

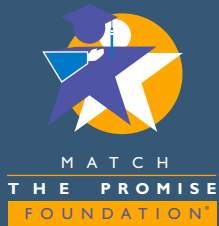
TEXAS PREPAID
HIGHER EDUCATION
TUITION PROGRAM
ANNUAL REPORT 2012
TEXAS COMPTROLLER
SUSAN COMBS, CHAIR



Our plans are the first
step in the journey
to a brighter future.

TEXAS PREPAID HIGHER EDUCATION TUITION PROGRAM

ANNUAL REPORT 2012



TEXAS GUARANTEED TUITION PLAN

LONESTAR
529 PLAN



TEXAS TUITION[®]
PROMISE FUND

A Prepaid Plan as Smart as You Are



Texas Tomorrow Fund
Texas Prepaid Scholarship Foundation



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PROGRAM SUMMARY



TEXAS GUARANTEED TUITION PLAN



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CUMULATIVE ENROLLMENT DATA FOR THE TEXAS GUARANTEED TUITION PLAN, 1996-2003

The *Texas Guaranteed Tuition Plan* opened for enrollment in 1996. It was closed to new enrollment in June 2003. Approximately 83,846 of the 158,442 contracts sold were active at August 31, 2012.

CONTRACT SUMMARY

Type of College Plan Purchased

The senior college plan is the most popular tuition plan purchased, consisting of more than 84 percent of the contracts.

Senior College Plan	133,704	84.38%
Junior-Senior College Plan	14,935	9.43%
Junior College Plan	6,721	4.24%
Private College Plan	3,082	1.95%
Total	158,442	100.00%

Payment Option Selected

The payment option chosen most often is monthly until matriculation at 34 percent, followed by lump sum at 28 percent.

Monthly Until Matriculation	54,485	34.39%
Lump Sum	44,806	28.28%
Monthly for Ten Years	22,332	14.09%
Monthly for Five Years	20,338	12.84%
Annual Payments	16,481	10.40%
Total	158,442	100.00%

Monthly Payment Method Selected

The most popular monthly payment method selected is the coupon booklet at 54 percent, followed by lump sum payments at 28 percent.

Coupon Booklet	84,864	53.56%
Lump Sum Payments	44,806	28.28%
Automatic Bank Draft	12,291	7.76%
Annual Payments	16,481	10.40%
Total	158,442	100.00%

Age or Grade Level of Beneficiary

Newborns and children under one year of age represent the largest groups for whom contracts have been purchased at nearly 18 percent.

Newborn	13,903	8.78%
0 Year	14,488	9.14%
1 Year	9,846	6.21%
2 Years	8,651	5.46%
3 Years	8,215	5.18%
4 Years	8,494	5.36%
Kindergarten	10,056	6.35%
First Grade	9,762	6.16%
Second Grade	10,318	6.51%
Third Grade	9,656	6.09%
Fourth Grade	9,692	6.12%
Fifth Grade	9,787	6.18%
Sixth Grade	9,293	5.87%
Seventh Grade	8,497	5.36%
Eighth Grade	7,003	4.42%
Ninth Grade	5,035	3.18%
Tenth Grade	3,011	1.90%
Eleventh Grade	1,720	1.09%
Twelfth Grade	1,015	0.64%
Total	158,442	100.00%

Beneficiary's Relationship to Purchaser

78 percent of contracts are purchased by the parents of the child, followed by grandparents at 10 percent.

Child	124,219	78.39%
Grandchild	16,075	10.15%
Other	2,910	1.84%
Great Grandchild	399	0.25%
Not Reported by Purchaser	14,839	9.37%
Total	158,442	100.00%

Counties with Largest Volume of Contracts

The largest number of contracts (15 percent) is purchased in Harris County.

Harris	23,327	15.49%
Dallas	14,252	9.47%
Travis	11,509	7.64%
Tarrant	10,543	7.00%
Bexar	10,149	6.74%
Collin	8,037	5.34%
Denton	4,924	3.27%
Total	82,741	54.95%

OPTIONAL INFORMATION AS PROVIDED BY THE PURCHASER

At the time the applications were submitted between 1996 and 2003, the following information was requested on a voluntary basis. “Not Reported by Purchaser” indicates that the Purchaser chose not to report the information.

Annual Family Household Income

Families with incomes from \$50,000 to \$75,000 purchased the largest single volume of contracts by income group at 18 percent. Families with incomes from less than \$20,000 up to \$50,000 purchased nearly 17 percent of the contracts. Some 38 percent of respondents did not elect to report family income.

Less than \$20,000	2,068	1.31%
\$20,000 to \$29,999	5,003	3.16%
\$30,000 to \$39,999	8,141	5.14%
\$40,000 to \$49,999	10,958	6.92%
\$50,000 to \$74,999	28,478	17.97%
\$75,000 to \$100,000	25,423	16.05%
Over \$100,000	18,765	11.84%
Not Reported by Purchaser	59,606	37.61%
Total	158,442	100.00%

Beneficiary's Ethnicity

A total of 81,766 (52 percent) of the beneficiaries are Anglo.

Anglo	81,766	51.61%
Hispanic	16,036	10.12%
African-American	5,100	3.22%
Asian-American	4,248	2.68%
Other	3,589	2.27%
Native-American	1,035	0.65%
Not Reported by Purchaser	46,668	29.45%
Total	158,442	100.00%

Education Level of Purchaser

Nearly 29 percent of those that reported information related to education levels had a bachelor's degree, 13 percent had a master's degree and 13 percent had a high school diploma.

Bachelor's Degree	44,848	28.31%
Master's Degree	20,569	12.98%
High School Graduate	19,834	12.52%
Associate Degree	10,375	6.55%
Other	3,596	2.27%
Doctorate Degree	9,191	5.80%
Not Reported by Purchaser	50,029	31.57%
Total	158,442	100.00%

CUMULATIVE ENROLLMENT DATA FOR THE TEXAS TUITION PROMISE FUND

The Texas Tuition Promise Fund, the state's new prepaid tuition plan, opened for enrollment in 2008. The plan is open for enrollment annually between September 1 and February 28/29. Approximately 22,841 contracts had been sold as of August 31, 2012.

CONTRACT SUMMARY

Type of College Plan Purchased

Type I units are the most popular type plan. Type I units pay tuition and required fees at up to the most expensive Texas public 4-year college or university. Type II units pay the weighted average tuition and required fees at Texas public 4-year colleges and universities. Type III units pay the weighted average tuition and required fees at Texas public 2-year colleges.

Type I Units	13,484	59%
Type II Units	7,930	35%
Type III Units	1,427	6%
Not Specified	0	0%
Total	22,841	100%

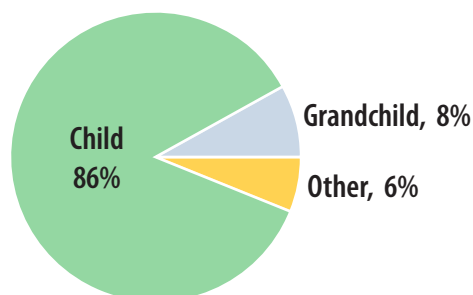
Payment Option Selected

The installment payment option is chosen most often with the majority selecting to pay in monthly extended payments until the beneficiary reaches age 18. The Pay-As-You-Go payment option allows individuals to pay as much as they like, whenever they like after establishing an account with a minimum of one unit and subsequent payment amounts of each least \$15.

Lump Sum	5,929	26%
Installment	7,867	34%
Pay-As-You-Go	9,045	40%
Undesignated	0	0%
Total	22,841	100%

Beneficiary's Relationship to Purchaser

The majority of the contracts are bought for the purchaser's child.



Age of Beneficiary

The majority of contracts were purchased for beneficiaries less than 1 year of age.

Less Than 1 Year	3,576	16%
1 Year	1,506	7%
2 Years	1,436	6%
3 Years	1,542	7%
4 Years	1,558	7%
5 Years	1,432	6%
6 Years	1,376	6%
7 Years	1,466	6%
8 Years	1,367	6%
9 Years	1,319	6%
10 Years	1,270	5%
11 Years	1,297	6%
12 Years	1,147	5%
13 Years	1,017	4%
14 Years	803	3%
15 Years	440	2%
16 Years	180	1%
17 Years	56	1%
18 Years	5	–
Over 18 Years	5	–
Undesignated	43	–
Total	22,841	100.0%

Counties with Largest Volume of Contracts

The top ten counties purchasing contracts are listed below. Sales of contracts in those counties represents 65% of the contracts sold.

Harris	3,124	14%
Travis	2,077	9%
Collin	1,968	8%
Dallas	1,569	7%
Tarrant	1,406	6%
Fort Bend	1,029	5%
Bexar	1,098	5%
Denton	896	4%
Williamson	968	4%
Montgomery	461	2%
All Other	8,245	36%
Total	22,481	100.0%

OPTIONAL INFORMATION AS PROVIDED BY THE PURCHASER

At the time the applications are submitted, purchasers are asked to provide the following information on a voluntary basis. Not Reported by Purchaser indicates that the purchaser did not report the information.

Annual Family Household Income

Under \$50,000	5%
\$50,001-\$75,000	12%
\$75,001-\$100,000	20%
Over \$100,000	54%
Not Reported by Purchaser	9%
Total	100.0%

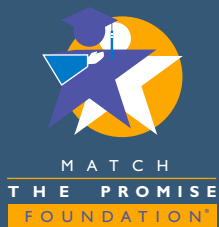
Beneficiary's Ethnicity

African-American	3%
Asian	13%
Anglo	58%
Hispanic	14%
Native-American	–
Other	4%
Not Reported by Purchaser	8%
Total	100.0%

Education Level of Purchaser

High School Graduate	2%
Some College	8%
Associate Degree	4%
Bachelor's Degree	39%
Master's Degree	27%
Doctorate	12%
Not Reported by Purchaser	8%
Total	100.0%

ANNUAL REPORT



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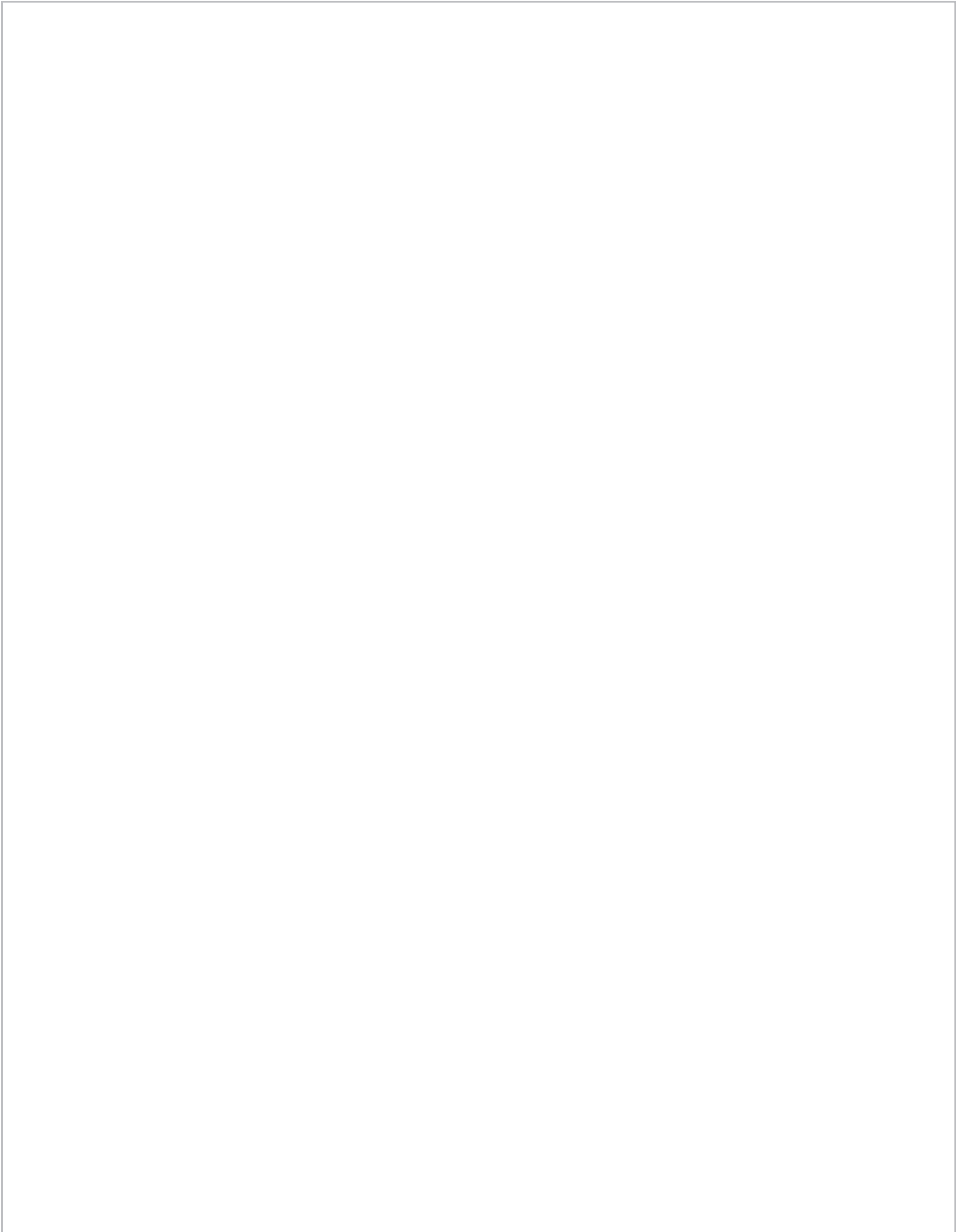


**TEXAS PREPAID HIGHER EDUCATION
TUITION BOARD (315)**

ANNUAL REPORT

For the Fiscal Year Ended August 31, 2012

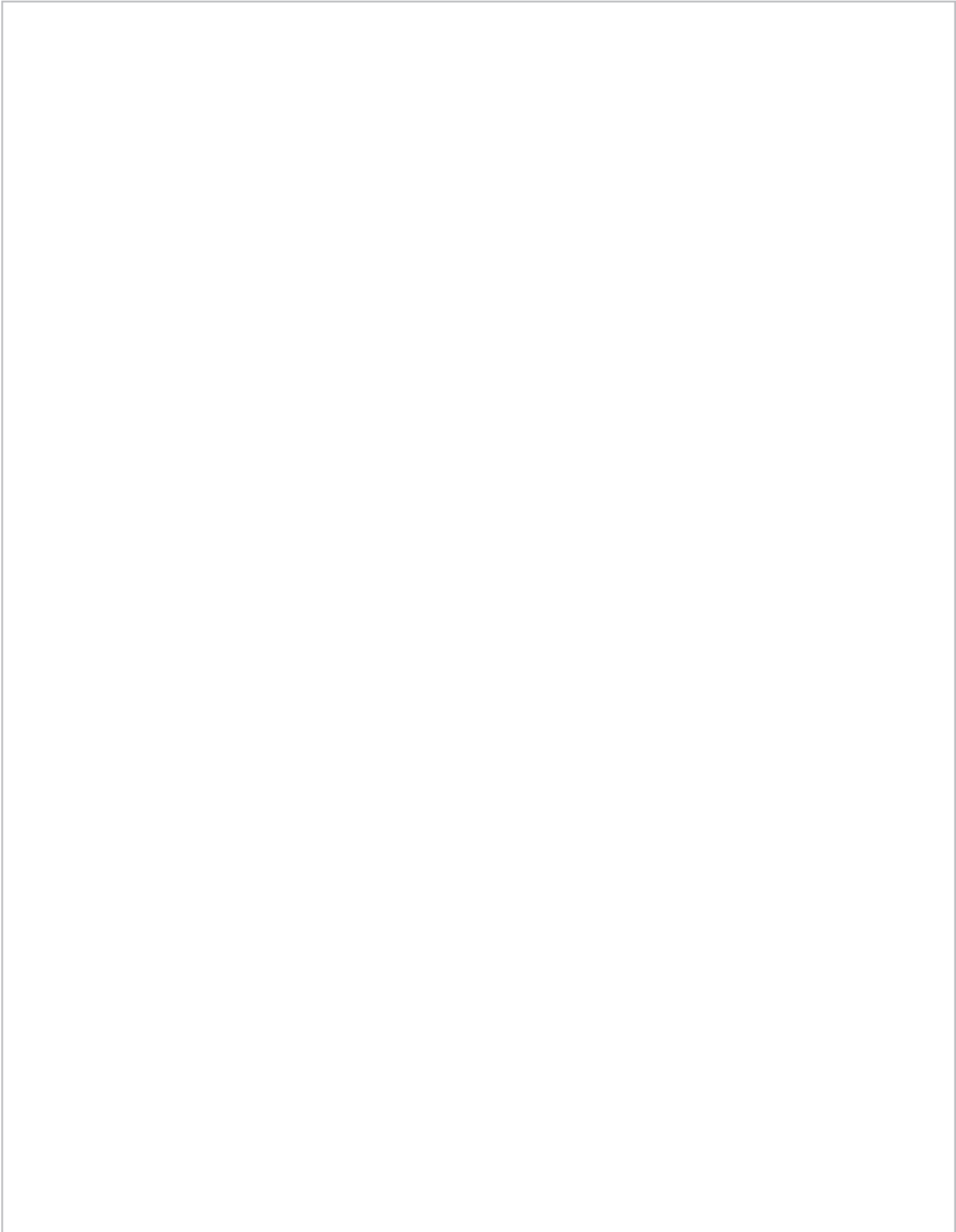




**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
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INDEPENDENT AUDITOR'S REPORT



TEXAS GUARANTEED TUITION PLAN

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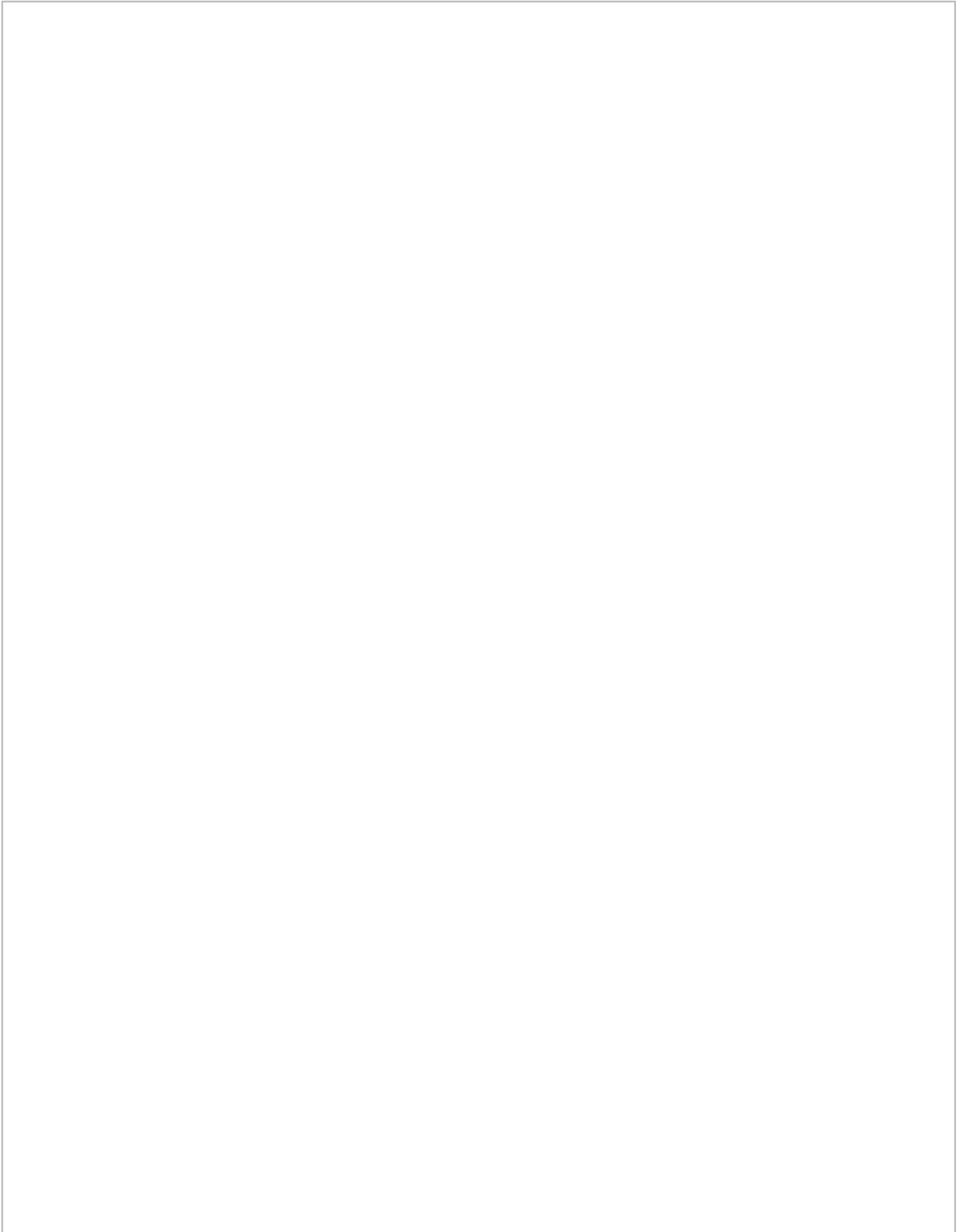
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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Texas Prepaid Higher Education Tuition Board:

We have audited the accompanying financial statements of the business-type activities, the blended component units, each major fund, and the fiduciary fund information of the Texas Prepaid Higher Education Tuition Board (the "Board"), an agency of the State of Texas, as of and for the fiscal year ended August 31, 2012, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Texas College Savings Plan® and the LoneStar 529 Plan® (the "Plans"), formerly altogether known as the College Savings Plans, which represent 15% and 46%, respectively, of the assets and revenues of the Board as of and for the fiscal year ended August 31, 2012. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Plans, is based on the report of the other auditors.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the blended component units, each major fund, and the fiduciary fund information of the Board, as of August 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report December 18, 2012, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

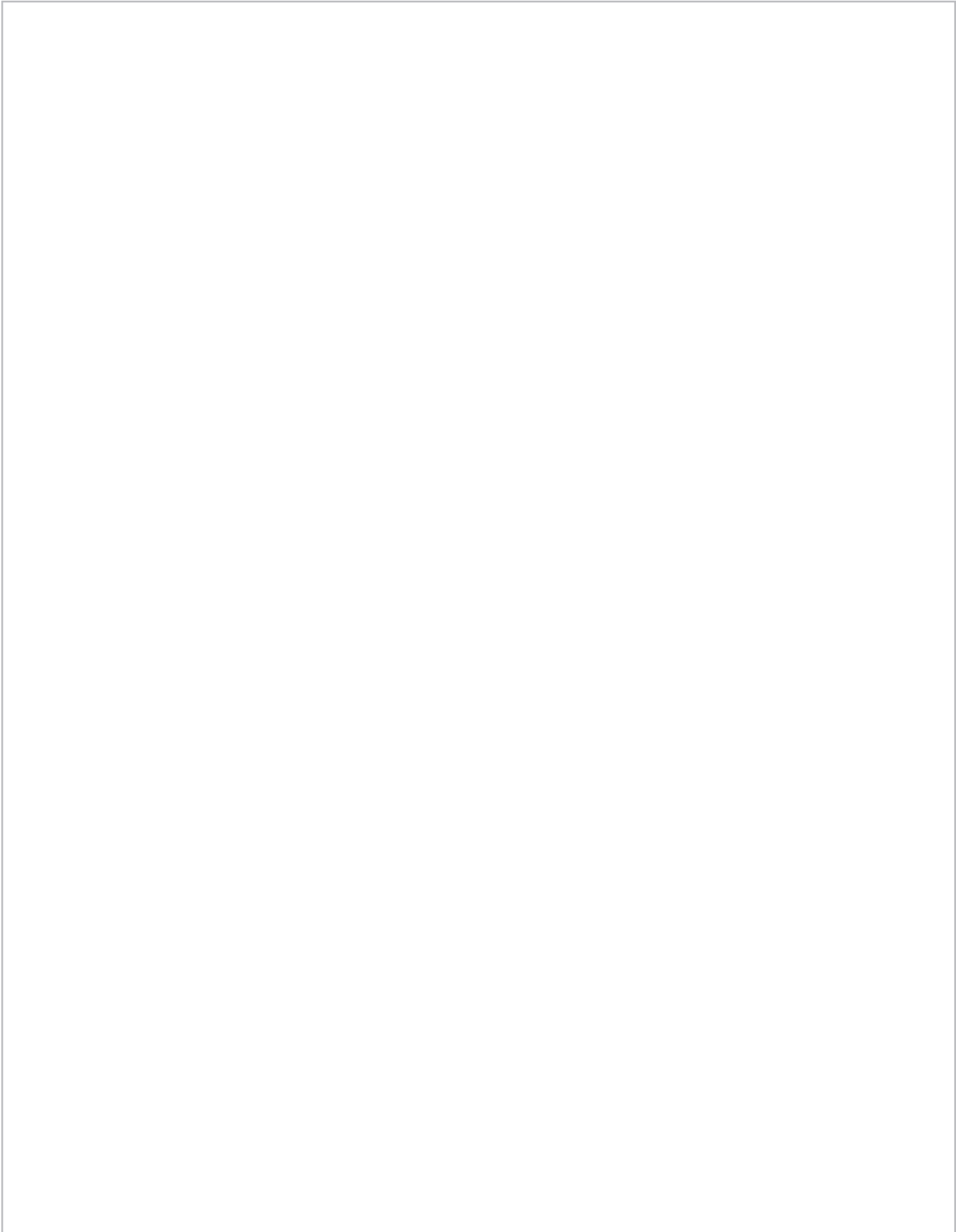
The Management's Discussion and Analysis, on pages 2 through 8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board and accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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McConnell & Jones LLP

Houston, Texas
December 18, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS



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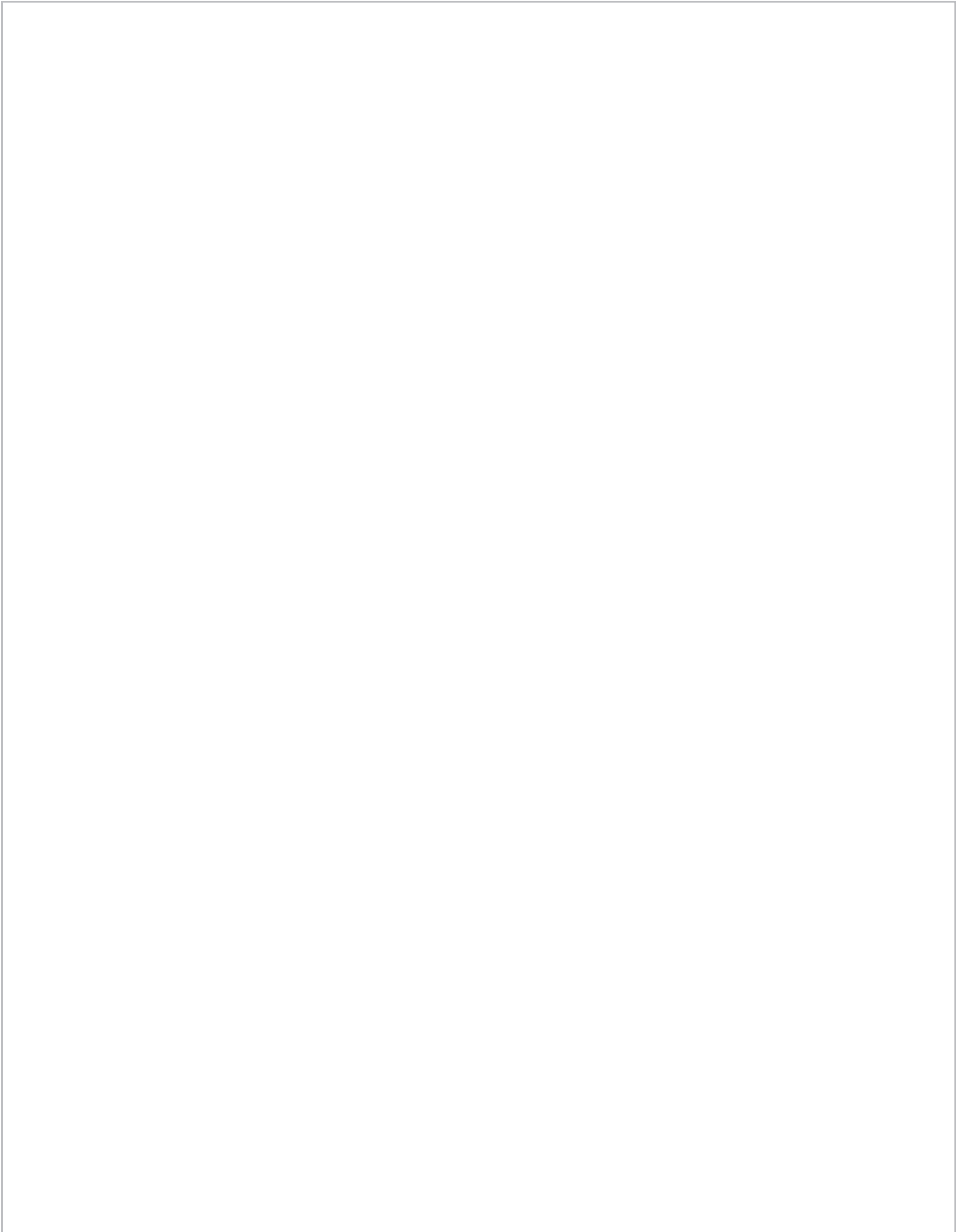
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TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315) MANAGEMENT’S DISCUSSION AND ANALYSIS For the Fiscal Year Ended August 31, 2012

This section of the Texas Prepaid Higher Education Tuition Board’s (the “Board” or “Agency”) annual financial report presents a discussion and analysis of the Agency’s financial performance during the fiscal year ended August 31, 2012, and of the Agency’s financial position as of that date. Please read it in conjunction with the Agency’s financial statements. The Board administers the Texas Guaranteed Tuition Plan, Texas Tuition Promise Fund®, Texas Prepaid Scholarship Foundation, the Texas College Savings Plan® and the LoneStar 529 Plan®. The Board also administers the Texas Save and Match Program in cooperation with the Texas Match the Promise Foundation®.

Financial Highlights of the Texas Guaranteed Tuition Plan

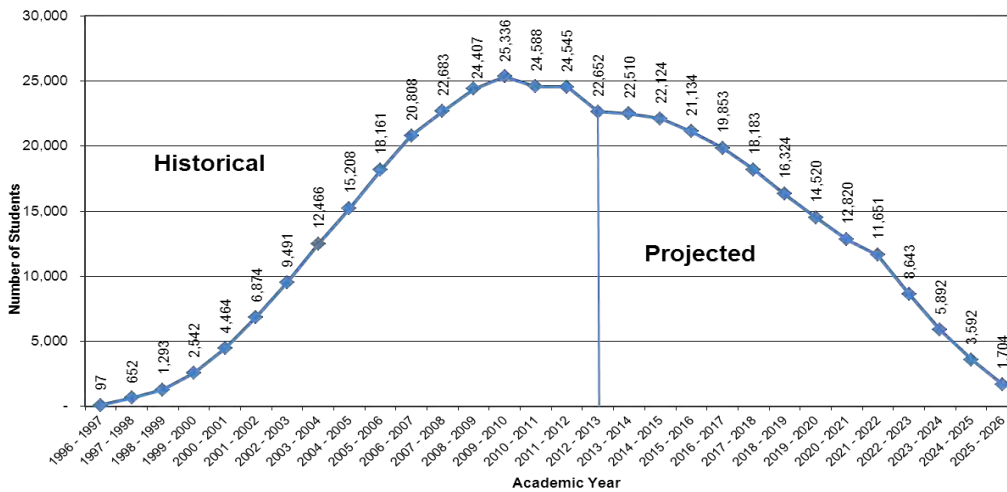
Net assets of the *Texas Guaranteed Tuition Plan* decreased by \$2 million in fiscal 2012.

Other financial highlights include:

- Payment of participants’ benefits of \$143,432,535.34 to colleges and universities
- Net investment income of \$92,106,003.91
- Contract receipts of \$9,135,792.34
- Earnings paid on cancelled contracts of \$14,283,952.71
- Operating expenses of \$3,275,453.52
- Increase of \$2,229,464.87 in the unfunded liability for contract benefits payable

The *Texas Guaranteed Tuition Plan* (the “Plan”) opened for enrollment in 1997 and plan benefits are guaranteed by the full faith and credit of the State of Texas (the “State”). The Plan closed for new enrollment in 2003 when tuition was deregulated; however, there were approximately 84,000 active contracts as of August 31, 2012. The Plan’s unfunded liability at August 31, 2012, was (\$643,672,576.71) compared to (\$641,443,111.84) at August 31, 2011, an increase in the unfunded liability of \$2,229,464.87. Since the Plan is closed to new enrollment, the number of plan beneficiaries using the Plan will continue to decrease after peaking in 2009-2010:

Number of Students Using Texas Guaranteed Tuition Plan Benefits by Academic Year*



*Academic Years 2012-2026 are projected based on the projected high school graduation dates of beneficiaries. The plan’s actuary projects that all accounts will be depleted by the year 2026.

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended August 31, 2012**

Financial Highlights of the Texas Tuition Promise Fund

The State’s new prepaid tuition plan, the *Texas Tuition Promise Fund* (the “Promise Fund”) opened for enrollment in 2008. The Promise Fund is not guaranteed by the State of Texas. Through August 31, 2012, the Promise Fund had sold approximately 22,900 contracts at a value of approximately \$431 million. Receipts from purchasers in fiscal 2012 totaled more than \$69 million. The contracts are subject to a three-year holding period before any contract benefits can be paid to schools; therefore, no benefits were paid until 2012.

Financial Highlights of the Texas Prepaid Scholarship Foundation

During fiscal 2012, the *Texas Prepaid Scholarship Foundation* (the “Scholarship Foundation”) recognized as an asset and liability the value of contracts owned by the Scholarship Foundation in the *Texas Guaranteed Tuition Plan*, which have been awarded as scholarships. As of August 31, 2012, the value of these contracts totaled \$72,235.80.

Financial Highlights of the Texas Match the Promise Foundation

The *Texas Match the Promise Foundation*, (the “Promise Foundation”), a 501(c)(3) federal tax-exempt public charity eligible to receive tax deductible donations, was established in fiscal 2009. Individuals and companies can make donations to the Promise Foundation to be used to supplement the college savings of families with prepaid tuition accounts in the *Texas Tuition Promise Fund* or the state’s college savings plans. Donations will provide matching scholarships to students with demonstrated needs. During fiscal 2012, the Promise Foundation received approximately \$65,000 in contributions from donors contributing a portion of their unclaimed property receipts to the Promise Foundation to be used for scholarships. The Promise Foundation also purchased 1,446 Type I tuition units in the *Texas Tuition Promise Fund* totaling \$161,489.28. These units are recognized as assets in the Promise Foundation’s financial statements.

Financial Highlights of the College Savings Plans

Net assets of the Board’s 529 college saving plans, the *direct-sold Texas College Savings Plan* and the *advisor-sold LoneStar 529 Plan*, increased to \$357,894,843.16 at August 31, 2012 from \$303,999,848.66 at August 31, 2011, an increase of \$54 million. The increase was due to an increase in the number of account owners to 33,147 at August 31, 2012 from 30,713 at August 31, 2011, increased net contributions to savings accounts, and net income from investment activities. Financial highlights include:

- Contributions of \$121,836,665.18 from investors
- Distributions of \$95,151,201.81 from investor accounts
- Net income of \$27,595,081.04 from investing activities

Financial Highlights of the Asset Management Settlement Agreement

On February 19, 2010, OppenheimerFunds, Inc. (“OFI”), OFI Private Investments Inc. (“OFIPI”), and OppenheimerFunds Distributor, Inc. (“OFDI”), (collectively, “OppenheimerFunds” or “OFI”), plan manager of the State’s college savings plans, and the State of Texas reached an agreement to resolve the state’s investigation into the management of the *Texas College Savings Plan* and *LoneStar 529 Plan*, via a settlement agreement (the “Settlement”). Under the terms of the Settlement, OFI does not admit any wrongdoing and under the terms of the settlement, OFI transferred \$12,430,000.00 to the State of Texas to be deposited into an account at the Texas Treasury Safekeeping Trust Company, held by the Board as trustee of the *Texas College Savings Plan* and *LoneStar 529 Plan*.

In accordance with the Settlement, the Settlement proceeds constitute trust assets of the *Texas College Savings Plan* and *LoneStar 529 Plan*. Included in the settlement amount is \$78,203.01 to cover costs incurred by the State of Texas in connection with the Settlement, resulting in \$12,351,796.99 to be distributed to eligible participants of the *Texas College Savings Plan* and *LoneStar 529 Plan*, subject to the terms of the Settlement. Settlement proceeds are

TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended August 31, 2012

transferred monthly from the Treasury Safekeeping Trust Co. account to the Texas 529 Plan Purchase Account maintained by OFDI, the plan’s distributor, for distribution to the affected participants who submitted release forms the prior month.

Activity of the Settlement account as of and for the year ended August 31, 2012, follows:

Total Distributions to Eligible Account Owners	\$11,526,287.14
Total Account Owners Receiving Distributions to Accounts	16,428
Interest Paid on Distributions	\$5,788.58
Amount Invested in Repurchase Agreements at August 31, 2012	\$833,218.34

The Settlement authorized payments of the following expenses:

- Outside legal costs of \$74,364.00
- Travel expenses to the Office of the State of Texas Attorney General \$3,839.01

The funds held by the Board of \$833,218.34 at August 31, 2012, are invested in repurchase agreements through the State of Texas Treasury Safekeeping Trust Co. and are included as Agency Funds in the Board’s financial statements. Service fees of \$2,500.00 were paid to the State of Texas Treasury Safekeeping Trust Company.

Overview of the Board’s Financial Statements

The annual financial report of the Board consists of four parts - *management’s discussion and analysis*, the *basic financial statements*, *required supplementary information*, and *combining statements* for non-major governmental funds and enterprise funds. The basic financial statements include *government-wide* financial statements, *fund* financial statements, and *notes* to the financial statements.

Government-wide Financial Statements

Government-wide financial statements present an overall picture of the financial position of the Agency. These statements provide both long-term and short-term information about the Agency using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Agency’s net assets and how the net assets increased or decreased during the fiscal year. Net assets are the difference between the Agency’s assets and liabilities and represent one way to measure the Agency’s financial health or position. The government-wide financial statements of the Agency are divided into two categories:

- *Business-Type Activities* – This includes activities for which a fee is charged to customers to pay most or all of the cost of services. Financial activities for the *Texas Guaranteed Tuition Plan* and the *Texas Tuition Promise Fund* are reported as enterprise funds.
- *Component Units* – This includes activities of legally separate entities for which the Agency is either financially accountable or the nature and significance of their relationship with the Agency is such that exclusion would cause the Agency’s financial statements to be misleading or incomplete. Financial activities for the *Texas Prepaid Scholarship Foundation* and the *Texas Match the Promise Foundation* are reported as component units.
- *Fiduciary Activities* – The Agency is the trustee, or fiduciary, for the State’s 529 college savings plans, and the settlement trust account funds. The fiduciary activities are excluded from government-wide financial statements because a government cannot use these assets to finance its operations.

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended August 31, 2012**

Fund Financial Statements

Fund financial statements provide more detailed information on the Board’s most significant funds. They use a format that is more familiar to experienced users of governmental financial statements. A fund is a separate accounting entity with a self-balancing set of accounts. Governmental entities use funds to keep track of sources of funding and spending related to separate activities.

The Agency has two kinds of funds:

Proprietary Funds – When a government charges for services it provides to customers, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, which are a type of proprietary fund. Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The financial activities for the *Texas Guaranteed Tuition Plan* and the *Texas Tuition Promise Fund* are reported as enterprise funds, as the State is holding funds that will later be used to support the State’s own programs to pay future tuition and required fees in return for the contracts that are purchased.

A constitutional amendment passed by Texas voters in November 1997 guarantees *Texas Guaranteed Tuition Plan* benefits to be paid to colleges and universities on behalf of beneficiaries of the plan as follows:

If in any fiscal year there is not enough money in the Texas Tomorrow Fund [Texas Guaranteed Tuition Plan] to pay the tuition and required fees of an institution of higher education in which a beneficiary enrolls or the appropriate portion of the tuition and required fees of a private or independent institution of higher education in which a beneficiary enrolls as provided by a prepaid tuition contract, there is appropriated out of the first money coming into the state treasury in each fiscal year not otherwise appropriated by the constitution the amount that is sufficient to pay the applicable amount of tuition and required fees of the institution.

Benefits of the *Texas Tuition Promise Fund* are not guaranteed by the State; however, Texas public colleges and universities are required to accept the plan as payment of tuition and required fees for plan beneficiaries. The *transfer value* of the *Texas Tuition Promise Fund* is paid to Texas private colleges and universities and eligible out-of-state and career schools. Transfer value is the lesser of (1) the costs the unit would cover at a public in-state college or (2) the original purchase price of the unit plus or minus the plan’s net investment earnings or losses on that amount.

Fiduciary Funds – The Agency is the trustee, or fiduciary, for the direct-sold *Texas College Savings Plan* and the advisor-sold *LoneStar 529 Plan*, which are the State’s 529 college savings plans, as well as the Settlement trust account. These 529 college savings plans were first offered by the Board in 2002. They are reported as private purpose trust funds because these are fiduciary funds and the State does not guarantee the program. The Settlement trust account funds are agency funds as the Settlement proceeds constitute trust assets of the 529 savings plans, which are allocable among the accounts of affected owners of the Settlement. All governmental fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The fiduciary activities are excluded from government-wide financial statements because a government cannot use these assets to finance its operations.

Financial Analysis of the Agency as a Whole

Net Assets

Total Assets of the Board on August 31, 2012 were \$2.1 billion, while total liabilities were \$2.7 billion, resulting in a net deficit of (\$621) million.

TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended August 31, 2012

A summary of net assets is shown below:

Statements of Net Assets

	Business-Type Activities		% of Change
	Fiscal Year		
	2012	2011	
Current and Other Assets	\$ 2,064,508,336.44	\$ 2,078,447,395.54	-0.67%
Capital Assets	-	3,136.60	-100.00%
Total Assets	<u>2,064,508,336.44</u>	<u>2,078,450,532.14</u>	-0.67%
Other Liabilities	<u>2,685,334,531.77</u>	<u>2,696,846,131.26</u>	-0.43%
Total Liabilities	<u>2,685,334,531.77</u>	<u>2,696,846,131.26</u>	-0.43%
Net Assets (Deficit):			
Invested in Capital Assets, Net of Related Debt	-	3,136.60	-100.00%
Unrestricted	<u>(620,826,195.33)</u>	<u>(618,398,735.72)</u>	0.39%
Total Net Deficit	<u>\$ (620,826,195.33)</u>	<u>\$ (618,395,599.12)</u>	0.39%

Changes in Net Assets

The Agency earned program revenues of nearly \$95 million, had an increase in the fair value of investments of \$82 million, and expenses of \$179 million. The excess of revenues over expenses caused the Agency's total net assets to decrease by (\$2) million. This compares with a decrease in net assets the previous fiscal year of \$31 million. Revenues and expenses of the Agency's business-type activities are detailed below:

	Business-Type Activities		% of Change
	Fiscal Year		
	2012	2011	
Revenues			
Program Revenues			
Charges for Services	\$ 59,051,442.87	\$ 63,985,267.35	-7.71%
Capital Gains and Contributions	<u>35,637,356.63</u>	<u>31,456,394.29</u>	13.29%
Total Revenues	<u>94,688,799.50</u>	<u>95,441,661.64</u>	-0.79%
Net Increase in Fair Value of Investments	82,368,178.85	109,917,211.98	-25.06%
Expenses	<u>(179,487,574.56)</u>	<u>(236,406,713.14)</u>	-24.08%
Decrease in Net Assets	<u>\$ (2,430,596.21)</u>	<u>\$ (31,047,839.52)</u>	-92.17%

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended August 31, 2012**

Analysis of the Agency’s Funds

Proprietary Funds

The decrease of approximately (\$2) million in the Agency’s net assets was due to an increase in the unfunded liability of the Texas Guaranteed Tuition Plan. However, the increase was \$37 million less than the expected unfunded liability for the following reasons:

- Investment performance was higher than the projected annual return in the 2011 Actuary’s Report, and
- Tuition increases for the 2011-2012 Academic Year were lower than projected in the 2011 Actuary’s Report.

The favorable variances above were partially offset by lowering the investment return assumptions for future years.

Fiduciary Funds

The financial activity of the Board’s college saving plans, *the direct-sold Texas College Savings Plan and the advisor-sold LoneStar 529 Plan*, is reported as a private purpose trust fund.

Budgetary Highlights

The Board adopts an annual operating budget. The fiscal 2012 expenditure budget included all administrative costs paid directly by the Agency for the prepaid tuition and college savings plans. The budget totaled \$4 million for the fiscal year ended August 31, 2012.

- The largest component of the fiscal 2012 budget was consultant and professional fees at \$2.3 million, or 56% of the total budget. Of that figure, \$1.6 million was budgeted for investment management and consulting fees.
- The fiscal 2012 budget reflected an 18% decrease over the fiscal 2011 budget due primarily to a decrease in investment management fees related to decreased assets under management as a result of benefit payments to college and universities on behalf of plan beneficiaries.

A summary comparison of the fiscal 2012 budget to actual expenditures is shown below:

FY 2012 EXPENSE TO BUDGET COMPARISON						
FY 2012 Budget	FY 2012 Actual Expenses			\$ Variance Comparing Actual to Budget	% Variance Comparing Actual to Budget	
	Enterprise Funds	Private Purpose Trust Funds	Total Actual Expenses			
Salaries and Payroll Related Costs	\$ 1,228,140.00	\$ 951,789.34	\$ 42,275.29	\$ 994,064.63	\$ (234,075.37)	-19.06%
Professional Fees and Services	2,307,787.00	2,582,954.13	341,142.18	2,924,096.31	616,309.31	26.71%
Repairs and Maintenance	293,870.00	294,191.12	-	294,191.12	321.12	0.11%
Materials and Supplies	95,772.00	92,756.33	-	92,756.33	(3,015.67)	-3.15%
Other Operating Expenses	188,662.00	194,560.05	2,132.44	196,692.49	8,030.49	4.26%
	\$ 4,114,231.00	\$ 4,116,250.97	\$ 385,549.91	\$ 4,501,800.88	\$ 387,569.88	9.42%

With the exception of Professional Fees, actual expense categories were lower than or within 5% of the budgeted amounts. Overall expenses exceeded the budget by \$387,569.88 due to higher than expected investment management fees included in Professional Fees. Those fees are based on assets under management (AUM). During fiscal 2012, the market value of the AUM increased above the balances projected when the budget was developed resulting in higher investment management fees.

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD (315)
MANAGEMENT’S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended August 31, 2012**

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2012, the Agency’s capital assets are fully depreciated. The 100% decrease in capital assets, net of depreciation was due to an increase of \$3 thousand in depreciation expense for fiscal year 2012.

**Capital Assets
(Net of Depreciation)**

	Business-Type Activities		% of Change
	Fiscal Year		
	2012	2011	
Computer Software-Intangible	\$ -	\$ -	0.00%
Furniture and Equipment	-	3,136.60	-100.00%
Total Capital Assets	<u>\$ -</u>	<u>\$ 3,136.60</u>	-100.00%

Debt Administration

The Board has no debt issued.

Economic Factors and Next Year’s Budget and Rates

The two main economic indicators that affected the financial position of the Board during fiscal year 2012 were:

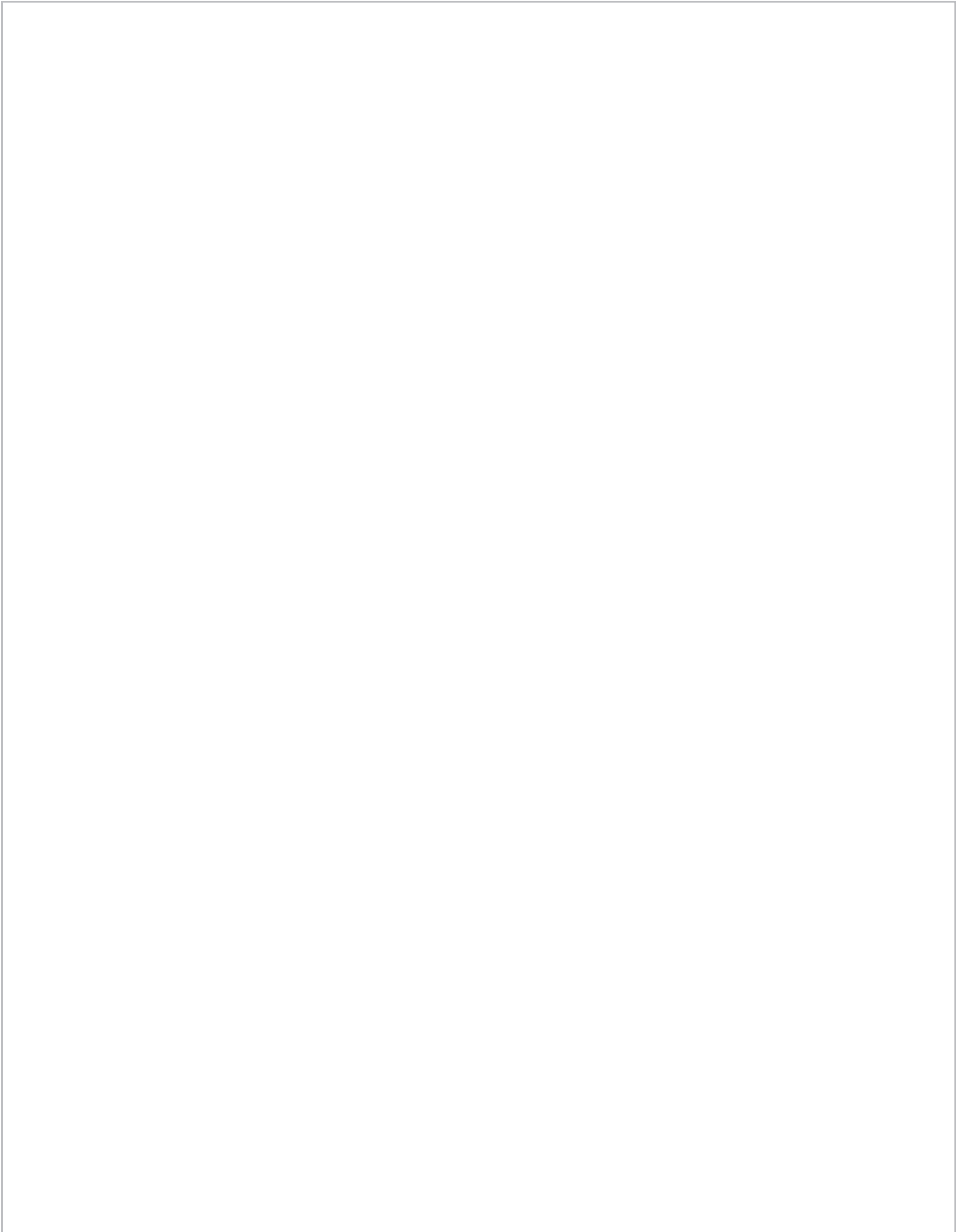
- The increase of \$82 million in fair value of investments.
- The change in the actuarial assumptions to reflect the actual 2012-2013 academic year tuition inflation and updated assumptions for future return on investments.

In August 2012, the Board adopted an operating budget of \$4 million for fiscal 2013.

Contacting the Agency’s Financial Management

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Board’s finances and to demonstrate the Board’s accountability for the money it receives. If you have questions about this report or need additional financial information, you can contact the Comptroller’s Educational Opportunities and Investment Division by sending a letter to 111 E. 17th Street, Room #510, Austin, Texas 78711, calling 800-531-5441, ext. 3-2072, or sending an email to benito.navarro@cpa.state.tx.us.

Comments or complaints may be forwarded to the Texas Prepaid Higher Education Tuition Board, Office of the Comptroller of Public Accounts, at PO Box 13407, Austin, Texas 78711-3407, or by calling 512-936-2064.



FINANCIAL STATEMENTS



TEXAS GUARANTEED TUITION PLAN

LONESTAR
529 PLAN®

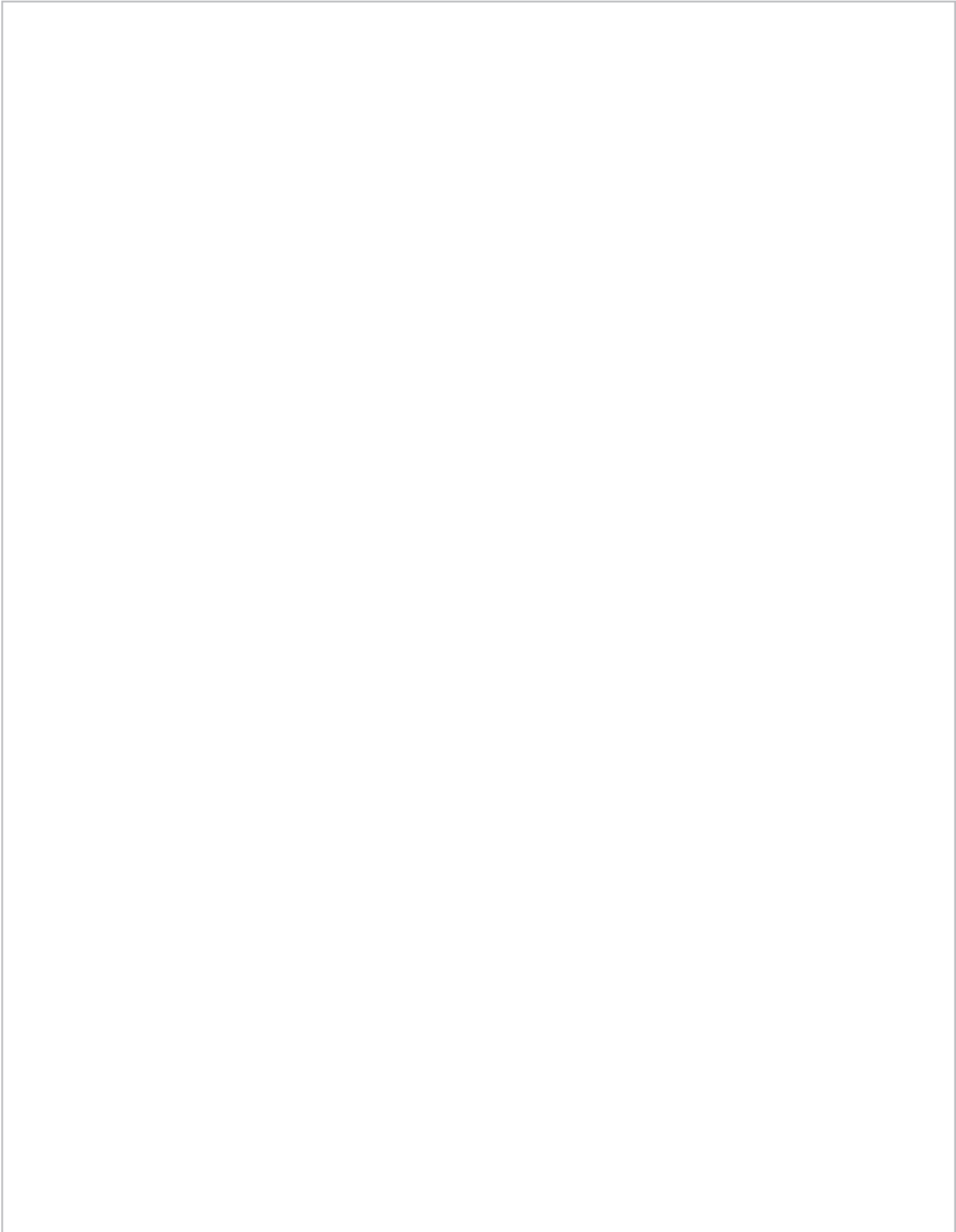


TEXAS TUITION®
PROMISE FUND
A Prepaid Plan as Smart as You Are



Texas Tomorrow Fund
Texas Prepaid Scholarship Foundation





Texas Prepaid Higher Education Tuition Board (315)
Statement of Net Assets
August 31, 2012

	PRIMARY GOVERNMENT <hr/> Business-Type Activities <hr/>
ASSETS	
Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	\$ 1,565,926.08
Cash in Bank	103,387.45
Securities Lending Collateral	96,653,030.00
Restricted Assets:	
Cash Equivalents	236,537,222.88
Receivables:	
Investment Trades	126,093,585.17
Tuition Contracts Receivable	44,831,801.61
Interest and Dividends Receivable	3,977,649.26
Other	513,144.94
	510,275,747.39
 Total Current Assets	 510,275,747.39
Non-Current Assets:	
Restricted Assets:	
Investments	1,404,414,307.05
Tuition Contracts Receivable	149,818,282.00
Capital Assets:	
Depreciable:	
Computer Software-Intangible	2,199,883.46
Less Accumulated Amortization	(2,199,883.46)
Furniture and Equipment	84,800.64
Less: Accumulated Depreciation	(84,800.64)
	1,554,232,589.05
 Total Non-Current Assets	 1,554,232,589.05
 TOTAL ASSETS	 \$ 2,064,508,336.44

(Continued)

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Statement of Net Assets (Continued)
August 31, 2012

	<u>PRIMARY</u> <u>GOVERNMENT</u> Business-type Activities
LIABILITIES	
Current Liabilities:	
Payables:	
Accounts Payable	\$ 540,549.02
Investment Trades	145,619,100.87
Due to Other Agencies	77,451.52
Deferred Revenues	578,888.33
Employees' Compensable Leave	49,016.52
Liabilities Payable From Restricted Assets:	
Contract Benefits and Expenses	251,970,579.66
Obligations Under Security Lending	96,653,030.00
Other	72,235.80
Total Current Liabilities	<u>495,560,851.72</u>
Non-Current Liabilities:	
Employees' Compensable Leave	50,830.05
Liabilities Payable From Restricted Assets:	
Contract Benefits and Expenses	<u>2,189,722,850.00</u>
Total Non-Current Liabilities	<u>2,189,773,680.05</u>
TOTAL LIABILITIES	<u>2,685,334,531.77</u>
NET DEFICIT	
Unrestricted	<u>(620,826,195.33)</u>
TOTAL NET DEFICIT	<u>\$ (620,826,195.33)</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit I — Combined Statement of Net Assets — Proprietary Funds
August 31, 2012

	<u>Total Enterprise Funds (Exhibit F-1)</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 3):	
Cash in State Treasury	\$ 1,565,926.08
Cash in Bank	103,387.45
Securities Lending Collateral	96,653,030.00
Restricted Assets:	
Cash Equivalents (Note 3)	236,537,222.88
Receivables:	
Investment Trades	126,093,585.17
Tuition Contracts Receivable	44,831,801.61
Interest and Dividends Receivable	3,977,649.26
Other	513,144.94
	<hr/>
Total Current Assets	510,275,747.39
	<hr/>
Non-Current Assets:	
Restricted Assets:	
Investments (Note 3)	1,404,414,307.05
Tuition Contracts Receivable	149,818,282.00
Capital Assets (Note 2):	
Depreciable:	
Computer Software-Intangible	2,199,883.46
Less Accumulated Amortization	(2,199,883.46)
Furniture and Equipment	84,800.64
Less Accumulated Depreciation	(84,800.64)
	<hr/>
Total Non-Current Assets	1,554,232,589.05
	<hr/>
TOTAL ASSETS	\$ 2,064,508,336.44
	<hr/>

(Continued)

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit I — Combined Statement of Net Assets — Proprietary Funds (Continued)
August 31, 2012

	<u>Total Enterprise Funds (Exhibit F-1)</u>
LIABILITIES	
Current Liabilities:	
Payables:	
Accounts Payables	\$ 540,549.02
Investment Trades	145,619,100.87
Due to Other Agencies (Note 12)	77,451.52
Deferred Revenues	578,888.33
Employees' Compensable Leave (Note 5)	49,016.52
Liabilities Payable From Restricted Assets:	
Contract Benefits and Expenses	251,970,579.66
Obligations Under Securities Lending	96,653,030.00
Other	<u>72,235.80</u>
Total Current Liabilities	<u>495,560,851.72</u>
Non-Current Liabilities:	
Employees' Compensable Leave (Note 5)	50,830.05
Liabilities Payable From Restricted Assets:	
Contract Benefits and Expenses	<u>2,189,722,850.00</u>
Total Non-Current Liabilities	<u>2,189,773,680.05</u>
TOTAL LIABILITIES	<u><u>2,685,334,531.77</u></u>
NET DEFICIT	
Unrestricted	<u>(620,826,195.33)</u>
TOTAL NET DEFICIT	<u><u>\$ (620,826,195.33)</u></u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit F-1 — Combining Statement of Net Assets — Enterprise Funds
August 31, 2012

	Prepaid Tuition Unit				Texas Save and Match Program/Texas Promise Foundation (Fund 0842)* U/F (5892)	Texas Save and Match Program/Texas Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/Texas Promise Foundation (Fund 0842)* U/F (5892)	Totals (Exhibit I)
	Texas Tomorrow Constitutional Trust Fund/Texas Guaranteed Tuition Plan (Fund 0892)* U/F (0892)	Undergraduate Education Program/Texas Tuition Promise Fund (Fund 0842)* U/F (0842/4892)	Texas Prepaid Scholarship Foundation (Fund 0892)* U/F (1892)	Texas Save and Match Program/Texas Promise Foundation (Fund 0878)* U/F (6892)				
ASSETS								
Current Assets:								
Cash and Cash Equivalents:								
Cash in State Treasury	\$ 1,108,494.14	\$ 390,306.36	\$ 2,741.00	\$ 64,359.02	\$ 25.56	\$	\$ 1,565,926.08	
Cash in Bank	-	103,387.45	-	-	-	-	103,387.45	
Securities Lending Collateral	96,653,030.00	-	-	-	-	-	96,653,030.00	
Restricted Assets:								
Cash Equivalents	236,537,222.88	-	-	-	-	-	236,537,222.88	
Receivables:								
Investment Trades	126,093,585.17	-	-	-	-	-	126,093,585.17	
Tuition Contracts Receivable	16,624,363.00	28,207,438.61	-	-	-	-	44,831,801.61	
Interest and Dividends Receivable	3,977,483.13	142.89	-	23.24	-	-	3,977,649.26	
Other	-	279,419.86	72,235.80	161,489.28	-	-	513,144.94	
Total Current Assets	480,994,178.32	28,980,695.17	74,976.80	225,871.54	25.56	-	510,275,747.39	
Non-Current Assets:								
Restricted Assets:								
Investments	1,052,658,610.69	351,755,696.36	-	-	-	-	1,404,414,307.05	
Tuition Contracts Receivable	43,935,948.00	105,882,334.00	-	-	-	-	149,818,282.00	
Capital Assets:								
Depreciable:								
Computer Software-Intangible	2,199,883.46	-	-	-	-	-	2,199,883.46	
Less Accumulated Amortization	(2,199,883.46)	-	-	-	-	-	(2,199,883.46)	
Furniture and Equipment	84,800.64	-	-	-	-	-	84,800.64	
Less Accumulated Depreciation	(84,800.64)	-	-	-	-	-	(84,800.64)	
Total Non-Current Assets	1,096,594,558.69	457,638,030.36	-	-	-	-	1,554,232,589.05	
TOTAL ASSETS	\$ 1,577,588,737.01	\$ 486,618,725.53	\$ 74,976.80	\$ 225,871.54	\$ 25.56	\$	\$ 2,064,508,336.44	

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit F-1 — Combining Statement of Net Assets — Enterprise Funds (Continued)
August 31, 2012

	Texas Tomorrow Constitutional Trust Fund/Texas Guaranteed Tuition Plan (Fund 0892)* U/F (0892)	Prepaid Tuition Unit Undergraduate Education Program/Texas Tuition Promise Fund (Fund 0842)* U/F (0842/4892)	Texas Prepaid Scholarship Foundation (Fund 0892)* U/F (1892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/Texas Match the Promise Foundation (Fund 0842)* U/F (5892)	Totals (Exhibit I)
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts Payables	\$ 486,062.62	\$ 54,485.96	\$ -	\$ 0.44	\$ -	\$ 540,549.02
Investment Trades	145,510,524.83	108,576.04	-	-	-	145,619,100.87
Due To Other Agencies	60,508.51	16,943.01	-	-	-	77,451.52
Deferred Revenues	-	578,888.33	-	-	-	578,888.33
Employees' Compensable Leave Liabilities Payable From Restricted Assets:	41,681.86	7,334.66	-	-	-	49,016.52
Contract Benefits and Expenses	239,697,931.00	12,272,648.66	-	-	-	251,970,579.66
Obligations Under Securities Lending	96,653,030.00	-	-	-	-	96,653,030.00
Other	-	-	72,235.80	-	-	72,235.80
Total Current Liabilities	482,449,738.82	13,038,876.66	72,235.80	0.44	-	495,560,851.72
Non-Current Liabilities:						
Employees' Compensable Leave Liabilities Payable From Restricted Assets:	38,612.90	12,217.15	-	-	-	50,830.05
Contract Benefits and Expenses	1,738,772,962.00	450,949,888.00	-	-	-	2,189,722,850.00
Total Non-Current Liabilities	1,738,811,574.90	450,962,105.15	-	-	-	2,189,773,680.05
TOTAL LIABILITIES	2,221,261,313.72	\$464,000,981.81	72,235.80	0.44	-	\$2,685,334,531.77
NET (DEFICIT)/ASSETS						
Unrestricted	(643,672,576.71)	22,617,743.72	2,741.00	225,871.10	25.56	(620,826,195.33)
TOTAL NET (DEFICIT)/ASSETS	\$ (643,672,576.71)	\$ 22,617,743.72	\$ 2,741.00	\$ 225,871.10	\$ 25.56	\$(620,826,195.33)

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit II — Combined Statement of Revenues, Expenses and
Changes in Net Assets — Proprietary Funds
For the Fiscal Year Ended August 31, 2012

	<u>Total Enterprise Funds (Exhibit F-2)</u>
OPERATING REVENUES	
Sales of Goods and Services:	
Tuition Contracts	\$ 77,861,846.21
Changes in Actuarial Value of Future Contract Benefits	(19,812,276.00)
Licenses, Fees, and Permits	1,001,872.66
Other Revenues	221,984.49
Total Operating Revenues	<u>59,273,427.36</u>
OPERATING EXPENSES	
Tuition Contract Benefits and Expenses	143,432,535.34
Changes in Future Contracts Collections	16,631,164.48
Salaries and Wages	769,621.44
Payroll Related Costs	182,167.90
Professional Fees and Services	2,582,954.13
Travel	21,431.92
Materials and Supplies	92,756.33
Communication and Utilities	32,653.55
Repairs and Maintenance	294,191.12
Rentals and Leases	24,780.93
Printing and Reproduction	17,950.23
Depreciation and Amortization	3,136.60
Other Operating Expenses (Includes Earnings Paid on Cancelled Contracts of \$14,283,952.71)	14,378,559.53
Total Operating Expenses	<u>178,463,903.50</u>
Operating Loss	<u>(119,190,476.14)</u>
NONOPERATING REVENUES/(EXPENSES)	
Interest and Dividend Income	35,072,253.67
Loan Premiums/Fees on Security Lending	343,118.47
Investing Activities Expenses	(891,761.38)
Borrower Rebates and Agent Fees	(131,909.68)
Net Increase in Fair Value of Investments	82,368,178.85
Total Nonoperating Revenues, Net	<u>116,759,879.93</u>
Change in Net Assets	(2,430,596.21)
Net Deficit, September 1, 2011	<u>(618,395,599.12)</u>
Net Deficit, August 31, 2012	<u>\$ (620,826,195.33)</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit F-2 — Combining Statement of Revenues, Expenses and Changes in Net Assets — Enterprise Funds
For the Fiscal Year Ended August 31, 2012

	Texas Tomorrow Constitutional Trust Guaranteed Tuition Plan (Fund 0892)* U/F (0892)	Prepaid Tuition Unit Undergraduate Education Program/ Texas Tuition Promise Fund (Fund 0842)* U/F (0842/4892)	Texas Prepaid Scholarship Foundation (Fund 0892)* U/F (1892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0842)* U/F (5892)	Totals (Exhibit II)
OPERATING REVENUES						
Sales of Goods and Services:						
Tuition Contracts	\$ 8,614,283.00	\$ 69,247,563.21	\$ -	\$ -	\$ -	\$ 77,861,846.21
Changes in Actuarial Value of Future Contract Benefits	(19,812,276.00)	-	-	-	-	(19,812,276.00)
Licenses, Fees, and Permits	521,509.34	480,363.32	-	-	-	1,001,872.66
Other Revenues	138,481.85	-	-	77,634.35	5,868.29	221,984.49
Total Operating Revenues	(10,538,001.81)	69,727,926.53	-	77,634.35	5,868.29	59,273,427.36
OPERATING EXPENSES						
Tuition Contract Benefits and Expenses	143,432,535.34	-	-	-	-	143,432,535.34
Changes in Future Contracts Collections	(77,191,338.00)	93,822,502.48	-	-	-	16,631,164.48
Salaries and Wages	601,080.51	168,540.93	-	-	-	769,621.44
Payroll Related Costs	145,006.75	37,161.15	-	-	-	182,167.90
Professional Fees and Services	2,026,318.12	557,774.60	-	1,142.30	(2,280.89)	2,582,954.13
Travel	3,471.48	17,960.44	-	-	-	21,431.92
Materials and Supplies	75,681.39	17,074.94	-	-	-	92,756.33
Communication and Utilities	30,858.91	1,794.64	-	-	-	32,653.55
Repairs and Maintenance	294,191.12	-	-	-	-	294,191.12
Rentals and Leases	15,592.34	9,188.59	-	-	-	24,780.93
Printing and Reproduction	17,950.23	-	-	-	-	17,950.23
Depreciation and Amortization	3,136.60	-	-	-	-	3,136.60
Other Operating Expenses (Includes Earnings Paid on Cancelled Contracts in the Amount of \$14,283,952.71)	14,346,118.78	26,751.96	-	53.90	5,634.89	14,378,559.53
Total Operating Expenses	83,800,603.57	94,658,749.73	-	1,196.20	3,354.00	178,463,903.50
Operating (Loss)/Income	\$ (94,338,605.38)	\$ (24,930,823.20)	\$ -	\$ 76,438.15	\$ 2,514.29	\$ (119,190,476.14)

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit F-2 — Combining Statement of Revenues, Expenses and Changes in Net Assets — Enterprise Funds (Continued)
For the Fiscal Year Ended August 31, 2012

	Texas Tomorrow Constitutional Trust Fund/Texas Guaranteed Tuition Plan (Fund 0892)* U/F (0892)	Prepaid Tuition Unit Undergraduate Education Program/ Texas Tuition Promise Fund (Fund 0842)* U/F (0842/4892)	Texas Prepaid Scholarship Foundation (Fund 0892)* U/F (1892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0842)* U/F (5892)	Totals (Exhibit II)
NONOPERATING REVENUES/(EXPENSES)						
Interest and Dividend Income	\$ 34,259,333.34	\$ 812,207.92	\$ -	\$ 776.08	\$ (63.67)	\$ 35,072,253.67
Loan Premiums/Fees on Security Lending	343,118.47	-	-	-	-	343,118.47
Investing Activities Expenses	(3,537.83)	(888,223.55)	-	-	-	(891,761.38)
Borrower Rebates and Agent Fees	(131,909.68)	-	-	-	-	(131,909.68)
Net Increase in Fair Value of Investments	57,638,999.61	24,729,179.24	-	-	-	82,368,178.85
Total Other Nonoperating Revenues/(Expenses)	92,106,003.91	24,653,163.61	-	776.08	(63.67)	116,759,879.93
Change in Net Assets	(2,232,601.47)	(277,659.59)	-	77,214.23	2,450.62	(2,430,596.21)
Net (Deficit)/Assets, September 1, 2011	(641,439,975.24)	22,895,403.31	2,741.00	148,656.87	(2,425.06)	(618,395,599.12)
Net (Deficit)/Assets, August 31, 2012	\$ (643,672,576.71)	\$ 22,617,743.72	\$ 2,741.00	\$ 225,871.10	\$ 25.56	\$ (620,826,195.33)

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit III — Combined Statement of Cash Flows — Proprietary Funds
For the Fiscal Year Ended August 31, 2012

	Total Enterprise Funds (Exhibit F-3)
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds Received from Customers (Net of Refunds)	\$ 78,613,898.11
Earnings Paid on Cancelled Contracts	(14,577,437.19)
Proceeds from Other Revenues	719,169.82
Payments to Suppliers for Goods and Services	(3,246,365.78)
Payments to Employees for Salaries	(779,427.65)
Payments to Employees for Benefits	(184,236.14)
Payments for Other Expenses (Includes Benefit Payments to Universities and Colleges)	<u>(143,524,580.47)</u>
Net Cash Used in Operating Activities	<u>(82,978,979.30)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net Cash Provided by Noncapital Financing Activities	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net Cash Provided by Capital and Related Financing Activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	3,192,458,374.57
Proceeds from Interest and Dividend Income	34,749,674.64
Payments to Acquire Investments	<u>(3,179,974,678.03)</u>
Net Cash Provided by Investing Activities	<u>47,233,371.18</u>
Net Decrease in Cash and Cash Equivalents	(35,745,608.12)
Cash and Cash Equivalents, September 1, 2011	<u>273,952,144.53</u>
Cash and Cash Equivalents, August 31, 2012	<u>\$ 238,206,536.41</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	<u>\$ (119,190,476.14)</u>
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities	
Amortization and Depreciation	3,136.60
Changes in Assets and Liabilities:	
Decrease in Tuition Contracts Receivables	8,699,154.52
Increase in Other Receivable	(316,671.07)
Decrease in Interest Receivable	6,499.86
Increase in Other Assets	(233,725.08)
Increase in Benefits and Expenses Payable	27,582,876.66
Increase in Accounts Payable	85,293.01
Increase in Deferred Revenue	324,570.99
Increase in Other Liabilities	72,235.80
Decrease in Due to Other Agencies	(9,830.05)
Decrease in Compensable Absence Liabilities	(2,044.40)
Total Adjustments	<u>36,211,496.84</u>
Net Cash Used In Operating Activities	<u>\$ (82,978,979.30)</u>
NON-CASH TRANSACTIONS	
Net Change in Fair Value of Investments	<u>\$ 82,368,178.85</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit F-3 — Combining Statement of Cash Flows — Enterprise Funds
For the Fiscal Year Ended August 31, 2012

	Texas Tomorrow Constitutional Trust Fund/ Texas Guaranteed Tuition Plan (Fund 0892)* U/F (0892)	Prepaid Tuition Unit Education Program/ Texas Tuition Promise Fund (Fund 0842)* U/F (0842/4892)	Texas Prepaid Scholarship Foundation (Fund 0892)* U/F (1892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0842)* U/F (5892)	Totals (Exhibit III)
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds Received From Customers (Net of Refunds)	\$ 9,135,792.34	\$ 69,478,105.77	\$ -	\$ -	\$ -	\$ 78,613,898.11
Earnings Paid on Cancelled Contracts	(14,283,952.71)	(293,484.48)	-	-	-	(14,577,437.19)
Proceeds from Other Revenues	137,240.85	498,426.33	-	77,634.35	5,868.29	719,169.82
Payments to Suppliers for Goods and Services	(2,406,258.03)	(677,476.17)	-	(162,631.58)	-	(3,246,365.78)
Payments to Employees for Salaries	(617,899.70)	(161,527.95)	-	-	-	(779,427.65)
Payments to Employees for Benefits	(147,281.98)	(36,954.16)	-	-	-	(184,236.14)
Payments for Other Expenses (Includes Benefit Payments to Universities and Colleges)	(143,496,594.36)	(21,690.39)	-	(53.46)	(6,242.26)	(143,524,580.47)
Net Cash (Used in) Provided by Operating Activities	(151,678,953.59)	68,785,398.95	-	(85,050.69)	(373.97)	(82,978,979.30)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Net Cash Provided by Noncapital Financing Activities	-	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Net Cash Provided by Capital and Related Financing Activities	-	-	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sales of Investments	3,135,513,898.26	56,944,476.31	-	-	-	3,192,458,374.57
Proceeds from Interest and Dividend Income	33,936,596.11	812,265.20	-	787.77	25.56	34,749,674.64
Payments to Acquire Investments	(3,053,349,754.32)	(126,624,923.71)	-	-	-	(3,179,974,678.03)
Net Cash Provided by/(Used In) Investing Activities	116,100,740.05	(68,868,182.20)	-	787.77	25.56	47,233,371.18
Net Decrease in Cash and Cash Equivalents	(35,578,213.54)	(82,783.25)	-	(84,262.92)	(348.41)	(35,745,608.12)
Cash and Cash Equivalents, September 1, 2011	273,223,930.56	576,477.06	2,741.00	148,621.94	373.97	273,952,144.53
Cash and Cash Equivalents, August 31, 2012	\$ 237,645,717.02	\$ 493,693.81	\$ 2,741.00	\$ 64,359.02	\$ 25.56	\$ 238,206,536.41

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit F-3 — Combining Statement of Cash Flows — Enterprise Funds (Continued)
For the Fiscal Year Ended August 31, 2012

	Texas Tomorrow Constitutional Trust Fund/ Texas Guaranteed Tuition Plan (Fund 0892)* U/F (0892)	Prepaid Tuition Unit Undergraduate Education Program/ Texas Tuition Promise Fund (Fund 0842)* U/F (0842/4892)	Texas Prepaid Scholarship Foundation (Fund 0892)* U/F (1892)	Texas Save and Match Program/ Match the Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/ Match the Promise Foundation (Fund 0842)* U/F (5892)	Totals (Exhibit III)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES						
Operating (Loss)/Income	\$ (94,338,605.38)	\$ (24,930,823.20)	\$ -	\$ 76,438.15	\$ 2,514.29	\$ (119,190,476.14)
Adjustments to Reconcile Operating (Loss)/Income to Net Cash (Used In) Provided by Operating Activities:						
Amortization and Depreciation	3,136.60	-	-	-	-	3,136.60
Changes in Assets and Liabilities:						
(Increase) Decrease in Tuition Contracts Receivables	19,812,276.00	(11,113,121.48)	-	-	-	8,699,154.52
Increase in Other Receivable	-	(316,671.07)	-	-	-	(316,671.07)
Decrease in Interest Receivable	6,442.58	57.28	-	-	-	6,499.86
Increase in Other Assets	-	-	(72,235.80)	(161,489.28)	-	(233,725.08)
Increase (Decrease) in Benefits and Expenses Payable	(77,191,338.00)	104,774,214.66	-	-	-	27,582,876.66
Increase (Decrease) in Accounts Payable	48,229.03	39,951.80	-	0.44	(2,888.26)	85,293.01
Increase in Deferred Revenue	-	324,570.99	-	-	-	324,570.99
Increase in Other Liabilities	-	-	72,235.80	-	-	72,235.80
(Decrease)/Increase in Due to Other Agencies	(11,886.38)	2,056.33	-	-	-	(9,830.05)
(Decrease)/Increase in Compensable Absences	(7,208.04)	5,163.64	-	-	-	(2,044.40)
Total Adjustments	(57,340,348.21)	93,716,222.15	-	(161,488.84)	(2,888.26)	36,211,496.84
Net Cash (Used In)/Provided by Operating Activities	\$ (151,678,953.59)	\$ 68,785,398.95	\$ -	\$ (85,050.69)	\$ (373.97)	\$ (82,978,979.30)
NON CASH TRANSACTIONS						
Net Change in Fair Value of Investments	\$ 57,638,999.61	\$ 24,729,179.24	\$ -	\$ -	\$ -	\$ 82,368,178.85

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit IV — Statement of Fiduciary Net Assets — Private Purpose Trust Funds
August 31, 2012

	College Savings Plans Private Purpose Trust Funds (Fund 0892) U/F (2892 & 3892)	Savings Trust Account Settlement Fund Agency Funds (Fund 0999) U/F (9999)	Totals
ASSETS			
Cash and Cash Equivalents:			
Cash in State Treasury	\$ 301,149.26	\$ -	\$ 301,149.26
Cash in Bank	1,787,372.45	-	1,787,372.45
Investments:			
Other Investments	355,998,436.92	-	355,998,436.92
Repurchase Agreements	-	833,218.34	833,218.34
Receivables:			
Investment Trades	692,053.90	-	692,053.90
Interest and Dividends	27,750.07	-	27,750.07
Other	101,854.11	-	101,854.11
TOTAL ASSETS	358,908,616.71	833,218.34	359,741,835.05
LIABILITIES			
Payables:			
Accounts Payable	129,167.41	-	129,167.41
Investment Trades	490,439.54	-	490,439.54
Funds Held for Others	-	833,218.34	833,218.34
Deferred Revenues	372,473.91	-	372,473.91
Due to Other Agencies	3,466.07	-	3,466.07
Other Liabilities	18,226.62	-	18,226.62
TOTAL LIABILITIES	1,013,773.55	833,218.34	1,846,991.89
NET ASSETS			
Held in Trust For:			
College Savings Plan Contributors	357,894,843.16	-	357,894,843.16
TOTAL NET ASSETS	\$ 357,894,843.16	\$ -	\$ 357,894,843.16

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit V — Statement of Changes in Fiduciary Net Assets — Private Purpose Trust Funds
For the Fiscal Year Ended August 31, 2012

	College Savings Plans Private Purpose Trust (Fund 0892) <u>U/F (2892 & 3892)</u>
ADDITIONS	
Contributions	
Account Holder Contributions	\$ 121,453,142.64
Total Contributions	<u>121,453,142.64</u>
Investment Income:	
From Investing Activities:	
Net Appreciation in Fair Value of Investments	27,284,520.41
Interest and Investment Income	1,730,254.09
Total Income from Investing Activities	<u>29,014,774.50</u>
Less Investing Activities Expense	<u>1,419,693.46</u>
Net Income from Investing Activities	<u>27,595,081.04</u>
Total Net Investment Income	<u>27,595,081.04</u>
Other Additions:	
Fees-Administrative Services	<u>383,522.54</u>
Total Other Additions	<u>383,522.54</u>
Total Additions	<u>149,431,746.22</u>
DEDUCTIONS	
Distributions Made from Accounts	95,151,201.81
Salaries and Wages	42,275.29
Professional Fees and Services	341,142.18
Other Expenses	<u>2,132.44</u>
Total Deductions	<u>95,536,751.72</u>
Increase In Net Assets	53,894,994.50
Net Assets, September 1, 2011	<u>303,999,848.66</u>
Net Assets, August 31, 2012	<u>\$ 357,894,843.16</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

Texas Prepaid Higher Education Tuition Board (315)
Exhibit J-1 — Combined Statement of Changes in Assets and Liabilities - Agency Funds
For the Fiscal Year Ended August 31, 2012

	Beginning Balance September 1, 2011	Additions	Deletions	AGENCY FUNDS Ending Balance August 31, 2012 Settlement Trust Account (Fund 0999) U/F (9999)
ASSETS				
State Investments-Repurchase Agreements	\$ 961,483.87	\$ -	\$ 128,265.53	\$ 833,218.34
TOTAL ASSETS				<u>\$ 833,218.34</u>
LIABILITIES				
Funds Held for Others	\$ 961,483.87	\$ -	\$ 128,265.53	\$ 833,218.34
TOTAL LIABILITIES				<u>\$ 833,218.34</u>

The accompanying notes to the financial statements are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS



TEXAS GUARANTEED TUITION PLAN

LONESTAR
529 PLAN[®]

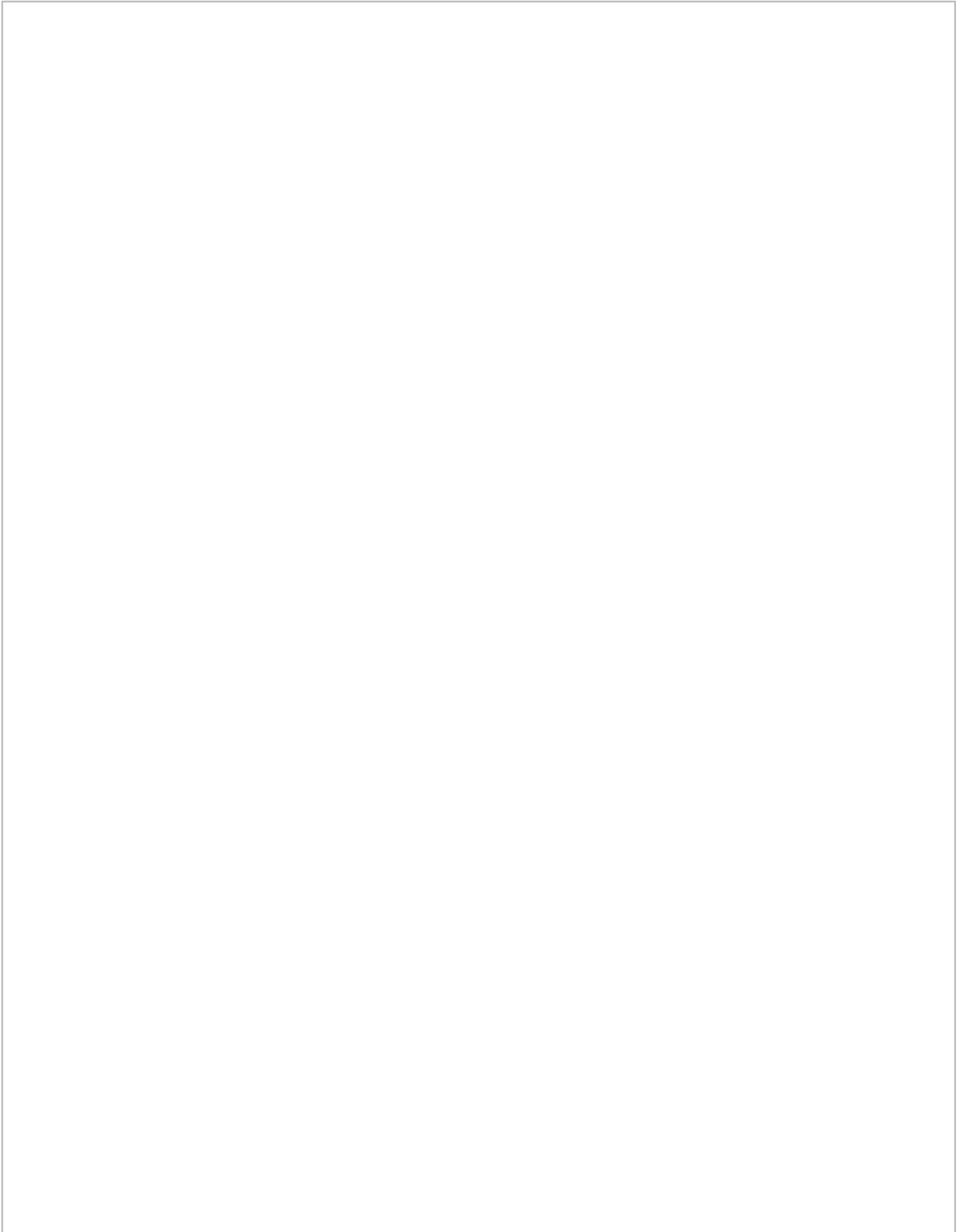


TEXAS TUITION[®]
PROMISE FUND
A Prepaid Plan as Smart as You Are



Texas Tomorrow Fund
Texas Prepaid Scholarship Foundation





Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

NOTE 1: Summary of Significant Accounting Policies

ENTITY

The Texas Prepaid Higher Education Tuition Board (the “Board” or “Agency”) is an agency of the State of Texas (the “State”) and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts’ Reporting Requirements of State Agencies.

The Board is chaired by the Texas Comptroller of Public Accounts, Susan Combs, and includes two members appointed by the Governor and four members appointed by the Lt. Governor (the House Speaker submits the names of two persons to the Lt. Governor). By law, these board members must have experience in higher education, business or finance. The Board administers the Texas Guaranteed Tuition Plan, the Texas College Savings Plan, the LoneStar 529 Plan, the Texas Tuition Promise Fund, and the Texas Save and Match Program. Earnings on the State’s prepaid tuition and college savings plans are tax-free to participants if used for a qualified higher education expense.

The agency operates the Texas Prepaid Higher Education Tuition Programs, also known as the *Texas Tomorrow Funds*, under the authority of House Bill 1214 enacted by the Legislature in May 1995 and signed by the Governor in June 1995. In May 2001, the 77th Legislature passed Senate Bill No. 555 that authorized the Board to offer a college savings plan in addition to its prepaid tuition program. In November 1997, Texas voters passed Proposition 13, a constitutional amendment that guarantees payment of the benefits of the *Texas Tomorrow Funds* and the name was changed to the *Texas Guaranteed Tuition Plan*.

The *Texas Guaranteed Tuition Plan* is a prepaid guaranteed tuition program that allowed Texas families to lock in the cost of tomorrow’s college tuition and required fees at Texas colleges and universities at the time their contracts were purchased. Plan assets totaled approximately \$1.58 billion at August 31, 2012. Approximately 158,400 prepaid tuition contracts were sold; 83,846 of those accounts were active at August 31, 2012. Participants purchased plans for junior colleges, senior colleges and universities, and/or private colleges and universities. The prepaid tuition program pays tuition and required fees only and can be used at eligible Texas public or private schools, career schools, and out-of-state schools. The plan was closed to new enrollment in 2003 when tuition was deregulated. By rule, the Board considers re-opening plan enrollment on an annual basis based on evaluation of the fund’s actuarial soundness.

The State also offers two college savings plans, the direct-sold *Texas College Savings Plan* and the advisor-sold *LoneStar 529 Plan*. The Board selected OFI Private Investments, Inc. (“OFI”), a subsidiary of OppenheimerFunds, Inc., as the plan manager for the college savings plans effective November 19, 2007. Assets of account holders were transferred from the *Tomorrow’s College Investment Plan* administered by Enterprise to the plans administered by OFI. The Board, with the assistance of an independent investment consultant, sets the asset allocation for the plans.

The college savings plans’ assets can be used for qualified higher education expenses including tuition and fees, certain room and board expenses, books and required supplies and equipment at any accredited post-secondary school that is eligible to participate in federal student financial aid programs. This includes most public or private universities, graduate schools, community colleges and certain vocational schools. The college savings plans’ manager provides funds to the State for marketing expenses, and the State receives a 10% administrative fee to cover the costs of administering the college savings plans. **Assets in the plan are subject to investment risks and are not guaranteed by the State.** There were 33,147 accounts in the college savings plans at August 31, 2012; plan assets totaled nearly \$358 million.

In 2007, the 80th legislature passed House Bill 3900 that established the Texas Tomorrow Fund II (“TTF II”) and authorized the Texas Save and Match program. The *Texas Tuition Promise Fund*, created to fulfill the requirement to establish TTF II, opened for new enrollment in November 2008. The Texas Tuition Promise Fund allows participants to purchase tuition units at today’s college prices that can be redeemed in the future for tuition and required fees at Texas

**Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012**

public colleges and universities and the transfer value can be used for payment to Texas private or eligible career or out-of-state schools. At August 31, 2012, the Texas Tuition Promise Fund had sold approximately 22,841 contracts and fund assets totaled \$487 million. **Texas public colleges and universities have to accept the tuition units as payment for tuition and required fees; however contracts used for Texas private colleges and universities, career schools, or out-of-state schools are subject to investment risks.**

The *Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.* (the “Scholarship Foundation”) was created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Scholarship Foundation is a 501(c)(3) direct-support organization of the prepaid guaranteed tuition program and is authorized by Section 54.633 of the Texas Education Code. The Scholarship Foundation is governed by a board composed of the Texas Comptroller of Public Accounts, a member appointed by the Governor with the advice and consent of the Senate, and three members appointed jointly by the Comptroller and the member appointed by the Governor.

The *Texas Match the Promise Foundation* (the “Promise Foundation”), a 501(c)(3) public charity, was established in 2009 to implement the requirements of the Texas Save and Match program established by Section 54.7521 of the Texas Education Code. In the 82nd legislative session, Section 54.7521 was repealed and replaced by Education Code, Chapter 54, Subchapter I, which clarified the roles of the Promise Foundation and the Board in administering the program. The program provides matching funds to beneficiaries enrolled in the *Texas Tuition Promise Fund* or college savings plans based on criteria established by statute and additional criteria established by the Promise Foundation or Board. The Promise Foundation is a nonprofit corporation administered by a board of directors appointed by the Comptroller.

In February 2010, the Board reached a settlement agreement with OFI regarding the management of the *Texas College Savings Plan* and the *LoneStar 529 Plan*. Under the terms of the agreement, \$12.43 million was transferred to the State to be deposited in a trust account for distribution to the affected account owners. As of August 31, 2012, \$833 thousand had not been distributed to affected account owners and was invested in repurchase agreements with the Texas Treasury Safekeeping Trust Company.

By contract, the plan manager of the college savings plans and *Texas Tuition Promise Fund* is required to provide audited financial statements annually. Those audited figures are incorporated into this report.

Blended Component Units

Some component units, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government and should be reported as part of the primary government. That is, the component unit's balances and transactions should be reported in a manner similar to the balances and transactions of the primary government itself. This method of inclusion is known as blending. The Texas Match the Promise Foundation and the Texas Prepaid Scholarship Foundation are included as blended component units of the Texas Save and Match Program and the Texas Guaranteed Tuition Plan, respectively.

Discrete Component Units

These are component units that are legally separate from the Board, but are financially accountable to the Board, or have a relationship with the Board such that exclusion would cause the financial statements to be misleading. No discrete component units are included in this report.

**Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012**

FUND STRUCTURE

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise Funds are used to account for any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

The financial activities of the *Texas Guaranteed Tuition Plan* (Fund 0892), the *Texas Tuition Promise Fund* (Fund 0842/4892), the *Texas Prepaid Scholarship Foundation* (Fund 1892), and the *Texas Match the Promise Foundation* (Funds 5892 and 6892) are reported as enterprise fund activities.

FIDUCIARY FUND TYPES

Fiduciary Funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, an agency fund or a private purpose trust fund is used to account for such assets.

Private Purpose Trust Funds

Private Purpose Trust Funds are used to account for all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments. The financial activities of the *Texas College Savings Plan* and the *LoneStar 529 Plan* (Funds 2892 and 3892) are reported as private purpose trust fund activities.

Agency Funds

Funds received in the settlement agreement between the Board and OFI are reported as Agency Funds. The sum of \$12.43 million was deposited into the *Settlement Trust Account* with the Treasury Safekeeping Trust Company in March 2010. Funds are transferred monthly from the trust account to OFI for payments to affected account owners who have submitted release forms.

BASIS OF ACCOUNTING

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at the fiscal year end. The State considers receivables collected within sixty days after year end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are generally recognized when the related fund liability is incurred.

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual method of accounting. These include capital assets, accumulated depreciation and amortization, unpaid Employee Compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, long-term claims and judgments, and full accrual revenues and expenses. Such transactions are accounted for in the governmental adjustment fund types.

Proprietary funds, pension trust funds, external investment trust funds and private purpose trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for the enterprise funds and internal service funds include the costs of sales and services, administrative expenses, and depreciation on capital assets.

Prepaid tuition contracts represent probable future economic benefits to the agency and are legally enforceable agreements. Tuition contract revenue is recognized in the year the contracts are entered into with a purchaser and are recorded at the future discounted contract payments adjusted for unearned interest and estimated cancellations. Application fees are recognized as revenue when the application is accepted.

The accounts of the foundations are maintained in accordance with the principles of not-for-profit accounting using the governmental accounting model.

BUDGETS AND BUDGETARY ACCOUNTING

The Board at the beginning of each fiscal year adopts an annual operating budget. This expenditure budget includes all administrative and marketing costs paid directly by the Board for both the prepaid tuition and college savings programs and totaled \$4,114,231 for the fiscal year ended August 31, 2012.

ASSETS, LIABILITIES AND FUND BALANCE / NET ASSETS

ASSETS

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents. For purposes of reporting cash flows, the Board considers cash and cash equivalents as money market accounts, certificates of deposit, and Government obligations with original maturities of three months or less from the date of purchase. The carrying amount of the Board's deposits and balances with banks, which are held by the State treasury at August 31, 2012, were \$1,108,494.14 for the *Texas Guaranteed Tuition Plan*, \$390,306.36 for the *Texas Tuition Promise Fund*, \$2,741.00 for the *Texas Prepaid Scholarship Foundation*, \$64,384.58 for the *Texas Match the Promise Foundation*, and \$301,149.26 for the college savings plans, all of which were fully collateralized or insured. A total of \$236,537,222.88 was invested in the *Texas Guaranteed Tuition Plan's* investment custodian's short-term investment funds and U. S. Treasury Securities at August 31, 2012. A total of \$833,218.34 was invested in the Texas Treasury Safekeeping Trust Company for the *Settlement Trust Account* at August 31, 2012.

Investments and Securities Lending Collateral

Investments are stated at fair value in all funds in accordance with GASB Statement 31 - *Accounting and Financial Reporting for Certain Investments and for External Investment Pool*. In accordance with GASB Statement 28, securities lent are reported as assets on the balance sheet. Any cash or securities received as collaterals are recorded as assets, and the liabilities resulting from these transactions are also recorded on the balance sheet. The costs of securities lending transactions are reported as expenses in the operating statement. These costs are reported at gross.

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

Interest and Dividends Receivable

Account includes interest and dividends accrued on investments and the depository interest earned by the State Treasury at year-end that will not be deposited with the Board until after the end of the fiscal year.

Investment Trade Receivables

These accounts represent investment sales that occurred on or before the fiscal year end for which cash payments will be received after the fiscal year end.

Tuition Contracts Receivable

The prepaid tuition plan records tuition contracts receivable at the actuarial present value (APV) of future discounted contract payments adjusted for unearned interest and estimated cancellations. Any portion due within the next 12 months will be classified as short-term; otherwise, classification as a long-term receivable is appropriate.

Capital Assets

Assets with an initial, individual cost of more than \$5,000.00 and an estimated useful life in excess of one year should be capitalized. Proprietary fund purchases of fixed assets are reported in those funds at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair market value on the acquisition date. Depreciation or amortization is charged to operations over the estimated useful life of each asset, using the straight-line method. The accumulated depreciation and amortization account records the accumulation of periodic deductions from capital assets to account for the expiration of service life of the asset.

LIABILITIES

Accounts Payable

Accounts payable represent the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Investment Trade Payables

These accounts represent the liability for investment purchases that occurred on or before the fiscal year end for which cash payment will be made after the fiscal year end.

Contract Benefits and Expenses Payable

The prepaid tuition plan records contract benefits payable at the actuarial present value (APV) of future tuition obligations, which is adjusted for the effects of projected tuition and fee increases and termination of contracts. Any portion due within the next 12 months will be classified as current; otherwise, classification as a noncurrent liability is appropriate.

Employees' Compensable Leave

Employees' Compensable Leave balances represent the total liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and other uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statements of net assets.

FUND BALANCE / NET ASSETS

The difference between fund assets and liabilities is 'Net Assets' on the government-wide, proprietary and fiduciary fund statements, and 'Fund Balance' is the difference between fund assets and liabilities on the governmental fund statements.

Reservations of Fund Balances

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

**Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012**

Unreserved/Undesignated

This represents the unappropriated balance of special funds at year end.

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. There were no net assets invested in capital assets as of August 31, 2012.

Restricted Net Assets

Restricted Net Assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

INTERFUND ACTIVITIES AND BALANCES

The Board has the following transactions between and within State funds:

- (1) Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual disbursement. Reimbursements of expenditures made by one fund for another are recorded as expenditures or expenses in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
- (2) Reciprocal Activities (Interfund Sales and Purchases): Charges or collections of services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures of expenses of the disbursing fund.

The composition of the Agency’s Interfund activities and balances is presented in Note 12.

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2012, is presented below:

	PRIMARY GOVERNMENT							
	Balance		Reclassifications			Balance		Balance
			Completed	Incr-Int'agy	Dec-Int'agy			
September 1, 2011	Adjustments	CIP	Transfer	Transfer	Additions	Deletions	August 31, 2012	
BUSINESS-TYPE ACTIVITIES								
Depreciable Assets:								
Furniture and Equipment	\$ 84,800.64	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,800.64
Computer Software-Intangible	2,199,883.46	-	-	-	-	-	-	2,199,883.46
Less Accumulated Depreciation for:								
Furniture and Equipment	(81,664.04)	-	-	-	(3,136.60)	-	-	(84,800.64)
Computer Software-Intangible	(2,199,883.46)	-	-	-	-	-	-	(2,199,883.46)
Depreciable Assets, Net	3,136.60	-	-	-	-	(3,136.60)	-	-
Business-type Activities								
Capital Assets, Net	\$ 3,136.60	\$ -	\$ -	\$ -	\$ -	\$(3,136.60)	\$ -	\$ -

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

NOTE 3: Deposits, Investments, and Repurchase Agreements

House Bill No. 9 amended Section 54.636 (e), Education Code, on May 7, 1997, to authorize the Board to make investments following the “prudent person rule”. There were no significant violations of legal provisions during the period.

DEPOSITS OF CASH IN BANK

The *Texas Guaranteed Tuition Plan’s* investment policy allows its investment managers to hold cash and cash equivalents for liquidity in the portfolio and to facilitate trading. The funds are included as “Restricted Cash in Bank” on the statement of net assets for the Proprietary Fund.

The college savings plans hold cash for liquidity purposes. The funds are included as "Held in Trust for College Savings Plan Contributions" on the statement of net assets for the Private Purpose Trust.

Business-Type Activities			
	Proprietary Funds	Private Purpose Trust	Total
Cash in Bank – Carrying Value	\$ 103,387.45	\$ 1,787,372.45	\$ 1,890,759.90
Cash in Bank per Annual Financial Report	\$ 103,387.45	\$ 1,787,372.45	\$ 1,890,759.90
Current Assets Restricted Cash in Bank	\$ 103,387.45	\$ 1,787,372.45	\$ 1,890,759.90
Cash in Bank per Annual Financial Report, as Above	\$ 103,387.45	\$ 1,787,372.45	\$ 1,890,759.90

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Agency will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Agency’s investment policy requires its investment custodian to perform an annual creditworthiness review of sub-custodians and security lending borrowers in order to minimize custodial credit risk. As of August 31, 2012, the Agency’s bank balances that were exposed to custodial credit risk are shown below:

Fund Type	GAAP Fund	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution’s Trust Department or Agent but Not In the State’s Name
05	0892	\$ -	\$ -	\$ -
05	0842	103,387.45	-	-
20	0892	1,787,372.45	-	-
Totals		\$ 1,890,759.90	\$ -	\$ -

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

Foreign currency risk for deposits is the risk that changes in exchange rates will adversely affect the deposit. The Board has enacted policies to reduce foreign currency risk for the *Texas Guaranteed Tuition Plan* by reducing its long-term allocation to global fixed-income and by enacting currency hedges on non-U.S. equity portfolios. The exposure to foreign currency risk for proprietary fund deposits of the *Texas Guaranteed Tuition Plan* as of August 31, 2012, is as follows:

Fund Type	GAAP Fund	Foreign Currency	Cash in Bank
05	0892	None	\$ -
Totals			\$ -

INVESTMENTS

The carrying value and fair values of short-term and long-term investments as of the balance sheet date are shown below:

	Carrying Value	Fair Value	% of Total
BUSINESS-TYPE ACTIVITIES - Texas Guaranteed Tuition Plan (Fund 0892)			
U.S. Government:			
U.S. Treasury Securities	\$ 62,314,975.83	\$ 62,314,975.83	4.50%
U.S. Government Agency Obligations	225,962,238.03	225,962,238.03	16.30%
Corporate Obligations	321,773,193.92	321,773,193.92	23.22%
Corporate Asset and Mortgage Backed Securities	37,379,198.79	37,379,198.79	2.70%
Equity	213,049,165.21	213,049,165.21	15.37%
International Obligations (Govt and Corp)	6,036,795.35	6,036,795.35	0.44%
International Equity	186,143,043.56	186,143,043.56	13.43%
Other Commingled Funds – Short Term Investment Fund	236,537,222.88	236,537,222.88	17.07%
Securities Lending Collateral Investment Pool	96,653,030.00	96,653,030.00	6.97%
			100.00
Totals	<u>\$ 1,385,848,863.57</u>	<u>\$ 1,385,848,863.57</u>	%

Business Type Activities Texas Guaranteed Tuition Plan Investments Consist of the Following:

Proprietary Funds Current Invested Security Lending Collateral	\$ 96,653,030.00
Proprietary Funds Current Restricted Cash Equivalents	236,537,222.88
Proprietary Funds Non-Current Restricted Investments	1,052,658,610.69
Total, as above	<u>\$ 1,385,848,863.57</u>

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>% of Total</u>
BUSINESS-TYPE ACTIVITIES - Texas Tuition Promise Fund* (Fund 0842)			
International Asset Allocation Fund	\$ 34,913,460.11	\$ 35,068,183.04	9.97%
International Equity Securities-Backed Index Fund	36,983,001.80	35,387,780.67	10.06%
International Equity Securities-Backed Growth Fund	31,469,344.17	35,882,308.52	10.20%
Domestic Equity Securities-Backed Indexed Funds	70,186,160.39	77,876,662.21	22.14%
Domestic Equity Securities-Backed Value Funds	31,196,967.89	35,645,222.05	10.13%
Indexed Corporate Bond Funds	116,669,548.19	131,895,539.87	37.50%
Totals	<u>\$ 321,418,482.55</u>	<u>\$ 351,755,696.36</u>	<u>100.00%</u>
FIDUCIARY FUNDS - College Savings Plans* (Fund 2892)			
Other Commingled Funds – Mutual Fund Investments	\$ 314,483,315.80	\$ 355,998,436.92	100.00%
Totals	<u>\$ 314,483,315.80</u>	<u>\$ 355,998,436.92</u>	<u>100.00%</u>
FIDUCIARY FUNDS-Savings Trust Account Settlement Fund (Fund 0999)			
Non-current Restricted Short-Term Investments- Repurchase Agreements	\$ 833,218.34	\$ 833,218.34	100.00%
Totals	<u>\$ 833,218.34</u>	<u>\$ 833,218.34</u>	<u>100.00%</u>

* Investments of the Texas Tuition Promise Fund and College Savings Plans are held by the plan manager.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency's investment policy requires its *Texas Guaranteed Tuition Plan* investment custodian to perform an annual creditworthiness review of sub-custodians and security lending borrowers in order to minimize custodial credit risk. *Texas Tuition Promise Fund* investments are generally in mutual funds which significantly mitigates that plan's custodial credit risk. As of August 31, 2012, none of the *Texas Guaranteed Tuition Plan's* investments were exposed to custodial credit risk.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. The Board has enacted policies to reduce foreign currency risk for the *Texas Guaranteed Tuition Plan* by reducing its long-term allocation to global fixed-income and by enacting currency hedges on non-U.S. equity portfolios. The exposure to foreign currency risk for the *Texas Guaranteed Tuition Plan* as of August 31, 2012, is as follows:

<u>Fund Type</u>	<u>GAAP Fund</u>	<u>Foreign Currency</u>	<u>International Obligation (Govt and Corp)</u>	<u>International Equity</u>	<u>Other Commingled Funds (Cash Equivalents at International Sub- custodian Banks)</u>
05	0892	None	\$ -	\$ -	\$ -
Total Securities Subject to Foreign Currency Risk			-	-	-
International Securities Denominated in U.S. Dollars			<u>6,036,795.35</u>	<u>186,143,043.56</u>	-
Total International Securities			<u>\$ 6,036,795.35</u>	<u>\$ 186,143,043.56</u>	<u>\$ -</u>

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

The *Texas Tuition Promise Fund* invests in various foreign currencies in pooled vehicles. The registered Underlying Investments prospectuses provide greater detail about the investment strategies and practices of the Underlying Investments, in compliance with federal regulations and specifically, the Form N-1A of the Investment Company Act of 1940.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policy for the *Texas Guaranteed Tuition Plan* addresses credit risk by limiting its core domestic fixed income investments to an overall average credit rating of "A" or better as rated by Standard & Poor's or Moody's national statistical rating organization.

The *Texas Tuition Promise Fund's* investment pool had the following credit risk structure as of August 31, 2012, based on the Nationally Recognized Statistical Rating Organization (NRSRO):

	Proportion %
Dreyfus Bond Market Index Fund:	
AAA	7.83%
AA+	67.67%
AA	4.75%
A	12.11%
BBB	7.64%
Total	100.00%

The *Texas Guaranteed Tuition Plan* had the following credit risk structure as of August 31, 2012, based on Standard & Poor's and Moody's ratings:

Investment Grade Rating	Standard & Poor's					
	Total Debt Securities	U.S. Treasury Securities	U.S. Government Agency Obligations	Corporate Obligations	Corporate Asset and Mortgage Backed Securities	International Obligations (Govt and Corp)
AAA	\$ 292,553,828.45	\$ 62,314,975.83	\$ 215,505,774.82	\$ -	\$ 14,733,077.80	\$ -
AA	15,852,025.40	-	4,614,874.15	-	10,511,393.75	725,757.50
A	31,508,186.59	-	775,976.50	27,628,443.76	719,999.00	2,383,767.33
BBB	62,740,312.93	-	-	59,813,042.41	-	2,927,270.52
BB	92,768,088.59	-	-	92,768,088.59	-	-
B	49,745,281.08	-	-	49,745,281.08	-	-
CCC	502,916.50	-	-	502,916.50	-	-
NR (a)	107,795,762.38	-	5,065,612.56	91,315,421.58	11,414,728.24	-
Totals	\$ 653,466,401.92	\$ 62,314,975.83	\$ 225,962,238.03	\$ 321,773,193.92	\$ 37,379,198.79	\$ 6,036,795.35

Note a: Not rated securities.

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

Investment Grade Rating	Total Debt Securities	Moody's					International Obligations (Govt and Corp)
		U.S. Treasury Securities	U.S. Government Agency Obligations	Corporate Obligations	Corporate Asset and Mortgage Backed Securities		
Aaa	\$ 295,410,355.64	\$ 62,314,975.83	\$ 212,793,498.82	\$ -	\$ 20,301,880.99	\$ -	
Aa	12,059,471.38	-	6,059,886.40	2,074,799.16	2,316,069.32	1,608,716.50	
A	24,999,286.96	-	775,976.50	20,425,113.72	750,330.89	3,047,865.85	
Baa	67,457,905.30	-	-	65,392,449.24	685,243.06	1,380,213.00	
Ba	108,601,767.17	-	-	107,921,507.86	680,259.31	-	
B	48,272,531.69	-	-	48,272,531.69	-	-	
Caa	502,916.50	-	-	502,916.50	-	-	
NR (a)	96,162,167.28	-	6,332,876.31	77,183,875.75	12,645,415.22	-	
Totals	<u>\$ 653,466,401.92</u>	<u>\$ 62,314,975.83</u>	<u>\$ 225,962,238.03</u>	<u>\$ 321,773,193.92</u>	<u>\$ 37,379,198.79</u>	<u>\$ 6,036,795.35</u>	

Note a: Not rated securities.

Concentration of credit risk is the risk of loss attributable to the magnitude of investment in a single issuer. The Agency's investment policy restricts each fixed income investment manager to purchases of no more than 5.00% and to holdings of no more than 10.00% of its assets in the securities of a single entity other than issues of the U.S. Government or its agencies. Based on the investment policy, holdings of an equity investment manager are generally not to exceed 3.00% of the amount of shares outstanding for an individual issuer. As of August 31, 2012, no single issuer of the Agency's investments, other than mutual funds or external investment pools, exceeded 5.00%; thus, no concentration of credit disclosure is required by GASB.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the *Texas Guaranteed Tuition Plan* manages its exposure to fair value losses arising from increasing interest rates by limiting the effective duration of its overall fixed income portfolio to seven years or less.

The Agency's interest rate risk at August 31, 2012, is as follows:

Investment Type	Fair Value	Effective Duration
Texas Guaranteed Tuition Plan:		
U.S. Government:		
U.S. Treasury Securities	\$ 62,314,975.83	7.64
U.S. Government Agency Obligations	225,962,238.03	1.24
Corporate Obligations	321,773,193.92	1.88
Corporate Asset and Mortgage Backed Securities	37,379,198.79	3.16
International Obligations (Govt and Corp)	6,036,795.35	5.89
Total Interest Rate Risk Debt Securities	<u>\$ 653,466,401.92</u>	
Effective Duration for Debt Security Portfolio		2.32

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

Investment Type	Fair Value	Effective Duration
Texas Tuition Promise Fund:		
Dreyfus Bond Market Index Fund	\$ 131,895,539.87	5.00
Total Interest Rate Risk Debt Securities	<u>\$ 131,895,539.87</u>	
Effective Duration for Debt Security Portfolio		5.00

Note: Effective duration is weighted by fair value of each security and is expressed in years.

The *Texas Guaranteed Tuition Plan* holds \$102,033,702.04 in government mortgage-backed securities that are highly sensitive to changes in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

SECURITIES LENDING

The Board authorized management to contract with its investment custodian to participate in a security-lending program for investments of the *Texas Guaranteed Tuition Plan*. Types of securities lent include domestic common stocks, foreign common stocks, government bonds, government agencies, and corporate bonds. There are no restrictions on the amount of securities that can be lent. The Board had \$96,653,030.00 in market value of securities out on loan to broker/dealers at August 31, 2012. One hundred percent of these securities had cash collateral pledged.

In securities lending transactions, the Board transfers its securities to broker-dealers and other entities for collateral, which may be cash or securities, and simultaneously agrees to return the collateral cash or the same securities in the future. The Board’s investment custodian, Northern Trust Company, invests the cash received as collateral and, if the return on those investments exceeds the “rebate” paid to the borrowers of the securities, the security lending transactions generate income for the Board. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss on principal, part of the payment to the borrower would come from the Board’s resources. The borrower will pay a “loan premium or fee” for the securities on loan, thus generating income for the Board.

Collateral may include cash, U.S. government securities and irrevocable letters of credit at a value of 102% of market value plus accrued interest for U. S. securities loaned and 105% plus accrued interest for non-U.S. securities. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Contracts with the lending agents require them to indemnify the Board if the borrowers fail to return the securities. 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 year.

All security loans can be terminated on demand by either the lender or borrower. The average term for the Board’s overall loans was 34 days as of August 31, 2012. The maturities of the cash collateral investments are closely matched to the security loan terms in order to minimize risk and more closely match cash flows. The Board’s custodian invests cash open collateral in a short-term investment pool, which had an average weighted maturity of 38 days during the year. Funds can be withdrawn from the short-term investment pool, as cash collateral needs to be returned. Cash collateral may also be invested separately in “term loans”, in which case the investments match the loan term.

During fiscal year 2012, the Board had gross earnings of \$248,662.05, received rebates of \$94,255.02 and paid bank fees of \$68,469.02. The net income earned from security lending was \$274,448.05.

NOTE 4: Short-Term Debt

(Not Applicable)

**Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012**

NOTE 5: Long-Term Liabilities

CHANGES IN LONG-TERM LIABILITIES

During the year ended August 31, 2012, the following changes occurred in liabilities:

<u>Business-Type Activities</u>	<u>Balance September 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance August 31, 2012</u>	<u>Amounts Due Within One Year</u>
Texas Tomorrow Constitutional Trust Fund/Texas Guaranteed Tuition Plan (Fund 0892):					
Employees' Compensable Leave	\$ 87,502.80	\$ 53,873.18	\$ 61,081.21	\$ 80,294.77	\$ 41,681.86
Liabilities Payable from Restricted Assets – Contract Benefits and Expenses	<u>2,055,662,231.00</u>	<u>-</u>	<u>77,191,338.00</u>	<u>1,978,470,893.00</u>	<u>239,697,931.00</u>
Total Business-Type Activities	<u>\$2,055,749,733.80</u>	<u>\$53,873.18</u>	<u>\$77,252,419.21</u>	<u>\$1,978,551,187.77</u>	<u>\$239,739,612.86</u>
Prepaid Tuition Undergraduate Education Program/Texas tuition Promise Fund (fund 0842):					
Employees' Compensable Leave	\$14,388.17	\$8,054.07	\$ 2,890.43	\$ 19,551.81	\$ 7,334.66
Liabilities Payable from Restricted Assets – Contract Benefits and Expenses	<u>358,448,322.00</u>	<u>104,774,214.66</u>	<u>-</u>	<u>463,222,536.66</u>	<u>12,272,648.66</u>
Total Business-Type Activities	<u>\$358,462,710.17</u>	<u>\$104,782,268.73</u>	<u>\$ 2,890.43</u>	<u>\$ 463,242,088.47</u>	<u>\$12,279,983.32</u>

EMPLOYEES' COMPENSABLE LEAVE

If a State employee has had continuous employment with the State for at least six months, the State employee is entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal or separation from State employment. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. Both an expense and a corresponding liability are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulated rights to receive sick pay benefits. This obligation is usually paid from the same funding source(s) from which the employee's salary or wage compensation is paid.

LIABILITIES PAYABLE FROM RESTRICTED ASSETS/CONTRACT BENEFITS AND EXPENSES

The liability recognizes future benefits payable for the State's two prepaid tuition plans, the *Texas Guaranteed Tuition Plan* established in 1996 and the *Texas Tuition Promise Fund* established in 2008. The breakdown is on Exhibit F-1 Combining Statement of Net Assets - Enterprise Funds.

NOTE 6: Bonded Indebtedness

(Not Applicable)

NOTE 7: Derivatives

(Not Applicable)

NOTE 8: Leases

(Not Applicable)

**Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012**

NOTE 9: Retirement Plans

(Not Applicable – Note only included by an administering agency)

NOTE 10: Deferred Compensation

(Not Applicable – Note only included by an administering agency)

NOTE 11: Post Employment Health Care and Life Insurance Benefits

(Not applicable)

NOTE 12: Interfund Activity and Transactions

The Board had \$0.00 in Interfund Receivable/Payable and the following Amounts Due to Other Agencies at August 31, 2012:

<u>Current Portion</u>	<u>Non-Current Interfund Receivable</u>	<u>Non-Current Interfund Payable</u>	<u>Purpose</u>
None	\$ -	\$ -	
	<u>Due From Other Agencies</u>	<u>Due to Other Agencies</u>	<u>Source</u>
ENTERPRISE FUND 05			
Appd Fund 0892 and D23 Fund 0892 (Agency 304, D23 Fund 0001)	\$ -	\$ 60,508.51	Reimbursement of Salaries, Benefits
Appd Fund 0892 and D23 Fund 2892 (Agency 304, D23 Fund 0001)	-	3,466.07	Reimbursement of Salaries, Benefits
Appd Fund 0892 and D23 Fund 4892 (Agency 304, D23 Fund 0001)	-	16,943.01	Reimbursement of Salaries, Benefits
Total Due From/To Other Agencies (Exh. I)	<u>\$ -</u>	<u>\$ 80,917.59</u>	

NOTE 13: Continuance Subject to Review

Under the Texas Sunset Act, the Agency will be abolished effective September 1, 2021, unless continued in existence by the Legislature as provided by the Act. If abolished, the Agency may continue until September 1, 2022, to close out its operations.

NOTE 14: Adjustments to Fund Balances/Net Assets

The Agency made no adjustments to Fund Balances or Net Assets in fiscal 2012.

NOTE 15: Contingencies and Commitments

The Agency has no contingencies or commitments to report.

NOTE 16: Subsequent Events

The Agency has no subsequent events to report.

NOTE 17: Risk Management

Presented below is the total tuition benefits obligation of the *Texas Guaranteed Tuition Plan* based upon the actuarial present value (“APV”) of the future tuition obligation. The Texas Guaranteed Tuition Plan is constitutionally guaranteed

**Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012**

by the State. The valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition and fee increases and termination of contracts. Net assets available represent assets in the program at market value and the future discounted contract payments adjusted for estimated cancellation based upon the actuarial assumptions and evaluations.

	<u>August 31, 2012</u>
<i>APV of Future Benefits Payable</i>	
Future contract benefits and expenses.....	\$1,978,470,893.00
 <i>Total Assets Available</i>	 \$1,334,798,316.29
 Total Assets as a Percentage of Tuition	
Benefits Obligation	67.5%
 Deficit	 \$643,672,576.71

The following Board approved assumptions were used in the actuarial evaluations:

* Investment Rates: The investment yield assumption ranges are as follows:

- 5.0% for 2012
- 4.7% for 2013
- 4.4% for 2014
- 4.1% for 2015
- 3.8% for 2016
- 3.5% for 2017
- 3.1% for 2018
- 2.5% for 2019
- 2.5% for 2020 and after

* Tuition/Required Fees The assumed tuition increases for future years were as follows:

- 6.3% for Public Senior Colleges
- 5.2% for Junior Colleges
- 7.3% for Private Universities

* Future New Entrants: It was assumed that no new contracts would be sold in the future.

The *Texas Tuition Promise Fund* is not guaranteed by the State. Assumptions for tuition increases are the same as those for the *Texas Guaranteed Tuition Plan* above. The assumption for investment return, net of fees and expenses, is 5.7% for 2012 (6.5% minus 0.80% fees and \$50,000 per year in expenses). The Program’s funded ratio is 104.9%.

NOTE 18: Management’s Discussion and Analysis
(See pages 2 – 8)

**Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012**

NOTE 19: The Financial Reporting Entity

INDIVIDUAL COMPONENT UNIT DISCLOSURES

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Based upon criteria established by GASB No. 14, the Board is not a component unit of the Texas Comptroller of Public Accounts' Office.

RELATED PARTIES

The Texas Comptroller of Public Accounts ("Comptroller") serves as the Chair and Executive Director of the seven-member Texas Prepaid Higher Education Tuition Board that administers the *Texas Guaranteed Tuition Plan and the Texas Tuition Promise Fund*, the State's prepaid tuition plans, and the *Texas College Savings Plan and the LoneStar 529 Plan*, the State's college savings plans. The Comptroller's office provides financial and staff support to conduct and administer the day-to-day operations of the Agency and contract management. Daily operations of the *Texas Tuition Promise Fund*, the *Texas College Savings Plan*, and the *LoneStar 529 Plan* are outsourced to a plan manager.

Salaries and related benefit expenses are reimbursed on a monthly basis. The Comptroller's Office also pays salaries and related benefit expenses for marketing staff that support the plans. Salaries and related benefits paid by the Comptroller's Office totaled \$951,789.34 for the fiscal year.

The Comptroller also serves as the Chair of the *Texas Match the Promise Foundation* and the *Texas Prepaid Scholarship Foundation*.

NOTE 20: Stewardship, Compliance, and Accountability

The Economic Growth and Tax Relief Reconciliation Act of 2001 made significant changes to Section 529 of the Internal Revenue Code. Distributions from qualified tuition programs that are used for qualified higher education expenses are currently exempt from federal income tax. This exemption was scheduled to expire on December 31, 2010. The Pension Protection Act (H. R. 4), which was signed by President Bush on August 17, 2006, made the exemption permanent.

At August 31, 2012, the *Texas Guaranteed Tuition Plan* had a projected unfunded deficit of (\$643,672,576.71) compared to a deficit of (\$641,443,111.84) at August 31, 2011. The deficit is determined by comparing estimated future contract collections and investment earnings to the projected value of future contract benefits to be paid.

At August 31, 2012, the *Texas Tuition Promise Fund* had a projected surplus of \$22,617,743.72 compared to a projected surplus of \$22,895,403.31 at August 31, 2011. The surplus is determined by comparing estimated future contract collections and investment earnings to the projected value of future contract benefits to be paid.

NOTE 21: Not Applicable

NOTE 22: Donor-Restricted Endowments

(Not Applicable)

NOTE 23: Extraordinary and Special Items

The Agency has no extraordinary or special items to report for the fiscal year ended August 31, 2012.

NOTE 24: Disaggregation of Receivable and Payable Balances

(Not Applicable)

Texas Prepaid Higher Education Tuition Board (315)
Notes to the Financial Statements
Fiscal Year Ended August 31, 2012

NOTE 25: Termination Benefits

(Not Applicable)

NOTE 26: Segment Information

(Not Applicable)

Schedule 1A – Schedule of Expenditures of Federal Awards and Accompanying Notes

(Not Applicable)

Schedule 1B – Schedule of State Grant Pass Throughs From/To State Agencies/Universities

(Not Applicable)

Schedule 2A – Miscellaneous Bond Information

(Not Applicable)

Schedule 2B – Changes in Bonded Indebtedness

(Not Applicable)

Schedule 2C – Debt Service Requirements

(Not Applicable)

Schedule 2D – Analysis of Funds Available for Debt Service

(Not Applicable)

Schedule 2E – Defeased Bonds Outstanding

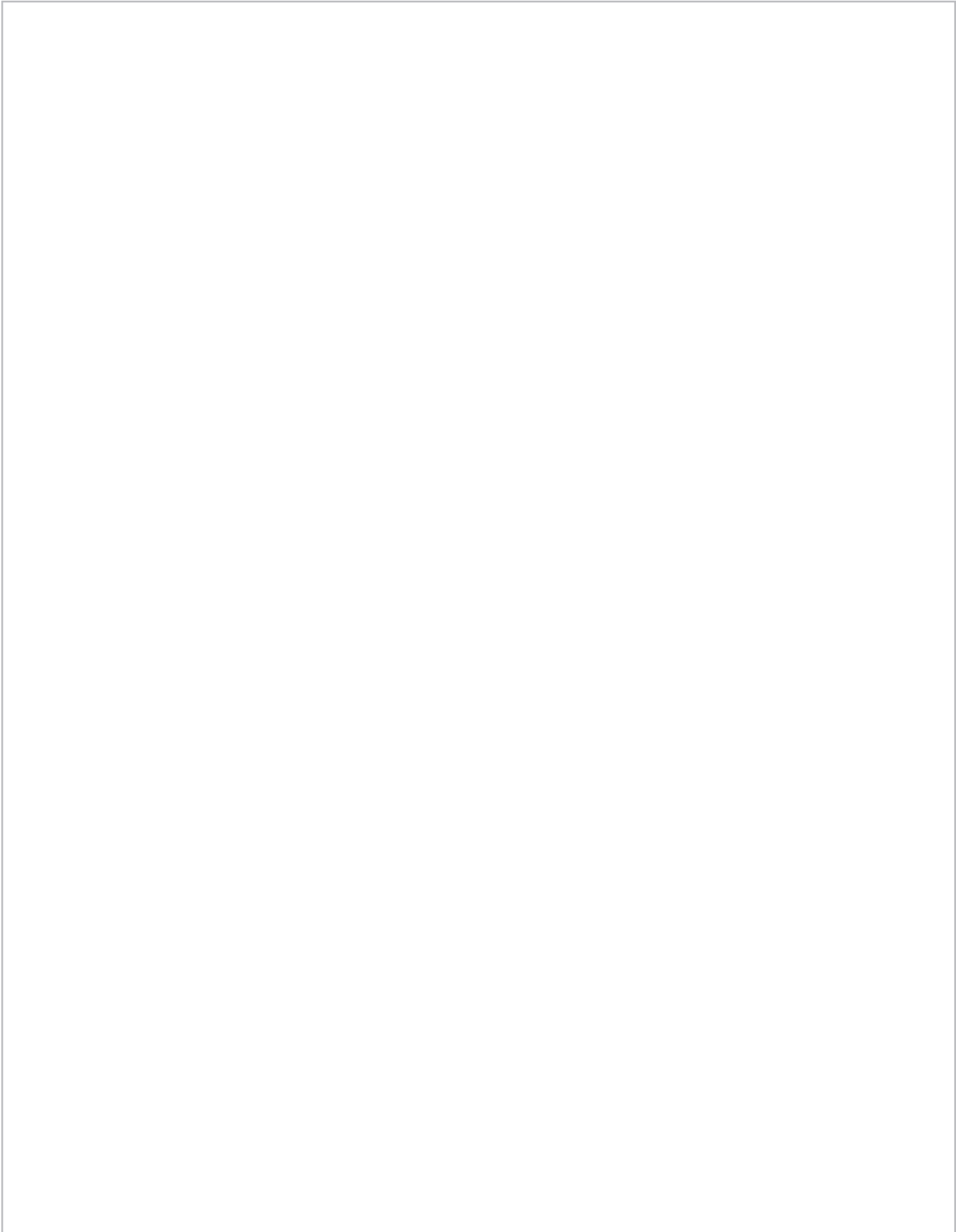
(Not Applicable)

Schedule 2F – Early Extinguishment and Refunding

(Not Applicable)

Schedule 3 – Reconciliation of Cash in State Treasury and Schedule of Cash and Cash Equivalents

(Not Applicable)



INDEPENDENT AUDITORS' REPORT

ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS



TEXAS GUARANTEED TUITION PLAN

LONESTAR
529 PLAN



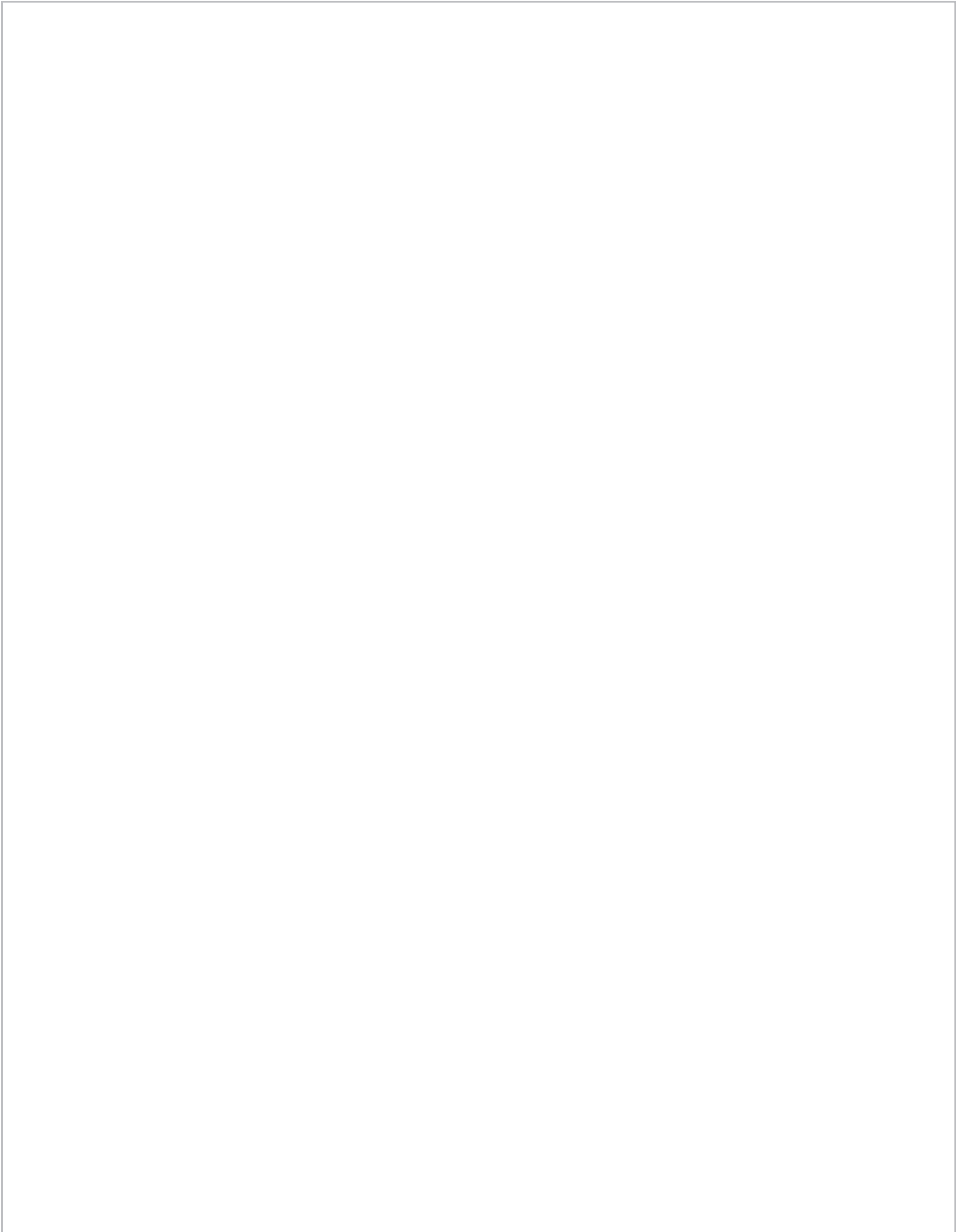
TEXAS TUITION[®]
PROMISE FUND

A Prepaid Plan as Smart as You Are



Texas Tomorrow Fund
Texas Prepaid Scholarship Foundation







McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Texas Prepaid Higher Education Tuition Board:

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Texas Prepaid Higher Education Tuition Board (the "Board"), as of and for the fiscal year ended August 31, 2012, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 18, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Board, Texas Comptroller of Public Accounts' Office, Management, Texas Auditor's Office, and other applicable regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

3040 Post Oak Blvd., Suite 1600
Houston, TX 77056
Phone: 713.968.1600
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McConnell & Jones LLP

Houston, Texas
December 18, 2012

WWW.MCCONNELLJONES.COM

TEXAS GUARANTEED TUITION PLAN
**ACTUARY'S
REPORT**



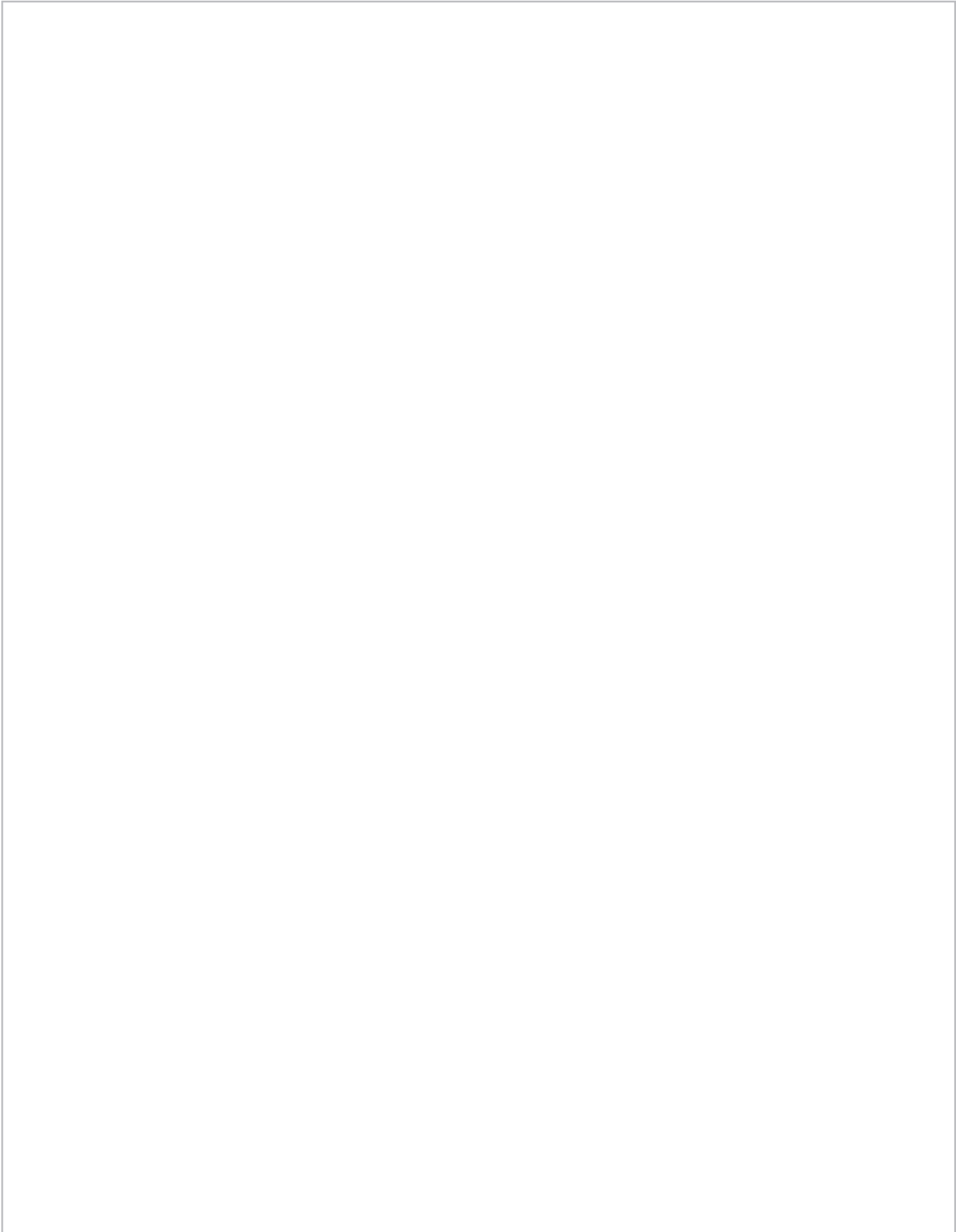
TEXAS GUARANTEED TUITION PLAN

TEXAS GUARANTEED TUITION PLAN

ACTUARY’S REPORT ON PROGRAM SOUNDNESS

AUGUST 31, 2012

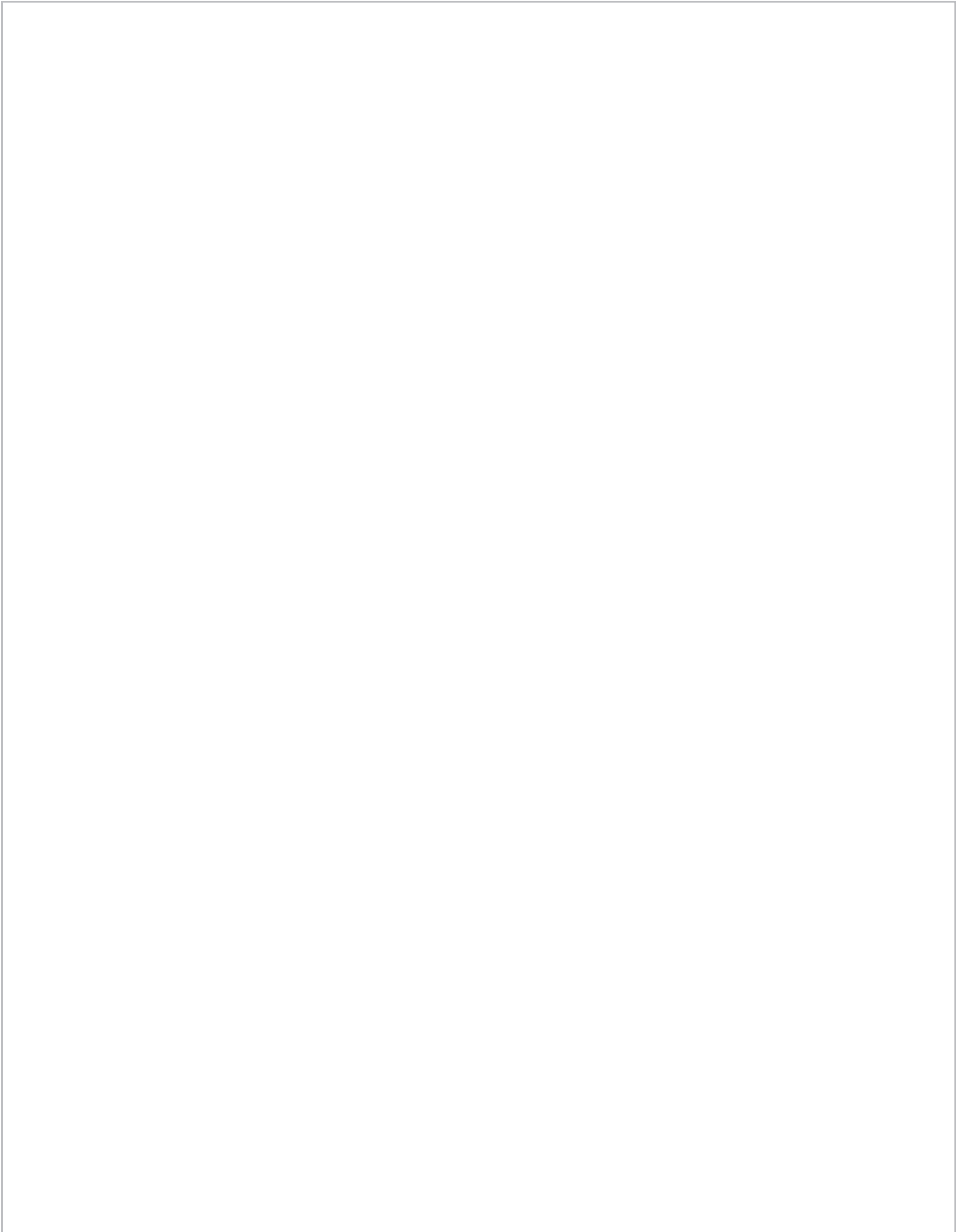
October 2012



Texas Guaranteed Tuition Plan
Actuary's Report on Program Soundness
August 31, 2012

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Section I – Executive Summary

Adequacy of the Fund

As of August 31, 2012, the Plan had an unfunded liability of \$643,672,576. The unfunded liability represents the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present value of the expected future tuition and required fees, refunds and expenses. The unfunded liability is \$2,229,464 higher than last year’s unfunded liability of \$641,443,112, and \$37,376,383 less than the expected unfunded liability of \$681,048,959. The three primary sources of change are:

- a) Investment asset performance of 7.33%, higher than the assumed investment return of 6.00%. The result was an asset gain of \$16.6 million. This estimate may vary from the actual asset performance as determined by the investment consultant.
- b) Tuition Increases: Increases in tuition were less than expected and resulted in an \$37.5 million decrease in the unfunded liability.
- c) Changing the investment return assumptions for future years resulted in a \$64.8 million loss.

The table below summarizes current balances:

Assets	
Investments	\$ 1,274,238,005
Future Contract Collections	60,560,311
Total Assets	1,334,798,317
Liabilities and Surplus	
Future Contract Benefits and Expenses	\$ 1,978,470,893
Deficit of Assets over Liabilities	(643,672,576)
Total Liabilities and Surplus (Deficit)	1,334,798,317

The program’s funded ratio is 67.5%. This represents a reduction of 1.3% from last year’s ratio of 68.8%.

The assumptions used to measure the adequacy of the Plan, which were approved by the Board, are stated in Section III. The most important assumptions are:

- The investment yield;
- The rate of increase in tuition/fees;
- Withdrawal rates;
- Future new entrants; and
- Expenses.

Investment Yield

The investment yield is the expected long-term net earnings rate of return on the assets.

The actuarial valuation of the Plan was determined using the schedule of interest rates found in Section IV. We also assumed the Plan is exempt from federal income tax. It is important to highlight the sensitivity of this analysis to this assumption. As pointed out subsequently, a 25-basis points shortfall in such a goal would place the Plan in a much less favorable position. Additionally, the nature of this type of program involves payment of benefits at fixed future points in time, subjecting the Plan to greater than average investment risk due to short-term fluctuation and in matching investment maturities with expected outlays.

Rate of Increase in Tuition/Fees

Under statutory changes approved in 2003 by the Texas Legislature, the amount of tuition and required fees paid for each beneficiary who uses a Public Senior College contract to attend a Public Senior College will be the lesser of: 1) actual tuition and required fees or 2) the weighted average tuition and required fees of all Texas public colleges and universities. Under this formula, Texas colleges and universities must accept this amount as payment in full for a beneficiary who attends a Public Senior College using plan benefits.

After careful analysis, the Texas Prepaid Higher Education Tuition Board (Board) selected tuition and fee increase assumptions above an expected rate of inflation. The assumed annual increases were 6.3% for Public Senior Colleges, 5.2% for Junior Colleges and 7.3% for Private Universities. This assumption was unchanged from the prior valuation.

Future New Entrants

New contracts in future years would serve: a) to expand the base for spreading fixed expenses; b) to increase the likelihood that the Plan average tuition cost will not exceed Weighted Average Tuition (WAT) by a significant amount; and c) to ensure a large enough fund balance to invest profitably.

In 2003 the Board suspended new enrollment in the Plan. For purpose of the actuarial analysis in this report, it is assumed that no future contracts will be sold.

Expense

In our analysis we provide an expense provision for records administration charges and for general expenses. The provision for fiscal year 2012 is \$32 per contract that we assumed will increase 3.5% per year for inflation. This assumption was unchanged from the prior valuation.

Bias Against the Program by Purchasers and Beneficiaries

Bias is the result of rational decisions by purchasers and beneficiaries. Bias against the Plan is expected and is intrinsic to the purpose of a prepaid tuition program. A basic reason for establishing the Texas Guaranteed Tuition Plan is that the purchase of a contract will increase the commitment of the purchaser to a belief the beneficiary will become qualified to enter college and that the ownership of a contract will cause the beneficiary to be comfortable with a commitment to academic achievement.

Bias against the Plan causes the amount the Plan pays to exceed the WAT. WAT is the average tuition/fees weighted by the number of full-time equivalent students. Bias refers to the degree to which the Texas Guaranteed Tuition Plan beneficiaries choose to attend the higher priced school and so cause the Plan to pay out more tuition/fee benefits.

According to the amendments to state law, under statutory changes approved in 2003 by the Texas Legislature, the amount of tuition and required fees paid for each beneficiary who uses a Public Senior College contract to attend a Public Senior College will be the lesser of: 1) actual tuition and required fees or 2) the weighted average tuition and required fees of all Texas public colleges and universities. Under this formula, Texas public colleges and universities must accept this amount as payment in full for a beneficiary who attends a Public Senior College using plan benefits.

The statutory change removes the bias against the Plan by the Plan beneficiaries choosing to attend the higher priced school, because the maximum tuition/fees payout is limited by the WAT.

However, these amendments do not apply to community colleges. The assumed bias load was 10.0% for community colleges. This assumption was unchanged from the prior valuation.

Use of Report

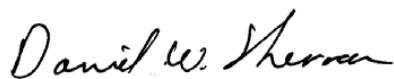
This report is prepared solely to assist the Board of the Texas Guaranteed Tuition Plan in evaluating the actuarial soundness of the Plan each year. The report is not intended and is not suitable for any other purpose. Accordingly, Sherman Actuarial Services does not intend this report or the data contained therein to be used as personal financial advice. Other readers of this report should consult with their own financial advisors regarding the application of this report to their particular circumstances.

Qualifications

Daniel Sherman is an Associate of the Society of Actuaries, and a Member of the American Academy of Actuaries. He is the actuary for the Texas prepaid tuition plans, and is the current actuary for three other state prepaid tuition plans. He meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

All assumptions were approved by the Board and in my opinion are reasonable.

SHERMAN ACTUARIAL SERVICES, LLC



Daniel Sherman, ASA, MAAA, EA
CEO and Consulting Actuary

SECTION II – Summary of Contract Data and Current Assets

Contract Data

A contract inventory report as of August 31, 2012 was extracted from Plan data. The contract inventory report presents the number of credit hours issued net of cancellations by contract type, number of years of tuition, grade or age of beneficiary and payment option.

The contracts issued in 1996 are for 30 credit hours. The contracts issued after 1996 are for 32 credit hours. The credit inventory (number of hours) as of August 31, 2012 is summarized in the following table.

<i>Plans</i>	<i>Lump Sum</i>	<i>Five-Year Monthly</i>	<i>Ten-Year Monthly</i>	<i>Payment Options</i>			
				<i>Extended Monthly</i>	<i>Five-Year Annually</i>	<i>Ten-Year Annually</i>	<i>Extended Annually</i>
1996 Enrollment							
<i>Sr. College</i>	217,981	171,320	237,142	271,344			73
<i>Jr. College</i>	2,619	3,793	5,099	10,545			-
<i>Jr. & Sr. College</i>	14,710	18,255	28,278	54,683			117
<i>Private College</i>	1,713	2,611	2,551	3,023			-
Total 1996	237,022	195,979	273,070	339,595	-	-	190
1997 Enrollment							
<i>Sr. College</i>	233,961	138,188	190,785	165,409			227
<i>Jr. College</i>	1,911	2,633	2,829	4,341			-
<i>Jr. & Sr. College</i>	9,941	13,413	20,463	20,222			114
<i>Private College</i>	11,296	2,554	1,807	2,099			-
Total 1997	257,109	156,788	215,885	192,071	-	-	341
1998 Enrollment							
<i>Sr. College</i>	203,839	62,499	127,216	109,300	57,738	24,866	13,435
<i>Jr. College</i>	1,683	955	1,428	2,184	240	202	64
<i>Jr. & Sr. College</i>	7,934	5,026	10,950	11,956	2,996	1,520	1,122
<i>Private College</i>	4,946	1,498	702	1,392	1,446	602	226
Total 1998	218,402	69,978	140,296	124,831	62,420	27,190	14,847
1999 Enrollment							
<i>Sr. College</i>	156,770	44,317	107,864	103,923	47,636	20,156	10,980
<i>Jr. College</i>	809	526	1,728	1,472	355		19
<i>Jr. & Sr. College</i>	6,405	3,889	9,599	10,691	1,902	1,216	344
<i>Private College</i>	3,584	324	1,095	1,290	2,592	308	447
Total 1999	167,568	49,055	120,286	117,377	52,485	21,679	11,790
2000 Enrollment							
<i>Sr. College</i>	200,245	79,333	154,267	145,352	61,506	27,379	19,388
<i>Jr. College</i>	1,487	1,332	1,604	2,125	576	96	337
<i>Jr. & Sr. College</i>	8,358	8,716	16,184	14,810	2,411	2,114	1,217
<i>Private College</i>	3,275	623	1,187	900	2,435	576	392
Total 2000	213,365	90,003	173,242	163,187	66,928	30,165	21,335

<i>Plans</i>	<i>Payment Options</i>						
	<i>Lump Sum</i>	<i>Five-Year Monthly</i>	<i>Ten-Year Monthly</i>	<i>Extended Monthly</i>	<i>Five-Year Annually</i>	<i>Ten-Year Annually</i>	<i>Extended Annually</i>
<i>2001 Enrollment</i>							
<i>Sr. College</i>	212,203	94,847	147,040	200,428	92,063	46,725	30,418
<i>Jr. College</i>	2,713	1,886	2,300	6,454	371	586	219
<i>Jr. & Sr. College</i>	15,901	11,067	22,370	35,421	5,974	3,880	3,963
<i>Private College</i>	5,575	1,143	1,088	2,973	2,310	1,529	604
<i>Total 2001</i>	236,393	108,942	172,798	245,276	100,718	52,720	35,203
<i>2002 Enrollment</i>							
<i>Sr. College</i>	264,456	95,510	147,294	177,897	117,251	60,471	35,368
<i>Jr. College</i>	3,944	3,384	3,577	4,995	311	697	607
<i>Jr. & Sr. College</i>	14,698	10,385	25,287	24,368	7,881	6,415	3,738
<i>Private College</i>	6,576	519	1,888	3,125	2,386	1,407	812
<i>Total 2002</i>	289,675	109,799	178,045	210,386	127,828	68,990	40,526
<i>2003 Enrollment</i>							
<i>Sr. College</i>	655,556	108,612	173,368	290,502	223,924	117,167	81,968
<i>Jr. College</i>	8,490	2,473	2,951	6,075	1,397	701	895
<i>Jr. & Sr. College</i>	31,767	12,063	21,931	42,367	13,072	10,408	7,205
<i>Private College</i>	21,876	2,440	1,398	3,314	8,221	1,587	1,392
<i>Total 2003</i>	717,689	125,588	199,648	342,258	246,614	129,863	91,459
<i>Total Enrollment</i>							
<i>Sr. College</i>	2,145,010	794,626	1,284,976	1,464,155	600,117	296,764	191,857
<i>Jr. College</i>	23,657	16,981	21,516	38,191	3,250	2,282	2,142
<i>Jr. & Sr. College</i>	109,714	82,814	155,062	214,517	34,235	25,552	17,820
<i>Private College</i>	58,842	11,711	11,715	18,117	19,390	6,009	3,872
<i>Total Enrollment</i>	2,337,222	906,132	1,473,269	1,734,980	656,992	330,607	215,691

The number of active contract counts (for all enrollment years combined) by plan type and projected year of matriculation is included in Appendix A.

Current Assets

The assets are administered by the State Treasury and invested by external managers with whom the Board contracts. The value of the assets as of August 31, 2012 is \$1,274,238,005. Asset totals shown below do not include securities lending collateral and tuition contracts receivable.

Assets held as of August 31, 2012:

Cash in State Treasury	\$ 1,108,494
Investments	1,269,718,385
Interest & Dividends Receivable	3,977,483
Less Accounts Payable	<u>(566,357)</u>
Total Assets	\$1,274,238,005

It is assumed that this mix will produce a net annual investment return of 5.00% in fiscal year 2013.

SECTION III – Plan Description

Overview

The Texas Guaranteed Tuition Plan (Plan) is an Internal Revenue Code Section 529 prepaid tuition plan. It allows the contract holder to lock in the cost of undergraduate college tuition and required fees, thus providing protection against future tuition inflation.

At matriculation the Plan will pay, based on the number of credit hours purchased, either 1) the weighted average or actual cost of college tuition and required fees at Texas public colleges and universities, whichever is less, or 2) the estimated average private tuition and required fees at Texas private colleges and universities.

The contract holder buys credit hours representing a fixed amount of resident tuition and required fees. When the beneficiary is ready for college, all or a portion of the tuition and required fees will be covered at all four- or two-year public colleges and universities in Texas. The portion of the fees covered will vary based on the type of contract purchased. The contract can also be used to help pay for tuition at all private colleges in Texas and out-of-state institutions. Texas public colleges and universities are required by statute to accept the benefit payments as payment in full for the hours purchased.

Eligibility

At the time of enrollment, the beneficiary must be a Texas resident or his/her parent must be both the purchaser and a Texas resident.

Contract Types

The fund will pay the maximum number of credit hours listed below for the type of plan purchased:

- **Junior College Plan**
Purchaser can prepay up to 64 credit hours of tuition and required fees at any public junior or community college in the state.
- **Senior College Plan**
Purchaser can prepay up to 160 credit hours of tuition and required fees at any public senior college or university in the state.
- **Junior-senior College Plan**
Purchaser can prepay up to 64 credit hours of tuition and required fees at any public, community or technical college in the state. In addition, the purchaser can prepay up to 64 credit hours of tuition and required fees for any public senior college or university in the state. Thus, a total of 128 credit hours can be purchased.
- **Private College Plan**
Provides an estimated average private tuition and required fees, as determined by the Board each year. This amount is applied toward any of Texas' private or independent colleges for up to 160 credit hours. If tuition and required fees at the private college chosen exceed the estimated average, the beneficiary is responsible for the remaining balance. If the college charges are less than the estimated average, the purchaser can

request a refund of the difference. Otherwise, only the hours necessary to pay the student's tuition and required fee charges will be deducted from his or her plan.

Payment Plans

The Plan offers two types of payment plans: Lump Sum and Installment:

- **Lump Sum**
 - Entire purchase made in one lump sum payment.

- **Installment Plan**
 - Pay every month or once a year.
 - Payment period of 5 years, 10 years, or the number of years until the beneficiary's projected high school graduation date.

Refunds

The purchaser may receive a refund on the unused portion of the contract.

SECTION IV – Actuarial Methods and Assumptions

Actuarial Methods

The actuarial method projects the expected future cash flows from contract payments, tuition and refund benefits and expense. These projected future cash flows are discounted to the present and compared to the market value of the assets to indicate the soundness of the Plan.

The development of the measurement of soundness has seven stages:

Develop base line average tuition and required fees from data provided by the Plan;

Project average tuition and required fees through the expected term of the contracts, based on assumptions as to future tuition increases;

Determine the nominal cost of expected future tuition and required fees, based on the contract inventory and assumptions as to mortality, disability, voluntary surrender and utilization of benefits;

Determine the nominal cost of expected future administrative expenses, based on the contract inventory and the records administration fee schedule, as well as assumptions as to inflation and utilization of benefits;

Project future contract payments based on the contracts and assumptions as to mortality, disability and voluntary surrender;

Determine the present value of expected future benefits, expenses and contract payments, based on the discount rate assumption; and

As the indication of soundness, measure the surplus or deficit, which is the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present values of the expected future tuition and required fees, refunds and expenses.

Actuarial Assumptions

Necessary adjustments to reflect new information were made to this year's assumptions. The assumptions were approved by the Board. The revisions to the assumptions, if any, are noted herein.

Tuition/Fee Increase

Assumed annual increases in future tuition and required fees remained unchanged from the prior valuation:

Public Senior College	Junior College	Private University
6.3%	5.2%	7.3%

Investment Yield

The assumed annual net investment yield is illustrated in the following table:

Plan Year Beginning	Current Valuation	Prior Valuation
2012	5.00%	5.60%
2013	4.70%	5.30%
2014	4.40%	5.10%
2015	4.10%	4.90%
2016	3.80%	4.40%
2017	3.50%	4.00%
2018	3.10%	3.10%
2019	2.50%	1.70%
2020+	2.50%	1.70%

Expenses

In our analysis we provide an expense provision for records administration charges and for general expense. The provision for fiscal year 2012 is \$32 per contract, which we assume will increase 3.5% per year for inflation. This assumption remains unchanged from the prior valuation.

Future Participation in the Program

It is assumed that no new contracts will be issued in the future.

Mortality and Disability

Mortality rates for beneficiaries are assumed to follow the 1990 U.S. Life Tables.

Early Voluntary Surrender of Contract

We assumed the following percentages of the public senior college contracts in effect at the beginning of the year would be surrendered during the year. We use similar estimates for the other college types, based on empirical evidence. This assumption remains unchanged from the prior valuation.

Years From Purchase	Lump Sum	Five-Year Payments	Ten-Year Payments	Extended Payments
1 to 2	2.50%	6.30%	8.80%	13.70%
2 to 3	1.80%	3.60%	5.30%	6.00%
3 to 4	0.40%	1.50%	2.30%	3.00%
4 to 5	0.50%	1.00%	2.00%	3.00%
5 to 6	0.50%	0.50%	1.30%	2.00%
After 6 Years	0.80%	1.30%	0.70%	2.30%

Matriculation Percent

We assumed the beneficiary of a contract not voluntarily surrendered matriculates at the date specified in the contract. This assumption remains unchanged from the prior valuation.

Dropout Rate

We assumed beneficiaries use the number of credits specified in the contract.

Utilization of Credits

We assumed beneficiaries use the credits specified according to the following schedule. This assumption remains unchanged from the prior valuation.

Type of Contract	First Year	Second Year	Third Year	Fourth Year	Fifth Year	Sixth Year
Five – Year Contracts	20%	20%	20%	20%	15%	5%
Four – Year Contracts	25%	24%	23%	20%	8%	0%
Three – Year Contracts	30%	30%	30%	10%	0%	0%
Two – Year Contracts	50%	40%	10%	0%	0%	0%
One – Year Contracts	80%	20%	0%	0%	0%	0%

Frequency of Beneficiary Replacement

We assumed no replacement of beneficiaries.

Bias

We assumed no bias load for universities and a bias load of 10.0% for community colleges. This assumption remains unchanged from the prior valuation.

SECTION V – Soundness of the Plan as of August 31, 2012

As a measure of the soundness of the Plan as of August 31, 2012, we determined the difference between the value of the assets and the actuarial present value of the future contract payments and the actuarial present value of future benefits and expenses. This measurement of soundness is summarized on the following pages.

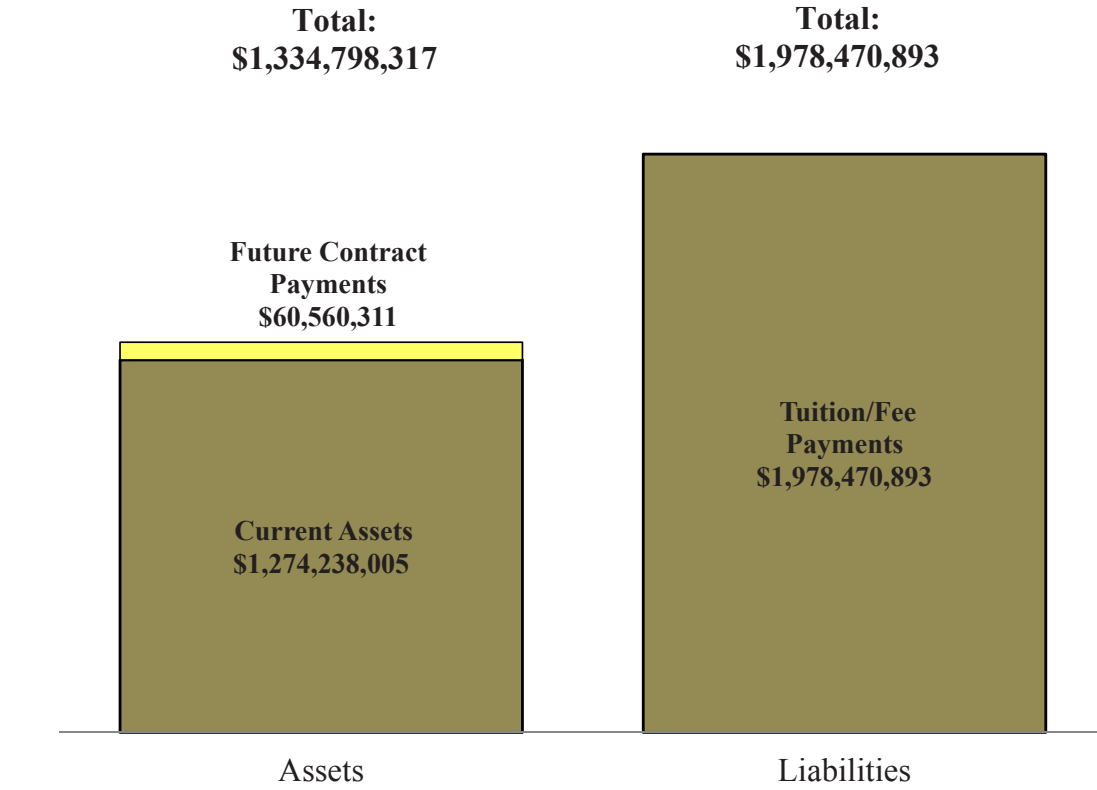
A projection of the status of the Plan at each future anniversary date through the life of these contracts is presented on page 15, labeled Present Value of Assets and Liabilities.

The projections of future benefits and expenses and contract payments are presented on page 16, labeled Expected Cash Flows.

Our measurement of the present value and projection are based on asset and contract information provided and on the assumptions chosen by the Board.

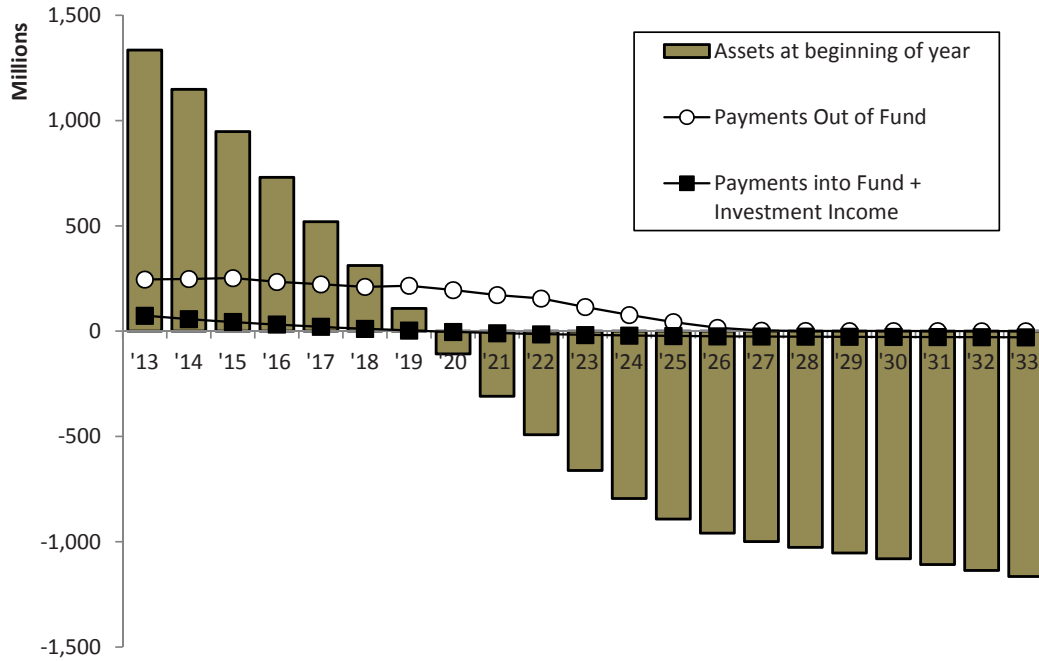
Funded Status

The liabilities of the trust fund exceed the value of assets as of August 31, 2012 (including the value of future payments by contract purchasers) by \$643.67 million. The funded ratio, assets divided by liabilities, is equal to 67.5%. Asset totals shown below do not include securities lending collateral. The assumptions used to perform the actuarial valuation of the fund were approved by the Board and are described in Section III.



Cash Flow Projection

The expected income and disbursements of the trust fund, based on the assumptions used in the actuarial valuation, and the current group of contract beneficiaries, are shown below. These amounts are cash amounts, not present value amounts.



Present Value of Assets and Liabilities

8/31 of Year	Present Value of Future Benefit and Expenses	Value of Assets and Present Value of Future Collections	Deficit of Assets to Liabilities
2012	1,978,470,893	1,334,798,317	(643,672,576)
2013	1,825,651,287	1,148,579,514	(677,071,773)
2014	1,657,292,498	947,527,795	(709,764,703)
2015	1,471,703,298	730,263,118	(741,440,180)
2016	1,291,904,836	520,065,609	(771,839,227)
2017	1,112,779,261	312,007,076	(800,772,185)
2018	936,067,135	108,021,020	(828,046,115)
2019	744,082,916	(108,352,772)	(852,435,688)
2020	562,315,653	(309,545,969)	(871,861,622)
2021	400,356,902	(491,618,057)	(891,974,959)
2022	251,315,354	(661,423,488)	(912,738,842)
2023	139,887,950	(794,532,856)	(934,420,806)
2024	64,309,983	(892,707,882)	(957,017,864)
2025	21,468,796	(959,045,390)	(980,514,186)
2026	5,650,874	(999,218,309)	(1,004,869,183)
2027	2,960,252	(1,027,003,373)	(1,029,963,625)
2028	1,996,454	(1,053,706,296)	(1,055,702,750)
2029	1,239,023	(1,080,848,554)	(1,082,087,577)
2030	676,376	(1,108,457,712)	(1,109,134,088)
2031	311,971	(1,136,546,840)	(1,136,858,811)
2032	137,069	(1,165,141,500)	(1,165,278,569)
2033	62,732	(1,194,347,101)	(1,194,409,833)
2034	24,777	(1,224,244,970)	(1,224,269,747)

Expected Annual Cash Flows

Fiscal Year Ending	Benefit Payments and Expenses	Contract Payment Receipts	Annual Cash Flow
2013	245,480,826	17,108,382	(228,372,444)
2014	247,923,456	12,340,830	(235,582,627)
2015	252,165,064	10,434,742	(241,730,322)
2016	234,239,046	8,717,588	(225,521,458)
2017	222,619,933	7,000,514	(215,619,419)
2018	210,377,301	5,344,207	(205,033,094)
2019	215,650,960	3,855,056	(211,795,904)
2020	195,470,701	2,450,970	(193,019,731)
2021	171,661,662	1,258,648	(170,403,014)
2022	155,100,629	21,260	(155,079,369)
2023	114,787,096	0	(114,787,096)
2024	77,111,479	0	(77,111,479)
2025	43,345,190	0	(43,345,190)
2026	15,948,618	0	(15,948,618)
2027	2,761,706	0	(2,761,706)
2028	1,012,170	0	(1,012,170)
2029	787,430	0	(787,430)
2030	579,016	0	(579,016)
2031	371,978	0	(371,978)
2032	178,295	0	(178,295)
2033	75,961	0	(75,961)
2034	38,669	0	(38,669)

Note: The amounts shown above are annual expected amounts for the year corresponding to the “Fiscal Year Ending” column. They are not cumulative amounts. In addition, Payment Receipts are frontloaded. Therefore, the Expected Annual Cash Flows project positive cash flows in the early years and negative in the later years. It is expected that positive cash flows prior to Fiscal Year Ending 2013 would be invested to cover the negative cash flows in future years.

SECTION VI – Sensitivity Testing

The Program operates under conditions of risk and uncertainty. For example, while it is assumed the assets of the fund will earn the annual net rate found in Section IV, we also expect actual returns to vary from year to year. To accept the reasonableness of the basis for the measurement of the soundness, it is useful to know how the status of the fund may be affected by the vagaries of the markets and other factors. We have rerun the valuation under the following alternative scenarios, and the deficit as of August 31, 2012 under each of these scenarios is presented in the following table:

Scenarios	Deficit
Baseline	643,672,576
Tuition increases are 25 basis points higher in each future year than assumed	663,570,149
The investment return is 25 basis points lower than assumed	663,645,254
Tuition increases are 25 basis points higher in each future year and the investment return is 25 basis points lower than assumed	683,873,651
Tuition increases are 25 basis points lower in each future year than assumed	624,056,741
Tuition increases are 25 basis points lower in each future year and the investment return is 25 basis points lower than assumed	643,704,315
The investment return is 50 basis points lower than assumed	683,993,591
The investment return is 75 basis points lower than assumed	704,726,563
The investment return is 100 basis points lower than assumed	725,853,402
Tuition increases are 50 basis points higher in each future year than assumed	683,753,839
Tuition increases are 75 basis points higher in each future year than assumed	704,228,095
Tuition increases are 100 basis points higher in each future year than assumed	724,997,434

SECTION VII – Changes in Surplus

Adequacy of the Fund

As of August 31, 2012, the Plan had an unfunded liability of \$643,672,576. The unfunded liability represents the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present value of the expected future tuition and required fees, refunds and expenses. The unfunded liability is \$2,229,464 higher than last year's unfunded liability of \$641,443,112, and \$37,376,383 lower than the expected unfunded liability of \$681,048,959. The three primary sources of change are:

- d) Investment asset performance of 7.33%, much higher than the assumed investment return of 6.00%. The result was an asset gain of \$16.6 million. This estimate may vary from the actual asset performance as determined by the investment consultant.
- e) Tuition Increases: Increases in tuition were less than expected and resulted in an \$37.5 million decrease in the unfunded liability.
- f) Changing the investment return assumptions for future years resulted in a \$64.8 million loss.

Following is a comparison of the assumed and the actual results for the year ended August 31, 2012.

Investment Return

Assets performed better than expected during the 2012 fiscal year, returning 7.33% versus the prior year assumption of 6.00%. The result was an asset gain of \$16.6 million. The extent that investment experience exceeds the assumption will result in an actuarial gain.

Tuition and Required Fee Increase

The Weighted Average Tuition (WAT) for Senior College increased from \$8,173 to \$8,511, an increase of 4.14% compared to the assumed 6.30% increase. The Junior College WAT increased from \$2,579 to \$2,741, an increase of 6.28% compared to the assumed 5.20% increase. The Private College WAT increased from \$21,425 to \$22,192, an increase of 3.58% compared to the assumed 7.30% increase. The tuition experience resulted in an actuarial gain of approximately \$37.5 million.

Bias Against the Program by Purchasers and Beneficiaries

The design of the program removed the bias relating to beneficiaries of Texas Guaranteed Tuition Plan contracts attending relatively higher priced universities. However, there was still a 6.5% bias for community colleges as calculated by comparing the actual tuition and fee payment for the contract beneficiaries who attend community colleges to the expected payout based on program assumptions. Therefore the bias was 3.5% less than the 10% expected by last year's valuation, resulting in an actuarial gain of \$500,000.

Expense

The assumption for records administration charges and general expenses remains at \$32 per contract for fiscal year 2012, with an increase of 3.5% per year in each future year for inflation. But the prior year's report assumed that expenses would increase to \$33.12. This results in an actuarial gain of \$0.4 million.

Voluntary Withdrawal and Contract Reductions and Matriculation

There were approximately 1,649 contracts surrendered during the year by contract holders on behalf of beneficiaries who have not yet graduated from an institution of higher learning. This is more than the 1,193 expected, creating a gain and decreasing the present value of expected payments by contract holders.

Beneficiaries delayed entry into schools or took fewer hours than expected. Since the tuition increases exceeded the assumed investment return, this created an actuarial loss.

Gain/Loss Summary

During the last year, the plan experienced a \$101.1 million actuarial gain. The sources of the (gain)/loss are as follows:

(Gain) / Loss	(millions)
Asset Gain (7.33% return)	\$(16.6)
Tuition Inflation Gain	(37.5)
Expense	(0.4)
Bias	(0.5)
Withdrawal and Matriculation	<u>(47.2)</u>
Total (Gain) / Loss	\$(102.2)

Assumption Change

Changes to the investment return assumption resulted in a \$64.8 million increase in the unfunded liability. Combined with the actuarial gain of \$102.2 million, results in the total unexpected decrease in unfunded liability of \$37.4 million.

TEXAS GUARANTEED TUITION PLAN

Appendix A

*Active Contract Counts for All Enrollment Periods
As of August 31, 2012*

Matriculation Year	Plan														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1997															
1998		1											1		
1999							1								
2000	1	4													
2001	1	3													
2002	5	21	1	3	5		1								
2003	102	638	16	47	18	18	4	12	1	1		2	53	20	
2004	115	852	23	67	29	32	6	19	1	5	1		54	17	
2005	170	1277	35	99	31	33	7	19		5	1	1	85	27	
2006	215	1819	58	162	70	44	13	36	1	1	1	3	154	32	
2007	274	2453	76	170	60	61	14	41	1	7	1	2	206	40	
2008	411	3540	112	249	106	80	9	66	3	8	1	6	245	52	
2009	460	4239	163	363	134	132	23	85	1	4	4	2	300	63	
2010	554	4314	183	477	174	144	35	71	3	5	4	3	329	56	
2011	567	4420	143	484	181	174	28	72	1	2	4	4	328	67	
2012	571	4493	181	532	233	154	32	96	8	11	16	1	353	66	
2013	580	4668	161	503	230	177	49	77	3	10	8	5	361	64	
2014	553	4421	166	456	215	175	50	76	1	4	5	1	348	30	1
2015	407	3741	118	343	181	131	32	65	3	11	5		462	3	
2016	371	3378	119	332	139	118	22	58	8	9	5	1	520		
2017	336	2985	87	268	143	110	26	55		5	5		499		
2018	327	2747	100	282	163	101	25	36	1	7	2		472	2	
2019	298	2362	74	236	133	69	18	38	1	5	1		434	1	
2020	227	1914	77	193	132	57	11	33	2	5	4	1	347		
2021	251	2268	87	214	145	64	15	29	2	3	14		469		
2022	4	37	2	3	2	1							2		
2023	1	15	3	2			1						2		
2024	2	15	1	2									1		
2025	1	15		2	3										
2026	1	9											1	1	
Total	6805	56649	1986	5489	2527	1875	422	984	41	108	82	32	6026	541	1
% of Total	8.12%	67.56%	2.37%	6.55%	3.01%	2.24%	0.50%	1.17%	0.05%	0.13%	0.10%	0.04%	7.19%	0.65%	0.00%

Key to Plan Type:

- | | | | | |
|----------------|--------------|--------------|------------------------|----------------------|
| 1. Jr/Sr - 2/2 | 4. Sr - 2 Yr | 7. Jr - 1 Yr | 10. Pr - 2 Yr | 13. Sr - 5 Yr |
| 2. Sr - 4 Yr | 5. Sr - 1 Yr | 8. Pr - 4 Yr | 11. Pr - 1 Yr | 14. Sr - 4 Yr +8Hrs |
| 3. Sr - 3 Yr | 6. Jr - 2 Yr | 9. Pr - 3 Yr | 12. Jr/Sr - 2/2 + 4Hrs | 15. Sr - 4 Yr + 6Hrs |

TEXAS GUARANTEED TUITION PLAN

Appendix A

Active Contract Counts for All Enrollment Periods

As of August 31, 2012

Matriculation Year	Plan										Total	% of Total
	16	17	18	21	22	23	24	31	34	35		
1997											0	0.00%
1998											2	0.00%
1999											1	0.00%
2000											5	0.01%
2001											4	0.00%
2002											36	0.04%
2003				1						3	936	1.12%
2004							1		1	1	1224	1.46%
2005	1						1		1	2	1795	2.14%
2006	1			1		2	1		4	3	2621	3.13%
2007				2		1	2		2	9	3422	4.08%
2008			1	1		1			5	12	4908	5.85%
2009	1		1	1		1	3		4	7	5991	7.15%
2010				1		1	2		5	13	6374	7.60%
2011			1	2		1	2	2	4	9	6496	7.75%
2012				2		1	2		6	14	6772	8.08%
2013			1	7		3	2	2	7	9	6927	8.26%
2014	1			1		1	1		11	6	6523	7.78%
2015									5	8	5515	6.58%
2016									2	7	5089	6.07%
2017										12	4531	5.40%
2018										14	4279	5.10%
2019				1						8	3679	4.39%
2020						1				10	3014	3.59%
2021										11	3572	4.26%
2022											51	0.06%
2023											24	0.03%
2024											21	0.03%
2025									1		22	0.03%
2026											12	0.01%
Total	4	0	4	20	0	13	17	4	58	158	83,846	100.00%
% of Total	0.00%	0.00%	0.00%	0.02%	0.00%	0.02%	0.02%	0.00%	0.07%	0.19%	100.00%	

Key to Plan Type:

- | | | | |
|----------------------|----------------------|----------------------|----------------------|
| 16. Sr - 4 Yr + 4Hrs | 21. Sr - 2 Yr + 4Hrs | 26. Pr - 4 Yr + 4Hrs | 31. Pr - 2 Yr + 4Hrs |
| 17. Sr - 4 Yr + 2Hrs | 22. Sr - 2 Yr + 2Hrs | 27. Pr - 4 Yr + 2Hrs | 32. Pr - 2 Yr + 2Hrs |
| 18. Sr - 3 Yr + 6Hrs | 23. Sr - 1 Yr + 2Hrs | 28. Pr - 3 Yr + 6Hrs | 33. Pr - 1 Yr + 2Hrs |
| 19. Sr - 3 Yr + 4Hrs | 24. Pr - 4 Yr + 8Hrs | 29. Pr - 3 Yr + 4Hrs | 34. Sr Add'l Year |
| 20. Sr - 3 Yr + 2Hrs | 25. Pr - 4 Yr + 6Hrs | 30. Pr - 3 Yr + 2Hrs | 35. Pr - 5 Yr |

**Texas Guaranteed Tuition Plan Contracts
Matriculation Information – FY 2012 Payments to Community Colleges**

Appendix B

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
Texas Community College				
Alamo Community College District	383	3,083	534,690	173.43
Alvin Community College	42	333	59,222	177.74
Amarillo College	47	434	65,414	150.74
Angelina College	14	52	11,757	225.01
Austin Community College	563	4,175	872,172	208.91
Blinn College	562	5,461	1,162,765	212.93
Brazosport College	25	224	25,690	114.94
Brookhaven College	69	402	56,001	139.21
Cedar Valley College	16	84	10,633	125.87
Central Texas College	32	280	40,283	144.05
Cisco College	21	163	28,246	173.77
Clarendon College	11	147	32,900	224.54
Coastal Bend College	18	202	28,909	142.81
College of the Mainland	21	134	23,737	177.55
Collin County Community College	230	1,372	142,289	103.70
Del Mar College	93	786	140,247	178.35
Eastfield College	50	331	33,351	100.77
El Centro College	15	40	8,069	202.57
El Paso Community College	51	355	55,556	156.59
Galveston College	12	73	13,045	178.80
Grayson County College	31	390	39,108	100.31
Hill College	23	134	22,929	171.58
Houston Community College	216	1,431	293,757	205.34
Howard College	20	144	26,898	186.68
Kilgore College	34	338	56,503	167.19
Lamar Institute of Technology	24	357	53,647	150.20
Lamar State College Orange	15	124	33,682	271.10
Lamar State College Port Arthur	7	71	18,191	255.40
Laredo Community College	16	163	26,727	163.91
Lee College	21	219	33,813	154.21
Lone Star College System	484	3,398	527,367	155.21
McLennan Community College	63	536	115,827	215.91
Midland College	55	147	34,614	235.20
Mountain View College	25	91	11,536	126.64
Navarro College	43	492	69,582	141.43
North Central Texas College	90	635	118,410	186.49
North Lake College at Richland College	41	252	33,132	131.60
Northeast Texas Community College	12	96	12,348	128.04
Odessa College	10	75	13,115	174.17
Panola College	9	54	7,411	137.44
Paris Junior College	34	390	60,367	154.63
Ranger College	9	94	19,142	203.02
Richland College	102	723	69,712	96.37
San Antonio College	1	1	324	217.01
San Jacinto College Central	154	1,046	154,466	147.67
South Plains College	108	900	171,375	190.36
South Texas College	55	373	78,662	210.87
Southwest Texas Junior College	11	165	24,751	149.61
Tarrant County College Ft. Worth (NW)	74	415	55,018	132.48
Tarrant County College NE Hurst	93	566	78,312	138.30

**Texas Guaranteed Tuition Plan Contracts
Matriculation Information – FY 2012 Payments to Community Colleges**

Appendix B

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
Texas Community College				
Tarrant County College SE Campus	78	582	63,365	108.86
Tarrant County College South Campus	40	284	29,152	102.61
Tarrant County College Trinity River Campus	21	91	13,056	143.24
Temple College	36	400	76,915	192.22
Texarkana College	10	131	18,220	139.41
Texas State Technical College Harlingen	24	201	52,421	260.39
Texas State Technical College Marshall	5	70	13,481	193.30
Texas State Technical College Waco	44	554	120,634	217.82
Texas State Technical College West Texas	4	70	17,967	255.39
Trinity Valley Community College	34	296	43,584	147.12
Tyler Junior College	87	1,112	179,506	161.37
University of Texas Brownsville & TX Southmost College	48	490	117,497	239.83
Vernon College	24	183	37,752	206.32
Victoria College	39	394	50,317	127.85
Weatherford College	44	519	75,198	144.83
Western Texas College	23	81	19,120	236.66
Wharton County Junior College	86	806	150,180	186.27
Total	4,802	38,219	6,684,068	174.89

**Texas Guaranteed Tuition Plan Contracts
Matriculation Information – FY 2012 Payments to Proprietary Institutions**

Appendix B

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
Texas Proprietary Institutions				
Academy of Health Care Professions NL	1	44	11,327	255.40
Alamo Community College Continuing Education	1	2	600	255.43
Angelina College Community Services Division	1	5	1,200	241.45
Art Institute of Austin	26	564	140,868	249.62
Art Institute of Dallas	14	371	101,310	272.94
Art Institute of Fort Worth	2	48	11,995	249.89
Art Institute of Houston	26	721	177,870	246.83
Art Institute of Houston North Campus	3	27	10,294	376.60
Art Institute of San Antonio	8	221	55,938	252.80
Austin Community College Continuing Education	9	64	10,267	159.89
Blinn College TEEX Fire Academy	1	20	5,150	255.41
Blinn College Workforce Education	3	12	3,150	255.39
Brazosport College Continuing Education	1	17	1,350	80.60
Brookhaven College Continuing Education	1	4	999	255.37
Brown Mackie College - San Antonio	2	72	18,516	257.16
Cedar Valley College Continuing Education	2	10	1,651	171.11
Center for Advanced Legal Studies	1	9	2,299	255.40
Central Texas College Aviation Division	1	17	4,290	255.40
Central Texas College Distance Learning	2	18	4,481	255.40
Chamberlain College of Nursing c/o DeVry Inc.	2	22	5,619	255.40
College of Health Care Professions Austin	1	30	2,418	80.60
Collin County Continuing Education	1	13	2,814	218.97
Commonwealth Institute of Funeral Service	1	26	6,745	255.40
Concorde Career College - Dallas	1	88	22,475	255.40
Concorde Career College - San Antonio	3	127	28,360	222.49
Dallas County Community College LeCroy Center	4	8	1,938	255.40
Dallas Institute of Funeral Service	2	23	6,000	255.41
Dallas Nursing Institute	1	19	4,947	255.40
Embry-Riddle Aeronautical University San Antonio	1	12	3,065	255.40
Everest College Fort Worth	1	71	18,125	255.40
Galen College - San Antonio	1	32	7,880	246.45
Hallmark College	2	67	17,112	255.40
International Academy of Design and Technology	1	4	1,022	255.40
ITT Technical Institute Arlington	1	7	1,720	255.40
ITT Technical Institute Austin	2	17	4,273	255.40
ITT Technical Institute Houston West	2	42	7,231	172.16
ITT Technical Institute San Antonio	2	54	19,318	358.38
ITT Technical Institute Waco	1	38	9,705	255.40
ITT Technical Institute Webster	1	112	28,335	252.99
Kaplan College Arlington	1	66	10,064	152.75
Kaplan College Lubbock	1	45	11,365	255.40
Kaplan College San Antonio	2	75	24,261	324.81
Kaplan University Dallas	2	64	27,313	425.60

Texas Guaranteed Tuition Plan Contracts
Matriculation Information – FY 2012 Payments to Proprietary Institutions

Appendix B

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
Texas Proprietary Institutions				
Lamar University Grad & Academic Partnership	3	28	7,258	255.39
Le Cordon Bleu College of Culinary Arts Austin	3	140	35,821	255.40
Le Cordon Bleu College of Culinary Arts Dallas	7	216	50,706	235.14
Lincoln Technical Institute, TX	2	120	30,391	253.31
Lone Star College Continuing Education	3	23	5,936	255.41
Lone Star College Tomball Continuing Education	1	3	801	255.42
Midland College Workforce Education	1	4	999	255.37
National American University Austin North Campus	2	72	18,389	255.40
North Central Texas College Continuing Ed	2	18	4,499	255.39
Remington College Garland	3	140	35,732	255.40
Sam Houston State University Correspondence Dept.	1	4	1,146	255.40
Sanford-Brown College Houston North	1	11	846	80.60
Texas A&M University Commerce Graduate Students	4	27	6,897	255.40
Texas A&M University Commerce Study Abroad	1	6	1,464	255.41
Texas A&M University Graduate Studies	3	82	21,241	257.94
Texas A&M University Health Science Center	23	359	93,928	261.40
Texas A&M University Study Abroad Programs Ofc	7	101	25,795	255.40
Texas Engineering Extension Service TEEX	1	29	7,450	255.40
Texas School of Business	1	48	3,898	80.60
Texas State University Extension Studies	1	1	651	669.75
Texas State University Office of Correspondence	38	174	44,365	254.57
Texas Tech University Grad	1	25	6,323	255.40
Texas Tech University Study Abroad Ofc	1	12	2,898	241.47
Texas Woman's University Graduate Studies	4	16	4,180	255.40
Universal Technical Institute Houston	7	577	116,119	201.18
Universal Technical Institute Irving	5	333	85,143	255.40
University Extension UT Austin	111	329	85,543	260.28
University of Houston Downtown Continuing Ed	1	14	3,575	255.39
University of North Texas for Studies Abroad	1	4	907	255.42
University of North Texas Health Science Center	12	128	32,657	255.40
University of Texas at Arlington Academic Partnership	5	51	13,119	255.40
University of Texas at Arlington Graduate Studies	7	51	13,165	256.70
University of Texas at Austin Engineering Co-op Ofc	1	3	860	255.34
University of Texas at Austin Grad Students	6	243	62,100	255.40
University of Texas at Austin in DC	3	48	12,231	255.40
University of Texas at Austin McCombs School of Business	5	75	19,155	255.40
University of Texas at Austin Study Abroad / Intl Office	12	86	21,964	255.40
Total	432	6,912	1,713,809	247.96

Texas Guaranteed Tuition Plan Contracts
Matriculation Information – FY 2012 Payments to Texas Four-Year Public Universities

Appendix B

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
Texas Four-Year Public University				
Angelo State University	145	3,630	827,287	227.90
Lamar University	102	2,124	528,399	248.74
Midwestern State University	91	2,114	480,330	227.26
Prairie View A&M University	38	879	207,794	236.45
Sam Houston State University	481	12,680	2,969,891	234.22
Stephen F. Austin State University	352	8,461	2,038,713	240.96
Sul Ross State University Alpine	20	469	85,578	182.62
Tarleton State University	219	5,183	1,081,950	208.75
Texas A&M International University	38	733	154,548	210.84
Texas A&M University Central Texas	3	63	13,072	207.49
Texas A&M University College Station	3,208	80,521	20,443,286	253.89
Texas A&M University Commerce	90	2,012	415,870	206.73
Texas A&M University Corpus Christi	204	4,994	1,166,066	233.52
Texas A&M University Galveston	139	3,381	838,967	248.15
Texas A&M University Kingsville	86	2,030	426,000	209.88
Texas A&M University San Antonio	14	215	49,527	230.36
Texas A&M University Texarkana	8	167	27,504	165.17
Texas Southern University	16	357	91,903	257.08
Texas State University San Marcos	1,465	34,774	8,680,605	249.63
Texas Tech University	1,684	42,591	10,728,898	251.91
Texas Tech University Health Sciences Center	64	1,486	320,383	215.55
Texas Woman's University	144	3,227	720,313	223.24
University of Houston	654	14,696	3,690,434	251.11
University of Houston Clear Lake	55	1,002	206,200	205.72
University of Houston Downtown	75	1,359	274,061	201.62
University of Houston Victoria	39	617	123,788	200.63
University of North Texas	1,027	24,659	6,199,692	251.42
University of Texas at Arlington	416	9,240	2,253,283	243.87
University of Texas at Austin	2,843	71,525	18,363,737	256.75
University of Texas at Brownsville	35	421	80,785	191.83
University of Texas at Dallas	395	9,441	2,428,517	257.24
University of Texas at El Paso	152	3,367	745,094	221.28
University of Texas at San Antonio	837	19,612	4,913,294	250.53
University of Texas at Tyler	136	3,076	641,164	208.46
University of Texas of the Permian Basin	11	48	11,310	233.28
University of Texas Pan American	151	3,201	650,594	203.26
West Coast University - Dallas	2	28	7,151	255.40
West Texas A&M University	129	3,199	668,336	208.95
Total	15,568	377,580	93,554,326	247.77

Texas Guaranteed Tuition Plan Contracts**Appendix B****Matriculation Information – FY 2012 Payments to Texas Private Institutions**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<i>Texas Private Institutions</i>				
Abilene Christian University	80	2,155	613,800	284.79
Arlington Baptist College	1	28	7,151	255.40
Austin College	69	2,150	561,213	260.98
Baptist Health System	3	56	14,450	258.04
Baylor College of Medicine	4	84	32,989	393.15
Baylor Law School	5	48	12,259	255.40
Baylor University	459	12,151	3,316,281	272.93
College of Biblical Studies - Houston	1	15	3,831	255.40
Concordia University Austin	29	714	182,326	255.40
Dallas Baptist University	36	1,033	261,648	253.30
Dallas Christian College	1	30	3,642	121.39
Dallas Theological Seminary	1	26	6,640	255.40
East Texas Baptist University	16	414	87,691	211.89
Hardin-Simmons University	50	1,379	371,150	269.16
Houston Baptist University	25	570	159,658	280.10
Howard Payne University	22	535	137,284	256.82
Huston-Tillotson University	3	58	22,476	388.19
Jacksonville College	1	24	6,057	255.40
Le Tourneau University	18	436	109,784	251.79
Lon Morris College	8	130	27,320	209.77
Lubbock Christian University	30	724	180,249	248.88
McMurry University	19	517	128,270	247.89
Northwood University Texas	7	130	31,973	246.23
Our Lady of the Lake University	6	117	29,952	255.40
Parker University	3	154	39,312	255.40
Rice University	89	2,626	776,674	295.82
Schreiner University	28	683	171,351	250.82
South Texas College of Law	15	256	72,736	283.90
Southern Methodist University	131	3,585	1,037,442	289.41
Southwestern Adventist University	2	41	10,471	255.40
Southwestern Assemblies of God University	7	157	39,748	253.17
Southwestern Baptist Theological Seminary	5	75	19,207	255.40
Southwestern University	92	2,661	740,977	278.42
St. Edwards University	140	3,965	1,060,196	267.38
St. Mary's University	40	1,098	291,986	265.96
Texas Chiropractic College	2	20	5,244	260.11
Texas Christian University	291	7,796	2,247,576	288.31
Texas Lutheran University	36	1,053	240,707	228.67
Texas Wesleyan School of Law	5	99	32,977	334.35
Texas Wesleyan University	13	287	73,300	255.40

Texas Guaranteed Tuition Plan Contracts

Appendix B

Matriculation Information – FY 2012 Payments to Texas Private Institutions

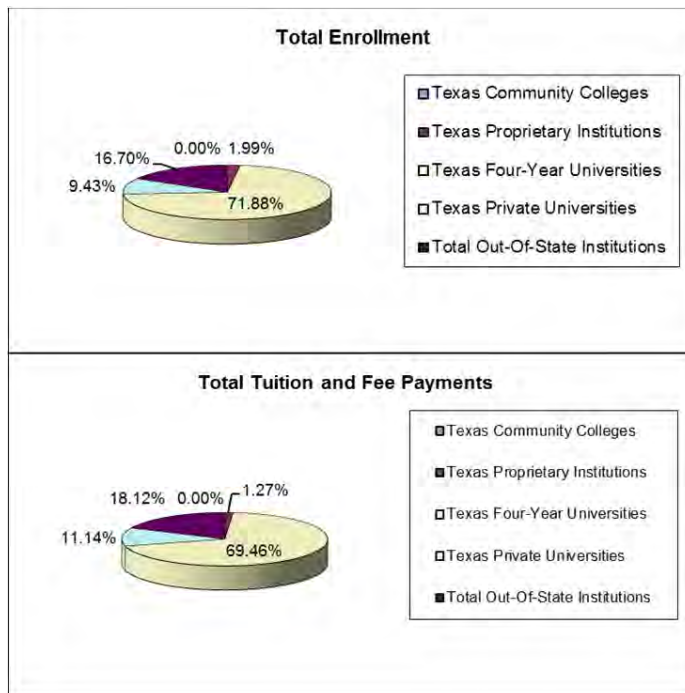
	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<i>Texas Private Institutions</i>				
Trinity University	116	3,355	981,243	292.46
University of Dallas	25	698	203,432	291.43
University of Mary Hardin-Baylor	56	1,361	346,331	254.50
University of St. Thomas	25	629	167,136	265.62
University of Texas Medical Branch at Galveston	23	449	112,268	249.95
University of Texas Southwestern Medical Center at Dallas	4	83	29,763	360.65
Total	2,042	54,654	15,008,171	274.60

**Texas Guaranteed Tuition Plan Contracts
Matriculation Information**

Appendix B

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
Matriculation Information: Executive Summary				
Texas Universities				
Texas Community Colleges	0	0	0	0.00
Texas Proprietary Institutions	432	6,912	1,713,809	247.96
Texas Four-Year Public Universities	15,568	377,580	93,554,326	247.77
Texas Private Institutions	2,042	54,654	15,008,171	274.60
Total Texas Institutions	18,042	439,146	110,276,307	251.12
Out-Of-State Institutions				
Out-of-State Community Colleges	179	1,764	389,178	220.64
Out-of-State Proprietary Institutions	29	591	143,660	242.98
Out-of-State Universities	2,195	55,705	14,367,485	257.92
Out-of-State Private Universities	1,213	33,888	9,504,854	280.48
Total Out-Of-State Institutions	3,616	91,948	24,405,176	265.42
Grand Total	21,658	531,094	134,681,483	253.59

* There are a total of 24,764 contracts in matriculation status on August 31, 2012. This is different than the total seen in the chart above due to 3,106 students attending multiple schools in the same semester.



TEXAS TUITION PROMISE FUND
**ACTUARY'S
REPORT**



TEXAS TUITION[®]
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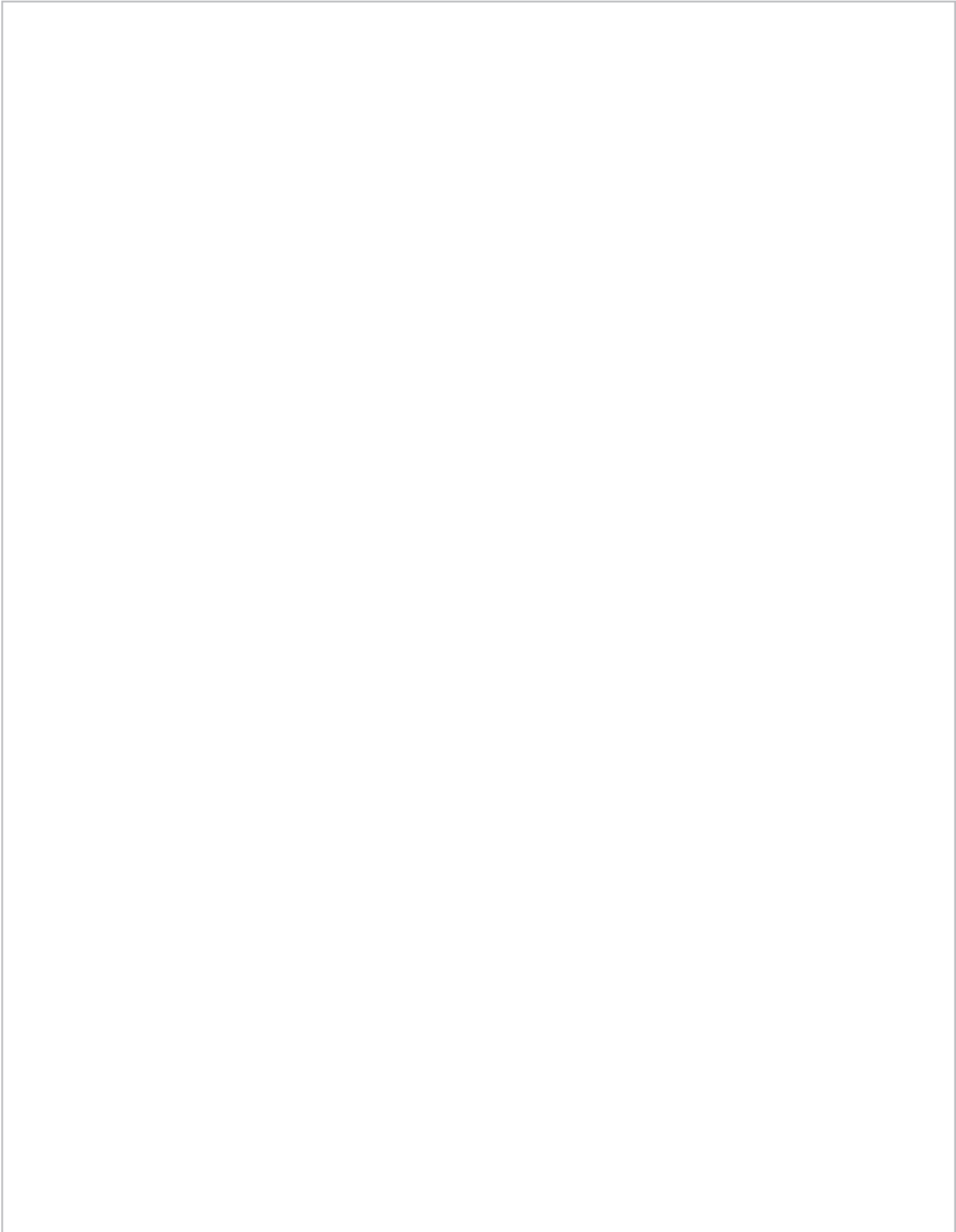
TEXAS TUITION PROMISE FUND®

ACTUARY’S REPORT ON PROGRAM SOUNDNESS

AUGUST 31, 2012

September 2012



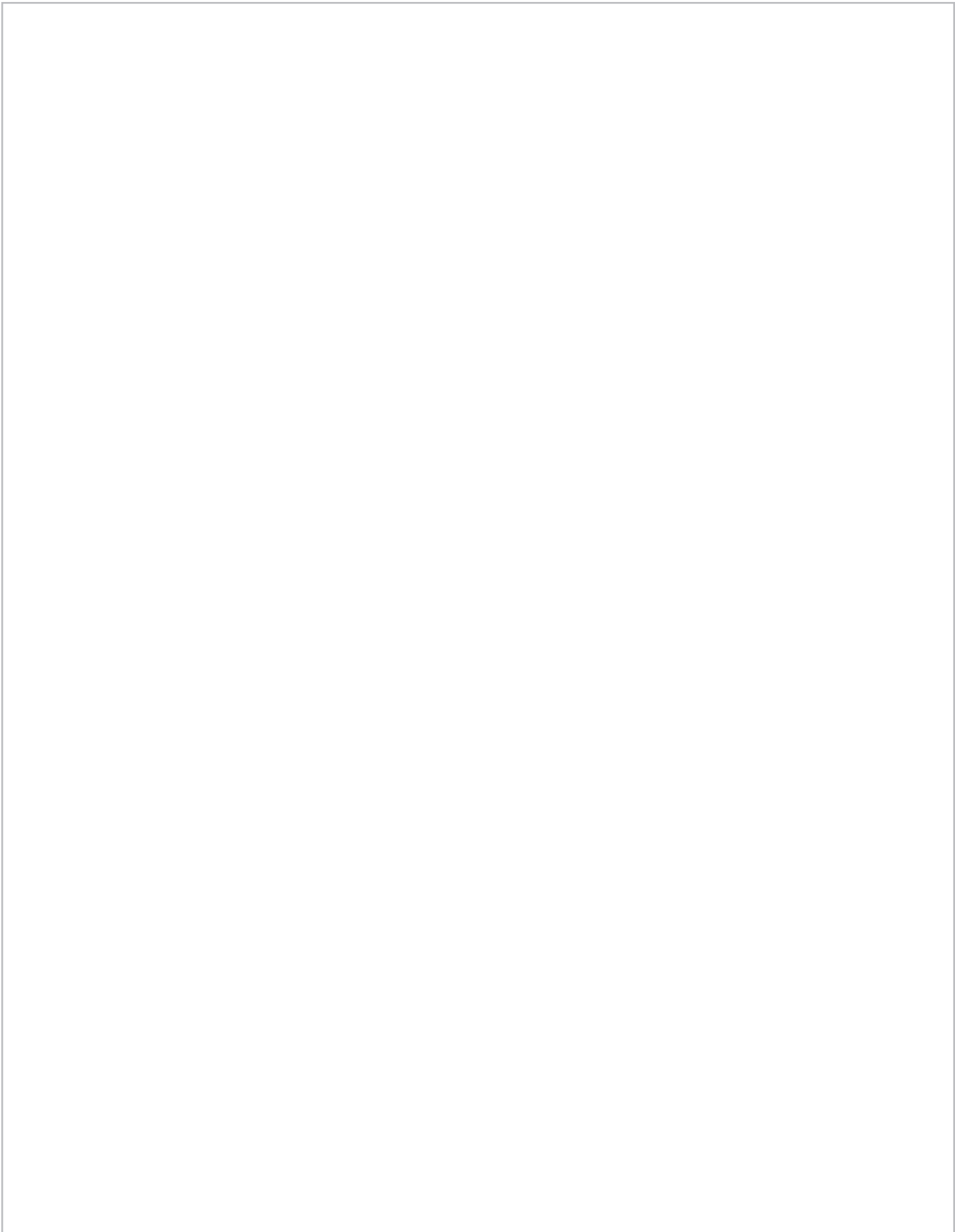


Texas Tuition Promise Fund

Actuary's Report on Program Soundness August 31, 2012

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Section I – Executive Summary

Plan Description

The Texas Tuition Promise Fund® plan (Plan) is a Section 529 prepaid tuition plan. It allows the contract holder to lock in the cost of undergraduate college tuition and required fees, thus providing protection against future tuition inflation.

The contract holder buys tuition units that represent a fixed amount of resident tuition and required fees. When the beneficiary is ready for college, all or a portion of the tuition and required fees will be covered at all four- or two-year public colleges and universities in Texas. The portion of the fees covered will vary based on the number of units purchased. The transfer value of tuition units can be used to help pay for tuition at all private colleges in Texas and out-of-state institutions.

OFI Private Investments, Inc. serves as the Plan Manager.

For a more complete plan description, see Section III.

Adequacy of the Fund

As of August 31, 2012, the Texas Tuition Promise Fund (Plan) had a surplus of Assets over Liabilities of \$22,617,744. As of August 31, 2011, the surplus was \$22,895,403. The surplus represents the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present value of the expected future tuition and required fees, refunds and expenses.

The table below summarizes current balances:

Assets	
Investments	\$ 351,950,276
Future Contract Collections	<u>133,889,828</u>
Total Assets	485,840,104
Liabilities and Surplus	
Future Contract Benefits and Expenses	\$ 463,222,360
Surplus (Deficit) of Assets over Liabilities	<u>22,617,744</u>
Total Liabilities and Surplus (Deficit)	485,840,104

The program's funded ratio is 104.9%, versus 106.4% for 2011.

The assumptions used to measure the adequacy of the Plan, which were approved by the Texas Prepaid Higher Education Tuition Board (Board), are stated in Section IV. Due to the limited experience, with this being the fourth year of the Plan, most of the assumptions were based on the Texas Guaranteed Tuition Plan. The most important assumptions are:

- The investment yield;
- The rate of increase in tuition/fees;
- Withdrawal rates; and
- Expense.

Investment Yield

The investment yield is the expected long-term net earnings rate of return on the assets.

The actuarial valuation of the Plan was determined using the interest rate found in Section IV. We also assumed the Plan is exempt from federal income tax.

Because of its plan design, the Plan is less sensitive to the investment yield assumption than typical pre-paid tuition plans. If the return is higher than expected, the plan will benefit and the schools will potentially receive up to 101% of the current tuition and required fees at benefit redemption. But if the investment yield is unfavorable, the school will bear the risk if the beneficiary matriculates in a Texas public school, and the contract holder will bear the risk if the beneficiary matriculates in a Texas private or out-of-state school.

Rate of Increase in Tuition/Fees

The Board selected tuition and fee increase assumptions. The assumed annual increase is 6.3% for Public Senior Colleges and 5.2% for Junior Colleges.

Similar to the investment yield assumption, the plan design drives the risk that the plan will bear. If tuition increases are lower than expected, then the Texas public schools will have a greater likelihood of receiving the 1% tuition bonus. But if the tuition increases are greater than the investment return, the Texas public schools will bear the risk if the beneficiary matriculates to a Texas public school, and the contract holder will bear the risk if the beneficiary matriculates to a Texas private or out-of-state school.

Future New Entrants

New contracts in future years would serve: a) to expand the base for spreading fixed expenses; and b) to ensure a large enough fund balance to invest profitably.

Although new contracts are currently being sold, it is assumed that future contracts will not be sold since the purpose of the report is to value the plan “as is” on the valuation date.

Expense

Expenses of 0.8% are netted against the investment return. In addition, \$50,000 per year, which we assume will increase 4% per year for inflation, is included for state administration costs related to investment reporting and monitoring.

Bias Against the Program by Purchasers and Beneficiaries

Due to the design of the program, no bias against the Plan is assumed. Note that the bias does exist, but either the schools or the contract holder bears the risk instead of the Plan.

Bias is the result of rational decisions by purchasers and beneficiaries. This is both expected and intrinsic to the purpose of a prepaid tuition program. A basic reason for establishing the Plan is that the purchase of a contract will increase the commitment of the purchaser to a belief the beneficiary will become qualified to enter college and that the ownership of a contract will cause the beneficiary to be comfortable with a commitment to academic achievement.

Bias against the Plan causes the beneficiaries to matriculate in a school with tuition and required fees that exceed the Weighted Average Tuition (WAT). The WAT is the average tuition and fees weighted by the number of full-time equivalent students.

For many pre-paid tuition plan designs, this would result in the plan paying higher benefits than would be expected without taking bias into consideration. But under the Texas Tuition Promise Fund, Texas public schools will receive the lesser of a) the greater of the amount paid for units, plus net earnings or minus net losses, or 5% annually subject to availability of funds, and b) 101% of current tuition at the time of redemption. Under this formula, Texas public schools must accept this amount as payment in full for the hours paid by the Plan. Therefore, it is the Texas public school that bears the bias risk, not the Plan.

Similarly, private or out-of-state colleges will receive the lesser of a) redemption value of tuition units if redeemed at a Texas public college, or b) amount paid for the tuition units plus actual net earnings or minus net losses. In this case, it is the contract holder that bears the bias risk, not the Plan.

Reconciliation of Surplus

Shown below is a reconciliation of the funded status from last year to this year. The prior year surplus is moved forward with assumed investment return to determine the expected surplus. Other gains and losses include the effects of few cancellations than expected, new contract sales and administrative expenses different than expected.

8/31/2011 Surplus		\$22,895,403
Expected increase		<u>1,383,795</u>
8/31/2012 Expected Surplus		24,279,198
Tuition Gain	6,212,138	
Asset Gain	5,379,783	
Other Gains and (Losses)	(13,584,967)	
Total Gain and (Losses)		(1,993,046)
Change in Assumptions		<u>331,591</u>
8/31/2012 Surplus		22,617,744

Use of Report

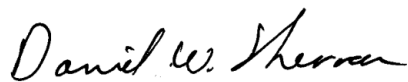
This report is prepared solely to assist the Board in evaluating the actuarial soundness of the Plan each year. The report is not intended and is not suitable for any other purpose. Accordingly, Sherman Actuarial Services does not intend this report or the data contained therein to be used as personal financial advice. Other readers of this report should consult with their own financial advisors regarding the application of this report to their particular circumstances.

Qualifications

Daniel Sherman is an Associate of the Society of Actuaries, and a Member of the American Academy of Actuaries. He has served as the actuary to the Texas prepaid tuition plans for eight years, and is the current actuary for the Alabama, Nevada, and West Virginia prepaid tuition plans. He meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions concerning it.

All assumptions were chosen by the Board. In my opinion the actuarial assumptions selected by the Board are reasonable.

SHERMAN ACTUARIAL SERVICES, LLC



Daniel Sherman, ASA, MAAA, EA
Director and Consulting Actuary

SECTION II – Summary of Contract Data and Current Assets**Contract Data**

A contract inventory report as of August 31, 2012 was extracted from Plan data. The contract inventory report presents the number of units purchased by contract type and payment option.

One hundred units represents one academic year of tuition. The unit inventory (number of units) as of August 31, 2012 is summarized in the following table.

Payment Options	Plans			Total Units
	Type I Units	Type II Units	Type III Units	
<u>2009 Enrollment Period</u>				
Pay-as-you-go	318,641	139,408	19,392	477,441
Lump Sum	466,850	216,250	29,750	712,850
Extended Monthly	207,125	253,300	38,300	498,725
Extended Annual	45,000	41,400	2,250	88,650
Custom Monthly	19,400	8,750		28,150
Custom Annual	2,800	1,850		4,650
5 Year Monthly	82,275	72,800	15,300	170,375
5 Year Annual	93,775	50,073	1,650	145,498
10 Year Monthly	109,900	95,850	12,100	217,850
10 Year Annual	48,200	29,250	2,600	80,050
Total 2009	1,393,966	908,931	121,342	2,424,239
<u>2010 Enrollment Period</u>				
Pay-as-you-go	104,244	47,384	6,387	158,015
Lump Sum	186,025	85,300	14,200	285,525
Extended Monthly	49,400	65,350	9,450	124,200
Extended Annual	10,700	6,750		17,450
Custom Monthly	4,550	2,300		6,850
Custom Annual	550	450		1,000
5 Year Monthly	24,125	15,850	4,450	44,425
5 Year Annual	25,650	10,950	200	36,800
10 Year Monthly	28,825	21,350	7,350	57,525
10 Year Annual	11,800	5,300		17,100
Total 2010	445,869	260,984	42,037	748,890

<i>Payment Options</i>	<i>Plans</i>			<i>Total Units</i>
	<i>Type I Units</i>	<i>Type II Units</i>	<i>Type III Units</i>	
<u>2011 Enrollment Period</u>				
<i>Pay-as-you-go</i>	94,914	29,303	6,919	131,136
<i>Lump Sum</i>	207,150	64,100	10,550	281,800
<i>Extended Monthly</i>	52,200	54,850	10,950	118,000
<i>Extended Annual</i>	11,850	10,450	550	22,850
<i>Custom Monthly</i>	4,550	5,150		9,700
<i>Custom Annual</i>	800			800
<i>5 Year Monthly</i>	25,825	7,950	3,750	37,525
<i>5 Year Annual</i>	22,650	12,100	200	34,950
<i>10 Year Monthly</i>	22,700	16,900	2,450	42,050
<i>10 Year Annual</i>	11,225	5,500		16,725
<i>Total 2011</i>	453,864	206,303	35,369	695,536
<u>2012 Enrollment Period</u>				
<i>Pay-as-you-go</i>	53,996	21,013	2,745	77,754
<i>Lump Sum</i>	173,900	52,000	7,850	233,750
<i>Extended Monthly</i>	42,125	43,500	10,900	96,525
<i>Extended Annual</i>	9,925	7,250	1,550	18,725
<i>Custom Monthly</i>	3,100	3,000		6,100
<i>Custom Annual</i>	400			400
<i>5 Year Monthly</i>	19,100	10,350	3,550	33,000
<i>5 Year Annual</i>	16,200	10,650	650	27,500
<i>10 Year Monthly</i>	23,700	18,350	3,500	45,550
<i>10 Year Annual</i>	8,100	4,450	200	12,750
<i>Total 2012</i>	350,546	170,563	30,945	552,054
<u>Total Enrollment Inception to date</u>				
<i>Pay-as-you-go</i>	571,795	237,109	35,442	844,346
<i>Lump Sum</i>	1,033,925	417,650	62,350	1,513,925
<i>Extended Monthly</i>	350,850	417,000	69,600	837,450
<i>Extended Annual</i>	77,475	65,850	4,350	147,675
<i>Custom Monthly</i>	31,600	19,200		50,800
<i>Custom Annual</i>	4,550	2,300		6,850
<i>5 Year Monthly</i>	151,325	106,950	27,050	285,325
<i>5 Year Annual</i>	158,275	83,773	2,700	244,748
<i>10 Year Monthly</i>	185,125	152,450	25,400	362,975
<i>10 Year Annual</i>	79,325	44,500	2,800	126,625
<i>Total Enrollment</i>	2,644,245	1,546,782	229,692	4,420,719

The number of active contracts (for all enrollment years combined) by plan type and projected year of matriculation is included in Appendix A.

Current Assets

The value of the assets held by the Plan as of August 31, 2012 is \$351,950,276. Total assets do not include securities lending collateral, investment transfers receivable, tuition contracts receivable or the related obligations for those assets.

Assets held as of August 31, 2012:

Investments	\$351,755,696
Cash and cash equivalents	103,388
Contracts receivable	199,945
Other assets	23
Administrative fees payable	0
Management fees payable	0
Contracts and benefits payable	(200)
Payable for securities purchased	<u>(108,576)</u>
Total Assets	\$351,950,276

It is assumed that this mix will produce a net annual investment return of 6.00% in fiscal year 2012, as developed below.

Investment Return Assumption	6.50%
Less Expenses	<u>(0.80%)</u>
Net Annual Investment Return	5.70%

SECTION III – Plan Description

Overview

The Texas Tuition Promise Fund (Plan) is an Internal Revenue Code Section 529 prepaid tuition plan. It allows the contract holder to lock in the cost of undergraduate college tuition and required fees, at Texas public colleges and universities thus providing protection against future tuition inflation.

The contract holder buys tuition units that represent a fixed amount of resident tuition and required fees. When the beneficiary is ready for college, all or a portion of the tuition and required fees will be covered at all four- or two-year public colleges and universities in Texas. The portion of the fees covered will vary based on the number and type of units purchased. If the beneficiary attends an eligible career school, Texas private college, or out-of-state college, the transfer value is paid. The transfer value is the lesser of 1) the costs the units would cover at a public in-state college, or 2) the price paid for the units plus or minus net earnings or losses on that amount.

Eligibility

At the time of enrollment, the beneficiary must be a Texas resident or his/her parent must be both the purchaser and a Texas resident.

Tuition Units

Tuition units represent a fixed portion of undergraduate resident tuition and required fees charged by Texas public colleges and universities. The Plan offers three types of tuition units: Type I, Type II, and Type III.

➤ **Type I Tuition Units**

The value of Type I tuition units is based on undergraduate resident college tuition and required fees at the Texas four-year public college or university with the highest tuition and fee costs in the year of redemption. 100 Type I units will pay for 30 semester hours assuming 15 hours per semester at the most expensive Texas public 4-year school. If the units are redeemed at a less expensive school, more hours would be paid by 100 units.

➤ **Type II Tuition Units**

The value of Type II tuition units is based on the weighted average cost of tuition and required fees charged by all eligible Texas four-year public colleges or universities in the year of redemption. Unlike the Type I units, this unit type does not cover the full tuition and required fees at all Texas public four-year colleges or universities if the institution's costs are above the weighted average cost.

➤ **Type III Tuition Units**

The value of Type III tuition units is based on the weighted average cost of in-district resident tuition and required fees charged by all eligible Texas public junior and community colleges and public technical institutes in the year of redemption. This unit type does not cover the full tuition and required fees at all Texas junior and community colleges and public technical institutes if the costs of the institution are above the weighted average.

Any combination of units (Type I, Type II or Type III) may be redeemed at any accredited Texas public school. However, the benefit paid will depend on the type of unit, the number of units, and the school selected.

Payment Plans

The Plan offers three types of payment plans: Lump Sum, Installment, and Pay-As-You-Go:

- **Lump Sum**
 - Can purchase up to the current dollar equivalent of 600 Type I tuition units in one lump sum payment.
- **Installment Plan**
 - Pay every month or once a year.
 - Payment period of 5 years, 10 years, or the number of years until the beneficiary's projected high school graduation date.
 - Minimum of 25 Type I tuition units or 50 Type II or Type III tuition units.
 - Maximum of the then-current dollar equivalent of 600 Type I tuition units.
 - No prepayment penalties.
 - Subject to an annual interest component charge.
- **Pay-As-You-Go**
 - Contract holder can buy tuition units after establishing a contract by paying the application fee and purchasing at least one unit of any type.
 - Additional increments as small as \$15 after a minimum purchase of one unit.
 - Pay the then-current unit price in effect at the time payment is received (unit prices are updated on September 1 of each year).
 - Maximum total purchase of up to the dollar equivalent of 600 Type I tuition units.

Redemption of Units

- Three year holding period – Tuition units cannot be used earlier than the third anniversary of the date the tuition unit was purchased.
- Units must be paid-in-full prior to use.
- Texas public colleges will receive lesser of
 - a) Amount paid for units, plus earnings,
 - Earnings = greater of actual net return or net loss on investments or 5% return on investments, subject to the availability of money in the fund for that purpose.
 - b) 101% of current tuition and required fees at the time of redemption.
- Private or out-of-state colleges will receive lesser of
 - a) Redemption value of tuition units if redeemed at a Texas public college, or
 - b) Amount paid for the tuition units plus actual net earnings or net losses.

Refund Scenarios

There are three types of refund calculations: Reduced Refund Value, Transfer Value, and Refund Value.

- **Reduced Refund Value**

This is the refund value for voluntary cancellations before the end of the three year holding period, cancellations due to default, or automatic cancellations. The calculation is the lesser of:

 - a) the purchase price of unused tuition units, or
 - b) the purchase price plus or minus net earnings or losses on that amount.

If the fund had a net negative return over the term that the contract was held, the “reduced refund value” would be less than the purchase price. No net earnings are paid.

➤ **Transfer Value**

This is the refund value for transfers to another qualified 529 plan (Texas or otherwise) or the amount paid if the beneficiary attends an eligible career school, Texas private college or out-of-state college. The calculation is the lesser of:

- a) The current tuition unit redemption value of the units being transferred, or
- b) The price paid for the units plus or minus net earnings or losses on that amount.

➤ **Refund Value**

This is the refund value for voluntary cancellations after the three year holding period is met, cancellations due to death or disability of the beneficiary, or unused tuition units. The calculation is the purchase price of unused tuition units plus or minus net earnings or losses at a rate of return set by the Board. At August 31, 2012 this rate is capped at 2% less than the actual fund earnings or 5%, whichever is less. Earnings may be paid with a refund only if the Board determines that such payments will not adversely affect the actuarial soundness of the Plan.

➤ **Purchase Price** – The actual dollar amount (contributions) paid into the contract, excluding amounts applied to administrative fees (e.g. account setup fee, late fees, return payment fees).

➤ **Market Value** – The total purchase price paid for any unused Tuition Units, plus the portion of the total net earnings or losses on assets of the plan attributable to that amount.

➤ **Redemption Value** – The current payout rate of the unit type being redeemed multiplied by the number of units.

For a complete description of the Plan, see the Plan Description and Master Agreement at www.texastuitionpromisefund.org. In the event of differences between the Plan Description and any information presented in this report, the Plan Description would control.

SECTION IV – Actuarial Methods and Assumptions

Actuarial Methods

The actuarial method projects the expected future cash flows from contract payments, tuition and refund benefits and expense. These projected future cash flows are discounted to the present and compared to the market value of the assets to indicate the soundness of the Plan.

The development of the measurement of soundness has six stages:

Project unit costs through the expected term of the contracts, based on assumptions as to future tuition increases;

Determine the nominal cost of expected future tuition based on the contract inventory and assumptions as to voluntary surrender and utilization of benefits;

Determine the nominal cost of expected future administrative expenses, based on the contract inventory and the records administration fee schedule, as well as assumptions as to inflation and utilization of benefits;

Project future contract payments based on the contracts and voluntary surrender assumption;

Determine the present value of expected future benefits, expenses and contract payments, using a discount rate equal to the assumed rate of return on plan assets;

As the indication of soundness, measure the surplus or deficit, which is the difference between the sum of the market value of the assets and the present value of the expected future contract payments and the sum of the present values of the expected future tuition and required fees, refunds and expenses.

Actuarial Assumptions

Since this is the third valuation of the Plan, and there is no experience to draw on, most of the assumptions were based on the Texas Guaranteed Tuition Plan. The assumptions were approved by the Board.

Federal Income Tax

We assume the income of the Plan is exempt from Federal Income Tax.

Tuition/Fee Increase

Assumed annual increases in future tuition and required fees are:

Public Senior College	Junior College
6.3%	5.2%

Tuition/Fee Levels for the 2012-2013 enrollment year:

Type I: \$115.92/unit

Type II: \$82.92/unit

Type III: \$21.39/unit

Investment Yield

Expenses of 0.80% are netted against the Investment Return Assumption of 6.50%, leaving a Net Annual Investment Return of 5.70% per year.

Expenses

Expenses of 0.80% are netted against the investment return. In addition, \$50,000 per year, which we assume will increase 4% per year for inflation, is included for state administrative costs for investment reporting and monitoring.

Future Participation in the Program

Although new contracts are currently being sold, it is assumed that future contracts will not be sold since the purpose of the report is to value the Plan “as is” on the valuation date.

Mortality and Disability

Due to the transferability of the contract, there is no mortality or disability assumption.

Early Voluntary Surrender of Contract

We assumed the following percentages of the public senior college contracts in effect at the beginning of the year would be surrendered during the year. We use similar estimates for the other college types, based on empirical evidence:

Years From Purchase	Lump Sum	Five-Year Payments	Ten-Year Payments	Extended Payments
1 to 2	0.00%	0.00%	0.00%	0.00%
2 to 3	0.00%	0.00%	0.00%	0.00%
3 to 4	4.70%	11.40%	16.40%	22.70%
4 to 5	0.50%	1.00%	2.00%	3.00%
5 to 6	0.50%	0.50%	1.30%	2.00%
After 6 Years	0.80%	1.30%	0.70%	2.30%

Matriculation Percent

We assumed the beneficiary of a contract, not voluntarily surrendered, matriculates in the year of high school graduation.

Utilization of Credits

We assumed beneficiaries will use all units necessary to cover the tuition cost of each year as it occurs. For example, if 300 Type II units are available for use at the beginning of year one, 100 will be used in each of the first three years.

Frequency of Beneficiary Replacement

We assumed no replacement of beneficiaries.

Bias Against the Program by Purchasers and Beneficiaries

Due to the design of the program, no bias against the Plan is assumed.

SECTION V – Soundness of the Plan as of August 31, 2012

As a measure of the soundness of the Plan as of August 31, 2012, we determined the difference between the value of the assets and the actuarial present value of the future contract payments and the actuarial present value of future benefits and expenses. This measurement of soundness is summarized on the following pages.

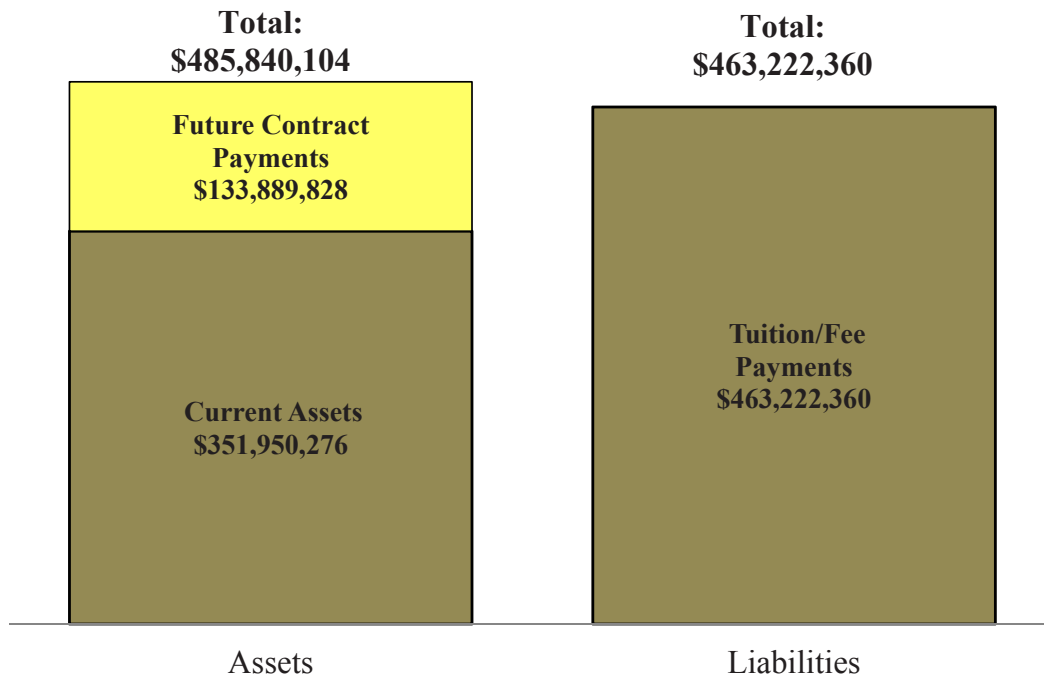
A projection of the status of the Plan at each future anniversary date through the life of these contracts is presented on page 16, labeled Present Value of Assets and Liabilities.

The projections of future benefits and expenses and contract payments are presented on page 17, labeled Expected Annual Cash Flows.

Our measurement of the present value and projection are based on asset and contract information provided by the Plan Manager and on the assumptions chosen by the Board.

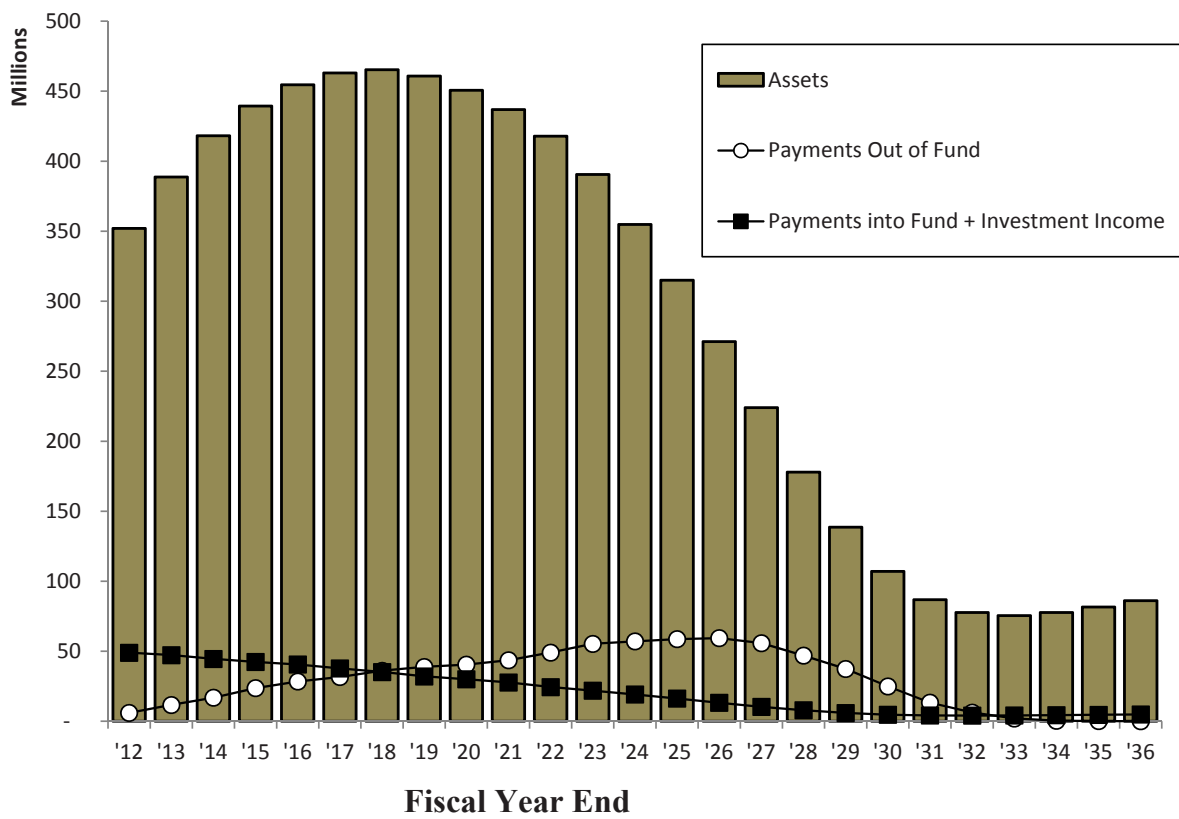
Funded Status

The value of the trust fund exceeds the value of liabilities as of August 31, 2012 (including the value of future payments by contract purchasers) by \$22,617,744. The funded ratio, assets divided by liabilities, is equal to 104.9%. Assets do not include securities lending collateral, investment transfers receivable or the related obligations for those assets. The assumptions used to perform the actuarial valuation of the fund were approved by the Board and are described in Section III.



Cash Flow Projection

The expected income and disbursements of the trust fund, based on the assumptions used in the actuarial valuation, and the current group of contract beneficiaries, are shown below. These amounts are cash amounts, not present value amounts.



Present Value of Assets and Liabilities

8/31 of Year	Present Value of Future Benefit and Expenses	Value of Assets and Present Value of Future Collections	Assets over Liabilities
2012	463,222,360	485,840,104	22,617,744
2013	476,654,032	500,563,837	23,909,805
2014	484,995,251	510,270,879	25,275,628
2015	487,987,065	514,706,486	26,719,421
2016	486,999,310	515,244,944	28,245,634
2017	480,799,735	510,658,704	29,858,969
2018	470,752,197	502,316,595	31,564,398
2019	455,598,965	488,966,140	33,367,175
2020	436,819,491	472,092,345	35,272,854
2021	415,398,017	452,685,324	37,287,307
2022	389,661,708	429,078,448	39,416,740
2023	357,087,597	398,755,310	41,667,713
2024	316,550,714	360,597,874	44,047,160
2025	272,299,104	318,861,515	46,562,411
2026	224,284,056	273,505,271	49,221,214
2027	173,258,518	225,290,276	52,031,759
2028	123,552,303	178,555,005	55,002,702
2029	80,664,856	138,808,049	58,143,194
2030	45,615,456	107,078,363	61,462,907
2031	21,844,133	86,816,199	64,972,066
2032	8,999,036	77,680,515	68,681,479
2033	2,903,511	75,506,079	72,602,568
2034	900,847	77,648,255	76,747,409
2035	493,855	81,622,620	81,128,765
2036	337,208	86,097,337	85,760,129

Expected Annual Cash Flows

Fiscal Year Ending	Benefit Payments and Expenses	Contract Payment Receipts	Annual Cash Flow
2013	12,272,472	28,007,494	15,735,023
2014	17,812,735	24,755,111	6,942,375
2015	23,323,477	20,886,284	(2,437,193)
2016	27,249,780	17,893,813	(9,355,967)
2017	32,127,281	15,603,182	(16,524,099)
2018	35,433,418	12,682,532	(22,750,886)
2019	39,721,955	10,344,016	(29,377,940)
2020	42,335,492	7,808,790	(34,526,702)
2021	43,822,313	6,494,113	(37,328,200)
2022	46,749,287	5,244,158	(41,505,128)
2023	51,830,490	3,407,290	(48,423,201)
2024	57,607,262	2,749,247	(54,858,016)
2025	58,935,668	2,164,694	(56,770,974)
2026	60,109,836	1,617,411	(58,492,425)
2027	60,368,714	1,144,303	(59,224,411)
2028	56,368,921	721,872	(55,647,050)
2029	47,237,397	428,702	(46,808,695)
2030	37,509,269	156,581	(37,352,688)
2031	24,949,294	18,024	(24,931,269)
2032	13,330,381	-	(13,330,381)
2033	6,252,100	-	(6,252,100)
2034	2,051,244	-	(2,051,244)
2035	433,624	-	(433,624)
2036	174,831	-	(174,831)

Note: The amounts shown above are annual expected amounts for the year corresponding to the "Fiscal Year Ending" column. They are not cumulative amounts. In addition, Payment Receipts are frontloaded. Therefore, the Expected Annual Cash Flows project positive cash flows in the early years and negative in the later years. It is expected that positive cash flows prior to Fiscal Year Ending 2012 would be invested to cover the negative cash flows in future years.

SECTION VI – Sensitivity Testing

The Program operates under conditions of risk and uncertainty. For example, while it is assumed the assets of the fund will earn the annual net rate found in Section III, we also expect actual returns to vary from year to year. To accept the reasonableness of the basis for the measurement of the soundness, it is useful to know how the status of the fund may be affected by the vagaries of the markets and other factors. We have rerun the valuation under the following alternative scenarios, and the assets over liabilities as of August 31, 2012 under each of these scenarios is presented in the following table:

Scenarios	Assets over Liabilities
Baseline assumptions used in valuation	22,617,744
Tuition increases are 25 basis points higher in each future year than assumed	18,558,331
The investment return is 25 basis points lower than assumed	19,075,724
Tuition increases are 25 basis points higher in each future year and the investment return is 25 basis points lower than assumed	16,108,399
Tuition increases are 25 basis points lower in each future year than assumed	28,031,053
Tuition increases are 25 basis points lower in each future year and the investment return is 25 basis points lower than assumed	23,212,800
The investment return is 50 basis points lower than assumed	16,493,958
The investment return is 75 basis points lower than assumed	14,982,823
The investment return is 100 basis points lower than assumed	14,982,823
Tuition increases are 50 basis points higher in each future year than assumed	15,777,742
Tuition increases are 75 basis points higher in each future year than assumed	14,083,555
Tuition increases are 100 basis points higher in each future year than assumed	13,125,295

TEXAS TUITION PROMISE FUND
Active Contract Counts for All Enrollment Periods – Appendix A
As of August 31, 2012

Matriculation Year	Plan			
	Type I	Type II	Type III	Total
2012	401	260	33	694
2013	464	291	51	806
2014	547	358	53	958
2015	738	477	73	1,288
2016	720	461	77	1,258
2017	714	450	108	1,272
2018	865	475	85	1,425
2019	779	465	91	1,335
2020	768	470	100	1,338
2021	839	490	86	1,415
2022	958	600	123	1,681
2023	1,021	553	84	1,658
2024	918	492	77	1,487
2025	839	523	106	1,468
2026	920	503	81	1,504
2027	812	438	78	1,328
2028	539	302	64	905
2029	421	223	39	683
2030	223	95	20	338
Total	13,486	7,926	1,429	22,841

TEXAS TUITION PROMISE FUND
Active Contract Counts for All Enrollment Periods – Appendix A
As of August 31, 2012

Matriculation Year	Number of Type I Units													
	25	50	100	150	200	250	300	350	400	450	500	550	600	PAYG*
2012	2	7	38	10	58	10	41	9	53	4	4	-	3	162
2013	9	18	49	12	73	12	32	13	64	3	-	-	2	177
2014	15	17	54	15	66	17	44	20	90	7	2	-	4	196
2015	18	22	79	18	70	15	54	9	139	8	6	-	6	294
2016	15	22	89	14	91	16	25	13	133	11	7	-	10	274
2017	13	18	80	18	75	17	37	23	145	6	9	-	5	268
2018	12	14	87	29	96	20	42	26	193	5	2	1	8	330
2019	19	15	93	18	64	12	47	24	142	11	9	-	7	318
2020	13	18	84	18	89	12	46	21	152	3	6	-	6	300
2021	18	35	92	19	84	15	37	21	161	5	11	-	8	333
2022	14	25	65	25	94	23	45	22	214	19	15	-	12	385
2023	20	27	88	16	96	27	42	23	219	17	17	1	15	413
2024	27	29	79	28	75	17	39	15	156	17	15	1	10	410
2025	15	26	54	17	94	19	30	19	147	16	16	1	8	377
2026	29	36	74	23	59	19	38	20	155	12	8	3	4	440
2027	31	33	65	23	67	10	29	13	105	12	10	1	12	401
2028	18	19	45	6	39	5	27	8	78	9	6	-	5	274
2029	8	13	44	4	33	8	11	9	72	5	5	-	3	206
2030	6	17	26	2	19	2	6	5	42	4	4	1	-	89
Total	296	394	1,259	313	1,323	274	666	308	2,418	170	148	8	128	5,558

* Pay-as-you-go contracts

TEXAS TUITION PROMISE FUND
Active Contract Counts for All Enrollment Periods – Appendix A
As of August 31, 2012

Matriculation Year	Number of Type II Units													
	25	50	100	150	200	250	300	350	400	450	500	550	600	PAYG*
2012	10	33	8	41	11	23	4	27	4	6	-	3	-	90
2013	9	40	13	35	8	15	10	47	2	4	-	-	-	108
2014	16	41	12	57	6	22	7	49	6	7	-	1	-	134
2015	27	56	8	77	11	23	14	71	6	7	1	2	-	174
2016	18	54	15	80	9	24	4	75	9	4	-	-	-	169
2017	19	55	13	73	15	20	4	85	6	3	1	2	-	154
2018	26	51	19	63	14	24	9	79	11	4	-	1	1	173
2019	17	47	13	69	7	33	5	87	12	3	-	1	-	171
2020	15	42	19	70	6	30	5	92	12	2	-	-	-	177
2021	18	42	13	64	10	37	9	100	5	5	-	1	-	186
2022	16	55	22	95	10	38	10	133	17	5	2	-	-	197
2023	20	42	20	76	15	26	11	127	16	9	3	1	-	187
2024	16	57	16	72	16	16	7	108	14	8	1	-	-	161
2025	17	62	13	70	17	15	6	103	12	4	2	2	-	200
2026	16	48	8	73	10	23	4	93	18	5	1	1	-	203
2027	23	46	13	53	8	16	4	77	19	9	1	2	-	167
2028	17	17	9	42	6	12	4	60	7	4	-	-	-	124
2029	10	22	4	23	4	10	1	32	8	4	-	2	-	103
2030	5	8	1	18	3	4	-	14	6	1	-	-	-	35
Total	310	810	238	1,133	183	407	118	1,445	184	93	12	19	1	2,878

* Pay-as-you-go contracts

TEXAS TUITION PROMISE FUND
Active Contract Counts for All Enrollment Periods – Appendix A
As of August 31, 2012

Matriculation Year	Number of Type III Units													
	25	50	100	150	200	250	300	350	400	450	500	550	600	PAYG*
2012	-	1	8	-	13	1	-	-	-	-	-	-	1	9
2013	-	-	7	2	25	-	1	-	1	-	1	-	-	14
2014	-	-	11	2	22	3	-	-	-	-	-	-	1	14
2015	-	2	6	4	37	2	2	1	-	1	-	-	-	18
2016	-	3	17	2	28	4	-	-	3	-	-	-	-	20
2017	-	4	18	2	58	2	-	-	-	1	-	-	-	23
2018	-	3	10	2	34	2	1	-	3	-	-	-	-	30
2019	-	2	14	1	50	-	-	-	1	-	-	-	1	22
2020	-	2	13	3	44	2	3	1	2	2	1	-	1	26
2021	-	7	7	3	42	2	-	-	-	-	-	-	-	25
2022	-	2	12	8	61	2	2	-	3	-	-	-	-	33
2023	-	3	9	-	43	2	1	-	1	1	-	-	-	24
2024	-	2	11	5	33	3	1	-	3	-	-	-	-	19
2025	-	3	11	4	47	3	3	-	-	1	-	-	-	34
2026	-	4	5	2	35	4	1	1	2	-	-	-	-	27
2027	-	1	12	8	34	2	2	-	1	-	-	-	1	17
2028	-	2	8	4	31	1	1	-	2	1	-	-	-	14
2029	-	1	2	2	18	2	-	-	-	-	-	-	-	14
2030	-	-	4	-	10	-	-	1	-	-	-	1	-	4
Total	-	42	181	54	655	37	18	3	22	7	2	-	5	383

* Pay-as-you-go contracts

TEXAS TUITION PROMISE FUND
Tuition and Fee Payments – Appendix B
For year ending August 31, 2012

	<u>Units Paid</u>	<u>Total Payments</u>
Art Institute of Austin	73.475	\$5,856
Austin College	33.333	3,723
Austin Comm Coll	11.755	946
Baylor University	484.290	49,207
Berry College	75.930	8,480
California Institute of the Arts	88.000	7,014
Collin College	10.960	313
Columbia University	277.384	32,154
Elon University	82.000	9,158
Emory University	100.000	11,592
Louisiana College	47.173	3,912
Lubbock Christian University	212.976	17,660
Missouri University of Science & Technology	100.000	7,970
Rice University	50.000	5,796
Schreiner University	50.000	3,985
Southern Arkansas University	23.000	1,907
Texas A&M University Galveston	19.271	1,551
Texas Christian University	50.000	5,584
Texas Lutheran University	81.321	6,481
Texas State University San Marcos	14.981	1,206
The School of the Art Institute of Chicago	200.000	15,940
University of Alabama	90.795	10,140
University of Arkansas Fayetteville Independe	34.453	3,994
University of Central Florida	50.000	5,796
University of Colorado at Boulder	48.544	5,627
University of Dallas	90.858	10,147
University of Kansas	2.032	236
University of Miami	103.474	8,247
University of Missouri Columbia Campus	46.000	5,137
University of Montana Missoula College of Tec	53.997	4,304
University of Notre Dame	50.000	5,796
University of Oklahoma	229.274	24,928
University of Texas at Austin	86.428	7,499
Wharton County Junior College	10.636	1,200
Grand Total	2982.340	\$293,484

FUND INVESTMENT INFORMATION



TEXAS GUARANTEED TUITION PLAN

Texas Guaranteed Tuition Plan Fund Investment Information

Market Value of Fund
Year Ending August 31, 2012
(Amounts in millions)

Total Fund	\$1,275
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Fiscal Year 2012
Time Weighted
Gross Fund Return

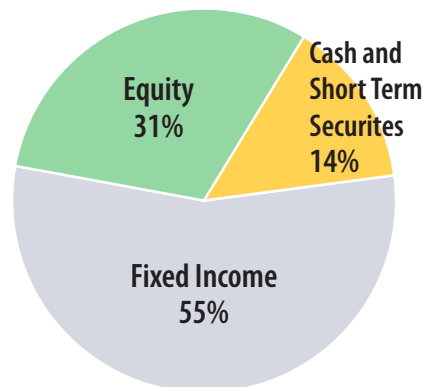
Total Fund	7.3%
Total Fund Benchmark	7.4%

	Fiscal Year 2011	Fiscal Year 2012
Gross Return – Total Fund	9.0%	7.3%
Gross Return – Equity	11.6%	10.9%
Gross Return – Fixed Income	4.9%	8.6%
Gross Return – Cash and Short-term	.4%	.2%
Gross Return – All Other	N/A	N/A

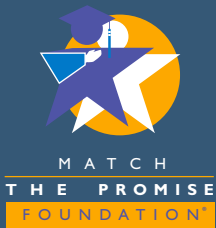
Portfolio Diversification	Market Value of Fund Year Ending August 31, 2011 (Amounts in millions)		Market Value of Fund Year Ending August 31, 2010 (Amounts in millions)	
Equity	\$549	41%	\$397	31%
Fixed Income	\$577	43%	\$705	55%
Cash and Short-term Securities	\$208	16%	\$173	14%
Other Investments	\$0	0%	\$0	0%
TOTAL, ALL INVESTMENTS	\$1,334	100%	\$1,275	100%

Note: GASB Statement No. 31 requires investments to be reported at fair value, therefore, Market and Book values are the same.

Investment Asset Allocation, August 31, 2012



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TEXAS GUARANTEED TUITION PLAN

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