

**ANNUAL  
REPORT**

2011

TEXAS PREPAID HIGHER EDUCATION TUITION PROGRAM  
TEXAS COMPTROLLER SUSAN COMBS, CHAIR

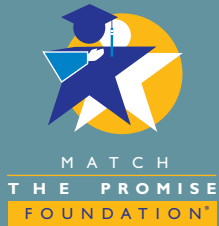


On your mark,  
get set, college.



TEXAS PREPAID HIGHER EDUCATION TUITION PROGRAM

# ANNUAL REPORT 2011



TEXAS GUARANTEED TUITION PLAN

**LONESTAR**  
529 PLAN



TEXAS TUITION<sup>®</sup>  
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



TEXAS TUITION<sup>®</sup>  
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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 89,000 of the 158,442 contracts sold were active at August 31, 2011.

### 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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>

#### *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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>

#### *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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>

*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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>

*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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>

*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%
<b>Total</b>	<b>82,741</b>	<b>54.95%</b>

## 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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>

### *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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>

### *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%
<b>Total</b>	<b>158,442</b>	<b>100.00%</b>



## 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 22,400 contracts had been sold as of August 31, 2011.

### 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	12,983	58%
Type II Units	7,992	36%
Type III Units	1,415	6%
Not Specified	36	0%
<b>Total</b>	<b>22,426</b>	<b>100%</b>

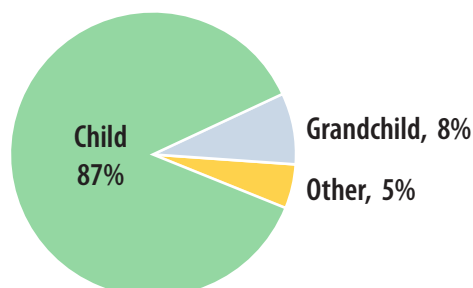
#### *Payment Option Selected*

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	5,492	25%
Installment	8,369	37%
Pay-As-You-Go	8,503	38%
Undesignated	62	0%
<b>Total</b>	<b>22,426</b>	<b>100%</b>

#### *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	3,299	14.70%
1 Year	1,453	6.48%
2 Years	1,432	6.39%
3 Years	1,546	6.89%
4 Years	1,574	7.00%
5 Years	1,423	6.35%
6 Years	1,345	6.00%
7 Years	1,436	6.40%
8 Years	1,359	6.06%
9 Years	1,298	5.79%
10 Years	1,271	5.67%
11 Years	1,277	5.69%
12 Years	1,134	5.06%
13 Years	1,000	4.46%
14 Years	811	3.62%
15 Years	479	2.14%
16 Years	186	.83%
17 Years	64	.29%
18 Years	8	.04%
Over 18 Years	15	.07%
Undesignated	16	.07%
<b>Total</b>	<b>22,426</b>	<b>100.0%</b>

*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	3,167	14.12%
Travis	2,047	9.13%
Collin	1,939	8.65%
Dallas	1,573	7.01%
Tarrant	1,470	6.55%
Fort Bend	1,067	4.76%
Bexar	1,071	4.78%
Denton	926	4.13%
Williamson	940	4.19%
Montgomery	468	2.09%
All Other	7,758	34.59%
<b>Total</b>	<b>22,426</b>	<b>100.0%</b>

## 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	5.90%
\$50,001-\$75,000	12.70%
\$75,001-\$100,000	19.70%
Over \$100,000	52.30%
Not Reported by Purchaser	9.40%
<b>Total</b>	<b>100.0%</b>

### *Beneficiary's Ethnicity*

African-American	4.20%
Asian	13.20%
Anglo	56.90%
Hispanic	13.70%
Native-American	.40%
Other	3.60%
Not Reported by Purchaser	8.00%
<b>Total</b>	<b>100.0%</b>

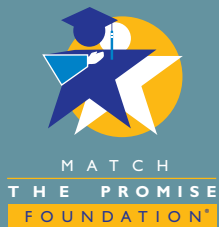
### *Education Level of Purchaser*

High School Graduate	2.50%
Some College	8.20%
Associate Degree	4.90%
Bachelor's Degree	39.20%
Master's Degree	26.70%
Doctorate	11.40%
Not Reported by Purchaser	7.10%
<b>Total</b>	<b>100.0%</b>





# ANNUAL REPORT



TEXAS GUARANTEED TUITION PLAN

**LONESTAR**  
529 PLAN



TEXAS TUITION<sup>®</sup>  
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Texas Prepaid Scholarship Foundation



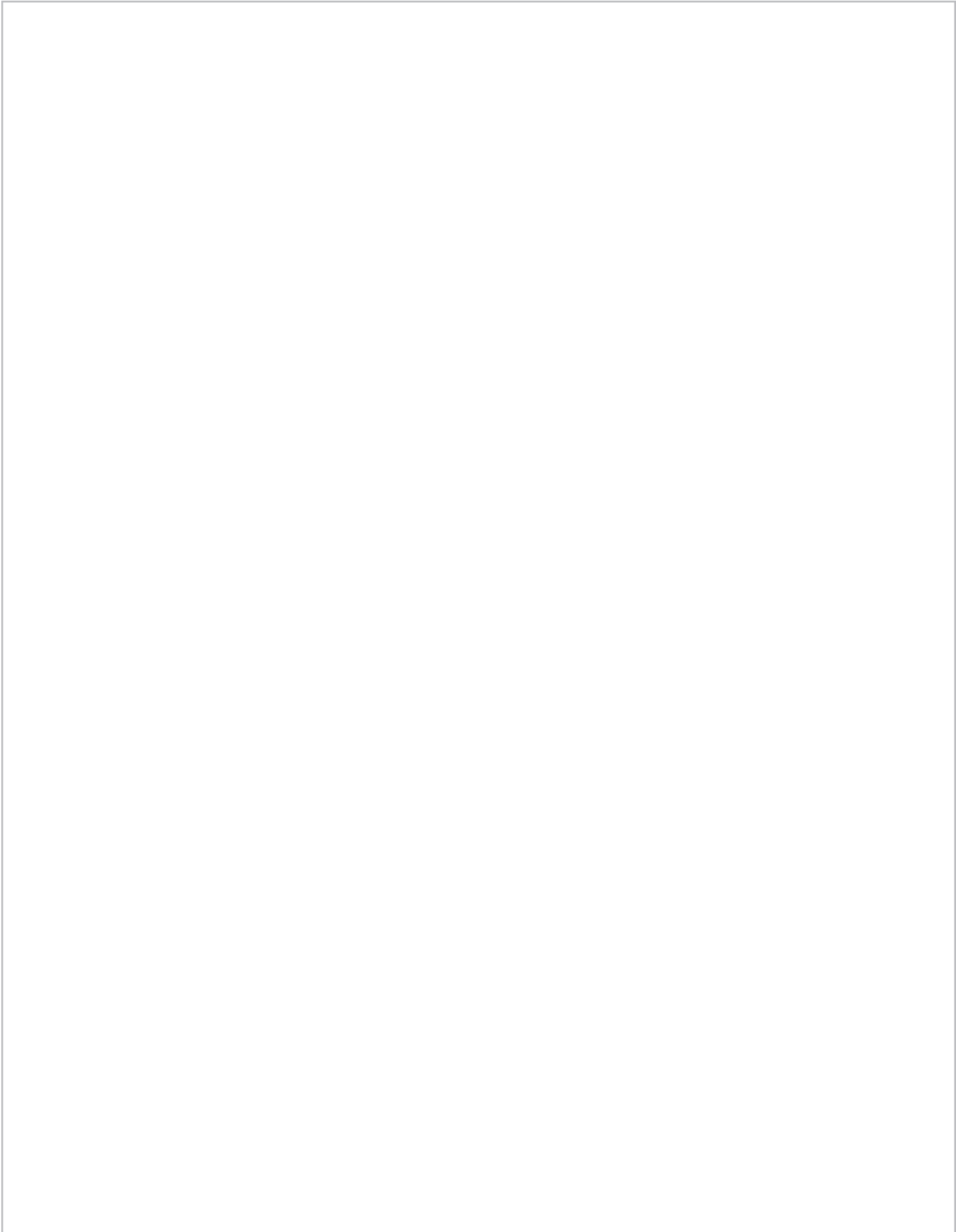


**TEXAS PREPAID HIGHER EDUCATION  
TUITION BOARD**

ANNUAL REPORT

For the Fiscal Year Ended August 31, 2011

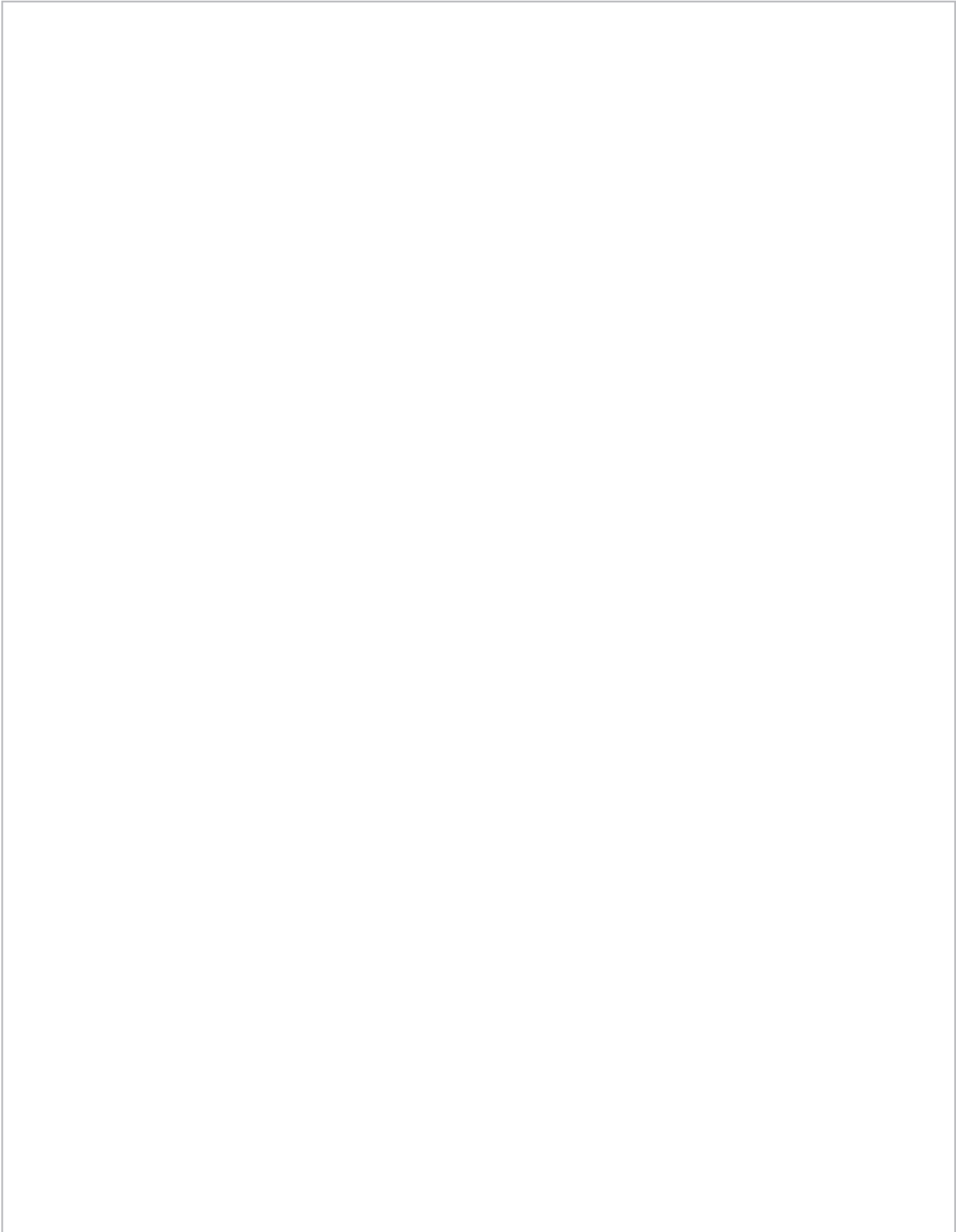




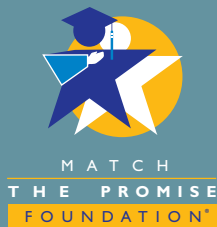
**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
ANNUAL REPORT  
For the Fiscal Year Ended August 31, 2011**

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# INDEPENDENT AUDITOR'S REPORT



TEXAS GUARANTEED TUITION PLAN

**LONESTAR**  
529 PLAN



TEXAS TUITION<sup>®</sup>  
PROMISE FUND

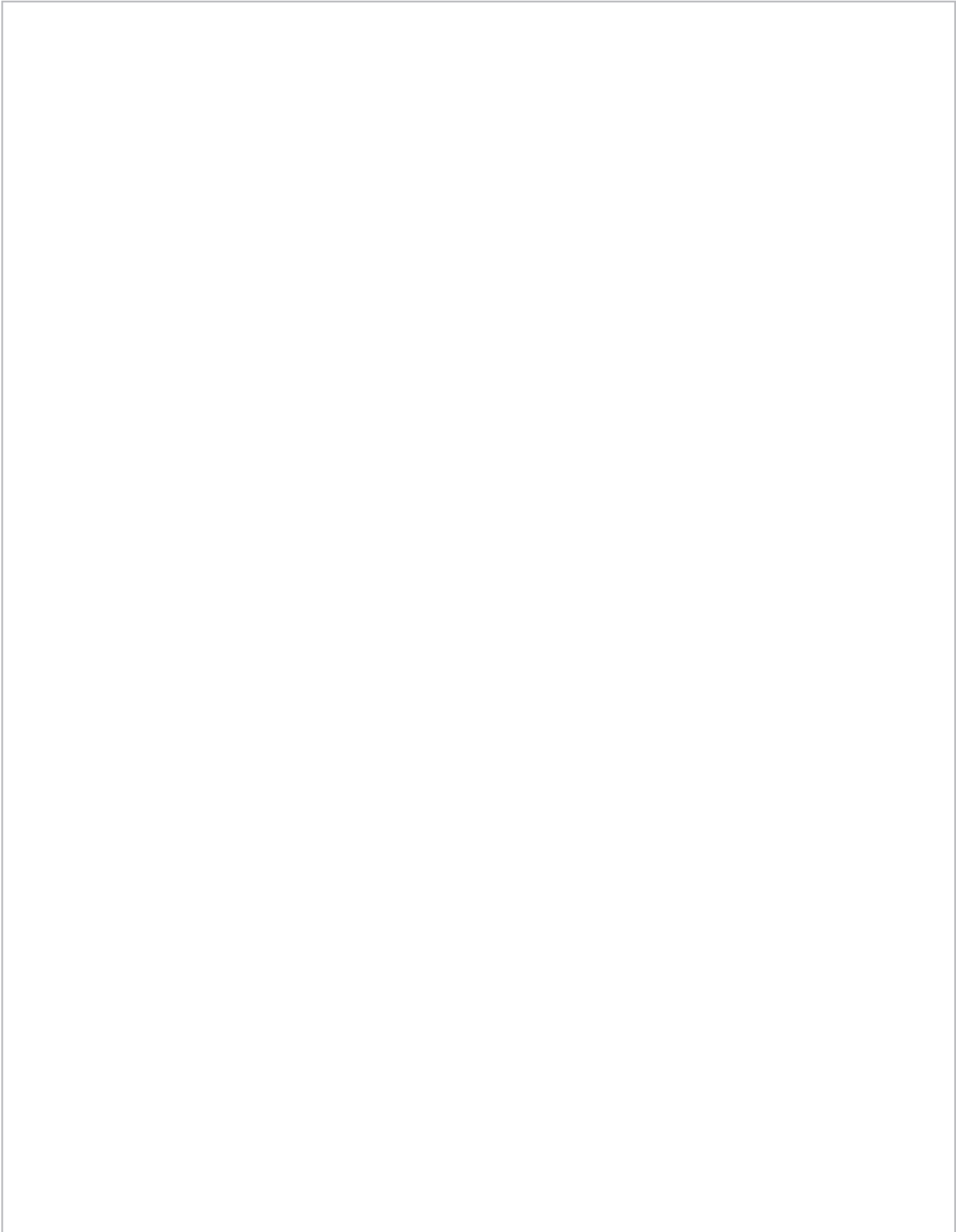
A Prepaid Plan as Smart as You Are



**Texas Tomorrow Fund**  
Texas Prepaid Scholarship Foundation



TEXAS COLLEGE SAVINGS PLAN<sup>®</sup>







**McCONNELL & JONES LLP**  
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, 2011, 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 10%, and 76%, respectively, of the assets and revenues of the Board. 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.

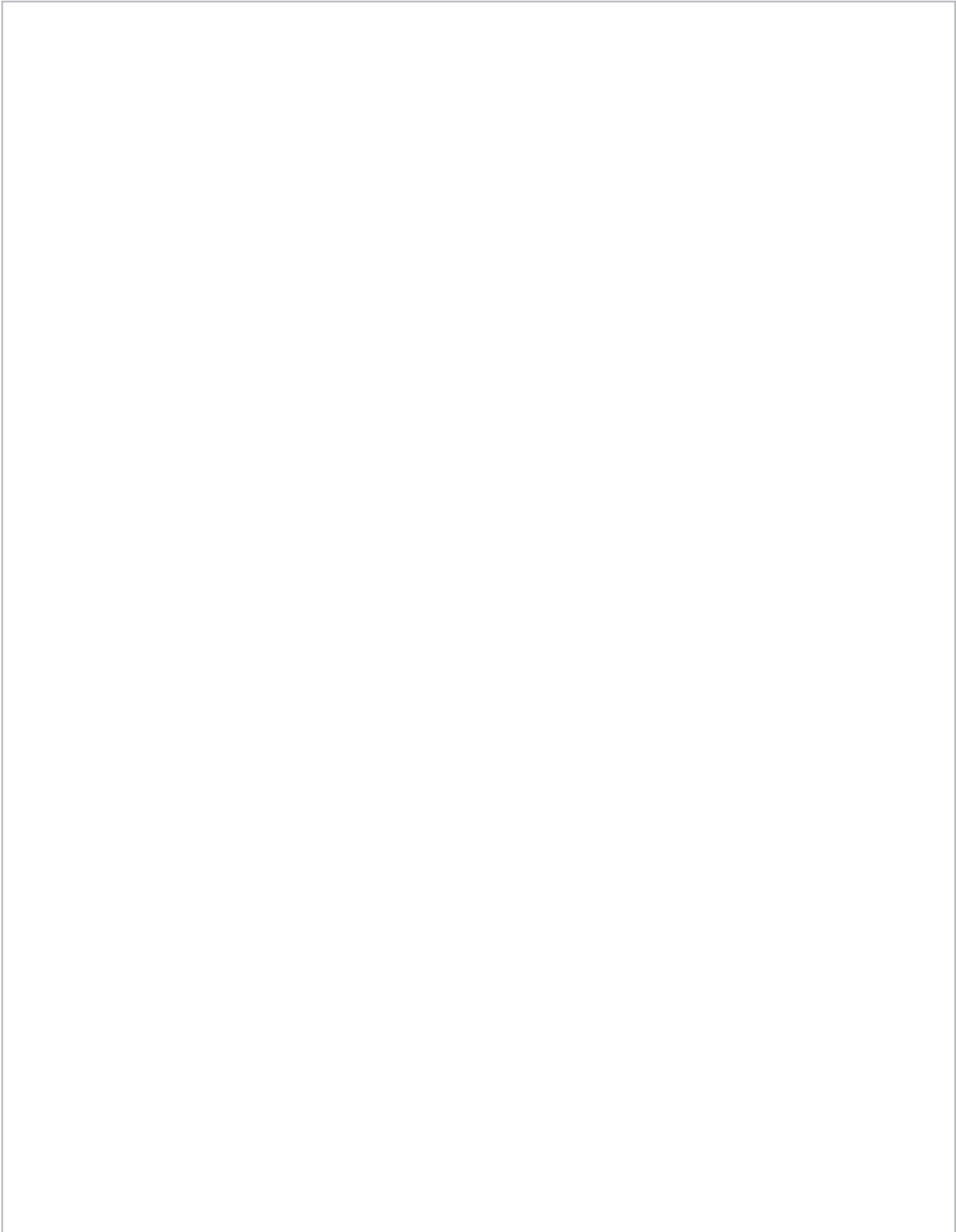
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 14, 2011, 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.

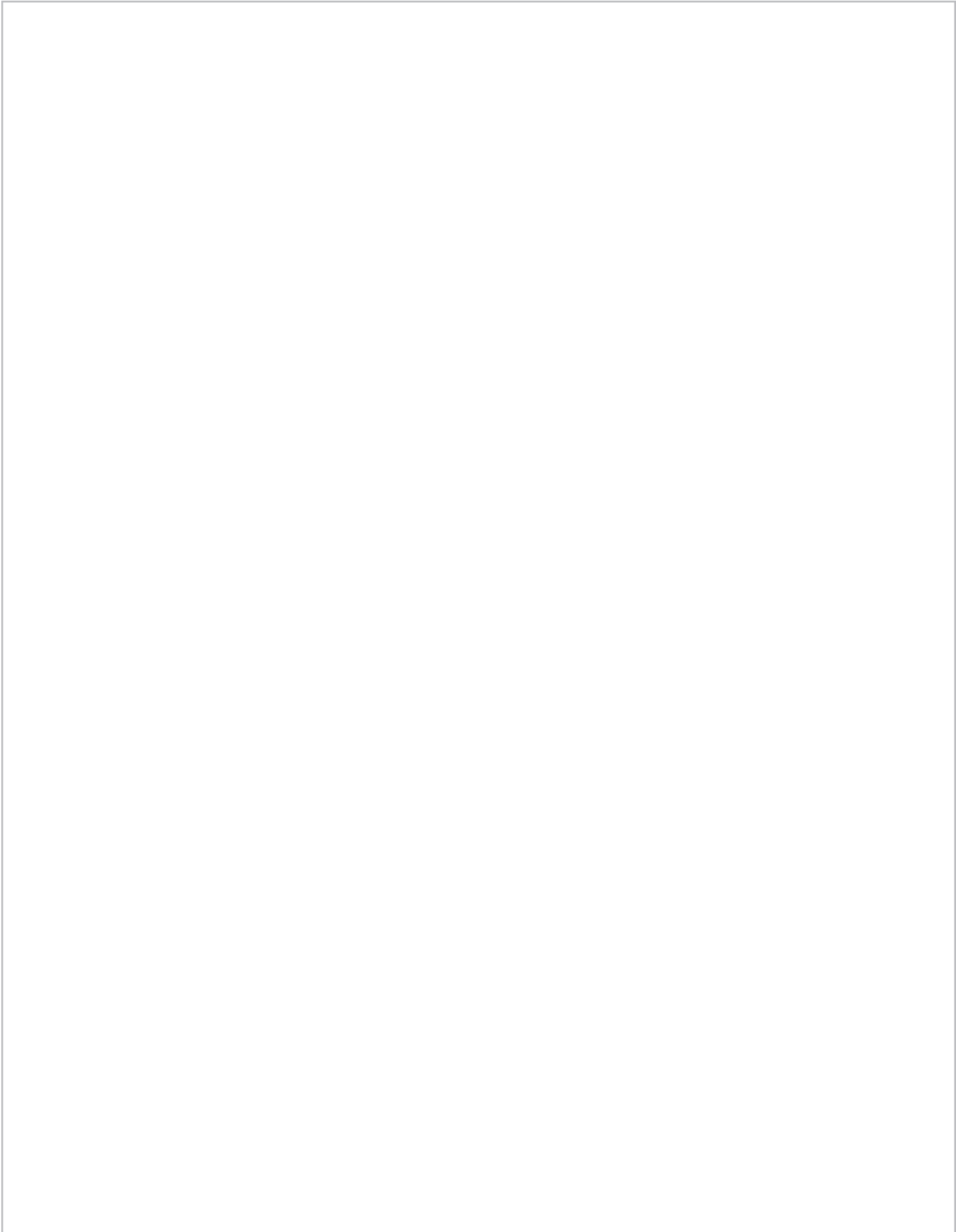
The Management's Discussion and Analysis, on pages 2 through 8, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board and accounting principles generally accepted in the United States of America. We have applied 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.

Houston, Texas  
December 14, 2011



# MANAGEMENT'S DISCUSSION AND ANALYSIS





**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended August 31, 2011**

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, 2011. 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 administers the Texas Save and Match Program in cooperation with the Texas Match the Promise Foundation<sup>SM</sup>.

**Financial Highlights of the Texas Guaranteed Tuition Plan**

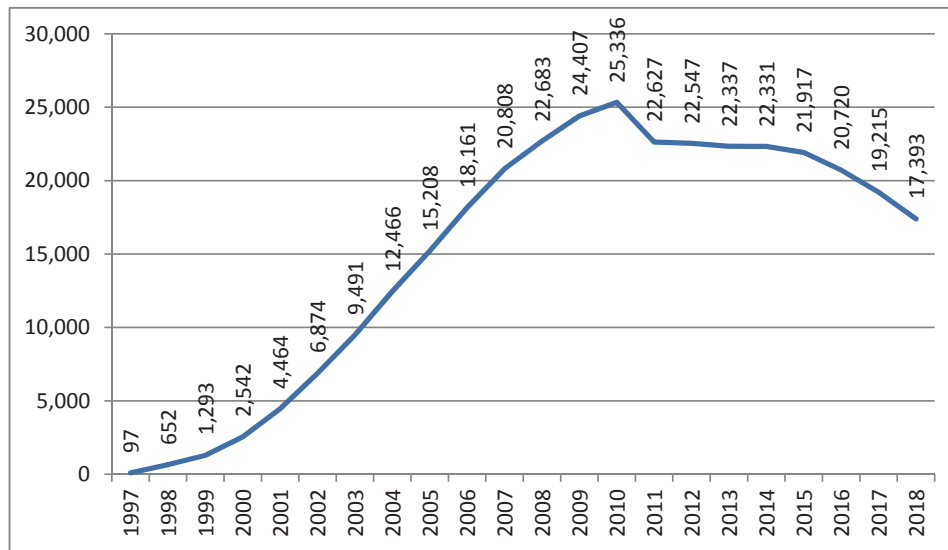
Net assets of the *Texas Guaranteed Tuition Plan* decreased \$41 million in fiscal 2011.

Financial highlights include:

- Payment of participants’ benefits to colleges and universities of \$140,128,443.65
- Net investment income of \$120,201,166.57
- Contract receipts of \$17,619,626.50
- Earnings paid on refunds of \$10,848,201.75
- Operating expenses of \$4,302,858.48
- Increase in the unfunded liability for contract benefits payable of \$41,221,165.77

The *Texas Guaranteed Tuition 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 89,000 active contracts as of August 31, 2011. The fund’s unfunded liability at August 31, 2010, was (\$600,221,946.07) compared to (\$641,443,111.84) at August 31, 2011, an increase in the unfunded liability of \$41,221,165.77. Since the plan is closed to new enrollment, the number of plan beneficiaries using the plan will continue to decrease after peaking in 2010:

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



\*Academic Years 2012-2018 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 2028.

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended August 31, 2011**

**Financial Highlights of the Texas Tuition Promise Fund**

The State’s new prepaid tuition plan, the *Texas Tuition Promise Fund* opened for enrollment in 2008. The fund is not guaranteed by the State of Texas. Through August 31, 2011, the *Texas Tuition Promise Fund* had sold approximately 22,400 contracts at a value of approximately \$375 million. Receipts from purchasers in fiscal 2011 totaled approximately \$72 million. The contracts are subject to a three-year holding period before any contract benefits can be paid to schools; therefore, no plan benefits will be paid until 2012.

**Financial Highlights of the Texas Prepaid Scholarship Foundation**

There was no change in the assets or liabilities of the *Texas Prepaid Scholarship Foundation* during fiscal 2011.

**Financial Highlights of the Texas Match the Promise Foundation**

The *Texas Match 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 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 2011, the foundation received approximately \$110,000 in contributions from donors contributing a portion of their unclaimed property receipts to the foundation to be used for scholarships.

**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 from \$249,575,305.55 at August 31, 2010, to \$303,999,849.11 at August 31, 2011, an increase of \$54 million. The increase was due to an increase in the number of account owners from 28,291 at August 31, 2010, to 30,713 at August 31, 2011, increased net contributions to savings accounts, and net income from investment activities. Financial highlights include:

- Contributions from investors of \$125,435,414.70
- Distributions from investor accounts of \$100,324,567.85
- Net income from investing activities of \$29,316,498.57

**Financial Highlights of the Settlement Agreement**

On February 19, 2010, OppenheimerFunds, Inc. (“OFI”), OFI Private Investments Inc. (“OFIPI”), and OppenheimerFunds Distributor, Inc. (“OFDI”), collectively OppenheimerFunds. (“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. Under the terms of the settlement, OFI does not admit any wrongdoing and under the terms of the settlement, OFI transferred \$12,340,000.00 to the state to be deposited into an account at the Texas Treasury Safekeeping Trust Co. held by the Board as trustee of the college savings plans.

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

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended August 31, 2011**

Activity for the account as of August 31, 2011, follows:

Total Distributions to Eligible Account Owners	\$11,382,559.70
Total Account Owners Receiving Distributions to Accounts	16,080
Interest Paid on Distributions	\$5,491.65
Amount Invested in Repurchase Agreements	\$961,483.87

The settlement agreement authorized payment of the following expenses:

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

The funds held by the Board of \$961,483.87 at August 31, 2011, are invested in repurchase agreements through the Treasury Safekeeping Trust Co. and are included in these financial statements as Agency Funds. Service fees of \$2,500.00 were paid to the Treasury Safekeeping Trust Co.

**Overview of the Financial Statements**

The annual report consists of four parts - *management's discussion and analysis*, the *basic financial statements*, *required supplementary information*, and an optional section that presents *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 activity for the TGTP and the TTPF is reported as an enterprise fund.
- *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 activity for the TPSF and the TMPF is reported as a component unit.

**Fund Financial Statements**

Fund financial statements provide more detailed information on the Agency'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.

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended August 31, 2011**

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 activity of the TGTP and TTPF is reported as a proprietary fund, 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 TGTP 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 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 TTPF 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 plan is paid to Texas private colleges and universities and out-of-state 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*, the State’s 529 college savings plans, and the settlement trust account funds. The college savings plan was first offered by the Board in September 2002. It is reported as a private purpose trust fund 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 college savings plan which are allocable among the accounts of affected account 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 Agency on August 31, 2011 were \$2.1 billion, while total liabilities were \$2.7 billion, resulting in a net asset balance of (\$618) million. \$3 thousand of its net assets, which have been reduced by related debt and depreciation, were invested in capital assets.



**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended August 31, 2011**

A summary of net assets is shown below:

**Statement of Net Assets**

	<b>Business-Type Activities</b>		<b>% of Change</b>
	<b>Fiscal Year</b>		
	<b>2011</b>	<b>2010</b>	
Current and Other Assets	\$ 2,078,447,395.54	\$ 2,137,483,924.11	-2.76%
Capital Assets	3,136.60	6,272.80	-50.00%
Total Assets	<u>2,078,450,532.14</u>	<u>2,137,490,196.91</u>	-2.76%
Other Liabilities	<u>2,696,846,131.26</u>	<u>2,724,837,956.51</u>	-1.03%
Total Liabilities	<u>2,696,846,131.26</u>	<u>2,724,837,956.51</u>	-1.03%
Net Assets (Deficit):			
Invested in Capital Assets, Net of Related Debt	3,136.60	6,272.80	-50.00%
Unrestricted	<u>(618,398,735.72)</u>	<u>(587,354,032.40)</u>	-5.29%
Total Net Deficit	<u>\$ (618,395,599.12)</u>	<u>\$ (587,347,759.60)</u>	5.29%

**Changes in Net Assets**

The Agency earned program revenues of \$95 million, had an increase in the fair value of investments of \$110 million, and expenses of \$236 million. The excess of revenues over expenses caused the Agency's total net assets to decrease by (\$31) million. This compares with an increase in net assets the previous fiscal year of \$8 million. Revenues and expenses of the Agency's business-type activities are detailed below:

	<b>Business-Type Activities</b>		<b>% of Change</b>
	<b>Fiscal Year</b>		
	<b>2011</b>	<b>2010</b>	
Revenues			
Program Revenues			
Charges for Services	\$ 63,985,267.35	\$ 785,104.18	8,049.91%
Capital Gains and Contributions	31,456,394.29	38,895,426.43	-19.13%
	<u>95,441,661.64</u>		
Total Revenues		<u>39,680,530.61</u>	140.53%
Net Increase in Fair Value of Investments	109,917,211.98	53,242,160.65	106.45%
Expenses	<u>236,406,713.14</u>	<u>84,937,752.00</u>	178.33%
(Decrease) Increase in Net Assets	<u>\$ (31,047,839.52)</u>	<u>\$ 7,984,939.26</u>	-488.83%

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended August 31, 2011**

**Analysis of the Agency’s Funds**

**Proprietary Funds**

The decrease of approximately (\$31) million in the Agency’s net assets was primarily the result of several favorable and unfavorable factors as disclosed below:

- Increase in Program Revenues as a result of increased enrollment in the Texas Tuition Promise Fund
- Increase in the Fair Value of Investments
- Increase in Expenses of the Texas Guaranteed Tuition Plan and the Texas Tuition Promise Fund as a result of changes in the actuarial assumptions for projected investment earnings

**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 2011 expenditure budget included all administrative costs paid directly by the Agency for the prepaid tuition and college savings plans. The budget totaled \$6 million for the fiscal year ended August 31, 2011.

- The largest component of the 2011 budget was consultant and professional fees at \$4 million, or 67% of the total budget. Of that figure, \$3 million was budgeted for investment management and consulting fees.
- The 2011 budget reflected a 23% decrease over the prior fiscal year 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.

**Capital Assets and Debt Administration**

**Capital Assets**

As of August 31, 2011, the Agency had \$3 thousand in capital assets net of depreciation. The 50% decrease in capital assets, net of depreciation was due to an increase of \$3 thousand in depreciation expense for fiscal year 2011.

**Capital Assets  
(Net of Depreciation)**

	<b>Business-Type Activities</b>		<b>% of Change</b>
	<b>Fiscal Year</b>		
	<b>2011</b>	<b>2010</b>	
Computer Software-Intangible	\$ -	\$ -	0.00%
Furniture and Equipment	3,136.60	6,272.80	-50.00%
Total Capital Assets	<u>\$ 3,136.60</u>	<u>\$ 6,272.80</u>	-50.00%

**Debt Administration**

The Agency has no debt issued.

**TEXAS PREPAID HIGHER EDUCATION TUITION BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended August 31, 2011**

**Economic Factors and Next Year’s Budget and Rates**

The two main economic indicators that affected the financial position of the Agency during fiscal year 2011 were:

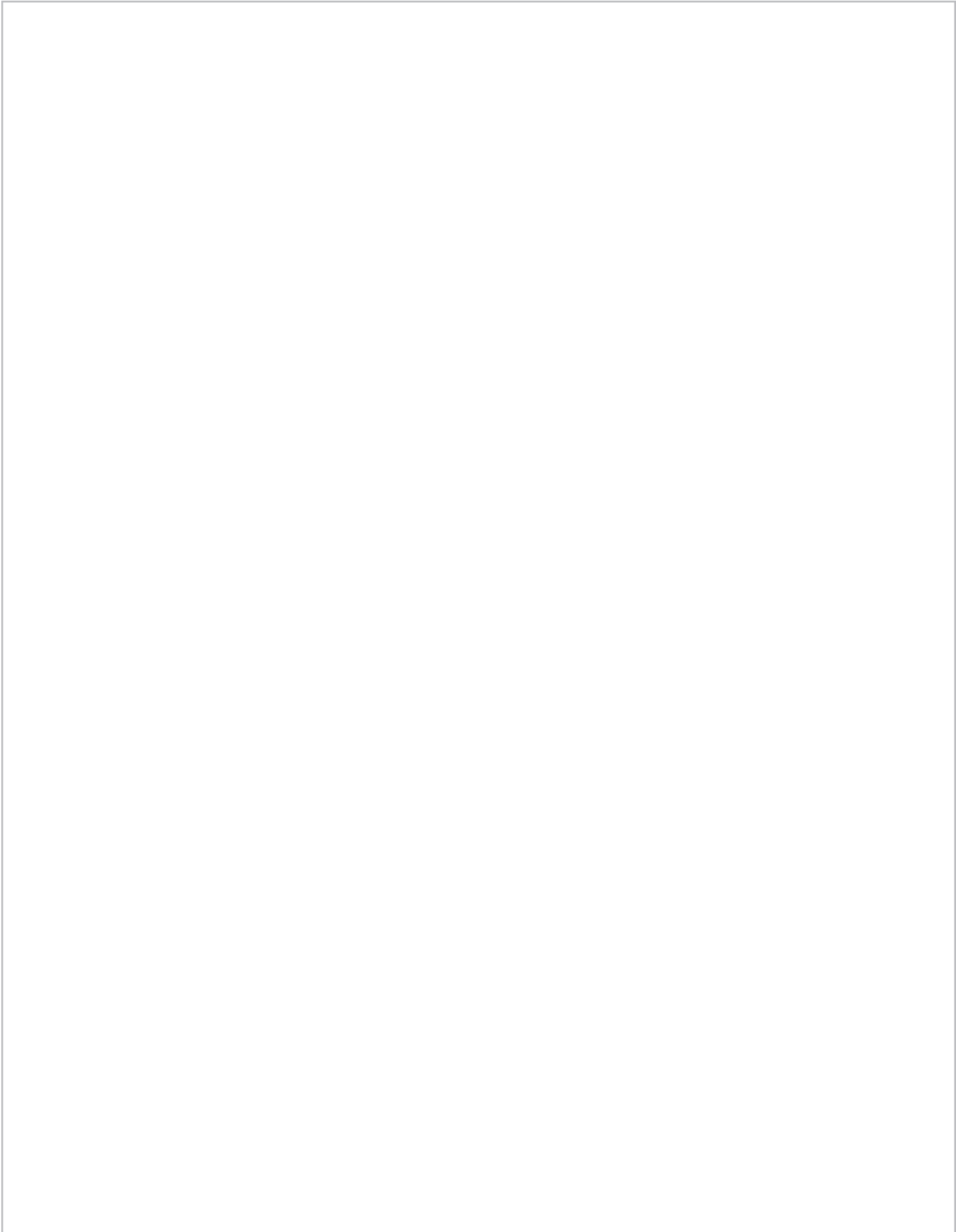
- The increase in fair value of investments of \$110 million.
- The change in the actuarial assumptions to reflect the actual 2011-2012 academic year tuition inflation and updated assumptions for future return on investments.

In August 2011, the Board adopted an operating budget of \$4 million for fiscal 2012.

**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 Agency’s finances and to demonstrate the Agency’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. 17<sup>th</sup> Street, Room #510, Austin, Texas 78711, calling 800-531-5441, ext. 3-4863, or sending an email to [linda.fernandez@cpa.state.tx.us](mailto:linda.fernandez@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

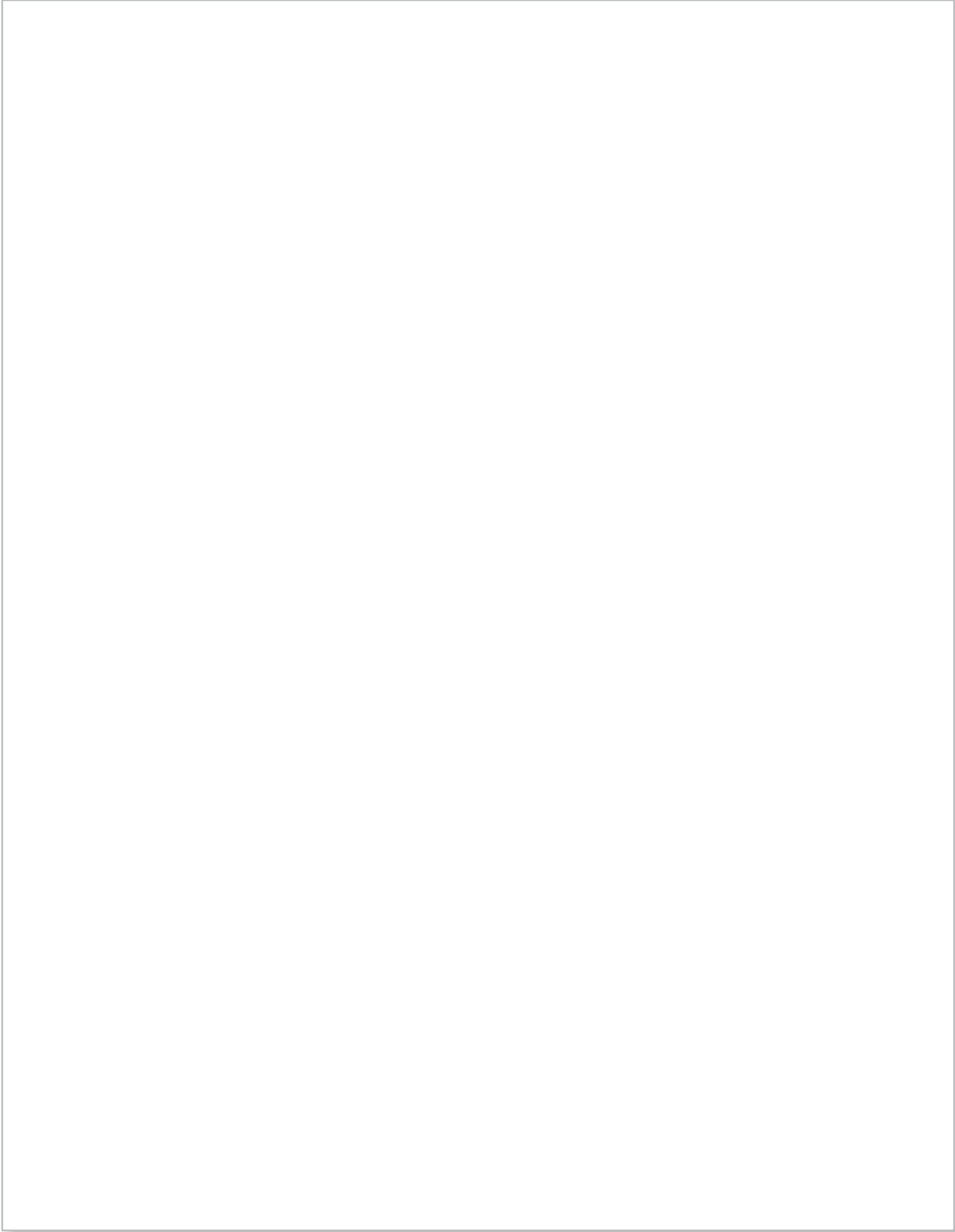


TEXAS TUITION<sup>®</sup>  
PROMISE FUND  
A Prepaid Plan as Smart as You Are



**Texas Tomorrow Fund**  
Texas Prepaid Scholarship Foundation





**Texas Prepaid Higher Education Tuition Board (315)**  
**Statement of Net Assets**  
**August 31, 2011**

	<b>PRIMARY GOVERNMENT Business-type Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Temporary Investments:	
Cash in State Treasury	\$ 349,930.27
Cash in Bank	8,005,583.94
Securities Lending Collateral	71,349,848.40
Restricted Assets:	
Cash Equivalents	265,596,630.32
Receivables:	
Investment Trades	193,796,831.69
Tuition Contracts Receivable	50,179,651.13
Interest and Dividends Receivable	3,445,944.60
Other	71,379.39
 Total Current Assets	 592,795,799.74
Non-Current Assets:	
Restricted Assets:	
Investments	1,332,482,008.80
Tuition Contracts Receivable	153,169,587.00
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	(81,664.04)
 Total Non-Current Assets	 1,485,654,732.40
 <b>TOTAL ASSETS</b>	 <b>\$ 2,078,450,532.14</b>
	<i>(Continued)</i>

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, 2011**

	<b>PRIMARY GOVERNMENT</b>
	<b>Business-type Activities</b>
<b>LIABILITIES</b>	
Current Liabilities:	
Payables:	
Accounts Payable	\$ 480,767.87
Investment Trades	210,461,472.11
Due to Other Agencies	87,281.57
Deferred Revenues	254,317.34
Employees' Compensable Leave	54,251.55
Liabilities Payable From Restricted Assets:	
Contract Benefits and Expenses	238,589,333.00
Obligations Under Security Lending	71,349,848.40
Total Current Liabilities	521,277,271.84
Non-Current Liabilities:	
Employees' Compensable Leave	47,639.42
Liabilities Payable From Restricted Assets:	
Contract Benefits and Expenses	2,175,521,220.00
Total Non-Current Liabilities	2,175,568,859.42
<b>TOTAL LIABILITIES</b>	<b>2,696,846,131.26</b>
<b>NET ASSETS (DEFICIT)</b>	
Invested in Capital Assets, Net of Related Debt	3,136.60
Unrestricted	(618,398,735.72)
<b>TOTAL NET DEFICIT</b>	<b>\$ (618,395,599.12)</b>

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



**Texas Prepaid Higher Education Tuition Board (315)**  
**Statement of Activities**  
**For the Fiscal Year Ended August 31, 2011**

<u>Functions/Programs</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-Type Activities</u>	<u>Total</u>
Primary Government: Business-Type Activities:					
Prepaid Tuition Plan	\$63,985,267.35	\$141,373,606.27	\$ -	\$ (31,047,839.52)	\$ (31,047,839.52)
Total Business-Type Activities	63,985,267.35	141,373,606.27	-	(31,047,839.52)	(31,047,839.52)
Total Primary Government	\$63,985,267.35	\$141,373,606.27	-	(31,047,839.52)	(31,047,839.52)
Component Units:					
<i>No Activity</i>	\$ -	\$ -			
Total Component Units	\$ -	\$ -			
General Revenues:					
<i>None</i>					
Change in Net Assets			-	(31,047,839.52)	(31,047,839.52)
Net Deficit – September 1, 2010			-	(587,347,759.60)	(587,347,759.60)
Net Deficit – August 31, 2011			\$ -	\$(618,395,599.12)	\$(618,395,599.12)

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

**Texas Prepaid Higher Education Tuition Board**  
**Exhibit I — Combined Statement of Net Assets — Proprietary Funds**  
**August 31, 2011**

	<u>Total Enterprise Funds (Exhibit F-1)</u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents (Note 3):	
Cash in Bank	\$ 349,930.27
Cash in State Treasury	8,005,583.94
Securities Lending Collateral	71,349,848.40
Restricted:	
Cash and Cash Equivalents (Note 3)	265,596,630.32
Receivables from:	
Investment Trades	193,796,831.69
Tuition Contracts Receivable	50,179,651.13
Interest and Dividends	3,445,944.60
Other	71,379.39
Total Current Assets	<u>592,795,799.74</u>
Non-Current Assets:	
Restricted:	
Tuition Contracts Receivable	153,169,587.00
Investments (Note 3)	1,332,482,008.80
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	<u>(81,664.04)</u>
Total Non-Current Assets	<u>1,485,654,732.40</u>
Total Assets	<u>\$ 2,078,450,532.14</u>

*(Continued)*

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

**Texas Prepaid Higher Education Tuition Board**  
**Exhibit I — Combined Statement of Net Assets — Proprietary Funds (Continued)**  
**August 31, 2011**

	<u><b>Total Enterprise Funds (Exhibit F-1)</b></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Payables from:	
Accounts	\$ 480,767.87
Investment Trades	210,461,472.11
Contract Benefits and Expenses	238,589,333.00
Due to Other Agencies (Note 12)	87,281.57
Deferred Revenues	254,317.34
Obligations Under Securities Lending	71,349,848.40
Employees' Compensable Leave (Note 5)	<u>54,251.55</u>
Total Current Liabilities	<u>521,277,271.84</u>
Non-Current Liabilities:	
Contract Benefits and Expenses	2,175,521,220.00
Employees' Compensable Leave (Note 5)	<u>47,639.42</u>
Total Non-Current Liabilities	<u>2,175,568,859.42</u>
Total Liabilities	<u>2,696,846,131.26</u>
<b>NET ASSETS (DEFICIT)</b>	
Invested in Capital Assets, Net of Related Debt	3,136.60
Unrestricted	<u>(618,398,735.72)</u>
Total Net Deficit	<u><u>\$ (618,395,599.12)</u></u>

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

**Texas Prepaid Higher Education Tuition Board**  
**Exhibit F-1 — Combining Statement of Net Assets — Enterprise Funds**  
**August 31, 2011**

	Prepaid Tuition Unit				Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0842)* U/F (5892)		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 0892)* U/F (1892)		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 Match the Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/ Texas Match the Promise Foundation (Fund 0842)* U/F (5892)							
<b>ASSETS</b>												
Current Assets:												
Cash and Cash Equivalents:												
Cash in Bank	\$ -	\$ 349,930.27	\$ -	\$ -	\$ -	\$ 349,930.27						
Cash in State Treasury	7,627,300.24	226,546.79	2,741.00	148,621.94	373.97	8,005,583.94						
Securities Lending Collateral	71,349,848.40	-	-	-	-	71,349,848.40						
Restricted:												
Cash and Cash Equivalents												
Cash Equivalents	265,596,630.32	-	-	-	-	265,596,630.32						
Receivables from:												
Investment Trades	193,796,831.69	-	-	-	-	193,796,831.69						
Tuition Contracts Receivable	23,085,933.00	27,093,718.13	-	-	-	50,179,651.13						
Interest and Dividends	3,445,620.27	200.17	-	34.93	89.23	3,445,944.60						
Other	-	71,379.39	-	-	-	71,379.39						
Total Current Assets	564,902,163.92	27,741,774.75	2,741.00	148,656.87	463.20	592,795,799.74						
Non-Current Assets:												
Restricted:												
Tuition Contracts Receivable	57,286,654.00	95,882,933.00	-	-	-	153,169,587.00						
Investments	1,074,242,662.60	258,239,346.20	-	-	-	1,332,482,008.80						
Capital Assets:												
Depreciable:												
Computer Software-Intangible	2,199,883.46	-	-	-	-	2,199,883.46						
Less Accum. Amortization	(2,199,883.46)	-	-	-	-	(2,199,883.46)						
Furniture and Equipment	84,800.64	-	-	-	-	84,800.64						
Less Accum. Depreciation	(81,664.04)	-	-	-	-	(81,664.04)						
Total Non-Current Assets	1,131,532,453.20	354,122,279.20	-	-	-	1,485,654,732.40						
Total Assets	\$ 1,696,434,617.12	\$ 381,864,053.95	\$ 2,741.00	\$ 148,656.87	\$ 463.20	\$ 2,078,450,532.14						

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

(Continued)

**Texas Prepaid Higher Education Tuition Board**  
**Exhibit F-1 — Combining Statement of Net Assets — Enterprise Funds (Continued)**  
**August 31, 2011**

	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)
<b>LIABILITIES</b>						
Current Liabilities:						
Payables from:						
Accounts	\$ 463,345.45	\$ 14,534.16	\$ -	\$ -	\$ 2,888.26	\$ 480,767.87
Investment Trades	210,239,269.82	222,202.29	-	-	-	210,461,472.11
Contract Benefits and Expenses	226,998,881.00	11,590,452.00	-	-	-	238,589,333.00
Due To Other Agencies	72,394.89	14,886.68	-	-	-	87,281.57
Deferred Revenues	-	254,317.34	-	-	-	254,317.34
Obligations Under Securities Lending	71,349,848.40	-	-	-	-	71,349,848.40
Employees' Compensable Leave	47,266.17	6,985.38	-	-	-	54,251.55
Total Current Liabilities	509,171,005.73	12,103,377.85	-	-	2,888.26	521,277,271.84
Non-Current Liabilities:						
Contract Benefits and Expenses	1,828,663,350.00	346,857,870.00	-	-	-	2,175,521,220.00
Employees' Compensable Leave	40,236.63	7,402.79	-	-	-	47,639.42
Total Non-Current Liabilities	1,828,703,586.63	346,865,272.79	-	-	-	2,175,568,859.42
Total Liabilities	2,337,874,592.36	358,968,650.64	-	-	2,888.26	2,696,846,131.26
<b>NET ASSETS (DEFICIT)</b>						
Invested in Capital Assets, Net of Related Debt Unrestricted	3,136.60 (641,443,111.84)	- 22,895,403.31	- 2,741.00	- 148,656.87	- (2,425.06)	3,136.60 (618,398,735.72)
Total Net Assets (Deficit)	\$ (641,439,975.24)	\$ 22,895,403.31	\$ 2,741.00	\$ 148,656.87	\$ (2,425.06)	\$(618,395,599.12)

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

**Texas Prepaid Higher Education Tuition Board  
Exhibit II — Combined Statement of Revenues, Expenses and  
Changes in Net Assets — Proprietary Funds  
For the Fiscal Year Ended August 31, 2011**

	<u>Total Enterprise Funds (Exhibit F-2)</u>
<b>OPERATING REVENUES</b>	
Sales of Goods and Services:	
Tuition Contracts	\$ 16,975,787.38
Changes in Actuarial Future Contract Benefits	46,030,962.65
Licenses, Fees, and Permits	978,517.32
Other Revenues	571,133.48
Total Operating Revenues	<u>64,556,400.83</u>
<b>OPERATING EXPENSES</b>	
Tuition Contract Benefits and Expenses	140,128,443.65
Changes in Future Contracts Collections	78,084,976.00
Salaries and Wages	916,769.67
Payroll Related Costs	219,617.27
Professional Fees and Services	3,643,384.23
Travel	16,841.33
Materials and Supplies	99,555.66
Communication and Utilities	46,496.31
Repairs and Maintenance	293,961.85
Rentals and Leases	26,257.27
Printing and Reproduction	25,472.14
Depreciation and Amortization	3,136.20
Other Operating Expenses (Includes Earnings Paid on Refunds of \$10,848,201.75)	10,974,096.43
Total Operating Expenses	<u>234,479,008.01</u>
Operating Loss	<u>(169,922,607.18)</u>
<b>NONOPERATING REVENUES (EXPENSES) *</b>	
Interest and Dividend Income	30,885,260.81
Loan Premiums/Fees on Security Lending	(1,122,113.41)
Investing Activities Expenses	(735,102.45)
Borrower Rebates and Agent Fees	(70,489.27)
Net Increase in Fair Value of Investments	109,917,211.98
Total Nonoperating Revenues, Net	<u>138,874,767.66</u>
Loss Before Other Revenues, Expenses, Gains/Losses, and Transfers	<u>(31,047,839.52)</u>
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES, AND TRANSFERS</b>	
Transfer In	200,085.40
Transfer Out	<u>(200,085.40)</u>
Total Other Revenues, Expenses, Gains/Losses, and Transfers	<u>-</u>
Change in Net Assets	(31,047,839.52)
Net Deficit, September 1, 2010	<u>(587,347,759.60)</u>
Net Deficit, August 31, 2011	<u>\$ (618,395,599.12)</u>

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

**Texas Prepaid Higher Education Tuition Board  
Exhibit F-2 — Combining Statement of Revenues, Expenses and Changes in Net Assets — Enterprise Funds  
For the Fiscal Year Ended August 31, 2011**

	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)
<b>OPERATING REVENUES</b>						
Sales of Goods and Services:						
Tuition Contracts	\$ 16,975,787.38	-	-	-	-	\$ 16,975,787.38
Changes in Actuarial Future Contract Benefits	(25,565,127.43)	71,596,090.08	-	-	-	46,030,962.65
Licenses, Fees, and Permits	643,839.12	334,678.20	-	-	-	978,517.32
Other Revenues	103,439.87	354,771.18	-	148,621.94	(35,699.51)	571,133.48
Total Operating Revenues	(7,842,061.06)	72,285,539.46	-	148,621.94	(35,699.51)	64,556,400.83
<b>OPERATING EXPENSES</b>						
Tuition Contract Benefits and Expenses	140,128,443.65	-	-	-	-	140,128,443.65
Changes in Future Contracts Collections	(1,496,011.00)	79,580,987.00	-	-	-	78,084,976.00
Salaries and Wages	753,036.86	163,732.81	-	-	-	916,769.67
Payroll Related Costs	181,885.32	37,731.95	-	-	-	219,617.27
Professional Fees and Services	2,804,668.70	830,731.21	-	-	7,984.32	3,643,384.23
Travel	3,678.11	13,163.22	-	-	-	16,841.33
Materials and Supplies	78,791.04	20,764.62	-	-	-	99,555.66
Communication and Utilities	44,866.57	1,629.74	-	-	-	46,496.31
Repairs and Maintenance	293,705.85	256.00	-	-	-	293,961.85
Rentals and Leases	18,064.02	8,193.25	-	-	-	26,257.27
Printing and Reproduction	22,370.29	3,101.85	-	-	-	25,472.14
Depreciation	3,136.20	-	-	-	-	3,136.20
Other Operating (Includes Payment of Earnings on Refunds in the amount of \$10,848,201.75)	10,946,857.27	24,982.71	-	-	2,256.45	10,974,096.43
Total Operating Expenses	153,783,492.88	80,685,274.36	-	-	10,240.77	234,479,008.01
Operating (Loss) Income	\$ (161,625,553.94)	\$ (8,399,734.90)	\$ -	\$ 148,621.94	\$ (45,940.28)	\$ (169,922,607.18)

(Continued)

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

**Texas Prepaid Higher Education Tuition Board**  
**Exhibit F-2 — Combining Statement of Revenues, Expenses and Changes in Net Assets — Enterprise Funds (Continued)**  
**For the Fiscal Year Ended August 31, 2011**

	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/ the Promise Foundation (Fund 0878)* U/F (6892)	Texas Save and Match Program/ the Promise Foundation (Fund 0842)* U/F (5892)	Totals (Exhibit II)
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Interest and Dividend Income	\$ 30,446,647.95	\$ 437,712.31	\$ -	\$ 34.93	\$ 865.62	\$ 30,885,260.81
Loan Premiums/Fees on Security Lending	(1,122,113.41)	-	-	-	-	(1,122,113.41)
Investing Activities Expenses	(7,164.81)	(727,937.64)	-	-	-	(735,102.45)
Borrower Rebates and Agent Fees	(70,489.27)	-	-	-	-	(70,489.27)
Net Increase in Fair Value of Investments	90,954,286.11	18,962,925.87	-	-	-	109,917,211.98
Total Other Nonoperating Revenues (Expenses)	120,201,166.57	18,672,700.54	-	34.93	865.62	138,874,767.66
(Loss) Income Before Other Revenues, Expenses, Gains/Losses, and Transfers	(41,424,387.37)	10,272,965.64	-	148,656.87	(45,074.66)	(31,047,839.52)
<b>OTHER REVENUES, EXPENSES, GAINS/LOSSES, AND TRANSFERS</b>						
Transfer In	200,085.40	-	-	-	-	200,085.40
Transfer Out	-	(200,085.40)	-	-	-	(200,085.40)
Total Other Revenues, Expenses, Gains/Losses, and Transfers	200,085.40	(200,085.40)	-	-	-	-
Change in Net Assets	(41,224,301.97)	10,072,880.24	-	148,656.87	(45,074.66)	(31,047,839.52)
Net (Deficit) Assets, September 1, 2010	(600,215,673.27)	12,822,523.07	2,741.00	-	42,649.60	(587,347,759.60)
Net (Deficit) Assets, August 31, 2011	\$ (641,439,975.24)	\$ 22,895,403.31	\$ 2,741.00	\$ 148,656.87	\$ (2,425.06)	\$ (618,395,599.12)

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



**Texas Prepaid Higher Education Tuition Board**  
**Exhibit III — Combined Statement of Cash Flows — Proprietary Funds**  
**For the Fiscal Year Ended August 31, 2011**

	<b>Total Enterprise Funds (Exhibit F-3)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Proceeds Received from Customers (Net of Refunds)	\$ 89,327,551.87
Earnings Paid on Refunds	(10,848,201.75)
Proceeds from Other Revenues	859,087.98
Payments to Suppliers for Goods and Services	(4,881,471.75)
Payments to Employees for Salaries	(949,816.09)
Payments to Employees for Benefits	(221,467.80)
Payments for Other Expenses (Includes Benefit Payments to Universities and Colleges)	(140,255,004.99)
Net Cash Used in Operating Activities	<u>(66,969,322.53)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Net Cash Provided by Noncapital Financing Activities	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Net Cash Provided by Capital and Related Financing Activities	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	4,576,815,434.68
Proceeds from Interest Income	31,925,168.41
Payments to Acquire Investments	(4,506,185,458.08)
Net Cash Provided by Investing Activities	<u>102,555,145.01</u>
Net Increase in Cash and Cash Equivalents	35,585,822.48
Cash and Cash Equivalents, September 1, 2010	<u>238,366,322.05</u>
Cash and Cash Equivalents, August 31, 2011	<u><u>\$ 273,952,144.53</u></u>
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>	
Operating Loss	\$ (169,922,607.18)
Adjustments to Reconcile Operating Loss to Net Cash Used In Operating Activities	
Amortization and Depreciation	3,136.20
Changes in Assets and Liabilities:	
Decrease in Tuition Contracts Receivables	23,845,883.29
Decrease in Other Receivable	154,373.89
Decrease in Interest Receivable	3,538.83
Increase in Benefits and Expenses Payable	79,879,446.00
Decrease in Accounts Payable	(710,315.78)
Decrease in Deferred Revenue	(46,437.85)
Decrease in Funds Held for Others	(26,246.44)
Decrease in Other Liabilities	(75,000.00)
Decrease in Due to Other Agencies	(52,069.87)
Decrease in Compensated Absence Liabilities	(23,023.62)
Total Adjustments	<u>102,953,284.65</u>
Net Cash Used In Operating Activities	<u><u>\$ (66,969,322.53)</u></u>
<b>NON-CASH TRANSACTIONS</b>	
Net Change in Fair Value of Investments	<u><u>\$109,917,211.98</u></u>

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

**Texas Prepaid Higher Education Tuition Board  
Exhibit F-3 — Combining Statement of Cash Flows — Enterprise Funds  
For the Fiscal Year Ended August 31, 2011**

	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 III)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Proceeds Received From Customers (Net of Refunds)	\$ 17,694,626.50	\$ 71,632,925.37	\$ -	\$ -	\$ -	\$ 89,327,551.87
Earnings Paid on Refunds	(10,848,201.75)	-	-	-	-	(10,848,201.75)
Proceeds from Other Revenues	435,309.21	310,856.34	-	-	(35,699.51)	859,087.98
Payments to Suppliers for Goods and Services	(3,994,126.52)	(879,360.91)	-	148,621.94	(7,984.32)	(4,881,471.75)
Payments to Employees for Salaries	(786,878.76)	(162,937.33)	-	-	-	(949,816.09)
Payments to Employees for Benefits	(183,537.26)	(37,930.54)	-	-	-	(221,467.80)
Payments for Other Expenses (Includes Benefit Payments)	(140,214,386.71)	(40,510.77)	-	-	(107.51)	(140,255,004.99)
Net Cash (Used in) Provided by Operating Activities	(137,897,195.29)	70,823,042.16	-	148,621.94	(43,791.34)	(66,969,322.53)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Net Cash Provided by Noncapital Financing Activities	-	-	-	-	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Net Cash Provided by Capital and Related Financing Activities	-	-	-	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from Sales of Investments	4,453,929,670.58	122,885,764.10	-	-	-	4,576,815,434.68
Proceeds from Interest Income	31,486,417.66	437,937.98	-	-	812.77	31,925,168.41
Payments to Acquire Investments	(4,311,316,810.57)	(194,868,647.51)	-	-	-	(4,506,185,458.08)
Net Cash Provided by (Used In) Investing Activities	174,099,277.67	(71,544,945.43)	-	-	812.77	102,555,145.01
Net Increase (Decrease) in Cash and Cash Equivalents	36,202,082.38	(721,903.27)	-	148,621.94	(42,978.57)	35,585,822.48
Cash and Cash Equivalents, September 1, 2010	237,021,848.18	1,298,380.33	2,741.00	-	43,352.54	238,366,322.05
Cash and Cash Equivalents, August 31, 2011	\$ 273,223,930.56	\$ 576,477.06	\$ 2,741.00	\$ 148,621.94	\$ 373.97	\$273,952,144.53

(Continued)

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

**Texas Prepaid Higher Education Tuition Board  
Exhibit F-3 — Combining Statement of Cash Flows — Enterprise Funds (Continued)  
For the Fiscal Year Ended August 31, 2011**

	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)
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating Income (Loss)	\$ (161,625,553.94)	\$ (8,399,734.90)	\$ -	\$ 148,621.94	\$ (45,940.28)	\$ (169,922,607.18)
Adjustments to Reconcile Operating Income to Net Cash (Used In) Provided by Operating Activities:						
Amortization and Depreciation	3,136.20	-	-	-	-	3,136.20
Changes in Assets and Liabilities:						
(Increase) Decrease in Tuition Contracts Receivables	25,603,518.00	(1,757,634.71)	-	-	-	23,845,883.29
(Increase) Decrease in Other Receivable	411,529.08	(257,155.19)	-	-	-	154,373.89
Decrease in Interest Receivable	3,538.83	-	-	-	-	3,538.83
Increase (Decrease) in Benefits and Expenses Payable	(1,496,011.00)	81,375,457.00	-	-	-	79,879,446.00
Increase (Decrease) in Accounts Payable	(695,665.30)	(16,799.42)	-	-	2,148.94	(710,315.78)
Decrease in Deferred Revenue	-	(46,437.85)	-	-	-	(46,437.85)
Decrease in Funds Held for Others	(26,246.44)	-	-	-	-	(26,246.44)
Decrease in Other Liabilities	-	(75,000.00)	-	-	-	(75,000.00)
Decrease in Due to Other Agencies	(50,196.82)	(1,873.05)	-	-	-	(52,069.87)
Increase (Decrease) in Compensated Absence Liabilities	(25,243.90)	2,220.28	-	-	-	(23,023.62)
Total Adjustments	23,728,358.65	79,222,777.06	-	-	2,148.94	102,953,284.65
Net Cash (Used In) Provided by Operating Activities	\$ (137,897,195.29)	\$ 70,823,042.16	\$ -	\$ 148,621.94	\$ (43,791.34)	\$ (66,969,322.53)
<b>NON CASH TRANSACTIONS</b>						
Net Change in Fair Value of Investments	\$ 90,954,286.11	\$ 18,962,925.87	\$ -	\$ -	\$ -	\$ 109,917,211.98

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

**Texas Prepaid Higher Education Tuition Board**  
**Exhibit IV — Statement of Fiduciary Net Assets — Private Purpose Trust Funds**  
**August 31, 2011**

	<b>College Savings Plans</b>	<b>Savings Trust Account</b>	
	<b>Private Purpose Trust Funds (Fund 0892)</b>	<b>Settlement Fund Agency Funds (Fund 0999)</b>	
	<b>U/F (2892 &amp; 3892)</b>	<b>U/F (9999)</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and Cash Equivalents:			
Cash in Bank	\$ 1,892,205.34	\$ -	\$ 1,892,205.34
Cash in State Treasury	340,075.58	-	340,075.58
Investments:			
Other Investments	302,035,308.88	-	302,035,308.88
Repurchase Agreements	-	961,483.87	961,483.87
Receivables from:			
Interest and Dividends	23,127.12	-	23,127.12
Investment Trades	709,772.79	-	709,772.79
Other	96,385.65	-	96,385.65
Total Assets	<u>305,096,875.36</u>	<u>961,483.87</u>	<u>306,058,359.23</u>
<b>LIABILITIES</b>			
Payables from:			
Accounts	110,062.78	-	110,062.78
Investment Trades	565,005.05	-	565,005.05
Funds Held for Others	-	961,483.87	961,483.87
Deferred Revenues	417,316.55	-	417,316.55
Due to Other Agencies	874.18	-	874.18
Other Liabilities	3,767.69	-	3,767.69
Total Liabilities	<u>1,097,026.25</u>	<u>961,483.87</u>	<u>2,058,510.12</u>
<b>NET ASSETS</b>			
Held in Trust For:			
College Savings Plan Contributors	<u>303,999,849.11</u>	<u>-</u>	<u>303,999,849.11</u>
Total Net Assets	<u>\$ 303,999,849.11</u>	<u>\$ -</u>	<u>\$ 303,999,849.11</u>

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

**Texas Prepaid Higher Education Tuition Board**  
**Exhibit V — Statement of Changes in Fiduciary Net Assets — Private Purpose Trust Funds**  
**For the Fiscal Year Ended August 31, 2011**

	<u>College Savings Plans Private Purpose Trust (Fund 0892) U/F (2892 &amp; 3892)</u>
<b>ADDITIONS</b>	
Contributions	
Account Holder Contributions	\$ 125,435,414.70
Total Contributions	<u>125,435,414.70</u>
Investment Income	
From Investing Activities:	
Net Appreciation in Fair Value of Investments	29,746,969.08
Interest and Investment Income	1,118,678.18
Total Investing Income	<u>30,865,647.26</u>
Less Investing Activities Expense	1,549,148.69
Net Income from Investing Activities	<u>29,316,498.57</u>
Total Net Investment Income	<u>29,316,498.57</u>
Other Additions	
Fees-Administrative Services	95,940.30
Total Other Additions	<u>95,940.30</u>
Total Additions	<u>154,847,853.57</u>
<b>DEDUCTIONS</b>	
Distributions Made from Accounts	100,324,567.85
Salaries and Wages	24,217.30
Professional Fees and Services	72,609.61
Other Expenses	1,915.25
Total Deductions	<u>100,423,310.01</u>
Increase In Net Assets	54,424,543.56
Net Assets, September 1, 2010	<u>249,575,305.55</u>
Net Assets, August 31, 2011	<u>\$ 303,999,849.11</u>

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

**Texas Prepaid Higher Education Tuition Board  
Exhibit J-1 — Combined Statement of Changes in Assets and Liabilities - Agency Funds  
For the Fiscal Year Ended August 31, 2011**

	Beginning Balance 9/1/2010	Additions	Deletions	AGENCY FUNDS Ending Balance 8/31/2011 Settlement Trust Account (Fund 0999) U/F (9999)
<b>ASSETS</b>				
State Investments-Repurchase Agreements	\$ 2,701,261.23	\$ -	\$ 1,739,777.36	\$ 961,483.87
<b>TOTAL ASSETS</b>				<u>\$ 961,483.87</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 2,701,261.23	\$ -	\$ 1,739,777.36	\$ 961,483.87
<b>TOTAL LIABILITIES</b>				<u>\$ 961,483.87</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

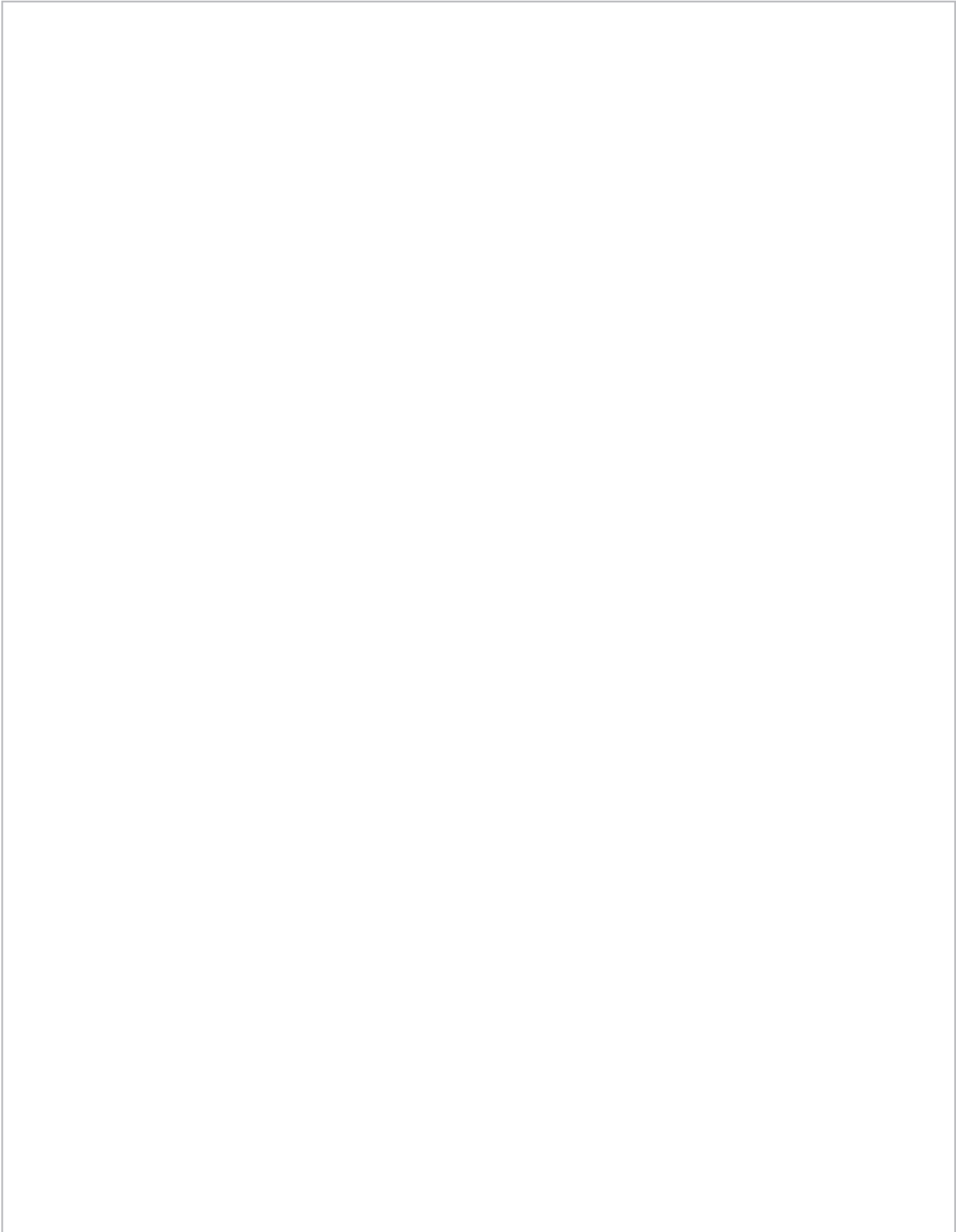


TEXAS TUITION<sup>®</sup>  
PROMISE FUND  
A Prepaid Plan as Smart as You Are



**Texas Tomorrow Fund**  
Texas Prepaid Scholarship Foundation







**Texas Prepaid Higher Education Tuition Board (315)  
Notes to the Financial Statements  
Fiscal Year Ended August 31, 2011**

**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” or “Texas State”) and its financial records comply with state statutes and regulations. This includes compliance with the Texas State Comptroller of Public Accounts’ Reporting Requirements of State Agencies.

The Board is chaired by the Texas State 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 unique prepaid guaranteed tuition program that allowed Texas families to lock in the cost of tomorrow’s college tuition and required fees at the time their contracts were purchased. Plan assets totaled approximately \$1.7 billion at August 31, 2011. Approximately 158,400 prepaid tuition contracts were sold; 89,182 of those accounts were active at August 31, 2011. 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 or 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.

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 costs of administering the college savings plans. **Assets in the plan are subject to investment risk and are not guaranteed by the State.** There were approximately 43,048 accounts in the college savings plans at August 31, 2011; plan assets totaled \$304 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 public colleges and universities and the transfer value can be used for payment to Texas private or out-of-state schools.

**Texas Prepaid Higher Education Tuition Board (315)  
Notes to the Financial Statements  
Fiscal Year Ended August 31, 2011**

At August 31, 2011, the Texas Tuition Promise Fund had sold approximately 22,500 contracts and fund assets totaled \$382 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 or out-of-state schools are subject to investment risk.**

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 State 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, that 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, \$12.34 million was transferred to the State to be deposited in a trust account for distribution to the affected account owners. As of August 31, 2011, \$961 thousand had not been distributed to affected account owners and was invested in repurchase agreements with the Texas Treasury Safekeeping Trust Co.

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

**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.

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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 \$12.34 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.

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

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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 for both the prepaid tuition and college savings programs and totaled \$5,957,807 for the fiscal year ended August 31, 2011.

**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, 2011, were \$7,627,300.24 for the *Texas Guaranteed Tuition Plan*, \$226,546.79 for the *Texas Tuition Promise Fund*, \$2,741.00 for the *Texas Prepaid Scholarship Foundation*, \$148,995.91 for the *Texas Match the Promise Foundation*, and \$340,075.58 for the college savings plans, all of which were fully collateralized or insured. A total of \$265,596,630.32 was invested in the *Texas Guaranteed Tuition Plan's* investment custodian's short-term investment funds and U. S. Treasury Securities at August 31, 2011. A total of \$961,483.87 was invested in the Texas Treasury Safekeeping Trust Company for the *Settlement Trust Account* at August 31, 2011.

***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*. Securities lent are reported as assets on the balance sheet. The costs of securities lending transactions are reported as expenses in the operating statement. These costs are reported at gross.

***Interest and Dividends Receivables***

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.

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***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.

***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.

***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.

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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 payment. 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, 2011, is presented below:

	PRIMARY GOVERNMENT							
	Balance 8/31/2010	Adjustments	Reclassifications			Additions	Deletions	Balance 8/31/2011
			Completed CIP	Incr-Int'agy Transfer	Dec-Int'agy Transfer			
<b>BUSINESS-TYPE ACTIVITIES</b>								
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	(78,527.84)	-	-	-	-	(3,136.20)	-	(81,664.04)
Computer Software-Intangible	(2,199,883.46)	-	-	-	-	-	-	(2,199,883.46)
Depreciable Assets, Net	<u>6,272.80</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,136.20)</u>	<u>-</u>	<u>3,136.60</u>
Business-type Activities								
Capital Assets, Net	<u>\$ 6,272.80</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,136.20)</u>	<u>\$ -</u>	<u>\$ 3,136.60</u>

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**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.

<i>Business-Type Activities</i>			
	<b>Proprietary Funds</b>	<b>Private Purpose Trust</b>	<b>Total</b>
Cash in Bank (equal to Carrying Value)	\$ 349,930.27	\$ 1,892,205.34	\$ 2,242,135.61
Cash in Bank per Annual Financial Report	349,930.27	1,892,205.34	2,242,135.61
Current Assets Restricted Cash in Bank	349,930.27	1,892,205.34	2,242,135.61
Cash in Bank per Annual Financial Report, as Above	349,930.27	1,892,205.34	2,242,135.61

*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, 2011, the Agency’s bank balances that were exposed to custodial credit risk are shown below:

<b>Fund Type</b>	<b>GAAP Fund</b>	<b>Uninsured and Uncollateralized</b>	<b>Uninsured and Collateralized with Securities Held by the Pledging Financial Institution</b>	<b>Uninsured and Collateralized with Securities Held by the Pledging Financial Institution’s Trust Department or Agent but Not In the State’s Name</b>
05	0892	\$ -	\$ -	\$ -
05	0842	349,930.27	-	-
20	0892	1,892,205.34	-	-
Totals		\$ 2,242,135.61	\$ -	\$ -



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*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, 2011, is as follows:

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



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**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
<b>BUSINESS-TYPE ACTIVITIES-Texas Guaranteed Tuition Plan (TGTP) (Fund 0892)</b>			
U.S. Government:			
U.S. Treasury Securities	\$ 46,467,568.00	\$ 46,467,568.00	3.29%
U.S. Government Agency Obligations	184,457,649.25	184,457,649.25	13.07%
Corporate Obligations	249,922,452.79	249,922,452.79	17.71%
Corporate Asset and Mortgage Backed Securities	36,210,470.24	36,210,470.24	2.57%
Equity	305,402,794.74	305,402,794.74	21.64%
International Obligations (Govt and Corp)	4,860,652.03	4,860,652.03	0.34%
International Equity	246,921,075.55	246,921,075.55	17.50%
Other Commingled Funds – Cash Equivalents at International Sub-custodian Banks	-	-	0.00%
Other Commingled Funds – Short Term Investment Fund	265,596,630.32	265,596,630.32	18.82%
Other Commingled Funds – Northern Trust Co. S & P 500 Fund	-	-	0.00%
Securities Lending Collateral Investment Pool	71,349,848.40	71,349,848.40	5.06%
Totals	<u>\$ 1,411,189,141.32</u>	<u>\$ 1,411,189,141.32</u>	<u>100.00%</u>
Business Type Activities TGTP Investments Consist of the Following:			
Proprietary Funds Current Invested Security Lending Collateral		\$ 71,349,848.40	
Proprietary Funds Current Restricted Cash Equivalents		265,596,630.32	
Proprietary Funds Non-Current Restricted Investments		<u>1,074,242,662.60</u>	
Total, as above		<u>\$ 1,411,189,141.32</u>	
	Carrying Value	Fair Value	% of Total
<b>BUSINESS-TYPE ACTIVITIES-Texas Tuition Promise Fund* (Fund 0842)</b>			
International Equity Securities-Backed Index Fund	\$ 24,102,788.56	\$ 24,102,788.56	9.33%
International Equity Securities-Backed Growth Fund	24,975,510.82	24,975,510.82	9.67%
Domestic Equity Securities-Backed Indexed Funds	69,038,491.55	69,038,491.55	26.73%
Domestic Equity Securities-Backed Value Funds	23,998,848.99	23,998,848.99	9.29%
Indexed Corporate Bond Funds	116,123,706.28	116,123,706.28	44.97%
Totals	<u>\$ 258,239,346.20</u>	<u>\$ 258,239,346.20</u>	<u>100.00%</u>
<b>FIDUCIARY FUNDS-College Savings Plans* (Fund 2892)</b>			
Other Commingled Funds – Mutual Fund Investments	\$ 302,035,308.88	\$ 302,035,308.88	100.00%
Totals	<u>\$ 302,035,308.88</u>	<u>\$ 302,035,308.88</u>	<u>100.00%</u>
<b>FIDUCIARY FUNDS-Savings Trust Account Settlement Fund (Fund 0999)</b>			
Non-current Restricted Short-Term Investments-Repurchase Agreements	\$ 961,483.87	\$ 961,483.87	100.00%
Totals	<u>\$ 961,483.87</u>	<u>\$ 961,483.87</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, 2011, none of the *Texas Guaranteed Tuition Plan's* investments were exposed to custodial credit risk.

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*Foreign currency risk* for investments is the risk that changes in exchange rates will adversely affect the investment. The Board has enacted polices 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, 2011, is as follows:

Fund Type	GAAP Fund	Foreign Currency	International Obligation (Govt and Corp)	International Equity	Other Commingled Funds (Cash Equivalents at International Sub-custodian Banks)
05	0892	None	\$ -	\$ -	\$ -
Total Securities Subject to Foreign Currency Risk			-	-	-
International Securities Denominated in U.S. Dollars			4,860,652.03	246,921,075.55	-
Total International Securities			<u>\$ 4,860,652.03</u>	<u>\$ 246,921,075.55</u>	<u>\$ -</u>

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. During FY 2011, the Board took additional steps to reduce its credit risk by eliminating its allocation to high yield bonds. The high yield allocation was replaced with an investment in bank loans. Although bank loans also have credit ratings below investment grade, they offer additional protection relative to high yield debt due to their senior position in the capital structure.

The *Texas Tuition Promise Fund's* investment pool had the following credit risk structure as of August 31, 2011, based on the Nationally Recognized Statistical Rating Organization (NRSRO):

	<b>Proportion %</b>
Dreyfus Bond Market Index Fund:	
AAA	77.67%
AA	5.77%
A	9.57%
BBB	<u>6.99%</u>
Total	<u>100.00%</u>

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The *Texas Guaranteed Tuition Plan* had the following credit risk structure as of August 31, 2011, based on Standard & Poor's and Moody's ratings:

<b>Standard &amp; Poor's</b>						
<b>Investment Grade Rating</b>	<b>Total Debt Securities</b>	<b>U.S. Treasury Securities</b>	<b>U.S. Government Agency Obligations</b>	<b>Corporate Obligations</b>	<b>Corporate Asset and Mortgage Backed Securities</b>	<b>International Obligations (Govt and Corp)</b>
AAA	\$ 243,812,182.28	\$ 46,467,568.00	\$ 178,532,933.53	\$ -	\$ 18,811,680.75	\$ -
AA	10,124,169.20	-	4,209,236.60	1,597,278.00	2,563,217.44	1,754,437.16
A	41,337,572.86	-	665,288.00	32,612,770.44	6,911,805.35	1,147,709.07
BBB	43,351,514.73	-	-	43,051,133.93	-	300,380.80
BB	43,702,619.14	-	-	42,044,494.14	-	1,658,125.00
B	46,772,243.81	-	-	46,772,243.81	-	-
CCC	-	-	-	-	-	-
CC	-	-	-	-	-	-
C	-	-	-	-	-	-
NR (a)	92,818,490.29	-	1,050,191.12	83,844,532.47	7,923,766.70	-
<b>Totals</b>	<b>\$ 521,918,792.31</b>	<b>\$ 46,467,568.00</b>	<b>\$ 184,457,649.25</b>	<b>\$ 249,922,452.79</b>	<b>\$ 36,210,470.24</b>	<b>\$ 4,860,652.03</b>

Note a: Not rated securities.

<b>Moody's</b>						
<b>Investment Grade Rating</b>	<b>Total Debt Securities</b>	<b>U.S. Treasury Securities</b>	<b>U.S. Government Agency Obligations</b>	<b>Corporate Obligations</b>	<b>Corporate Asset and Mortgage Backed Securities</b>	<b>International Obligations (Govt and Corp)</b>
Aaa	\$ 238,577,465.28	\$ 46,467,568.00	\$ 178,082,291.23	\$ -	\$ 14,027,606.05	\$ -
Aa	8,981,912.77	-	3,451,287.90	2,443,546.32	1,939,369.48	1,147,709.07
A	32,466,172.32	-	665,288.00	28,668,277.76	1,378,169.40	1,754,437.16
Baa	39,048,387.98	-	-	38,748,007.18	-	300,380.80
Ba	57,975,524.75	-	-	57,975,524.75	-	-
B	45,953,527.64	-	-	45,953,527.64	-	-
Caa	2,742,245.13	-	-	2,742,245.13	-	-
Ca	-	-	-	-	-	-
C	-	-	-	-	-	-
NR (a)	96,173,556.44	-	2,258,782.12	73,391,324.01	18,865,325.31	1,658,125.00
<b>Totals</b>	<b>\$ 521,918,792.31</b>	<b>\$ 46,467,568.00</b>	<b>\$ 184,457,649.25</b>	<b>\$ 249,922,452.79</b>	<b>\$ 36,210,470.24</b>	<b>\$ 4,860,652.03</b>

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, 2011, 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.

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The Agency’s interest rate risk at August 31, 2011, is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
<b>Texas Guaranteed Tuition Plan:</b>		
U.S. Government:		
U.S. Treasury Securities	\$ 46,467,568.00	1.09
U.S. Government Agency Obligations	184,457,649.25	2.14
Corporate Obligations	249,922,452.79	2.51
Corporate Asset and Mortgage Backed Securities	36,210,470.24	7.33
International Obligations (Govt and Corp)	4,860,652.03	1.87
Total Interest Rate Risk Debt Securities	<u>\$ 521,918,792.31</u>	
Effective Duration for Debt Security Portfolio		2.44
<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
<b>Texas Tuition Promise Fund:</b>		
Dreyfus Bond Market Index Fund	<u>\$ 116,123,706.28</u>	5.10
Total Interest Rate Risk Debt Securities	<u>\$ 116,123,706.28</u>	

The *Texas Guaranteed Tuition Plan* holds \$86,535,877.12 in government mortgage-backed securities and \$1,264,823.76 in government-issued commercial mortgage-backed securities that are both 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 investment 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 \$71,349,848.40 in market value of securities out on loan to broker/dealers at August 31, 2011. 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 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.

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**Notes to the Financial Statements**  
**Fiscal Year Ended August 31, 2011**

All security loans can be terminated on demand by either the lender or borrower. The average term for the Board's overall loans was 51 days as of August 31, 2011. 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 26 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 2011, the Board had gross earnings of \$310,438.65, paid rebates of \$12,667.46 and paid bank fees of \$59,449.25. The net income earned from security lending was \$238,321.94.

**NOTE 4: Short-Term Debt**

(Not Applicable)

**NOTE 5: Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2011, the following changes occurred in liabilities:

Business-Type Activities	Balance 8/31/2010	Additions	Reductions	Balance 8/31/2011	Amounts Due Within One Year
<b>Texas Tomorrow Constitutional Trust Fund/Texas Guaranteed Tuition Plan (Fund 0892):</b>					
Employees' Compensable Leave	\$ 112,746.70	\$ 65,162.39	\$ 90,406.29	\$ 87,502.80	\$ 47,266.17
Liabilities Payable from Restricted Assets –					
Contract Benefits and Expenses	<u>2,057,158,242.00</u>	<u>-</u>	<u>1,496,011.00</u>	<u>2,055,662,231.00</u>	<u>226,998,881.00</u>
Total Business-Type Activities	<u>\$ 2,057,270,988.70</u>	<u>\$ 65,162.39</u>	<u>\$ 1,586,417.29</u>	<u>\$ 2,055,749,733.80</u>	<u>\$ 227,046,147.17</u>
<b>Prepaid Tuition Undergraduate Education Program/Texas Tuition Promise Fund (Fund 0842):</b>					
Employees' Compensable Leave	\$ 12,167.89	\$ 6,985.38	\$ 4,765.10	\$ 14,388.17	\$ 6,985.38
Liabilities Payable from Restricted Assets –					
Contract Benefits and Expenses	<u>277,072,865.00</u>	<u>81,375,457.00</u>	<u>-</u>	<u>358,448,322.00</u>	<u>11,590,452.00</u>
Total Business-Type Activities	<u>\$ 277,085,032.89</u>	<u>\$ 81,382,442.38</u>	<u>\$ 4,765.10</u>	<u>\$ 358,462,710.17</u>	<u>\$ 11,597,437.38</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 liability business-type activities 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 Board recognizes a liability for future benefits payable to the participants in 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

**Texas Prepaid Higher Education Tuition Board (315)  
Notes to the Financial Statements  
Fiscal Year Ended August 31, 2011**

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)

**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, 2011:

<u>Current Portion</u>	<u>Non- Current Interfund Receivable</u>	<u>Non- Current Interfund Payable</u>	<u>Purpose</u>
None	\$ -	\$ -	
<u>Current Portion</u>	<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)	\$ -	\$ 72,394.89	Reimbursement of Salaries, Benefits
Appd Fund 0892 and D23 Fund 2892 (Agency 304, D23 Fund 0001)	-	874.18	Reimbursement of Salaries, Benefits
Appd Fund 0892 and D23 Fund 4892 (Agency 304, D23 Fund 0001)	-	14,886.68	Reimbursement of Salaries, Benefits
Total Due From/To Other Agencies (Exh. I)	<u>\$ -</u>	<u>\$ 88,155.75</u>	

**Texas Prepaid Higher Education Tuition Board (315)  
Notes to the Financial Statements  
Fiscal Year Ended August 31, 2011**

**NOTE 13: Continuance Subject to Review**

Under the Texas Sunset Act, the Agency will be abolished effective September 1, 2019, unless continued in existence by the Legislature as provided by the Act. If abolished, the Agency may continue until September 1, 2020, 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 2011.

**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 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, 2011</u>
<i>APV of Future Benefits Payable</i>	
Future contract benefits and expenses.....	\$2,055,662,231.00
<i>Total Assets Available</i> .....	\$1,414,219,119.00
Total Assets as a Percentage of Tuition	
Benefits Obligation .....	68.8%
Deficit.....	\$641,443,111.84

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

- \* Investment Rates:                      The investment yield assumption ranges are as follows:
- 6.0% for 2011
  - 5.6% for 2012
  - 5.3% for 2013
  - 5.1% for 2014
  - 4.9% for 2015
  - 4.4% for 2016
  - 4.0% for 2017
  - 3.1% for 2018
  - 1.7% for 2019 and after

**Texas Prepaid Higher Education Tuition Board (315)  
Notes to the Financial Statements  
Fiscal Year Ended August 31, 2011**

- \* 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 6.0% for 2011 (6.8% minus 0.80% fees and \$50,000 per year in expenses).

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

**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 State Comptroller of Public Accounts’ Office.

**Related Parties**

The Texas State 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 \$1,136,386.94 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, 2011, the *Texas Guaranteed Tuition Plan* had a projected unfunded deficit of (\$641,443,111.84) compared to a deficit of (\$600,221,946.07) at August 31, 2010. 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, 2011, the *Texas Tuition Promise Fund* had a projected surplus of \$22,895,403.31 compared to a projected surplus of \$12,822,523.07 at August 31, 2010. The surplus is determined by comparing estimated future contract



**Texas Prepaid Higher Education Tuition Board (315)  
Notes to the Financial Statements  
Fiscal Year Ended August 31, 2011**

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, 2011.

**NOTE 24: Disaggregation of Receivable and Payable Balances**

(Not Applicable)

**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**

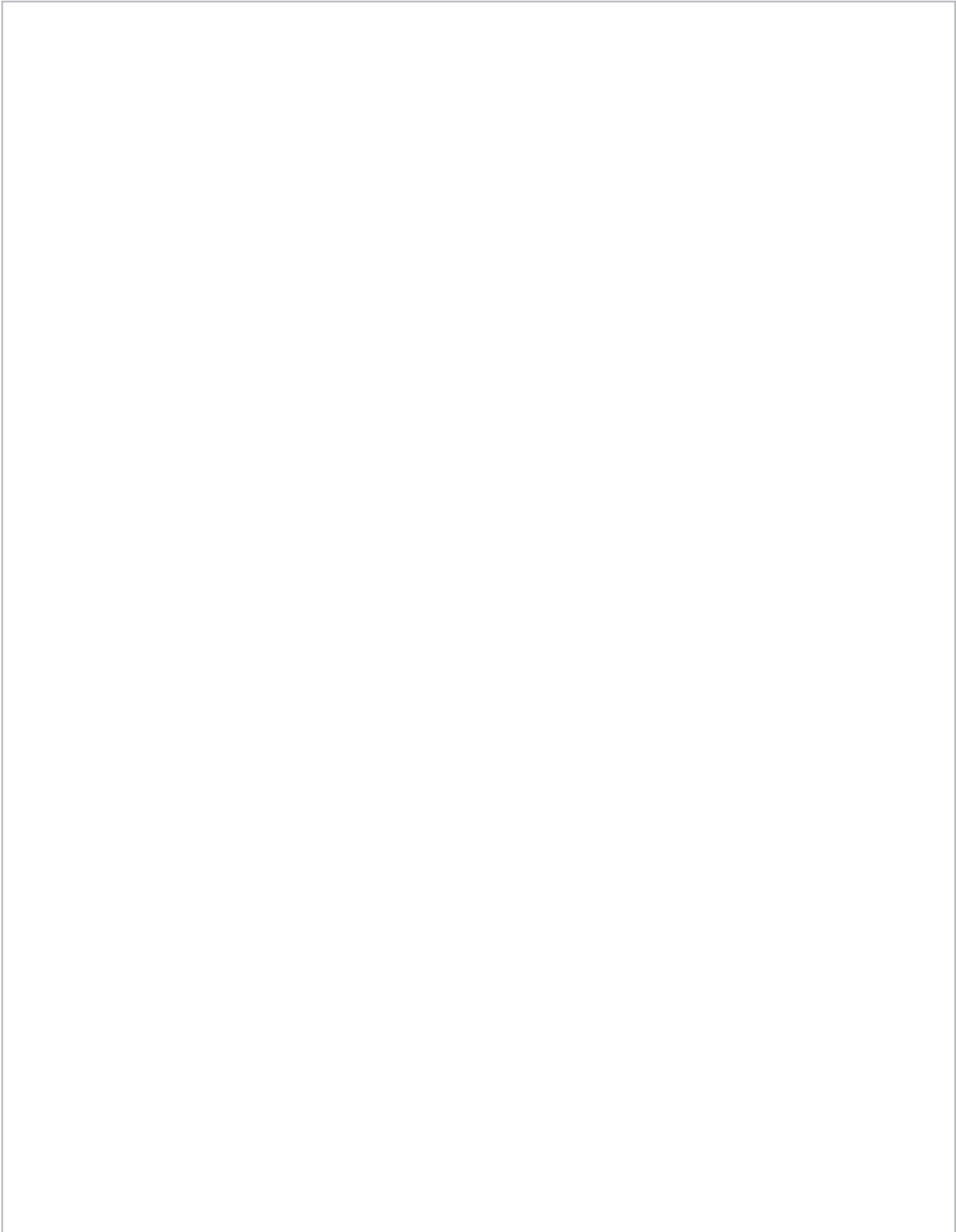
(Not Applicable)

**Schedule 2F – Early Extinguishment and Refunding**

(Not Applicable)

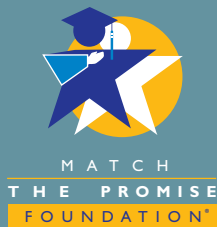
**Schedule 3 – Reconciliation of Cash in State Treasury and Schedule of Cash and Cash Equivalents**

(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



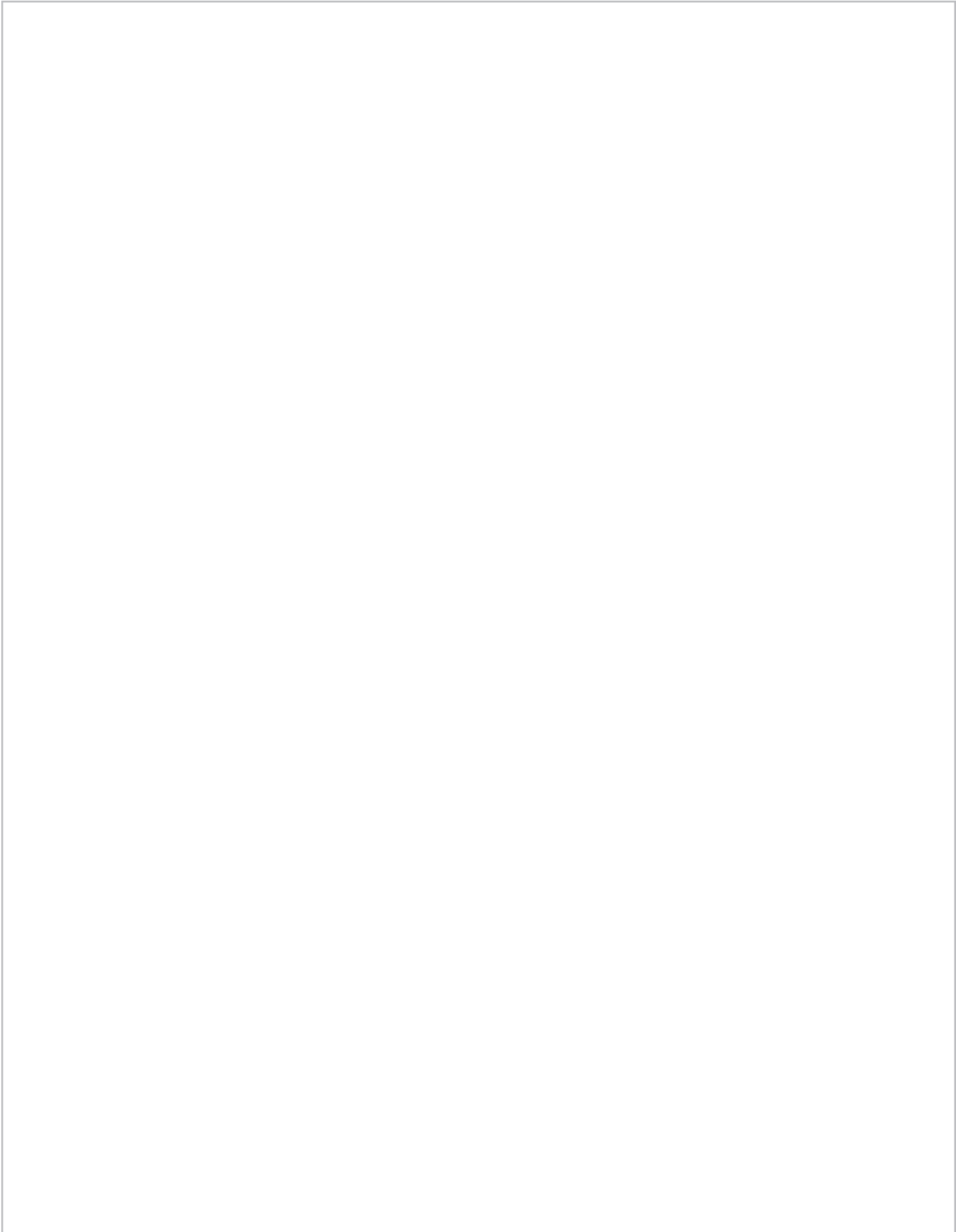
TEXAS TUITION<sup>®</sup>  
PROMISE FUND

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Texas Higher Education Tuition Board (the "Board"), as of and for the fiscal year ended August 31, 2011, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 14, 2011. 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 State Comptroller of Public Accounts' Office, Management, Texas State 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.

Houston, Texas  
December 14, 2011



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



TEXAS GUARANTEED TUITION PLAN





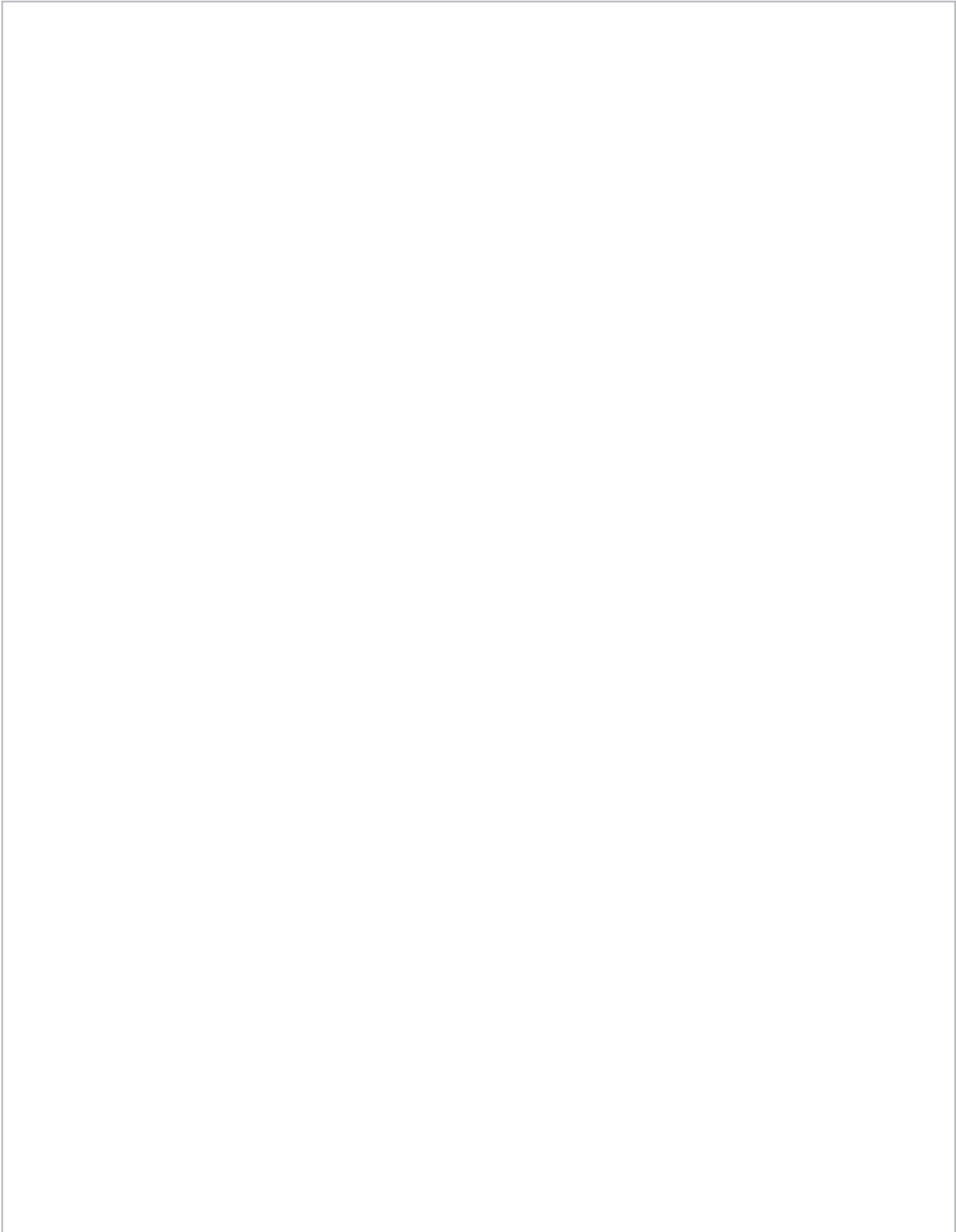
# **TEXAS GUARANTEED TUITION PLAN**

## **ACTUARY’S REPORT ON PROGRAM SOUNDNESS**

**AUGUST 31, 2011**

November 2011

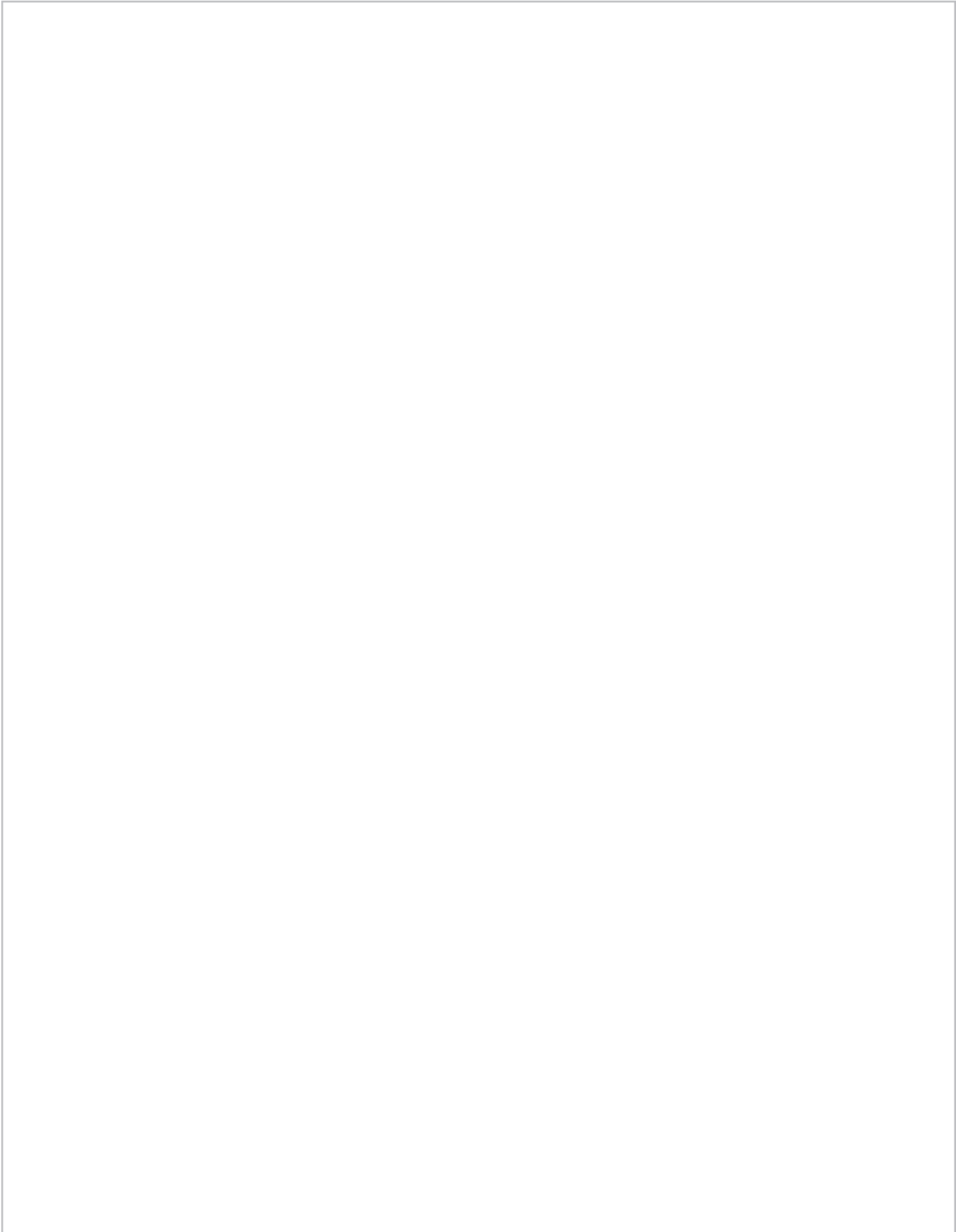
**buck**consultants



**Texas Guaranteed Tuition Plan**  
**Actuary's Report on Program Soundness**  
**August 31, 2011**

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## *Section I – Executive Summary*

### *Adequacy of the Fund*

As of August 31, 2011, the Plan had an unfunded liability of \$641,443,112. 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 \$41,221,166 higher than last year’s unfunded liability of \$600,221,946, and \$2,206,740 more than the expected unfunded liability of \$639,236,372. The three primary sources of change are:

- a) Investment asset performance of 8.35%, much higher than the assumed investment return of 6.50%. The result was an asset gain of \$23.8 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 \$8 million decrease in the unfunded liability.
- c) Changing the investment return assumption resulted in a \$77.5 million loss.

The table below summarizes current balances:

Assets	
Investments	\$ 1,333,846,532
Future Contract Collections	80,372,587
Total Assets	1,414,219,119
Liabilities and Surplus	
Future Contract Benefits and Expenses	\$ 2,055,662,231
Deficit of Assets over Liabilities	(641,443,112)
Total Liabilities and Surplus (Deficit)	1,414,219,119

The program’s funded ratio is 68.8%. This represents a reduction of 2.0% from last year’s ratio of 70.8%

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
- 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 schedule of interest rates found in Section IV. We also assumed the Plan is exempt from federal income tax. 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 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 2011 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 causes 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, Buck Consultants 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.

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

### **Contract Data**

A contract inventory report as of August 31, 2011 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 were for 30 credit hours per academic year. The contracts issued after 1996 were for 32 credit hours. The credit inventory (number of hours) as of August 31, 2011 is summarized in the following table.

<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>
<b>1996 Enrollment</b>							
<i>Sr. College</i>	259,182	198,622	273,356	312,549	-	-	126
<i>Jr. College</i>	3,241	4,147	6,169	12,418	-	-	-
<i>Jr. &amp; Sr. College</i>	17,365	21,682	33,036	63,053	-	-	110
<i>Private College</i>	2,190	2,912	2,829	3,294	-	-	-
<b>Total 1996</b>	281,978	227,363	315,390	391,314	-	-	236
<b>1997 Enrollment</b>							
<i>Sr. College</i>	269,458	156,266	214,484	183,785	-	-	258
<i>Jr. College</i>	2,081	3,078	3,211	4,838	-	-	-
<i>Jr. &amp; Sr. College</i>	11,411	15,441	22,597	23,644	-	-	107
<i>Private College</i>	12,354	3,079	2,113	2,500	-	-	-
<b>Total 1997</b>	295,304	177,864	242,405	214,767	-	-	365
<b>1998 Enrollment</b>							
<i>Sr. College</i>	226,999	68,915	136,714	116,350	63,572	27,180	14,844
<i>Jr. College</i>	1,768	979	1,606	2,369	286	202	64
<i>Jr. &amp; Sr. College</i>	8,601	5,703	11,627	13,503	3,209	1,550	1,184
<i>Private College</i>	5,461	1,634	736	1,392	1,608	664	233
<b>Total 1998</b>	242,829	77,231	150,683	133,614	68,675	29,596	16,325
<b>1999 Enrollment</b>							
<i>Sr. College</i>	169,152	48,425	113,636	109,470	51,324	21,304	11,804
<i>Jr. College</i>	904	526	1,796	1,632	474	-	67
<i>Jr. &amp; Sr. College</i>	7,242	4,548	10,364	11,640	2,215	1,379	344
<i>Private College</i>	3,917	325	1,124	1,293	2,710	357	470
<b>Total 1999</b>	181,215	53,824	126,920	124,035	56,723	23,040	12,685
<b>2000 Enrollment</b>							
<i>Sr. College</i>	216,261	85,791	159,980	149,646	65,378	29,170	20,377
<i>Jr. College</i>	1,656	1,610	1,662	2,149	576	96	321
<i>Jr. &amp; Sr. College</i>	9,253	9,908	16,870	15,599	2,566	2,232	1,217
<i>Private College</i>	3,494	682	1,236	854	2,565	576	384
<b>Total 2000</b>	230,664	97,991	179,748	168,248	71,085	32,074	22,299



<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>
<b>2001 Enrollment</b>							
<i>Sr. College</i>	228,515	103,872	150,686	205,797	97,846	48,674	31,708
<i>Jr. College</i>	2,924	2,110	2,556	7,072	510	674	340
<i>Jr. &amp; Sr. College</i>	17,103	12,425	23,004	36,996	6,590	4,103	4,253
<i>Private College</i>	5,888	1,232	1,086	3,080	2,442	1,633	820
<b>Total 2001</b>	254,430	119,639	177,332	252,945	107,388	55,084	37,121
<b>2002 Enrollment</b>							
<i>Sr. College</i>	286,602	105,441	139,165	182,068	124,126	61,241	36,795
<i>Jr. College</i>	4,363	3,657	3,498	5,223	352	797	622
<i>Jr. &amp; Sr. College</i>	15,498	11,711	23,777	26,230	8,637	6,627	3,882
<i>Private College</i>	7,470	561	1,756	3,090	2,576	1,568	831
<b>Total 2002</b>	313,933	121,370	168,196	216,611	135,691	70,233	42,130
<b>2003 Enrollment</b>							
<i>Sr. College</i>	701,812	117,133	158,888	289,972	237,094	109,378	85,612
<i>Jr. College</i>	9,046	2,854	2,744	6,214	1,478	662	922
<i>Jr. &amp; Sr. College</i>	34,632	13,047	19,948	43,294	13,723	9,749	8,210
<i>Private College</i>	23,214	2,638	1,299	3,674	8,488	1,477	1,509
<b>Total 2003</b>	768,704	135,672	182,879	343,154	260,783	121,266	96,253
<b>Total Enrollment</b>							
<i>Sr. College</i>	2,357,981	884,465	1,346,909	1,549,637	639,340	296,947	201,524
<i>Jr. College</i>	25,983	18,961	23,242	41,915	3,676	2,431	2,336
<i>Jr. &amp; Sr. College</i>	121,105	94,465	161,223	233,959	36,940	25,640	19,307
<i>Private College</i>	63,988	13,063	12,179	19,177	20,389	6,275	4,247
<b>Total Enrollment</b>	2,569,057	1,010,954	1,543,553	1,844,688	700,345	331,293	227,414

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, 2011 is \$1,333,846,532. Asset totals shown below 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, 2011:

Cash in State Treasury	\$7,627,300
Investments	1,323,321,323
Interest & Dividends Receivable	3,445,620
Furniture and equipment – net of depreciation	3,137
Less Accounts Payable	<u>(550,848)</u>
Total Assets	\$1,333,846,532

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

### ***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**  
Contract provides prepaid estimated average private tuition and required fees for the beneficiary to attend a private or independent institution of higher education for a specified number of undergraduate credit hours not to exceed the typical number of hours required for a baccalaureate degree awarded by a private or independent institution of higher education.

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;

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.

**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 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
2011	6.00%	6.30%
2012	5.60%	6.10%
2013	5.30%	5.80%
2014	5.10%	5.50%
2015	4.90%	5.20%
2016	4.40%	5.00%
2017	4.00%	4.70%
2018	3.10%	4.40%
2019+	1.70%	4.10%

**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, 2011***

As a measure of the soundness of the Plan as of August 31, 2011, 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.

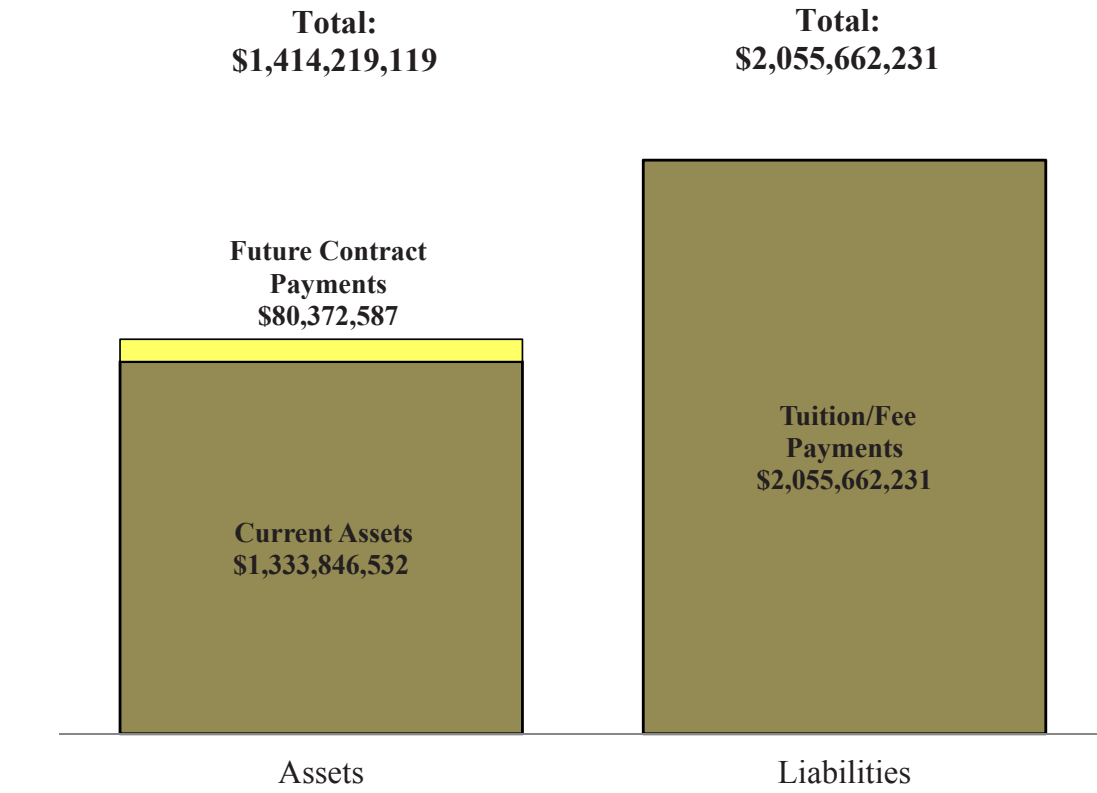
The projections of future benefits and expenses and contract payments are presented on page 16, labeled Expected Annual Cash Flows.

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



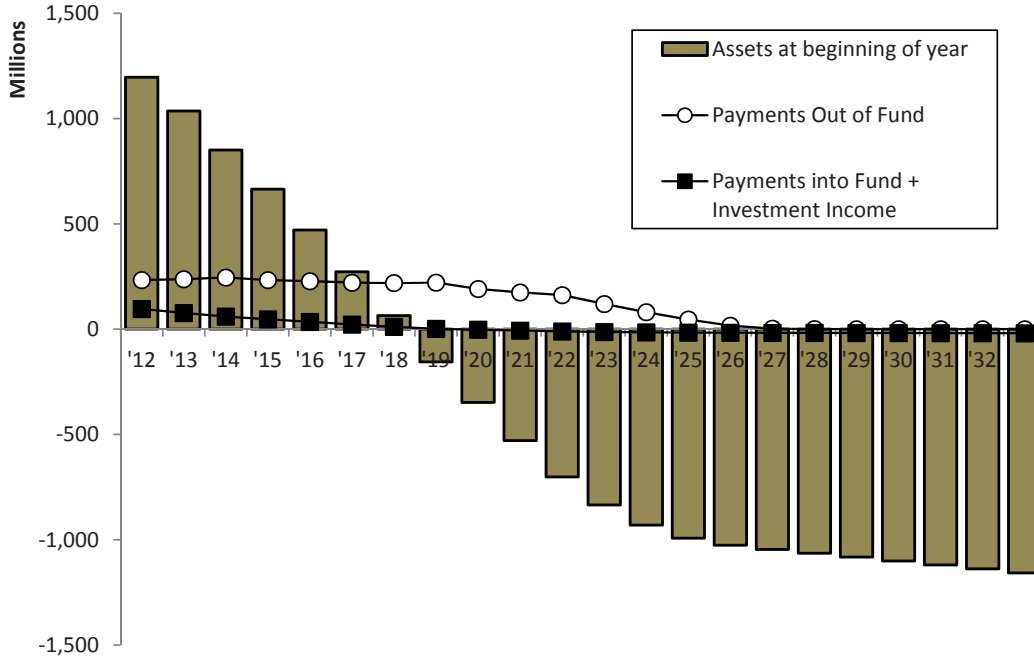
## Funded Status

The liabilities of the trust fund exceed the value of assets as of August 31, 2011 (including the value of future payments by contract purchasers) by \$641.44 million. The funded ratio, assets divided by liabilities, is equal to 68.8%. Asset totals shown below 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	Deficit of Assets to Liabilities
2011	2,055,610,200	1,414,219,119	(641,443,112)
2012	1,938,327,998	1,257,279,039	(681,048,959)
2013	1,802,377,331	1,082,510,981	(719,866,350)
2014	1,644,739,405	886,433,996	(758,305,410)
2015	1,488,370,613	691,391,627	(796,978,985)
2016	1,325,963,399	490,201,310	(835,762,089)
2017	1,156,533,625	284,914,088	(871,619,537)
2018	976,869,784	71,817,002	(905,052,781)
2019	778,771,180	(151,708,543)	(930,479,723)
2020	595,198,925	(347,145,905)	(942,344,830)
2021	425,070,082	(529,645,236)	(954,715,319)
2022	265,439,331	(702,104,391)	(967,543,722)
2023	146,553,922	(834,922,062)	(981,475,985)
2024	65,971,414	(930,495,881)	(996,467,295)
2025	19,797,249	(992,645,722)	(1,012,442,971)
2026	2,889,596	(1,026,413,382)	(1,029,302,979)
2027	582,092	(1,046,171,069)	(1,046,753,161)
2028	227,172	(1,064,313,436)	(1,064,540,608)
2029	95,745	(1,082,539,376)	(1,082,635,120)
2030	71,494	(1,100,967,975)	(1,101,039,469)
2031	53,625	(1,119,703,204)	(1,119,756,829)
2032	35,756	(1,138,756,632)	(1,138,792,388)
2033	17,883	(1,158,133,674)	(1,158,151,558)

***Expected Annual Cash Flows***

Fiscal Year Ending	Benefit Payments and Expenses	Contract Payment Receipts	Annual Cash Flow
2012	233,305,720	23,869,973	(209,435,747)
2013	237,078,594	17,457,842	(219,620,751)
2014	245,493,792	12,549,459	(232,944,333)
2015	232,957,279	10,599,399	(222,357,881)
2016	228,208,236	8,844,113	(219,364,122)
2017	220,875,050	7,089,792	(213,785,258)
2018	219,111,126	5,412,990	(213,698,136)
2019	221,545,357	3,885,752	(217,659,604)
2020	190,804,042	2,485,940	(188,318,102)
2021	174,727,165	1,274,503	(173,452,661)
2022	161,740,826	20,347	(161,720,479)
2023	119,614,314	0	(119,614,314)
2024	80,526,795	0	(80,526,795)
2025	45,845,601	0	(45,845,601)
2026	16,715,580	0	(16,715,580)
2027	2,284,492	0	(2,284,492)
2028	353,751	0	(353,751)
2029	131,261	0	(131,261)
2030	25,203	0	(25,203)
2031	18,616	0	(18,616)
2032	18,319	0	(18,319)
2033	18,027	0	(18,027)

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 2011 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, 2011 under each of these scenarios is presented in the following table:

<b>Scenarios</b>	<b>Deficit</b>
Baseline	641,443,112
Tuition increases are 25 basis points higher in each future year than assumed	664,432,028
The investment return is 25 basis points lower than assumed	664,318,955
Tuition increases are 25 basis points higher in each future year and the investment return is 25 basis points lower than assumed	687,723,821
Tuition increases are 25 basis points lower in each future year than assumed	618,812,996
Tuition increases are 25 basis points lower in each future year and the investment return is 25 basis points lower than assumed	641,280,729
The investment return is 50 basis points lower than assumed	687,660,471
The investment return is 75 basis points lower than assumed	711,479,585
The investment return is 100 basis points lower than assumed	735,788,574
Tuition increases are 50 basis points higher in each future year than assumed	687,785,885
Tuition increases are 75 basis points higher in each future year than assumed	711,510,928
Tuition increases are 100 basis points higher in each future year than assumed	735,613,509

## ***SECTION VII – Changes in Surplus***

### ***Adequacy of the Fund***

As of August 31, 2011, the Plan had an unfunded liability of \$641,443,112. 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 \$41,221,166 higher than last year's unfunded liability of \$600,221,946, and \$2,206,740 higher than the expected unfunded liability of \$639,236,373. The three primary sources of change are:

- a) Investment asset performance of 8.35%, much higher than the assumed investment return of 6.50%. The result was an asset gain of \$23.8 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 \$8 million decrease in the unfunded liability.
- c) Changing the investment return assumption resulted in a \$77.5 million loss.

Following is a comparison of the assumed and the actual results for the year ended August 31, 2011.

### ***Investment Return***

Assets performed better than expected during the 2011 fiscal year, returning 8.35% versus the prior year assumption of 6.50%. The result was an asset gain of \$23.8 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 \$7,727 to \$8,173, an increase of 5.77% compared to the assumed 6.30% increase. The Junior College WAT increased from \$2,262 to \$2,579, an increase of 14.01% compared to the assumed 5.20% increase. The Private College WAT increased from \$20,482 to \$21,425, an increase of 4.60% compared to the assumed 7.30% increase. The tuition experience resulted in an actuarial gain of approximately \$8.0 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 4% 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 6% less than the 10% expected by last year's valuation, resulting in an actuarial gain of \$400,000.

### ***Expense***

The assumption for records administration charges and general expenses remains at \$32 per contract for fiscal year 2010, 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 2,280 contracts surrendered during the year. This is more than the 1,261 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 \$75.3 million actuarial gain. The sources of the (gain)/loss are as follows:

<b>(Gain) / Loss</b>	(millions)
Asset Gain (8.35% return)	\$(23.3)
Tuition Inflation Gain	(8.0)
Expense	(0.4)
Bias	(0.4)
Withdrawal and Matriculation	<u>(43.2)</u>
Total (Gain) / Loss	\$(75.3)

***Assumption Change***

Changes to the investment return assumption resulted in a \$77.5 million increase in the unfunded liability. This increase offsets the actuarial gain of \$75.3 million, resulting in a net change from the expected unfunded liability of \$2.2 million.

**TEXAS GUARANTEED TUITION PLAN**

Appendix A

*Active Contract Counts for All Enrollment Periods  
As of August 31, 2011*

Matriculation Year	Plan														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1998	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0
1999	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0
2000	1	5	0	1	0	0	0	0	0	0	0	0	0	0	0
2001	0	3	0	1	0	0	0	0	0	0	0	0	0	0	0
2002	74	492	20	38	18	17	3	9	0	0	0	1	13	8	0
2003	122	741	18	57	21	20	4	15	1	1	0	2	62	26	0
2004	130	956	29	84	35	34	6	22	1	5	1	0	62	20	0
2005	200	1495	44	112	38	42	7	24	0	6	2	1	101	33	0
2006	263	2192	70	189	84	53	13	42	1	2	1	3	187	35	0
2007	367	3357	103	242	83	69	14	55	2	7	4	5	229	51	0
2008	542	4395	183	351	135	98	15	84	5	9	1	6	262	58	0
2009	520	4333	178	495	164	170	25	85	1	6	5	3	303	65	0
2010	576	4392	184	527	238	167	42	72	4	5	7	3	331	55	0
2011	576	4519	149	497	198	198	35	76	2	2	4	4	337	73	0
2012	577	4621	186	542	237	163	34	101	7	11	17	1	359	65	0
2013	587	4647	161	503	228	183	49	72	3	10	7	5	366	66	0
2014	565	4429	166	448	214	178	52	76	1	5	5	1	352	29	1
2015	408	3734	119	341	181	132	32	66	3	10	5	0	467	3	0
2016	374	3384	116	333	136	116	23	61	8	9	5	1	520	0	0
2017	344	3004	84	266	141	111	27	55	0	5	5	0	501	0	0
2018	324	2751	101	281	163	102	26	35	1	7	2	0	475	2	0
2019	301	2361	74	236	135	70	18	38	1	5	1	0	435	1	0
2020	227	1922	75	193	132	57	11	33	2	5	4	1	351	0	0
2021	255	2277	89	218	148	64	15	29	2	3	14	0	472	0	0
2022	4	25	1	2	1	0	0	0	0	0	0	0	1	0	0
2023	0	12	3	2	0	0	1	0	0	0	0	0	1	0	0
2024	0	14	1	2	0	0	0	0	0	0	0	0	1	0	0
2025	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	7337	60062	2154	5961	2730	2044	453	1050	45	113	90	37	6189	590	1
% of Total	8.23%	67.38%	2.42%	6.69%	3.06%	2.29%	0.51%	1.18%	0.05%	0.13%	0.10%	0.04%	6.94%	0.66%	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, 2011*

Matriculation Year	Plan										Total	% of Total
	16	17	18	21	22	23	24	31	34	35		
1997	0	0	0	0	0	0	0	0	0	0	-	0.00%
1998	0	0	0	0	0	0	0	0	0	0	2	0.00%
1999	0	0	0	0	0	0	0	0	0	0	1	0.00%
2000	0	0	0	0	0	0	0	0	0	0	7	0.01%
2001	0	0	0	0	0	0	0	0	0	0	4	0.00%
2002	0	0	1	0	0	0	1	0	1	0	696	0.78%
2003	0	0	0	1	0	0	0	0	1	3	1,095	1.23%
2004	0	0	0	0	0	0	1	0	1	1	1,388	1.56%
2005	1	0	0	0	0	0	1	0	1	2	2,110	2.37%
2006	1	0	0	1	0	2	1	0	5	3	3,148	3.53%
2007	0	0	0	3	0	1	2	0	3	9	4,606	5.17%
2008	2	0	1	2	0	1	0	0	5	12	6,167	6.92%
2009	1	0	1	1	0	1	3	0	4	7	6,371	7.15%
2010	0	0	0	1	0	1	2	0	5	13	6,625	7.43%
2011	0	0	1	2	0	1	2	2	4	9	6,691	7.51%
2012	0	0	0	2	0	1	2	0	6	14	6,946	7.79%
2013	0	0	1	7	0	3	2	2	7	9	6,918	7.76%
2014	1	0	0	1	0	1	1	0	11	6	6,543	7.34%
2015	0	0	0	0	0	0	0	0	5	8	5,514	6.19%
2016	0	0	0	0	0	0	0	0	2	7	5,095	5.72%
2017	0	0	0	0	0	0	0	0	0	12	4,555	5.11%
2018	0	0	0	0	0	0	0	0	0	14	4,284	4.81%
2019	0	0	0	1	0	0	0	0	0	8	3,685	4.13%
2020	0	0	0	0	0	1	0	0	0	10	3,024	3.39%
2021	0	0	0	0	0	0	0	0	0	11	3,597	4.04%
2022	0	0	0	0	0	0	0	0	0	0	34	0.04%
2023	0	0	0	0	0	0	0	0	0	0	19	0.02%
2024	0	0	0	0	0	0	0	0	0	0	18	0.02%
2025	0	0	0	0	0	0	0	0	0	0	-	0.00%
2026	0	0	0	0	0	0	0	0	0	0	-	0.00%
Total	6	0	5	22	0	13	18	4	61	158	89,143	100.00%
% of Total	0.01%	0.00%	0.01%	0.02%	0.00%	0.01%	0.02%	0.00%	0.07%	0.18%	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 2011 Payments to Community Colleges**

**Appendix B**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b>Texas Community College</b>				
Alamo Community College District	350	2,729	452,165	165.68
Alvin Community College	50	481	62,121	129.07
Amarillo College	51	334	53,252	159.30
Angelina College	15	75	13,350	179.15
Austin Community College	709	4,326	863,884	199.69
Blinn College	586	5,329	1,038,167	194.83
Brazosport College	20	210	20,956	99.99
Brookhaven College	81	409	57,846	141.30
Cedar Valley College	22	111	14,067	126.97
Central Texas College	24	150	20,982	140.20
Cisco College	25	312	48,986	157.07
Clarendon College	12	157	28,299	180.07
Coastal Bend College	28	253	39,390	155.79
College of the Mainland	19	130	14,695	113.35
Collin County Community College	262	1,551	177,328	114.36
Del Mar College	77	745	111,878	150.13
Eastfield College	65	482	48,821	101.25
El Centro College	20	101	10,034	99.62
El Paso Community College	62	433	64,921	149.97
Frank Phillips College	4	58	8,279	141.92
Galveston College	20	96	17,019	176.72
Grayson County College	31	300	29,635	98.82
Hill College	25	163	23,961	146.73
Houston Community College	258	1,723	300,758	174.60
Howard College	28	182	31,884	175.64
Kilgore College	28	319	42,597	133.52
Lamar State College Orange	14	121	32,149	265.10
Lamar State College Port Arthur	9	115	25,264	220.28
Laredo Community College	40	328	50,124	152.81
Lee College	18	154	19,413	125.76
Lone Star College System District	304	1,392	206,484	148.39
McLennan Community College	66	530	96,715	182.57
Midland College	82	295	58,954	200.16
Mountain View College	25	134	14,553	108.32
Navarro College	49	554	71,584	129.23
North Central Texas College	118	828	141,341	170.70
North Lake College	71	421	62,099	147.37
Northeast Texas Community College	16	111	14,882	133.90
Northwest Vista College	12	20	4,267	212.55
Odessa College	18	151	17,154	113.29
Palo Alto College	6	17	3,508	206.27
Panola College	8	75	11,180	149.03
Paris Junior College	37	301	40,439	134.47
Ranger College	10	117	13,588	116.46
Richland College	97	532	69,482	130.65
San Antonio College	32	71	13,365	187.05
San Jacinto College Central	176	1,414	202,728	143.41
South Plains College	112	1,006	187,491	186.33
South Texas College	80	600	124,275	207.21
Southwest Texas Junior College	23	195	31,244	160.04

**Texas Guaranteed Tuition Plan Contracts**  
**Matriculation Information – FY 2011 Payments to Community Colleges**

**Appendix B**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b>Texas Community College</b>				
St. Philips College	2	3	626	230.05
Tarrant County College Ft. Worth (NW)	64	329	40,906	124.31
Tarrant County College NE Hurst	111	700	86,047	122.84
Tarrant County College SE Campus	86	533	60,499	113.50
Tarrant County College South Campus	51	345	40,427	117.07
Tarrant County College Trinity River Campus	18	73	12,681	173.40
Temple College	45	375	76,825	204.99
Texarkana College	8	103	12,388	119.94
Texas State Technical College Harlingen	20	189	40,083	212.45
Texas State Technical College Marshall	5	56	9,343	165.75
Texas State Technical College Sweetwater	6	53	12,528	236.18
Texas State Technical College Waco	48	647	122,742	189.81
Texas State Technical College West Texas	5	42	10,225	241.47
Trinity Valley Community College	25	281	31,161	110.77
Tyler Junior College	120	1,426	206,176	144.54
University of Texas Brownsville & TX Southmost College	67	710	161,644	227.63
Vernon College	23	189	36,523	193.74
Victoria College	46	363	50,757	139.90
Weatherford College	24	303	40,754	134.32
Western Texas College	20	70	13,625	194.27
Wharton County Junior College	95	908	171,215	188.50
<b>Total</b>	<b>5,184</b>	<b>38,339</b>	<b>6,344,731</b>	<b>165.49</b>

**Texas Guaranteed Tuition Plan Contracts  
Matriculation Information – FY 2011 Payments to Proprietary Institutions**

**Appendix B**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b>Texas Proprietary Institutions</b>				
Academy of Health Care Professions in Austin	3	87	15,490	177.61
Academy of Health Care Professions NL	1	69	16,566	238.47
Alamo Community College Continuing Education	3	24	7,855	333.28
Allied Health Careers	2	36	2,776	76.43
Art Institute of Austin	39	989	222,915	225.38
Art Institute of Dallas	13	435	115,536	265.80
Art Institute of Fort Worth	2	72	14,500	201.39
Art Institute of Houston	31	835	193,392	231.74
Art Institute of Houston North Campus	4	46	17,405	377.00
Art Institute of San Antonio	2	73	17,521	240.21
ATI Career Training Center Richardson Campus	1	51	11,927	233.86
ATI Training Center Garland	1	64	4,892	76.43
Austin Community College Continuing Education	6	41	9,166	225.25
Blinn College TEEX Fire Academy	1	28	7,175	255.40
Blinn College Workforce Education	1	8	2,040	241.48
Brazosport College Continuing Education	1	6	449	76.43
Cedar Valley College Continuing Education	2	6	1,383	241.49
Central Texas College Distance Learning	10	40	7,421	184.14
Commonwealth Institute of Funeral Service	1	11	2,555	241.47
Dallas County Community College LeCroy Center	5	7	1,764	241.48
Dallas Institute of Funeral Service	1	72	12,000	167.68
Eastfield College Continuing Education	1	19	1,450	76.43
Galen College - San Antonio	1	22	1,670	76.43
Hallmark College	3	143	34,463	241.47
Houston Community College-Cont Ed	5	24	4,724	194.91
International Academy of Design and Technology	5	175	41,626	237.28
ITT Technical Institute Arlington	1	12	2,898	241.47
ITT Technical Institute Austin	3	108	25,987	240.62
ITT Technical Institute Houston West	1	12	917	76.43
ITT Technical Institute Richardson	2	99	23,944	241.47
ITT Technical Institute San Antonio	3	72	17,138	239.56
ITT Technical Institute Waco	1	12	2,898	241.47
ITT Technical Institute Webster	1	8	1,932	241.47
Kaplan College Arlington	2	71	11,268	158.70
Kaplan University Dallas	2	53	12,798	241.47
KD Studio	1	34	8,210	241.47
Lamar University Graduate Students	7	61	14,528	239.92
Le Cordon Bleu College of Culinary Arts Austin	13	571	153,858	269.53
Le Cordon Bleu College of Culinary Arts Dallas	7	386	87,491	226.48
Lincoln Technical Institute	2	42	10,020	237.57
Lone Star College System District Continuing Education	1	4	1,033	230.07
North Central Texas College Continuing Ed	1	4	1,049	241.48
Remington College Garland	2	63	15,190	241.47

**Texas Guaranteed Tuition Plan Contracts**  
**Matriculation Information – FY 2011 Payments to Proprietary Institutions**

**Appendix B**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b>Texas Proprietary Institutions</b>				
Sam Houston State University Continuing Education	1	4	999	241.48
Sanford Brown College	1	28	6,653	241.47
Sanford-Brown Institute Houston North	1	42	3,172	76.43
Sanford-Brown Institute Houston South West Campus	1	6	1,503	241.48
Texas A&M University Commerce Graduate Students	1	2	480	241.45
Texas A&M University Graduates	1	5	1,178	241.45
Texas A&M University Health Science Center	36	909	218,904	240.74
Texas A&M University Kingsville Graduate Studies	2	19	4,706	241.47
Texas A&M University Study Abroad Programs Ofc	21	215	51,835	240.62
Texas Engineering Extension Service TEEX	4	56	13,550	242.84
Texas School of Business	1	13	994	76.43
Texas State University Continuing Education	1	5	1,395	255.40
Texas State University Office of Correspondence	30	165	40,949	247.86
Texas Tech Outreach & Extended Studies	2	5	1,224	241.46
Texas Tech Study Abroad	7	77	18,319	237.91
Texas Tech University-Rawls College of Business	5	18	4,346	241.47
Universal Technical Institute Houston	7	306	74,166	242.54
Universal Technical Institute Irving	2	116	27,952	241.47
University Extension UT Austin	114	351	85,781	244.15
University of North Texas Graduate Students	1	1	300	241.55
University of North Texas Health Science Center	14	195	48,609	248.96
University of Texas at Arlington Academic Partnership	9	81	19,446	241.47
University of Texas at Arlington Graduate Studies	1	32	7,680	241.47
University of Texas at Arlington On Line Courses	6	19	4,465	236.76
University of Texas at Austin Engineering Co-op Ofc	1	4	860	241.44
University of Texas at Austin Grad Students	9	411	102,519	249.59
University of Texas at Austin in DC	4	50	14,400	285.99
University of Texas at Austin McCombs	1	53	12,798	241.47
University of Texas at Austin Study Abroad / Intl Office	24	264	63,735	241.47
University of Texas Health Science Center at Houston	30	452	115,510	255.28
University of Texas Health Science San Antonio	47	984	243,951	247.92
Vet Tech Institute of Houston	4	211	49,193	233.20
Virginia College at Austin	3	88	21,189	240.78
Wade College	1	24	5,915	241.47
Weatherford College Continuing Ed	1	9	724	76.43
West Texas A&M University Continuing Education	1	4	966	241.49
Westwood College Houston	1	34	8,266	241.47
<b>Total</b>	<b>591</b>	<b>10,255</b>	<b>2,438,451</b>	<b>237.78</b>

**Texas Guaranteed Tuition Plan Contracts**  
**Matriculation Information – FY 2011 Payments to Texas Four-Year Public Universities**

**Appendix B**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b>Texas Four-Year Public University</b>				
Angelo State University	159	3,986	865,486	217.13
Lamar Institute of Technology	25	549	77,818	141.84
Lamar University	123	2,760	619,681	224.49
Midwestern State University	102	2,545	536,779	210.94
Prairie View A&M University	31	809	184,960	228.49
Sam Houston State University	482	11,955	2,652,377	221.86
Stephen F. Austin State University	376	9,566	2,154,845	225.25
Sul Ross State University Alpine	24	648	109,803	169.38
Tarleton State University	223	5,803	1,146,802	197.61
Texas A&M International University	50	1,045	196,953	188.49
Texas A&M University Central Texas	12	146	29,370	201.16
Texas A&M University College Station	3,282	82,419	19,814,727	240.41
Texas A&M University Commerce	107	2,594	529,091	204.00
Texas A&M University Corpus Christi	208	4,979	1,100,732	221.09
Texas A&M University Galveston	116	3,195	721,516	225.85
Texas A&M University Kingsville	81	2,182	452,234	207.26
Texas A&M University San Antonio	14	235	46,430	197.95
Texas A&M University Texarkana	5	138	18,906	137.03
Texas Southern University	16	402	100,203	249.42
Texas State University San Marcos	1,470	35,809	8,379,488	234.01
Texas Tech University	1,746	44,711	10,586,635	236.78
Texas Tech University Health Sciences Center	80	1,835	346,559	188.87
Texas Woman's University	143	3,198	721,422	225.56
University of Houston	642	14,187	3,406,235	240.10
University of Houston Clear Lake	54	1,164	234,424	201.33
University of Houston Downtown	90	1,548	303,059	195.73
University of Houston Victoria	30	486	96,786	198.98
University of North Texas	1,084	24,845	5,891,214	237.12
University of Texas at Arlington	418	9,175	2,223,720	242.36
University of Texas at Austin	2,888	72,012	17,524,364	243.35
University of Texas at Brownsville	29	441	81,687	185.24
University of Texas at Dallas	388	9,431	2,314,301	245.39
University of Texas at El Paso	144	3,236	679,819	210.07
University of Texas at San Antonio	889	21,365	4,999,340	234.00
University of Texas at Tyler	134	2,972	586,558	197.34
University of Texas of the Permian Basin	37	756	149,238	197.53
University of Texas Pan American	140	3,391	645,562	190.38
West Texas A&M University	135	3,164	641,553	202.77
<b>Total</b>	<b>15,977</b>	<b>389,682</b>	<b>91,170,675</b>	<b>233.96</b>

**Texas Guaranteed Tuition Plan Contracts****Appendix B****Matriculation Information – FY 2011 Payments to Texas Private Institutions**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b><i>Texas Private Institutions</i></b>				
Abilene Christian University	95	2,555	655,668	256.58
Amberton University	1	7	1,749	241.45
Austin College	69	2,128	536,718	252.22
Baptist Health System	1	25	6,190	247.60
Baylor College of Medicine	5	97	34,726	358.24
Baylor University	489	13,605	3,520,273	258.74
Concordia University Austin	21	542	130,972	241.47
Dallas Baptist University	38	1,006	236,907	235.42
Dallas Christian College	1	29	2,216	76.43
Dallas Theological Seminary	2	37	8,934	241.47
East Texas Baptist University	20	475	100,175	210.89
Hardin-Simmons University	53	1,333	330,565	247.99
Houston Baptist University	34	880	220,531	250.60
Howard Payne University	29	716	163,812	228.79
Huston-Tillotson University	3	41	10,109	246.57
Le Tourneau University	15	410	91,906	224.16
Lon Morris College	15	413	94,858	229.67
Lubbock Christian University	25	554	132,174	238.69
McMurry University	16	374	90,310	241.47
National American University - Allen Service Center	1	5	365	76.43
Northwood University Texas	7	365	89,148	244.30
Our Lady of the Lake University	6	150	31,438	209.57
Parker College of Chiropractic	2	70	16,921	241.47
Rice University	85	2,438	657,914	269.91
Schreiner University	30	725	177,538	244.88
South Texas College of Law	11	209	50,528	241.47
Southern Methodist University	133	3,817	1,055,334	276.48
Southern Methodist University Continuing Studies	1	1	230	241.47
Southwestern Adventist University	1	34	8,210	241.47
Southwestern Assemblies of God University	6	164	34,320	209.27
Southwestern Baptist Theological Seminary	6	92	22,234	241.47
Southwestern University	93	2,915	760,744	261.02
St. Edwards University	133	3,737	917,971	245.61
St. Mary's University	52	1,309	374,985	286.53
Texas Christian University	323	9,500	2,641,818	278.09
Texas Lutheran University	37	960	227,459	237.00
Texas Wesleyan School of Law	4	157	42,305	270.08
Texas Wesleyan University	14	355	73,242	206.48
Trinity University	129	3,610	972,390	269.36
University of Dallas	23	672	186,386	277.36

**Texas Guaranteed Tuition Plan Contracts**

**Appendix B**

**Matriculation Information – FY 2011 Payments to Texas Private Institutions**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b><i>Texas Private Institutions</i></b>				
University of Mary Hardin-Baylor	65	1,602	372,518	232.55
University of St. Thomas	29	801	188,300	235.13
University of Texas Medical Branch at Galveston	19	413	99,653	241.47
University of Texas Southwestern Medical Center at Dallas	14	337	84,711	251.08
University of the Incarnate Word	78	1,998	502,387	251.43
Wayland Baptist University	15	309	60,722	196.79
<b>Total</b>	<b>2,249</b>	<b>61,971</b>	<b>16,018,567</b>	<b>258.49</b>

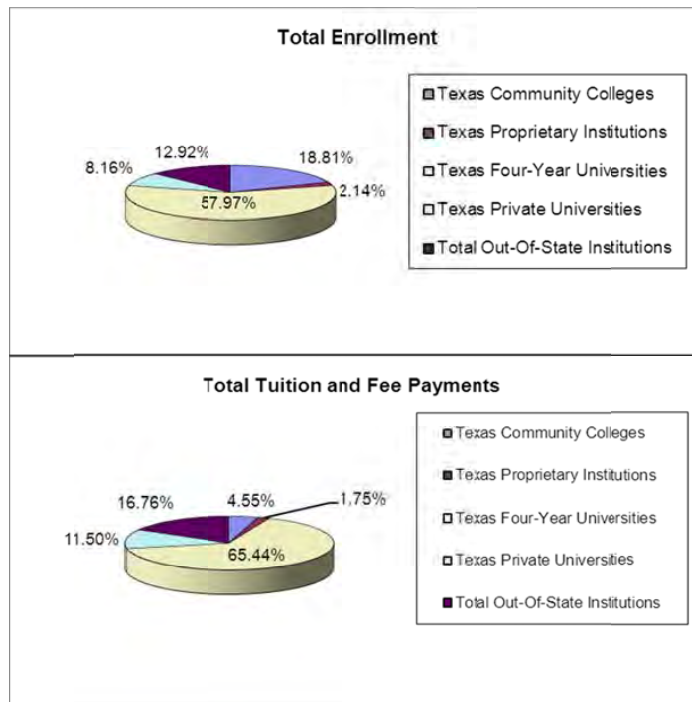


**Texas Guaranteed Tuition Plan Contracts  
Matriculation Information**

**Appendix B**

	Number of Contracts	Semester Hours	Tuition and Fees Paid	Average Paid Per Semester Hour
<b>Matriculation Information: Executive Summary</b>				
<b>Texas Universities</b>				
Texas Community Colleges	5,184	38,339	6,344,731	165.49
Texas Proprietary Institutions	591	10,255	2,438,451	237.78
Texas Four-Year Public Universities	15,977	389,682	91,170,675	233.96
Texas Private Institutions	2,249	61,971	16,018,567	258.49
Total Texas Institutions	24,001	500,247	115,972,424	231.83
<b>Out-Of-State Institutions</b>				
Out-of-State Community Colleges	186	1,769	377,473	213.39
Out-of-State Proprietary Institutions	24	736	171,914	233.70
Out-of-State Universities	2,076	52,670	12,893,439	244.80
Out-of-State Private Universities	1,276	36,641	9,905,290	270.33
Total Out-Of-State Institutions	3,562	91,815	23,348,115	254.30
<b>Grand Total</b>	<b>27,563</b>	<b>592,062</b>	<b>139,320,539</b>	<b>235.31</b>

\* There are a total of 25,187 contracts in matriculation status on August 31, 2011. This is different than the total seen in the chart above due to 2,376 students attending multiple schools in the same semester.





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



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



# **TEXAS TUITION PROMISE FUND®**

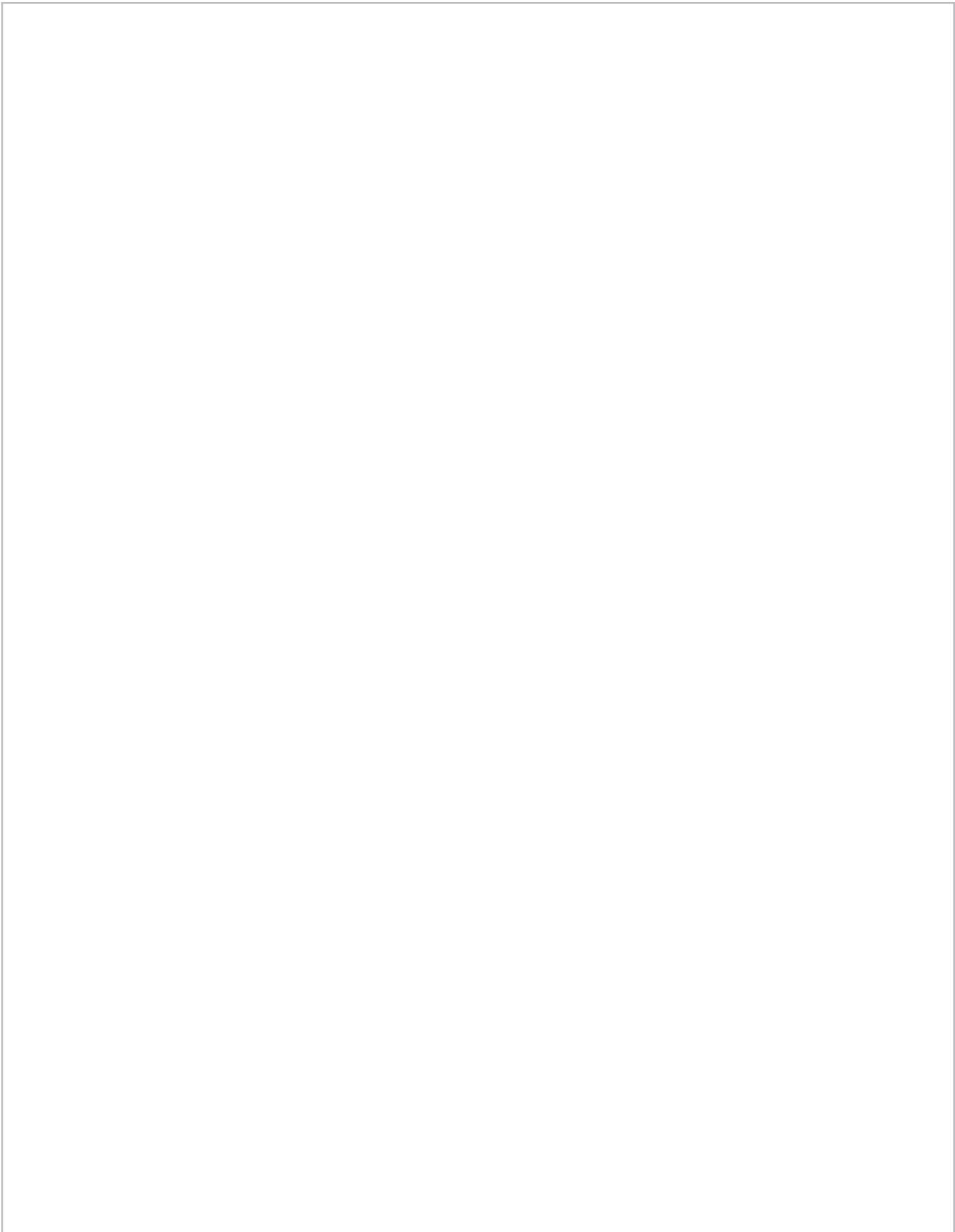
## **ACTUARY’S REPORT ON PROGRAM SOUNDNESS**

**AUGUST 31, 2011**

October 2011

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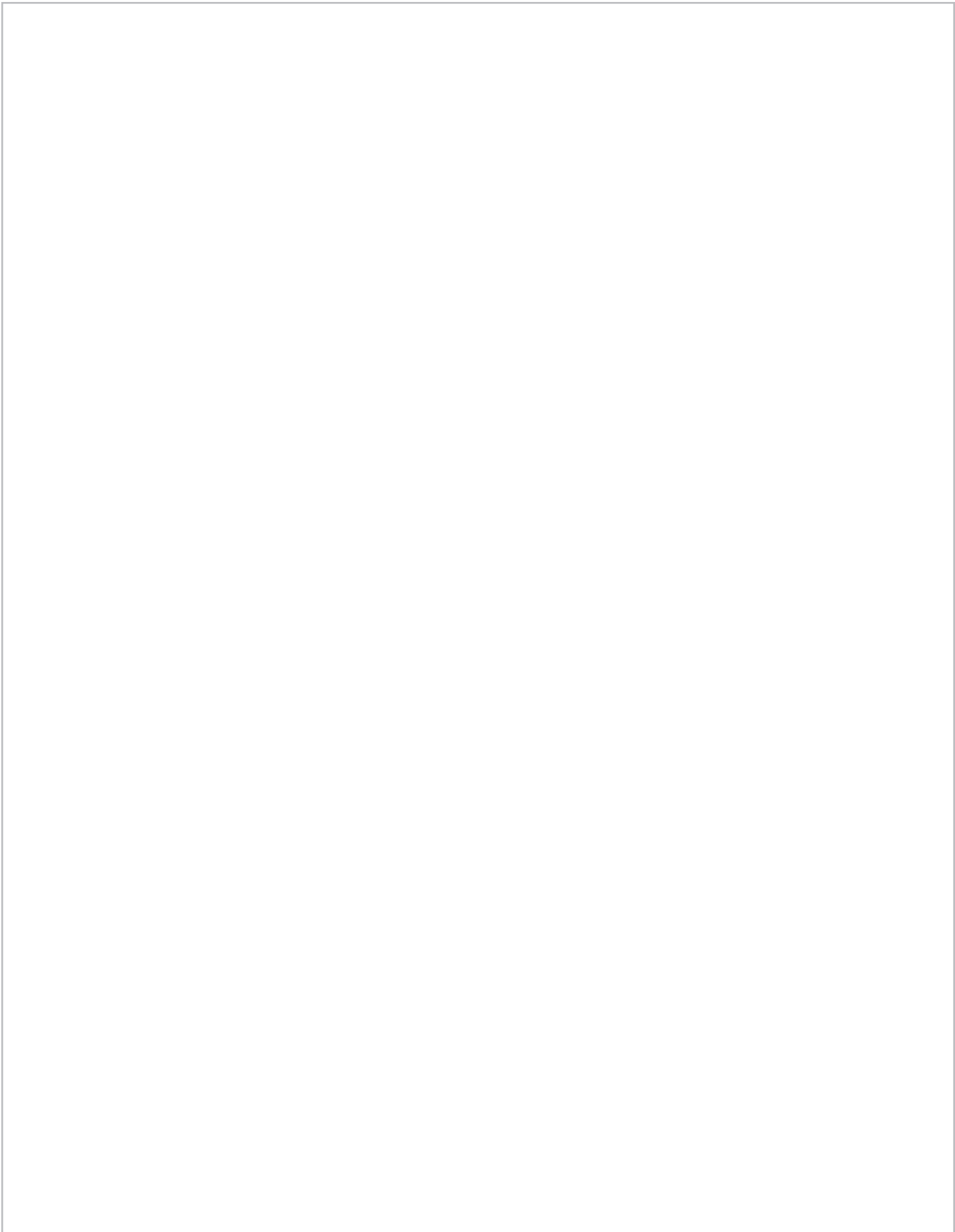


## **Texas Tuition Promise Fund**

### **Actuary's Report on Program Soundness August 31, 2011**

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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, 2011, the Texas Tuition Promise Fund (Plan) had a surplus of Assets over Liabilities of \$22,895,403. As of August 31, 2010, the surplus was \$12,822,523. 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	\$ 258,698,915
Future Contract Collections	<u>122,644,810</u>
Total Assets	381,343,725
Liabilities and Surplus	
Future Contract Benefits and Expenses	\$ 358,448,322
Surplus (Deficit) of Assets over Liabilities	<u>22,895,403</u>
Total Liabilities and Surplus (Deficit)	381,343,725

The program's funded ratio is 106.4%, versus 104.6% for 2010.

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 third 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 new contract sales and administrative expenses different than expected.

8/31/2010 Surplus		\$12,822,523
Expected increase		<u>719,574</u>
8/31/2011 Expected Surplus		13,542,097
Tuition Gain	2,837,934	
Asset Gain	6,516,492	
Other Gains and (Losses)	(1,120)	
Total Gain		<u>9,353,306</u>
8/31/2011 Surplus		22,895,403

***Use of Report***

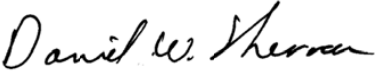
This report is prepared solely to assist the Board in evaluating the actuarial soundness of the Plan each year. The report is not intended and is not suitable for any other purpose. Accordingly, Buck Consultants does not intend this report or the data contained therein to be used as personal financial 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 seven 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.

BUCK CONSULTANTS, 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, 2011 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, 2011 is summarized in the following table.

<b>Payment Options</b>	<b>Plans</b>			<b>Total Units</b>
	<b>Type I Units</b>	<b>Type II Units</b>	<b>Type III Units</b>	
<b><u>2009 Enrollment Period</u></b>				
<b>Pay-as-you-go</b>	273,819	120,016	17,214	411,050
<b>Lump Sum</b>	517,400	234,600	31,000	783,000
<b>Extended Monthly</b>	253,425	307,000	44,000	604,425
<b>Extended Annual</b>	68,450	51,700	3,450	123,600
<b>Custom Monthly</b>	20,050	9,950		30,000
<b>Custom Annual</b>	3,200	1,850		5,050
<b>5 Year Monthly</b>	106,625	82,350	17,900	206,875
<b>5 Year Annual</b>	112,850	56,373	2,000	171,223
<b>10 Year Monthly</b>	133,500	109,150	14,900	257,550
<b>10 Year Annual</b>	58,075	33,250	2,600	93,925
<b>Total 2009</b>	1,547,394	1,006,239	133,064	2,686,698
<b><u>2010 Enrollment Period</u></b>				
<b>Pay-as-you-go</b>	88,898	40,493	5,243	134,634
<b>Lump Sum</b>	200,175	91,200	14,350	305,725
<b>Extended Monthly</b>	66,375	78,450	12,350	157,175
<b>Extended Annual</b>	14,675	9,650	650	24,975
<b>Custom Monthly</b>	5,750	2,750		8,500
<b>Custom Annual</b>	550	450		1,000
<b>5 Year Monthly</b>	29,925	16,450	5,050	51,425
<b>5 Year Annual</b>	28,550	12,250	300	41,100
<b>10 Year Monthly</b>	34,075	25,350	7,750	67,175
<b>10 Year Annual</b>	15,750	6,350	350	22,450
<b>Total 2010</b>	484,723	283,393	46,043	814,159

<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>	
<b><u>2011 Enrollment Period</u></b>				
<i>Pay-as-you-go</i>	66,328	20,174	4,911	91,413
<i>Lump Sum</i>	221,675	69,350	11,550	302,575
<i>Extended Monthly</i>	62,100	69,850	12,750	144,700
<i>Extended Annual</i>	14,475	12,154	650	27,279
<i>Custom Monthly</i>	4,550	4,700		9,250
<i>Custom Annual</i>	400			400
<i>5 Year Monthly</i>	31,075	11,100	5,250	47,425
<i>5 Year Annual</i>	25,850	13,050	200	39,100
<i>10 Year Monthly</i>	26,850	19,300	3,250	49,400
<i>10 Year Annual</i>	14,325	6,850	200	21,375
<b><i>Total 2011</i></b>	<b>467,628</b>	<b>226,528</b>	<b>38,761</b>	<b>732,917</b>
<b><u>Total Enrollment Inception to date</u></b>				
<i>Pay-as-you-go</i>	429,045	180,684	27,368	637,098
<i>Lump Sum</i>	939,250	395,150	56,900	1,391,300
<i>Extended Monthly</i>	381,900	455,300	69,100	906,300
<i>Extended Annual</i>	97,600	73,504	4,750	175,854
<i>Custom Monthly</i>	30,350	17,400		47,750
<i>Custom Annual</i>	4,150	2,300		6,450
<i>5 Year Monthly</i>	167,625	109,900	28,200	305,725
<i>5 Year Annual</i>	167,250	81,673	2,500	251,423
<i>10 Year Monthly</i>	194,425	153,800	25,900	374,125
<i>10 Year Annual</i>	88,150	46,450	3,150	137,750
<b><i>Total Enrollment</i></b>	<b>2,499,745</b>	<b>1,516,161</b>	<b>217,868</b>	<b>4,233,775</b>

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, 2011 is \$258,698,915. 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, 2011:

Investments	\$258,239,346
Cash and cash equivalents	349,930
Contracts receivable	331,841
Other receivables	0
Administrative fees payable	0
Management fees payable	0
Contracts and benefits payable	0
Payable for securities purchased	<u>(222,202)</u>
Total Assets	\$258,698,915

It is assumed that this mix will produce a net annual investment return of 6.00% in fiscal year 2011, as developed below.

Investment Return Assumption	6.80%
Less Expenses	<u>(0.80%)</u>
Net Annual Investment Return	6.00%

### **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, 2011 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](http://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 2011-2012 enrollment year:***

Type I: \$111.68/unit

Type II: \$79.70/unit

Type III: \$20.54/unit

**Investment Yield**

Expenses of 0.80% are netted against the Investment Return Assumption of 6.80%, leaving a Net Annual Investment Return of 6.00% 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, 2011***

As a measure of the soundness of the Plan as of August 31, 2011, 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.

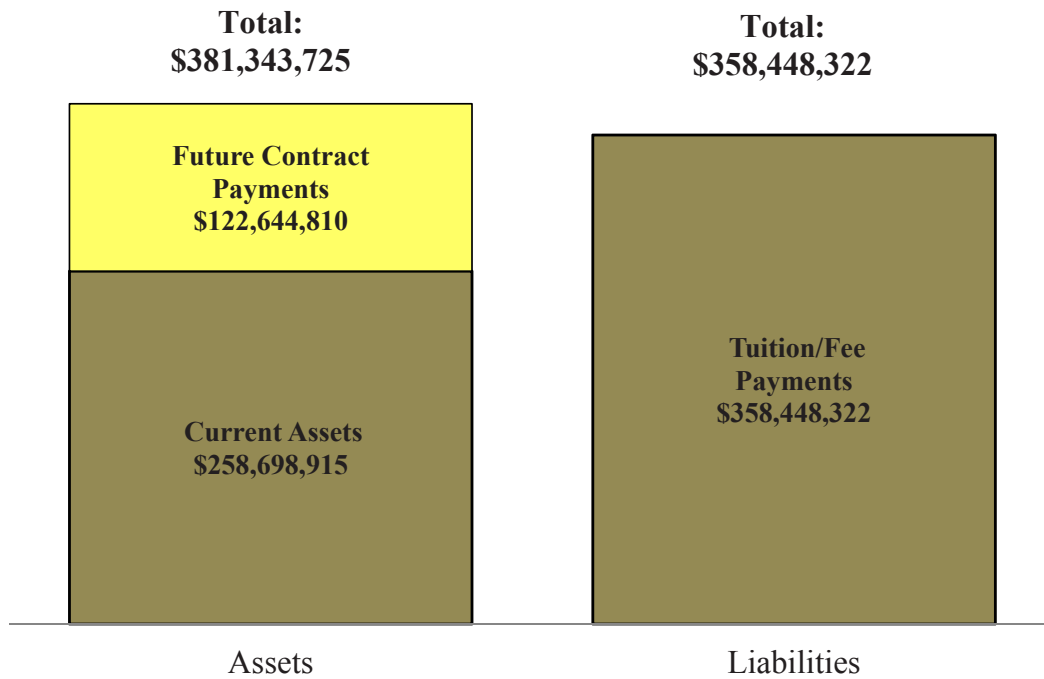
A projection of the status of the Plan at each future anniversary date through the life of these contracts is presented on page 16, labeled Present Value of Assets and Liabilities.

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.

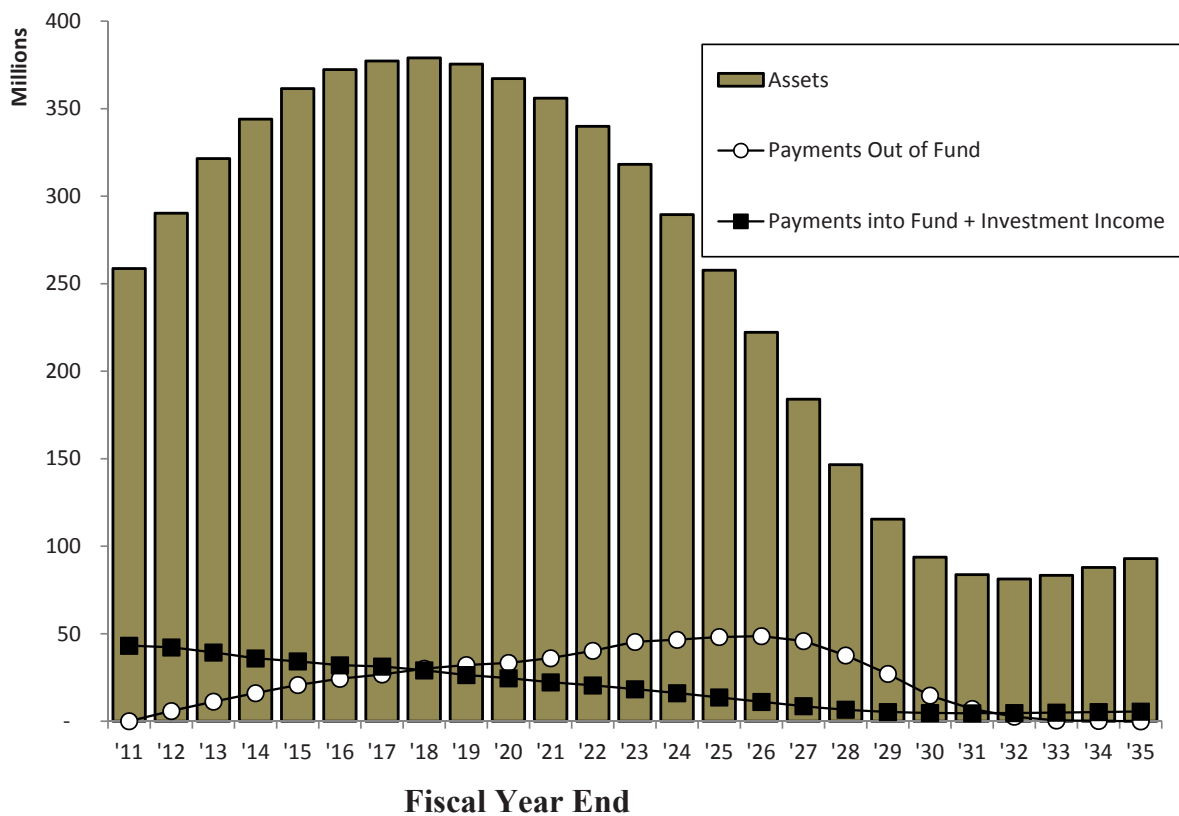
## Funded Status

The value of the trust fund exceeds the value of liabilities as of August 31, 2011 (including the value of future payments by contract purchasers) by \$22,895,403. The funded ratio, assets divided by liabilities, is equal to 106.4%. 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
2011	358,448,322	381,343,725	22,895,403
2012	367,669,343	391,941,470	24,272,128
2013	378,010,337	403,741,912	25,731,575
2014	382,860,767	410,139,481	27,278,715
2015	386,126,794	415,045,606	28,918,812
2016	384,539,680	415,197,130	30,657,450
2017	378,871,732	411,372,279	32,500,547
2018	370,304,545	404,758,921	34,454,376
2019	357,869,845	394,395,432	36,525,586
2020	342,519,204	381,240,432	38,721,227
2021	325,127,636	366,176,407	41,048,771
2022	303,979,467	347,495,605	43,516,138
2023	277,400,570	323,532,295	46,131,725
2024	244,187,336	293,091,767	48,904,431
2025	208,027,363	259,871,055	51,843,692
2026	168,423,120	223,382,629	54,959,509
2027	126,299,074	184,561,557	58,262,482
2028	84,952,150	146,716,000	61,763,850
2029	50,019,545	115,495,070	65,475,525
2030	24,305,636	93,715,770	69,410,134
2031	10,165,325	83,746,387	73,581,062
2032	3,314,873	81,317,372	78,002,499
2033	725,886	83,415,372	82,689,486
2034	241,011	87,898,976	87,657,964
2035	32,889	92,957,726	92,924,836



**Expected Annual Cash Flows**

Fiscal Year Ending	Benefit Payments and Expenses	Contract Payment Receipts	Annual Cash Flow
2012	11,590,452	26,761,877	15,171,425
2013	11,055,817	24,050,536	12,994,719
2014	16,820,934	19,882,944	3,062,010
2015	18,590,207	15,519,468	(3,070,738)
2016	23,353,510	13,153,384	(10,200,126)
2017	27,113,518	10,696,273	(16,417,245)
2018	29,527,822	9,857,776	(19,670,045)
2019	32,691,483	7,879,094	(24,812,389)
2020	34,738,520	5,654,983	(29,083,538)
2021	35,795,020	4,459,247	(31,335,772)
2022	38,354,553	3,036,784	(35,317,769)
2023	42,280,816	2,500,893	(39,779,923)
2024	47,035,159	1,964,628	(45,070,530)
2025	47,935,107	1,521,050	(46,414,058)
2026	49,137,626	1,081,759	(48,055,867)
2027	49,273,050	709,013	(48,564,037)
2028	46,155,536	382,373	(45,773,163)
2029	37,763,900	125,278	(37,638,622)
2030	27,089,700	14,675	(27,075,025)
2031	14,715,707	-	(14,715,707)
2032	7,038,086	-	(7,038,086)
2033	2,630,075	-	(2,630,075)
2034	498,517	-	(498,517)
2035	209,984	-	(209,984)

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, 2011 under each of these scenarios is presented in the following table:

<b>Scenarios</b>	<b>Assets over Liabilities</b>
Baseline assumptions used in valuation	22,895,403
Tuition increases are 25 basis points higher in each future year than assumed	19,621,852
The investment return is 25 basis points lower than assumed	20,169,827
Tuition increases are 25 basis points higher in each future year and the investment return is 25 basis points lower than assumed	17,857,925
Tuition increases are 25 basis points lower in each future year than assumed	27,481,874
Tuition increases are 25 basis points lower in each future year and the investment return is 25 basis points lower than assumed	25,515,413
The investment return is 50 basis points lower than assumed	18,290,800
The investment return is 75 basis points lower than assumed	17,078,368
The investment return is 100 basis points lower than assumed	16,409,026
Tuition increases are 50 basis points higher in each future year than assumed	17,515,904
Tuition increases are 75 basis points higher in each future year than assumed	16,504,712
Tuition increases are 100 basis points higher in each future year than assumed	16,085,610

**TEXAS TUITION PROMISE FUND**  
**Active Contract Counts for All Enrollment Periods – Appendix A**  
**As of August 31, 2011**

Matriculation Year	Plan			Total
	Type I	Type II	Type III	
2012	421	277	34	732
2013	464	302	52	818
2014	561	362	56	979
2015	616	413	68	1,097
2016	640	432	70	1,142
2017	623	413	95	1,131
2018	748	431	80	1,259
2019	690	429	77	1,196
2020	680	418	89	1,187
2021	742	439	78	1,259
2022	830	547	111	1,488
2023	889	497	76	1,462
2024	808	443	62	1,313
2025	748	477	99	1,324
2026	829	457	72	1,358
2027	718	386	66	1,170
2028	414	237	49	700
2029	206	116	24	346
<b>Total</b>	11,627	7,076	1,258	19,961

**TEXAS TUITION PROMISE FUND**  
**Active Contract Counts for All Enrollment Periods – Appendix A**  
**As of August 31, 2011**

Matriculation Year	Number of Type I Units													
	25	50	100	150	200	250	300	350	400	450	500	550	600	PAYG*
2012	3	8	39	9	63	9	44	9	54	4	5	-	3	171
2013	9	20	50	12	73	12	32	14	62	3	-	-	2	175
2014	16	17	59	15	66	17	44	21	93	7	2	-	5	199
2015	16	16	67	12	59	11	42	5	132	6	4	-	2	244
2016	13	19	77	12	85	13	24	11	119	11	7	-	9	240
2017	9	15	66	16	73	15	31	23	132	6	7	-	6	224
2018	10	13	76	28	78	18	42	19	176	3	2	1	8	274
2019	13	14	82	16	60	11	46	21	129	11	8	-	8	271
2020	10	13	68	15	80	11	45	17	144	3	6	-	5	263
2021	16	29	83	13	74	14	34	16	158	4	9	-	7	285
2022	11	20	56	23	85	21	39	20	189	18	11	-	10	327
2023	20	22	83	11	78	22	39	19	197	15	17	1	11	354
2024	24	21	66	21	64	15	37	12	143	14	11	1	8	371
2025	11	24	42	15	84	18	26	20	136	14	15	1	5	337
2026	26	29	69	19	57	19	31	20	145	10	8	3	4	389
2027	25	30	59	23	58	8	26	10	99	10	9	1	9	351
2028	15	11	38	5	31	4	19	5	66	8	6	-	3	203
2029	3	5	24	2	17	4	5	5	39	4	4	-	3	91
<b>Total</b>	250	326	1,104	267	1,185	242	606	267	2,213	151	131	8	108	4,769

\* Pay-as-you-go contracts

**TEXAS TUITION PROMISE FUND**  
**Active Contract Counts for All Enrollment Periods – Appendix A**  
**As of August 31, 2011**

Matriculation Year	Number of Type II Units													
	25	50	100	150	200	250	300	350	400	450	500	550	600	PAYG*
2012	10	36	8	43	8	24	7	30	3	6	-	3	-	99
2013	10	42	13	35	10	15	10	47	3	3	-	1	-	113
2014	16	47	12	58	6	23	7	49	6	7	-	1	-	130
2015	22	49	4	69	9	20	12	75	6	5	1	2	-	139
2016	17	50	14	82	9	20	3	74	9	3	-	-	-	151
2017	14	51	13	65	14	19	4	85	6	2	1	2	-	137
2018	22	45	18	58	13	21	10	79	11	4	-	1	1	148
2019	18	48	11	62	6	30	6	81	12	2	-	1	-	152
2020	13	42	18	68	6	22	4	75	11	2	-	-	-	157
2021	16	38	12	67	11	28	10	91	6	4	-	1	-	155
2022	15	52	20	90	10	31	9	126	16	3	2	-	-	173
2023	19	36	14	73	15	26	9	112	16	8	3	1	-	165
2024	14	47	16	68	15	14	6	99	13	8	1	-	-	142
2025	16	56	13	63	14	13	6	96	13	5	2	2	-	178
2026	15	40	6	64	11	20	4	91	18	5	1	1	-	181
2027	19	43	12	47	8	15	3	67	15	7	1	2	-	147
2028	18	10	7	30	6	9	3	47	6	1	-	-	-	100
2029	5	5	2	13	3	7	1	21	6	4	-	-	-	49
<b>Total</b>	<b>279</b>	<b>737</b>	<b>213</b>	<b>1,055</b>	<b>174</b>	<b>357</b>	<b>114</b>	<b>1,345</b>	<b>176</b>	<b>79</b>	<b>12</b>	<b>18</b>	<b>1</b>	<b>2,516</b>

\* Pay-as-you-go contracts

**TEXAS TUITION PROMISE FUND**  
**Active Contract Counts for All Enrollment Periods – Appendix A**  
**As of August 31, 2011**

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	-	10
2013	-	7	2	25	-	1	-	1	-	1	-	-	-	15
2014	-	12	2	23	3	-	-	-	-	-	-	2	-	14
2015	1	5	3	37	2	2	1	-	1	-	-	-	-	16
2016	2	14	3	28	2	-	1	1	-	-	-	-	-	19
2017	1	17	2	53	2	-	-	-	1	-	-	-	-	19
2018	3	8	2	35	3	1	-	3	-	-	-	-	-	25
2019	1	9	1	47	-	-	-	1	-	-	-	1	-	17
2020	1	10	5	41	2	3	1	2	2	1	-	1	-	20
2021	7	6	3	36	2	-	-	-	-	-	-	-	-	24
2022	1	12	8	56	2	1	-	3	-	-	-	-	-	28
2023	1	6	-	42	4	1	-	-	1	-	-	-	-	21
2024	2	7	5	27	2	1	-	2	-	-	-	-	-	16
2025	3	8	4	45	3	3	-	-	1	1	-	-	-	31
2026	3	4	2	33	4	1	-	1	-	-	-	-	-	24
2027	-	12	7	29	1	2	-	-	-	-	-	-	-	15
2028	1	3	2	26	1	1	-	1	1	-	-	-	-	13
2029	1	3	1	9	1	-	-	-	-	-	-	1	-	8
<b>Total</b>	29	151	52	605	35	17	3	15	7	3	-	6	-	335

\* Pay-as-you-go contracts

# FUND INVESTMENT INFORMATION



TEXAS GUARANTEED TUITION PLAN





## Texas Guaranteed Tuition Plan Fund Investment Information

Market Value of Fund  
Year Ending August 31, 2011  
(Amounts in millions)

Total Fund	\$1,334
------------	---------

Fiscal Year 2011  
Time Weighted  
Gross Fund Return

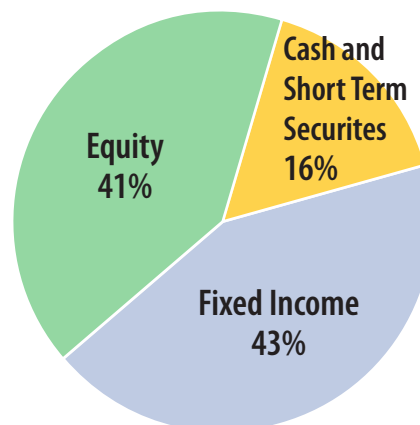
Total Fund	8.7%
Total Fund Benchmark	7.6%

	Fiscal Year 2011	Fiscal Year 2010
Gross Return – Total Fund	9.0%	5.7%
Gross Return – Equity	11.6%	5.6%
Gross Return – Fixed Income	4.9%	10.9%
Gross Return – Cash and Short-term	.4%	1.9%
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%	\$700	52%
Fixed Income	\$577	43%	\$453	33%
Cash and Short-term Securities	\$208	16%	\$198	15%
Other Investments	\$0	0%	\$0	0%
<b>TOTAL, ALL INVESTMENTS</b>	<b>\$1,334</b>	<b>100%</b>	<b>\$1,351</b>	<b>100%</b>

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

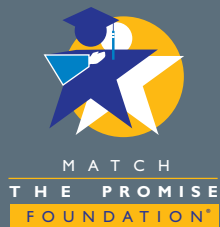
### Investment Asset Allocation, August 31, 2011







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