amount of Permanent University Fund Refunding Bonds, Series 2005A, maturing on July 1 in the years 2016 through 2019, both inclusive; to refund \$72,720,000 principal amount of Permanent University Fund Bonds, Series 2005B, maturing on July 1 in the years 2018, 2019, 2034 and 2035; and to refund \$87,485,000 principal amount of Permanent University Fund Bonds, Series 2006C, maturing on July 1 in the years 2017 through 2035, both inclusive	April 2, 2015	197,970,000
Bonds Series 2015B	To refund \$252,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	August 25, 2015	220,565,000
Bonds Taxable Series 2015C	To refund \$125,500,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	December 9, 2015	126,020,000
Bonds Series 2016A	To refund \$137,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	January 5, 2016	117,270,000
Bonds Series 2016B	To refund \$319,000,000 principal amount of Permanent University Fund Commercial Paper Notes, Series A	September 1, 2016	272,350,000
Taxable Bonds Series 2017A	To refund \$81,000,000 principal amount of Permanent University Fund Commercial Paper Notes, Series A, and to refund \$220,000,000 principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series B	November 14, 2017	302,640,000

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System:			
Refunding Bonds Series 2002A	To advance refund \$54,575,000 principal amount of Revenue Financing System Bonds, Series 1999A maturing from 2010-2016 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	54,430,000
Refunding Bonds Series 2002B	To advance refund \$109,240,000 principal amount of Revenue Financing System Bonds, Series 1999B maturing from 2010-2017 and 2020 to achieve debt service savings and pay the cost of issuance	September 27, 2002	108,855,000
Refunding Bonds Series 2004B	To refund \$310,460,000 principal amount of portions of Revenue Financing System Bonds, Series 1996B, 1998B, 1998D, 1999B and 2001B, and pay the cost of issuance	March 9, 2004	300,330,000
Refunding Bonds Series 2006C	To refund \$177,835,000 principal amount of portions of Revenue Financing System Bonds, 2001C, 2003A and 2004C and pay the cost of issuance	January 4, 2007	175,115,000
Bonds Series 2010A	To refund \$258,392,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$134,369,000 and pay the cost of issuance	March 25, 2010	331,415,000
Refunding Bonds Series 2010B	To refund \$393,690,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F and pay the cost of issuance	April 14, 2010	385,380,000
Taxable Bonds Series 2010C	To provide new money of \$600,741,596 and pay the cost of issuance	September 23, 2010	604,310,000
Taxable Bonds Series 2010D	To refund \$349,415,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$163,441,000 and pay the cost of issuance	June 30, 2010	516,245,000
Refunding Bonds Series 2012A	To refund \$53,990,000 principal amount of portions of Revenue Financing System Bonds, 2003A and 2004C, to refund \$186,296,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and pay the cost of issuance	March 1, 2012	195,850,000
Bonds Series 2012B	To refund \$96,542,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$184,128,000 and pay the cost of issuance	March 21, 2012	238,135,000
Bonds Series 2014A	To refund \$179,411,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$103,148,328 and pay the cost of issuance	May 1, 2014	259,135,000
Refunding Bonds Series 2014B	To refund \$261,840,000 principal amount of portions of Revenue Financing System Bonds, 2006B, 2006D and 2006F, and pay the cost of issuance	November 24, 2014	250,700,000
Bonds Taxable Series 2016A	To refund \$48,494,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund \$107,630,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B, provide new money of \$98,745,350 and pay the cost of issuance	January 14, 2016	255,825,000
Bonds Series 2016B	To refund \$105,478,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, provide new money of \$118,490,125 and pay the cost of issuance	January 22, 2016	206,040,000

Bond Series	Purpose	Issue Date	Amount Issued
Revenue Financing System: (continued)			
Refunding Bonds Series 2016C	To refund \$87,145,000 principal amount of Revenue Financing System Bonds, Series 2008A, provide new money of \$64,800,000 and pay the cost of issuance	May 10, 2016	133,240,000
Bonds Series 2016D	To provide new money of \$260,000,000 and pay the cost of issuance	July 1, 2016	213,180,000
Bonds Series 2016E	To provide new money of \$245,000,000 and pay the cost of issuance	August 22, 2016	196,215,000
Bonds Series 2016F	To refund \$465,019,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and pay the cost of issuance	September 1, 2016	376,030,000
Refunding Bonds Series 2016H	To refund \$266,640,000 principal amount of portions of Revenue Financing System Bonds, 2006D and 2006F, and pay the cost of issuance	November 17, 2016	233,350,000
Refunding Bonds Series 2016I	To refund \$202,010,000 principal amount of portions of Revenue Financing System Bonds, 2006E and 2010A, and pay the cost of issuance	November 30, 2016	184,725,000
Bonds Series 2016J	To provide new money of \$352,832,000 and pay the cost of issuance	January 4, 2017	306,925,000
Bonds Taxable Series 2017A	To refund \$349,000,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B, and pay the cost of issuance	September 14, 2017	350,815,000
Bonds Series 2017B	To refund \$87,455,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund \$191,664,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B, and pay the cost of issuance	October 24, 2017	265,490,000
Refunding Bonds Series 2017C	To refund \$265,855,000 principal amount of portions of Revenue Financing System Bonds, 2009D, 2012A and 2012B, and pay the cost of issuance	December 7, 2017	258,465,000
Refunding Bonds Series 2019A	To refund \$386,785,000 principal amount of portions of Revenue Financing System Bonds, 2009B and 2014B, and pay the cost of issuance	June 13, 2019	320,435,000
Bonds Series 2019B	To refund \$449,478,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, and pay the cost of issuance	July 18, 2019	318,715,000
Bonds Series 2020A	To refund \$381,590,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund \$99,530,000 of Revenue Financing System Bonds, Series 2016F and pay the cost of issuance	April 14, 2020	347,580,000
Bonds Taxable Series 2020B	To refund \$159,500,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund \$139,412,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series	May 29, 2020	300,805,000
Bonds Series 2020C	To refund \$98,800,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to refund \$28,405,000 of Revenue Financing System Bonds, Series 2017B and pay the cost of issuance	June 16, 2020	101,065,000

DEMAND BONDS

Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, Revenue Financing System Bonds, Taxable Series 2016G, and Permanent University Fund Bonds, Series 2008A are variable rate demand bonds with an option to tender on seven days' notice. The System has entered into corresponding interest rate swap agreements to convert the System's interest rate exposure to a fixed rate. The Revenue Financing System Refunding Bonds, Series 2007B and the corresponding swap agreements extend to August 15, 2034. The Revenue Financing System Bonds, Series 2008B and the corresponding swap agreements extend to August 15, 2039. The Revenue Financing System Bonds, Taxable Series 2016G and the corresponding swap agreements extend to August 15, 2045. The Permanent University Fund Bonds, Series 2008A and the corresponding swap agreements extend to July 1, 2038. The Board of Regents is obligated to pay the purchase price of demand bonds tendered for purchase and not remarketed by using lawfully available funds. General information related to these demand bonds is summarized in the following table:

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

BUILD AMERICA BONDS

The American Recovery and Reinvestment Act of 2009 authorized the issuance of Build America Bonds (BABs), whereby certain issuers are authorized to issue taxable bonds and receive from the federal government a subsidy equal to 35% of the interest payments on Direct Payment BABs reduced by the applicable federal sequestration reduction rate. The System did not issue any BABs during 2020 or 2019. The System had \$1,217,945,000 and \$1,248,190,000 of BABs outstanding at August 31, 2020 and 2019, respectively.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2020

Revenue Financing System Bonds, Series 2020A were issued on April 14, 2020, to current refund \$381,590,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to current refund \$99,530,000 principal amount of Revenue Financing System Bonds, Series 2016F, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were \$482,952,631, which represents the principal amount of the 2020A Bonds of \$347,580,000, plus an original issue premium of \$136,544,008, less an underwriting discount of \$1,171,377. The net proceeds were used to pay costs of issuance of \$425,580, to deposit \$99,897,017 with the escrow agent for the refunded bonds and to purchase \$382,630,034 of eligible defeasance securities with the escrow agent for the refunded notes.
- The refunded bonds and notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of \$1,407,051 resulted from the transaction as the reacquisition price of \$482,527,051 exceeded the net carrying amount of \$481,120,000 par value.
- As a result of this refunding, the System reduced its future debt service payments by \$40,686,467 from closing through August 15, 2050, and an economic gain from the transaction resulted in a net present value savings of \$27,249,490 between the old and new debt service payments.

Revenue Financing System Bonds, Taxable Series 2020B were issued on May 29, 2020, to current refund \$159,500,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to current refund \$139,412,000 principal amount of Revenue Financing System Taxable Commercial Paper Notes, Series B and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were \$299,615,688, which represents the principal amount of the 2020B Bonds of \$300,805,000 less an underwriting discount of \$1,189,312. The net proceeds were used to pay costs of issuance of \$274,273, to purchase \$132,306,480 of eligible defeasance securities and to deposit \$167,034,935 with the escrow agent for the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of \$429,415 resulted from the transaction as the reacquisition price of \$299,341,415 exceeded the net carrying amount of \$298,912,000 par value.

Revenue Financing System Bonds, Series 2020C were issued on June 16, 2020, to current refund \$98,800,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A, to current refund \$28,405,000 principal amount of Revenue Financing System Bonds, Series 2017B, and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were \$127,865,464, which represents the principal amount of the 2020C Bonds of \$101,065,000, plus an original issue premium of \$27,074,141, less an underwriting discount of \$273,676. The net proceeds were used to pay costs of issuance of \$134,805, to deposit \$81,415,006 with the escrow agent for the refunded notes, and to purchase \$46,315,653 of eligible defeasance securities.
- The refunded bonds and notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of \$525,659 resulted from the transaction as the reacquisition price of \$127,730,659 exceeded the net carrying amount of \$127,205,000 par value.
- As a result of this refunding, the System reduced its future debt service payments by \$9,853,182 from closing through August 15, 2043, and an economic gain from the transaction resulted in a net present value savings of \$7,889,223 between the old and new debt service payments.

EARLY EXTINGUISHMENTS IN FISCAL YEAR 2019

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

- Net proceeds related to the issuance were \$396,559,354, which represents the principal amount of the 2019A Bonds of \$320,435,000, plus an original issue premium of \$77,249,682, less an underwriting discount of \$1,125,328. The net proceeds were used to pay costs of issuance of \$335,448, to purchase \$396,222,702 of eligible defeasance securities and to deposit \$1,204 with the escrow agent for the refunded bonds. These escrow funds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.
- The refunded bonds are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of \$6,430,596 resulted from the transaction as the reacquisition price of \$396,223,906 exceeded the net carrying amount of \$386,785,000 par value, \$4,662,018 of unamortized original issue premium, and \$1,653,708 of unamortized loss from Revenue Financing System Bonds, Series 2014B.
- As a result of this refunding, the System reduced its future debt service payments by \$94,198,456 from closing through August 15, 2041, and an economic gain from the transaction resulted in a net present value savings of \$67,897,659 between the old and new debt service payments.

Revenue Financing System Bonds, Series 2019B were issued on July 18, 2019 to current refund \$449,478,000 principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance related thereof.

- Net proceeds related to the issuance were \$450,577,597, which represents the principal amount of the 2019B Bonds of \$318,715,000, plus an original issue premium of \$132,864,505, less an underwriting discount of \$1,001,908. The net proceeds were used to pay costs of issuance of \$357,470, to purchase \$450,219,810 of eligible defeasance securities and to deposit \$317 with the escrow agent for the refunded notes.
- The refunded notes are considered fully defeased and the liability for these obligations has been removed from the consolidated statement of net position.
- An accounting loss of \$742,127 resulted from the transaction as the reacquisition price of \$450,220,127 exceeded the net carrying amount of \$449,478,000 par value.

CASH FLOW DERIVATIVE INSTRUMENTS – HEDGING DERIVATIVE INSTRUMENT INTEREST RATE SWAPS

All interest rate swaps are valued using the fair value hierarchy of level 2. The System has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows and considered the nonperformance risk of the parties. The following table outlines the terms of the System’s hedging derivative instrument interest rate swap agreements in effect at August 31, 2020:

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 8/31/20
Pay Fixed; receive variable	PUF Bonds 2008A	\$172,845,000	11/3/2008	7/1/2038	Pay 3.696%; receive SIFMA	No	No	Aa2/A+	13.7 yrs
	PUF Bonds 2008A	172,845,000	11/3/2008	7/1/2038	Pay 3.6575%; receive SIFMA	No	No	Aa3/A+	13.7 yrs
	PUF Bonds 2014A	240,340,000	6/30/2023	7/1/2041	Pay 0.72%; receive 80% of Fed Funds	No	No	Aa3/A+	20.3 yrs
	RFS Bonds 2007B	161,745,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa2/A+	8.2 yrs
	RFS Bonds 2007B	161,745,000	12/20/2007	8/1/2034	Pay 3.805%; receive SIFMA	No	No	Aa2/A+	8.2 yrs
	RFS Bonds 2008B	107,375,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	Aa2/A+	10.4 yrs
	RFS Bonds 2008B	107,375,000	3/18/2008	8/1/2036	Pay 3.900%; receive SIFMA	No	No	A3/BBB+	10.4 yrs
	RFS Bonds 2008B	215,210,000	3/18/2008	8/1/2039	Pay 3.614%; receive SIFMA	No	No	Aa2/A+	9.6 yrs
	RFS Bonds 2016G	250,000,000	12/1/2016	8/1/2045	Pay 2.000%; receive 100% of 1M LIBOR	No	No	Aa3/A+	24.9 yrs
	RFS Bonds 2020D**	250,000,000	11/1/2020	8/1/2049	Pay 1.576%; receive 100% of 1M LIBOR	No	No	Aa3/A+	28.9 yrs
TOTAL		\$1,839,480,000							

*London Interbank Offer Rate (LIBOR)

*Securities Industry and Financial Markets Association (SIFMA)

*USD-Federal Funds-H.15 (Fed Funds)

**RFS Taxable Bonds, Series 2020D expected to be issued prior to the effective date.

The following table outlines the terms of the System's hedging derivative instrument interest rate swap agreements in effect at August 31, 2019:

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

*London Interbank Offer Rate (LIBOR)

*Securities Industry and Financial Markets Association (SIFMA)

**RFS Taxable Bonds, Series 2020A expected to be issued prior to the effective date.

The following is the fair value of the derivative instrument agreements related to debt in effect at August 31, 2020 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

Derivative Instruments by type	Hedgeable Item	Current Notional	Accrued Interest (through 8/31/20)	Fair Value as of 8/31/20	Fair Value as of 8/31/19	Change in Fair Value 8/31/19 - 8/31/20	Change in Fair Value Recorded as
Hedging Derivative Assets	PUF Bonds 2014A	240,340,000	-	414,453	-	414,453	Def Inflow
		240,340,000	-	414,453	-	414,453	
Hedging Derivative Liabilities	PUF Bonds 2008A	172,845,000	1,049,755	(61,832,024)	(54,139,201)	(7,692,823)	Def Outflow
	PUF Bonds 2008A	172,845,000	1,038,664	(61,030,797)	(53,319,653)	(7,711,144)	Def Outflow
	RFS Bonds 2007B	161,745,000	464,667	(40,756,136)	(36,641,790)	(4,114,346)	Def Outflow
	RFS Bonds 2007B	161,745,000	464,666	(40,756,136)	(36,641,790)	(4,114,346)	Def Outflow
	RFS Bonds 2008B	107,375,000	316,404	(32,844,045)	(29,572,546)	(3,271,499)	Def Outflow
	RFS Bonds 2008B	107,375,000	316,404	(32,844,045)	(29,572,546)	(3,271,499)	Def Outflow
	RFS Bonds 2008B	215,210,000	586,292	(55,792,651)	(49,801,448)	(5,991,203)	Def Outflow
	RFS Bonds 2016G	250,000,000	357,181	(52,562,720)	(27,522,348)	(25,040,372)	Def Outflow
	RFS Bonds 2020D	250,000,000	-	(34,656,596)	(8,151,771)	(26,504,825)	Def Outflow
		1,599,140,000	4,594,033	(413,075,150)	(325,363,093)	(87,712,057)	
Investment Derivatives-Asset Positions	RFS Bonds 2008B	90,270,000	(12,348)	1,869,882	3,835,817	(1,965,935)	Decr. in Fair Value of Inv
	RFS Bonds 2008B	92,045,000	(11,287)	670,042	2,027,764	(1,357,722)	Decr. in Fair Value of Inv
	RFS Bonds 2008B	117,190,000	(16,159)	2,064,266	4,504,893	(2,440,627)	Decr. in Fair Value of Inv
	PUF Bonds 2008A	172,845,000	(44,479)	1,131,646	3,899,151	(2,767,505)	Decr. in Fair Value of Inv
	PUF Bonds 2008A	169,505,000	-	2,238,011	-	2,238,011	Incr. in Fair Value of Inv
	RFS Bonds 2016A	-	-	-	5,267,406	(5,267,406)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	-	-	-	5,509,607	(5,509,607)	Decr. in Fair Value of Inv
		641,855,000	(84,273)	7,973,847	25,044,638	(17,070,791)	
Investment Derivatives-Liability Positions	PUF Bonds 2006B	259,325,000	(4,129)	(1,678,035)	(254,938)	(1,423,097)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(54,008)	(21,714,253)	(188,467)	(21,525,786)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(62,535)	(18,683,075)	-	(18,683,075)	Decr. in Fair Value of Inv
	RFS Bonds 2016A	255,825,000	(79,590)	(17,442,702)	-	(17,442,702)	Decr. in Fair Value of Inv
		1,026,800,000	(200,262)	(59,518,065)	(443,405)	(59,074,660)	
TOTAL		\$3,508,135,000	4,309,498	(464,204,915)	(300,761,860)	(163,443,055)	

The following is the fair value of the derivative instrument agreements related to debt in effect at August 31, 2019 based on the zero-coupon method and the classification of change in fair value from the previous fiscal year:

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

Derivative Instrument Objectives

Derivative Instruments by type	Hedgeable Item	Current Notional	Objective	Effective at 8/31/20	Evaluation for Effectiveness
Hedging Derivative Instruments	PUF Bonds 2008A	\$172,845,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2008A	172,845,000	Hedge changes in cash flows on Series 2008A bonds	Yes	Consistent Critical Terms
	PUF Bonds 2014A	240,340,000	Hedge changes in cash flows on Series 2014A bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	161,745,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2007B	161,745,000	Hedge changes in cash flows on Series 2007B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	107,375,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	107,375,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2008B	215,210,000	Hedge changes in cash flows on Series 2008B bonds	Yes	Consistent Critical Terms
	RFS Bonds 2016G	250,000,000	Hedge changes in cash flows on Series 2016G bonds	Yes	Consistent Critical Terms
	RFS Bonds 2020D	250,000,000	Hedge changes in cash flows on Series 2020D bonds	Yes	Consistent Critical Terms
Investment Derivative Instruments	PUF Bonds 2006B	259,325,000	Manage changes in cash flows on Series 2006B bonds	N/A	N/A
	PUF Bonds 2008A	172,845,000	Manage changes in cash flows on Series 2008A bonds	N/A	N/A
	PUF Bonds 2008A	169,505,000	Manage changes in cash flows on Series 2008A bonds	N/A	N/A
	RFS Bonds 2008B	90,270,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	92,045,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2008B	117,190,000	Manage changes in cash flows on Series 2008B bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
	RFS Bonds 2016A	255,825,000	Manage changes in cash flows on Series 2016A bonds	N/A	N/A
TOTAL		<u><u>\$3,508,135,000</u></u>			

Derivative Instrument Objectives

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

The fair value of interest rate swaps reported as investment derivative instruments-asset positions of \$7,973,847 and \$25,044,638 as of August 31, 2020 and 2019, 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 derivative instruments-liability positions of \$59,518,065 and \$443,405 as of August 31, 2020 and 2019 is included on the consolidated statement of net position as investment derivative instruments-liability positions. The change in fair value of interest rate swaps reported as investment derivative instruments are included in investment income on the consolidated statement of revenues, expenses and changes in net position. For the years ending August 31, 2020 and 2019, the change in fair value of interest rate swaps reported as investment derivative instruments was a decrease in the amount of \$76,145,451 and \$51,714,188, respectively.

Hedging Derivative Instrument and Investment Derivative Instrument Risks

Credit Risk: The System is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. Contracts with a positive fair value expose the System to credit risk. The System faces a maximum possible loss equivalent to the amount of the swap contract's fair value, less any collateral held by the System provided by the counterparty. Contracts with a negative fair value do not expose the System to credit risk. All of the counterparties associated with swap contracts with the System are creditworthy financial institutions. Additionally, each of the System's swap counterparties has agreed to provide collateral to the System to the extent the positive value before considering nonperformance risk of the parties exceeds certain threshold amounts. Should a counterparty fail to meet its contractual agreements, or if the System's credit rating falls below investment grade (Baa2 by Moody's or BBB by S&P), the System could be required to pay or receive a substantial termination payment. As of August 31, 2020, 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, 2020, the maximum loss due to credit risk was \$7,973,847. It is the System's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require collateralization of the aggregate value of derivative instruments in asset positions, net of the effect of applicable threshold amounts based on each counterparty's credit rating. Although collateral posted can be in the form of cash, U.S. Treasury or U.S. agency securities held directly by the System or by a third-party custodian approved by the System, collateral posted is currently only in the form of cash held directly by the System. The System has not entered into master netting arrangements.

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

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

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

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

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

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

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

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

Market Access Risk: Each swap associated with underlying variable rate debt that is subject to tender at the option of the bondholder is subject to market access risk. In the event the System is unable to remarket its variable rate bonds, the System may choose to refund the variable rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. Should an early termination event occur, the System could be required to pay or to receive a substantial termination payment. As of August 31, 2020, the System had market access risk associated with \$1,349,140,000 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, 2020, the System’s variable rate bonds carried the highest short-term ratings from Moody’s and S&P of VMIG1 and A-1+, respectively.

Hedging Derivative Instrument Swap Scheduled Payments

The following tables reflect the scheduled payments on the hedging derivative instrument 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 2021 because the bonds are supported by internal liquidity.

As of August 31, 2020				
Fiscal Year	Associated Variable Rate Bonds		Pay-Fixed Receive-Variable Interest Rate Swaps³	Total
	Principal¹	Interest²		
2021	\$ 28,055,000	975,661	44,791,715	73,822,376
2022	46,425,000	958,752	43,773,168	91,156,920
2023	48,185,000	929,953	42,072,835	91,187,788
2024	49,785,000	900,063	40,307,858	90,992,921
2025	57,325,000	869,176	38,483,661	96,677,837
2026-2030	290,565,000	3,817,751	161,269,397	455,652,148
2031-2035	273,055,000	2,874,433	105,629,385	381,558,818
2036-2040	305,745,000	1,882,299	45,910,888	353,538,187
2041-2045	250,000,000	1,500,000	23,045,250	274,545,250

¹Reflects scheduled principal and interest payments of Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, Revenue Financing System Bonds, Taxable Series 2016G, and Permanent University Fund Bonds, Series 2008A to be optionally or mandatorily redeemed in the fiscal years reflected.

²Annual debt service requirements are computed using the System’s interest rates in effect on August 31, 2020 on its Series 2008A Bonds, Series 2007B Bonds, Series 2008B, and Series 2016G Bonds.

³Reflects net payments on pay-fixed, receive-variable interest rate swaps based on static interest rate environment as of August 31, 2020 and applied on the respective notional amounts of the swaps through their respective termination dates.

As of August 31, 2019

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

¹Reflects scheduled principal and interest payments of Revenue Financing System Refunding Bonds, Series 2007B, Revenue Financing System Bonds, Series 2008B, Revenue Financing System Bonds, Taxable Series 2016G, and Permanent University Fund Bonds, Series 2008A to be optionally or mandatorily redeemed in the fiscal years reflected.

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

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

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/high retention 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 and cyber liability, construction contractor insurance, and automobile, property and liability.

EMPLOYEE AND RETIREE INSURANCE BENEFITS

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

Effective January 1, 2006, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. Medicare Part D provides sponsors of postemployment healthcare plans with various subsidies related to prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit.

The System has participated in the Medicare Part D Retiree Drug Subsidy (RDS) program since 2006 which provides a subsidy of up to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D. The System recognized \$1,710,100 of Medicare Part D RDS revenue from the federal government in 2020. In 2019 the System was required to refund \$92,638 to the Medicare Part D RDS program after the annual reconciliation was performed. The annual reconciliation recognizes any payments made by the Medicare RDS program. The System significantly reduced reliance on the RDS program beginning January 1, 2017. Only a small number of eligible participants remained covered under RDS after December 31, 2016.

The System implemented an Employer Group Waiver Plan (EGWP) effective January 1, 2017, in order to access larger Medicare Part D subsidies. For most eligible participants, the EGWP replaces the RDS program previously used to access such subsidies. The System recognized \$30,374,123 and \$29,090,168 of Medicare EGWP payments from the federal government in 2020 and 2019, respectively.

UNEMPLOYMENT COMPENSATION INSURANCE

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

WORKERS' COMPENSATION INSURANCE

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

PROFESSIONAL MEDICAL LIABILITY BENEFIT PLAN

The coverage provided under the Professional Medical Liability Benefit Plan (the "Plan") is on an occurrence basis; thus, a participant is covered by the Plan for claims and lawsuits relating to events that occurred while enrolled in the Plan, including those filed after the participant has left the System's employment or training. The Plan covers all the System staff physicians, dentists, residents, fellows, and medical and dental students who have been enrolled. Effective July 1, 2020, healthcare professional staff members and faculty who are licensed, certified, or registered to provide patient care have Plan coverage. 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, resident, fellow and healthcare professional (\$500,000 per claim), and a \$75,000 annual aggregate for each medical and dental student (\$25,000 per claim). Additional coverage is available outside of Texas and for approved international activities. Liability is limited to \$2 million per claim, regardless of the number of claimants or plan participants involved in an incident.

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

COMPREHENSIVE PROPERTY PROTECTION PROGRAM

The Comprehensive Property Protection Plan (CPPP) uses a combination of interim financing and commercial insurance to provide Fire and All Other Perils (Fire and AOP) and Named Windstorm and Flood (Wind and Flood) coverage. All coverage is subject to the terms, exclusions, limits and conditions of the Insurance Policies. The Fire and AOP program provides a \$1.3 billion per occurrence limit for most perils, with sub-limits that do apply. The System participates in a seven percent (7%) quota share of the \$75 million layer excess of the \$25 million layer of commercial insurance coverage. Deductibles for Fire and AOP are \$5 million per occurrence with a \$15 million annual aggregate limit; institutions have a \$250,000 per occurrence deductible. The commercial insurance coverage for Named Windstorm and resulting perils provides a \$250 million per occurrence limit with the System participating in a seven percent (7%) quota share of the \$75 million layer excess of the \$25 million layer. M. D. Anderson purchases a dedicated \$100 million policy excess of the \$250 million per occurrence Named Windstorm CPPP limit. Deductibles for Wind and Flood are \$100 million per occurrence for U. T. Medical Branch - Galveston (locations in Galveston only), \$50 million per occurrence for U. T. Health Science Center - Houston (locations in Texas Medical Center only) and M. D. Anderson (locations in Texas Medical Center Only), 5% of affected values in other Tier 1 counties, and AOP deductibles for all other locations.

Primary insurance policies are purchased on certain flood and wind exposed properties to partially offset the large deductibles. These policies provide underlying limits (up to \$4.4 million per building/contents for wind and \$1 million maximum building/contents for flood) and are purchased through the Texas Windstorm Insurance Association (TWIA) for facilities in Tier 1 seacoast territories and the National Flood Insurance Program (NFIP) for properties located in higher risk flood zones. U. T. Medical Branch - Galveston purchases a \$50 million Named Windstorm buydown policy to reduce the \$100 million Wind and Flood deductible for locations in Galveston only. M. D. Anderson purchases a \$25 million Named Windstorm Multi Year Single Limit (MYSL) buydown policy to reduce the \$50 million Wind and Flood deductible; they have a 25% share of the \$25 million to \$50 million layer. The interim financing component of the program participates in losses resulting from physical damage that exceeds the coverage available under these primary policies and the institution's deductible. The interim financing for the Wind and Flood program is funded by annual contributions made by each institution in addition to the payment of insurance premiums.

DIRECTORS AND OFFICERS/EMPLOYMENT PRACTICES LIABILITY PLAN AND CYBER LIABILITY PROGRAM

The Directors and Officers Liability (D&O) and Employment Practices Liability (EPL) Plan (the "Plan") provides coverage for claims arising from actual or alleged wrongful acts performed by the Plan beneficiaries and for EPL claims, such as wrongful termination, failure to promote, and wrongful discipline.

Coverage applies to individual board members, employees, faculty, and other covered individuals, as well as to each of the institutions and U. T. System Administration. The limit of liability is a \$15 million annual aggregate (Coverages A, B and C combined), with an additional \$5 million self-insured annual aggregate excess limit for Coverages A and B. Self-insured retentions for the Plan are subject to a \$5 million annual aggregate. Coverage A applies to non-indemnifiable claims made against individuals and it has no deductible. Coverage B applies to a U. T. institution that is required to indemnify a covered individual with deductibles of \$100,000 per individual and \$300,000 per occurrence. Coverage C applies to a U. T. institution with a \$300,000 deductible. In the event a loss involves any or all of Coverages A, B, and C, then only the single largest deductible amount will apply.

The Cyber Liability Program provides coverage for claims arising from the following causes of loss: media liability, network security liability, privacy liability, regulatory liability, loss of digital assets, network asset protection, and Payment Card Industry Data Security Standard (PCI-DSS). The limit of liability on the commercial insurance policy is a \$50 million annual aggregate. Each claim is subject to a \$2.5 million retention and annual aggregate with a \$500,000 each and every claim retention once the annual aggregate has been met, except for PCI-DSS which is \$500,000 per claim and annual aggregate with a \$500,000 each and every claim retention once the annual aggregate has been met. Institutions have a \$250,000 per claim deductible. M. D. Anderson purchases a \$10 million standalone policy which is primary to the Cyber Liability Program and has a \$250,000 per claim deductible.

ROLLING OWNER CONTROLLED INSURANCE PROGRAM

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

AUTOMOBILE, PROPERTY & LIABILITY PLAN

The Automobile, Property & Liability Plan provides automobile liability and physical damage coverage for owned, leased, hired, and non-owned (excess liability only) vehicles, along with general liability coverage for certain scheduled exposures. All coverages are subject to a self-insured retention of \$50,000 for liability claims and \$25,000 for physical damage claims, subject to a \$730,000 annual aggregate stop loss for the FY 2020 policy term. Institution deductibles are \$2,500 per occurrence for liability, \$1,000 per vehicle for physical damage, and \$5,000 per vehicle for vehicles valued over \$100,000.

INCURRED BUT NOT REPORTED SELF-INSURANCE CLAIMS

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

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

Changes in the System's claims liabilities for the various self-insurance plans during fiscal years 2020 and 2019 were as follows:

<u>Fiscal Year 2020</u>		Current Year		
Plan	IBNR Liability 09/01/19	Claims and Changes in Estimates	Claims Payments	IBNR Liability 08/31/20
Employee Health and Dental	\$ 113,900,000	1,307,148,182	(1,312,748,182)	108,300,000
Workers' Compensation	5,385,000	1,631,913	(2,763,913)	4,253,000
Professional Medical Liability	19,486,096	4,538,387	(4,412,444)	19,612,039
Property Protection – Fire & AOP	5,125,000	1,674,806	194	6,800,000
Property Protection – Wind & Flood	16,862,347	524,161	(676,166)	16,710,342
Directors and Officers/EPL/Cyber	2,218,557	74,460	-	2,293,017
ROCIP	4,989,570	797,032	(1,825,932)	3,960,670
Automobile, Property & Liability	452,422	761,695	(585,073)	629,044
TOTAL	\$ 168,418,992	1,317,150,636	(1,323,011,516)	162,558,112

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

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, 2020 and 2019, 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.

Level of Coverage	2020		2019	
	Employer	Retiree	Employer	Retiree
Retiree Only	\$ 628.05	-	\$ 598.14	-
Retiree/Spouse	957.27	270.41	911.69	257.53
Retiree/Children	838.70	282.81	798.76	269.34
Retiree/Family	1,169.89	532.51	1,114.18	507.15

PLAN DESCRIPTION AND FUNDING POLICY

OPEB are provided to the System's retirees under the U. T. System Employee Group Insurance Program (EGIP). The EGIP is a single-employer defined benefit OPEB plan; however, due to the State statute requiring appropriations for funding the plan, the State is reporting a proportionate share. Chapter 1551 of the *Texas Insurance Code*, Sections 310 and 311, require that the State contribute to the cost of each participant's insurance coverage. The funds are appropriated under the General Appropriations Act Higher Education Employees Group Insurance (HEGI) Contributions. The State's proportion was 20.51 and 20.82 percent of the collective OPEB-related liabilities, deferred outflows and inflows and expense based on HEGI contributions by the State to total contributions as of August 31, 2020 and 2019. The System's proportion as of August 31, 2020 and 2019 was 79.49 and 79.18 percent. At August 31, 2020 and 2019, the amount of the total OPEB liability related to the System reported by the State was \$2,979,287,588 and \$2,723,817,586, respectively. The amount reported by the State is related to the premium sharing contributions, which are recognized as State appropriation general revenue on the System's financial statements in the fiscal year that the State contributed the amounts for OPEB on the System's behalf.

The System and member contribution rates are determined annually by the System based on the recommendations of the OEB staff and consulting actuary. The contribution rates are determined based on the benefit and administrative costs expected to be incurred and (i) the funds appropriated and (ii) the funding policy established by the Texas Legislature in connection with benefits provided through the EGIP. The System revises benefits when necessary to match expected benefit and administrative costs with available revenue. The plan is operated on a pay-as-you-go basis and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

EMPLOYEES COVERED BY BENEFIT TERMS

The benefits provided are discussed in Note 15. The authority under which the obligations of the plan members and the System are established and may be amended is Chapter 1601, *Texas Insurance Code*. At the respective valuation dates, the following employees were covered by the benefit terms:

	Valuation Date	
	12/31/2019	12/31/2017
a. Inactive employees or beneficiaries currently receiving benefit payments	30,057	27,597
b. Inactive employees entitled to but not yet receiving benefit payments	11,681	12,311
c. Active employees	99,474	90,605
d. Total	141,212	130,513

TOTAL OPEB LIABILITY

The System has elected to use a measurement date that is eight months in advance of the fiscal year end. The System's proportionate share of the total OPEB liability of \$11,548,745,880, current portion of \$204,857,443 and a noncurrent portion of \$11,343,888,437, reported for the fiscal year ended August 31, 2020 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that same date. The System's proportionate share of the total OPEB liability of \$10,355,785,546, current portion of \$230,593,877 and a noncurrent portion of \$10,125,191,669, reported for the fiscal year ended August 31, 2019 was measured as of December 31, 2018 and was determined by an actuarial valuation as of December 31, 2017 and rolled forward twelve months to December 31, 2018.

ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

The total OPEB liability as of December 31, 2019 was determined by an actuarial valuation as of that same date using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.30%
Salary increases	3.05% to 9.05% (includes inflation)
Discount rate	2.74%
Healthcare cost trend rates	7.50% for CY22 decreasing 0.50% per year to 5.00% for CY27, then decreasing to 4.75% for CY28 and to an ultimate rate of 4.30% for CY29 and later years

- Mortality:
- Service Retirees, Survivors and other Inactive Members:
Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018.
 - Disability Retirees:
Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.
 - Active Members:
Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014.

Discount Rate

- For fiscal year ended August 31, 2020: The discount rate used to measure the total OPEB liability as of December 31, 2019 was 2.74%. The discount rate used to determine the total OPEB liability as of December 31, 2018 was 4.10%.
- For fiscal year ended August 31, 2019: The discount rate used to measure the total OPEB liability as of December 31, 2018 was 4.10%. The discount rate used to measure the total OPEB liability as of December 31, 2017 was 3.44%.
- Municipal Bond Rate: 2.74% as of December 31, 2019 and 4.10% as of December 31, 2018; the source of the municipal bond rate is the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. In describing their index, the Bond Buyer notes that the bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

Many of the actuarial assumptions used in this valuation were based on the results of an actuarial experience study performed by the TRS retirement plan actuary as of August 31, 2017.

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

i. **Demographic Assumptions**

Assumed rates of retirement, disability, termination, and mortality and assumed salary increases have been updated to reflect assumptions adopted by the TRS Trustees since the last valuation date. These new assumptions were adopted to reflect an experience study on the TRS retirement plan performed by the TRS retirement plan actuary.

In addition, the following assumptions were updated to reflect recent plan experience and expected trends:

- Percentage of future male and female retirees assumed to be married and electing coverage for their spouse.
- The proportion of future retirees covering dependent children.
- Percentage of future retirees and future retiree spouses assumed to use tobacco.
- Percentage of future Service Retirees assumed to elect health coverage at retirement and remain covered until death.

ii. **Economic Assumptions**

- Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.
- The expenses directly related to the payment of EGIP health benefits have been updated since the previous valuation to reflect changes in vendors.
- The Patient-Centered Outcome Research Institute (PCORI) fees payable under the ACA have been updated since the previous valuation to reflect IRS Notice 2020-44 published June 8, 2020.
- Assumed inflation has been updated to reflect an assumption adopted by the TRS Trustees since the last valuation date. This new assumption was adopted to reflect an experience study on the TRS retirement plan performed by the TRS retirement plan actuary.

iii. **Other Inputs**

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

As of the measurement date of December 31, 2019, no changes in benefit terms have occurred. Accordingly, the benefit terms used in this valuation have not been changed since the prior valuation.

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

	1% Decrease (1.74%)	FY20 Discount Rate (2.74%)	1% Increase (3.74%)
Total OPEB Liability	\$ 14,085,364,566	\$ 11,548,745,880	\$ 9,609,506,534

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

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

	1% Decrease¹	FY20 Healthcare Cost Trend Rates¹	1% Increase¹
Total OPEB Liability	\$ 9,428,532,482	\$ 11,548,745,880	\$ 14,408,214,665

	1% Decrease²	FY19 Healthcare Cost Trend Rates²	1% Increase²
Total OPEB Liability	\$ 8,606,162,337	\$ 10,355,785,546	\$ 12,679,927,126

¹Healthcare Cost Trend Rates used for fiscal year 2020 are shown below:

<u>Calendar Year</u>	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
2022	6.50%	7.50%	8.50%
2023	6.00%	7.00%	8.00%
2024	5.50%	6.50%	7.50%
2025	5.00%	6.00%	7.00%
2026	4.50%	5.50%	6.50%
2027	4.00%	5.00%	6.00%
2028	3.75%	4.75%	5.75%
2029 and beyond	3.30%	4.30%	5.30%

²Healthcare Cost Trend Rates used for fiscal year 2019 are shown below:

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

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

		Increase (Decrease) in Total OPEB Liability	
		For Measurement Year from 12/31/2018 to 12/31/2019	For Measurement Year from 12/31/2017 to 12/31/2018
Balance at Beginning of Measurement Year	\$	10,355,785,546	10,717,111,345
Changes for the year:			
Service cost		471,785,731	548,093,347
Interest		442,516,885	394,480,742
Differences between expected and actual experience		(89,235,022)	-
Changes of assumptions or other inputs		478,407,758	(1,429,460,396)
Benefit payments (employer)		(152,076,995)	(153,396,451)
Net changes		1,151,398,357	(640,282,758)
Changes in Proportional Share		41,561,977	278,956,959
Balance at End of Measurement Year	\$	11,548,745,880	10,355,785,546

The System recognized OPEB expense of \$686,449,366 for the fiscal year ended August 31, 2020 and \$664,784,810 for the fiscal year ended August 31, 2019.

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

		Increase (Decrease) in Total OPEB Liability	
		For Measurement Year from 12/31/2018 to 12/31/2019	For Measurement Year from 12/31/2017 to 12/31/2018
Balance at Beginning of Measurement Year	\$	13,079,603,132	13,888,295,465
Changes for the year:			
Service cost		593,494,649	692,254,917
Interest		556,675,173	498,238,547
Differences between expected and actual experience		(112,255,426)	-
Changes of assumptions or other inputs		601,824,994	(1,805,442,436)
Benefit payments (employer)		(191,309,054)	(193,743,361)
Net changes		1,448,430,336	(808,692,333)
Balance at End of Measurement Year	\$	14,528,033,468	13,079,603,132

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

		As of 8/31/2020		As of 8/31/2019	
		Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	-	165,000,318	-	104,127,465
Changes of assumptions or other inputs		421,250,320	1,760,786,373	-	2,058,144,539
Change in proportion and contribution difference		340,424,226	34,816,859	355,767,722	44,612,494
Contributions subsequent to the measurement date		99,305,239	-	111,317,743	-
Total	\$	860,979,785	1,960,603,550	467,085,465	2,206,884,498

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

For the Fiscal Year ended August 31, 2020:

Fiscal Year Ended August 31	Amount
2021	\$ (229,536,643)
2022	(229,536,643)
2023	(229,536,643)
2024	(229,536,643)
2025	(186,596,898)
Thereafter	(94,185,534)
Total	\$ (1,198,929,004)

17. Pension Plans

TEACHER RETIREMENT SYSTEM (TRS)

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

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

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

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees were 7.7 percent of gross earnings for 2020, 2019 and 2018. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 7.5 percent of annual compensation for 2020 and 6.8 percent of annual compensation for 2019 and 2018. The System's actual contributions excluding the State match to TRS previously reported for the years ended August 31, 2020, 2019 and 2018 were \$366,510,043, \$302,294,698, and \$282,808,370, respectively.

The total pension liability is determined by an annual actuarial valuation. The tables below present the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2019 and August 31, 2018 measurement dates.

Summary of Actuarial Methods and Assumptions* – TRS Plan	
Actuarial Valuation Date	Aug 31, 2018 rolled forward to Aug 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.25%
Investment Rate of Return	7.25%
Long-term Expected Rate of Return	7.25%
Municipal Bond Rate as of August 2019	2.63%**
Inflation	2.30%
Salary Increase	3.05% to 9.05% including inflation
Payroll Growth Rate	3.00%
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP
Ad Hoc Post-Employment Benefit Changes	None

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

Notes:

*The assumptions used to determine the ADC are those in effect for the August 31, 2018 and August 31, 2017 actuarial valuations. Due to the lag between valuation data and the measurement date, they may not be the same assumptions used to measure the net pension liability.

**Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

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

The actuarial assumptions used in the determination of the total pension liability as of the August 31, 2019 measurement date are the same assumptions used in the actuarial valuation as of August 31, 2018, except for a change in the following assumptions:

- the single discount rate as of August 31, 2018 was a blended rate of 6.907%, changed to the long-term rate of return of 7.25% as of August 31, 2019; and,
- the enactment of Senate Bill 3 by the 2019 Legislature impacted future salaries by giving eligible active members a \$2,700 increase in fiscal year 2020 in addition to the salary increases expected.

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

The discount rate of 7.25% was applied to measure the total pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projected cash flows into and out of the pension plan assumed that active members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and State contributions will be 8.50% of payroll for the measurement period ending August 31, 2020, gradually increasing to 9.55% over the next several years. This includes a factor for all employer and State contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

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

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2019 measurement date are presented below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18%	6.4%
Non-U.S. Developed	13%	6.3%
Emerging Markets	9%	7.3%
Private Equity	14%	8.4%
Stable Value		
U.S. Treasury	16%	3.1%
Stable Value Hedge Funds	5%	4.5%
Real Return		
Real Assets	15%	8.5%
Energy, Natural Resources, and Infrastructure	6%	7.3%
Risk Parity		
Risk Parity	8%	5.8%/6.5%
Asset Allocation Leverage Cash	2%	2.5
Asset Allocation Leverage	-6%	2.7
Total	<u>100%</u>	

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan's investment portfolio as of the August 31, 2018 measurement date are presented below:

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

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 FY20**

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$6,944,008,124	\$4,517,470,315	\$2,551,506,321

**Sensitivity of System's Proportionate Share of the Net Pension Liability
to Changes in the Discount Rate FY19**

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

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2019 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 TRS website at www.trs.state.tx.us.

As of August 31, 2020 and 2019, respectively, the System reported a liability of \$4,517,470,315 and \$4,919,537,167 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of August 31, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2018 and 2017, respectively, and rolled forward to the measurement date. The System's proportion as of the August 31, 2019 and 2018 measurements dates was 8.6902629 and 8.9377185 percent, respectively. The System's proportion of the collective net pension liability was based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the periods September 1, 2018 through August 31, 2019 and September 1, 2017 through August 31, 2018. At August 31, 2020 and 2019, respectively, the amount of the net pension liability related to the System reported by the State was \$1,898,921,776 and \$1,355,571,593. 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 years ending August 31, 2020 and 2019, the System recognized pension expense of \$806,337,921 and \$584,838,293, respectively. At August 31, 2020 and 2019, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 18,977,416	156,853,736
Changes of assumptions	1,401,541,150	579,183,110
Net diff between projected and actual investment return	45,360,614	-
Change in proportion and contribution difference	389,095,208	320,667,583
Contributions subsequent to the measurement date	366,510,043	-
Total	\$ 2,221,484,431	1,056,704,429

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

The \$366,510,043 and \$302,294,698 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the years ending August 31, 2021 and 2020, respectively.

Amounts reported as deferred outflows and inflows of resources related to pensions as of August 31, 2020 will be recognized in pension expense in the following years:

Fiscal Year	Increase (Reduction) of Pension Expense
2021	\$ 140,371,435
2022	101,501,186
2023	273,470,234
2024	248,055,841
2025	81,813,431
Thereafter	(46,942,168)
Total	\$ 798,269,959

OPTIONAL RETIREMENT PROGRAM (ORP)

The State has also established an optional defined contribution retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS. ORP is available to certain eligible employees who hold faculty positions and other professional positions including but limited to director-level and above, librarians and coaches. The ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program. The employee and employer contribution rates are established by the State Legislature each biennium. The State provides an option for a local supplement on top of the state base rate. Each institution within the System can decide to adopt and fund a local supplement each year to provide each ORP employee the maximum employer rate. The chancellor then approves the employer rates each fiscal year. The contributions made by participants (6.65 percent of annual compensation) and the System (6.6 percent State base rate) for the fiscal years ended August 31, 2020, 2019 and 2018, respectively, are provided in the following table.

	2020	2019	2018
Participant Contributions	\$ 179,904,852	172,807,007	164,972,085
System Contributions	229,656,329	220,698,101	210,928,114
Total	\$ 409,561,181	393,505,108	375,900,199

EMPLOYEES RETIREMENT SYSTEM (ERS)

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

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

The funding policy requires monthly contributions by both the State and employees. For the year beginning September 1, 2015, the required contributions for the State and the employee are each 9.5 percent of pay. For Law Enforcement and Custodial Officers Supplemental Retirement Fund eligible employees, the State and the employee contribution is an additional 0.50 percent of pay, respectively.

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

18. Deferred Compensation

DEFERRED COMPENSATION-457(b)

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

TAX-SHELTERED ANNUITY-403(b)

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

THE UNIVERSITY OF TEXAS SYSTEM GOVERNMENTAL RETIREMENT ARRANGEMENT (UTGRA)

The University of Texas System Governmental Retirement Arrangement (UTGRA) is an excess benefit plan established by the System, via Section 415(m) of the Internal Revenue Code, to provide certain participants in the ORP that portion of their benefits that would otherwise be payable under the ORP except for the \$57,000 limit on contributions imposed by Section 415 of the Internal Revenue Code (IRC) for calendar year 2020 (\$56,000 for calendar year 2019). At August 31, 2020 and 2019, there were 605 and 615 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 \$57,000 cap under IRC Section 415(c) for calendar year 2020 (\$56,000 for calendar year 2019), 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 \$3,382,245 for the year ended August 31, 2020 and \$4,755,524 for the year ended August 31, 2019. The participants contributed \$2,646,109 for the year ended August 31, 2020 and \$3,720,499 for the year ended August 31, 2019. Plan provisions are established and may be amended at any time by the U. T. System Board of Regents.

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

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

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

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

19. Commitments and Contingent Liabilities

On August 31, 2020, various lawsuits and claims involving the System were pending. After conferring with legal counsel concerning pending litigation and claims, the System’s management believes that the outcome of pending litigation should not have a material adverse effect on the financial statements of the System.

The System continues to implement its \$4.0 billion capital improvement program, planned for fiscal years 2021 through 2026, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

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

Based on the credit support annex agreements with all counterparties, the System does not have to post any collateral for any hedging derivative instruments.

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

20. Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2020, 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	\$ 575,623	83	1,531,363	29,890,792	271,395
Salaries and Wages	3,243,315,156	1,479,036,206	154,743,259	3,173,122,017	650,210,566
Payroll Related Costs	677,112,218	353,583,277	37,927,137	771,171,614	178,782,723
Membership Dues	9,715,723	2,433,013	378,087	8,476,776	3,501,630
Registration Fees/ Meetings/Conferences	16,141,061	7,419,975	4,014,268	3,426,118	7,027,789
Professional Fees and Services	44,428,670	77,604,344	18,646,526	311,366,613	30,427,264
Other Contracted Services	42,160,799	239,327,752	36,827,815	302,721,018	58,694,231
Fees and Other Charges	13,181,863	22,919,696	3,486,575	24,574,310	8,446,125
Travel	20,842,513	25,802,807	3,578,721	12,396,094	9,700,540
Materials and Supplies	72,456,196	216,642,798	44,304,658	2,020,403,132	70,191,288
Utilities	574,846	2,441,020	222,677	8,699,416	103,542
Communications	15,357,550	3,749,561	2,833,135	20,355,386	4,592,494
Repairs and Maintenance	9,920,462	21,541,941	5,157,859	154,170,845	11,488,502
Rentals and Leases	18,761,053	10,893,814	3,344,859	93,345,509	11,009,833
Printing and Reproduction	4,326,585	4,635,567	2,568,314	5,643,904	3,149,757
Royalty Payments	277,889	2,510,596	4,357	6,020,900	8,067,854
Bad Debt Expense	2,478	-	-	-	-
Impairment of Capital Assets	-	-	-	-	-
Asset Retirement Expense	-	-	-	-	-
Insurance Costs/Premiums	5,414,007	382,957	369,837	19,737,623	206,222
Claims and Losses	-	-	-	-	-
OPEB Expense	227,584,168	100,772,447	11,622,495	216,080,046	42,640,460
Pension Expense	267,331,801	118,372,381	13,652,367	253,818,480	50,087,627
Scholarships and Fellowships	17,331,984	50,647,766	1,718,087	7,313	3,439,179
Depreciation and Amortization	-	-	-	-	-
Federal Sponsored Pass-through to State Agencies	569,095	4,767,352	1,935,990	-	-
State Sponsored Pass-through to State Agencies	156,000	693,687	152,207	-	9,230,625
Other Operating Expenses	26,137,140	109,413,695	14,747,138	6,090,686	13,010,635
Total Operating Expenses	\$ 4,733,674,880	2,855,592,735	363,767,731	7,441,518,592	1,174,280,281

<u>Student Services</u>	<u>Institutional Support</u>	<u>Operations and Maintenance of Plant</u>	<u>Scholarships and Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Depreciation and Amortization</u>	<u>Total Expenses</u>
12,602	765,113	201,358	175,348	25,279,332	-	58,703,009
122,196,616	513,874,739	263,838,059	19,518,954	232,418,389	-	9,852,273,961
32,595,844	(125,780,934)	76,665,625	1,638,775	57,367,425	-	2,061,063,704
654,057	4,723,920	224,975	32,599	2,575,258	-	32,716,038
1,517,804	3,456,729	504,088	166,442	2,911,392	-	46,585,666
8,054,865	74,465,348	37,626,065	638,317	18,582,917	-	621,840,929
58,763,109	44,635,487	54,299,965	656,631	79,580,196	-	917,667,003
3,186,090	7,950,417	4,340,452	542,900	7,480,150	-	96,108,578
2,652,457	4,968,084	715,321	463,084	22,753,145	-	103,872,766
16,265,063	52,813,686	83,167,465	1,636,809	37,985,848	-	2,615,866,943
25,364	6,170,702	213,244,183	(1,717)	34,794,264	-	266,274,297
1,774,178	38,310,473	2,380,736	58,024	9,141,800	-	98,553,337
4,635,744	42,982,875	112,928,027	265,088	31,477,209	-	394,568,552
2,532,738	15,800,145	27,059,338	537,295	10,590,783	-	193,875,367
2,703,589	4,538,835	546,823	87,641	3,064,348	-	31,265,363
12,005	620,992	-	31	98,279	-	17,612,903
(1,392,556)	-	-	-	-	-	(1,390,078)
-	-	1,565,374	-	-	-	1,565,374
-	-	2,641,092	-	-	-	2,641,092
1,503,457	(5,280,394)	4,490,431	5,013	1,832,712	-	28,661,865
-	32,279,902	-	-	-	-	32,279,902
8,984,706	39,575,627	19,731,706	1,339,525	18,118,186	-	686,449,366
10,553,887	46,487,520	23,177,854	1,573,473	21,282,531	-	806,337,921
2,587,088	1,137,759	2,464	475,360,712	17,745,216	-	569,977,568
-	-	-	-	-	1,571,809,663	1,571,809,663
-	232,303	-	-	-	-	7,504,740
-	728,998	-	534,000	-	-	11,495,517
<u>10,497,800</u>	<u>10,147,009</u>	<u>4,694,177</u>	<u>2,888,699</u>	<u>17,416,504</u>	<u>-</u>	<u>215,043,483</u>
<u>290,316,507</u>	<u>815,605,335</u>	<u>934,045,578</u>	<u>508,117,643</u>	<u>652,495,884</u>	<u>1,571,809,663</u>	<u>21,341,224,829</u>

For the year ended August 31, 2019, the following table represents operating expenses for both natural and functional classifications for the System, with adjustments made for GASB Statement No. 84. See Note 4 for further details on the restatement:

Operating Expenses	Instruction	Research	Public Service	Hospitals and Clinics	Academic Support
Cost of Goods Sold	\$ 820,909	61	1,591,186	24,976,057	417,267
Salaries and Wages	3,061,741,398	1,355,714,572	156,360,064	2,906,973,829	573,651,775
Payroll Related Costs	601,818,379	315,545,193	36,476,301	698,643,878	149,160,791
Membership Dues	9,814,862	2,685,603	273,198	8,596,353	3,677,263
Registration Fees/ Meetings/Conferences	23,501,887	12,431,539	6,423,676	5,106,742	10,759,576
Professional Fees and Services	42,207,393	78,501,068	21,122,449	306,361,715	37,256,969
Other Contracted Services	67,441,503	222,742,408	37,886,730	301,775,570	61,157,861
Fees and Other Charges	15,728,076	17,937,541	4,058,158	25,294,677	5,193,385
Travel	35,027,564	45,761,384	6,113,580	17,224,643	16,153,434
Materials and Supplies	90,105,446	232,998,144	39,349,642	1,870,761,798	69,529,591
Utilities	441,865	2,184,396	188,926	7,689,868	129,930
Communications	14,652,945	3,280,196	1,833,674	18,719,051	4,200,422
Repairs and Maintenance	1,494,087	16,142,240	1,228,824	146,717,338	8,560,295
Rentals and Leases	14,608,336	7,397,550	4,708,291	82,896,103	11,295,343
Printing and Reproduction	5,716,940	5,188,557	3,235,853	5,631,696	3,726,652
Royalty Payments	342,979	3,667,693	3,428	6,745,577	8,064,421
Bad Debt Expense	-	-	-	-	-
Impairment of Capital Assets	-	-	17,725,619	-	8,114,385
Asset Retirement Expense	-	-	-	-	-
Insurance Costs/Premiums	3,974,934	368,771	275,005	25,714,032	186,811
Claims and Losses	-	-	-	-	-
OPEB Expense	227,303,414	97,904,423	11,282,016	205,366,762	38,786,621
Pension Expense	199,968,078	86,130,511	9,925,249	180,669,511	34,122,172
Scholarships and Fellowships	15,343,026	51,585,218	2,249,700	2,213	2,723,195
Depreciation and Amortization	-	-	-	-	-
Federal Sponsored Pass-through to State Agencies	244,199	3,225,579	3,429,899	-	-
State Sponsored Pass-through to State Agencies	60,000	806,648	68,791	-	-
Other Operating Expenses	33,031,378	91,156,971	19,432,024	34,496,518	15,861,616
Total Operating Expenses	\$ 4,465,389,598	2,653,356,266	385,242,283	6,880,363,931	1,062,729,775

Student Services	Institutional Support	Operations and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenses
2,023	529,163	159,640	(8,526)	29,604,742	-	58,092,522
120,873,279	532,419,877	265,455,120	18,020,934	243,748,058	-	9,234,958,906
31,298,245	(41,304,249)	76,780,578	1,896,112	52,804,405	-	1,923,119,633
692,631	4,850,613	458,376	43,647	3,220,707	-	34,313,253
2,479,587	5,969,628	798,493	178,899	5,849,547	-	73,499,574
9,523,651	84,637,405	34,936,981	600,521	17,469,759	-	632,617,911
60,719,801	41,964,577	61,599,496	984,339	103,429,565	-	959,701,850
4,720,312	9,233,314	5,156,243	569,603	7,511,398	-	95,402,707
4,550,686	8,555,161	1,405,035	1,267,680	32,182,853	-	168,242,020
16,415,069	44,230,742	82,813,466	1,133,698	44,141,816	-	2,491,479,412
29,702	3,270,591	226,031,105	340	36,352,089	-	276,318,812
1,895,643	32,502,984	3,015,723	10,185	9,499,939	-	89,610,762
3,355,813	35,511,128	105,218,393	66,429	28,887,553	-	347,182,100
4,286,259	15,921,373	21,809,489	518,030	11,870,835	-	175,311,609
3,199,660	6,734,965	236,009	103,804	4,893,920	-	38,668,056
11,822	1,935,190	-	346	19,617	-	20,791,073
3,281,751	-	-	-	-	-	3,281,751
-	7,955,732	11,896	-	-	-	33,807,632
-	-	2,394,539	-	-	-	2,394,539
771,632	(2,758,877)	2,271,281	952	14,702,600	-	45,507,141
-	65,470,962	-	-	-	-	65,470,962
9,451,548	37,167,326	18,324,119	1,261,339	17,937,242	-	664,784,810
8,314,912	32,697,612	16,120,474	1,109,651	15,780,123	-	584,838,293
2,538,686	326,392	803	380,143,271	17,937,803	-	472,850,307
-	-	-	-	-	1,536,019,254	1,536,019,254
-	-	-	-	-	-	6,899,677
-	791,831	-	428,000	-	-	2,155,270
11,221,760	15,261,260	3,793,008	2,112,539	21,434,122	-	247,801,196
<u>299,634,472</u>	<u>943,874,700</u>	<u>928,790,267</u>	<u>410,441,793</u>	<u>719,278,693</u>	<u>1,536,019,254</u>	<u>20,285,121,032</u>

21. Net Position

The System's net position at August 31, 2020 and 2019 was comprised of the following:

	2020	*Restated 2019
Net investment in capital assets	\$ 6,606,751,520	6,741,035,811
Restricted		
Nonexpendable	27,761,434,507	26,986,429,001
Expendable	16,084,898,251	14,861,691,231
Total restricted	43,846,332,758	41,848,120,232
Unrestricted net position:		
Unrestricted		
Reserved		
Encumbrances	1,311,944,877	1,040,911,682
Accounts receivable (less unearned revenue portion)	1,342,019,172	1,399,036,867
Inventories	180,089,467	161,424,610
Self-insurance plans	793,477,462	585,380,140
Other specific purposes:		
Advanced Research/Advanced Technology Programs	-	3,422,083
Notes Receivable	9,260	137,003
Deposits	1,433,644	1,369,638
Prepaid expenses	136,035,256	160,268,219
Deferred charges	1,043,983	623,185
Imprest funds	947,513	1,141,663
Travel advances	230,145	334,524
Unreserved		
Allocated		
Funds functioning as endowment-unrestricted	731,631,279	491,292,177
Provision for operating budgets	99,485,851	50,526,494
Capital projects	3,710,426,296	2,277,599,265
Debt service	122,419,350	186,058,547
Start-up/matching	137,914,354	115,389,567
Utilities reserve	11,169,964	11,690,869
Research enhancement and support	533,152,224	414,686,491
Market adjustments	112,776,940	47,336,691
Student fees	217,429,690	193,995,584
Texas Tomorrow Fund shortfall	4,196,730	5,464,510
Instructional program support	977,177,809	827,867,990
Dean, chair and faculty recruitment packages	8,669,083	10,346,634
Self-supporting enterprises	193,426,437	168,948,974
Patient care support	2,206,864,771	902,703,267
Practice plan minimum operating reserve of 90 days	272,513,926	310,221,802
Unallocated	(14,895,842,247)	(12,099,069,102)
Total unrestricted	(1,789,356,764)	(2,730,890,626)
Total net position	\$ 48,663,727,514	45,858,265,417

*August 31, 2019 unrestricted net position was restated as a result of implementing GASB Statement No. 84. See Note 4 for further details.

As of August 31, 2020 and 2019, restricted nonexpendable net position includes \$21,193,107,512 and \$20,925,167,823, respectively, of the Permanent University Fund corpus, and \$820,000,000 for both years of the Permanent Health Fund corpus. As of August 31, 2020 and 2019, restricted expendable net position includes \$8,694,358,136 and \$8,090,101,758, respectively, of the Permanent University Fund appreciation, and \$441,715,352 and \$383,960,650, 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.

The System's fiduciary fund net position at August 31, 2020 and 2019 was comprised of the following:

	2020	*Restated 2019
Restricted for:		
Pooled participants	\$ 250,642,298	235,007,998
Individuals, organizations, and other governments	1,558,778	1,777,637
Total fiduciary fund net position	<u>\$ 252,201,076</u>	<u>236,785,635</u>

22. Termination Benefits

U. T. System Administration contracted with NextJob to provide outplacement services to employees of the System who implemented a reduction in force. U. T. System Administration incurred expenses of \$205,450 for 741 terminated employees of the System as of August 31, 2020 and \$112,750 for 553 terminated employees of the System as of August 31, 2019. While U. T. System Administration contracted with NextJob, the U. T. institutions may incur travel expenses for NextJob if they request NextJob to come to their campus or if the institution requests services that fall outside of the standard service in the contract.

In 2019, U. T. Austin Intercollegiate Athletics offered a Voluntary Exit Incentive Program (VEIP) to reduce its number of full-time employees and control expenses. Those employees who elected to participate in the VEIP received a one-time, lump-sum payment equal to \$17,000 or 25% of their base pay, whichever was greater. The total amount paid out to employees was \$112,746.

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

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, 2020 and 2019 are provided below:

	2020	2019
Total Number of Participants ¹	2,317	2,659
Premium Revenue	\$ 5,360,192	5,642,357
2% Administrative Fee Revenue ²	(108,029)	(110,562)
Net COBRA Premium	5,252,163	5,531,795
Less Claims Paid	(11,758,308)	(12,759,632)
Cost to System	<u>\$ (6,506,145)</u>	<u>(7,227,837)</u>

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

²The 2 percent administrative fee is retained by U. T. COBRA in OEB for administering the COBRA benefit and is paid by the participant.

23. Deferred Outflows of Resources and Deferred Inflows of Resources

As of August 31, 2020 and 2019, the System reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, unamortized (losses)/gains on refunding debt, the OPEB plan, the TRS pension plan, unamortized interest rate lock termination payments, asset retirement obligations, beneficial interests in irrevocable split-interest agreements, and acquisitions, as presented in the table below:

	2020		2019	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Hedging Derivative Instruments	\$ 413,075,150	414,453	325,363,093	-
Unamortized Loss/Gain on Refunding Debt	23,302,388	5,475,365	30,243,963	6,808,660
OPEB-Related	860,979,785	1,960,603,550	467,085,465	2,206,884,498
Pension-Related	2,221,484,431	1,056,704,429	2,516,650,579	511,850,823
Unamortized Interest Rate Lock				
Termination	8,404,497	-	8,721,868	-
Asset Retirement Obligation	2,109,901	-	4,750,994	-
Split-Interest Agreements	-	40,006,037	-	36,047,986
Acquisition Related	14,057,686	-	23,205,343	-
Total	\$ 3,543,413,838	3,063,203,834	3,376,021,305	2,761,591,967

Deferred outflows of resources of \$413,075,150 and \$325,363,093 as of August 31, 2020 and 2019, respectively, were related to hedging derivative instruments in a liability position. Deferred inflows of resources of \$414,453 as of August 31, 2020 were related to hedging derivative instruments in an asset position. The hedging derivative instrument asset and liability are disclosed in Note 7.

Deferred outflows of resources of \$23,302,388 and \$30,243,963 as of August 31, 2020 and 2019, respectively, were related to the unamortized losses on refunding debt. Deferred inflows of resources of \$5,475,365 and \$6,808,660 as of August 31, 2020 and 2019, 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 \$860,979,785 and \$467,085,465 and deferred inflows of resources of \$1,960,603,550 and \$2,206,884,498 as of August 31, 2020 and 2019, respectively, were related to the OPEB plan. See Note 16 for additional information.

Deferred outflows of resources of \$2,221,484,431 and \$2,516,650,579 and deferred inflows of resources of \$1,056,704,429 and \$511,850,823 as of August 31, 2020 and 2019, respectively, were related to the TRS pension plan. See Note 17 for additional information.

Deferred outflows of resources of \$8,404,497 and \$8,721,868 as of August 31, 2020 and 2019, respectively, were related to unamortized interest rate lock termination payments.

Deferred outflows of resources of \$2,109,901 and \$4,750,994 as of August 31, 2020 and 2019, respectively, were related to asset retirement obligations.

Deferred inflows of resources of \$40,006,037 and \$36,047,986 as of August 31, 2020 and 2019, respectively, were related to U. T. System's unconditional beneficial interests in irrevocable split-interest agreements.

Deferred outflows of resources of \$14,057,686 and \$23,205,343 as of August 31, 2020 and 2019, were related to unamortized excess consideration paid as a result of an asset purchase agreement with PTC- Houston Management, LP in fiscal year 2019.

24. Subsequent Events

On September 21, 2020, the U. T. System Board of Regents issued \$54,000,000 in RFS Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had \$87,000,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On October 21, 2020, the U. T. System Board of Regents issued \$85,000,000 in PUF Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had \$236,000,000 of PUF Taxable Commercial Paper Notes, Series B outstanding.

On October 21, 2020, the U. T. System Board of Regents issued \$101,340,000 in RFS Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had \$250,000,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

On November 20, 2020, the U. T. System Board of Regents issued \$90,000,000 in RFS Taxable Commercial Paper Notes, Series B to finance a variety of capital projects and equipment purchases at various U. T. System institutions. Subsequent to this issuance, the System had \$340,000,000 of RFS Taxable Commercial Paper Notes, Series B outstanding.

25. Upcoming Accounting Pronouncements

GASB Statement No. 87, *Leases*, effective 2022, establishes a single model for lease accounting. The System is evaluating the effect that Statement 87 will have on its financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*, effective 2023, provides a single method of reporting conduit debt obligations. The System is evaluating the effect that Statement 91 will have on its financial statements.

GASB Statement No. 92, *Omnibus 2020*, effective 2022, enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues identified during implementation of certain GASB Statements. GASB Statement No. 92 will have no effect on the System's net position or changes in net position.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, effective 2022, preserves consistency and comparability of reporting hedging derivative instruments and leases after agreements are amended to replace LIBOR. GASB Statement No. 93 will have no effect on the System's net position or changes in net position.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective 2023, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements and provides guidance for availability payment arrangements. The System is evaluating the effect that Statement 94 will have on its financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, is effective 2023. This Statement defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. The System is evaluating the effect that Statement 96 will have on its financial statements.

Other than the portion of this statement implemented in 2020, the remainder of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is effective 2022. The requirements relate to the accounting and financial reporting for Section 457 plans, and for all other arrangements, clarify that for purposes of determining whether a primary government is financially accountable for a potential component unit, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. The System is evaluating the effect that this portion of Statement 97 will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

**THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF CHANGES
IN THE EMPLOYER TOTAL OPEB LIABILITY AND RELATED RATIOS
December 31, 2019**

Last 10 Years

		2019	2018	2017	2016
1. Total OPEB Liability					
Service cost	\$	471,785,731	548,093,347	569,296,804	584,209,916
Interest		442,516,885	394,480,742	426,298,831	384,344,675
Changes of benefit terms ⁴		-	-	-	-
Differences between expected and actual experience		(89,235,022)	-	(136,662,956)	-
Changes of assumptions or other inputs ⁵		478,407,758	(1,429,460,396)	(781,692,644)	(299,449,010)
Benefit payments (employer)		(152,076,995)	(153,396,451)	(137,157,472)	(147,648,350)
Other changes		-	-	-	-
Net Change in Total OPEB Liability		1,151,398,357	(640,282,758)	(59,917,437)	521,457,231
Total OPEB Liability – Beginning		10,355,785,546	10,717,111,345	10,777,028,782	10,255,571,551
Changes in Proportionate Share		41,561,977	278,956,959	-	-
Total OPEB Liability – Ending	\$	11,548,745,880	10,355,785,546	10,717,111,345	10,777,028,782
2. Covered-Employee Payroll	\$	5,107,856,866	4,799,749,927	4,491,860,695	4,619,997,871
3. Total OPEB Liability as a Percentage of Covered-Employee Payroll		226.10%	215.76%	238.59%	233.27%

Notes to Schedule:

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

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

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

Changes in benefit terms: None

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

2019	2.74%
2018	4.10%
2017	3.44%
2016	3.78%

In 2019, amounts reflect updated assumed rates of retirement, disability, termination and mortality, and assumed inflation and salary increases, adjustments to assumptions for expenses, percentage of future retirees assumed to be married and electing coverage for their spouse, proportion of future retirees covering dependent children, percentage of future retirees and future retiree spouses assumed to use tobacco, percentage of future Service Retirees assumed to elect health coverage at retirement and remain covered until death, assumed per capita health benefit costs and assumed trend for health benefit costs and retiree contributions.

**THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN
August 31, 2020**

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

	2019	2018	2017	2016
System's proportion of the total OPEB liability	79.4928364%	79.1750747%	77.1664987%	77.1664987%
System's proportionate share of the total OPEB liability	\$ 11,548,745,880	10,355,785,546	10,717,111,345	10,777,028,782
State's proportionate share of the total OPEB liability related to System	2,979,287,588	2,723,817,586	3,171,184,120	3,188,913,639
Total OPEB liability related to System	\$ 14,528,033,468	13,079,603,132	13,888,295,465	13,965,942,421
System's covered payroll	\$ 6,425,556,183	6,062,198,170	5,820,998,450	5,987,051,307
System's proportionate share of the total OPEB liability as a percentage of its covered payroll	179.73%	170.83%	184.11%	180.01%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%

Only four years of information is presented due to GASB Statement 75 being implemented in 2018. Additional years will be displayed as they become available.

**THE UNIVERSITY OF TEXAS SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
TEACHER RETIREMENT SYSTEM PENSION PLAN
August 31, 2020**

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

	2019	2018	2017	2016	2015	2014
System's proportion of the net pension liability	8.6902629%	8.9377185%	8.2879633%	8.2932305%	7.7646311%	8.6199871%
System's proportionate share of the net pension liability	\$ 4,517,470,315	4,919,537,167	2,650,044,162	3,133,888,495	2,744,693,745	2,302,987,541
State's proportionate share of the net pension liability related to System	\$ 1,898,921,776	1,355,571,593	894,941,498	893,178,321	786,436,009	892,687,939
Total net pension liability related to System	\$ 6,416,392,091	6,275,108,760	3,544,985,660	4,027,066,816	3,531,129,754	3,195,675,480
System's covered payroll	\$ 5,435,527,295	5,106,576,133	4,891,473,913	4,635,793,582	4,472,632,860	4,018,776,650
System's proportionate share of the net pension liability as a percentage of its covered payroll	83.11%	96.34%	54.18%	67.60%	61.37%	57.31%
Plan fiduciary net position as a percentage of the total pension liability	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

Schedule of the System's Contributions as of August 31

	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 445,661,076	369,615,856	347,247,177	332,620,226	315,233,963	304,139,034
Contributions in relation to the statutorily required contributions	\$ 366,510,043	302,294,698	282,808,370	262,734,718	262,370,366	244,723,301
Contribution deficiency (excess)	\$ 79,151,033	67,321,158	64,438,807	69,885,508	52,863,597	59,415,733
System's covered payroll	\$ 5,942,147,682	5,435,527,295	5,106,576,133	4,891,473,913	4,635,793,582	4,472,632,860
Contributions as a percentage of covered payroll	6.17%	5.56%	5.54%	5.37%	5.66%	5.47%

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

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