



Susan Combs Texas Comptroller of Public Accounts

Comprehensive Annual Financial Report

For the State of Texas for the Fiscal Year Ended August 31, 2012





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For the State of Texas for the Fiscal Year Ended August 31, 2012

Acknowledgments

The Comprehensive Annual Financial Report was prepared by the Financial Reporting section of the Texas Comptroller of Public Accounts with assistance from other sections within the Fiscal Management and Data Services Divisions.

Peggy Wagman, CPA, Financial Reporting Supervisor

| | |
|-----------------------------|----------------------|
| Shelly Arnold, CPA | Thanh Quach, CPA |
| Bill Holland, CPA | Michelle Roland, CPA |
| Al Kruzal | Wiley Thedford |
| Wallace Lankford, CPA | Julia Weng, CPA |
| Kamal Malik, CPA | Lori Williams, CPA |
| Laurel Mulkey | Brittany Wisdom, CPA |
| Stacy Parker, SPA Team Lead | Tom Zapata, CPA |
| Shirley Perry | |

Other Sections:

| | |
|----------------------|----------------|
| Gary Bryant | Selena Meyers |
| Armando Cantu | Kim Novak, CPA |
| Francine Fowler, CPA | Aurora Ramirez |
| David Heffington | Terri Whaley |
| Bruce Holmstrom | |

Phillip Ashley, CPA, Fiscal Management Division Director
Rob Coleman, Fiscal Management Assistant Director
Daniel Benjamin, CPA, Fiscal Integrity Manager

Data Services Graphics Team:
Brad Wright, Publication Layout
Dan Lynch, Cover Design

Special appreciation to:

All accounting and budget personnel of state agencies and institutions of higher education whose extra time and effort made this report possible.

The State Auditor, John Keel, CPA, and his auditing staff.

State of Texas

Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2012

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Section One

Introductory
Section





February 22, 2013

To the Citizens of Texas, Governor Perry
and Members of the 83rd Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2012, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The state auditor performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2012, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations that would cause the financial statements to be misleading or incomplete if they were excluded are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. Note 19 provides a brief summary of the nature of significant component units and their relationship to the state of Texas.

All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education; health and human services; public safety and corrections; transportation; natural resources and recreation; regulation; general government; employee benefits; and teacher retirement state contributions.

The management discussion and analysis (MD&A) in the financial section provides an overview of the state's financial activities, addressing both governmental and business-type activities reported in the government-wide financial statements.

Accounting System and Budgetary Controls

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered into the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections, and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Economic Outlook

Texas' relative job growth advantage over the national economy continues today, as it did before and during the most recent recession. Texas added 278,800 jobs over the 12 months ended in November 2012, and total nonfarm employment reached 10.9 million. The 2.6 percent job growth rate for Texas included increases that spanned all the major industries except information. This was the fastest rate of growth among the nation's largest states and was faster than all but two (North Dakota and Oklahoma) of the nation's 50 states. The comparable national job growth rate was 1.4 percent over the past year.

The average annual unemployment rate in Texas has remained more than one percentage point lower than the nation's unemployment rate in each year from 2009 to 2012. After three years of little improvement, the Texas unemployment rate has eased in recent months from 7.4 percent a year ago to 6.2 percent in November 2012, its lowest level since 2008. The rate of job growth, despite an expanding labor force, should be sufficient to allow continued mild improvement in the unemployment rate.

After a decline of 5.7 percent in 2009, Texas' total personal income rebounded substantially for three years, with average annual growth of 6 percent, boosted by hiring in the oil and natural gas exploration and production sectors. During these three years, the state's income growth rate was faster than the nation's by an average of 1.8 percentage points annually.

Underlying this personal income growth is a population that has been, and will continue to be, fueled by net migration and a relatively high birth rate. Recent estimates by the U.S. Bureau of the Census show that eight of the nation's 15 most rapidly growing large incorporated cities are in Texas. The state's comparatively positive economic picture in the face of a weak national recovery has encouraged interstate migration to Texas. The state population

grew by an estimated 379,000 in calendar 2012, with 202,000 due to net migration. According to the Census Bureau, Texas accounted for nearly 16 percent of the nation's total population growth during the past decade, nearly twice the share that would be expected from its population size.

Texas passed its 2008 pre-recession employment peak in December 2011. As of November 2012, Texas employment has increased by 685,000 from the low point in December 2009, resulting in 258,000 more jobs than those lost in the recession. Nationally, the employment rebound from the recession's low point has been 4.6 million, about half of the 8.8 million jobs lost.

The Job Picture by Industry

Of the eleven major industries of the Texas economy, all except information had net employment growth from November 2011 to November 2012. Goods-producing industries – mining, manufacturing and construction – expanded by 3 percent, exceeding growth in service-providing industries (2.6 percent) for the second year. Goods-producing industries' growth was spurred on by the strength of oil and natural gas exploration and the manufacturing of energy-related machinery and drilling rigs during the first half of the year.

In the 12 months ended in November 2012, the industry that added the most jobs was trade, transportation and utilities, at 69,600 jobs. The industry that had the fastest growth rate, at 6.7 percent, was construction. As in much of the nation, information was by far the weakest major private industry in the state, with a decline of 1.7 percent (3,400 jobs), primarily owing to cuts in the telecommunications sector, but also from another year of job declines among businesses engaged in printing and publishing. Professional and business services advanced because of robust hiring in administrative and support services, including employment services. This is a sector that often adds temporary and part-time jobs when the economy emerges from a recession,

as employers hire temporary employees before filling full-time positions. Leisure and hospitality services account for one-tenth of Texas' total nonfarm employment but provided 18 percent of the state's job growth over the past year, with a gain of 49,900 jobs.

Mining and logging employment was propelled by the effects of firmer market prices and improved oil and natural gas exploration technology, especially the extensive application of horizontal drilling and fracturing techniques. The number of Texas operating oil and natural gas drilling rigs in Texas averaged 899 rigs in 2012, eclipsing the recent low of 329 rigs in June 2009. Mining and logging, predominantly comprised of oil and natural gas activity in Texas, added 8,900 jobs over the past year, a 3.6 percent rate of growth. In November 2012, the state's mining and logging industry job count stood at 257,500 jobs.

The broader oil and natural gas industry – mining, petrochemicals, petroleum refining, and oil/natural gas-related manufacturing – accounted for an estimated 16 percent of Texas' gross state product (GSP) in 2012. It serves as a buttress for the overall state economy when increasing oil and natural gas prices hinder the business and household consumers of those energy sources.

After losing employment for three years, shedding 124,000 jobs from the pre-recession employment peak to the subsequent trough, the Texas construction industry substantially recovered in 2012 to become the state's fastest-growing industry. Construction employment bottomed out in December 2011 and has gained 39,700 jobs since then. Although residential construction remained muted in 2012, the industry benefited from heavy and civil engineering construction projects, which accounted for nearly half of the new construction jobs and was the fastest growing industrial subsector, at 19 percent job growth, over the past year. According to McGraw-Hill Construction and the Comptroller's econometric model, Texas' total nonresidential building area (offices, fabrication facili-

ties and warehouses) put in place in 2012 increased by 5.6 percent over the amount built in 2011, to 83.2 million square feet.

A positive sign for Texas construction is that the total number of single-family and multi-family residential building permits – although remaining well behind historical trends – was up by 41 percent in 2012, increasing from 90,000 units in the previous twelve months to nearly 127,000 units in the twelve months ended in November 2012. According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sale price for an existing Texas single-family home rose 8.3 percent, from \$146,900 in November 2011 to \$159,100 in November 2012. Without Texas' construction job growth in 2012, the national construction industry would have seen another year of job declines, as the national increase of 14,000 jobs was far less than Texas' gain of 37,400 jobs (a solid 6.7 percent growth rate). Total Texas construction employment was 594,400 in November 2012.

The value of Texas exports set a new record in 2012, increasing by 5.9 percent to reach \$266 billion, according to the World Institute for Strategic Economic Research (WISER) and Comptroller estimates for the last quarter. Texas is the nation's leading exporting state, as it has been since 2002, and exports represent more than 19 percent of the state's GSP. The value of Texas exports, which are predominately to non-European countries, has grown more quickly than the nation's, so that Texas exports now account for 17 percent of the total U.S. value.

With Texas economic activity swelled by the demand for the products and services of the energy industry, the economic value of Texas manufacturing increased in 2012 to an estimated \$201 billion, from \$192 billion in 2011. Productivity improvements and employment growth contributed to this increase. Durable goods manufacturing employment grew by 7,000 jobs (1.3 percent), but weakness still grips the nondu-

rable goods sectors that are affected by outsourcing and technological changes, with ongoing erosion in printing, paper and food processing employment. Nondurable manufacturing sectors lost 4,400 jobs (down 1.5 percent) during the year. Manufacturing employment was 847,000 in November 2012.

Texas' service-providing industries, which account for more than 84 percent of the state's total nonfarm employment, had job growth of 2.6 percent from November 2011 to November 2012, following increases of 1.1 and 1.9 percent in 2010 and 2011. Services again underperformed the goods-producing industries in the rate of job growth, but still accounted for 82 percent of the jobs added during the year.

Employment expanded in the trade, transportation and utilities industry by 69,600 jobs; leisure and hospitality services by 49,900 jobs; education and health services by 45,700 jobs; and professional and business services by 37,400 jobs. Government gained 12,400 jobs and financial activities tacked on 9,300 jobs. With the delayed recovery of personal income growth, consumers have been wringing more years out of goods before replacing them, benefiting the repair sector, leading to job growth in other services of 9,000 jobs. Information, the smallest service-providing industry in Texas, has not added jobs in any year since the "dot.com" bust in 2000, losing another 3,400 jobs over the past year.

Texas consumer expenditures, based on sales tax collections in calendar year 2012, experienced solid growth, even in light of the nation's general economic uncertainty. The growth in sales tax receipts reached a six-year high in calendar 2012, up 12 percent, with much of the growth rooted in business spending related to oil and natural gas exploration. With more robust automobile and light truck sales, motor vehicle sales tax collections soared by a 19 percent increase during the calendar year. Texas consumer spending should continue expanding in 2013 and 2014.

Financial Policies

Fiscal soundness is an unwavering principle that guides the financial policies of the state. The Texas Constitution supports responsible governance by mandating several limitations on the budgeting process. In addition to the certification process requiring passage of a balanced budget in Article III, Section 49a, budget growth and indebtedness are also limited. According to Article VIII, Section 22, appropriations from state tax revenue not dedicated by the Texas Constitution cannot grow faster than state economic growth estimated by the Legislative Budget Board. Payments required for debt cannot exceed 5 percent of the previous three-year average of non-dedicated general revenue as provided in Article III, Section 49j.

The Economic Stabilization Fund (ESF), authorized in 1988 by the Texas Constitution, Article III, Section 49g, is yet another example of prudent governance. The Comptroller may transfer ESF amounts to the general revenue fund to prevent or eliminate temporary cash deficiencies. Any amounts transferred to general revenue shall be returned to the ESF as soon as practicable, but no later than Aug. 31 of each odd-numbered year. The Legislature may appropriate, by a three-fifths vote of the members present in each house, amounts in the ESF for spending that does not exceed the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house. The ESF shall receive a transfer, not later than the 90th day of each biennium, from the general revenue fund for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The ESF also receives transfers, not later than the 90th day of each fiscal year, from the general revenue fund for 75 percent of the prior fiscal year oil or natural gas production tax revenue that exceeds the amount of these collections in fiscal 1987. The balance in the fund

on Aug. 31, 2012 was \$6.1 billion. The ESF is also discussed in Note 13.

Major Initiatives

In recent years, Texas' budget-writing process has focused largely on short-term measures needed to close each successive budget gap. In recognition of this pattern, the Comptroller's office has inaugurated a series of programs designed to provide state policymakers with the information they need for effective, long-term financial planning.

Financial Allocation Study for Texas

For the 2012-13 biennium, the Texas Legislature appropriated about 42 percent of the state's non-dedicated general revenue for public education. Total spending by Texas school districts rose by nearly 64 percent from the 2000-01 through 2010-11 school years. Over the same period, enrollment rose by just 21 percent, roughly a third as fast as spending.

In response to a legislative directive to "identify school districts and campuses that use resource allocation practices that contribute to high academic achievement and cost-effective operations," the Comptroller's office created the Financial Allocation Study for Texas (FAST) to examine district and campus resource allocation – and the relationship between these allocations and student achievement. FAST allows school districts to identify ways to operate more efficiently without sacrificing student academic performance.

The FAST project was developed with the assistance of researchers at some of the state's top higher education institutions, Texas school superintendents, national experts and other stakeholders such as Texas school board members, professional education associations, education policy groups and business leaders. FAST ratings are provided to Texas school districts and campuses to identify those responsible for strong academic growth and cost-effective operations.

An accompanying web-based tool (www.fastexas.org) allows users to compare school districts and campuses on a multitude of academic and financial indicators. This first-of-its-kind tool is available to users free of charge.

The third annual edition of FAST, issued in 2012, gave 45 charter and school districts the highest rating of five stars. Of the 45 five-star districts, 27 held that rank in 2011 and 15 did so for three consecutive years.

The Cost of Federal Regulation

Excessive and poorly considered federal regulations can have a serious impact on Texas' economic health. The Comptroller's office has issued several recent reports addressing regulatory costs on our state.

In April 2012, the *Texas Business Attitudes Toward Federal Health Care Reform* report documented considerable opposition to federal health care reform among Texas businesses. Only 3.4 percent of the employers surveyed for the study believed the legislation will be good for their businesses.

Another area prone to federal regulatory overreach is environmental protection. More than 100 species found in Texas have received or are slated for federal endangered species review within the next five years, with potential consequences that could involve significant economic impacts on the state's landowners, businesses and communities.

To help policymakers stay abreast of rapidly evolving environmental regulation, in September 2011 the Comptroller's office debuted Keeping Texas First (www.keepingtexasfirst.com), a website that tracks proposed endangered species listings as well as air and water regulation, explains the federal rule-making process and provides detailed case studies outlining the financial impact of such regulation on the state economy.

One species found in the Permian Basin, for instance, was proposed for listing as an endangered species despite a lack of scientific data – in a region that provides 14 percent of the nation's oil and tens

of thousands of Texas jobs. The Comptroller's October 2012 *Endangered Economy: A Case Study of the Dunes Sagebrush Lizard and the West Texas Oil and Gas Industry* report discusses this case, which was resolved via a community-led, market-based program of voluntary conservation steps, without the severe land-use restrictions that follow listing under the Endangered Species Act.

The Comptroller spearheaded that effort as part of her role as the presiding officer of the state's Interagency Task Force on Economic Growth and Endangered Species. In January 2013, the task force released a report, *Update 2013: Task Force Activities in Response to Endangered Species Act Costs and Challenges*, detailing its work to head off onerous federal regulation while preserving the state's natural resources.

Tracking the Texas Economy

In February 2012, the Comptroller's office launched The Texas Economy website (www.thetexas-economy.org) – a comprehensive guide to the Texas economy and the industries, people and other factors that drive it – to help policymakers, businesses and taxpayers understand the complex forces shaping Texas. The regularly updated site provides a wide variety of data and analysis in an easy-to-understand and useful format, including information on:

- Key economic indicators
- Government revenue and spending
- Demographics
- Major industries
- Workforce trends
- Public education
- Career training
- Health care

The Texas Economy site also spotlights in-depth Comptroller research reports examining issues directly affecting state finances, such as reports on local government spending and bond debt.

Transparency

The Comptroller's office promotes openness in state and local governments and financial transparency at all levels. The agency's Texas Transparency website (www.texas Transparency.org) incorporates an Open Data Center that offers public access to machine-readable, platform-independent datasets on statewide contracts and bidders' lists, crude oil and natural gas industry data, tax receipts and more. A Texas EDGE Data Center provides data of interest to economic development officials, including population, employment, income, poverty, property values, sales activity and education information. Another feature, Where the Money Goes, allows the public to search the state check register and track state agency spending in detail.

A new feature added in November 2011, the Monthly State Revenue Watch (www.window.state.tx.us/finances/revenueWatch), presents detail on net state revenue collections by month of collection and type of revenue source, and allows its users to make side-by-side comparisons to prior year collections and the Comptroller's revenue estimate.

The Comptroller also encourages Texas local governments to open their books to the public by posting their budgets, annual financial reports and check registers online. Texas Transparency displays the progress local governments are making toward this goal, and gives users direct access to local government websites and their key financial documents.

As of Jan. 8, 2013, the Texas Transparency website listed all 254 Texas counties, 470 cities, 1,033 school districts and 32 special districts (including municipal utility districts, water districts, river authorities, toll road authorities and transit districts). More than 80 percent of these are posting at least one of the three recommended documents, giving taxpayers access to the data they need to see how their tax dollars are being spent. In calendar 2012, a total of 320 of these local governments earned the Comptroller's Leadership

Circle award for financial transparency, including 265 at the Gold level, 49 at the Silver level and six at the Bronze level.

Spotlighting Government Spending and Debt

Another major project springing from the Comptroller's transparency initiative is the *Texas, It's Your Money* series of reports released from August through December 2012. This series is intended to give Texans the tools they need to understand and hold accountable those responsible for government spending and debt. It also makes recommendations to improve the transparency of government finances and helps taxpayers exercise their fundamental right to control them.

The report series examines:

- The various local entities that add to Texans' tax bills – including cities, counties, special-purpose districts and transit authorities – and identifies trends in local taxation, including the proliferation of special taxing districts
- Trends in the issuance of bond debt, which local governments use for purposes such as hospital construction, water infrastructure and vehicle and technology purchases
- Bond indebtedness of public schools and higher education institutions, which supports the construction or renovation of educational facilities
- Public pension obligations in Texas

The *Texas, It's Your Money* series was accompanied by a suite of Web tools that will help Texans keep a closer eye on government finances, including interactive maps that provide a close-up view of the entities that assess property tax, collect sales tax revenues and issue public debt in each Texas county.

Protecting Texans' Health

Texas has been hard-hit by the national obesity epidemic, and this vital health issue is an economic risk

as well, costing Texas businesses \$9.5 billion annually. The 82nd Legislature asked the Comptroller to build a comprehensive collection of resources and information to help Texans address this problem.

In response to this charge, the Comptroller's office launched an online platform, Reshaping Texas (www.ReshapingTexas.org), in December 2012, to offer news and information about the obesity epidemic. Key topic areas include costs, Texas initiatives, success stories, research and maps. The site's features also include:

- Fitnessgram – aggregates fitness data collected by the Texas Education Agency to create geographic information system (GIS) maps showing where in Texas students are most at risk for obesity. These maps will help identify obesity “hot spots” in need of targeted interventions.
- Grants database – a regularly updated pool of funding opportunities for local nonprofits, schools and other organizations seeking resources to help fight obesity.
- Involvement information – step-by-step guidelines on how to get involved in the fight against obesity at the local level, including how to work with PTAs and School Health Advisory Councils.

Users are encouraged to share success stories and submit other relevant content.

Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200, creating the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required

to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development, renewable energy generation, nuclear power generation, advanced clean energy projects or electric power generation using integrated gasification combined cycle technology. The amount of investment and the minimum amount of the value limitation varies according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

As of August 2012, a total of 84 school districts were parties to 128 value limitation agreements, with the bulk of projects involving manufacturing facilities and wind farms.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2011. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 22 years (fiscal years ended August 1990 through 2011). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,

A handwritten signature in black ink that reads "Susan Combs". The signature is fluid and cursive, with a long horizontal stroke at the end.

Susan Combs

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Moirice

President

Jeffrey R. Emer

Executive Director



State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
Comptroller of Public Accounts

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Christi Craddick
David J. Porter
Barry T. Smitherman
Railroad Commissioners

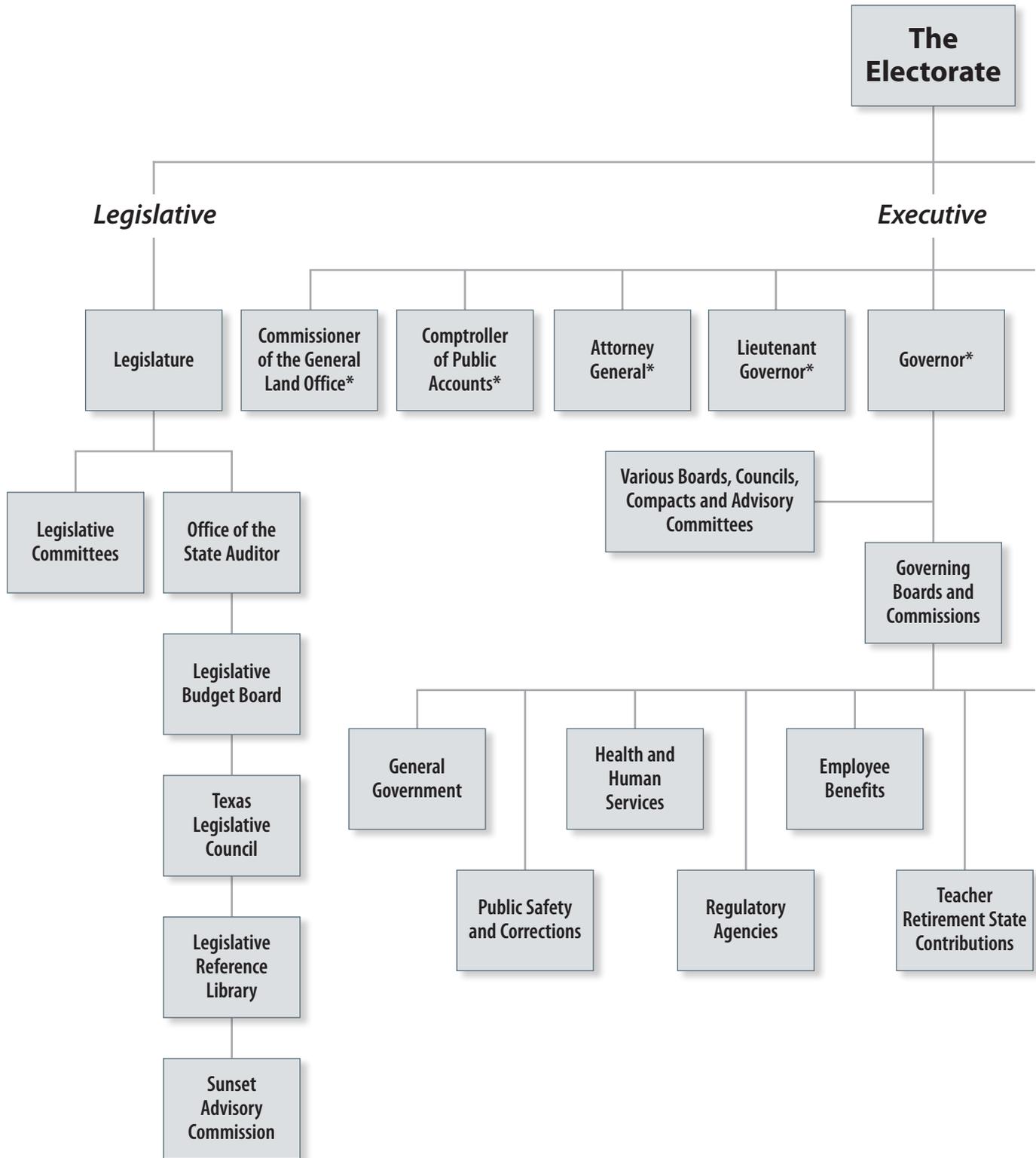
Legislative Lieutenant Governor David Dewhurst
President of the Senate

Joe Straus
Speaker of the House of Representatives

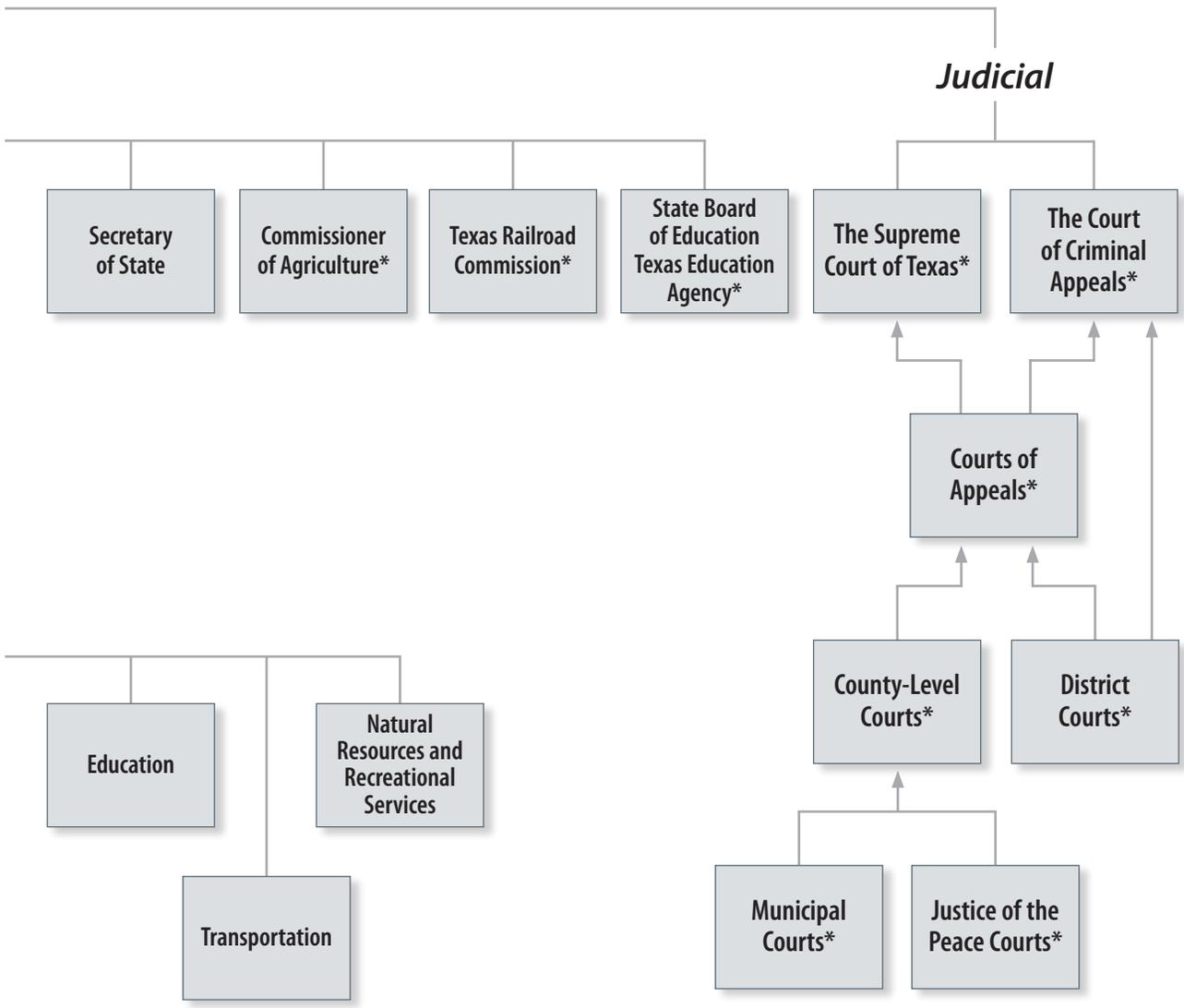
Judicial Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices





Section Two

Financial
Section



Independent Auditor's Report

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas, as of and for the year ended August 31, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas System, which constitutes 70 percent of the assets of Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 54 percent of the assets of the business-type activities.
- The Texas Lottery Fund, a major enterprise fund, which constitutes 16 percent of the operating revenues of the business-type activities.
- The Texas Local Government Investment Pool (TexPool), a blended component unit, which constitutes 7 percent of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based solely on the reports 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. The financial statements of TexPool were not audited in accordance with *Government Auditing Standards*. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas, as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO Report No. 13-323

As discussed in Note 6, the State of Texas reported conduit bond debt for two component units as a liability in the financial statements and disclosed conduit bond debt for two other component units in Note 6 as allowed by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, the modified approach to reporting infrastructure assets, and the schedules of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's financial statements. The other supplementary information - combining financial statements and schedules, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information - combining financial statements and schedules is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



John Keel, CPA
State Auditor

February 21, 2013



Section Two
(continued)

Management's
Discussion
and Analysis

Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2012. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2012 report.

Highlights

Government-wide

Net Position

The assets of the state of Texas exceeded its liabilities by \$148.6 billion as of Aug. 31, 2012, an increase of \$9.2 billion or 6.6 percent from fiscal 2011. The majority of the increase is primarily due to an increase of \$3.6 billion in nonexpendable funds. The net position is comprised of \$73.2 billion in capital assets, net of related debt, \$61.3 billion in restricted, and \$14.1 billion in unrestricted.

Fund Level

Governmental Funds

As of Aug. 31, 2012, the state's governmental funds reported a combined ending fund balance of \$44.2 billion, an increase of \$2.1 billion or 5 percent from fiscal 2011, primarily due to an increase in tax revenues. The state reported a positive unassigned fund balance of \$583.6 million in fiscal 2012.

Proprietary Funds

The proprietary funds reported a net position of \$46.8 billion as of Aug. 31, 2012, an increase of \$4.7 billion or 11.1 percent from fiscal 2011, primarily due to an increase in the valuation of investments.

Long-Term Debt

The state's total bonds outstanding decreased by \$843.3 million or 2.2 percent during fiscal 2012, primarily due to a restatement for bonds determined to

be conduit debt. This amount represents the net difference between net issuances, payments and refundings of outstanding bond debt. During fiscal 2012, the state issued bonds totaling \$2.2 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial position and activities in four parts:

- MD&A (this part)
- The basic financial statements
- Required supplementary information other than MD&A
- Other supplementary information presenting combining statements and schedules

The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements, which provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources mea-

surement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, deferred outflows, liabilities and deferred inflows.

Net position represents one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-type and component units). These costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net position and the statement of activities divide the state's activities into the following three types.

Governmental Activities

The state's basic services are reported here, including general government; education; employee benefits; teacher retirement state contributions; health and human services; public safety and corrections; transportation; natural resources and recreation; and regulatory services. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services

it provides are reported as business-type activities. The state's institutions of higher education are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state has 26 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and in the notes.

Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund-level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on the flow of money into and out of the funds and amounts remaining at fiscal year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund financial statements

provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the governmental activities column reported on the government-wide statement of net position and the government-wide statement of activities, and the governmental funds reported on the fund financial statements. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

The employees life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, the unemployment trust fund and the lottery fund are reported as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position

and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance its operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Position

Total assets of the state as of Aug. 31, 2012, were \$231.4 billion, an increase of \$19.5 billion or 9.2 percent. Total liabilities as of Aug. 31, 2012, were \$83.6 billion, an increase of \$10.5 billion or 14.3 percent. Net position was affected by a number of factors. Cash and cash equivalents increased by \$10.1 billion from fiscal 2011 and noncurrent investments increased by \$5.2 billion. Net capital assets increased by \$3.9 billion. The major components of this increase were additions to the state's highway system, and college and university building and building improvement projects. Current liabilities increased by \$9 billion, primarily due to the issuance of \$9.8 billion in tax and revenue anticipation notes in the latter part of fiscal 2012. There was an increase in net pension obligation of \$1.2 billion as well. The state's bonded indebtedness was \$37.9 billion, which included new issuances of \$2.2 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$2 billion in bonded debt was retired or refunded. Net position was \$148.6 billion as of Aug. 31, 2012, an increase of \$9.2 billion or 6.6 percent. Of the state's net position, \$73.2 billion was invested in capital assets, net of related debt, while \$61.3 billion was restricted by the Texas Constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was \$14.1 billion. The majority of the net position increase is primarily due to an increase of \$3.6 billion in nonexpendable funds.

Statement of Net Position

August 31, 2012 and 2011 (Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|--|-------------------------|----------------------|--------------------------|----------------------|--------------------------|-----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| ASSETS | | | | | | |
| Assets Other Than Capital Assets | \$ 67,569,392 | \$ 56,993,151 | \$ 61,025,689 | \$ 56,082,589 | \$ 128,595,081 | \$ 113,075,740 |
| Capital Assets | 78,448,782 | 75,667,494 | 24,343,466 | 23,189,842 | 102,792,248 | 98,857,336 |
| Total Assets | <u>146,018,174</u> | <u>132,660,645</u> | <u>85,369,155</u> | <u>79,272,431</u> | <u>231,387,329</u> | <u>211,933,076</u> |
| DEFERRED OUTFLOWS | | | | | | |
| | | | 773,010 | 575,740 | 773,010 | 575,740 |
| LIABILITIES | | | | | | |
| Current Liabilities | 24,369,928 | 15,466,022 | 9,950,778 | 9,869,570 | 34,320,706 | 25,335,592 |
| Noncurrent Liabilities | 19,876,070 | 19,941,936 | 29,386,652 | 27,844,373 | 49,262,722 | 47,786,309 |
| Total Liabilities | <u>44,245,998</u> | <u>35,407,958</u> | <u>39,337,430</u> | <u>37,713,943</u> | <u>83,583,428</u> | <u>73,121,901</u> |
| NET POSITION | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 63,458,493 | 61,917,432 | 9,712,946 | 9,242,552 | 73,171,439 | 71,159,984 |
| Restricted | 33,748,497 | 32,013,661 | 27,539,111 | 24,376,167 | 61,287,608 | 56,389,828 |
| Unrestricted | 4,565,186 | 3,321,594 | 9,552,678 | 8,515,509 | 14,117,864 | 11,837,103 |
| Total Net Position | <u>\$ 101,772,176</u> | <u>\$ 97,252,687</u> | <u>\$ 46,804,735</u> | <u>\$ 42,134,228</u> | <u>\$ 148,576,911</u> | <u>\$ 139,386,915</u> |

Changes in Net Position

The state's net position as of Aug. 31, 2012, increased by \$9.2 billion. The state earned program revenues of \$82.1 billion and general revenues of \$47.9 billion, for total revenues of \$130 billion, a decrease of \$1.6 billion or 1.2 percent from fiscal 2011. The major components of this decrease were operating grants and contributions, which had a decrease of \$6 billion, and capital grants and contributions, with a decrease of \$2.5 billion. Federal revenues decreased \$7.6 billion and interest and investment income decreased \$1.4 billion. These decreases offset \$4.7 billion gains in tax revenues.

The expenses of the state were \$120.5 billion, a decrease of \$4.1 billion or 3.3 percent. The expense

fluctuations in governmental activities are largely attributable to education and to health and human services. Education had a decrease of \$2.5 billion, primarily due to reduced distribution to local school districts. In business-type activities there was a \$938.1 million decrease in the health and human services function, primarily due to reduced unemployment benefit payments.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds. Operating and capital grants and contributions decreased while tax collections increased, mostly due to sales tax collections. Education expenses for local school districts and unemployment benefit payments also decreased.

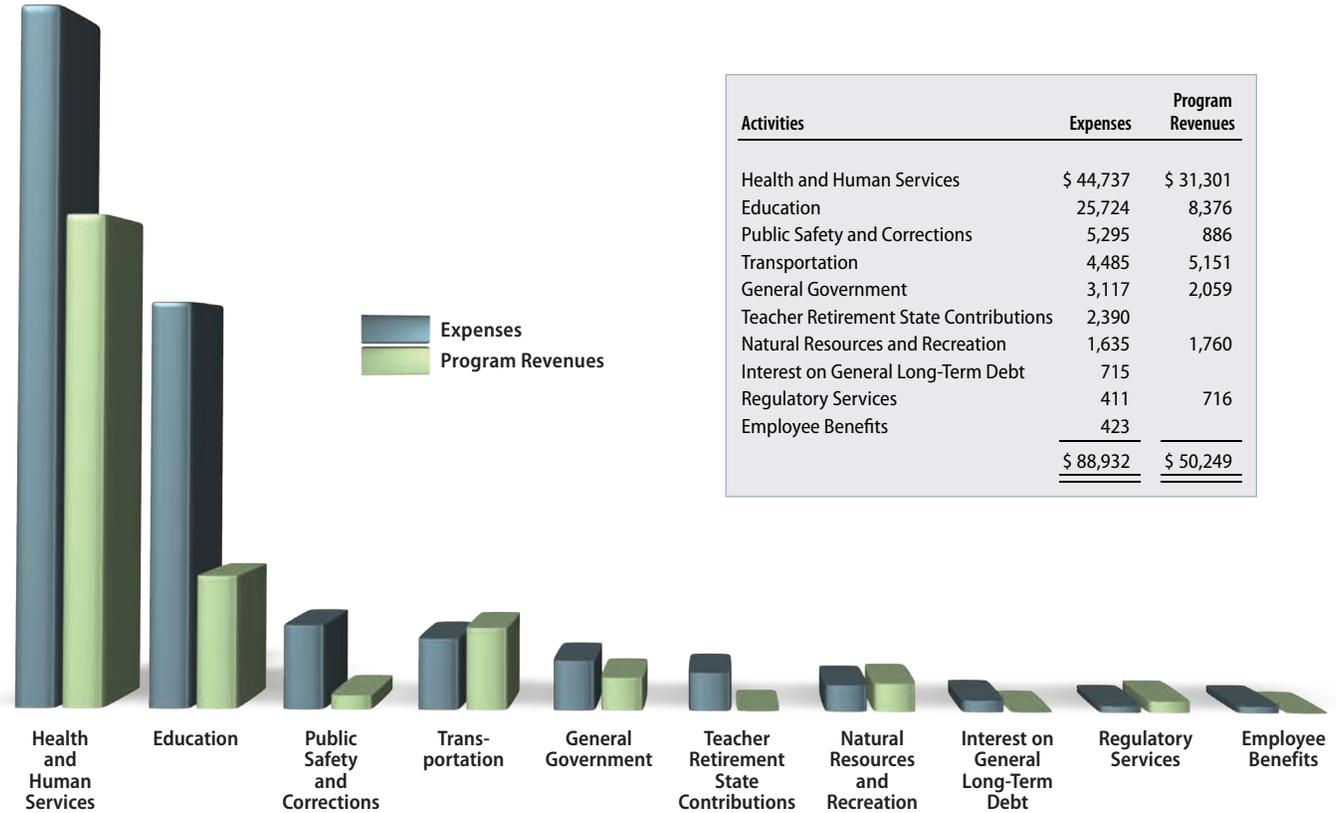
Changes in Net Position

For the Fiscal Years Ended August 31, 2012 and 2011 (Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|-------------------------|----------------------|--------------------------|----------------------|--------------------------|-----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| REVENUES | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 7,405,088 | \$ 7,337,119 | \$ 19,037,312 | \$ 17,682,518 | \$ 26,442,400 | \$ 25,019,637 |
| Operating Grants and Contributions | 42,796,231 | 47,220,463 | 12,542,912 | 14,103,243 | 55,339,143 | 61,323,706 |
| Capital Grants and Contributions | 47,578 | 2,538,949 | 259,750 | 281,741 | 307,328 | 2,820,690 |
| Total Program Revenues | <u>50,248,897</u> | <u>57,096,531</u> | <u>31,839,974</u> | <u>32,067,502</u> | <u>82,088,871</u> | <u>89,164,033</u> |
| General Revenues: | | | | | | |
| Taxes | 44,338,553 | 39,661,587 | | | 44,338,553 | 39,661,587 |
| Unrestricted Investment Earnings | 645,813 | 334,621 | 133,680 | 86,295 | 779,493 | 420,916 |
| Settlement of Claims | 620,898 | 584,305 | 378 | 1,215 | 621,276 | 585,520 |
| Gain on Sale of Capital Assets | 7,163 | 99 | 543 | 1 | 7,706 | 100 |
| Other General Revenues | 1,880,352 | 1,533,427 | 248,725 | 222,640 | 2,129,077 | 1,756,067 |
| Total General Revenues | <u>47,492,779</u> | <u>42,114,039</u> | <u>383,326</u> | <u>310,151</u> | <u>47,876,105</u> | <u>42,424,190</u> |
| Total Revenues | <u>97,741,676</u> | <u>99,210,570</u> | <u>32,223,300</u> | <u>32,377,653</u> | <u>129,964,976</u> | <u>131,588,223</u> |
| EXPENSES | | | | | | |
| General Government | 3,116,737 | 4,037,805 | 149,663 | 150,406 | 3,266,400 | 4,188,211 |
| Education | 25,724,127 | 28,643,283 | 22,667,292 | 22,226,690 | 48,391,419 | 50,869,973 |
| Employee Benefits | 423,492 | 324,477 | | | 423,492 | 324,477 |
| Teacher Retirement State Contributions | 2,390,178 | 2,262,638 | | | 2,390,178 | 2,262,638 |
| Health and Human Services | 44,737,457 | 44,875,285 | 5,117,829 | 6,055,958 | 49,855,286 | 50,931,243 |
| Public Safety and Corrections | 5,294,730 | 5,539,155 | 91,313 | 86,262 | 5,386,043 | 5,625,417 |
| Transportation | 4,484,662 | 4,377,794 | 215,845 | 209,880 | 4,700,507 | 4,587,674 |
| Natural Resources and Recreation | 1,634,659 | 1,474,675 | 346,150 | 423,140 | 1,980,809 | 1,897,815 |
| Regulatory Services | 410,724 | 408,115 | | | 410,724 | 408,115 |
| Interest on General Long-Term Debt | 715,148 | 797,030 | | | 715,148 | 797,030 |
| Lottery | | | 3,027,943 | 2,783,798 | 3,027,943 | 2,783,798 |
| Total Expenses | <u>88,931,914</u> | <u>92,740,257</u> | <u>31,616,035</u> | <u>31,936,134</u> | <u>120,547,949</u> | <u>124,676,391</u> |
| Excess Before Contributions, Special Items and Transfers | <u>8,809,762</u> | <u>6,470,313</u> | <u>607,265</u> | <u>441,519</u> | <u>9,417,027</u> | <u>6,911,832</u> |
| Capital Contributions | 930 | 108,119 | | 3,045 | 930 | 111,164 |
| Contributions to Permanent and Term Endowments | | | 136,800 | 126,971 | 136,800 | 126,971 |
| Transfers | (3,944,781) | (4,179,888) | 3,944,781 | 4,179,888 | | |
| Change in Net Position | <u>4,865,911</u> | <u>2,398,544</u> | <u>4,688,846</u> | <u>4,751,423</u> | <u>9,554,757</u> | <u>7,149,967</u> |
| Net Position, Beginning Balance | 97,252,687 | 94,905,088 | 42,134,228 | 37,371,790 | 139,386,915 | 132,276,878 |
| Restatements | (346,422) | (50,945) | (18,339) | 11,015 | (364,761) | (39,930) |
| Net Position, Beginning Balance, as Restated | <u>96,906,265</u> | <u>94,854,143</u> | <u>42,115,889</u> | <u>37,382,805</u> | <u>139,022,154</u> | <u>132,236,948</u> |
| Net Position, Ending Balance | <u>\$ 101,772,176</u> | <u>\$ 97,252,687</u> | <u>\$ 46,804,735</u> | <u>\$ 42,134,228</u> | <u>\$ 148,576,911</u> | <u>\$ 139,386,915</u> |

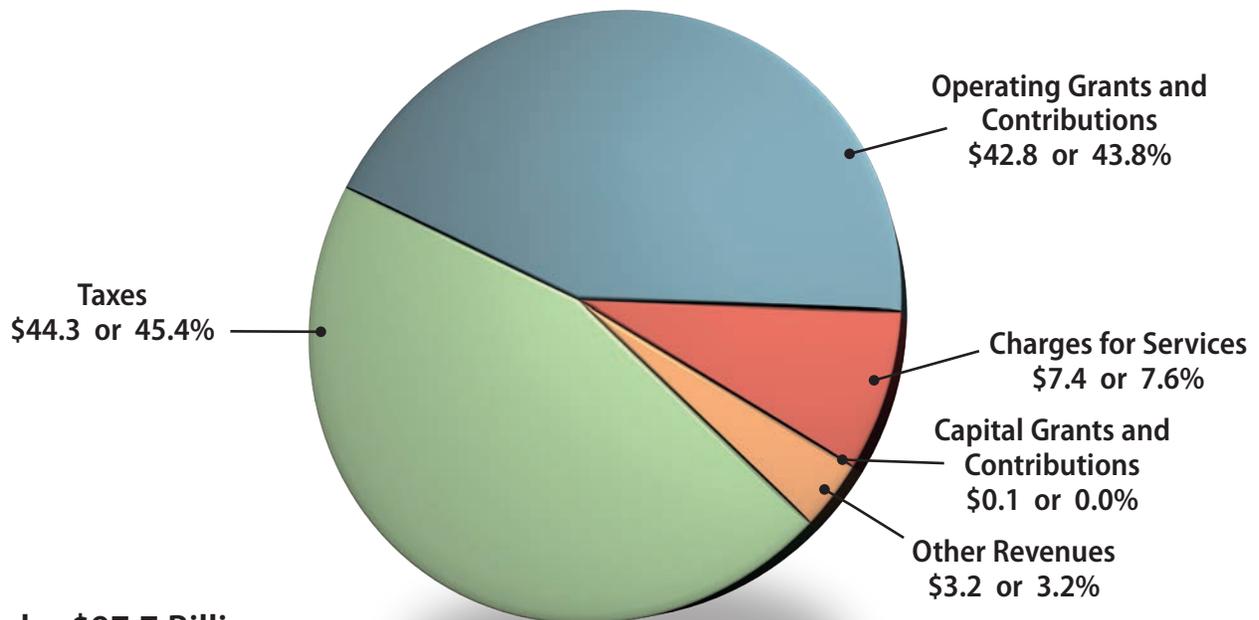
Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2012 (In Millions)



Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2012 (In Billions)*

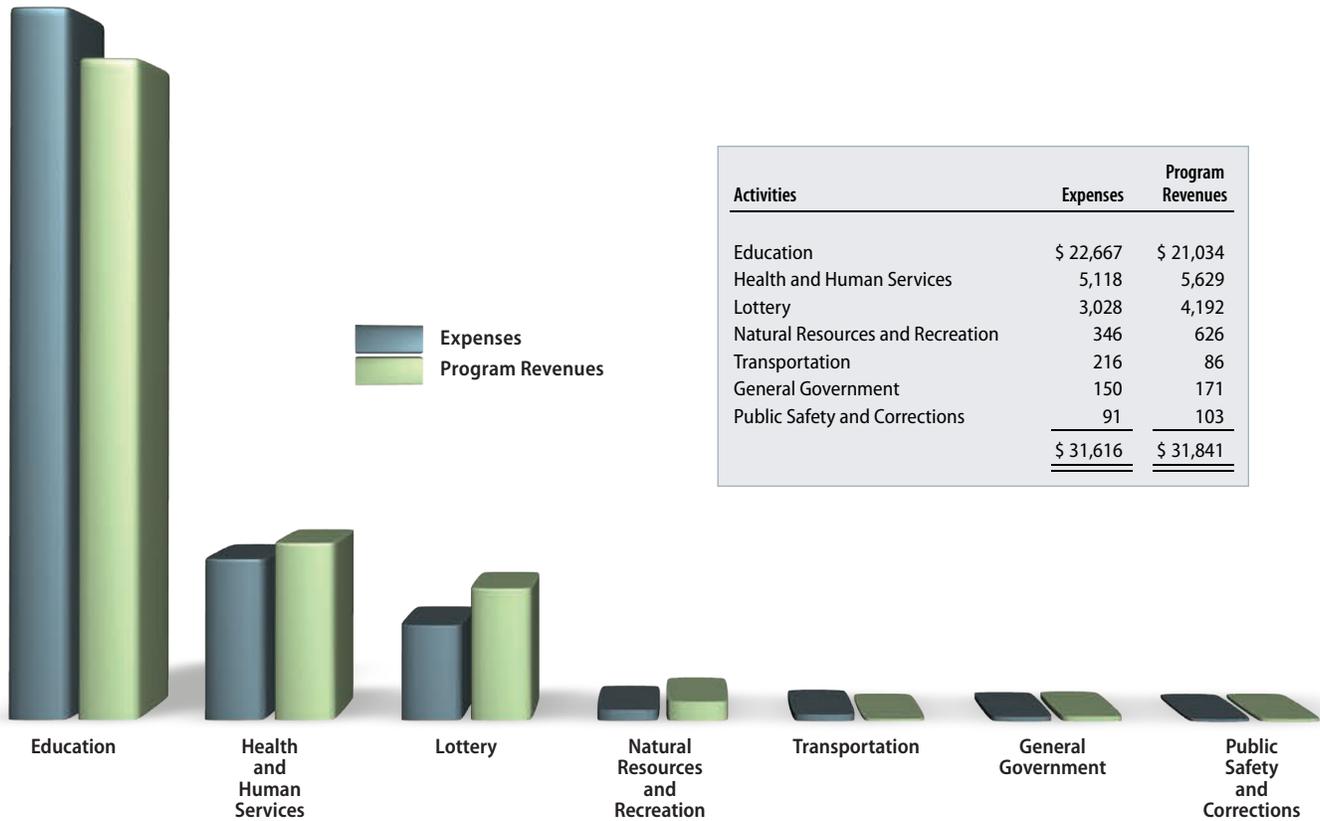


Total = \$97.7 Billion

* Totals may not add due to rounding

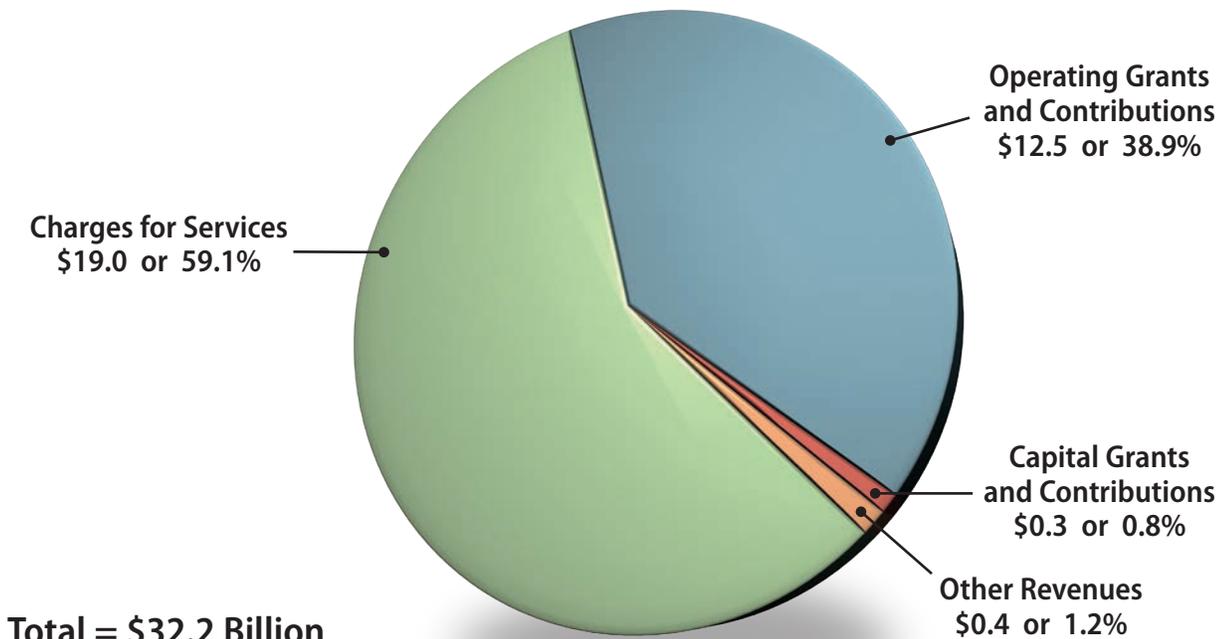
Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2012 (In Millions)



Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2012 (In Billions)*



* Totals may not add due to rounding

Governmental Activities

Governmental activities program revenue was \$50.2 billion, including charges for services of \$7.4 billion, operating grants and contributions of \$42.8 billion and capital grants and contributions of \$47.6 million. The largest change, a \$4.4 billion decrease, was for operating grants and contributions, which includes revenues from federal funds and interest and investment income. However, taxes had increases of \$4.7 billion from general revenue sources, with the largest increase in sales tax revenue.

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Total Cost of Services | Net Cost (Income) of Services |
|--|---------------------------|-------------------------------------|
| General Government | \$ 3,116,737 | \$ 1,058,097 |
| Education | 25,724,127 | 17,347,912 |
| Employee Benefits | 423,492 | 423,358 |
| Teacher Retirement State Contributions | 2,390,178 | 2,390,178 |
| Health and Human Services | 44,737,457 | 13,436,627 |
| Public Safety and Corrections | 5,294,730 | 4,408,721 |
| Transportation | 4,484,662 | (666,821) |
| Natural Resources and Recreation | 1,634,659 | (125,210) |
| Regulatory Services | 410,724 | (304,993) |
| Interest on General Long-Term Debt | 715,148 | 715,148 |
| Total | <u>\$88,931,914</u> | <u>\$38,683,017</u> |

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Total Cost of Services | Net Cost (Income) of Services |
|----------------------------------|---------------------------|-------------------------------------|
| General Government | \$ 149,663 | \$ (21,489) |
| Education | 22,667,292 | 1,633,397 |
| Health and Human Services | 5,117,829 | (511,380) |
| Public Safety and Corrections | 91,313 | (11,280) |
| Transportation | 215,845 | 130,011 |
| Natural Resources and Recreation | 346,150 | (279,547) |
| Lottery | 3,027,943 | (1,163,651) |
| Total | <u>\$31,616,035</u> | <u>\$ (223,939)</u> |

Governmental activities expenses were \$88.9 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation, natural resources and recreation, and regulatory services functions, which report slight surpluses. The education function and the health and human services function account for 79.2 percent of governmental activities expenses and 79.6 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

Business-Type Activities

Business-type activities generated program revenue of \$31.8 billion, including charges for services of \$19 billion, operating grants and contributions of \$12.5 billion and capital grants and contributions of \$259.8 million. The total expenses for business-type activities were \$31.6 billion. The largest changes occurred in education, with a \$440.8 million increase for colleges and universities, and in the health and human services function, where there was a decrease of \$938.1 million in unemployment benefit payments as the unemployment rate dropped to 7.3 percent. There was a total gain from the government's business-type activities of \$4.7 billion in comparison to the prior year's gain of \$4.8 billion.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2012, governmental funds reported fund balances of \$44.2 billion. The general fund reported a positive \$8.9 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2012, was \$8.9 billion, an increase of \$1.7 billion from fiscal 2011, mostly due to an increase in tax rev-

enues. The Texas Constitution, state statute, and federal rule or bond covenants constrains \$7.1 billion. The unassigned fund balance was \$1.1 billion. Contributing to the higher balance were decreases of \$2.4 billion in spending for education and decreases of \$6.5 billion in federal revenues. Decreases in supplemental nutrition assistance programs (SNAP), child nutrition programs and Medicare programs accounted for \$2.8 billion of the federal revenue decrease.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2012, was \$852.9 million, an increase of \$101.4 million from \$751.5 million as of Aug. 31, 2011. Cash and cash equivalents decreased \$514.7 million as highway reconstruction and maintenance costs increased by \$154.6 million.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2012, totaled \$28.8 billion, an increase of \$1.9 billion since Aug. 31, 2011. This increase was primarily attributable to an increase in valuation of investments of \$1.7 billion. Value in the fund provided \$1 billion in transfers to provide funding for public education. The PSF also supports the state's public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2012, a total of \$53.6 billion in school district bond issues were guaranteed.

Proprietary Funds

Proprietary funds reported a net position of \$46.8 billion as of Aug. 31, 2012, an increase of \$4.7 billion from fiscal 2011. The state's public colleges and universities hold 91.1 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities' net position as of Aug. 31, 2012, totaled \$42.6 billion, an increase of \$3.5 billion from Aug. 31, 2011. There were increases of \$637.4 million and \$470.9 million for both operating revenues and operating expenses, respectively, with an overall increase of \$166.4 million in operating income. There was \$4.5 billion in nonoperating investment and interest income in fiscal 2012, accounting for most of the \$4.8 billion in total nonoperating revenues over expenses. Stable market conditions produced positive investment returns. The permanent university fund increased net position by \$782.4 million. Mineral income from the fund's land possessions increased to \$954.5 million. This endowment fund contributes to the support of 24 institutions in the University of Texas System and the Texas A&M University System.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$29.3 million as of Aug. 31, 2012, an increase of \$842.2 million from \$(812.9) million as of Aug. 31, 2011. During fiscal 2012, unemployment taxes collected increased \$218.7 million from \$2.7 billion in 2011 while federal revenues decreased \$734.6 million from \$3.5 billion in 2011. Benefit payments decreased \$949.9 million as the unemployment rate dropped to 7.3 percent from 8.2 percent in 2011.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state's foundation school fund. The lottery fund had a net position of \$149.1 million as of Aug. 31, 2012, compared to \$118 million at the end of fiscal 2011. Lottery sales for the year ended Aug. 31, 2012, totaled \$4.2 billion, an increase of \$379.6 million from fiscal

2011. Distributions to state agencies totaled \$1.1 billion for fiscal 2012 compared to \$970.5 million for 2011, an increase of 13.8 percent.

The lottery fund's short-term and long-term investments approximated \$1.1 billion. The lottery fund's liabilities include amounts owed to the state's foundation school fund for August accrued sales for fiscal 2012, and for investment purchases, vendor payables and prize payment obligations.

Fiduciary Funds

Fiduciary funds reported \$151.6 billion in net position as of Aug. 31, 2012, an increase of \$4.2 billion from \$147.4 billion in fiscal 2011, a 2.9 percent increase.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$135.1 billion, an increase of \$4.5 billion from the \$130.6 billion reported in fiscal 2011. The majority of plan assets are held as investments for the pension funds. Additions from all sources decreased \$8.1 billion from fiscal 2011, while benefit payments increased \$870.2 million. Decreases in additions are due primarily to less favorable conditions in the financial markets and legislative decreases to state contributions. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was 7.6 percent and 8.2 percent, respectively, compared to the previous year's returns of 15.5 and 12.6 percent, respectively.

External Investment Trust Fund

The Treasury Safekeeping Trust Company (Trust Company) is the only external investment trust fund. It administers and invests funds belonging to state and local entities as well as provides direct access to services of the Federal Reserve System. The Trust reported a

total net position of \$13.5 billion as of Aug. 31, 2012, a decrease of \$421.2 million from fiscal 2011. The decrease in net position is due to withdrawals by local government entities, leaving a lower base from which to invest.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$2.9 billion as of Aug. 31, 2012, an increase of \$82.2 million from fiscal 2011. Additions from all sources of \$525.9 million exceeded total deductions of \$443.6 million.

Budgetary Highlights

Variations for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons.

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$2.7 billion.

There was a positive \$139.8 million variance between the actual to final budget revenues. The most positive revenue variance occurred for tax revenues, which reported a \$2.8 billion difference with actual exceeding final budget. The positive tax revenues variance was offset by a negative revenue variance occurring with federal revenues and sales of goods and services, where actual was below final budget.

The largest negative expenditure variances related to the education function and the health and human services function.

Capital Assets – Net of Depreciation and Amortization

August 31, 2012 and 2011 (Amounts In Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|-------------------------------------|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land and Land Improvements | \$ 9,519,723 | \$ 8,915,039 | \$ 1,570,622 | \$ 1,524,203 | \$ 11,090,345 | \$ 10,439,242 |
| Infrastructure | 59,314,678 | 58,354,931 | 2,539,629 | 2,416,197 | 61,854,307 | 60,771,128 |
| Construction in Progress | 6,178,225 | 5,033,330 | 2,128,658 | 2,635,344 | 8,306,883 | 7,668,674 |
| Buildings and Building Improvements | 2,380,577 | 2,327,370 | 14,296,422 | 12,939,434 | 16,676,999 | 15,266,804 |
| Facilities and Other Improvements | 70,273 | 70,075 | 892,674 | 822,863 | 962,947 | 892,938 |
| Furniture and Equipment | 251,025 | 242,873 | 1,509,776 | 1,435,699 | 1,760,801 | 1,678,572 |
| Vehicles, Boats and Aircraft | 429,389 | 418,239 | 75,279 | 65,513 | 504,668 | 483,752 |
| Other Capital Assets | 172,644 | 174,310 | 931,091 | 941,698 | 1,103,735 | 1,116,008 |
| Intangible Capital Assets, Net | 132,248 | 131,327 | 399,315 | 408,891 | 531,563 | 540,218 |
| Total Capital Assets | \$78,448,782 | \$75,667,494 | \$24,343,466 | \$23,189,842 | \$102,792,248 | \$98,857,336 |

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2012, the state had \$102.8 billion in net capital assets. This total represents a net increase of \$3.9 billion in total capital assets or 4 percent from fiscal 2011. Included in this amount are additions to the state's highway system of \$1.1 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$1.3 billion to buildings and building improvements.

To ensure future availability of essential services and to finance highway capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$14.4 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state. This amount is not recognized as a liability because the terms of the contracts or agreements were not met and benefits were not received as of the end of fiscal 2012.

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statement of net position.

The state accounts for its system of roads and highways using the modified approach. TxDOT developed a system of management, the Texas Maintenance Assessment Program (TxMAP), designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and its Central Texas Turnpike System at a condition level of 80 percent. The condition assessment results for fiscal 2012 reflect condition levels of 82 percent (83 percent in fiscal 2011) for the interstate system, 77.7 percent (78.5 percent for fiscal 2011) for the non-interstate system and 86.2 percent (89.9 percent for fiscal 2011) for the Central Texas Turnpike System.

In fiscal 2012, the estimated maintenance expenditures required to maintain the highway system at or above the adopted condition levels for interstate highways were \$191.4 million, \$2.2 billion for the non-interstate system and \$10 million for the Central Texas

Turnpike System. Actual expenditures were \$346.3 million for the interstate system, \$1.6 billion for the non-interstate system and \$10.6 million for the Central Texas Turnpike System. Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AA+ by Standard & Poor's and AAA by Fitch Ratings as of August 2012. During fiscal 2012, Texas state agencies and institutions of higher education issued \$2.2 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$603 million of state bonds issued in fiscal 2012. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$1.6 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$448.1 million in general obligation bonds and \$808.3 million in revenue bonds. Also, \$86.7 million in general obligation bonds and \$702.8 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2012, was \$14.5 billion. This represents an increase of \$68.7 million or 0.5 percent from fiscal 2011. An additional \$18 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding

as of Aug. 31, 2012, were \$23.3 billion, which is a decrease of \$912.1 million or 3.8 percent from fiscal 2011. The net decrease of \$912.1 million for revenue bonds is mostly due to a restatement of conduit debt by TxDOT. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

Economic Condition

Texas' economic growth, as evidenced by employment and gross domestic product, matched its long-term average rates in 2012. During the period from December 2011 to December 2012, Texas' nonfarm employment increased by 260,800 jobs, a 2.5 percent year-to-year growth rate. The unemployment rate dropped markedly in recent months, from 7.4 percent in December 2011 to 6.1 percent in December 2012, outperforming the nation's improvement from 8.5 percent to 7.8 percent.

Texas' real gross state product (GSP) increased by 3.2 percent in 2012, more than a percent faster than the nation's 2.1 percent. New oil and gas drilling technologies, a relatively healthier housing market, and robust export performance coalesced to continue a pattern of growth. On the downside, this rate of economic expansion was slower than that of 2010 and 2011, as the oil and gas exploration stabilized after three years of solid growth. Consumer confidence in the West South Central states still reached its highest level since 2008, as consumers reported less anxiety about the stability of national and global economies.

All but one of the state's 11 major industries added jobs in 2012. After four years of net job losses, the fastest job growth rate was in the construction industry, at 6.6 percent, although trade, transportation, and utilities added the largest number of jobs (56,000). Three other service-providing industries added more than 45,000 jobs and experienced growth rates exceeding 3 percent for the year, with these being professional and business

Outstanding Bonded Debt

August 31, 2012 and 2011 (Amounts in Thousands)

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|----------------------------------|-------------------------|----------------------|--------------------------|----------------------|--------------------------|----------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| General Obligation Bonds Payable | \$ 11,314,325 | \$ 11,519,544 | \$ 3,229,549 | \$ 2,955,651 | \$ 14,543,874 | \$ 14,475,195 |
| Revenue Bonds Payable | 4,276,898 | 5,455,607 | 19,033,469 | 18,766,862 | 23,310,367 | 24,222,469 |
| Total Bonds Payable | <u>\$ 15,591,223</u> | <u>\$ 16,975,151</u> | <u>\$ 22,263,018</u> | <u>\$ 21,722,513</u> | <u>\$ 37,854,241</u> | <u>\$ 38,697,664</u> |

services, education and health services, and leisure and hospitality services. Information, which includes the broadcast media, telecommunications and internet-based services, was the only major industry to lose jobs, sacrificing 1.7 percent of its workforce or 3,300 jobs.

The state's export sales reached another record high during the year and now account for 19.3 percent of the state's gross domestic product. Texas continues to lead all other states in the value of its export trade, which totaled \$266 billion in 2012.

Texas' recovery will continue to outpace that of the nation for the same reasons as in the past. These include continued net migration to the state, an export-conducive location in one of the nation's healthiest economic

regions, an experienced workforce, comparatively strong real estate markets and relatively low costs for business operations.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.





Section Two

(continued)

Basic
Financial
Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2012 (Amounts in Thousands)

| | Primary Government | | | Component Units |
|--|-------------------------|--------------------------|--------------------|------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 25,691,472 | \$ 4,919,379 | \$ 30,610,851 | \$ 776,929 |
| Short-Term Investments | 618,088 | 1,228,931 | 1,847,019 | 876,624 |
| Securities Lending Collateral | 389,323 | 693,110 | 1,082,433 | |
| Receivables: | | | | |
| Taxes (Note 24) | 3,094,060 | | 3,094,060 | |
| Federal | 2,597,125 | 683,313 | 3,280,438 | 36,420 |
| Other Intergovernmental | 891,827 | 69,646 | 961,473 | 2,761 |
| Accounts | 773,615 | 1,797,957 | 2,571,572 | 174,963 |
| Interest and Dividends | 95,012 | 138,953 | 233,965 | 8,619 |
| Gifts | | 185,627 | 185,627 | |
| Investment Trades | 9,049 | 474,347 | 483,396 | |
| Other | 88,123 | 302,144 | 390,267 | 63 |
| From Fiduciary Funds | 139,565 | 4 | 139,569 | |
| Due From Component Units (Note 12) | 89 | | 89 | |
| Inventories | 325,690 | 153,107 | 478,797 | 3,855 |
| Prepaid Items | 3,697 | 123,169 | 126,866 | 35,327 |
| Loans and Contracts | 79,004 | 290,185 | 369,189 | 1,606 |
| Other Current Assets | 84 | 376,199 | 376,283 | 1,825 |
| Restricted: | | | | |
| Cash and Cash Equivalents | 10,507 | 3,072,144 | 3,082,651 | 30,908 |
| Short-Term Investments | | 356,898 | 356,898 | |
| Loans and Contracts | 81,613 | 83,558 | 165,171 | 1,012 |
| Total Current Assets | <u>34,887,943</u> | <u>14,948,671</u> | <u>49,836,614</u> | <u>1,950,912</u> |
| Noncurrent Assets: | | | | |
| Internal Balances (Note 12) | 29,046 | (29,046) | | |
| Loans and Contracts | 1,865,615 | 4,282,189 | 6,147,804 | 18,687 |
| Investments | 28,921,833 | 5,640,391 | 34,562,224 | 3,233 |
| Receivables: | | | | |
| Taxes (Note 24) | 136,452 | | 136,452 | |
| Federal | 30,156 | | 30,156 | |
| Gifts | | 226,826 | 226,826 | |
| Other | 248,060 | 450 | 248,510 | 1,653 |
| Restricted: | | | | |
| Cash and Cash Equivalents | | 17,112 | 17,112 | |
| Short-Term Investments | | 1,453 | 1,453 | |
| Investments | | 32,346,619 | 32,346,619 | 249,753 |
| Receivables | | 181,601 | 181,601 | |
| Loans and Contracts | 1,327,845 | 3,106,040 | 4,433,885 | 9,339 |
| Other | 88,006 | 4,550 | 92,556 | |
| Assets Held in Trust | | 2,900 | 2,900 | |
| Deferred Charges | 34,432 | 100,472 | 134,904 | |
| Other Noncurrent Assets | 4 | 195,461 | 195,465 | 10,211 |
| Capital Assets: (Note 2) | | | | |
| Non-Depreciable or Non-Amortizable | 66,457,705 | 5,751,560 | 72,209,265 | 5,602 |
| Depreciable or Amortizable, Net | 11,991,077 | 18,591,906 | 30,582,983 | 56,252 |
| Total Noncurrent Assets | <u>111,130,231</u> | <u>70,420,484</u> | <u>181,550,715</u> | <u>354,730</u> |
| Total Assets | <u>146,018,174</u> | <u>85,369,155</u> | <u>231,387,329</u> | <u>2,305,642</u> |
| DEFERRED OUTFLOWS | | | | |
| Deferred Outflow of Resources (Note 7) | | 773,010 | 773,010 | |
| Total Deferred Outflow of Resources | <u>0</u> | <u>773,010</u> | <u>773,010</u> | <u>0</u> |

Concluded on the following page

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

STATE OF TEXAS

Statement of Net Position (concluded)

August 31, 2012 (Amounts in Thousands)

| LIABILITIES | Primary Government | | | Component Units |
|---|-------------------------|--------------------------|-----------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | \$ 5,106,640 | \$ 1,537,540 | \$ 6,644,180 | \$ 329,070 |
| Payroll | 634,772 | 715,368 | 1,350,140 | 759 |
| Other Intergovernmental | 330,008 | 18,432 | 348,440 | |
| Federal | 125 | 31,365 | 31,490 | 30,046 |
| Investment Trades | 22,864 | 533,073 | 555,937 | |
| Interest | 371,308 | 61,148 | 432,456 | 3,059 |
| Tax Refunds (Note 24) | 725,477 | | 725,477 | |
| Annuities | | 12,892 | 12,892 | |
| To Fiduciary Funds | 2,847 | | 2,847 | |
| Internal Balances (Note 12) | 865,668 | (865,668) | | |
| Due To Primary Government (Note 12) | | | | 89 |
| Unearned Revenue | 4,471,290 | 2,890,400 | 7,361,690 | 249,686 |
| Obligations/Reverse Repurchase Agreement | 66,293 | | 66,293 | |
| Obligations/Securities Lending | 488,975 | 693,110 | 1,182,085 | |
| Short-Term Debt (Note 4) | 9,800,000 | | 9,800,000 | |
| Claims and Judgments (Note 5) | 50,183 | 16,708 | 66,891 | |
| Capital Lease Obligations (Note 5, 8) | 5,365 | 3,514 | 8,879 | 54 |
| Employees' Compensable Leave (Note 5) | 439,322 | 364,698 | 804,020 | 3,701 |
| Notes and Loans Payable (Note 5) | 170,932 | 673,538 | 844,470 | 9,570 |
| General Obligation Bonds Payable (Note 5, 6) | 383,782 | 129,075 | 512,857 | |
| Revenue Bonds Payable (Note 5, 6) | 178,378 | 2,165,794 | 2,344,172 | 25,053 |
| Pollution Remediation Obligation (Note 5) | 51,876 | | 51,876 | |
| Liabilities Payable From Restricted Assets (Note 5) | | 541,137 | 541,137 | |
| Funds Held for Others | | 142,843 | 142,843 | 267 |
| Hedging Derivative Liability (Note 7) | | 2,244 | 2,244 | |
| Other Current Liabilities | 203,823 | 283,567 | 487,390 | 254,160 |
| Total Current Liabilities | <u>24,369,928</u> | <u>9,950,778</u> | <u>34,320,706</u> | <u>905,514</u> |
| Noncurrent Liabilities: | | | | |
| Claims and Judgments (Note 5) | 83,042 | 44,348 | 127,390 | |
| Capital Lease Obligations (Note 5, 8) | 6,338 | 18,124 | 24,462 | 56 |
| Employees' Compensable Leave (Note 5) | 293,574 | 340,545 | 634,119 | 2,184 |
| Notes and Loans Payable (Note 5) | 1,209,870 | 1,401,431 | 2,611,301 | 44,512 |
| General Obligation Bonds Payable (Note 5, 6) | 10,930,543 | 3,100,474 | 14,031,017 | |
| Revenue Bonds Payable (Note 5, 6) | 4,098,520 | 16,867,675 | 20,966,195 | 253,866 |
| Pollution Remediation Obligation (Note 5) | 195,508 | | 195,508 | |
| Liabilities Payable From Restricted Assets (Note 5) | | 2,959,350 | 2,959,350 | |
| Assets Held for Others | | 851,724 | 851,724 | |
| Net Pension Obligation (Note 9) | 3,058,675 | | 3,058,675 | |
| Net OPEB Obligation (Note 11) | | 2,867,745 | 2,867,745 | |
| Hedging Derivative Liability (Note 7) | | 770,766 | 770,766 | |
| Other Noncurrent Liabilities | | 164,470 | 164,470 | 246,665 |
| Total Noncurrent Liabilities | <u>19,876,070</u> | <u>29,386,652</u> | <u>49,262,722</u> | <u>547,283</u> |
| Total Liabilities | <u>44,245,998</u> | <u>39,337,430</u> | <u>83,583,428</u> | <u>1,452,797</u> |
| NET POSITION | | | | |
| Invested in Capital Assets, Net of Related Debt | 63,458,493 | 9,712,946 | 73,171,439 | 63,230 |
| Restricted for: | | | | |
| Education | 779,724 | 2,531,612 | 3,311,336 | 140,847 |
| Highways | 139,441 | | 139,441 | |
| Debt Service | 1,389,875 | 409,734 | 1,799,609 | |
| Capital Projects | 241,924 | 535,500 | 777,424 | |
| Veterans Land Board Housing Programs | | 693,050 | 693,050 | |
| Unemployment Trust Fund | | 1,481,132 | 1,481,132 | |
| Funds Held as Permanent Investments: | | | | |
| Nonexpendable | 12,786,286 | 15,926,936 | 28,713,222 | |
| Expendable | 16,778,380 | 5,945,582 | 22,723,962 | |
| Other | 1,632,867 | 15,565 | 1,648,432 | 74,169 |
| Unrestricted | <u>4,565,186</u> | <u>9,552,678</u> | <u>14,117,864</u> | <u>574,599</u> |
| Total Net Position | <u>\$ 101,772,176</u> | <u>\$ 46,804,735</u> | <u>\$ 148,576,911</u> | <u>\$ 852,845</u> |

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| Functions/Programs | Expenses | Program Revenues | | |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| PRIMARY GOVERNMENT | | | | |
| Governmental Activities: | | | | |
| General Government | \$ 3,116,737 | \$ 1,036,382 | \$ 1,022,258 | \$ |
| Education | 25,724,127 | 480,475 | 7,895,740 | |
| Employee Benefits | 423,492 | 134 | | |
| Teacher Retirement State Contributions | 2,390,178 | | | |
| Health and Human Services | 44,737,457 | 1,910,599 | 29,390,231 | |
| Public Safety and Corrections | 5,294,730 | 342,782 | 543,227 | |
| Transportation | 4,484,662 | 2,224,635 | 2,892,143 | 34,705 |
| Natural Resources and Recreation | 1,634,659 | 699,872 | 1,047,124 | 12,873 |
| Regulatory Services | 410,724 | 710,209 | 5,508 | |
| Interest on General Long-Term Debt | 715,148 | | | |
| Total Governmental Activities | <u>88,931,914</u> | <u>7,405,088</u> | <u>42,796,231</u> | <u>47,578</u> |
| Business-Type Activities: | | | | |
| General Government | 149,663 | 50,996 | 120,156 | |
| Education | 22,667,292 | 11,671,987 | 9,102,185 | 259,723 |
| Health and Human Services | 5,117,829 | 2,894,246 | 2,734,963 | |
| Public Safety and Corrections | 91,313 | 102,593 | | |
| Transportation | 215,845 | 85,819 | | 15 |
| Natural Resources and Recreation | 346,150 | 40,084 | 585,601 | 12 |
| Lottery | 3,027,943 | 4,191,587 | 7 | |
| Total Business-Type Activities | <u>31,616,035</u> | <u>19,037,312</u> | <u>12,542,912</u> | <u>259,750</u> |
| Total Primary Government | <u>\$ 120,547,949</u> | <u>\$ 26,442,400</u> | <u>\$ 55,339,143</u> | <u>\$ 307,328</u> |
| COMPONENT UNITS | | | | |
| Component Units | <u>\$ 2,806,197</u> | <u>\$ 2,464,820</u> | <u>\$ 314,814</u> | <u>\$</u> |
| Total Component Units | <u>\$ 2,806,197</u> | <u>\$ 2,464,820</u> | <u>\$ 314,814</u> | <u>\$ 0</u> |

| |
|---|
| General Revenues |
| Taxes: |
| Sales and Use |
| Motor Vehicle and Manufactured Housing |
| Motor Fuels |
| Franchise |
| Oil and Natural Gas Production |
| Insurance Occupation |
| Cigarette and Tobacco |
| Other |
| Unrestricted Investment Earnings |
| Settlement of Claims |
| Gain on Sale of Capital Assets |
| Other General Revenues |
| Capital Contributions |
| Contributions to Permanent and Term Endowments |
| Transfers - Internal Activities (Note 12) |
| Total General Revenues, Contributions and Transfers |
| Change in Net Position |
| Net Position, September 1, 2011 |
| Restatements (Note 14) |
| Net Position, September 1, 2011, as Restated |

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

Net Position, August 31, 2012

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | | |
|--------------------------------|---------------------------------|----------------------|------------------------|
| Governmental Activities | Business-Type Activities | Total | Component Units |
| \$ (1,058,097) | \$ | \$ (1,058,097) | \$ |
| (17,347,912) | | (17,347,912) | |
| (423,358) | | (423,358) | |
| (2,390,178) | | (2,390,178) | |
| (13,436,627) | | (13,436,627) | |
| (4,408,721) | | (4,408,721) | |
| 666,821 | | 666,821 | |
| 125,210 | | 125,210 | |
| 304,993 | | 304,993 | |
| (715,148) | | (715,148) | |
| <u>(38,683,017)</u> | <u>0</u> | <u>(38,683,017)</u> | <u>0</u> |
| | 21,489 | 21,489 | |
| | (1,633,397) | (1,633,397) | |
| | 511,380 | 511,380 | |
| | 11,280 | 11,280 | |
| | (130,011) | (130,011) | |
| | 279,547 | 279,547 | |
| | 1,163,651 | 1,163,651 | |
| <u>0</u> | <u>223,939</u> | <u>223,939</u> | <u>0</u> |
| <u>(38,683,017)</u> | <u>223,939</u> | <u>(38,459,078)</u> | <u>0</u> |
| | | | (26,563) |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>(26,563)</u> |
| 24,349,600 | | 24,349,600 | |
| 3,580,663 | | 3,580,663 | |
| 3,195,332 | | 3,195,332 | |
| 4,574,184 | | 4,574,184 | |
| 3,727,498 | | 3,727,498 | |
| 1,528,111 | | 1,528,111 | |
| 1,428,413 | | 1,428,413 | |
| 1,954,752 | | 1,954,752 | |
| 645,813 | 133,680 | 779,493 | (6,611) |
| 620,898 | 378 | 621,276 | |
| 7,163 | 543 | 7,706 | 735 |
| 1,880,352 | 248,725 | 2,129,077 | 1,414 |
| 930 | | 930 | |
| | 136,800 | 136,800 | |
| <u>(3,944,781)</u> | <u>3,944,781</u> | | |
| <u>43,548,928</u> | <u>4,464,907</u> | <u>48,013,835</u> | <u>(4,462)</u> |
| <u>4,865,911</u> | <u>4,688,846</u> | <u>9,554,757</u> | <u>(31,025)</u> |
| 97,252,687 | 42,134,228 | 139,386,915 | 888,310 |
| (346,422) | (18,339) | (364,761) | (4,440) |
| <u>96,906,265</u> | <u>42,115,889</u> | <u>139,022,154</u> | <u>883,870</u> |
| <u>\$101,772,176</u> | <u>\$ 46,804,735</u> | <u>\$148,576,911</u> | <u>\$ 852,845</u> |

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2012 (Amounts in Thousands)

| | General | State Highway Fund | Permanent School Fund | Nonmajor Funds | Totals |
|--|----------------------|--------------------------|-----------------------------|---------------------|----------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 17,366,123 | \$ 3,571,283 | \$ 1,470,216 | \$ 3,228,406 | \$ 25,636,028 |
| Short-Term Investments | 69,217 | | 37,709 | 117,082 | 224,008 |
| Securities Lending Collateral | | | 370,498 | | 370,498 |
| Receivables: | | | | | |
| Accounts | 427,214 | 146,399 | 80,004 | 3,138 | 656,755 |
| Taxes (Note 24) | 2,938,660 | 218,717 | | 73,135 | 3,230,512 |
| Federal | 2,271,394 | 333,859 | | 22,028 | 2,627,281 |
| Investment Trades | 2,568 | | 548 | 5,571 | 8,687 |
| Other Intergovernmental | 831,289 | 60,538 | | | 891,827 |
| Interest and Dividends | 3,950 | 8,189 | 68,390 | 12,511 | 93,040 |
| Other | 336,183 | | | | 336,183 |
| Due From Other Funds (Note 12) | 132,857 | 252,515 | | 73,450 | 458,822 |
| Due From Component Units (Note 12) | 89 | | | | 89 |
| Interfund Receivable (Note 12) | 38,498 | | | 457 | 38,955 |
| Inventories | 199,562 | 125,971 | | 157 | 325,690 |
| Prepaid Items | 1,589 | 2,097 | 6 | 5 | 3,697 |
| Investments | 529,638 | | 27,365,805 | 737,749 | 28,633,192 |
| Loans and Contracts | 517,612 | 392,325 | 3,505 | 1,031,177 | 1,944,619 |
| Other Assets | | | | 88 | 88 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 5,782 | | | 4,725 | 10,507 |
| Loans and Contracts | 620,394 | | | 789,064 | 1,409,458 |
| Other Assets | 5 | | | 88,001 | 88,006 |
| Total Assets | \$ 26,292,624 | \$ 5,111,893 | \$ 29,396,681 | \$ 6,186,744 | \$ 66,987,942 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | \$ 3,567,799 | \$ 883,449 | \$ 7,988 | \$ 84,676 | \$ 4,543,912 |
| Investment Trades | 361 | | 18,054 | 633 | 19,048 |
| Other Intergovernmental | 330,008 | | | | 330,008 |
| Tax Refunds (Note 24) | 725,477 | | | | 725,477 |
| Payroll | 526,384 | 101,716 | 2,434 | 4,238 | 634,772 |
| Federal | 125 | | | | 125 |
| Interest | 18,692 | | | | 18,692 |
| Due To Other Funds (Note 12) | 1,138,033 | 4,109 | 451 | 67,974 | 1,210,567 |
| Interfund Payable (Note 12) | 3,872 | | | 2,938 | 6,810 |
| Deferred Revenues | 1,057,804 | 3,261,582 | 94,660 | 364,905 | 4,778,951 |
| Obligations/Reverse Repurchase Agreements | 66,293 | | | | 66,293 |
| Obligations/Securities Lending | | | 470,169 | | 470,169 |
| Other Liabilities | 194,215 | 8,135 | | 1,473 | 203,823 |
| Short-Term Debt (Note 4) | 9,800,000 | | | | 9,800,000 |
| Total Liabilities | 17,429,063 | 4,258,991 | 593,756 | 526,837 | 22,808,647 |
| Fund Balances/(Deficits): | | | | | |
| Nonspendable (Note 13) | 677,781 | 128,068 | 12,041,080 | 745,373 | 13,592,302 |
| Restricted (Note 13) | 1,763,735 | 1,033,985 | 16,761,845 | 4,101,274 | 23,660,839 |
| Committed (Note 13) | 5,283,325 | 201,935 | | 811,052 | 6,296,312 |
| Assigned (Note 13) | 44,076 | | | 2,208 | 46,284 |
| Unassigned (Note 13) | 1,094,644 | (511,086) | | | 583,558 |
| Total Fund Balances | 8,863,561 | 852,902 | 28,802,925 | 5,659,907 | 44,179,295 |
| Total Liabilities and Fund Balances | \$ 26,292,624 | \$ 5,111,893 | \$ 29,396,681 | \$ 6,186,744 | \$ 66,987,942 |

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

August 31, 2012 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 44,179,295

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets less accumulated depreciation and amortization are included in the statement of net position. (Note 2)

| | | |
|---|-------------------|------------|
| Capital Assets – Non-Depreciable or Non-Amortizable | \$ 66,457,705 | |
| Capital Assets – Depreciable or Amortizable, Net | <u>11,991,077</u> | 78,448,782 |

Some of the state's resources are not currently available and are not reported in the funds.

| | | |
|---|---------------|--------|
| Deferred charges for unamortized bond issuance cost | 34,432 | |
| Derivative Instruments (Note 7) | <u>25,121</u> | 59,553 |

Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds. 961,817

Deferred revenues were recorded as an offset to capital assets recognized related to service concession arrangements (SCA). The SCAs are not reported in the governmental funds. (653,561) *

* The deferred revenues will be reclassified as deferred inflows upon implementation of GASB 60 in fiscal 2013.

Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (Note 5 and Note 9)

| | | |
|----------------------------------|--------------------|-----------------|
| Claims and Judgments | (133,225) | |
| Capital Lease Obligations | (11,703) | |
| Employees' Compensable Leave | (732,896) | |
| Notes and Loans Payable | (1,380,802) | |
| General Obligation Bonds Payable | (11,314,325) | |
| Revenue Bonds Payable | (4,276,898) | |
| Pollution Remediation Obligation | (247,384) | |
| Net Pension Obligation | <u>(3,058,675)</u> | (21,155,908) ** |

** current portion = \$1,279,838 and noncurrent portion = \$19,876,070

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (352,616)

The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 284,814

Net Position of Governmental Activities \$ 101,772,176

STATE OF TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | General | State Highway Fund | Permanent School Fund | Nonmajor Funds | Totals |
|---|---------------------|--------------------|-----------------------|---------------------|----------------------|
| REVENUES | | | | | |
| Taxes | \$ 38,326,801 | \$ 2,366,486 | \$ | \$ 3,477,300 | \$ 44,170,587 |
| Federal | 35,307,134 | 2,853,866 | | 58,353 | 38,219,353 |
| Licenses, Fees and Permits | 2,775,037 | 1,544,935 | 1,817 | 753,942 | 5,075,731 |
| Interest and Other Investment Income | 534,884 | 37,747 | 2,513,549 | 118,381 | 3,204,561 |
| Land Income | 32,042 | 9,650 | 390,499 | 15 | 432,206 |
| Settlement of Claims | 586,765 | 24,429 | | | 611,194 |
| Sales of Goods and Services | 1,608,370 | 17,949 | 46,762 | 186,560 | 1,859,641 |
| Other | 3,830,393 | 1,833 | 43 | 55,605 | 3,887,874 |
| Total Revenues | <u>83,001,426</u> | <u>6,856,895</u> | <u>2,952,670</u> | <u>4,650,156</u> | <u>97,461,147</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General Government | 2,782,656 | 17,164 | | 264,740 | 3,064,560 |
| Education | 24,499,872 | | 76,075 | 1,139,168 | 25,715,115 |
| Employee Benefits | 1,728 | | | 11,873 | 13,601 |
| Teacher Retirement State Contributions | 1,640,592 | | | | 1,640,592 |
| Health and Human Services | 44,705,422 | | | 3,270 | 44,708,692 |
| Public Safety and Corrections | 4,404,410 | 629,135 | | 81,029 | 5,114,574 |
| Transportation | 31,477 | 3,752,230 | | 4,773 | 3,788,480 |
| Natural Resources and Recreation | 1,559,236 | | | 59,514 | 1,618,750 |
| Regulatory Services | 342,807 | 2,560 | | 67,074 | 412,441 |
| Capital Outlay | 205,862 | 2,669,323 | 41 | 653,253 | 3,528,479 |
| Debt Service: | | | | | |
| Principal | 24,633 | 58,713 | | 496,420 | 579,766 |
| Interest | 43,753 | | | 681,686 | 725,439 |
| Other Financing Fees | 456 | 5,132 | | 2,004 | 7,592 |
| Total Expenditures | <u>80,242,904</u> | <u>7,134,257</u> | <u>76,116</u> | <u>3,464,804</u> | <u>90,918,081</u> |
| Excess (Deficiency) of Revenues | | | | | |
| Over (Under) Expenditures | <u>2,758,522</u> | <u>(277,362)</u> | <u>2,876,554</u> | <u>1,185,352</u> | <u>6,543,066</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfer In (Note 12) | 4,891,199 | 433,409 | | 1,953,305 | 7,277,913 |
| Transfer Out (Note 12) | (5,779,918) | (453,685) | (1,020,887) | (3,994,482) | (11,248,972) |
| Bonds and Notes Issued | 99,700 | | | 238,617 | 338,317 |
| Bonds Issued for Refunding | | | | 37,940 | 37,940 |
| Premiums on Bonds Issued | | | | 14,381 | 14,381 |
| Payment to Escrow for Refunding | | | | (62,086) | (62,086) |
| Sale of Capital Assets | 18,816 | 12,318 | | | 31,134 |
| Increase in Obligations Under Capital Leases | 88 | 2,779 | | | 2,867 |
| Insurance Recoveries | 1,467 | 159 | | | 1,626 |
| Total Other Financing Sources (Uses) | <u>(768,648)</u> | <u>(5,020)</u> | <u>(1,020,887)</u> | <u>(1,812,325)</u> | <u>(3,606,880)</u> |
| Net Change in Fund Balances | <u>1,989,874</u> | <u>(282,382)</u> | <u>1,855,667</u> | <u>(626,973)</u> | <u>2,936,186</u> |
| Fund Balances, September 1, 2011 | 7,184,566 | 751,539 | 26,947,258 | 7,183,357 | 42,066,720 |
| Restatements (Note 14) | (310,879) | 383,745 | | (896,477) | (823,611) |
| Fund Balances, September 1, 2011, as Restated | <u>6,873,687</u> | <u>1,135,284</u> | <u>26,947,258</u> | <u>6,286,880</u> | <u>41,243,109</u> |
| Fund Balances, August 31, 2012 | <u>\$ 8,863,561</u> | <u>\$ 852,902</u> | <u>\$ 28,802,925</u> | <u>\$ 5,659,907</u> | <u>\$ 44,179,295</u> |

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

Net Change in Fund Balances \$ 2,936,186

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

| | | |
|-------------------------------|-------------|-----------|
| Capital Outlay | \$3,528,479 | |
| Depreciation Expense (Note 2) | (969,324) | |
| Amortization Expense (Note 2) | (36,766) | |
| | 2,522,389 | 2,522,389 |

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position. (23,971)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,620,511)

The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for the internal service fund “close” the fund by allocating these amounts to participating governmental activities. 56,830

Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position.

| | | |
|---|-----------|---------|
| Bonds and Notes Issued | (376,257) | |
| Premiums on Bond Proceeds | (14,381) | |
| Increase in Obligations Under Capital Leases | (2,867) | |
| Repayment of Bond and Capital Lease Principal | 641,852 | |
| | 248,347 | 248,347 |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 746,600

Transfers of capital assets are not reported in the governmental funds. In addition, resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities.

| | | |
|-------------------------|----------|----|
| Capital Asset Transfers | 41 | |
| Increase in Revenues | 228 | |
| Increase in Expenses | (26,465) | |
| Net Change in Transfers | 26,237 | |
| | 41 | 41 |

Change in Net Position of Governmental Activities \$ 4,865,911

Statement of Net Position – Proprietary Funds

August 31, 2012 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | Totals | Governmental Activities – Internal Service Fund* |
|--|---|----------------------------|------------------|---------------------------------|-------------------|---|
| | Colleges and Universities | Unemployment Trust Fund | Lottery Fund | Nonmajor Enterprise Funds | | |
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 4,572,196 | \$ 736 | \$ 137,572 | \$ 208,875 | \$ 4,919,379 | \$ 55,444 |
| Short-Term Investments | 336,789 | | | 892,142 | 1,228,931 | 394,080 |
| Securities Lending Collateral | 511,401 | | | 181,709 | 693,110 | 18,825 |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | 916,722 | 1,389,012 | | 766,410 | 3,072,144 | |
| Short-Term Investments | 98,957 | | 176,625 | 81,316 | 356,898 | |
| Loans and Contracts | 17 | | | 83,541 | 83,558 | |
| Receivables: | | | | | | |
| Federal | 670,014 | 7,429 | | 5,870 | 683,313 | |
| Other Intergovernmental | 69,446 | | | 200 | 69,646 | |
| Accounts | 1,436,460 | 302,284 | 27,613 | 31,600 | 1,797,957 | 116,860 |
| Interest and Dividends | 65,804 | 6,338 | | 66,811 | 138,953 | 1,972 |
| Gifts | 185,627 | | | | 185,627 | |
| Investment Trades | 348,253 | | | 126,094 | 474,347 | 362 |
| Other | 299,159 | | | 2,985 | 302,144 | |
| Due From Other Funds (Note 12) | 848,173 | 12,712 | 578 | 41,267 | 902,730 | 21,332 |
| Interfund Receivable (Note 12) | 22,390 | | | 394 | 22,784 | |
| Inventories | 129,525 | | 13,154 | 10,428 | 153,107 | |
| Prepaid Items | 119,749 | 1,604 | 1,544 | 272 | 123,169 | |
| Loans and Contracts | 118,111 | | | 172,074 | 290,185 | |
| Other Current Assets | 375,933 | 5 | | 261 | 376,199 | |
| Total Current Assets | <u>11,124,726</u> | <u>1,720,120</u> | <u>357,086</u> | <u>2,672,249</u> | <u>15,874,181</u> | <u>608,875</u> |
| Noncurrent Assets: | | | | | | |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | (17,025) | | | 34,137 | 17,112 | |
| Short-Term Investments | 1,453 | | | | 1,453 | |
| Investments | 28,146,152 | | 897,131 | 3,303,336 | 32,346,619 | |
| Receivables | 31,782 | | | 149,819 | 181,601 | |
| Loans and Contracts | 105,587 | | | 3,000,453 | 3,106,040 | |
| Other | | | | 4,550 | 4,550 | |
| Loans and Contracts | 26,876 | | | 4,255,313 | 4,282,189 | |
| Investments | 5,640,778 | | | (387) | 5,640,391 | 263,520 |
| Interfund Receivable (Note 12) | 734,790 | | | 2,710 | 737,500 | |
| Gifts Receivable | 226,826 | | | | 226,826 | |
| Other Receivables | | | | 450 | 450 | |
| Capital Assets: (Note 2) | | | | | | |
| Non-Depreciable or Non-Amortizable | 3,470,382 | | | 2,281,178 | 5,751,560 | |
| Depreciable or Amortizable, Net | 18,190,233 | | 482 | 401,191 | 18,591,906 | |
| Assets Held in Trust | 362 | | | 2,538 | 2,900 | |
| Deferred Charges | 49,350 | 4,517 | | 46,605 | 100,472 | |
| Other Noncurrent Assets | 195,120 | | | 341 | 195,461 | |
| Total Noncurrent Assets | <u>56,802,666</u> | <u>4,517</u> | <u>897,613</u> | <u>13,482,234</u> | <u>71,187,030</u> | <u>263,520</u> |
| Total Assets | <u>67,927,392</u> | <u>1,724,637</u> | <u>1,254,699</u> | <u>16,154,483</u> | <u>87,061,211</u> | <u>872,395</u> |
| DEFERRED OUTFLOWS | | | | | | |
| Deferred Outflow of Resources (Note 7) | 336,328 | | | 436,682 | 773,010 | |
| Total Deferred Outflow of Resources | <u>336,328</u> | <u>0</u> | <u>0</u> | <u>436,682</u> | <u>773,010</u> | <u>0</u> |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Payables: | | | | | | |
| Accounts | 1,414,213 | 61,146 | 24,667 | 37,514 | 1,537,540 | 562,728 |
| Payroll | 709,927 | | 1,916 | 3,525 | 715,368 | |
| Other Intergovernmental | 18,432 | | | | 18,432 | |
| Federal | 31,365 | | | | 31,365 | |
| Investment Trades | 387,454 | | | 145,619 | 533,073 | 3,816 |
| Interest | 4,953 | 11,858 | | 44,337 | 61,148 | |
| Annuities | | | 12,892 | | 12,892 | |

Concluded on the following page

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2012 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | Totals | Governmental Activities – Internal Service Fund* |
|--|---|----------------------------|-------------------|---------------------------------|---------------------|---|
| | Colleges and Universities | Unemployment Trust Fund | Lottery Fund | Nonmajor Enterprise Funds | | |
| LIABILITIES (concluded) | | | | | | |
| Current Liabilities (concluded): | | | | | | |
| Due To Other Funds (Note 12) | \$ 26,699 | \$ | \$ 4,095 | \$ 3,165 | \$ 33,959 | \$ 1,636 |
| Interfund Payable (Note 12) | 25,794 | | | 89 | 25,883 | |
| Unearned Revenue | 2,763,882 | 54,173 | | 72,345 | 2,890,400 | 595 |
| Obligations/Securities Lending | 511,401 | | | 181,709 | 693,110 | 18,806 |
| Claims and Judgments (Note 5) | 16,708 | | | | 16,708 | |
| Capital Lease Obligations (Note 5, 8) | 3,514 | | | | 3,514 | |
| Employees' Compensable Leave (Note 5) | 361,498 | | 1,243 | 1,957 | 364,698 | |
| Notes and Loans Payable (Note 5) | 673,538 | | | | 673,538 | |
| General Obligation Bonds Payable (Note 5, 6) | 9,080 | | | 119,995 | 129,075 | |
| Revenue Bonds Payable (Note 5, 6) | 1,849,393 | 175,110 | | 141,291 | 2,165,794 | |
| Liabilities Payable From Restricted Assets (Note 5) | | | 289,166 | 251,971 | 541,137 | |
| Funds Held for Others | 142,843 | | | | 142,843 | |
| Hedging Derivative Liability (Note 7) | 2,244 | | | | 2,244 | |
| Other Current Liabilities | 281,622 | | 1,053 | 892 | 283,567 | |
| Total Current Liabilities | <u>9,234,560</u> | <u>302,287</u> | <u>335,032</u> | <u>1,004,409</u> | <u>10,876,288</u> | <u>587,581</u> |
| Noncurrent Liabilities: | | | | | | |
| Interfund Payable (Note 12) | 766,546 | | | | 766,546 | |
| Claims and Judgments (Note 5) | 44,348 | | | | 44,348 | |
| Capital Lease Obligations (Note 5, 8) | 18,124 | | | | 18,124 | |
| Employees' Compensable Leave (Note 5) | 338,201 | | 915 | 1,429 | 340,545 | |
| Notes and Loans Payable (Note 5) | 318,554 | | | 1,082,877 | 1,401,431 | |
| General Obligation Bonds Payable (Note 5, 6) | 20,836 | | | 3,079,638 | 3,100,474 | |
| Revenue Bonds Payable (Note 5, 6) | 10,731,887 | 1,393,012 | | 4,742,776 | 16,867,675 | |
| Liabilities Payable From Restricted Assets (Note 5) | | | 769,627 | 2,189,723 | 2,959,350 | |
| Assets Held for Others | 849,186 | | | 2,538 | 851,724 | |
| Net OPEB Obligation (Note 11) | 2,867,745 | | | | 2,867,745 | |
| Hedging Derivative Liability (Note 7) | 334,084 | | | 436,682 | 770,766 | |
| Other Noncurrent Liabilities | 92,877 | | | 71,593 | 164,470 | |
| Total Noncurrent Liabilities | <u>16,382,388</u> | <u>1,393,012</u> | <u>770,542</u> | <u>11,607,256</u> | <u>30,153,198</u> | <u>0</u> |
| Total Liabilities | <u>25,616,948</u> | <u>1,695,299</u> | <u>1,105,574</u> | <u>12,611,665</u> | <u>41,029,486</u> | <u>587,581</u> |
| NET POSITION | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 9,133,022 | | 482 | 579,442 | 9,712,946 | |
| Restricted for: | | | | | | |
| Education | 2,531,612 | | | | 2,531,612 | |
| Debt Retirement | 100,362 | 100,141 | | 209,231 | 409,734 | |
| Capital Projects | 535,500 | | | | 535,500 | |
| Veterans Land Board Housing Programs | | | | 693,050 | 693,050 | |
| Unemployment Trust Funds | | 1,481,132 | | | 1,481,132 | |
| Funds Held as Permanent Investments: | | | | | | |
| Nonexpendable | 15,926,936 | | | | 15,926,936 | |
| Expendable | 5,945,582 | | | | 5,945,582 | |
| Other | | 10,065 | 5,000 | 500 | 15,565 | 284,814 |
| Unrestricted | 8,473,758 | (1,562,000) | 143,643 | 2,497,277 | 9,552,678 | |
| Total Net Position | <u>\$42,646,772</u> | <u>\$ 29,338</u> | <u>\$ 149,125</u> | <u>\$ 3,979,500</u> | <u>\$46,804,735</u> | <u>\$ 284,814</u> |

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

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | Governmental Activities – Internal Service Fund* | |
|--|---|----------------------------|------------------|---------------------------------|---|------------------|
| | Colleges and Universities | Unemployment Trust Fund | Lottery Fund | Nonmajor Enterprise Funds | | Totals |
| OPERATING REVENUES | | | | | | |
| Lottery Collections | \$ | \$ | \$ 4,191,176 | \$ | \$ 4,191,176 | \$ |
| Tuition Revenue | 60,279 | | | | 60,279 | |
| Tuition Revenue – Pledged | 4,952,077 | | | | 4,952,077 | |
| Discounts and Allowances | (1,155,399) | | | | (1,155,399) | |
| Hospital Revenue – Pledged | 9,050,488 | | | | 9,050,488 | |
| Discounts and Allowances | (4,912,239) | | | | (4,912,239) | |
| Professional Fees | 4,411,333 | | | | 4,411,333 | |
| Professional Fees – Pledged | 6,335 | | | | 6,335 | |
| Discounts and Allowances | (2,883,531) | | | | (2,883,531) | |
| Auxiliary Enterprises | 3,856 | | | | 3,856 | |
| Auxiliary Enterprises – Pledged | 1,188,294 | | | 102,342 | 1,290,636 | |
| Discounts and Allowances | (61,518) | | | | (61,518) | |
| Unemployment Taxes | | 2,894,245 | | | 2,894,245 | |
| Other Sales of Goods and Services | 25,751 | | | 72,762 | 98,513 | |
| Other Sales of Goods and Services – Pledged | 721,832 | | | 104,571 | 826,403 | |
| Discounts and Allowances | (202) | | | | (202) | |
| Interest and Investment Income | 1,881 | | 5 | 285,368 | 287,254 | |
| Interest and Investment Income – Pledged | 104 | | | 80,268 | 80,372 | |
| Federal Revenue | 2,065,240 | 2,734,963 | | 31,992 | 4,832,195 | 28 |
| State Grant Revenue | 27,369 | | | | 27,369 | |
| Premium Revenue | | | | | | 1,878,972 |
| Other Operating Grant Revenue | 747,607 | | | | 747,607 | |
| Other Operating Grant Revenue – Pledged | 699,420 | | | | 699,420 | |
| Other Revenues | 46,535 | 247,082 | 982 | 59,977 | 354,576 | 835 |
| Other Revenues – Pledged | 142,307 | | | | 142,307 | |
| Total Operating Revenues | <u>15,137,819</u> | <u>5,876,290</u> | <u>4,192,163</u> | <u>737,280</u> | <u>25,943,552</u> | <u>1,879,835</u> |
| OPERATING EXPENSES | | | | | | |
| Cost of Goods Sold | 147,307 | | | 74,548 | 221,855 | |
| Salaries and Wages | 10,253,144 | | 17,425 | 42,291 | 10,312,860 | 4,448 |
| Payroll Related Costs | 2,263,539 | | 4,402 | 10,292 | 2,278,233 | 1,148 |
| Professional Fees and Services | 800,367 | | 4,416 | 83,701 | 888,484 | 1,910 |
| Travel | 281,620 | | 278 | 566 | 282,464 | 51 |
| Materials and Supplies | 1,906,236 | | 1,726 | 9,832 | 1,917,794 | 404 |
| Communication and Utilities | 716,632 | | 604 | 1,839 | 719,075 | 250 |
| Repairs and Maintenance | 436,563 | | 423 | 16,319 | 453,305 | 321 |
| Rentals and Leases | 241,815 | | 4,452 | 1,962 | 248,229 | 330 |
| Printing and Reproduction | 65,550 | | 11,380 | 224 | 77,154 | 12 |
| Depreciation and Amortization | 1,626,945 | | 216 | 22,869 | 1,650,030 | |
| Unemployment Benefit Payments | | 5,064,664 | | | 5,064,664 | |
| Bad Debt Expense | 9,744 | | 435 | 2,414 | 12,593 | |
| Interest Expense | 2,039 | | | 274,067 | 276,106 | |
| Scholarships | 977,905 | | | | 977,905 | |
| Lottery Fees and Other Costs | | | 313,581 | | 313,581 | |
| Lottery Prize Payments | | | 2,632,624 | | 2,632,624 | |
| Employee/Participant Benefit Payments | | | | 160,063 | 160,063 | 1,826,996 |
| Claims and Judgments | 19,308 | | | | 19,308 | |
| Net Change in Pension/OPEB Obligations (Note 11) | 624,284 | | | | 624,284 | |
| Other Expenses | 1,358,283 | | 35,980 | 60,927 | 1,455,190 | 527 |
| Total Operating Expenses | <u>21,731,281</u> | <u>5,064,664</u> | <u>3,027,942</u> | <u>761,914</u> | <u>30,585,801</u> | <u>1,836,397</u> |
| Operating Income (Loss) | <u>(6,593,462)</u> | <u>811,626</u> | <u>1,164,221</u> | <u>(24,634)</u> | <u>(4,642,249)</u> | <u>43,438</u> |

Concluded on the following page

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | Totals | Governmental Activities – Internal Service Fund* |
|---|---|----------------------------|--------------------|---------------------------------|---------------------|---|
| | Colleges and Universities | Unemployment Trust Fund | Lottery Fund | Nonmajor Enterprise Funds | | |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Federal Revenue | \$ 887,300 | \$ | \$ | \$ 307,292 | \$ 1,194,592 | \$ |
| Gifts | 541,702 | | | 879 | 542,581 | |
| Gifts – Pledged | 130,952 | | | | 130,952 | |
| Land Income | 6,525 | | | 13 | 6,538 | |
| Interest and Investment Income | 3,427,603 | 22,552 | 22,442 | 158,004 | 3,630,601 | 13,166 |
| Interest and Investment Income – Pledged | 407,745 | | | | 407,745 | |
| Loan Premium and Fees on Securities Lending | | | | 343 | 343 | 36 |
| Investing Activities Expense | (76,255) | | | (892) | (77,147) | |
| Interest Expense | (521,419) | (50,119) | | (143,949) | (715,487) | |
| Borrower Rebates and Agent Fees | (2,185) | | | (257) | (2,442) | (14) |
| Gain (Loss) on Sale of Capital Assets | (21,035) | | | (463) | (21,498) | |
| Settlement of Claims | | | | 378 | 378 | 204 |
| Claims and Judgments | (686) | | | | (686) | |
| Other Revenues | 20,256 | | | | 20,256 | |
| Other Revenues – Pledged | 85,471 | | | | 85,471 | |
| Other Expenses | (134,407) | (3,047) | | (74,977) | (212,431) | |
| Total Nonoperating Revenues (Expenses) | <u>4,751,567</u> | <u>(30,614)</u> | <u>22,442</u> | <u>246,371</u> | <u>4,989,766</u> | <u>13,392</u> |
| Income (Loss) Before Capital Contributions, Endowments and Transfers | <u>(1,841,895)</u> | <u>781,012</u> | <u>1,186,663</u> | <u>221,737</u> | <u>347,517</u> | <u>56,830</u> |
| CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS | | | | | | |
| Capital Contributions – Federal | 15,289 | | | | 15,289 | |
| Capital Contributions – Other | 244,391 | | | 27 | 244,418 | |
| Contributions to Permanent and Term Endowments | 136,800 | | | | 136,800 | |
| Transfer In (Note 12) | 5,582,453 | 87,350 | | 68,356 | 5,738,159 | |
| Transfer Out (Note 12) | <u>(576,426)</u> | <u>(26,102)</u> | <u>(1,155,523)</u> | <u>(35,286)</u> | <u>(1,793,337)</u> | |
| Total Capital Contributions, Endowments and Transfers | <u>5,402,507</u> | <u>61,248</u> | <u>(1,155,523)</u> | <u>33,097</u> | <u>4,341,329</u> | <u>0</u> |
| Change in Net Position | <u>3,560,612</u> | <u>842,260</u> | <u>31,140</u> | <u>254,834</u> | <u>4,688,846</u> | <u>56,830</u> |
| Net Position, September 1, 2011 | 39,104,136 | (812,922) | 117,985 | 3,725,029 | 42,134,228 | 227,984 |
| Restatements (Note 14) | (17,976) | | | (363) | (18,339) | |
| Net Position, September 1, 2011, as Restated | <u>39,086,160</u> | <u>(812,922)</u> | <u>117,985</u> | <u>3,724,666</u> | <u>42,115,889</u> | <u>227,984</u> |
| Net Position, August 31, 2012 | <u>\$42,646,772</u> | <u>\$ 29,338</u> | <u>\$ 149,125</u> | <u>\$3,979,500</u> | <u>\$46,804,735</u> | <u>\$ 284,814</u> |

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

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | Totals | Governmental Activities – Internal Service Fund* |
|---|---|----------------------------|-----------------|---------------------------------|---------------|---|
| | Colleges and Universities | Unemployment Trust Fund | Lottery Fund | Nonmajor Enterprise Funds | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | |
| Proceeds from Customers | \$ 5,956,312 | \$ 2,893,606 | \$ 4,180,179 | \$ 281,425 | \$ 13,311,522 | \$ 440,857 |
| Proceeds from Tuition and Fees | 3,889,683 | | | | 3,889,683 | |
| Proceeds from Research Grants and Contracts | 3,731,788 | 2,763,302 | | | 6,495,090 | |
| Proceeds from Gifts | | | | 35 | 35 | |
| Proceeds from Loan Programs | 307,647 | | | 578,078 | 885,725 | |
| Proceeds from Auxiliaries | 1,119,246 | | | 675 | 1,119,921 | |
| Proceeds from Other Operating Revenues | 601,800 | 232,187 | | 91,054 | 925,041 | 1,384,928 |
| Payments to Suppliers for Goods and Services | (6,345,783) | | (377,969) | (370,823) | (7,094,575) | (3,718) |
| Payments to Employees | (12,504,895) | | (21,830) | (52,129) | (12,578,854) | (6,283) |
| Payments for Loans Provided | (346,660) | | | (363,261) | (709,921) | |
| Payments for Lottery Prizes | | | (2,595,246) | | (2,595,246) | |
| Payments for Unemployment Benefits | | (5,123,336) | | | (5,123,336) | |
| Payments for Other Operating Expenses | (854,803) | | | (8,424) | (863,227) | (1,790,369) |
| Net Cash Provided (Used) by Operating Activities | (4,445,665) | 765,759 | 1,185,134 | 156,630 | (2,338,142) | 25,415 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Proceeds from Debt Issuance | 1,995 | | | 557,406 | 559,401 | |
| Proceeds from Gifts | 656,400 | | | | 656,400 | |
| Proceeds from Endowments | 131,671 | | | | 131,671 | |
| Proceeds from Transfers from Other Funds | 5,061,431 | 7,540,574 | | 273,768 | 12,875,773 | |
| Proceeds from Loan Programs | 20,087 | | | | 20,087 | |
| Proceeds from Grant Receipts | 539,949 | | | 307,740 | 847,689 | |
| Proceeds from Interfund Payables | 71,415 | | | 41,628 | 113,043 | |
| Proceeds from Other Noncapital Financing Activities | 511,244 | | 26,144 | 222 | 537,610 | |
| Payments of Principal on Debt Issuance | (36,450) | (314,335) | | (299,735) | (650,520) | |
| Payments of Interest | (37,145) | (80,622) | | (278,954) | (396,721) | |
| Payments of Other Costs on Debt Issuance | (122) | (2) | | (2,148) | (2,272) | |
| Payments for Transfers to Other Funds | (319,072) | (7,461,866) | (1,153,560) | (302,503) | (9,237,001) | |
| Payments for Grant Disbursements | (560) | | | (76,163) | (76,723) | |
| Payments for Interfund Receivables | | | | (61,873) | (61,873) | |
| Payments for Other Noncapital Uses | (104,946) | | (191,601) | | (296,547) | |
| Net Cash Provided (Used) by Noncapital Financing Activities | 6,495,897 | (316,251) | (1,319,017) | 159,388 | 5,020,017 | 0 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Proceeds from Sale of Capital Assets | 5,711 | | | 105 | 5,816 | |
| Proceeds from Debt Issuance | 2,341,991 | | | | 2,341,991 | |
| Proceeds from State Grants and Contracts | 32,602 | | | | 32,602 | |
| Proceeds from Federal Grants and Contracts | 11 | | | 968 | 979 | |
| Proceeds from Gifts | 3,868 | | | | 3,868 | |
| Proceeds from Other Capital and Related Financing Activities | 167,478 | | | 13 | 167,491 | |
| Proceeds from Capital Contributions | 350,604 | | | 3,117 | 353,721 | |
| Proceeds from Interfund Payables | 7,234 | | | | 7,234 | |
| Payments for Additions to Capital Assets | (2,822,437) | | (202) | (2,179) | (2,824,818) | |
| Payments of Principal on Debt Issuance | (1,618,911) | | | (26,725) | (1,645,636) | |
| Payments for Capital Leases | (1,027) | | | (16) | (1,043) | |
| Payments of Interest on Debt Issuance | (509,962) | | | (72,666) | (582,628) | |
| Payments of Other Costs on Debt Issuance | (158,509) | | | (32) | (158,541) | |
| Payments for Interfund Receivables | (3,256) | | | | (3,256) | |
| Net Cash Used by Capital and Related Financing Activities | (2,204,603) | 0 | (202) | (97,415) | (2,302,220) | 0 |

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Business-Type Activities – Enterprise Funds | | | | Totals | Governmental Activities – Internal Service Fund* |
|--|---|----------------------------|-----------------|---------------------------------|----------------|---|
| | Colleges and Universities | Unemployment Trust Fund | Lottery Fund | Nonmajor Enterprise Funds | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds from Sale of Investments | \$ 12,783,400 | \$ | \$ 191,601 | \$ 4,381,599 | \$ 17,356,600 | \$ 7,200 |
| Proceeds from Interest and Investment Income | 1,504,364 | 21,360 | 1 | 263,124 | 1,788,849 | 548 |
| Proceeds from Principal Payments on Loans | | | | 387,246 | 387,246 | |
| Payments to Acquire Investments | (13,674,316) | | (19,473) | (4,875,004) | (18,568,793) | |
| Payments for Nonprogram Loans Provided | | | | (815,779) | (815,779) | |
| Net Cash Provided by Investing Activities | 613,448 | 21,360 | 172,129 | (658,814) | 148,123 | 7,748 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 459,077 | 470,868 | 38,044 | (440,211) | 527,778 | 33,163 |
| Cash and Cash Equivalents, September 1, 2011 | 5,012,816 | 918,880 | 99,528 | 1,449,632 | 7,480,856 | 22,281 |
| Restatements | | | | 1 | 1 | |
| Cash and Cash Equivalents, September 1, 2011, as Restated | 5,012,816 | 918,880 | 99,528 | 1,449,633 | 7,480,857 | 22,281 |
| Cash and Cash Equivalents, August 31, 2012 | \$ 5,471,893 | \$ 1,389,748 | \$ 137,572 | \$ 1,009,422 | \$ 8,008,635 | \$ 55,444 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | | | |
| Operating Income (Loss) | \$ (6,593,462) | \$ 811,626 | \$ 1,164,221 | \$ (24,634) | \$ (4,642,249) | \$ 43,438 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | | | |
| Depreciation and Amortization | 1,626,945 | | 216 | 22,869 | 1,650,030 | |
| Bad Debt Expense | 255,184 | | 435 | 2,414 | 258,033 | |
| Operating Income (Loss) and Cash Flow Categories Classification Differences | (55,653) | | | 46,256 | (9,397) | (115) |
| Changes in Assets and Liabilities: | | | | | | |
| (Increase) Decrease in Receivables | (308,969) | (14,422) | (11,985) | (795) | (336,171) | 12,517 |
| (Increase) Decrease in Due From Other Funds | (378) | | | 135 | (243) | (20,731) |
| (Increase) Decrease in Inventories | (8,968) | | (4,555) | (865) | (14,388) | |
| (Increase) Decrease in Notes Receivable | (118) | | | | (118) | |
| (Increase) Decrease in Loans and Contracts | (4,908) | | | 77,545 | 72,637 | |
| (Increase) Decrease in Other Assets | (60,609) | | | (1,248) | (61,857) | |
| (Increase) Decrease in Prepaid Expenses | (7,053) | | (1,544) | 145 | (8,452) | |
| Increase (Decrease) in Payables | (75,114) | (34,552) | 38,346 | 5,219 | (66,101) | 36,627 |
| Increase (Decrease) in Deposits | (5,043) | | | | (5,043) | |
| Increase (Decrease) in Due To Other Funds | 2,454 | | | 38 | 2,492 | (46,389) |
| Increase (Decrease) in Unearned Revenue | 139,965 | 3,107 | | (1,423) | 141,649 | 68 |
| Increase (Decrease) in Employees' Compensable Leave | 21,028 | | | 106 | 21,134 | |
| Increase (Decrease) in Benefits Payable | 624,440 | | | 27,583 | 652,023 | |
| Increase (Decrease) in Other Liabilities | 4,594 | | | 3,285 | 7,879 | |
| Total Adjustments | 2,147,797 | (45,867) | 20,913 | 181,264 | 2,304,107 | (18,023) |
| Net Cash Provided (Used) by Operating Activities | \$ (4,445,665) | \$ 765,759 | \$ 1,185,134 | \$ 156,630 | \$ (2,338,142) | \$ 25,415 |
| NONCASH TRANSACTIONS | | | | | | |
| Donation of Capital Assets | \$ 76,457 | \$ | \$ | \$ | \$ 76,457 | \$ |
| Net Change in Fair Value of Investments | \$ 1,703,477 | \$ | \$ 22,441 | \$ 113,659 | \$ 1,839,577 | \$ 5,395 |
| Borrowing Under Capital Lease Purchase | \$ 2,545 | \$ | \$ | \$ | \$ 2,545 | \$ |
| Other | \$ 282,399 | \$ | \$ | \$ (415) | \$ 281,984 | \$ |

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

* Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

Statement of Fiduciary Net Position

August 31, 2012 (Amounts in Thousands)

| | Pension and Other Employee Benefit Trust Funds | External Investment Trust Fund* | Private- Purpose Trust Funds | Agency Funds |
|---|--|---------------------------------------|------------------------------------|------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 2,080,766 | \$ 1 | \$ 486,908 | \$ 1,070,334 |
| Restricted Cash and Cash Equivalents | | | 14 | |
| Securities Lending Collateral | 22,955,321 | | | |
| Investments: | | | | |
| U.S. Government | 26,535,005 | 5,242,580 | 20,179 | 215,604 |
| Corporate Equity | 28,742,583 | | 267,439 | 177,289 |
| Corporate Obligations | 895,507 | 371,092 | 2,388 | 10 |
| Repurchase Agreements | | 7,929,000 | | 32,313 |
| Foreign Securities | 31,413,919 | | | |
| Externally Managed Investments | 35,990,346 | | | |
| Other | 9,349,669 | | 2,154,681 | 59,870 |
| Receivables: | | | | |
| Federal | 9,970 | | | |
| Interest and Dividends | 331,729 | 9,092 | 87 | 1,236 |
| Accounts | 255,021 | | 212 | 7,979 |
| Other Intergovernmental | | | | 2,358 |
| Investment Trades | 1,383,919 | | 15,745 | |
| Other | 1,446 | | 4,403 | |
| Due From Other Funds (Note 12) | 11,737 | | 6 | 900 |
| Prepaid Items | 3,732 | | | |
| Properties, at Cost, Net of Accumulated Depreciation or Amortization | 40,540 | | 843 | |
| Other Assets | | | 91,292 | 1,742,153 |
| Total Assets | <u>160,001,210</u> | <u>13,551,765</u> | <u>3,044,197</u> | <u>3,310,046</u> |
| LIABILITIES | | | | |
| Payables: | | | | |
| Accounts | \$ 299,382 | \$ 1,706 | \$ 20,857 | \$ 205 |
| Investment Trades | 668,556 | 4,500 | 2,466 | |
| Payroll | 3,134 | | | |
| Other Intergovernmental | | | | 791,322 |
| Interest | | | 14 | |
| Annuities | 691,237 | | | |
| Due To Other Funds (Note 12) | 122,128 | | 8 | 27,229 |
| Unearned Revenue | 31,442 | | 391 | |
| Employees' Compensable Leave | 7,702 | | | |
| Obligations/Securities Lending | 22,933,654 | | | |
| Funds Held for Others | | | 91,292 | 2,491,279 |
| Other Liabilities | 108,663 | 567 | 19 | 11 |
| Total Liabilities | <u>24,865,898</u> | <u>6,773</u> | <u>115,047</u> | <u>3,310,046</u> |
| NET POSITION | | | | |
| Held in Trust for: | | | | |
| Pension Benefits and Other Purposes | 135,135,312 | | | |
| Individuals, Organizations and Other Governments | | | 2,929,150 | |
| Pool Participants | | 13,544,992 | | |
| Total Net Position | <u>\$ 135,135,312</u> | <u>\$ 13,544,992</u> | <u>\$ 2,929,150</u> | <u>\$ 0</u> |

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

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Pension and Other Employee Benefit Trust Funds | External Investment Trust Fund* | Private- Purpose Trust Funds |
|--|--|---------------------------------------|------------------------------------|
| ADDITIONS | | | |
| Contributions: | | | |
| Member Contributions | \$ 3,020,250 | \$ | \$ |
| State Contributions | 2,475,562 | | |
| Premium Contributions | 363,348 | | |
| Federal Contributions | 148,970 | | 7,299 |
| Other Contributions | 976,194 | | 121,453 |
| Total Contributions | <u>6,984,324</u> | <u>0</u> | <u>128,752</u> |
| Investment Income: | | | |
| From Investing Activities: | | | |
| Net Appreciation in Fair Value of Investments | 7,140,714 | | 60,621 |
| Interest and Investment Income | 2,526,133 | 26,766 | 27,611 |
| Total Investing Income | <u>9,666,847</u> | <u>26,766</u> | <u>88,232</u> |
| Less Investing Activities Expense | 211,861 | 8,206 | 1,420 |
| Net Income from Investing Activities | <u>9,454,986</u> | <u>18,560</u> | <u>86,812</u> |
| From Securities Lending Activities: | | | |
| Securities Lending Income | 170,899 | | |
| Less Securities Lending Expense: | | | |
| Borrower Rebates | 24,372 | | |
| Management Fees | 35,988 | | |
| Net Income from Securities Lending | <u>110,539</u> | <u>0</u> | <u>0</u> |
| Total Net Investment Income | <u>9,565,525</u> | <u>18,560</u> | <u>86,812</u> |
| Capital Share and Individual Account Transactions: | | | |
| Net Decrease in Participant Investments | <u>0</u> | <u>(439,714)</u> | <u>0</u> |
| Other Additions: | | | |
| Settlement of Claims | | | 4,964 |
| Other Revenue | 3,306 | | 305,335 |
| Transfer In (Note 12) | 114,821 | | |
| Total Other Additions | <u>118,127</u> | <u>0</u> | <u>310,299</u> |
| Total Additions | <u>16,667,976</u> | <u>(421,154)</u> | <u>525,863</u> |
| DEDUCTIONS | | | |
| Benefits | 11,492,269 | | 95,737 |
| Refunds of Contributions | 470,698 | | |
| Transfer Out (Note 12) | 88,396 | | 188 |
| Intergovernmental Payments | | | 58,669 |
| Administrative Expenses | 56,255 | | 6,773 |
| Depreciation and Amortization Expense | 2,628 | | 39 |
| Settlement of Claims | | | 93,664 |
| Interest Expense | 12 | | 4 |
| Other Expenses | 3,620 | | 188,550 |
| Total Deductions | <u>12,113,878</u> | <u>0</u> | <u>443,624</u> |
| INCREASE (DECREASE) IN NET POSITION | <u>4,554,098</u> | <u>(421,154)</u> | <u>82,239</u> |
| NET POSITION | | | |
| Net Position, September 1, 2011 | 130,580,910 | 13,966,146 | 2,846,911 |
| Restatements | 304 | | |
| Net Position, September 1, 2011, as Restated | <u>130,581,214</u> | <u>13,966,146</u> | <u>2,846,911</u> |
| Net Position, August 31, 2012 | <u>\$ 135,135,312</u> | <u>\$ 13,544,992</u> | <u>\$ 2,929,150</u> |

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

* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.

State of Texas Notes to Financial Statements

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NOTE 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying financial statements of the state of Texas were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, which do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* was implemented in fiscal 2012. This statement amends the requirements in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. It sets forth criteria establishing when the effective hedging relationship continues and when to continue applying hedge accounting.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, which was effective for fiscal 2012, addresses issues related to the use of the alternative measurement method and the frequency of timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The state of Texas is not an employer in an agent multiple-employer OPEB plan and therefore this statement does not apply to the state.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas includes all funds, agencies, boards, commissions, authorities, institutions of higher education and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of:

- General government
- Education
- Employee benefits
- Teacher retirement state contributions
- Health and human services
- Public safety and corrections
- Transportation
- Natural resources and recreation
- Regulatory services

The reporting entity for the state is in accordance with the criteria established by GASB. Note 19 provides a listing and brief summary of the component units and their relationship to the state of Texas. These financial statements present the balances and activities of the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide

financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), and its discretely presented component units. In the statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column using an economic resources measurement focus and an accrual basis of accounting, which incorporates noncurrent investments, capital assets, and long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety and corrections, transportation, etc.), which is supported by general government revenues (sales and use taxes, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, including depreciation and amortization, to present the net cost of each program. Program revenues are directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses are charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses.

Program revenues include charges for services; operating grants and contributions; and capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-

specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and agency). The assets of fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are therefore not incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments not restricted for specific purposes. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial

resources, and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. Permanent funds are used

to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** is the primary operating fund for the state and includes transactions for general government, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report 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:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity.
- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), be recovered with fees and charges.

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds are used to report any activity that provides goods or services, on a cost reimbursement basis, to other funds, departments or agencies of the reporting entity or other governments. The employees life, accident and health insurance benefits fund accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

The state's major enterprise funds are listed below.

The **Colleges and Universities** include:

- University of Texas System
- Texas A&M University System
- Texas Tech University System
- University of Houston System
- Texas State University System
- University of North Texas System
- Texas Woman's University
- Stephen F. Austin State University
- Texas Southern University
- Midwestern State University
- Texas State Technical College

These institutions of higher education are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Unemployment Trust Fund** contains the activity of the state related to the administration of state and federally financed unemployment benefits.

The **Lottery Fund** receives fees from external users that are used to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held in either 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 or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans.

External investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments. These trusts include tobacco settlement money, reserve for insurance company liquidations, relief of catastrophic insurance losses, contributions of prison inmates, educational savings plans and others.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments. Agency funds include those funds established to account for the collection of sales and use tax for distribution to localities, bond escrow funds, deposits of insurance carriers, child support collections and other miscellaneous accounts.

Component Units

All component units of the state of Texas are reported as nonmajor component units. The combining statement of net position – component units and the combining statement of activities – component units are presented for all discrete component units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent, are reported. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, 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 fiscal year-end. The state of Texas considers all major revenue (i.e., operating grants and contributions and taxes) reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabilities of the current period and are reported as deferred

revenue. Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities rather than other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than expenditures.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds' principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and capital asset depreciation and amortization. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budget-

ary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and the other nonmajor special revenue funds listed in other supplementary information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the federal and state treasuries, and cash equivalents. Cash in local banks is primarily held by agency funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of a decrease in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statements of net financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money

market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at date of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities.

Receivables and Payables

The major receivables for governmental activities are federal and taxes receivables. The major receivables for business-type activities are federal, patient and tuition receivables. Receivables represent amounts due to the state as of Aug. 31, 2012, from private persons or organizations. Amounts expected to be collected within the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2012 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as deferred revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 24 for details on taxes receivable and tax refunds payable.

Other receivables in the general fund consist primarily of program receivables for health care assistance and temporary assistance for needy families. Other receivables in the colleges and universities fund consist primarily of public university fund land income and private sponsored programs. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as due from or due to other funds. Any residual balances between governmental and business-type

activities are reported in the government-wide financial statements as “internal balances.”

Noncurrent interfund receivables in the general fund, as shown in Note 12, are reported as nonspendable fund balance. Noncurrent interfund receivables in other governmental funds are reported as committed, restricted or assigned fund balance.

Investment trade receivables are reported for sales of investments pending settlement. Investment trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories and prepaid items that appear in both governmental and proprietary fund types. The costs of inventories are expensed when they are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, fiduciary funds and on the government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a table identifying the

capitalization threshold and the estimated useful life by asset type. It also provides information on the state’s depreciation/amortization policy and other detailed information.

The state adopted the modified approach for reporting its highway system. This approach reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state’s system of highways are included in the required supplementary information other than MD&A section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net position requires two components – the amount due within one year (current) and the amount due in more than one year (noncurrent).

General long-term liabilities consist of claims and judgments, capital lease obligations, employees’ compensable leave and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities.

In the government-wide financial statements and proprietary fund financial statements, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line, bonds outstanding or effective interest method. Bonds payable are reported net of the applicable bond accretion, pre-

mium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime under the federal Fair Labor Standards Act and state laws can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unused overtime is included in the calculation of current and noncurrent liabilities because each employee may be paid for the overtime or use it as compensatory time.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. In 2009, the 81st Legislature passed House Bill 2559, which does not allow employees hired on or after Sept. 1, 2009, to apply unused sick or annual leave as service credit to meet retirement eligibility. State employees hired before Sept. 1, 2009, are entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave was not determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 8 provides details for capital lease obligations.

Conduit Debt Obligations

Conduit debt issued by the state in the form of bonds is for the express purpose of providing capital financing for a specific third party that is not part of the state's financial reporting entity. The bonds are secured by the property financed and are payable solely from payments received from the third party on the underlying loans. The state has no obligations for the debt beyond the resources provided by the loan with the third party on whose behalf the bonds were

issued. The state has chosen to continue reporting conduit debt obligations as long-term liabilities on the balance sheet for debt issued prior to GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations, an Amendment of NCGA Statement 1*, as well as subsequent debt obligations that are substantially the same as those already reported. Interpretation 2, which was effective for Texas beginning Sept. 1, 1996, requires only note disclosure for issuance of all other conduit debt. Note 6 provides details on conduit debt obligations.

Deferred Inflows and Deferred Outflows

Changes in fair values of hedging derivative assets and liabilities are reported as deferred inflows and deferred outflows. Note 7 presents additional information about derivative instruments.

Net Position and Fund Balances

The state reports restricted net position when constraints placed on resources are either:

- Externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation

Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Invested in capital assets, net of related debt, consists of capital assets – including restricted capital assets – net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances include amounts that cannot be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact. Fund balances are reported as restricted when constraints placed upon the use of resources are either:

- Externally imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments
- Imposed by law through constitutional provisions or enabling legislation

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed through legislation passed into law by formal action of the Texas Legislature, the state's highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Fund balances are reported as assigned when the state intends for resources to be used for specific purposes, yet the constraints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balances represent amounts that

have not been restricted, committed or assigned to specific purposes. The general fund is the only fund that can report a positive unassigned fund balance. Note 13 presents disaggregated fund balances.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed. When only unrestricted resources are available for use, it is the state's policy to use committed resources first, then assigned resources, and lastly unassigned resources.

Interfund Activity and Transactions – Government-wide Financial Statements

Interfund activity is eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are eliminated from the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. Interfund activities between the primary government and component units with a different fiscal year-end are limited and immaterial.

Interfund transactions with discretely presented component units are reclassified and reported as external activity. Note 12 provides details of interfund activities and transactions.

Risk Financing

The state maintains a combination of commercial insurance and self-insurance programs. The state is self-insured for workers' compensation and unemployment compensation claims. The liabilities are funded on a pay-as-you-go basis. The group insurance programs are provided through a combination of insurance contracts, self-funded health plans and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. See Note 17 for additional information.

NOTE 2

Capital Assets

Capital assets, which include land, infrastructure, buildings, equipment and intangible assets, of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets of other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. The capitalization thresholds and useful lives of the state's various categories of capital assets are as follows:

| Type | Capitalization Threshold | Estimated Useful Life |
|---|--------------------------|-----------------------|
| Land and Land Improvements | \$ 0 | Not applicable |
| Infrastructure, Non-Depreciable | 0 | Not applicable |
| Construction in Progress | 0 | Not applicable |
| Buildings and Building Improvements | 100,000 | 5-30 years |
| Infrastructure, Depreciable | 500,000 | 10-50 years |
| Facilities and Other Improvements | 100,000 | 10-60 years |
| Furniture and Equipment | 5,000 | 3-15 years |
| Vehicles, Boats and Aircraft | 5,000 | 5-40 years |
| Other Capital Assets | | |
| (Library Books, Leasehold Improvements and Livestock) | | |
| Depreciable | Various | 3-22 years |
| Non-Depreciable | Various | Not applicable |
| Internally Generated | | |
| Computer Software | 1,000,000 | 3-10 years |
| Other Computer Software | 100,000 | 3-10 years |
| Land Use Rights – Permanent | 0 | Not applicable |
| Land Use Rights – Term | 100,000 | 10-60 years |
| Other Intangible Capital Assets | 100,000 | 3-15 years |

The table below presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2012. The adjustment column includes assets not previously reported,

accounting errors and other changes. The reclassifications column includes amounts for transfers of capital assets between agencies and reclassifies amounts for completed construction projects previously reported as

Capital Asset Activity

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | PRIMARY GOVERNMENT | | | | | Balance 8/31/12 |
|---|----------------------|---------------------|-------------------|---------------------|--------------------|----------------------|
| | Balance 9/1/11 | Adjustments | Reclassifications | Additions | Deletions | |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Non-Depreciable & Non-Amortizable Assets | | | | | | |
| Land and Land Improvements | \$ 8,915,039 | \$ 42,466 | \$ 438 | \$ 565,388 | \$ (3,608) | \$ 9,519,723 |
| Infrastructure | 49,823,503 | (255,078) | 579,047 | 514,936 | (674) | 50,661,734 |
| Construction in Progress | 5,033,330 | (268,472) | (1,497,115) | 2,910,482 | | 6,178,225 |
| Other Capital Assets | 26,399 | 1,997 | 13 | 298 | (44) | 28,663 |
| Land Use Rights – Permanent | 67,573 | | | 1,905 | (118) | 69,360 |
| Total Non-Depreciable & Non-Amortizable Assets | <u>63,865,844</u> | <u>(479,087)</u> | <u>(917,617)</u> | <u>3,993,009</u> | <u>(4,444)</u> | <u>66,457,705</u> |
| Depreciable Assets | | | | | | |
| Buildings and Building Improvements | 5,612,312 | (3,074) | 229,651 | 8,158 | (7,318) | 5,839,729 |
| Infrastructure | 19,795,776 | 28,147 | 642,495 | 68,954 | (19,341) | 20,516,031 |
| Facilities and Other Improvements | 213,323 | | 3,974 | 3,689 | | 220,986 |
| Furniture and Equipment | 968,017 | (2,597) | 7,892 | 77,648 | (60,679) | 990,281 |
| Vehicles, Boats and Aircraft | 1,055,743 | (110) | 27,605 | 63,335 | (55,871) | 1,090,702 |
| Other Capital Assets | 146,654 | | | 2,890 | (8,812) | 140,732 |
| Total Depreciable Assets at Historical Cost | <u>27,791,825</u> | <u>22,366</u> | <u>911,617</u> | <u>224,674</u> | <u>(152,021)</u> | <u>28,798,461</u> |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Building Improvements | (3,284,942) | 3,938 | | (183,602) | 5,454 | (3,459,152) |
| Infrastructure | (11,264,348) | 12,946 | | (627,303) | 15,618 | (11,863,087) |
| Facilities and Other Improvements | (143,248) | | | (7,465) | | (150,713) |
| Furniture and Equipment | (725,144) | 1,683 | 95 | (73,318) | 57,428 | (739,256) |
| Vehicles, Boats and Aircraft | (637,504) | (68) | 36 | (70,746) | 46,969 | (661,313) |
| Other Capital Assets | (66,316) | | | (6,890) | 7,095 | (66,111) |
| Total Accumulated Depreciation* | <u>(16,121,502)</u> | <u>18,499</u> | <u>131</u> | <u>(969,324)</u> | <u>132,564</u> | <u>(16,939,632)</u> |
| Depreciable Assets, Net | <u>11,670,323</u> | <u>40,865</u> | <u>911,748</u> | <u>(744,650)</u> | <u>(19,457)</u> | <u>11,858,829</u> |
| Intangible Capital Assets – Amortizable | | | | | | |
| Land Use Rights – Term | 21,968 | | | 2,189 | (670) | 23,487 |
| Computer Software | 334,952 | (821) | 5,910 | 12,696 | (12,630) | 340,107 |
| Other Intangible Capital Assets – Term | 31,967 | | | 16,971 | | 48,938 |
| Total Intangible Assets at Historical Cost | <u>388,887</u> | <u>(821)</u> | <u>5,910</u> | <u>31,856</u> | <u>(13,300)</u> | <u>412,532</u> |
| Less Accumulated Amortization for: | | | | | | |
| Land Use Rights – Term | (6,302) | | | (3,183) | 670 | (8,815) |
| Computer Software | (249,474) | 809 | | (30,245) | 12,563 | (266,347) |
| Other Intangible Capital Assets – Term | (1,784) | | | (3,338) | | (5,122) |
| Total Accumulated Amortization* | <u>(257,560)</u> | <u>809</u> | <u>0</u> | <u>(36,766)</u> | <u>13,233</u> | <u>(280,284)</u> |
| Amortizable Assets, Net | <u>131,327</u> | <u>(12)</u> | <u>5,910</u> | <u>(4,910)</u> | <u>(67)</u> | <u>132,248</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 75,667,494</u> | <u>\$ (438,234)</u> | <u>\$ 41</u> | <u>\$ 3,243,449</u> | <u>\$ (23,968)</u> | <u>\$ 78,448,782</u> |

* Depreciation and amortization expense was charged to governmental activities as follows:

| | |
|----------------------------------|---------------------|
| General Government | \$ 55,086 |
| Education | 9,774 |
| Employee Benefits | 3 |
| Health and Human Services | 45,392 |
| Public Safety and Corrections | 179,174 |
| Transportation | 682,349 |
| Natural Resources and Recreation | 32,478 |
| Regulatory Services | 1,834 |
| Total | <u>\$ 1,006,090</u> |

Continued on the following page

construction in progress. The additions column includes current year purchases, depreciation and amortization. The deletions column presents assets removed during the current fiscal year.

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Depreciation or amortization is reported on all “exhaustible” assets. “Inexhaustible assets,” such as

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | PRIMARY GOVERNMENT | | | | | Balance 8/31/12 |
|---|----------------------|--------------------|--------------------|---------------------|--------------------|----------------------|
| | Balance 9/1/11 | Adjustments | Reclassifications | Additions | Deletions | |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| Non-Depreciable & Non-Amortizable Assets | | | | | | |
| Land and Land Improvements | \$ 1,524,203 | \$ (3,488) | \$ 12,046 | \$ 38,933 | \$ (1,072) | \$ 1,570,622 |
| Infrastructure | 1,629,344 | 21 | | 14 | | 1,629,379 |
| Construction in Progress | 2,635,344 | (192,623) | (2,297,851) | 1,985,220 | (1,432) | 2,128,658 |
| Other Capital Assets | 396,815 | 34 | 166 | 10,422 | (4,350) | 403,087 |
| Land Use Rights – Permanent | 19,814 | | | | | 19,814 |
| Other Intangible Capital Assets – Permanent | 7,213 | (7,213) | | | | |
| Total Non-Depreciable & Non-Amortizable Assets | <u>6,212,733</u> | <u>(203,269)</u> | <u>(2,285,639)</u> | <u>2,034,589</u> | <u>(6,854)</u> | <u>5,751,560</u> |
| Depreciable Assets | | | | | | |
| Buildings and Building Improvements | 22,098,255 | 89,449 | 1,980,999 | 240,302 | (50,158) | 24,358,847 |
| Infrastructure | 1,346,316 | 92,490 | 70,568 | 17,573 | (5,495) | 1,521,452 |
| Facilities and Other Improvements | 1,446,610 | 5,833 | 160,995 | 11,698 | (9,210) | 1,615,926 |
| Furniture and Equipment | 4,139,878 | (19,084) | 52,520 | 437,742 | (162,815) | 4,448,241 |
| Vehicles, Boats and Aircraft | 232,108 | 1,300 | 719 | 28,587 | (9,306) | 253,408 |
| Other Capital Assets | 1,440,965 | 830 | (63,734) | 69,302 | (19,918) | 1,427,445 |
| Total Depreciable Assets at Historical Cost | <u>30,704,132</u> | <u>170,818</u> | <u>2,202,067</u> | <u>805,204</u> | <u>(256,902)</u> | <u>33,625,319</u> |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Building Improvements | (9,158,821) | 885 | | (921,661) | 17,172 | (10,062,425) |
| Infrastructure | (559,463) | (745) | | (50,994) | | (611,202) |
| Facilities and Other Improvements | (623,747) | (68) | (43,201) | (63,794) | 7,558 | (723,252) |
| Furniture and Equipment | (2,704,179) | (108) | 478 | (361,119) | 126,463 | (2,938,465) |
| Vehicles, Boats and Aircraft | (166,595) | (37) | (32) | (20,091) | 8,626 | (178,129) |
| Other Capital Assets | (915,896) | 54 | 43,202 | (63,890) | 17,275 | (919,255) |
| Total Accumulated Depreciation** | <u>(14,128,701)</u> | <u>(19)</u> | <u>447</u> | <u>(1,481,549)</u> | <u>177,094</u> | <u>(15,432,728)</u> |
| Depreciable Assets, Net | <u>16,575,431</u> | <u>170,799</u> | <u>2,202,514</u> | <u>(676,345)</u> | <u>(79,808)</u> | <u>18,192,591</u> |
| Intangible Capital Assets – Amortizable | | | | | | |
| Land Use Rights – Term | 255 | | | | | 255 |
| Computer Software | 1,037,782 | (82) | 83,084 | 76,834 | (12,358) | 1,185,260 |
| Other Intangible Capital Assets – Term | 2,359 | 7,213 | | | | 9,572 |
| Total Intangible Assets at Historical Cost | <u>1,040,396</u> | <u>7,131</u> | <u>83,084</u> | <u>76,834</u> | <u>(12,358)</u> | <u>1,195,087</u> |
| Less Accumulated Amortization for: | | | | | | |
| Land Use Rights – Term | (38) | | | (26) | | (64) |
| Computer Software | (638,621) | 101 | | (166,876) | 10,912 | (794,484) |
| Other Intangible Capital Assets – Term | (59) | (210) | | (955) | | (1,224) |
| Total Accumulated Amortization** | <u>(638,718)</u> | <u>(109)</u> | <u>0</u> | <u>(167,857)</u> | <u>10,912</u> | <u>(795,772)</u> |
| Amortizable Assets, Net | <u>401,678</u> | <u>7,022</u> | <u>83,084</u> | <u>(91,023)</u> | <u>(1,446)</u> | <u>399,315</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 23,189,842</u> | <u>\$ (25,448)</u> | <u>\$ (41)</u> | <u>\$ 1,267,221</u> | <u>\$ (88,108)</u> | <u>\$ 24,343,466</u> |

** Depreciation and amortization expense was charged to business-type activities as follows:

| | |
|--------------------------------|---------------------|
| Education | \$ 1,626,949 |
| Transportation | 17,266 |
| Lottery | 216 |
| Other Business-Type Activities | 4,975 |
| Total | <u>\$ 1,649,406</u> |

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| COMPONENT UNITS | PRIMARY GOVERNMENT | | | | | Balance 8/31/12 |
|---|--------------------|---------------|-------------------|-------------------|-----------------|--------------------|
| | Balance 9/1/11 | Adjustments | Reclassifications | Additions | Deletions | |
| Non-Depreciable & Non-Amortizable Assets | | | | | | |
| Land and Land Improvements | \$ 3,705 | \$ | \$ | \$ | \$ | \$ 3,705 |
| Construction in Progress | 1,213 | | | 684 | | 1,897 |
| Total Non-Depreciable & Non-Amortizable Assets | <u>4,918</u> | <u>0</u> | <u>0</u> | <u>684</u> | <u>0</u> | <u>5,602</u> |
| Depreciable Assets | | | | | | |
| Buildings and Building Improvements | 42,159 | | | 28 | | 42,187 |
| Infrastructure | 17 | | | 4 | | 21 |
| Facilities and Other Improvements | 449 | | | | | 449 |
| Furniture and Equipment | 43,104 | 176 | | 1,358 | (477) | 44,161 |
| Vehicles, Boats and Aircraft | 11,994 | | | 918 | (1,456) | 11,456 |
| Other Capital Assets | 60 | | | 4 | | 64 |
| Total Depreciable Assets at Historical Cost | <u>97,783</u> | <u>176</u> | <u>0</u> | <u>2,312</u> | <u>(1,933)</u> | <u>98,338</u> |
| Less Accumulated Depreciation for: | | | | | | |
| Buildings and Building Improvements | (12,080) | | | (910) | | (12,990) |
| Infrastructure | (1) | | | (1) | | (2) |
| Facilities and Other Improvements | (410) | | | (17) | | (427) |
| Furniture and Equipment | (24,947) | (195) | | (4,140) | 301 | (28,981) |
| Vehicles, Boats and Aircraft | (9,536) | | | (464) | 1,285 | (8,715) |
| Other Capital Assets | (6) | | | (3) | | (9) |
| Total Accumulated Depreciation | <u>(46,980)</u> | <u>(195)</u> | <u>0</u> | <u>(5,535)</u> | <u>1,586</u> | <u>(51,124)</u> |
| Depreciable Assets, Net | <u>50,803</u> | <u>(19)</u> | <u>0</u> | <u>(3,223)</u> | <u>(347)</u> | <u>47,214</u> |
| Intangible Capital Assets – Amortizable | | | | | | |
| Computer Software | 18,802 | 301 | | 3,289 | (160) | 22,232 |
| Total Intangible Assets at Historical Cost | <u>18,802</u> | <u>301</u> | <u>0</u> | <u>3,289</u> | <u>(160)</u> | <u>22,232</u> |
| Less Accumulated Amortization for: | | | | | | |
| Computer Software | (10,471) | (100) | | (2,783) | 160 | (13,194) |
| Total Accumulated Amortization | <u>(10,471)</u> | <u>(100)</u> | <u>0</u> | <u>(2,783)</u> | <u>160</u> | <u>(13,194)</u> |
| Amortizable Assets, Net | <u>8,331</u> | <u>201</u> | <u>0</u> | <u>506</u> | <u>0</u> | <u>9,038</u> |
| Component Units Capital Assets, Net | <u>\$ 64,052</u> | <u>\$ 182</u> | <u>\$ 0</u> | <u>\$ (2,033)</u> | <u>\$ (347)</u> | <u>\$ 61,854</u> |

works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered “exhaustible” assets and are depreciated. Intangible assets with determinable useful lives are amortized. Donated assets are reported at fair value on the acquisition date. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state’s highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach. The required supplement-

ary information other than MD&A section of this report provides further detail on the state’s highway infrastructure.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. For proprietary fund types and fiduciary funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The state’s capitalization policy regarding works of art and historical treasures is that capitalization is encouraged, but not required, for works of art and historical treasures that meet certain conditions. Works of

art and historical treasures not required to be capitalized are those:

- Held for public exhibition, education or research in furtherance of public service, rather than for financial gain
- Protected, kept unencumbered, cared for and preserved
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 35 million records dating back to 1720, including approximately 80 thousand maps, sketches and plat maps.

NOTE 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Comptroller of Public Accounts Treasury Operations Division (Treasury) by the Texas Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits; direct security repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; bankers' acceptances; commercial paper; and contracts written by the Comptroller, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those

requirements throughout fiscal 2012. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units, public employee retirement systems and institutions of higher education are authorized to invest funds not deposited with the Treasury. As of Aug. 31, 2012, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported over 85 percent of the total investment fair value. TRS, PSF, ERS and UT make investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2012 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan

institutions. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

External Investment Pool

The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Separate audited financial statements may be obtained from the Trust Company.

Deposits

As of Aug. 31, 2012, the carrying amount of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.2 billion, \$275.6 million and \$220.9 million, respectively. These amounts consist of all cash in local banks and a

portion of short-term investments. These amounts are included on the combined statement of net position as part of the “Cash and Cash Equivalents,” “Securities Lending Collateral” and “Investments” line items. As of Aug. 31, 2012, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.1 billion, \$273.6 million and \$222 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state’s securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. As of Aug. 31, 2012, the bank balances exposed to custodial credit risk were as follows:

| | Uninsured and Uncollateralized | Uninsured and Collateralized with Securities Held by the Pledging Financial Institution |
|--|-----------------------------------|---|
| GOVERNMENTAL ACTIVITIES | | |
| Permanent School Fund | \$ 3,170 | \$ |
| Other Nonmajor Funds | | |
| Total Governmental Activities | <u>3,170</u> | <u>0</u> |
| BUSINESS-TYPE ACTIVITIES | | |
| Colleges and Universities | 866 | 93,734 |
| Other Nonmajor Funds | 103 | |
| Total Business-Type Activities | <u>969</u> | <u>93,734</u> |
| Total Governmental and Business-Type Activities | <u>\$ 4,139</u> | <u>\$93,734</u> |
| FIDUCIARY FUNDS | <u>\$174,073</u> | <u>\$ 0</u> |
| COMPONENT UNITS | <u>\$ 466</u> | <u>\$ 0</u> |

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of

pending international investment trades. The table at the left presents the bank balances exposed to foreign currency risk as of Aug. 31, 2012.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2012 (Amounts in Thousands)

| | Governmental and Business-Type Activities | Fiduciary Funds | Component Units |
|-----------------------------|---|--------------------|--------------------|
| Australian Dollar | \$ 346 | \$ 1,803 | \$ |
| Botswana Pula | | 79 | |
| Brazilian Real | 48 | 2,258 | |
| British Pound | 132 | 11,307 | |
| Canadian Dollar | 36 | 1,849 | |
| Chilean Peso | | 916 | |
| Colombian Peso | | 2,206 | |
| Costa Rica Colones | | | 3 |
| Croatian Kuna | | 19 | |
| Czech Koruna | | 192 | |
| Danish Krone | | 1,952 | |
| Egyptian Pound | | 3,193 | |
| Euro | 213 | 58,385 | |
| Ghanaian Cedi | | 93 | |
| Hong Kong Dollar | | 53,135 | |
| Hungarian Forint | | 128 | |
| Indian Rupee | | 474 | |
| Indonesian Rupiah | | 992 | |
| Japanese Yen | | 10,445 | |
| Jordanian Dinar | | 62 | |
| Kenyan Shilling | | 23 | |
| Lithuanian Litas | | 17 | |
| Malaysian Ringgit | 534 | 454 | |
| Mauritius Rupee | | 79 | |
| Mexican Peso | 11 | 190 | 37 |
| Moroccan Dirham | | 67 | |
| New Israeli Shekel | | 269 | |
| New Zealand Dollar | | 97 | |
| Nigerian Naira | | 72 | |
| Norwegian Kroner | | 1,814 | |
| Pakistani Rupee | | 17 | |
| Peruvian Nuevo Sol | | 41 | |
| Philippine Peso | | 177 | |
| Polish Zloty | | 488 | |
| Qatar Riyal | 805 | 10 | |
| Romanian Leu | | 184 | |
| Russian Ruble | | 36 | |
| Singapore Dollar | | 8,148 | |
| South African Rand | | 976 | |
| South Korean Won | | 747 | |
| Swedish Krona | | 717 | |
| Swiss Franc | 1,042 | 1,834 | |
| Taiwan Dollar | 584 | 4,846 | |
| Thai Baht | | 403 | |
| Turkish Lira | | 951 | |
| United Arab Emirates Dirham | | 141 | |
| Total | <u>\$ 3,751</u> | <u>\$ 172,286</u> | <u>\$ 40</u> |

Investments

The fair value of investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings, on prices from fixed income pricing services or on external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians. Fair values can also be determined based on the capital account balance at the closest available reporting period, as communicated by the general partner, and adjusted for subsequent contributions, distributions, management fees and reserves.

Money market investments are reported at amortized cost, which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less may also be reported at amortized cost, provided the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The fair value of investments as of Aug. 31, 2012, are presented in the table below.

| Investment Fair Value | | | |
|---|--|----------------------------|----------------------------|
| August 31, 2012 (Amounts in Thousands) | | | |
| | Governmental and Business-Type Activities | Fiduciary Funds | Component Units |
| U.S. Treasury | \$ 15,511,171 | \$ 19,154,883 | \$ 399,100 |
| U.S. Treasury Strips | 335,111 | 90,588 | |
| U.S. Treasury TIPS | 920,859 | 5,761,401 | |
| U.S. Government Agency | 8,329,544 | 7,176,276 | 534,491 |
| Corporate Obligations | 4,059,750 | 1,965,267 | 27,314 |
| Corporate Asset and Mortgage Backed | 2,650,805 | 905,903 | 263,743 |
| Corporate Equity | 17,320,622 | 28,583,053 | |
| International Obligations | 2,447,872 | 796,690 | 2,523 |
| International Equity | 2,943,696 | 31,255,750 | |
| International Other Commingled Funds | 350,017 | 3,244,409 | |
| Repurchase Agreements | 6,417,492 | 9,664,190 | 55,154 |
| Fixed Income and Bond Mutual Fund | 4,526,519 | 436,104 | 18,584 |
| Other Mutual Funds | 212,507 | 71,527 | 6 |
| Other Commingled Funds | 5,541,827 | 5,438,046 | 29,489 |
| Commercial Paper | 1,673,210 | 562,071 | 14,818 |
| Invested Collateral | 997,376 | 22,955,320 | |
| Securities Lending Collateral Investment Pool | 85,056 | | |
| Real Estate | 3,120,575 | 443,174 | |
| Derivatives | 50,095 | 86,110 | |
| Externally Managed Investments | 20,247,080 | 36,800,820 | |
| Other Investments | 3,922,271 | 359,565 | 375,544 |
| Total Investments | \$ 101,663,455 | \$ 175,751,147 | \$ 1,720,766 |

ERS, TRS, PSF and UT participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about securities lending activity is disclosed in the “Securities Lending” section of this note. As of Aug. 31, 2012, the investment type balances for the invested securities lending cash collateral were as follows:

| Invested Securities Lending Collateral Fair Value | | |
|--|--|----------------------------|
| August 31, 2012 (Amounts in Thousands) | | |
| | Governmental and Business-Type Activities | Fiduciary Funds |
| U.S. Treasury | \$ 20,298 | \$ 356,217 |
| U.S. Government Agency | 72,390 | |
| Corporate Obligations | 15,525 | 87,421 |
| Corporate Asset and Mortgage Backed | 6,047 | |
| Equity | 25,115 | 867,659 |
| International Obligations | 81,569 | 13,060 |
| International Equity | | 73,906 |
| Repurchase Agreements | 614,746 | |
| Other Commingled Funds | | 21,557,057 |
| Commercial Paper | 110,174 | |
| Other Investments | 51,513 | |
| Total Investments | \$ 997,377 | \$ 22,955,320 |

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities in the possession of an outside party will not be recovered. There is no formal investment policy

for managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

As of Aug. 31, 2012, the investments exposed to custodial credit risk were as follows:

| Investments Exposed to Custodial Credit Risk | | |
|--|---|---|
| August 31, 2012 (Amounts in Thousands) | | |
| | Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty | Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name |
| GOVERNMENTAL ACTIVITIES | | |
| Permanent School Fund | | |
| Corporate Asset and Mortgage Backed Repurchase Agreements | \$ 6,047 364,451 | \$ |
| Other Governmental Funds | | |
| Other Commingled Funds | | 5,805 |
| Total Governmental Activities | <u>370,498</u> | <u>5,805</u> |
| BUSINESS-TYPE ACTIVITIES | | |
| Colleges and Universities | | |
| U.S. Government Agency | 10,149 | |
| Corporate Equity | 2,313 | 8,715 |
| Corporate Asset and Mortgage Backed Fixed Income and Bond Mutual Fund | 6,437 | 2,191 |
| International Other Commingled Funds | 13,841 | |
| Miscellaneous | 9,103 | |
| Other Proprietary Funds | | |
| Other Commingled Funds | | 306,580 |
| Repurchase Agreements | | 114,999 |
| Fixed Income and Bond Mutual Fund | | 27,310 |
| Total Business-Type Activities | <u>41,843</u> | <u>459,795</u> |
| Total Governmental and Business-Type Activities | <u>\$412,341</u> | <u>\$465,600</u> |
| FIDUCIARY FUNDS | | |
| Other Fiduciary Funds | | |
| U.S. Treasury | \$ 18,947 | \$ |
| Total Fiduciary | <u>\$ 18,947</u> | <u>\$ 0</u> |

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT are exposed to investment foreign currency risk. ERS, TRS and the PSF do not have an investment poli-

cy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

The investments exposed to foreign currency risk as of Aug. 31, 2012, are presented on the following page.

Investments Exposed to Foreign Currency Risk

August 31, 2012 (Amounts in Thousands)

| | Governmental and Business-Type Activities | | | | Fiduciary Funds | | | |
|-----------------------------|---|----------------------|--------------------------------------|---------------------|---------------------------|----------------------|--------------------------------------|---------------------|
| | International Obligations | International Equity | International Other Commingled Funds | Other Investments | International Obligations | International Equity | International Other Commingled Funds | Other Investments |
| Argentine Peso | \$ 302 | \$ | \$ 1,130 | \$ | \$ | \$ | \$ 3 | \$ |
| Australian Dollar | 180,058 | 62,620 | 3,529 | 263,623 | 1,037 | 1,052,349 | 985 | |
| Botswana Pula | | | | | | 4,596 | | |
| Brazilian Real | 260,940 | 224,321 | 21,213 | 131,766 | | 1,091,036 | 898 | |
| British Pound | 213,343 | 236,028 | 111,587 | 720,917 | | 4,058,460 | 4,934 | 211,656 |
| Canadian Dollar | 46,527 | 70,479 | 3,353 | 37,756 | 1,210 | 1,608,350 | 246 | |
| Cayman Island Dollar | 70 | | | 358,195 | | | | |
| Chilean Peso | 995 | 5,108 | 1,444 | 18,728 | | 136,875 | 2 | |
| Chinese Yuan | 88 | | 6,391 | | | | | |
| Colombian Peso | 8,797 | | 78 | 12,102 | | 56,313 | | |
| Croatian Kuna | | | | | | 5,868 | | |
| Czech Koruna | | 2,614 | 947 | 3,048 | | 38,796 | | |
| Danish Krone | | 6,962 | 392 | 35,900 | | 170,209 | 131 | |
| Egyptian Pound | | 2,004 | 632 | 3,657 | | 42,061 | | |
| Euro | 497,386 | 155,737 | 55,234 | 1,178,193 | 75,733 | 4,650,657 | 5,463 | 2,696,720 |
| Ghanaian Cedi | | | | | | 2,231 | | |
| Hong Kong Dollar | 1,445 | 289,122 | 6,070 | 260,187 | | 2,364,774 | 739 | |
| Hungarian Forint | 29,650 | 2,062 | 8 | 2,707 | | 63,646 | | |
| Indian Rupee | | 32,003 | 9,323 | 556 | 1 | 561,806 | 417 | |
| Indonesian Rupiah | 1,452 | 29,117 | 2,225 | 26,536 | | 453,909 | 41 | |
| Japanese Yen | 166,673 | 108,794 | 10,838 | 595,892 | | 3,203,209 | 981 | |
| Jordanian Dinar | | | | | | 7,022 | | |
| Kenyan Shilling | | | | | | 8,077 | | |
| Lithuanian Litas | 471 | | | | | | | |
| Malaysian Ringgit | 31,464 | 41,032 | 680 | 36,886 | | 289,258 | 72 | |
| Mauritius Rupee | | | | | | 5,857 | | |
| Mexican Peso | 104,420 | 30,855 | 6,636 | 48,603 | | 479,094 | 320 | |
| Moroccan Dirham | | 801 | 12 | 1,161 | | 14,534 | | |
| New Israeli Shekel | 8,136 | | 359 | 10,765 | | 57,568 | 28 | |
| New Zealand Dollar | 100,263 | | (657) | 3,919 | | 16,376 | | |
| Nigerian Naira | | | | | | 9,019 | | |
| Norwegian Kroner | | 4,152 | 526 | 29,494 | | 243,409 | | |
| Pakistani Rupee | | 1,418 | | | | 19,642 | | |
| Panamanian Balboa | 97 | | 177 | | | 4,886 | | |
| Peruvian Nuevo Sol | 265 | 10 | 990 | 286 | | 5,935 | 45 | |
| Philippine Peso | 1,041 | 21,422 | 896 | 9,752 | | 107,875 | 26 | |
| Polish Zloty | 80,850 | 12,504 | (1) | 13,887 | | 131,310 | | |
| Qatar Riyal | 360 | | | | | 19,379 | | |
| Romanian Leu | | | | | | 4,886 | | |
| Russian Ruble | 181 | | 1,297 | 45,052 | | 12,402 | 151 | |
| Singapore Dollar | 6,466 | 34,611 | 2,216 | 55,953 | | 251,294 | 131 | |
| South African Rand | 41,009 | 46,251 | 5,884 | 79,555 | | 821,553 | 306 | |
| South Korean Won | 33,265 | 119,222 | 27,687 | 153,409 | | 1,657,481 | 513 | |
| Swedish Krona | | 32,902 | 2,510 | 94,438 | 2,957 | 481,935 | 414 | |
| Swiss Franc | | 40,767 | 5,431 | 252,286 | | 1,451,648 | 1,414 | |
| Taiwan Dollar | | 73,037 | 6,937 | 108,349 | | 971,381 | 370 | |
| Thai Baht | 3 | 40,146 | 3,198 | 22,194 | | 358,488 | | |
| Turkish Lira | | 26,261 | 1,842 | 18,780 | | 314,238 | 76 | |
| United Arab Emirates Dirham | 50 | 2,280 | 355 | | | 13,855 | | |
| Venezuelan Bolivar | 2,127 | | | | | | | |
| Total | \$ 1,818,194 | \$ 1,754,642 | \$ 301,369 | \$ 4,634,532 | \$ 80,938 | \$ 27,318,661 | \$ 18,706 | \$ 2,908,376 |

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk ratings are assigned by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. The net market value of all over-the-counter derivative positions, less collateral posted, may not exceed \$500 million and all over-the-counter derivative positions without collateral may not exceed 5 percent of the total market value of the fund. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio. A securities lending agent must be an organization rated A- or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that non-cash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policy has no requirements or limitations for investment ratings.

As of Aug. 31, 2012, the credit quality distribution for securities with credit risk exposure was as follows:

Investments Exposed to Credit Risk

August 31, 2012 (Amounts in Thousands)

| | Governmental and Business-Type Activities | | | | | | | | |
|-----------|---|--------------------------|---------------------------------------|------------------------------|--------------------------|-------------------------------------|---------------------|----------------------|----------------------|
| | U.S. Government Agency | Corporate Obligations | Corporate Asset/Mortgage Backed | International Obligations | Repurchase Agreements | Fixed Income/Bond Mutual Fund | Commercial Paper | Other Investments | Totals |
| AAA | \$ 1,523,038 | \$ 217,570 | \$ 1,499,390 | \$ 583,991 | \$ 40,105 | \$ | \$ | \$ 390,934 | \$ 4,255,028 |
| AA | 8,281,341 | 718,961 | 70,126 | 245,502 | 5,896,096 | | | 169,136 | 15,381,162 |
| A | 2,099 | 1,092,529 | 109,684 | 421,937 | 114,999 | | | 77,188 | 1,818,436 |
| BBB | | 1,161,890 | 49,808 | 156,474 | | | | 16,991 | 1,385,163 |
| BB | | 140,280 | 3,639 | 45,121 | | | | 25,362 | 214,402 |
| B | | 68,102 | 5,876 | 4,334 | | | | 3,170 | 81,482 |
| CCC | | 3,545 | 37,528 | 1,552 | | | | | 42,625 |
| CC | | | 2,577 | | | | | | 2,577 |
| D | | | 1,814 | | | | | | 1,814 |
| AAAf | | | | | | 2,896,731 | | | 2,896,731 |
| AAA m | | | | | | 497,353 | | | 497,353 |
| Aaf | | | | | | 40,334 | | | 40,334 |
| A-1 | | | | | | | 1,516,861 | | 1,516,861 |
| Not Rated | 228,151 | 559,871 | 868,480 | 990,898 | 695,903 | 1,414,730 | 191,560 | 135,629 | 5,085,222 |
| Total | <u>\$ 10,034,629</u> | <u>\$ 3,962,748</u> | <u>\$ 2,648,922</u> | <u>\$ 2,449,809</u> | <u>\$ 6,747,103</u> | <u>\$ 4,849,148</u> | <u>\$ 1,708,421</u> | <u>\$ 818,410</u> | <u>\$ 33,219,190</u> |

Continued on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2012 (Amounts in Thousands)

| | Fiduciary Funds | | | | | | | | |
|-----------|------------------------------|--------------------------|---------------------------------------|------------------------------|--------------------------|-------------------------------------|---------------------|----------------------|----------------------|
| | U.S. Government Agency | Corporate Obligations | Corporate Asset/Mortgage Backed | International Obligations | Repurchase Agreements | Fixed Income/Bond Mutual Fund | Commercial Paper | Other Investments | Totals |
| AAA | \$ 5,125,511 | \$ 58,073 | \$ 209,974 | \$ 236,041 | \$ 8,365,174 | \$ | \$ | \$ 42,699 | \$ 14,037,472 |
| AA | 5,457,223 | 222,111 | 63,121 | 152,808 | 630,055 | | | 1 | 6,525,319 |
| A | 653 | 776,347 | 25,796 | 204,417 | | | | 37,286 | 1,044,499 |
| BBB | | 631,434 | 16,334 | 151,994 | | | | 25 | 799,787 |
| BB | | 89,633 | 22,995 | 40,612 | | | | | 153,240 |
| B | | 94,524 | 70,838 | 6,335 | | | | 4 | 171,701 |
| CCC | | 10,323 | 146,283 | 114 | | | | | 156,720 |
| CC | | 3,092 | 51,629 | | | | | | 54,721 |
| D | | | 3,221 | | | | | | 3,221 |
| AAAf | | | | | | 50,736 | | | 50,736 |
| Aaf | | | | | | 16,927 | | | 16,927 |
| A-1 | | | | | | | 532,497 | | 532,497 |
| Not Rated | 31,798 | 77,341 | 295,723 | 61,850 | | 528,757 | | 5,076 | 1,000,545 |
| Total | <u>\$ 10,615,185</u> | <u>\$ 1,962,878</u> | <u>\$ 905,914</u> | <u>\$ 854,171</u> | <u>\$ 8,995,229</u> | <u>\$ 596,420</u> | <u>\$ 532,497</u> | <u>\$ 85,091</u> | <u>\$ 24,547,385</u> |

| | Component Units | | | | | | | | |
|-----------|------------------------------|--------------------------|---------------------------------------|------------------------------|--------------------------|-------------------------------------|---------------------|----------------------|---------------------|
| | U.S. Government Agency | Corporate Obligations | Corporate Asset/Mortgage Backed | International Obligations | Repurchase Agreements | Fixed Income/Bond Mutual Fund | Commercial Paper | Other Investments | Totals |
| AAA | \$ 915,719 | \$ 18,722 | \$ 257,647 | \$ 2,245 | \$ | \$ | \$ | \$ 39,626 | \$ 1,233,959 |
| AA | 83,437 | 3,909 | 244 | | 42,843 | | | | 130,433 |
| A | | 1,751 | | 278 | | | | | 2,029 |
| AAAf | | | | | | 3,296 | | | 3,296 |
| AAAf | | | | | | 10,262 | | | 10,262 |
| A-1 | | | | | | | 14,818 | | 14,818 |
| Not Rated | 9,931 | 2,933 | 5,852 | | 12,311 | | | | 31,027 |
| Total | <u>\$ 1,009,087</u> | <u>\$ 27,315</u> | <u>\$ 263,743</u> | <u>\$ 2,523</u> | <u>\$ 55,154</u> | <u>\$ 13,558</u> | <u>\$ 14,818</u> | <u>\$ 39,626</u> | <u>\$ 1,425,824</u> |

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. As of Aug. 31, 2012, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and UT use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option-adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds

and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio to be consistent with the Barclay Aggregate Bond Index's duration and the duration of the real return portfolio to be consistent with the Barclay's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2012, the Barclay Aggregate Index duration was 5.02 years and the Barclay's TIPS Index was 5.7 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days, bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days, and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days or less. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days or less. TRS, ERS and UT do not have a formal investment policy for managing interest rate risk.

As of Aug. 31, 2012, PSF's investments by investment type, fair value and the effective weighted duration rate were as follows:

| Investments Exposed to Interest Rate Risk | | |
|--|--------------------------------------|---|
| August 31, 2012 | | |
| PSF Investment Type | Fair Value (in Thousands) | Effective Weighted Duration Rate |
| Asset Backed Securities | \$ 87,599 | 1.49 |
| Commercial Mortgage Backed Securities | 289,547 | 3.58 |
| Corporate Obligations | 1,337,418 | 6.96 |
| Yankee – Corporate Obligations | 39,729 | 10.78 |
| Non Agency Mortgage Backed Securities | 38,109 | 3.14 |
| Sovereign Government Debt | 16,514 | 8.25 |
| U.S. Government Agency Commercial Mortgage Backed Securities | 131,759 | 10.61 |
| U.S. Government Agency Mortgage Backed Securities | 1,420,654 | 2.06 |
| U.S. Government Agency Obligations | 458,313 | 4.38 |
| U.S. Taxable Municipal Bonds | 109,766 | 10.93 |
| U.S. Treasury Securities | 1,296,077 | 6.73 |
| U.S. Treasury TIPS | 913,399 | 7.97 |
| Total | \$6,138,884 | 5.62 |

The following table provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2012.

| Invested Securities Lending Collateral Exposed to Interest Rate Risk | | | |
|---|-------------------|--|--|
| August 31, 2012 (Amounts in Thousands) | | | |
| PSF Investment Type | Fair Value | Investment Maturities in Less Than One Year | Investment Maturities Greater Than One Year |
| Asset Backed Floating Rate Notes | \$ 6,047 | \$ | \$ 6,047 |
| Repurchase Agreements | 364,451 | 364,451 | |
| Total | <u>\$370,498</u> | <u>\$364,451</u> | <u>\$ 6,047</u> |

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2012.

| Investments Exposed to Interest Rate Risk | | |
|--|----------------------------------|---|
| August 31, 2012 | | |
| TRS Investment Type | Fair Value (In Thousands) | Effective Weighted Duration Rate |
| U.S. Government Obligations | \$ 13,536,791 | 16.16 |
| U.S. Government STRIPS and TIPS | 5,851,985 | 6.06 |
| U.S. Government Agency Obligations | 20,215 | 4.18 |
| Asset and Mortgage Backed Obligations | 525,103 | 2.67 |
| Corporate Obligations | 53,493 | 9.29 |
| International Government Obligations | 80,936 | 2.14 |
| International Corporate Obligations | 11,069 | 9.78 |
| Total | <u>\$ 20,079,592</u> | <u>12.77</u> |

As of Aug. 31, 2012, ERS' investments by investment type, fair value and the modified duration rate were as follows:

| Investments Exposed to Interest Rate Risk | | | | |
|--|----------------------------------|-------------------------|-------------------------------|-------------------------|
| August 31, 2012 | | | | |
| ERS Investment Type | Fair Value (In Thousands) | | Modified Duration Rate | |
| | Fiduciary Funds | Proprietary Fund | Fiduciary Funds | Proprietary Fund |
| U.S. Treasury Securities | \$ 3,840,480 | \$ 380,052 | 4.64 | 2.51 |
| U.S. Government Agency Obligations | 1,337,784 | 49,471 | 2.79 | 2.79 |
| Corporate Obligations | 1,758,551 | 58,012 | 6.42 | 6.56 |
| Corporate Asset and Mortgage Backed Securities | 162,579 | 6,012 | 3.04 | 3.04 |
| International Obligations | 723,327 | 25,951 | 3.43 | 3.38 |
| Money Market and Bond Fund | 185,206 | 135,800 | 0.08 | 0.08 |
| Municipal Funds | 60,285 | 2,229 | 13.08 | 13.08 |
| Total | <u>\$ 8,068,212</u> | <u>\$ 657,527</u> | <u>4.54</u> | <u>2.46</u> |

As of Aug. 31, 2012, UT's investments by investment type, fair value and the modified duration rate were as follows:

| Investments Exposed to Interest Rate Risk | | |
|--|--------------------------------------|-----------------------------------|
| August 31, 2012 | | |
| UT Investment Type | Fair Value (In Thousands) | Modified Duration Rate |
| INVESTMENTS IN SECURITIES | | |
| U.S. Government Guaranteed: | | |
| U.S. Treasury Bonds and Notes | \$ 292,324 | 7.81 |
| U.S. Treasury Strips | 558 | 1.73 |
| U.S. Treasury Bills | 65,054 | 0.54 |
| U.S. Treasury Inflation Protected | 2,703 | 6.48 |
| U.S. Agency Asset Backed | 5,940 | 4.36 |
| Total U.S. Government Guaranteed | <u>366,579</u> | <u>6.45</u> |
| U.S. Government Non-Guaranteed: | | |
| U.S. Agency | 5,756 | 3.82 |
| U.S. Agency Asset Backed | 237,710 | 2.99 |
| Total U.S. Government Non-Guaranteed | <u>243,466</u> | <u>3.01</u> |
| Total U.S. Government | <u>610,045</u> | <u>5.07</u> |
| Corporate Obligations: | | |
| Domestic | 548,204 | 6.33 |
| Foreign | 368,027 | 5.47 |
| Total Corporate Obligations | <u>916,231</u> | <u>5.99</u> |
| Foreign Government and Provincial Obligations | | |
| Other Debt Securities | 1,550,769 | 6.32 |
| Total Debt Securities | <u>47,556</u> | <u>12.86</u> |
| Total Debt Securities | <u>3,124,601</u> | <u>6.08</u> |
| Other Investment Funds – Debt | | |
| Convertible Stock | 23,019 | 6.90 |
| Fixed Income Money Market Funds | 1,021 | 29.03 |
| | 2,452,634 | 0.04 |
| Total | <u>\$5,601,275</u> | <u>3.44</u> |

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest

rates could reduce or eliminate the stream of income that would have been received. As of Aug. 31, 2012, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$3.2 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying the reverse repurchase agreements. The amount

of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

As of Aug. 31, 2012, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$66.3 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$66.4 million. During fiscal 2012, the credit exposure was \$60 thousand.

Securities Lending

ERS, TRS, PSF, UT, the Veterans Land Board (VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. ERS, TRS, PSF and UT established their own separately managed securities lending programs. VLB participates in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. ERS, TRS, UT and VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities. However, the required percentage is 102 percent for foreign securities denominated and payable in U.S. dollars. TPHETB receives

collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The custodians of the securities are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify ERS, TRS, PSF, UT, VLB and TPHETB if the borrowers fail to return the securities.

TRS, VLB, PSF and TPHETB loans are terminable at will. 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.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. The overall securities lending activity as of Aug. 31, 2012, is summarized below.

Securities Lending Activity Summary

August 31, 2012 (Amounts in Thousands)

| Entity | Fair Value of Securities on Loan | Non-Cash Collateral* | Cash Collateral Liability (Obligation/ Securities Lending) | Fair Value of Invested Cash Collateral (Securities Lending Collateral) | Net Increase/ (Decrease) In Fair Value |
|----------|----------------------------------|----------------------|--|--|--|
| TRS | \$22,287,014 | \$1,130,387 | \$21,535,537 | \$21,557,057 | \$ 21,520 |
| ERS | 1,379,139 | | 1,416,923 | 1,417,088 | 165 |
| PSF | 1,588,075 | 1,163,039 | 470,169 | 370,498 | (99,671) |
| UT* ** | 663,607 | | 511,401 | 511,401 | |
| VLB** | 83,855 | | 85,056 | 85,056 | |
| TPHETB** | 94,884 | 90 | 96,653 | 96,653 | |
| Total | <u>\$26,096,574</u> | <u>\$2,293,516</u> | <u>\$24,115,739</u> | <u>\$24,037,753</u> | <u>\$(77,986)</u> |

* Non-cash collateral received for securities lending activities is not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** UT, VLB and TPHETB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2012.

Investment Derivative Instruments

Derivatives are financial instruments (securities or contracts) whose value is linked to or “derived” from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of the investment strategies of certain state agencies, public employee retirement systems and institutions of higher education. Those investment strategies are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

All investment derivative instruments are reported at fair value on the statement of net position and the statement of fiduciary net position. The changes in the fair value of investment derivative instruments are reported as investment revenue in the operating statements. As of Aug. 31, 2012, TRS, PSF, UT, Texas A&M University System (A&M), VLB and the Texas Department of Transportation (TxDOT) held investment derivatives (forwards, futures, options and swaps).

Forward foreign currency exchange contracts are used for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are marked-to-market daily with the change in market value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts and unanticipated movements in currency exchange rates.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price and date. Futures contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase

or decrease of market exposure to various asset classes. Upon entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. As of Aug. 31, 2012, swap investments were interest rate, credit default, commodity, equity and total return swaps.

UT, VLB and TxDOT invested in pay-variable, receive-variable and pay-fixed, receive-variable interest

rate swap agreements that are reported as investment derivatives because they are ineffective hedges.

Foreign Currency Risk: TRS, UT and A&M have exposure to investment foreign currency risk in forwards, futures, options and swaps derivative investments. As of Aug. 31, 2012, derivative investments exposed to foreign currency risk were as follows:

| | Governmental and Business-Type Activities | | | | Fiduciary |
|--------------------|---|--------------------|-------------------|--------------------|-----------------|
| | Swaps | Options | Futures | Forwards | Funds |
| Australian Dollar | \$ 104 | \$ (4,180) | \$ (139) | \$ (4,594) | \$ |
| Brazilian Real | | | (2,504) | (2,559) | |
| British Pound | (476) | | | 663 | 186 |
| Canadian Dollar | | | (21) | 157 | 43 |
| Chilean Peso | | | | 857 | |
| Chinese Yuan | | | | (1,507) | |
| Columbian Peso | | | | 78 | |
| Danish Krone | | | | 31 | |
| Euro | 1 | | 20 | (3,225) | 4,985 |
| Hong Kong Dollar | | | | | 29 |
| Indian Rupee | | | | 3,658 | |
| Japanese Yen | (2,457) | | 35 | (3,568) | (55) |
| Malaysian Ringgit | | | | 52 | |
| Mexican Peso | 1,554 | | | (768) | |
| New Zealand Dollar | | | | (598) | |
| Norwegian Kroner | | | | 8 | |
| Polish Zloty | | | | (194) | |
| Singapore Dollar | | | | 6 | |
| South African Rand | | | | (27) | |
| South Korean Won | | (16,960) | | 1,149 | (63) |
| Swedish Krona | | | | 214 | 468 |
| Swiss Franc | | | | (1,093) | |
| Taiwan Dollar | | | | (872) | |
| Thai Baht | | | | 16 | |
| Turkish Lira | | | | (594) | |
| Total | <u>\$ (1,274)</u> | <u>\$ (21,140)</u> | <u>\$ (2,609)</u> | <u>\$ (12,710)</u> | <u>\$ 5,593</u> |

Credit Risk: TRS and UT instituted policies to mitigate counterparty credit risk for investment derivatives by having master netting agreements and collateral posting arrangements. TRS and UT negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS' investment policy limits the net market value of all over-the-counter derivative positions, less collat-

eral posted, to an amount not exceeding \$500 million for any individual counterparty.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by UT in one of its accounts at their custodian bank.

TxDOT's basis swap agreements contain provisions for collateral posting by counterparties in the event of a credit rating downgrade. Acceptable forms of collateral include cash in the form of U.S. dollars, negotiable debt obligations issued by the U.S. Treasury Department and agency securities. Agency securities include negotiable debt obligations fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation.

The aggregate fair value of investment derivative instruments in asset positions as of Aug. 31, 2012, was \$193.2 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2012, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$43.1 million of collateral held and by \$81.8

million in liabilities included in netting arrangements with those counterparties, resulting in a \$68.3 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, UT, VLB and TxDOT are exposed to interest rate risk on swap transactions. Investments in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 131.25 percent of Securities Industry and Financial Markets Association

(SIFMA) and receipt of 67 to 103 percent of one month to 10-year London Interbank Offered Rate (LIBOR). Investments in pay-variable, receive-fixed interest rate swaps paid a fixed rate of 0.25 percent and received the 6-month LIBOR at the foreign currency rate. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates and payment of 0.3 to 6.96 percent. As of Aug. 31, 2012, the investment maturities for the state's swap contracts exposed to interest rate risk were as follows:

Derivative Investments Exposed to Interest Rate Risk

August 31, 2012 (Amounts in Thousands)

| Investment Type | Fair Value | Investment Maturities (in years) | | | | |
|---------------------|------------|----------------------------------|---------|-------|-------|--------------|
| | | Less Than 1 | 1-5 | 6-10 | 11-15 | More than 15 |
| Interest Rate Swaps | \$54,482 | \$21,534 | \$(401) | \$276 | \$792 | \$32,281 |

Investment Funds

Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment managers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. As of Aug. 31, 2012, the fair value of various investment funds was \$57 billion.

NOTE 4

Short-Term Debt

On Aug. 23, 2011 (with an issue date of Sept. 1, 2011), \$9.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2011, were sold to coordinate the cash flow of the state for fiscal 2012. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2011 notes were repaid during fiscal 2012, bore interest at 2.5 percent and were priced to yield 0.273 percent.

On Aug. 21, 2012, the Comptroller's office sold approximately \$9.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2012, with an issue date of Aug. 30, 2012, and a maturity date of Aug. 30, 2013. The notes bear interest at 2.5 percent and were priced to yield 0.225 percent. They are not subject to redemption prior to maturity. On Aug. 21, 2012, good faith funds in the amount of \$98 million were received. The balance of the \$9.8 billion was received on Aug. 30, 2012.

The state also sold \$500 million in commercial paper for the purpose of coordinating the cash flow of the state for fiscal 2012. Issuance of the commercial paper also enhanced the state's ability to make timely payments of expenditures payable from the general revenue fund.

Short-term debt activity for the fiscal year ended Aug. 31, 2012, is presented below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Balance 9/1/11 | Issued | Redeemed | Balance 8/31/12 |
|------------------------------------|-------------------|----------------------|----------------------|---------------------|
| Tax and Revenue Anticipation Notes | \$ | \$ 19,600,000 | \$ 9,800,000 | \$ 9,800,000 |
| Commercial Paper | | 500,000 | 500,000 | |
| | <u>\$ 0</u> | <u>\$ 20,100,000</u> | <u>\$ 10,300,000</u> | <u>\$ 9,800,000</u> |

NOTE 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2012, is presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Balance 9/1/11 | Restatement | Additions | Reductions | Balance 8/31/12 | Amounts Due Within One Year | Amounts Due Thereafter |
|---|----------------------|-----------------------|---------------------|---------------------|----------------------|-----------------------------------|------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| Claims and Judgments | \$ 147,973 | \$ | \$ 48,079 | \$ 62,827 | \$ 133,225 | \$ 50,183 | \$ 83,042 |
| Capital Lease Obligations | 14,177 | | 2,867 | 5,341 | 11,703 | 5,365 | 6,338 |
| Employees' Compensable Leave | 718,842 | | 773,481 | 759,427 | 732,896 | 439,322 | 293,574 |
| Notes and Loans Payable | 1,149,953 | | 302,515 * | 71,666 | 1,380,802 | 170,932 | 1,209,870 |
| General Obligation Bonds Payable | 11,519,544 | | 188,956 * | 394,175 | 11,314,325 | 383,782 | 10,930,543 |
| Revenue Bonds Payable | 5,455,607 | (1,004,165) | (3,894) * | 170,650 | 4,276,898 | 178,378 | 4,098,520 |
| Pollution Remediation Obligation | 263,806 | | 53,111 | 69,533 | 247,384 | 51,876 | 195,508 |
| Governmental Activities Long-Term Liabilities | <u>\$ 19,269,902</u> | <u>\$ (1,004,165)</u> | <u>\$ 1,365,115</u> | <u>\$ 1,533,619</u> | <u>\$ 18,097,233</u> | <u>\$ 1,279,838</u> | <u>\$ 16,817,395</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| Claims and Judgments | \$ 60,230 | \$ | \$ 20,569 | \$ 19,743 | \$ 61,056 | \$ 16,708 | \$ 44,348 |
| Capital Lease Obligations | 20,484 | | 3,946 | 2,792 | 21,638 | 3,514 | 18,124 |
| Employees' Compensable Leave | 684,427 | | 224,523 | 203,707 | 705,243 | 364,698 | 340,545 |
| Notes and Loans Payable | 2,005,719 | | 980,772 * | 911,522 | 2,074,969 | 673,538 | 1,401,431 |
| General Obligation Bonds Payable | 2,955,651 | | 414,460 * | 140,562 | 3,229,549 | 129,075 | 3,100,474 |
| Revenue Bonds Payable | 18,766,862 | | 1,607,012 * | 1,340,405 | 19,033,469 | 2,165,794 | 16,867,675 |
| Pollution Remediation Obligation | 20 | | | 20 | | | |
| Liabilities Payable From Restricted Assets | 3,561,533 | | 270,552 | 331,598 | 3,500,487 | 541,137 | 2,959,350 |
| Business-Type Activities Long-Term Liabilities | <u>\$ 28,054,926</u> | <u>\$ 0</u> | <u>\$ 3,521,834</u> | <u>\$ 2,950,349</u> | <u>\$ 28,626,411</u> | <u>\$ 3,894,464</u> | <u>\$ 24,731,947</u> |
| COMPONENT UNITS | | | | | | | |
| Capital Lease Obligations | \$ 143 | \$ | \$ | \$ 33 | \$ 110 | \$ 54 | \$ 56 |
| Employees' Compensable Leave | 5,685 | | 2,650 | 2,450 | 5,885 | 3,701 | 2,184 |
| Notes and Loans Payable | 73,206 | | 2,003 * | 21,127 | 54,082 | 9,570 | 44,512 |
| Revenue Bonds Payable | 336,509 | | 31,459 * | 89,049 | 278,919 | 25,053 | 253,866 |
| Liabilities Payable From Restricted Assets | 50,080 | | | 50,080 | | | |
| Component Units Long-Term Liabilities | <u>\$ 465,623</u> | <u>\$ 0</u> | <u>\$ 36,112</u> | <u>\$ 162,739</u> | <u>\$ 338,996</u> | <u>\$ 38,378</u> | <u>\$ 300,618</u> |

* Includes current year amortization of accretion, premiums and discounts.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

| Year | Principal | Interest | Total |
|-----------------------|---------------------|-------------------|---------------------|
| 2013 | \$ 170,932 | \$ 12,469 | \$ 183,401 |
| 2014 | 173,315 | 11,495 | 184,810 |
| 2015 | 197,875 | 10,527 | 208,402 |
| 2016 | 205,217 | 11,336 | 216,553 |
| 2017 | 202,173 | 10,324 | 212,497 |
| 2018 - 2022 | 784,492 | 38,184 | 822,676 |
| 2023 - 2027 | 143,901 | 19,930 | 163,831 |
| 2028 - 2032 | 43,945 | 5,891 | 49,836 |
| Total Requirements | 1,921,850 | 120,156 | 2,042,006 |
| Unamortized Accretion | (541,048) | | (541,048) |
| Total Requirements | <u>\$ 1,380,802</u> | <u>\$ 120,156</u> | <u>\$ 1,500,958</u> |

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

| Year | Principal | Interest | Total |
|-----------------------|---------------------|---------------------|---------------------|
| 2013 | \$ 673,538 | \$ 42,326 | \$ 715,864 |
| 2014 | 14,110 | 42,925 | 57,035 |
| 2015 | 13,134 | 43,997 | 57,131 |
| 2016 | 29,327 | 50,413 | 79,740 |
| 2017 | 12,700 | 51,512 | 64,212 |
| 2018 - 2022 | 96,268 | 292,112 | 388,380 |
| 2023 - 2027 | 119,961 | 349,157 | 469,118 |
| 2028 - 2032 | 228,726 | 326,966 | 555,692 |
| 2033 - 2037 | 328,776 | 262,278 | 591,054 |
| 2038 - 2042 | 740,233 | 137,526 | 877,759 |
| Total Requirements | 2,256,773 | 1,599,212 | 3,855,985 |
| Unamortized Accretion | (181,804) | | (181,804) |
| Total Requirements | <u>\$ 2,074,969</u> | <u>\$ 1,599,212</u> | <u>\$ 3,674,181</u> |

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

| Year | Principal | Interest | Total |
|--------------------|------------------|-----------------|------------------|
| 2013 | \$ 9,570 | \$ 286 | \$ 9,856 |
| 2014 | 3,043 | 355 | 3,398 |
| 2015 | 2,927 | 309 | 3,236 |
| 2016 | 4,531 | 418 | 4,949 |
| 2017 | 6,058 | 371 | 6,429 |
| 2018 - 2022 | 26,693 | 974 | 27,667 |
| 2023 - 2027 | 1,260 | 120 | 1,380 |
| Total Requirements | <u>\$ 54,082</u> | <u>\$ 2,833</u> | <u>\$ 56,915</u> |

Notes and loans payable consist of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt; and the funding of agency specific missions such as economic development projects and pest eradication programs. The Texas Department of Transportation (TxDOT) entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. In fiscal 2012, TxDOT recognized \$125.4 million as a long-term liability for pass-through toll payables related to highway projects constructed under pass-through financing agreements. See Note 15 for additional details. Debt service requirements for notes and loans payable in the long-term liabilities are presented in the tables to the left.

General obligation bonds and revenue bonds are described in detail in Note 6. Certain revenue bonds related to pass-through activities amounting to \$1 billion recorded in prior years were determined to meet the definition of conduit debt, which should not be recorded on the balance sheet and instead be disclosed in the notes. A restatement was recorded to remove the amount from the financial statements.

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings, self-insurance and workers' compensation claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$50 thousand or numerous separate claims from the same individual or entity that in total exceed \$50 thousand must be approved by the Legislature before being paid. Claims are paid from one or more of approximately 50 governmental funds. Workers' compensation claims are usually paid from the

same funding source(s) from which the employee's salary or wage compensation was paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Note 8 provides details on capital lease obligations.

Long-term liabilities associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment.
- The state is in violation of a pollution prevention-related permit or license.
- The state is named as a potentially responsible party by a regulator.
- The state is named in a lawsuit that compels it to participate in remediation.
- The state has commenced, or legally obligated itself to commence, cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets. Recoveries from the federal government are considered

nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2012, the amount expected to offset state remediation costs could not reasonably be estimated.

Federal Regulatory Cleanup Requirements: Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and U.S. Environmental Protection Agency Class V Wells regulations.

The Superfund obligation estimates are based on budgeted projects to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations are calculated based on contractor estimates or historical costs as applicable.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

State Regulatory Cleanup Requirements: Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality operates as a regulatory agency to ensure cleanups are conducted within applicable state laws and regulations contained in the Texas Administrative Code, Title 30; Texas Water Code; Texas Health and Safety Code; Texas Occupations Code; and Texas Natural Resources Code.

Other Pollution Remediation Activity: A remediation activities estimate for land owned by Texas Tech University in Carson County, Texas, remains pending as of Aug. 31, 2012.

NOTE 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas had 473 bond issues outstanding as of Aug. 31, 2012. During fiscal 2012 the state paid \$467.7 million from the general revenue fund for debt service.

Information on Bond Issuances

August 31, 2012

| Description of Issue | Bond Issues Outstanding | | Range of Interest Rates | | Maturities | | First Call Date |
|---------------------------------|-------------------------|-----------------------|-------------------------|---------|------------|-----------|-----------------|
| | Number | Amount (in Thousands) | Lowest | Highest | First Year | Last Year | |
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| General Obligation Bonds | 71 | \$ 13,564,472 | 0.25 | 6.07 | 1998 | 2045 | 07/01/03 |
| Revenue Bonds | 21 | 5,174,213 | 2.50 | 7.25 | 1991 | 2030 | 02/01/01 |
| Governmental Activities Total | <u>92</u> | <u>18,738,685</u> | | | | | |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| General Obligation Bonds | 89 | 4,299,860 | 1.37 | 8.06 | 1995 | 2047 | 02/24/94 |
| Revenue Bonds | 276 | 24,809,839 | 0.30 | 15.00 | 1988 | 2047 | 05/04/95 |
| Business-Type Activities Total | <u>365</u> | <u>29,109,699</u> | | | | | |
| COMPONENT UNITS | | | | | | | |
| Revenue Bonds | 16 | 397,417 | 5.30 | 7.10 | 1986 | 2042 | 10/08/86 |
| Total | <u>473</u> | <u>\$ 48,245,801</u> | | | | | |

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Bonds Outstanding 9/1/11 | Restatement | Bonds Issued* | Bonds Matured or Retired | Bonds Refunded | Bonds Outstanding 8/31/12 | Due Within One Year |
|---------------------------------|--------------------------|----------------------|---------------------|--------------------------|-------------------|---------------------------|---------------------|
| GOVERNMENTAL ACTIVITIES | | | | | | | |
| General Obligation Bonds | \$ 11,519,544 | \$ | \$ 188,956 | \$ 332,110 | \$ 62,065 | \$ 11,314,325 | \$ 383,782 |
| Revenue Bonds | 5,455,607 | (1,004,165) | (3,894) | 170,650 | | 4,276,898 | 178,378 |
| Governmental Activities Total | <u>16,975,151</u> | <u>(1,004,165)</u> | <u>185,062</u> | <u>502,760</u> | <u>62,065</u> | <u>15,591,223</u> | <u>562,160</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | | | |
| General Obligation Bonds | 2,955,651 | | 414,460 | 116,017 | 24,545 | 3,229,549 | 129,075 |
| Revenue Bonds | 18,766,862 | | 1,607,012 | 637,628 | 702,777 | 19,033,469 | 2,165,794 |
| Business-Type Activities Total | <u>21,722,513</u> | <u>0</u> | <u>2,021,472</u> | <u>753,645</u> | <u>727,322</u> | <u>22,263,018</u> | <u>2,294,869</u> |
| COMPONENT UNITS | | | | | | | |
| Revenue Bonds | 336,509 | | 31,459 | 29,849 | 59,200 | 278,919 | 25,053 |
| Total | <u>\$ 39,034,173</u> | <u>\$(1,004,165)</u> | <u>\$ 2,237,993</u> | <u>\$ 1,286,254</u> | <u>\$ 848,587</u> | <u>\$ 38,133,160</u> | <u>\$ 2,882,082</u> |

* Includes current year amortization of accretion, premiums and discounts.

Debt Service Requirements

(Amounts in Thousands)

| Year | General Obligation Bonds | | | Revenue Bonds | | |
|---------------------------------|--------------------------|---------------------|----------------------|----------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2013 | \$ 358,015 | \$ 503,449 | \$ 861,464 | \$ 172,015 | \$ 203,458 | \$ 375,473 |
| 2014 | 365,925 | 490,906 | 856,831 | 174,925 | 195,900 | 370,825 |
| 2015 | 394,755 | 477,311 | 872,066 | 162,130 | 188,155 | 350,285 |
| 2016 | 378,325 | 460,638 | 838,963 | 165,075 | 180,432 | 345,507 |
| 2017 | 339,855 | 444,667 | 784,522 | 167,305 | 172,609 | 339,914 |
| 2018 - 2022 | 1,736,260 | 1,989,122 | 3,725,382 | 883,005 | 737,704 | 1,620,709 |
| 2023 - 2027 | 1,914,750 | 1,565,792 | 3,480,542 | 1,450,740 | 470,823 | 1,921,563 |
| 2028 - 2032 | 2,046,490 | 1,088,346 | 3,134,836 | 1,013,145 | 106,121 | 1,119,266 |
| 2033 - 2037 | 2,217,085 | 603,321 | 2,820,406 | | | |
| 2038 - 2042 | 1,167,695 | 93,376 | 1,261,071 | | | |
| 2043 - 2047 | 45,000 | 260 | 45,260 | | | |
| | <u>10,964,155</u> * | <u>7,717,188</u> | <u>18,681,343</u> | <u>4,188,340</u> * | <u>2,255,202</u> | <u>6,443,542</u> |
| Accretion | (15,098) | | (15,098) | (1,952) | | (1,952) |
| Premium | 365,793 | | 365,793 | 90,510 | | 90,510 |
| Discount | (525) | | (525) | | | |
| Total | <u>\$ 11,314,325</u> | <u>\$ 7,717,188</u> | <u>\$ 19,031,513</u> | <u>\$ 4,276,898</u> | <u>\$ 2,255,202</u> | <u>\$ 6,532,100</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | | |
| Year | General Obligation Bonds | | | Revenue Bonds | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| 2013 | \$ 126,937 | \$ 63,676 | \$ 190,613 | \$ 2,102,493 | \$ 757,972 | \$ 2,860,465 |
| 2014 | 142,835 | 61,203 | 204,038 | 716,670 | 728,091 | 1,444,761 |
| 2015 | 149,744 | 58,331 | 208,075 | 786,032 | 695,016 | 1,481,048 |
| 2016 | 148,882 | 55,479 | 204,361 | 829,022 | 658,228 | 1,487,250 |
| 2017 | 162,710 | 52,770 | 215,480 | 853,552 | 619,644 | 1,473,196 |
| 2018 - 2022 | 783,560 | 215,788 | 999,348 | 3,983,875 | 2,523,652 | 6,507,527 |
| 2023 - 2027 | 690,320 | 130,640 | 820,960 | 3,165,088 | 1,762,799 | 4,927,887 |
| 2028 - 2032 | 575,575 | 69,943 | 645,518 | 2,607,851 | 1,167,882 | 3,775,733 |
| 2033 - 2037 | 304,120 | 34,156 | 338,276 | 2,370,348 | 712,020 | 3,082,368 |
| 2038 - 2042 | 101,700 | 7,415 | 109,115 | 1,985,124 | 295,984 | 2,281,108 |
| 2043 - 2047 | 7,484 | 1,053 | 8,537 | 222,697 | 26,435 | 249,132 |
| | <u>3,193,867</u> * | <u>750,454</u> | <u>3,944,321</u> | <u>19,622,752</u> * | <u>9,947,723</u> | <u>29,570,475</u> |
| Accretion | (593) | | (593) | (1,202,156) | | (1,202,156) |
| Premium | 36,275 | | 36,275 | 686,881 | | 686,881 |
| Discount | | | | (16,150) | | (16,150) |
| Loss on Refunding | | | | (57,858) | | (57,858) |
| Total | <u>\$ 3,229,549</u> | <u>\$ 750,454</u> | <u>\$ 3,980,003</u> | <u>\$ 19,033,469</u> | <u>\$ 9,947,723</u> | <u>\$ 28,981,192</u> |
| COMPONENT UNITS | | | | | | |
| Year | Revenue Bonds | | | | | |
| | Principal | Interest | Total | | | |
| 2013 | \$ 24,176 | \$ 8,324 | \$ 32,500 | | | |
| 2014 | 3,909 | 10,867 | 14,776 | | | |
| 2015 | 4,134 | 10,690 | 14,824 | | | |
| 2016 | 4,202 | 10,498 | 14,700 | | | |
| 2017 | 4,297 | 10,300 | 14,597 | | | |
| 2018 - 2022 | 26,335 | 47,944 | 74,279 | | | |
| 2023 - 2027 | 55,505 | 40,007 | 95,512 | | | |
| 2028 - 2032 | 49,737 | 29,190 | 78,927 | | | |
| 2033 - 2037 | 69,588 | 15,198 | 84,786 | | | |
| 2038 - 2042 | 27,974 | 2,269 | 30,243 | | | |
| | <u>269,857</u> * | <u>185,287</u> | <u>455,144</u> | | | |
| Premium | 9,062 | | 9,062 | | | |
| Total | <u>\$ 278,919</u> | <u>\$ 185,287</u> | <u>\$ 464,206</u> | | | |

* Includes accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board, the Constitutional Appropriation Bonds and the Texas Transportation Commission highway improvement bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees, sporting goods sales tax revenue and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions of higher education and to fund cancer research. The Texas Public Finance Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water conservation and development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation**, through the Texas mobility fund, issues general obligation bonds to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways. In addition, the bond proceeds provide funds for participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees. Debt service for highway improvement bonds is provided by the state's general revenue.

Constitutional Appropriation Bonds are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund, which is dedicated to the University of Texas System and Texas A&M University System. Debt service payments on bonds issued are limited to the \$131.3 million in general revenue funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, promote domestic business development, provide loans to finance the commercialization of new and improved products and processes, and provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the Economic Development and Tourism Office, primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2012, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, authorized but unissued, are presented in the table below.

| General Obligation Bonds Authorized But Unissued | |
|---|----------------------|
| (Amounts in Thousands) | |
| SELF-SUPPORTING | |
| Texas Agricultural Finance Authority Bonds | \$ 46,000 |
| Farm and Ranch Loan Bonds | 475,000 |
| Veterans Land and Housing Bonds | 1,873,372 |
| Water Development Bonds | 6,499,820 |
| College Student Loan Bonds | 1,310,390 |
| Texas Military Value Revolving Loan Fund | 200,405 |
| Total | <u>10,404,987</u> |
| NOT SELF-SUPPORTING | |
| Agricultural Water Conservation Bonds | 164,840 |
| Texas Public Finance Authority Bonds | 3,084,517 |
| Transportation Commission Transportation Bonds | 4,000,709 |
| Water Development Bonds - | |
| Economically Distressed Areas Program | 186,036 |
| Water Infrastructure Fund Program | 152,134 |
| Total | <u>7,588,236</u> |
| Total General Obligation Bonds | <u>\$ 17,993,223</u> |

Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

Self-Supporting

The **Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make land and home mortgage loans to veterans. The bonds are limited and special revenue obligations payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with very low to moderate incomes and persons with special needs. Loan payments provide the revenues for debt service payments. The agency also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans, and to carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Texas water resources fund and the state water pollution control revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest repayments from political subdivision loans are pledged for debt service requirements of the bonds.

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets as of Aug. 31, 2012, excluding real estate, was \$11.8 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented below.

| Permanent University Fund Bonds | | | |
|--|--------------------------|-----------------------------|--------------------------------|
| (Amounts in Thousands) | | | |
| | Legal Debt Limits | Actual Bonds Payable | Authorized But Unissued |
| University of Texas System | \$ 2,356,349 | \$ 1,431,030 | \$ 925,319 |
| Texas A&M University System | 1,178,174 | 730,295 | 447,879 |
| Total | <u>\$ 3,534,523</u> | <u>\$ 2,161,325</u> | <u>\$ 1,373,198</u> |

Miscellaneous College and University Revenue Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the pledged revenue of the respective institutions and are not an obligation of the state of Texas.

The Office of the Governor is the oversight agency for the **Texas Small Business Industrial Development Corporation**, a discretely presented component unit of the state. The Texas Small Business Industrial Development Corporation bond program provides financing to state and local governments and to businesses and non-profit corporations for the purchase of land, facilities and equipment for economic development. The bonds are not an obligation of the state and are payable from the repayment of loans and investment earnings on the bond proceeds.

The **Texas Water Resources Finance Authority**, a discretely presented component unit of the state, issues bonds to purchase the majority of existing political subdivision bonds including those held by the Texas Water Development Board. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation (TxDOT)** issues revenue bonds to finance state highway improvement projects. Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues, amounts collected or received pursuant to other state highway fund revenue laws and any interest or earnings from the investment of these funds.

The **Texas Department of Transportation Turnpike Authority**, a division within TxDOT, issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in

the greater city of Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate.

The **Texas Workforce Commission** issued revenue bonds to fund the workers' compensation insurance fund. The bond obligations are secured by a special obligation assessment imposed on Texas employers.

Non Self-Supporting

The following revenue bonds are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

The **Adjutant General's Department** assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Adjutant General's Department upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department. As of Aug. 31, 2012, the bond obligations were still outstanding.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and to construct, equip or renovate buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, collected primarily from occupant-agency rentals.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments, funded by state appropriations, made by the Texas Parks and Wildlife Department to the Texas Public Finance Authority.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds. The table below provides information on pledged revenue and pledged future revenue for the state's revenue bonds.

Build America Bonds

The American Recovery and Reinvestment Act (ARRA) of 2009 was implemented in February 2009. As part of this federal legislation, a new bond program called Build America Bonds (BABs) was created. Authority to issue BABs expired on Dec. 31, 2010.

The Texas Department of Transportation, the University of Texas System, the Texas Public Finance Authority and the University of Houston System had \$3.5 billion, \$1.7 billion, \$181.8 million and \$80 million of Direct Payment BABs outstanding, respectively, as of Aug. 31, 2012.

Variable Rate Bonds

Nine state agencies had a total of 108 variable rate bond issues with outstanding balances as of Aug. 31, 2012. Most of the issues' interest rates reset every seven days. The remaining issues' interest rates reset daily or monthly. The potential volatility for related debt service increases with these interest rate reset provisions.

Pledged Future Revenue

(Amounts in Thousands)

| | General Obligation Bonds | | Revenue Bonds | |
|---|--|------------------------------------|-------------------------------------|----------------------------|
| | Governmental Activities | Governmental Activities | Business-Type Activities | Component Units |
| | Pledged Revenue Required for Future Principal and Interest on Existing Bonds | \$ 11,393,870 | \$ 6,443,542 | \$ 29,570,476 |
| Current Year Pledged Revenue | 395,566 | 6,619,706 | 13,595,958 | 42,905 |
| Current Year Principal and Interest Paid | 337,922 | 381,344 | 1,464,461 | 40,529 |
| Term of Commitment Year Ending August 31, | 2039 | 2030 | 2047 | 2042 |
| Percentage of Revenue Pledged | 98% | 100% | 100% | 100% |

Demand Bonds

The Office of the Governor, the Veterans Land Board, the Texas Department of Housing and Community Affairs, the Texas Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds as of Aug. 31, 2012.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days.

Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under a letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2012, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in the tables below and on the following page.

| | Number of | | | | Principal Balance Outstanding (In Thousands) |
|---|--------------------|-----------------------------|-------------------|----------|--|
| | Demand Bond Issues | Standby Purchase Agreements | Letters of Credit | Other | |
| GOVERNMENTAL ACTIVITIES | | | | | |
| General Obligation Bonds | | | | | |
| Office of the Governor | 2 | | 2 (c) | | \$ 45,000 |
| Texas Department of Transportation | 2 | 3 (a) | | | 229,130 |
| Total | <u>4</u> | <u>3</u> | <u>2</u> | <u>0</u> | <u>274,130</u> |
| Revenue Bonds | | | | | |
| Texas Department of Transportation | 1 | 1 (a) | | | 100,000 |
| Total | <u>1</u> | <u>1</u> | <u>0</u> | <u>0</u> | <u>100,000</u> |
| Governmental Activities Total | <u>5</u> | <u>4</u> | <u>2</u> | <u>0</u> | <u>\$ 374,130</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| General Obligation Bonds | | | | | |
| Veterans Land Board | 45 | 45 (a) | | | \$ 1,771,425 |
| Total | <u>45</u> | <u>45</u> | <u>0</u> | <u>0</u> | <u>1,771,425</u> |
| Revenue Bonds | | | | | |
| University of Texas System | 4 | | | 4 (b) | 1,344,315 |
| Texas Department of Housing and Community Affairs | 7 | 7 (a) | | | 294,440 |
| University of Houston System | 1 | | | 1 (b) | 8,390 |
| Total | <u>12</u> | <u>7</u> | <u>0</u> | <u>5</u> | <u>1,647,145</u> |
| Business-Type Activities Total | <u>57</u> | <u>52</u> | <u>0</u> | <u>5</u> | <u>\$ 3,418,570</u> |
| COMPONENT UNITS | | | | | |
| Revenue Bonds | | | | | |
| Office of the Governor | 1 | | 1 (d) | | \$ 20,000 |
| Component Units Total | <u>1</u> | <u>0</u> | <u>1</u> | <u>0</u> | <u>\$ 20,000</u> |

(a) – See Demand Bonds - Standby Purchase Agreements table.
(b) – In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.
(c) – In the event redeemed bonds are not remarketed, a standby letter of credit with National Australia Bank will be used until remarketed.
(d) – In the event redeemed bonds are not remarketed, a letter of credit with Comerica will be used until remarketed.

Demand Bond – Standby Purchase Agreements

August 31, 2012

| Counterparties | Number of Secured Bond Issue Agreements | Annual Liquidity Fee | Agreement Termination Date |
|---|---|----------------------|----------------------------|
| Banco Bilbao Vizcaya Argentaria, S.A. | 1 | 0.0875% | 11/07/16 |
| Bank of Tokyo-Mitsubishi UFJ | 2 | 0.5600% | 08/22/14 |
| Bank of Tokyo-Mitsubishi UFJ | 3 | 0.5250% | 07/31/15 |
| California Public Employees Retirement System | 1 | 0.0500% | 12/13/13 |
| Comptroller of Public Accounts* | 10 | 0.1200% | 08/31/13 |
| J.P. Morgan Chase Bank | 1 | 0.6500% | 03/07/14 |
| J.P. Morgan Chase Bank | 9 | 0.5600% | 07/03/14 |
| J.P. Morgan Chase Bank | 3 | 0.5600% | 09/19/14 |
| Landesbank Hessen-Thuringen Girozentrale | 5 | 0.5500% | 06/30/13 |
| Landesbank Hessen-Thuringen Girozentrale | 4 | 0.5500% | 12/31/15 |
| Royal Bank of Canada | 1 | 0.3000% | 03/01/15 |
| State Street Bank and Trust Company | 1 | 0.0500% | 12/13/13 |
| State Street Bank and Trust Company | 4 | 0.2950% | 11/17/14 |
| State Street Bank and Trust Company | 4 | 0.2950% | 04/03/15 |
| State Street Bank and Trust Company | 1 | 0.3750% | 05/22/15 |
| Sumitomo Mitsui Banking Corp | 1 | 0.6000% | 05/20/13 |
| Sumitomo Mitsui Banking Corp | 1 | 0.6000% | 11/01/13 |
| Sumitomo Mitsui Banking Corp | 2 | 0.5000% | 08/12/15 |
| Wells Fargo Bank, NA | 1 | 0.4900% | 08/25/14 |
| Wells Fargo Bank, NA | 1 | 0.4900% | 12/14/14 |
| Total | <u>56</u> | | |

* Comptroller of Public Accounts Treasury Operations Division

Takeout agreements are used by the Texas Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. The table below provides the estimated impact of such an event.

Demand Bonds – Takeout Agreement Provisions

August 31, 2012

| | Estimated Debt Service (In Thousands) | Rate | Basis |
|------------------------------------|---------------------------------------|--------|---|
| GOVERNMENTAL ACTIVITIES | | | |
| General Obligation Bonds | | | |
| Texas Department of Transportation | | | |
| Texas Mobility Fund Bonds | | | |
| Series 2005B | \$ 90,998 ^(a) | 10.00% | 2% + the greater of: Bank Prime rate + 1.5%, Daily Fed Fds Rate + 2% or 8% |
| Series 2006B | 158,500 ^(b) | 4.25% | 1% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate |
| Revenue Bonds | | | |
| Texas Department of Transportation | | | |
| State Highway Fund Revenue Bonds | | | |
| Series 2006B | <u>108,750</u> ^(c) | 5.25% | 2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate |
| Total | <u>\$ 358,248</u> | | |

(a) – Replacement debt is subject to semi-annual payments over three years starting the first day of the third month of that period.

(b) – Replacement debt is subject to semi-annual payments over three years starting the first day of the second month of that period.

(c) – Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

The following table presents early debt extinguishments in fiscal 2012. The source of funds used for the extinguishments included loan repayments and other available funds.

| Early Extinguished Debt Issues | |
|---|-------------------|
| (Amounts in Thousands) | |
| BUSINESS-TYPE ACTIVITIES | |
| General Obligation Bonds | |
| Texas Water Development Board | \$ 23,015 |
| Veterans Land Board | 1,530 |
| Revenue Bonds | |
| Texas Workforce Commission | 168,095 |
| Texas Department of Housing and Community Affairs | 99,247 |
| Texas Water Development Board | 31,975 |
| Veterans Land Board | 21,795 |
| University of Texas System | 3,400 |
| University of Houston System | 880 |
| Business-Type Activities Total | <u>\$ 349,937</u> |
| COMPONENT UNITS | |
| Revenue Bonds | |
| Office of the Governor | \$ 40,000 |
| Component Units Total | <u>\$ 40,000</u> |

Refunding

The table below summarizes bonds refunded during fiscal 2012 to lower interest rates or to restructure debt service requirements for cash management purposes.

| Refunding Issues | | | | | |
|----------------------------------|--------------------|-------------------------------|--------------------|--|------------------|
| (Amounts in Thousands) | | | | | |
| | Types of Refunding | Par Value of Refunding Issue* | Par Value Refunded | Cash Flow Difference Increase (Decrease) | Economic Gain |
| GOVERNMENTAL ACTIVITIES | | | | | |
| General Obligation Bonds | | | | | |
| Texas Water Development Board | Current Refunding | \$ 37,940 | \$ 51,565 | \$ 21,899 | \$ 10,611 |
| Governmental Activities Total | | <u>37,940</u> | <u>51,565</u> | <u>21,899</u> | <u>10,611</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Revenue Bonds | | | | | |
| University of Houston System | Current Refunding | 75,640 | 87,450 | 12,683 | 11,418 |
| Texas A&M University System | Advance Refunding | 70,680 | 79,715 | 13,640 | 10,974 |
| Texas A&M University System | Current Refunding | 1,015 | 1,015 | 51 | 50 |
| University of Texas System | Advance Refunding | 47,465 | 53,990 | 12,030 | 9,545 |
| Texas Tech University System | Advance Refunding | 49,395 | 52,460 | 9,265 | 8,009 |
| Texas Tech University System | Current Refunding | 31,645 | 31,925 | 11,142 | 7,826 |
| University of North Texas System | Advance Refunding | 27,785 | 29,880 | (5,443) | 3,796 |
| Texas State University System | Advance Refunding | 10,970 | 12,535 | (1,974) | 1,558 |
| Texas State University System | Current Refunding | 2,530 | 3,200 | (1,050) | 619 |
| Texas State Technical College | Advance Refunding | 5,990 | 6,355 | 412 | 344 |
| Texas Woman's University | Advance Refunding | 6,339 | 4,065 | 1,047 | 906 |
| Texas Woman's University | Current Refunding | 11,576 | 14,795 | 1,912 | 1,655 |
| Business-Type Activities Total | | <u>341,030</u> | <u>377,385</u> | <u>53,715</u> | <u>56,700</u> |
| Total | | <u>\$ 378,970</u> | <u>\$ 428,950</u> | <u>\$ 75,614</u> | <u>\$ 67,311</u> |

* Other funds totaling approximately \$24 million were used to refund/defeas additional bonds.

Defeased Bonds

Texas defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company) and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Trust Company to defease \$209.3 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. The Texas Water Development Board defeased \$10.5 million of governmental activity general obligation bonds this year. As of Aug. 31, 2012, the following amounts of defeased bonds, at par, remain outstanding for all bond issuers.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

| | |
|---|----------------|
| General Obligation Bonds | |
| Texas Public Finance Authority | \$ 200,660 |
| Texas Water Development Board | 10,500 |
| Revenue Bonds | |
| Texas Public Finance Authority | 29,395 |
| Texas National Research Laboratory Commission | 8,625 |
| Governmental Activities Total | <u>249,180</u> |

BUSINESS-TYPE ACTIVITIES

| | |
|------------------------------------|------------------|
| General Obligation Bonds | |
| Texas Water Development Board | 37,995 |
| Veterans Land Board | 25,500 |
| Revenue Bonds | |
| University of Texas System | 1,496,163 |
| Texas Water Development Board | 173,845 |
| Texas A&M University System | 121,560 |
| Texas Tech University System | 52,460 |
| University of North Texas System | 29,880 |
| Texas State University System | 29,175 |
| Texas Woman's University | 4,065 |
| Stephen F. Austin State University | 1,016 |
| Business-Type Activities Total | <u>1,971,659</u> |

| | |
|-------|--------------------|
| Total | <u>\$2,220,839</u> |
|-------|--------------------|

Conduit Debt

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Texas

Government Code, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to nonprofit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. TSAHC finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. TSAHC, the state and any political subdivision thereof are not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2012, there were 14 series of multifamily housing revenue bonds outstanding with an aggregate \$183 million principal amount payable. No bonds were issued in fiscal 2012.

The Private Activity Bond Surface Transportation Corporation, a blended component unit of the state, issued two series of bonds in the aggregate amount of \$1 billion that remains outstanding as of Aug. 31, 2012. The proceeds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC to finance the development and expansion of public transportation projects. Debt service is funded from loan and interest repayments from the borrowers. These bonds, previously recorded as a long-term liability, were determined to be conduit debt. The financial statements were restated in the current year and the conduit debt is only disclosed in these notes.

Conduit bond debt for the Texas Department of Housing and Community Affairs (multifamily housing bonds) and the Texas Small Business Industrial Devel-

opment Corporation, a discrete component unit of the state, predates the implementation of note disclosure requirements and is reported in the financial statements.

INTEREST RATE SWAPS

Effective interest rate swap agreements are considered hedging derivatives. The aggregate debt service requirements and associated net swap payments are

detailed in this note. See Note 7 for additional information on derivatives.

Estimated Debt Service of Swap Payments

Using rates as of Aug. 31, 2012, the debt service requirements of the state's variable-rate and fixed-rate bonds and associated net swap payments were estimated and are presented in the following tables.

Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

| Year | Variable-Rate Bonds | | Interest Rate Swaps, Net | Total |
|-------------|---------------------|------------------|--------------------------|---------------------|
| | Principal | Interest | | |
| 2013 | \$ 106,045 | \$ 5,708 | \$ 118,990 | \$ 230,743 |
| 2014 | 110,300 | 5,517 | 114,942 | 230,759 |
| 2015 | 123,395 | 5,321 | 110,838 | 239,554 |
| 2016 | 131,675 | 5,093 | 106,048 | 242,816 |
| 2017 | 132,090 | 4,852 | 100,948 | 237,890 |
| 2018 - 2022 | 642,845 | 20,669 | 430,958 | 1,094,472 |
| 2023 - 2027 | 701,880 | 14,588 | 305,026 | 1,021,494 |
| 2028 - 2032 | 647,630 | 8,597 | 179,936 | 836,163 |
| 2033 - 2037 | 543,360 | 3,745 | 79,139 | 626,244 |
| 2038 - 2042 | 166,055 | 369 | 5,897 | 172,321 |
| 2043 - 2047 | 195 | | 1 | 196 |
| Total | <u>\$ 3,305,470</u> | <u>\$ 74,459</u> | <u>\$ 1,552,723</u> | <u>\$ 4,932,652</u> |

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

| Year | Variable-Rate Bonds | | Interest Rate Swaps, Net * | Total |
|-------------|---------------------|---------------|----------------------------|------------------|
| | Principal | Interest | | |
| 2013 | \$ 890 | \$ 76 | \$ (756) | \$ 210 |
| 2014 | 950 | 74 | (755) | 269 |
| 2015 | 1,010 | 72 | (754) | 328 |
| 2016 | 1,070 | 70 | (754) | 386 |
| 2017 | 1,135 | 67 | (754) | 448 |
| 2018 - 2022 | 6,830 | 292 | (3,771) | 3,351 |
| 2023 - 2027 | 9,250 | 201 | (3,767) | 5,684 |
| 2028 - 2032 | 10,995 | 80 | (2,944) | 8,131 |
| 2033 - 2037 | 1,370 | 2 | (1,483) | (111) |
| 2038 - 2042 | | | (120) | (120) |
| Total | <u>\$ 33,500</u> | <u>\$ 934</u> | <u>\$ (15,858)</u> | <u>\$ 18,576</u> |

* Includes swap payments for swaps that overlay pay-fixed, receive-variable swaps on the same bonds. Principal and interest on these bonds are reported only in the pay-fixed, receive-variable swap table.

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed- Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

| Year | Fixed-Rate Bonds | | Interest Rate Swaps, Net | Total |
|-------------|---------------------|---------------------|--------------------------|---------------------|
| | Principal | Interest | | |
| 2013 | \$ 4,185 | \$ 65,995 | \$ (5,880) | \$ 64,300 |
| 2014 | 5,115 | 65,828 | (5,667) | 65,276 |
| 2015 | 6,045 | 65,623 | (5,666) | 66,002 |
| 2016 | 6,955 | 65,379 | (5,666) | 66,668 |
| 2017 | 8,895 | 65,101 | (5,666) | 68,330 |
| 2018 - 2022 | 181,040 | 311,238 | (28,316) | 463,962 |
| 2023 - 2027 | 310,960 | 245,303 | (22,902) | 533,361 |
| 2028 - 2032 | 485,245 | 151,159 | (85) | 636,319 |
| 2033 - 2037 | 340,145 | 32,472 | (22) | 372,595 |
| Total | <u>\$ 1,348,585</u> | <u>\$ 1,068,098</u> | <u>\$ (79,870)</u> | <u>\$ 2,336,813</u> |

The tables were prepared assuming current interest rates and swap index relationships remain the same for their terms. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

NOTE 7

Derivative Instruments

Derivatives are financial instruments whose values are derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts, and forward contracts.

Hedging derivatives are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the state to issue bonds at a cost less than what the state would have paid to issue conventional fixed rate debt.

Investment derivatives are entered into with the intention of managing transaction risk, reducing interest cost, or reducing currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives.

Summary of Derivative Activity

The fair value of effective hedging derivatives is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred inflows and deferred outflows. The state's cumulative derivative activity as of Aug. 31, 2012, is summarized on the following page. The notional amounts are presented in U.S. dollar equivalents, with the exception of commodity forwards, which are presented in million British thermal units (MMBTU).

Summary of Derivative Activity

(Amounts in Thousands)

| | Change in Fair Value | Fair Value | Notional Amount |
|--|-------------------------|---------------|--------------------|
| GOVERNMENTAL ACTIVITIES | | | |
| <i>Investment Derivatives</i> | | | |
| Basis Swaps | \$ (1,131) | \$ 25,121 | \$ 400,000 |
| Futures | 7,352 | | 34,872 |
| BUSINESS-TYPE ACTIVITIES | | | |
| <i>Cash Flow Hedges</i> | | | |
| Pay-Fixed Receive-Variable Interest Rate Swaps | \$ (202,010) | \$ (770,766) | \$ 3,345,785 |
| Commodity Forwards | (2,244) | (2,244) | 960 * |
| <i>Investment Derivatives</i> | | | |
| Pay-Fixed Receive-Variable Interest Rate Swaps | \$ 539 | \$ 996 | \$ 135,040 |
| Pay-Variable Receive-Fixed Interest Rate Swaps | 32 | 32 | 28,225 |
| Basis Swaps | 374 | 7,729 | 954,975 |
| Credit Default Swaps | (681) | 152 | 137,273 |
| Equity Swaps | 1,554 | 1,554 | 596,856 |
| Currency Swaps | (50) | (50) | 5,054 |
| Commodity Swaps | (214) | (214) | 12,161 |
| Forwards | (12,710) | (12,710) | 2,451,993 |
| Futures | (2,543) | | 1,336,261 |
| Options | (89,216) | 42,476 | 24,390,722 |
| FIDUCIARY ACTIVITIES | | | |
| <i>Investment Derivatives</i> | | | |
| Pay-Fixed Receive-Variable Interest Rate Swaps | \$ (3,415) | \$ (699) | \$ 60,532 |
| Pay-Variable Receive-Fixed Interest Rate Swaps | 2,561 | 777 | 41,192 |
| Total Return Swaps | (197,909) | 21,316 | 1,131,863 |
| Credit Default Swaps | 247 | | |
| Forwards | (42,750) | 23,326 | 6,124,786 |
| Futures | (635,424) | | 9,038,282 |
| Warrants | 6,427 | 32,821 | 10,445 |
| Options | 4,910 | 4,830 | 38,134 |

* The unit of measurement for the notional amount of the commodity forwards is expressed in million British thermal units (MMBTU). The notional amount of the commodity forwards is 960 thousand MMBTUs.

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments

Veterans Land Board (VLB)

Hedging and investment derivatives

Texas Department of Housing and Community Affairs (TDHCA)

Hedging derivatives

University of Texas System (UT)

Hedging and investment derivatives

Texas A&M University System (A&M)

Hedging and investment derivatives

Texas Department of Transportation (TxDOT)

Investment derivatives

Permanent School Fund (PSF)*

Investment derivatives

Employees Retirement System of Texas (ERS)

Investment derivatives

Teacher Retirement System of Texas (TRS)

Investment derivatives

* The permanent school fund is jointly managed by the Texas Education Agency and the Texas General Land Office, but issues a separately audited stand-alone annual financial report.

Fair Value

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods as outlined below.

VLB and UT used the zero-coupon method in determining the fair values of their effective interest rate swaps. Several of VLB's effective interest rate swaps contain a provision for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the

swap associated with Vet Land Tax Ref Bds Ser '2000, the knock-out is permanent once the option is taken at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

TDHCA based the fair value of its swaps on market conditions as of Aug. 31, 2012. Fair values were directly obtained by the counterparties to the transactions and

separately verified by an independent third party. Valuations are based on mid-market levels and may not reflect the amount a counterparty would have required in the event of an early termination of the swap transaction on that date. For swaps with no pre-defined notional amortization schedule, a valuation was performed based on an assumed notional amortization.

Futures contracts are marked-to-market daily and valued at closing market prices on the valuation date. A daily variation margin (the gain or loss) between the daily value of the contracts and the value on the previous day is recorded and settled in cash with the broker the following morning. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

The fair value of forward currency contracts is estimated by adding the forward points to the corresponding spot rate. These rates are then applied to the outstanding currency exchange to derive a change in valuation.

HEDGING DERIVATIVES

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

rate swaps determined to be hedging derivatives are designated as cash flow hedges. The state also entered into commodity forward contracts to hedge against the future purchase of natural gas. The specific objectives for each category of effective hedges are summarized below.

Pay-fixed Interest Rate Swaps: The combination of these swaps and variable rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the state's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds.

Commodity Forward: The state enters into commodity forward contracts to meet the objective of hedging the risk that changes in the market price of natural gas will adversely affect the cash flows of the expected purchase of natural gas. As of Aug. 31, 2012, the outstanding commodity forward contracts include contracts with future expiration dates extending from September 2012 through August 2013. Contracts will be cash-settled on the expiration date based on the New York Mercantile Exchange (NYMEX) market price.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2012, are shown in the following tables. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap index rates as noted. Standard & Poor's and Moody's Investor service credit ratings are disclosed for each swap and forward contract. The notional amount for the commodity forward is expressed as MMBTUs.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

| Associated Bond Issue | Notional Amount | Effective Date | Maturity Date | Term |
|--|-----------------|----------------|---------------|---------------------------------------|
| VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS | | | | |
| Vet Hsg Ref Bds Ser '95 | \$ 37,540 | 11/29/1995 | 12/01/2016 | Pay 5.52%; receive Actual Bond Rate |
| Vet Land Ref Bds Ser '99A | 20,945 | 06/01/1999 | 12/01/2018 | Pay 5.112%; receive 68% of 6M LIBOR |
| Vet Land Tax Ref Bds Ser '2000 | 36,835 | 12/01/2000 | 12/01/2020 | Pay 6.106%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Bds Ser 2001A-2 | 20,000 | 03/22/2001 | 12/01/2029 | Pay 4.259%; receive 68% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2001C-2 | 25,000 | 12/18/2001 | 12/01/2033 | Pay 4.365%; receive 68% of 1M LIBOR |
| Vet Land Bds Ser 2002 | 16,480 | 02/21/2002 | 12/01/2032 | Pay 4.14%; receive 68% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2002A-2 | 23,650 | 07/10/2002 | 06/01/2033 | Pay 3.8725%; receive 68% of 1M LIBOR |
| Vet Land Tax Ref Bds Ser 2002 | 27,685 | 12/01/2002 | 12/01/2021 | Pay 4.935%; receive 100% of 6M LIBOR |
| Vet Hsg Fund I Tax Ref Bds Ser 2002B | 19,780 | 12/01/2002 | 06/01/2023 | Pay 4.91%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Bds Ser 2003A | 32,330 | 03/04/2003 | 06/01/2034 | Pay 3.304%; receive 68% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2003B | 33,605 | 10/22/2003 | 06/01/2034 | Pay 3.403%; receive 64.5% of 1M LIBOR |
| Vet Land Tax Ref Bds Ser 2003 | 21,165 | 12/01/2003 | 12/01/2023 | Pay 5.123%; receive 100% of 1M LIBOR |
| Vet Hsg Fund I Tax Ref Bds Ser 2003 | 47,865 | 12/01/2003 | 06/01/2021 | Pay 5.19%; receive 100% of 6M LIBOR |
| Vet Hsg Fund I Tax Ref Bds Ser 2004 | 16,535 | 06/01/2004 | 12/01/2024 | Pay 5.45%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Bds Ser 2004B | 36,475 | 09/15/2004 | 12/01/2034 | Pay 3.68%; receive 68% of 1M LIBOR |
| Vet Land Tax Ref Bds Ser 2004 | 21,095 | 12/01/2004 | 12/01/2024 | Pay 5.455%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2004C,D | 32,305 | 12/01/2004 | 06/01/2020 | Pay 5.348%; receive 100% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2005A | 36,060 | 02/24/2005 | 06/01/2035 | Pay 3.279%; receive 68% of 1M LIBOR |
| Vet Land Tax Ref Bds Ser 2005 | 19,585 | 12/01/2005 | 12/01/2026 | Pay 6.517%; receive 100% of 6M LIBOR |
| Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D | 23,290 | 12/01/2005 | 06/01/2026 | Pay 5.145%; receive 100% of 1M LIBOR |
| Vet Hsg Fund I Tax Ref Bds Ser 2005C | 14,525 | 12/01/2005 | 12/01/2023 | Pay 4.929%; receive 100% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2006A | 37,715 | 06/01/2006 | 12/01/2036 | Pay 3.517%; receive 68% of 1M LIBOR |
| Vet Land Tax Ref Bds Ser 2006A | 26,335 | 06/01/2006 | 12/01/2027 | Pay 6.54%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2006B | 38,570 | 06/01/2006 | 12/01/2026 | Pay 5.83%; receive 100% of 1M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2006C | 19,030 | 06/01/2006 | 12/01/2027 | Pay 5.79%; receive 100% of 6M LIBOR |
| Vet Land Tax Ref Bds Ser 2006B | 20,745 | 06/01/2006 | 12/01/2026 | Pay 4.61%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Bds Ser 2006D | 39,730 | 09/20/2006 | 12/01/2036 | Pay 3.689%; receive 68% of 1M LIBOR |
| Vet Land Tax Ref Bds Ser 2006C | 34,305 | 12/01/2006 | 12/01/2027 | Pay 6.513%; receive 100% of 1M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2006E | 39,560 | 12/01/2006 | 12/01/2026 | Pay 5.461%; receive 100% of 1M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2007C | 33,760 | 12/01/2007 | 06/01/2029 | Pay 4.658%; receive 100% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2007A | 39,810 | 02/22/2007 | 06/01/2037 | Pay 3.645%; receive 68% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2007B | 42,005 | 06/26/2007 | 06/01/2038 | Pay 3.712%; receive 68% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2008A | 42,095 | 03/26/2008 | 12/01/2038 | Pay 3.189%; receive 68% of 1M LIBOR |
| Vet Hsg Fund II Bds Ser 2008B | 43,400 | 09/11/2008 | 12/01/2038 | Pay 3.225%; receive 68% of 1M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2009C | 15,395 | 12/01/2009 | 12/01/2021 | Pay 6.22%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2009C | 63,850 | 12/01/2009 | 06/01/2031 | Pay 5.4525%; receive 100% of 6M LIBOR |
| Vet Hsg Fund II Tax Ref Bds Ser 2010B | 63,990 | 06/01/2010 | 12/01/2031 | Pay 5.401%; receive 100% of 1M LIBOR |
| Vet Bds Ser 2010C | 73,095 | 08/20/2010 | 12/01/2040 | Pay 2.3095%; receive 68% of 1M LIBOR |
| Vet Tax Ref Bds Ser 2010D | 16,020 | 12/01/2010 | 12/01/2030 | Pay 5.209%; receive 100% of 1M LIBOR |
| Vet Tax Ref Bds Ser 2010E | 47,540 | 12/01/2010 | 06/01/2032 | Pay 2.79%; receive 100% of 1M LIBOR |
| Vet Bds Ser 2011A | 73,215 | 03/09/2011 | 06/01/2041 | Pay 2.675%; receive 68% of 1M LIBOR |
| Vet Bds Ser 2011B | 74,140 | 08/25/2011 | 12/01/2041 | Pay 2.367%; receive 68% of 1M LIBOR |
| Vet Bds Ser 2011C | 74,995 | 12/15/2011 | 06/01/2042 | Pay 1.917%; receive 68% of 3M LIBOR |
| Vet Bds Ser 2012A | 74,995 | 05/23/2012 | 12/01/2042 | Pay 1.692%; receive 68% of 3M LIBOR |
| Vet Bds Ser 2012B | 100,000 | 11/01/2012 | 12/01/2042 | Pay 1.447%; receive 68% of 3M LIBOR |
| Vet Tax Ref Bds, Ser 1994A-2 | 21,795 | 08/01/2012 | 12/01/2033 | Pay 3.76%; receive 68% of 1M LIBOR |

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

| Associated Bond Issue | Knock-Out Barrier | Up Front Premium Received | Counterparty Credit Ratings |
|--|---|---------------------------|-----------------------------|
| VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS | | | |
| Vet Hsg Ref Bds Ser '95 | N/A | \$ | A- / Baa1 |
| Vet Land Ref Bds Ser '99A | N/A | | A- / Baa1 |
| Vet Land Tax Ref Bds Ser '2000 | 1M LIBOR >= 7.00% | 2,700 | AAA / Aa2 |
| Vet Hsg Fund II Bds Ser 2001A-2 | N/A | | A- / Baa2 |
| Vet Hsg Fund II Bds Ser 2001C-2 | N/A | | AAA / Aa2 |
| Vet Land Bds Ser 2002 | N/A | | A / A2 |
| Vet Hsg Fund II Bds Ser 2002A-2 | N/A | | A+ / Aa3 |
| Vet Land Tax Ref Bds Ser 2002 | 6M LIBOR >= 7.00% | 2,785 | A / A2 |
| Vet Hsg Fund I Tax Ref Bds Ser 2002B | 6M LIBOR > 7.00% | 2,165 | AAA / Aa2 |
| Vet Hsg Fund II Bds Ser 2003A | N/A | | A+ / Aa3 |
| Vet Hsg Fund II Bds Ser 2003B | N/A | | AAA / Aa2 |
| Vet Land Tax Ref Bds Ser 2003 | 1M LIBOR >= 7.00% | 1,896 | A+ / Aa3 |
| Vet Hsg Fund I Tax Ref Bds Ser 2003 | 6M LIBOR > 7.00% | 4,470 | AAA / Aa2 |
| Vet Hsg Fund I Tax Ref Bds Ser 2004 | 6M LIBOR >= 7.00% | 1,442 | A+ / Aa3 |
| Vet Hsg Fund II Bds Ser 2004B | N/A | | A+ / Aa3 |
| Vet Land Tax Ref Bds Ser 2004 | 6M LIBOR >= 7.00% | 2,075 | A / A2 |
| Vet Hsg Fund II Tax Ref Bds Ser 2004C,D | 1M LIBOR >= 7.00% | 2,594 | A+ / Aa3 |
| Vet Hsg Fund II Bds Ser 2005A | N/A | | AAA / Aa2 |
| Vet Land Tax Ref Bds Ser 2005 | 6M LIBOR >= 7.00% | 1,542 | A+ / Aa3 |
| Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% | 1,367 567 | A+ / Aa3 |
| Vet Hsg Fund I Tax Ref Bds Ser 2005C | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% | 484 267 | A+ / Aa3 |
| Vet Hsg Fund II Bds Ser 2006A | N/A | | A+ / As3 |
| Vet Land Tax Ref Bds Ser 2006A | 6M LIBOR >= 7.00% | 1,931 | A+ / Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2006B | 1M LIBOR >= 7.00% | 1,992 | A+ / Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2006C | 6M LIBOR >= 7.00% | 1,493 | A+ / Aa3 |
| Vet Land Tax Ref Bds Ser 2006B | 6M LIBOR >= 7.00% | 886 | AAA / Aa2 |
| Vet Hsg Fund II Bds Ser 2006D | N/A | | A / A2 |
| Vet Land Tax Ref Bds Ser 2006C | 1M LIBOR >= 7.00% | 2,725 | A+ / Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2006E | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% | 2,652 1,018 | A+ / Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2007C | 1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS > 71% | 935 1,020 | A+ / Aa3 |
| Vet Hsg Fund II Bds Ser 2007A | N/A | | AAA / Aa2 |
| Vet Hsg Fund II Bds Ser 2007B | N/A | | A+ / Aa3 |
| Vet Hsg Fund II Bds Ser 2008A | N/A | | A+ / As3 |
| Vet Hsg Fund II Bds Ser 2008B | N/A | | AAA / Aa2 |
| Vet Hsg Fund II Tax Ref Bds Ser 2009C | 6M LIBOR >= 7.00% | 612 | A+ / Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2009C | 6M LIBOR >= 7.00% | 2,740 | A+ / Aa3 |
| Vet Hsg Fund II Tax Ref Bds Ser 2010B | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% | 2,355 1,427 | A+ / Aa3 |
| Vet Bds Ser 2010C | N/A | | A / A2 |
| Vet Tax Ref Bds Ser 2010D | 1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74% | 466 208 | A+ / Aa3 |
| Vet Tax Ref Bds Ser 2010E | N/A | | AAA / Aa2 |
| Vet Bds Ser 2011A | N/A | | A+ / A2 |
| Vet Bds Ser 2011B | N/A | | A+ / A2 |
| Vet Bds Ser 2011C | N/A | | AAA / Aa2 |
| Vet Bds Ser 2012A | N/A | | AAA / Aa2 |
| Vet Bds Ser 2012B | N/A | | AAA / Aa2 |
| Vet Tax Ref Bds, Ser 1994A-2 | 1M LIBOR >= 7.00% | 579 | A+ / As3 |

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

| Associated Bond Issue | Notional Amount | Effective Date | Maturity Date | Term |
|--|-----------------|----------------|---------------|--|
| TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS | | | | |
| 2004B Single Family | \$ 53,000 | 09/01/2004 | 09/01/2034 | Pay 3.84%; receive 63% of LIBOR + .30% |
| 2004D Single Family | 35,000 | 01/01/2005 | 03/01/2035 | Pay 3.64%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR |
| 2005A Single Family | 67,475 | 08/01/2005 | 09/01/2036 | Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR |
| 2006H Single Family | 36,000 | 11/15/2006 | 09/01/2025 | Pay 3.86%; receive 63% of LIBOR +.30% |
| 2007A Single Family | 94,820 | 06/05/2007 | 09/01/2038 | Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR |
| UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS* | | | | |
| RFS Bonds 2007B | 166,850 | 12/20/2007 | 08/01/2034 | Pay 3.805%; receive SIFMA |
| RFS Bonds 2007B | 166,850 | 12/20/2007 | 08/01/2034 | Pay 3.805%; receive SIFMA |
| PUF Bonds 2008A | 195,690 | 11/03/2008 | 07/01/2038 | Pay 3.696%; receive SIFMA |
| PUF Bonds 2008A | 195,690 | 11/03/2008 | 07/01/2038 | Pay 3.6575%; receive SIFMA |
| RFS Bonds 2008B | 141,725 | 03/18/2008 | 08/01/2036 | Pay 3.9%; receive SIFMA |
| RFS Bonds 2008B | 141,725 | 03/18/2008 | 08/01/2036 | Pay 3.9%; receive SIFMA |
| RFS Bonds 2008B | 332,120 | 03/18/2008 | 08/01/2039 | Pay 3.614%; receive SIFMA |

* PUF stands for permanent university fund and RFS stands for revenue financing system.

Concluded on the following page

Hedging Forward Contracts: Significant Terms and Credit Ratings

| | Number of Contracts | Notional Amount | Effective Dates Range* | Termination Dates Range* | Terms: Pay (Average) | Terms: Receive | Counterparty Credit Ratings |
|------------------------------|---------------------|--------------------|----------------------------|----------------------------|----------------------|-----------------------|-----------------------------|
| 2013 Forward Contracts (A&M) | 24 Contracts | 960,000/ MMBTUs | 02/06/2009 - 02/12/2009 | 09/01/2012 - 08/01/2013 | \$7.44/ MMBTU | NYMEX market price | AA |

* A&M invested in several separate commodity forward contracts. This disclosure summarizes the contracts by establishing ranges and averages of detailed individual contract information.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (concluded)

(Amounts in Thousands)

| Associated Bond Issue | Knock-Out Barrier | Up Front Premium Received | Counterparty Credit Ratings |
|--|----------------------|---------------------------------|-----------------------------------|
| TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS | | | |
| 2004B Single Family | N/A | \$ | A / A2 |
| 2004D Single Family | N/A | | A / A2 |
| 2005A Single Family | N/A | | A+ / Aa3 |
| 2006H Single Family | N/A | | A / A2 |
| 2007A Single Family | N/A | | A+ / Aa3 |
| UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS | | | |
| RFS Bonds 2007B | N/A | | A+ / Aa3 |
| RFS Bonds 2007B | N/A | | A / A2 |
| PUF Bonds 2008A | N/A | | A- / Baa1 |
| PUF Bonds 2008A | N/A | | AA- / Aa3 |
| RFS Bonds 2008B | N/A | | A+ / Aa3 |
| RFS Bonds 2008B | N/A | | A- / Baa1 |
| RFS Bonds 2008B | N/A | | A+ / Aa3 |

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2012, the state was not exposed to credit risk because the swap recorded in the positive position was offset by other swaps with negative fair values.

Interest Rate Risk: On the pay-fixed, receive-variable interest rate swaps, as LIBOR or the SIFMA municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable

rate debt, as LIBOR or the SIFMA municipal swap index decrease the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

Basis Risk: The state is exposed to basis risk to the extent that the interest payments on its variable rate bonds do not match the variable rate payments received on the associated swaps. The state mitigates this risk by matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable rate bond issue and by selecting an index for the variable rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable rate bonds over the life of each bond issue. Additionally, tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affect-

ing the tax-exempt market that do not have a similar effect on the taxable market.

The state is exposed to basis risk on its commodity forward contracts because the expected commodity purchase will be priced based on a pricing point of Waha Natural Gas Hub, while the hedging forward contract is expected to settle on the NYMEX pricing point. As of Aug. 31, 2012, the Waha price was \$2.65 per MMBTU and the NYMEX price was \$2.74 per MMBTU.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser '2000 provides the counterparty with the option to terminate the swap under certain conditions.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed-rate and the state would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets. Unless there is a termination option exercised by the counterparty, the state would owe the counterparty a termination payment equal to the swap's negative fair value.

Several swap agreements include optional early termination provisions granting the state the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. The maturity dates of the state's effective interest rate swaps were designed to extend to the maturity dates of the underly-

ing bonds. However, in the case of the swap associated with the Vet Land Tax Ref Bds Ser '2000, the state will be subject to rollover risk if the counterparty exercises the option to terminate the swap contract.

Market-access Risk: Each swap associated with underlying variable-rate debt subject to tender at the option of the bondholder is subject to market-access risk. In the event the state is unable to remarket its variable-rate bonds, the state may choose to refund the variable-rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. If an early termination event occurs, the state could be required to pay or to receive a substantial termination payment.

Swap Payments and Associated Debt

Aggregate debt service requirements of the state's variable-rate debt and net receipts/payments on associated hedging derivative instruments are disclosed in Note 6.

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Note 15 discloses detail about derivatives with contingent features.

INVESTMENT DERIVATIVES

Investment derivatives expose the state to certain investment related risks. Note 3 discloses detail about the state's investment derivatives.

NOTE 8

Leases

The state leases office buildings, computer and office equipment and other assets under a variety of agreements. Although lease terms vary, most leases are subject to biennial appropriations from the Legislature to continue the lease obligations.

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for fiscal 2012 were \$297 million for the primary government and \$2.7 million for discrete component units. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2012.

Noncancelable Operating Lease Obligations

August 31, 2012 (Amounts in Thousands)

| Year | Minimum Future Lease Payments | |
|-------------|-------------------------------|-----------------|
| | Primary Government | Component Units |
| 2013 | \$ 256,941 | \$ 1,592 |
| 2014 | 206,613 | 1,088 |
| 2015 | 165,617 | 883 |
| 2016 | 128,739 | 735 |
| 2017 | 99,720 | 571 |
| 2018 – 2022 | 190,098 | 1,422 |
| 2023 – 2027 | 12,964 | |
| 2028 – 2032 | 6,288 | |
| 2033 – 2037 | 2,454 | |
| 2038 – 2042 | 1,155 | |
| Total | <u>\$ 1,070,589</u> | <u>\$ 6,291</u> |

Additionally, the permanent school fund (PSF), the University of Texas System (UT), the Texas A&M University System (A&M) and the Texas Tech University System (Tech) have leased buildings, equipment and land to outside parties under various operating leases. The following table presents estimated future lease rentals on noncancelable operating leases as of Aug. 31, 2012.

Noncancelable Operating Lease Rentals

August 31, 2012 (Amounts in Thousands)

| Year | Minimum Future Lease Rentals | |
|-----------------|------------------------------|------------------|
| | Primary Government | Component Units |
| 2013 | \$ 24,867 | \$ 23,600 |
| 2014 | 19,479 | |
| 2015 | 16,468 | |
| 2016 | 13,928 | |
| 2017 | 12,562 | |
| 2018 and beyond | 85,313 | |
| Total | <u>\$ 172,617</u> | <u>\$ 23,600</u> |

The historical cost of PSF's leased assets is \$341 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are re-appraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2012, PSF reported contingent rental revenues in the amount of \$227 thousand.

The historical cost of UT's leased buildings and leased land is \$84 million and \$3.3 million, respectively. As of Aug. 31, 2012, the carrying value of UT's leased assets was \$59.5 million and the related accumulated depreciation was \$27.8 million. UT did not report any contingent rental revenues.

The historical cost of A&M's leased buildings and leased land is \$86 million and \$1.1 million, respectively. As of Aug. 31, 2012, the carrying value of A&M's leased assets was \$54.9 million and the related accumulated depreciation was \$32.2 million. In fiscal 2012,

A&M reported contingent rental revenues of \$686 thousand.

The historical cost of Tech's leased building space is \$17.9 million. As of Aug. 31, 2012, the carrying value of Tech's leased building space was \$7.8 million and the related accumulated depreciation was \$10.1 million. The historical cost, accumulated depreciation and carrying value of the leased building space represents 7.5 percent of the full carrying value of the leased buildings. Tech did not report any contingent rental revenues.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

| Future Capital Lease Payments | | | | | | | | | |
|--|-------------------------|-----------------|-------------------------------------|--------------------------|-----------------|-------------------------------------|--------------------------------------|--------------|-------------------------------------|
| August 31, 2012 (Amounts in Thousands) | | | | | | | | | |
| Year | Primary Government | | | | | | Discretely Presented Component Units | | |
| | Governmental Activities | | | Business-Type Activities | | | Principal | Interest | Total Future Minimum Lease Payments |
| | Principal | Interest | Total Future Minimum Lease Payments | Principal | Interest | Total Future Minimum Lease Payments | | | |
| 2013 | \$ 5,365 | \$ 1,237 | \$ 6,602 | \$ 3,514 | \$ 896 | \$ 4,410 | \$ 54 | \$ 7 | \$ 61 |
| 2014 | 4,002 | 804 | 4,806 | 2,982 | 737 | 3,719 | 56 | 6 | 62 |
| 2015 | 1,717 | 385 | 2,102 | 2,803 | 597 | 3,400 | | | |
| 2016 | 619 | 66 | 685 | 2,099 | 469 | 2,568 | | | |
| 2017 | | | | 1,493 | 386 | 1,879 | | | |
| 2018 - 2022 | | | | 4,993 | 1,224 | 6,217 | | | |
| 2023 - 2027 | | | | 2,837 | 455 | 3,292 | | | |
| 2028 - 2032 | | | | 917 | 33 | 950 | | | |
| Total | <u>\$ 11,703</u> | <u>\$ 2,492</u> | <u>\$ 14,195</u> | <u>\$ 21,638</u> | <u>\$ 4,797</u> | <u>\$ 26,435</u> | <u>\$ 110</u> | <u>\$ 13</u> | <u>\$ 123</u> |

The following table presents an analysis of the property recorded under capital leases by asset category as of Aug. 31, 2012.

| Assets Under Capital Leases | | | | | | |
|--|----------------------------|--------------------------|----------------------------|--------------------------|--------------------------------------|--------------------------|
| August 31, 2012 (Amounts in Thousands) | | | | | | |
| Type | Primary Government | | | | Discretely Presented Component Units | |
| | Governmental Activities | | Business-Type Activities | | Assets under Capital Lease | Accumulated Depreciation |
| | Assets under Capital Lease | Accumulated Depreciation | Assets under Capital Lease | Accumulated Depreciation | | |
| Land | \$ | \$ | \$ 894 | \$ | \$ | \$ |
| Buildings | 18,084 | 14,098 | 20,234 | 4,088 | | |
| Furniture and Equipment | 6,724 | 1,398 | 14,157 | 2,880 | 238 | 107 |
| Vehicles, Boats, Aircraft | | | 223 | 22 | | |
| Computer Software | 9,215 | 1,044 | 657 | 99 | | |
| Total | <u>\$ 34,023</u> | <u>\$ 16,540</u> | <u>\$ 36,165</u> | <u>\$ 7,089</u> | <u>\$ 238</u> | <u>\$ 107</u> |

NOTE 9

Retirement Plans

The state of Texas contributes to six defined benefit pension plans and one defined contribution plan that provide financial benefits to retired employees, as well as to their spouses and beneficiaries, of the state of Texas, school districts and other entities. The defined benefit pension plans are administered by the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), which are component units, and the Fire Fighters' Pension Commissioner (FPC), which is part of the primary government. The state is a participating employer in these plans with the exception of the FPC defined benefit pension plan. The state is not an employer in the FPC plan, but makes on-behalf contributions to the FPC plan.

The state makes employer contributions to the defined contribution plan, Optional Retirement Program (ORP), which benefits certain employees of institutions of higher education. This plan is administered by the employers of institutions of higher education.

The state's contributions to these plans are authorized by statute and may be amended by the Legislature. The state reports the pensions' financial activities in the other employee benefit trust funds column of the fiduciary funds financial statements. The investments of the pension funds are included in Note 3.

The Texas Guaranteed Student Loan Corporation's (TGSLC) defined contribution pension plan is disclosed because the TGSLC is a discrete component unit of the state, but the state is not considered an employer of the plan and does not contribute to the plan.

Audited financial statements for each defined benefit pension plan may be obtained from:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commissioner
P.O. Box 12577
Austin, Texas 78711-2577

Additional information for each defined contribution plan may be obtained from:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711-2788

Texas Guaranteed Student Loan Corporation
P.O. Box 83100
Round Rock, Texas 78683-3100

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. The Employees Retirement System of Texas Plan (ERS Plan) is considered a cost-sharing, multiple-employer defined benefit plan with a special funding situation. In addition to the state of Texas, employers of the ERS Plan include various component units of the state. The Employees Retirement System and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the Teacher's Retirement System and the State Bar of Texas, which are discrete component units, are also employers of the ERS Plan. The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and

the Judicial Retirement System of Texas (JRS) Plan One (JRS1) and Plan Two (JRS2) are considered single-employer defined benefit pension plans.

Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS2, under which the state contribution rate is actuarially determined every even-numbered year for the next biennium. The contribution rates are based on a percentage of the monthly gross compensation for each member. Each plan's monthly contribution requirements are disclosed in the table below.

| Plan | Employer | | | Members | | |
|--------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| | Employee Class | Elected Class – | Elected Class – | Employee Class | Elected Class – | Elected Class – |
| | | Legislators | Other | | Legislators | Other |
| ERS | 6.0% | 6.0% | 6.0% | 6.5% | 8.0% | 6.0% |
| LECOS* | 0.0% | N/A | N/A | 0.5% | N/A | N/A |
| JRS1 | N/A** | N/A | N/A | 6.0% | N/A | N/A |
| JRS2 | 6.0% | N/A | N/A | 6.0% | N/A | N/A |
| TRS | 6.0% | N/A | N/A | 6.4% | N/A | N/A |

* Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.
 ** JRS1 is funded on a pay-as-you-go basis. Therefore, there is not a required employer contribution rate.

The ERS audited financial statements reflect the results of the actuarial valuations of the four plans it administers. The statements do not note any subsequent legislative action that would negatively affect the certification of actuarial soundness of the plans.

The ERS Plan, established by the Texas Government Code, Chapters 811-815, covers elected class members and employee class members. The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

The elected class members are vested after eight years of service credit and may retire at age 50 with 12 years of service credit or at age 60 with eight years of

service credit. The monthly standard annuity equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change. The maximum standard annuity is 100 percent of the state salary of a district judge.

The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Other employee class members include certified peace officers and custodial officers.

In 2009, the 81st Legislature created new plan provisions for members of the employee class hired after Sept. 1, 2009, with the exception of certified peace officers and custodial officers. This resulted in different requirements for benefit eligibility, vesting and early service retirement eligibility with reduced benefits, dependent upon the employee hire date.

For members of the employee class hired on or before Aug. 31, 2009, the following provisions apply:

- Employees vest after five years of service credit.
- Employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80.
- The average monthly compensation is the average of the highest 36 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.
- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

For members of the employee class hired on or after Sept. 1, 2009, the following provisions apply:

- Employees vest after 10 years of service credit.
- Employees may retire at age 65 with 10 years of service credit or at any age when the sum of age and service credit (including months) equals or exceeds 80.
- The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 60, with a maximum possible reduction of 25 percent.
- The average monthly compensation is the average of the highest 48 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.

Certified peace officers and custodial officers may retire at age 55 with 10 years of service as a certified peace officer or custodial officer. The average monthly compensation is the average of the highest 36 months of compensation. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.

A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and certified peace officers and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life.

LECOS, established under Texas Government Code, Section 814.107, provides a supplemental retirement benefit to the ERS employee class member with service rendered while a law enforcement officer (commissioned peace officer) or a custodial officer. Upon meeting the qualification requirements under LECOS, members are eligible for LECOS benefits in addition to those received under the ERS Plan.

In 2009, the 81st Legislature created new plan provisions for LECOS members hired after Sept. 1, 2009. This resulted in different requirements for benefit eligibility, vesting and early service retirement eligibility with reduced benefits, dependent upon the employee hire date.

For members hired on or before Aug. 31, 2009, the following provisions apply:

- Employees with 20 years of service may retire at age 50 or at any age when the sum of age and service credit equals or exceeds 80.
- A member under the age of 50 may receive reduced benefits upon completing 20 years of service.
- The average monthly compensation is the average of the highest 36 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by the number of years of service credit.
- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

For members hired on or after Sept. 1, 2009, the following provisions apply:

- Employees may retire after 20 years of service at age 55 or at any age when the sum of age and service credit equals or exceeds 80.
- A member under the age of 55 may receive reduced benefits upon completing 20 years of service.
- The average monthly compensation is the average of the highest 48 months of compensation.
- The monthly standard annuity equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by the number of years of service credit.

- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. In 2011, the 82nd Legislature did not appropriate any state funding for the LECOS plan for fiscal 2012.

JRS1 is established by Texas Government Code, Chapter 831, and JRS2 is established by Texas Government Code, Chapter 836. JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a court. Members prior to Sept. 1, 1985, participate in JRS1 and all others participate in JRS2.

Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of JRS1 and JRS2 may retire at any age with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with 12 years of service.

The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Member contributions for JRS1 are made to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are not actuarially determined since the plan is not funded in advance.

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular

action, the time required to amortize the ERS, LECOS or JRS2 plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period already exceeds 30 years by one or more years. According to the actuarial valuations as of Aug. 31, 2012, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS, LECOS and JRS2 plans over any period of time. Therefore, the 30 year funding objective is not being realized for any of the plans. In 2011, the 82nd Legislature reduced the employer contribution rate for fiscal 2012 for ERS, LECOS and JRS2, and reduced the member contribution rate for the elected class-other.

Teacher Retirement System of Texas

The Board of Trustees of TRS is the administrator of one pension plan (TRS Plan). The TRS Plan, established under Texas Government Code, Chapters 822-824, is considered a cost-sharing multiple-employer defined benefit plan with a special funding situation. The state is required by statute to make contributions to the TRS Plan. For fiscal 2012 the state made the majority of contributions to the TRS Plan. A special funding situation is created, which results in the state reporting the TRS Plan as if it was the sole employer. The employers of the TRS Plan include the state of Texas, TRS and 1,300 public schools, service centers, charter schools and community colleges. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan, provided they are employed for one-half or more of the standard work load and are not exempted from membership under Texas Government Code, Section 822.002. The commissioner of the Texas Education Agency may also elect to participate in the TRS Plan in lieu of participation in the ERS Plan in the same manner and under the same conditions as other members of the TRS Plan.

Retirement Systems' Membership

| | ERS | LECOS | JRS1 | JRS2 | TRS |
|--|----------------|---------------|------------|------------|------------------|
| Retirees and Beneficiaries Currently Receiving Benefits | 87,799 | 8,477 | 433 | 215 | 331,747 |
| Terminated Employees Entitled to Benefits But Not Yet Receiving Them | 90,190 | 7,129 | 4 | 143 | 80,856 |
| Current Employees: Vested and Non-Vested | <u>132,669</u> | <u>37,404</u> | <u>17</u> | <u>541</u> | <u>922,799</u> |
| Total Members | <u>310,658</u> | <u>53,010</u> | <u>454</u> | <u>899</u> | <u>1,335,402</u> |

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provision of the TRS Plan are authorized by state law and may be amended by the Legislature.

A member is vested after five years of service credit and is eligible to retire at a future date and receive a lifetime monthly annuity.

For members who established membership before Sept. 1, 2007, the following provisions apply:

- Members may retire at age 65 with five years of service credit or when the sum of the member's age and years of service credit equals at least 80 years and membership is maintained until retirement.
- The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit.
- For members who established membership on or before Aug. 31, 2005, known as "grandfathered" members, the three highest annual salaries are used to calculate the annuity benefit.
- At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.
- Members qualify for early retirement with reduced benefits at age 55 with five years of ser-

vice credit or any age below 50 with 30 years of service credit, provided the sum of the member's age and years of credited service is less than 80 and membership is maintained until retirement.

For members who established membership after Sept. 1, 2007, the following provisions apply:

- Members may retire at age 65 with five years of service credit, or at age 60 if the sum of the member's age and years of service credit equals at least 80 years.
- Grandfathered members who re-enter TRS on or after Sept. 1, 2007, may retire at age 65 with at least five years of service credit, or if the sum of the member's age and years of service credit equals at least 80 and the member is at least age 55 with at least 20 years of service credit.
- The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit.
- For grandfathered members, the three highest annual salaries are used to calculate the annuity benefit.
- At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.

- Members qualify for early retirement with reduced benefits if the member meets one of the following criteria:
 - The member is age 55 with five years of service credit.
 - The member is less than age 60 and the sum of the member's age and years of credited service equals at least 80.
 - The member is less than age 60 and the member has 30 years of credited service.
- Grandfathered members who re-enter TRS on or after Sept. 1, 2007, qualify for early retirement with reduced benefits if the member meets one of the following criteria:
 - The member is age 55 with at least five years of credited service.
 - The member is less than age 55 and the sum of the member's age and years of credited service equals at least 80.
 - The member is less than age 50 and has 30 years of credited service.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five-year and 10-year guaranteed period annuities.

TRS also offers two other annuity payment options:

- **The Deferred Retirement Option Plan (DROP)** DROP allowed members to freeze their standard annuity and, instead of retiring, have a portion of the frozen standard annuity deposited into a DROP account, for up to five years, while continuing to work for a TRS-affiliated employer. The plan was closed for new participants effective Dec. 31, 2005.
- **A Partial Lump-Sum Cash Option (PLSO)** PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they

Actuarial Methods and Assumptions

| | ERS | LECOS | JRS1 | JRS2 | TRS |
|-------------------------------|--|--|-------------------|--|------------------------|
| Actuarial Valuation Date | Aug. 31, 2012 | Aug. 31, 2012 | Aug. 31, 2012 | Aug. 31, 2012 | Aug. 31, 2012 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Open | Level Percent Open | Level Dollar Open | Level Percent Open | Level Percent Open |
| Remaining Amortization Period | 30 years | 30 years | 30 years* | 30 years | 30 years |
| Asset Valuation Method | 20% of market plus 80% of expected actuarial value | 20% of market plus 80% of expected actuarial value | Market | 20% of market plus 80% of expected actuarial value | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | | |
| Investment Rate of Return | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Payroll Growth | 3.5% | 3.5% | N/A | 3.5% | N/A |
| Projected Salary Increases | 0.0%-13.5% | 0.0%-13.5% | 3.5% | 3.5% | 4.25%-7.25% |
| Includes Inflation at | 3.5% | 3.5% | 3.5% | 3.5% | 3.0% |
| Cost-of-Living Adjustments | None-Employee 3.5%-Elected | None | 3.5% | None | None |

* JRS1 is funded on a pay-as-you-go basis; therefore, there is no advance funding.

are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

Contribution requirements are not actuarially determined but are legally established each biennium. The TRS Plan's monthly contribution requirements are disclosed on the "Required Contribution Rates" table. The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation, and a state contribution rate of not less than 6 percent but not greater than 10 percent of the aggregate annual compensation of all members of the TRS Plan during that fiscal year. As required by state statute, the state rate is paid by the employer for compensation paid to new members during the first 90 days of employment, on amounts paid to employees above the statutory minimum amount, and on compensation paid from private or federal funds. Total employer contributions to the TRS Plan are a combination of state, public schools, federal and private funding.

State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by such action. According to the actuarial valuation as of Aug. 31, 2012, contributions are insufficient to amortize the current unfunded accrued liabilities of the TRS Plan over any period of time. Therefore, the 30 year funding objective is not being realized. In 2011, the 82nd Legislature reduced the employer contribution rate for fiscal 2012.

Optional Retirement Program

The state's contributions to the Optional Retirement Program (ORP) are authorized by Texas Govern-

ment Code, Chapter 830. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect ORP in lieu of the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of ORP.

ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the companies. Participants vest in ORP after one year of participation.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent and 6 percent, respectively, for fiscal 2012. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 2.5 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of ORP are institutions of higher education, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2012 resulted in participant contributions of \$226.7 million and employer contributions of \$270.2 million.

As of Aug. 31, 2012, ORP had 37,943 participants. The total participant contributions were \$258.6 million and total employer contributions were \$304 million. Additional information for ORP is included in the fiscal 2012 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board.

Fire Fighters' Pension Commissioner

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. As of Aug. 31, 2012, there were 214 member fire departments participating in TESRS. The state is not an employer of the TESRS plan.

The statutory authority for TESRS is found in Texas Government Code, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members

of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. Per Texas Government Code, Section 865.015, the state is required to appropriate a limited amount to make the fund actuarially sound. The appropriations may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. Legislative appropriations to assist with TESRS's administrative expenses for the past three fiscal years are:

- Fiscal 2012: \$572.3 thousand
- Fiscal 2011: \$628 thousand
- Fiscal 2010: \$502.9 thousand

The member fire department contributions to the fund were \$3.6 million for fiscal 2012. Contributions made were equal to the yearly statutorily required contributions.

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation or asset for fiscal 2012 is presented below.

Annual Pension Cost and Net Pension Obligation/Asset

(Amounts in Thousands)

| | ERS | LECOS | JRS1 | JRS2 | TRS |
|--|---------------------|-----------------|------------------|-----------------|---------------------|
| Annual Required Contribution (ARC) | \$ 704,853 | \$35,057 | \$ 21,424 | \$ 10,716 | \$ 2,780,976 |
| Interest on Net Pension Obligation (NPO) | 59,452 | 3,053 | 5,713 | (400) | 84,119 |
| Adjustment to ARC | (44,627) | (2,292) | (6,104) | 300 | (63,128) |
| Annual Pension Cost | <u>719,678</u> | <u>35,818</u> | <u>21,033</u> | <u>10,616</u> | <u>2,801,967</u> |
| Employer Contributions Made | <u>(346,656)</u> | <u>3</u> | <u>(26,464)</u> | <u>(4,151)</u> | <u>(2,052,381)</u> |
| Increase (Decrease) in NPO | <u>373,022</u> | <u>35,821</u> | <u>(5,431)</u> | <u>6,465</u> | <u>749,586</u> |
| Net Pension Obligation/(Asset), September 1, 2011 | <u>743,151</u> | <u>38,169</u> | <u>71,408</u> | <u>(4,997)</u> | <u>1,051,481</u> |
| Net Pension Obligation/(Asset), August 31, 2012* | <u>\$ 1,116,173</u> | <u>\$73,990</u> | <u>\$ 65,977</u> | <u>\$ 1,468</u> | <u>\$ 1,801,067</u> |

* See the "Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Three-Year Trend Information

(Amounts in Thousands)

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation/(Asset) |
|--------------------|---------------------------|-------------------------------|--------------------------------|
| ERS | | | |
| 08/31/12 | \$ 719,678 | 48.2% | \$ 1,116,173 |
| 08/31/11 | 715,931 | 57.8% | 743,151 |
| 08/31/10 | 634,439 | 63.0% | 440,823 |
| LECOS | | | |
| 08/31/12 | \$ 35,818 | 0.0% * | \$ 73,990 |
| 08/31/11 | 36,953 | 65.6% | 38,169 |
| 08/31/10 | 34,141 | 81.4% | 25,444 |
| JRS1 | | | |
| 08/31/12 | \$ 21,033 | 125.8% | \$ 65,977 |
| 08/31/11 | 22,651 | 119.1% | 71,408 |
| 08/31/10 | 23,014 | 118.6% | 75,745 |
| JRS2 | | | |
| 08/31/12 | \$ 10,616 | 39.1% | \$ 1,468 |
| 08/31/11 | 11,512 | 103.7% | (4,997) |
| 08/31/10 | 12,066 | 95.4% | (4,576) |
| TRS | | | |
| 08/31/12 | \$ 2,801,967 | 73.2% | \$ 1,801,067 |
| 08/31/11 | 2,740,560 | 85.1% | 1,051,481 |
| 08/31/10 | 2,667,179 | 86.1% | 637,713 |

* In 2011, the 82nd Legislature did not appropriate any state funding for the LECOS plan for the fiscal year ending Aug. 31, 2012.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The table at left presents the three-year trend information regarding annual pension cost and the net pension obligations of the plans.

Funded Status

Information on the state's pension plans funded status for each plan as of Aug. 31, 2012, is presented in the table below.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status

(Amounts in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---------------------------------------|------------------------|----------------------|---------------------|---|
| ERS | | | | | | |
| 08/31/12 | \$ 24,272,514 | \$ 29,377,069 | \$ 5,104,555 | 82.6% | \$ 5,676,509 | 89.9% |
| LECOS | | | | | | |
| 08/31/12 | \$ 832,451 | \$ 1,015,668 | \$ 183,217 | 82.0% | \$ 1,498,979 | 12.2% |
| JRS1 | | | | | | |
| 08/31/12 | \$ 0 | \$ 232,922 | \$ 232,922 | 0.0% | \$ 2,200 | 10,587.4% |
| JRS2 | | | | | | |
| 08/31/12 | \$ 300,433 | \$ 315,199 | \$ 14,766 | 95.3% | \$ 68,778 | 21.5% |
| TRS | | | | | | |
| 08/31/12 | \$ 118,326,042 | \$ 144,427,226 | \$ 26,101,184 | 81.9% | \$ 35,444,569 | 73.6% |

Included in the audited financial reports for ERS and TRS are:

- Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due
- Schedules of employer contributions that include historical trend information about the annual required contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC

Texas Guaranteed Student Loan Corporation

The Texas Guaranteed Student Loan Corporation (TGSLC), a discrete component unit of the state, maintains its own defined contribution retirement plan, the TGSLC Money Purchase Pension Plan and Trust (the Plan). The Plan covers substantially all employees of the TGSLC. As of June 30, 2012, there were 700 participants in the Plan. Employees do not contribute to the Plan; TGSLC's contributions to the Plan are generally based on 9 percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately \$38.8 million and \$37.6 million, respectively, in the Plan year ended June 30, 2012. Total TGSLC contributions were approximately \$3.2 million for the fiscal year ended Sept. 30, 2012. Plan amendments are subject to the Plan's Board of Trustees' approval and the TGSLC Board of Directors' ratification.

NOTE 10

Deferred Compensation

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457.

The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (UT) offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 457(b). All UT employees are eligible to participate in UT's plan and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. UT has no liability under the plan.

NOTE 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are established by the General Appropriations Act. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement

No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care and life insurance benefit plans: the UT System Employee Group Insurance Program (UT Plan) and A&M System Group Insurance Program (A&M Plan). The UT Plan is administered by the University of Texas System and the A&M Plan is administered by the Texas A&M University System.

The University of Texas System (UT) and the Texas A&M University System (A&M) each issue a publically available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses:

University of Texas System
601 Colorado Street
Austin, Texas 78701-2982

Texas A&M University System
200 Technology Way
College Station, Texas 77845

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT and A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code,

Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

The university system and member contribution rates are determined annually by each system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. The three-year history of employer contributions and annual OPEB costs is presented in the table below.

Three-Year Trend Information

(Amounts in Thousands)

| Fiscal Year Ending | Employer Contribution | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|-----------------------|------------------|--|---------------------|
| UT Plan | | | | |
| 8/31/12 | \$ 142,737 | \$ 639,952 | 22.3% | \$ 2,263,867 |
| 8/31/11 | 124,280 | 595,169 | 20.9% | 1,766,652 |
| 8/31/10 | 117,023 | 571,761 | 20.5% | 1,295,763 |
| A&M Plan | | | | |
| 8/31/12 | \$ 63,131 | \$ 190,200 | 33.2% | \$ 603,878 |
| 8/31/11 | 40,489 | 174,919 | 23.1% | 476,809 |
| 8/31/10 | 40,174 | 162,680 | 24.7% | 342,379 |

For the fiscal year ended Aug. 31, 2012, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates for the state and retirees are presented on the following page. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Required Contribution Rates – Retiree Health Care and Life Insurance Premium

For the Fiscal Year Ended August 31, 2012

| Level of Coverage | UT Plan | | A&M Plan | |
|-------------------|----------|-------------|----------|--------------|
| | Employer | Plan Member | Employer | Plan Member* |
| Retiree Only | \$462 | \$ | \$367 | \$ 99 |
| Retiree/Spouse | 705 | 199 | 552 | 284 |
| Retiree/Children | 617 | 208 | 482 | 215 |
| Retiree/Family | 861 | 392 | 644 | 377 |

* Plan member contribution for health insurance only. There is no plan member contribution for basic life

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the employer annual required contributions (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The following table shows the components of the annual OPEB cost for the UT and A&M plans for fiscal 2012.

Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

| | UT Plan | A&M Plan |
|--|--------------------|------------------|
| Annual Required Contribution, ARC | \$ 607,827 | \$ 180,940 |
| Interest on Net OPEB Obligation | 123,666 | 34,807 |
| Adjustment to ARC | (91,541) | (25,547) |
| Annual OPEB Cost | <u>639,952</u> | <u>190,200</u> |
| Employer Contributions Made | <u>(142,737)</u> | <u>(63,131)</u> |
| Increase in Net OPEB Obligation | <u>497,215</u> | <u>127,069</u> |
| Net OPEB Obligation, September 1, 2011 | <u>1,766,652</u> | <u>476,809</u> |
| Net OPEB Obligation, August 31, 2012 | <u>\$2,263,867</u> | <u>\$603,878</u> |

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2012, is disclosed below.

Funded Status

(Amounts in Thousands)

| | UT Plan | A&M Plan |
|---|---------------------|---------------------|
| Actuarial Valuation Date | Dec. 31, 2010 | Sept. 1, 2010 |
| Actuarial Accrued Liability (AAL) | \$ 5,956,798 | \$ 1,854,690 |
| Actuarial Value of Plan Assets | <u>0</u> | <u>0</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 5,956,798</u> | <u>\$ 1,854,690</u> |
| Funded Ratio (actuarial value of plan assets/AAL) | 0.0% | 0.0% |
| Covered Payroll (active plan members) | \$ 5,309,413 | \$ 1,313,538 |
| UAAL as a Percentage of Covered Payroll | 112.2% | 141.2% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Since there are no plan assets for UT and A&M plans, the actuarial accrued liability for these two plans continues to increase.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of

each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. See the table below for additional detail on the actuarial methods and assumptions used in the UT plan and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

| | UT Plan | A&M Plan |
|----------------------------|-----------------------------|----------------------------|
| Actuarial Valuation Date | Dec. 31, 2010 | Sept. 1, 2010 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Open | Level Percent Open |
| Amortization Period | 30 years | 30 years |
| Asset Valuation Method | Market | Market |
| Actuarial Assumptions: | | |
| Projected Salary Increases | 4.75% to 7.75% | 3.5% |
| Investment Rate of Return | 7% | 7.3% |
| Includes Inflation at | 3.5% | 3% |
| Health Care Trend Rates | 8% initial 5.5% ultimate | 10% initial 5% ultimate |

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 61 participating employers.

In a cost-sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements. Because SRHP

is funded by multiple employers, the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB plan are not required to be based on the plan ARC.

Each employer has limited note disclosure requirements under the cost-sharing multiple-employer provisions of GASB 45. No disclosure of actuarial information as it relates to the entire plan is required on individual employer reports. Instead, the OPEB plan discloses all required actuarial calculations in the notes to its financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Plan Description

Retirees of state agencies, institutions of higher education (not part of UT and A&M) and other non-state entities selected by the Legislature are eligible to receive OPEB through SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits

and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The table below summarizes the maximum monthly state and retiree contributions toward the health and basic life premiums of eligible retirees.

| Required Contribution Rates – Retiree Health Care and Life Insurance Premium | | |
|---|----------|-------------|
| For the Fiscal Year Ended August 31, 2012 | | |
| Level of Coverage | ERS SRHP | |
| | Employer | Plan Member |
| Retiree Only | \$438 | \$ |
| Retiree/Spouse | 689 | 262 |
| Retiree/Children | 606 | 176 |
| Retiree/Family | 857 | 438 |

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2012 the state contributed \$425 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2011 and fiscal 2010, the state contributed \$394.2 million and \$432.4 million, respectively. These contributions also equaled the contribution required by the Legislature.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,248 participating

employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. A special funding situation is not created because costs are shared between the state and the many participating non-state school district employers. The fiscal 2012 contributions to the TRS-Care OPEB plan are displayed below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2012
(Amounts in Thousands)

| | TRS-Care |
|-----------------------------------|------------------|
| From Reporting Entities | \$154,608 |
| On Behalf From State | 272,029 |
| On Behalf From Federal Government | 68,634 |
| | <u>\$495,271</u> |

TRS issues a publically available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code, Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due,

pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Medicare Part D

In fiscal 2012 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. On-behalf payments are recorded as revenues and expenses of each plan. The OPEB administrators reported the following amounts of Medicare Part D payments from the federal government in fiscal 2012.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2012
(Amounts in Thousands)

| | |
|----------|------------------|
| UT Plan | \$ 9,757 |
| A&M Plan | 3,834 |
| ERS SRHP | 39,612 |
| TRS-Care | 71,576 |
| | <u>\$124,779</u> |

NOTE 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity with a requirement for repayment. These loans are reported as interfund receivables/payables and are classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as “due from/due to.” Activity occurring within the same fund is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as “transfers-internal activities.”

Certain reclassifications and eliminations are made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units are reported as revenues and expenses, as if they were external transactions, on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions, on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions, on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. These reimbursements are reported in the appropriate expenditure/expense category in the fund responsible for the payment.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The interfund receivables/payables include loans for energy efficiency programs of approximately \$38.3 million. There is also a \$757.2 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a \$2.7 billion transfer from the property tax relief fund and a \$1.1 billion transfer from the lottery fund to the foundation school fund for educational programs. There is also a \$1 billion transfer from the permanent school fund to the available school fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2012, is presented in the following tables.

| Interfund Receivables/Payables | | | | | | |
|---------------------------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|
| (Amounts in Thousands) | | | | | | |
| Fund Type | Current | | Noncurrent | | Total | |
| | Interfund Receivables | Interfund Payables | Interfund Receivables | Interfund Payables | Interfund Receivables | Interfund Payables |
| Governmental Funds | | | | | | |
| General Fund | \$ 3,869 | \$ 999 | \$ 34,629 | \$ 2,873 | \$ 38,498 | \$ 3,872 |
| Nonmajor Governmental Funds | 457 | 228 | | 2,710 | 457 | 2,938 |
| | <u>4,326</u> | <u>1,227</u> | <u>34,629</u> | <u>5,583</u> | <u>38,955</u> | <u>6,810</u> |
| Proprietary Funds | | | | | | |
| Colleges and Universities | 22,390 | 25,794 | 734,790 | 766,546 | 757,180 | 792,340 |
| Nonmajor Enterprise Funds | 394 | 89 | 2,710 | | 3,104 | 89 |
| | <u>22,784</u> | <u>25,883</u> | <u>737,500</u> | <u>766,546</u> | <u>760,284</u> | <u>792,429</u> |
| Total | <u>\$ 27,110</u> | <u>\$ 27,110</u> | <u>\$772,129</u> | <u>\$772,129</u> | <u>\$799,239</u> | <u>\$799,239</u> |

Due From/Due To

(Amounts in Thousands)

| Fund Type | Due From | | | Due To | | |
|--|---------------------|--------------------|----------------|---------------------|--------------------|----------------|
| | Other Funds | Primary Government | Component Unit | Other Funds | Primary Government | Component Unit |
| Governmental Funds | | | | | | |
| General Fund | \$ 132,857 | \$ | \$ 89 | \$ 1,138,033 | \$ | \$ |
| State Highway Fund | 252,515 | | | 4,109 | | |
| Permanent School Fund | | | | 451 | | |
| Nonmajor Governmental Funds | 73,450 | | | 67,974 | | |
| | <u>458,822</u> | <u>0</u> | <u>89</u> | <u>1,210,567</u> | <u>0</u> | <u>0</u> |
| Proprietary Funds | | | | | | |
| Colleges and Universities | 848,173 | | | 26,699 | | |
| Unemployment Trust Fund | 12,712 | | | | | |
| Lottery Fund | 578 | | | 4,095 | | |
| Nonmajor Enterprise Funds | 41,267 | | | 3,165 | | |
| Internal Service Fund | 21,332 | | | 1,636 | | |
| | <u>924,062</u> | <u>0</u> | <u>0</u> | <u>35,595</u> | <u>0</u> | <u>0</u> |
| Fiduciary Funds | | | | | | |
| Pension and Other Employee Benefit Trust Funds | 11,737 | | | 122,128 | | |
| Private-Purpose Trust Funds | 6 | | | 8 | | |
| Agency Funds | 900 | | | 27,229 | | |
| | <u>12,643</u> | <u>0</u> | <u>0</u> | <u>149,365</u> | <u>0</u> | <u>0</u> |
| Discretely Presented Component Units | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>89</u> | <u>0</u> |
| Total | <u>\$ 1,395,527</u> | <u>\$ 0</u> | <u>\$ 89</u> | <u>\$ 1,395,527</u> | <u>\$ 89</u> | <u>\$ 0</u> |

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

| | Governmental Activities | Business-Type Activities | Total |
|-------------------------------|-------------------------|--------------------------|-------|
| NONCURRENT ASSETS | | | |
| Internal Balances–Receivables | \$ 29,046 | \$ (29,046) | \$ 0 |
| CURRENT LIABILITIES | | | |
| Internal Balances–Payables | \$ 865,668 | \$ (865,668) | \$ 0 |

Transfers – Internal Activities per the Government-wide Financial Statements

(Amounts in Thousands)

| Fund Category | Other Funds |
|--------------------------|----------------|
| Governmental Activities | \$ (3,944,781) |
| Business-Type Activities | \$ 3,944,781 |

Transfers In/Out

(Amounts in Thousands)

| Fund Type | Transfers In | Transfers Out |
|--|----------------------|----------------------|
| | Other Funds | Other Funds |
| Governmental Funds | | |
| General Fund | \$ 4,891,199 | \$ 5,779,918 |
| State Highway Fund | 433,409 | 453,685 |
| Permanent School Fund | | 1,020,887 |
| Nonmajor Governmental Funds | 1,953,305 | 3,994,482 |
| | <u>7,277,913</u> | <u>11,248,972</u> |
| Proprietary Funds | | |
| Colleges and Universities | 5,582,453 | 576,426 |
| Unemployment Trust Fund | 87,350 | 26,102 |
| Lottery Fund | | 1,155,523 |
| Nonmajor Enterprise Funds | 68,356 | 35,286 |
| | <u>5,738,159</u> | <u>1,793,337</u> |
| Fiduciary Funds | | |
| Pension and Other Employee Benefit Trust Funds | 114,821 | 88,396 |
| Private-Purpose Trust Funds | | 188 |
| | <u>114,821</u> | <u>88,584</u> |
| Total | <u>\$ 13,130,893</u> | <u>\$ 13,130,893</u> |

NOTE 13

Classification of Fund Balances/ Net Position

The table below presents a summary of the Aug. 31, 2012, governmental fund balances by fund type and specific purpose.

The classifications of nonspendable, restricted, committed, assigned and unassigned are the fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. With the exception of nonspendable fund balances, fund balances are presented based on

each fund's specific purpose as required by GASB 54. For the general fund, special revenue funds, capital projects funds and nonmajor permanent funds, the specific purpose of the fund balance is determined by the governmental function for which the funds are restricted, committed, assigned or unassigned. The governmental function is assigned to an agency and all fund balances reported by the agency reflect that function.

If a fund reported by an agency is exclusively for another governmental function and the amount is significant, the balance is reclassified to the appropriate governmental function.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned

(Amounts in Thousands)

MAJOR FUNDS

| | |
|----------------------------------|---------------------|
| General Fund | |
| Nonspendable: | |
| Inventory | \$ 199,562 |
| Prepaid Items | 1,589 |
| Long-term Receivables | 476,630 |
| | <u>\$ 677,781</u> |
| Restricted for: | |
| General Government | \$ 783,162 |
| Education | 342,918 |
| Health and Human Services | 351,224 |
| Public Safety and Corrections | 45,632 |
| Natural Resources and Recreation | 240,799 |
| | <u>\$ 1,763,735</u> |
| Committed to: | |
| General Government | \$ 1,851,551 |
| Education | 965,245 |
| Health and Human Services | 809,789 |
| Public Safety and Corrections | 87,862 |
| Transportation | 330 |
| Natural Resources and Recreation | 1,302,802 |
| Regulatory Services | 265,746 |
| | <u>\$ 5,283,325</u> |
| Assigned to: | |
| General Government | \$ 36,865 |
| Health and Human Services | 6,205 |
| Natural Resources | 841 |
| Regulatory Services | 165 |
| | <u>\$ 44,076</u> |

MAJOR FUNDS (concluded)

| | |
|----------------------------------|----------------------|
| Unassigned: | |
| General Government | \$ 914,770 |
| Education | 180,155 |
| Employee Benefits | 105 |
| Health and Human Services | (321,263) |
| Public Safety and Corrections | 135,050 |
| Transportation | 79,747 |
| Natural Resources and Recreation | 95,914 |
| Regulatory Services | 10,166 |
| | <u>\$ 1,094,644</u> |
| State Highway Fund | |
| Nonspendable: | |
| Inventory | \$ 125,971 |
| Prepaid Items | 2,097 |
| | <u>\$ 128,068</u> |
| Restricted for: | |
| General Government | \$ 4,115 |
| Public Safety and Corrections | 7,087 |
| Transportation | 1,022,783 |
| | <u>\$ 1,033,985</u> |
| Committed to: | |
| Transportation | \$ 201,935 |
| | <u>\$ 201,935</u> |
| Unassigned: | |
| Transportation | \$ (511,086) |
| | <u>\$ (511,086)</u> |
| Permanent School Fund | |
| Nonspendable: | |
| Permanent Fund Principal | \$ 12,041,074 |
| Prepaid Items | 6 |
| | <u>\$ 12,041,080</u> |
| Restricted for: | |
| Public School Support | 16,761,845 |
| | <u>\$ 16,761,845</u> |

Concluded on the following page

Capital projects fund balances are often reported by two agencies with different governmental functions. In these instances, the fund balance is reported in the function for the project. The function is determined by the specific purpose reflected for each column in the combining balance sheet – non-major capital projects funds.

The specific purpose for debt service funds is considered debt service.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB 54, balances reported as restricted in the fund financial statements plus the nonspendable permanent fund corpus balances are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

Of the \$14.1 billion reported as unrestricted net position, \$6.1 billion is for the economic stabilization fund. The economic stabilization fund was authorized by the Texas Constitution, Article III, Section 49g. In November of each year a transfer is made equal to 75 percent of the excess of the prior fiscal year collections for natural gas and crude oil production taxes over 1987 collections. The Legislature may appropriate, by a three-fifths vote of the members present in each house, amounts in the ESF for spending that does not exceed the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned (concluded)

(Amounts in Thousands)

NONMAJOR FUNDS

| | |
|----------------------------------|---------------------|
| Special Revenue Funds | |
| Nonspendable: | |
| Inventory | \$ 154 |
| Prepaid Items | 5 |
| | <u>\$ 159</u> |
| Restricted for: | |
| General Government | \$ 48,532 |
| Education | 1,297,183 |
| Health and Human Services | 1,028 |
| Public Safety and Corrections | 2,148 |
| Natural Resources and Recreation | 1,120,234 |
| | <u>\$ 2,469,125</u> |
| Committed to: | |
| General Government | \$ 41,632 |
| Employee Benefits | 17 |
| Public Safety and Corrections | 7,830 |
| Natural Resources and Recreation | 209 |
| Regulatory Services | 753,688 |
| | <u>\$ 803,376</u> |
| Assigned to: | |
| General Government | \$ 1,049 |
| Education | 988 |
| Transportation | 171 |
| | <u>\$ 2,208</u> |
| Debt Service Funds | |
| Restricted for: | |
| Debt Service | \$ 1,389,875 |
| | <u>\$ 1,389,875</u> |

NONMAJOR FUNDS (concluded)

| | |
|--|----------------------|
| Capital Projects Funds | |
| Nonspendable: | |
| Inventory | \$ 3 |
| | <u>\$ 3</u> |
| Restricted for: | |
| General Government | \$ 85,507 |
| Education | 139 |
| Health and Human Services | 10,029 |
| Public Safety and Corrections | 32,141 |
| Transportation | 100,922 |
| Natural Resources and Recreation | 13,184 |
| | <u>\$ 241,922</u> |
| Permanent Funds | |
| Nonspendable: | |
| Permanent Fund Principal | \$ 745,211 |
| | <u>\$ 745,211</u> |
| Restricted for: | |
| Natural Resources and Recreation | \$ 352 |
| | <u>\$ 352</u> |
| Committed to: | |
| Education | \$ 7,676 |
| | <u>\$ 7,676</u> |
| ALL GOVERNMENTAL FUNDS | |
| Nonspendable | \$ 13,592,302 |
| Restricted | 23,660,839 |
| Committed | 6,296,312 |
| Assigned | 46,284 |
| Unassigned | 583,558 |
| Total Fund Balances – Governmental Funds | <u>\$ 44,179,295</u> |

NOTE 14

Restatement of Beginning Balances

During fiscal 2012, certain accounting changes and adjustments were made that required the restatement of

fund balances or net position. The beginning balances and all related restatements for the components of the state's financial reporting entity are included below and discussed on the following page.

Restatements to Fund Balances/Net Position

(Amounts in Thousands)

| | September 1, 2011, As Previously Reported | Restatements | September 1, 2011, As Restated |
|---|--|---------------------|--------------------------------------|
| GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES | | | |
| Major Funds: | | | |
| General Fund | \$ 7,184,566 | \$ (310,879) | \$ 6,873,687 |
| State Highway Fund | 751,539 | 383,745 | 1,135,284 |
| Permanent School Fund | 26,947,258 | | 26,947,258 |
| Total Major Funds | <u>34,883,363</u> | <u>72,866</u> | <u>34,956,229</u> |
| Nonmajor Funds: | | | |
| Special Revenue Funds | 4,002,160 | (878,415) | 3,123,745 |
| Debt Service Funds | 1,554,996 | (2,252) | 1,552,744 |
| Capital Project Funds | 868,892 | (54) | 868,838 |
| Permanent Funds | 757,309 | (15,756) | 741,553 |
| Total Nonmajor Funds | <u>7,183,357</u> | <u>(896,477)</u> | <u>6,286,880</u> |
| Total Governmental Funds | <u>42,066,720</u> | <u>(823,611)</u> | <u>41,243,109</u> |
| Governmental Activities Adjustments: | | | |
| Capital Assets | 75,667,494 | (438,234) | 75,229,260 |
| Long-Term Liabilities | (21,493,574) | 915,423 | (20,578,151) |
| Deferred Revenue | 784,063 | | 784,063 |
| Internal Service Fund | 227,984 | | 227,984 |
| Total Governmental Activities Adjustments | <u>55,185,967</u> | <u>477,189</u> | <u>55,663,156</u> |
| Total Governmental Activities | <u>97,252,687</u> | <u>(346,422)</u> | <u>96,906,265</u> |
| BUSINESS-TYPE ACTIVITIES | | | |
| Major Funds: | | | |
| Colleges and Universities | 39,104,136 | (17,976) | 39,086,160 |
| Unemployment Trust Fund | (812,922) | | (812,922) |
| Lottery Fund | 117,985 | | 117,985 |
| Total Major Funds | <u>38,409,199</u> | <u>(17,976)</u> | <u>38,391,223</u> |
| Nonmajor Enterprise Funds | <u>3,725,029</u> | <u>(363)</u> | <u>3,724,666</u> |
| Total Business-Type Activities | <u>42,134,228</u> | <u>(18,339)</u> | <u>42,115,889</u> |
| Total Primary Government | <u>139,386,915</u> | <u>(364,761)</u> | <u>139,022,154</u> |
| FIDUCIARY FUNDS | | | |
| Pension and Other Employee Benefit Trust Funds | 130,580,910 | 304 | 130,581,214 |
| External Investment Trust Funds | 13,966,146 | | 13,966,146 |
| Private-Purpose Trust Funds | 2,846,911 | | 2,846,911 |
| Total Fiduciary Funds | <u>147,393,967</u> | <u>304</u> | <u>147,394,271</u> |
| Discretely Presented Component Units | <u>888,310</u> | <u>(4,440)</u> | <u>883,870</u> |
| Total Reporting Entity | <u>\$ 287,669,192</u> | <u>\$ (368,897)</u> | <u>\$ 287,300,295</u> |

Restatements by Activity

(Amounts in Thousands)

| Restatements | Governmental Activities | Business-Type Activities | Fiduciary Activities | Component Units | Total |
|---|-------------------------|--------------------------|----------------------|-------------------|---------------------|
| A. Capital Asset Adjustments | \$ (438,234) | \$ (25,448) | \$ | \$ 182 | \$ (463,500) |
| B. State Highway Fund Nontraditional Agreements | 99,494 | | | | 99,494 |
| C. Conduit Debt | 100,225 | | | | 100,225 |
| D. Federal CDBG Disaster Grant | (57,022) | | | | (57,022) |
| E. Miscellaneous Adjustments | (50,885) | 7,109 | 304 | (4,622) | (48,094) |
| Total Restatements | <u>\$ (346,422)</u> | <u>\$ (18,339)</u> | <u>\$ 304</u> | <u>\$ (4,440)</u> | <u>\$ (368,897)</u> |

Restatements are grouped into the following five categories:

- A. These restatements are for adjustments to capital assets and accumulated depreciation or amortization. The restatements include an amount of \$628.3 million to correct an overstatement of toll projects related to nontraditional agreements of the state highway fund. These toll projects are under the ownership of a local toll project entity under state law and should not be reported as state's assets.
- B. This restatement is to correct accounting errors other than those in capital assets pertinent to non-traditional agreements of the state highway projects.
- C. This restatement is to correct prior year bond issuances of a blended component unit of the state that were reported on the state's financial statements. These bonds were determined to be conduit debt in fiscal 2012 and only require a note disclosure. The restatement includes \$1 billion for revenue bonds payable and \$910 million for the associated loans receivable.
- D. This restatement is to correct the prior year accrued expenditures related to the disaster grant portion of the federal Community Development Block Grant (CDBG).
- E. These are miscellaneous restatements necessary to correct accounting errors in the prior period or recognize changes in the application of accounting principles and methodologies, including restatements for funds reclassified to a different fund type, to improve consistency within the financial reporting entity.

NOTE 15

Commitments and Contingencies

COMMITMENTS

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board had loan commitments totaling \$577.2 million as of Aug. 31, 2012. The Texas Department of Transportation (TxDOT) has an equity loan agreement of \$6 billion with North Texas Tollway Authority with a maximum amount of \$6 billion to be used for State Highway (SH) 161 Project in Dallas.

Investment Funds

As of Aug. 31, 2012, state agencies, public employee retirement systems and institutions of higher education had entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2012, the remaining commitment was \$26.9 billion.

Construction and Other Commitments

As of Aug. 31, 2012, TxDOT had contractual commitments of approximately \$6.1 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2012, the amount of unrealized payables for uncompleted pass-through toll agreements was \$541 million. In addition, TxDOT has equity grant commitments of \$553.6 million to various local toll project entities.

CONTINGENCIES

Protested Tax Payments

As of Aug. 31, 2012, pending litigation filed by taxpayers seeking refunds of state taxes totaled \$203.8

million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse ruling in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2012. These claims total \$85.9 million and include a number of lawsuits and claims that may be significant to individual state agencies. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed 800 cases exercising eminent domain for \$256 million.

Federal Assistance

The state receives federal financial assistance subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state but is considered immaterial to its overall financial condition.

The Texas Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments – about 60 to 65 percent of that total.

An actual liability is realized only after a completed investigation substantiates an overpayment and the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately

confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Guaranteed Debt

In 1983, the voters of the state approved a constitutional amendment that provides for the guarantee by the permanent school fund of up to a defined capacity of \$75.4 billion in school district bonds as of Aug. 31, 2012. Approval by the state of Texas attorney general is required for each bond issuance. In the event of a default by a school district, the permanent school fund will transfer to the paying agent/registrar an amount necessary to pay the maturing or matured principal and/or interest to bondholders. As of Aug. 31, 2012, \$53.6 billion in debt was guaranteed by the permanent school fund for outstanding bond issues in 800 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The \$53.6 billion represents the principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities), nor does it include interest on current interest bonds or variable rate notes. The amount also excludes bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2012, none of the school districts with guaranteed debt have defaulted on the guaranteed debt.

TxDOT is proceeding with the development of the SH 99 (Grand Parkway) project. TxDOT expects to pay expenditures in connection with the project prior to the issuance of obligations to finance the portion of the project for which TxDOT has jurisdiction. The Grand Parkway Transportation Corporation, a blended component unit of the state, expects to incur debt, with the aggregate maximum amount of project expenditures of \$600 million being incurred prior to such issuance.

The debt would be one or more separate series of various types of obligations for the purpose of paying the costs of the project prior to issuance of such obligations. TxDOT is authorized to be reimbursed for such payments for the project when the obligations are issued to finance the project.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Derivatives with Contingent Features

All of the Department of Housing and Community Affairs's (TDHCA) derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. As of Aug. 31, 2012, the aggregate fair value of all derivative instruments with collateral provisions was \$46.9 million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2012.

The Teacher Retirement System of Texas (TRS) is party to derivative instruments with provisions that

require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2012, the aggregate fair value of all derivative instruments with these provisions was \$82.4 million. If the collateral posting thresholds did not exist, TRS would be required to post the aggregate amount of \$3.4 million in collateral to its counterparties. TRS posted no collateral as of Aug. 31, 2012.

NOTE 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded

State agencies and institutions of higher education issued \$1.6 billion in new bonds and commercial paper and \$820.5 million in refunding bonds since Aug. 31, 2012. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Other Subsequent Events

The Texas Workforce Commission transferred \$92.7 million of taxes to the unemployment trust fund in September 2012 in accordance with Texas Labor Code, Section 204.123. The taxes were originally deposited to the employment and training investment holding fund, an account within the general revenue fund. Texas Labor Code, Section 204.061, defines a statutory floor for the unemployment trust fund as 1 percent of total taxable wages for the four quarters ended June 30, 2012. The transfer was required because the unemployment trust fund balance was below that floor.

The Facility Concession Agreement (FCA) for the State Highway (SH) 130 Segments 5 and 6 facility provides for the developer to pay an additional concession

payment to the Texas Department of Transportation (TxDOT) if a maximum posted speed of 80 mph or 85 mph is authorized within 180 days after the service commencement date for the facility and TxDOT elects to waive increased revenue sharing that otherwise would be required. On Aug. 30, 2012, the Texas Transportation Commission authorized and directed the implementation of the maximum speed limit of 85 mph. In addition, the Commission authorized and directed TxDOT to notify the developer of TxDOT's election to waive increased revenue sharing and instead receive the additional concession payment amount of \$100 million. On Sept. 17, 2012, the TxDOT executive director provided the developer with sufficient documentation and the additional concession payment was received on Nov. 9, 2012.

The Regional Transportation Council of the North Central Texas Council of Governments allocated a portion of the SH 121 concession funding to pay off the state infrastructure bank (SIB) loan balance related to segments I through IV of the President George Bush Turnpike Authority. During the October 2012 meeting, the Texas Transportation Commission concurred with the allocation. The transfer of funds totaling approximately \$145 million from the SH 121 account to the SIB, representing the full repayment of the loan, occurred on Feb. 15, 2013.

Component Units

On Nov. 5, 2012, Texas Small Business Industrial Development Corporation, a discrete component unit of the state, notified bondholders of its intent to redeem \$7.8 million of its Floating Rate Demand Revenue Bonds on Dec. 5, 2012.

On Nov. 19, 2012, the Texas State Affordable Housing Corporation, a discrete component unit of the state, redeemed the remaining \$21.4 million in market rate bonds to close out the 2009 New Issue Bond Program.

Bonds and Commercial Paper Issued/Refunded

(Amounts in Thousands)

| | Description | Amount | Issuance Date | Purpose |
|--|--|--------------------|---------------|--|
| Department of Aging and Disability Services | General Obligation Commercial Paper Notes, Series 2008 | \$ 8,000 | 09/12/12 | Finance capital repairs and renovations for the State Supported Living Centers. |
| Department of Housing and Community Affairs | Residential Mortgage Revenue Bonds, Series 2009 C-4 | 78,070 | 09/13/12 | Provide funds for the purchase of mortgage-backed securities guaranteed as timely payments of principal and interest by Government National Mortgage Association ("Ginnie Mae"). |
| Midwestern State University | Revenue Financing System Bonds, Series 2012A | 4,710 | 10/09/12 | Refund Revenue Bonds, Series 2002 to reduce debt service payments. |
| | Revenue Financing System Bonds, Series 2012B | 5,415 | 10/09/12 | Refund Revenue and Refunding Bonds, Series 2003 to reduce debt service payments. |
| Texas Department of Transportation | Revenue Refunding Bonds, Series 2012A | 585,330 | 11/27/12 | Refund Series 2002A for savings. |
| | Revenue Refunding Bonds, Series 2012B | 225,000 | 11/27/12 | Refund Series 2009 for savings. |
| | General Obligation Bonds, Series 2012A | 818,635 | 12/18/12 | Fund various highway improvement projects. |
| | General Obligation Bonds, Series 2012B | 99,570 | 12/18/12 | Fund various highway improvement projects. |
| Texas Public Finance Authority | General Obligation Commercial Paper Notes, CPRIT Series A | 9,600 | 09/06/12 | To fund indirect administration, grant review and award operations and the Texas Cancer Registry Operations of the Cancer Prevention Research Institute of Texas (CPRIT). |
| | General Obligation Commercial Paper Notes, Series 2008 | 6,000 | 10/04/12 | To fund projects for the Texas Department of State Health Services and the Texas Historical Commission. |
| Texas Southern University | Revenue Bonds, Series A 2012-10 | 55,000 | 09/27/12 | To construct new student housing. |
| Texas State Affordable Housing Corporation* | Multifamily Housing Mortgage Revenue Bonds, Series 2012 | 71,100 | 09/20/12 | To acquire and rehabilitate six properties. |
| Texas State University System | Revenue Financing System Bonds, Series 2013 | 100,049 | 01/13/13 | To fund various construction and renovation projects. |
| Water Development Board | General Obligation Bonds, Series 2012F | 29,385 | 09/05/12 | Provide financial assistance for Economically Distressed Areas Program (EDAP) projects. |
| | General Obligation Bonds, Series 2012G | 156,065 | 10/02/12 | Provide financial assistance from the Texas Water Development Fund II (Dfund) for water assistance projects. |
| | General Obligation Bonds, Series 2013A | 42,470 | 02/12/13 | Provide financial assistance from the Water Infrastructure Fund (WIF) for water assistance projects. |
| University of Texas System | Permanent University Fund Taxable Commercial Paper Notes, Series B | 75,000 | 10/02/12 | To finance a variety of capital projects and equipment purchases at various institutions. |
| | Revenue Financing System Commercial Paper Notes, Series A | 50,316 | 11/05/12 | To finance a variety of capital projects and equipment purchases at various institutions. |
| Veterans Land Board | General Obligation State of Texas Veterans Bonds, Series 2012B | 100,000 | 11/01/12 | To augment the Veterans' Housing Assistance Fund II. |
| | Total Bond and Commercial Paper Issued/Refunded | <u>\$2,519,715</u> | | |

* Discretely presented component unit

NOTE 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. The state of Texas and its employees are covered by numerous immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claims adjustment expenditures/expenses. In addition, estimated recoveries on unsettled claims, such as salvage and subrogation, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Unallocated claim adjustment expenditures/expenses are not included in the liability for claims and judgments.

There were no significant reductions in insurance coverage in the past year. Also, in the past three years, settlements have not exceeded insurance coverage.

Property and Liability

The Texas Labor Code, Chapter 412, identifies the executive director of the State Office of Risk Management (SORM) as the state risk manager. SORM operates as a full-service risk and insurance manager for the state and oversees all surety bond and property and liability insurance purchases by state agencies.

SORM administers the statewide workers' compensation program. The state does not carry commercial insurance for workers' compensation, but instead, uses

the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT), Texas A&M University System (A&M) and Texas Department of Transportation (TxDOT) administer separate self-insured workers' compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by UT and A&M are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS). Public school employees and their dependents are covered by the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employee Group Benefits Program

Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

University of Texas System and Texas A&M University System

UT and A&M provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers a choice of four preferred provider organization plans statewide as well as HMO plans in certain service areas. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The following table presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ended Aug. 31, 2011, and Aug. 31, 2012. Claims and judgment amounts presented in Note 5 are also included in the table.

| | Beginning Balance | Increases | Decreases | Ending Balance |
|------|-------------------|-------------|-------------|----------------|
| 2012 | \$760,167 | \$2,726,971 | \$2,699,682 | \$787,456 |
| 2011 | \$786,122 | \$2,736,829 | \$2,762,784 | \$760,167 |

Of the fiscal 2012 claims liability ending balance, \$194 million relates to long-term claims liabilities, which are reported in Note 5. The remaining \$593 million relates to the state's health, life and dental insurance programs, which are reported as accounts payable.

NOTE 18

Contested Taxes

The state may assess a claim against one or multiple taxpayers for a tax liability. Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. As of Aug. 31, 2012, there was an estimated \$1.3 billion of assessments filed that are currently in the redetermination hearings process. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements.

NOTE 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, component units can be

organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Most component units, however, are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for informational purposes of interested parties. The component units are reported for the year ended Aug. 31, 2012, unless indicated otherwise.

Blended Component Units

The state is financially accountable for two material blended component units. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state. The component units' financial data is blended in the appropriate funds within the financial statements. There are no other material blended component units of the state.

Employees Retirement System of Texas (ERS) is a legally separate entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six-member board of trustees. The governor, with the advice and consent of the Senate, appoints three of the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Trust Company) is a legally separate entity established by the Legislature. The Comptroller of Public Accounts is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives

the Comptroller direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th Floor, Austin, Texas 78701.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the component units do not provide services entirely or almost entirely to the state. The component units' financial data is discretely presented in the component unit column of the state's government-wide financial statements.

Texas Guaranteed Student Loan Corporation (TGS LC) is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. All nine members of TGS LC's board are appointed by the governor with the advice and consent of the Senate. The state of Texas imposes its will on TGS LC through its application of the Texas Sunset Act. TGS LC's liabilities are not debts of the state. TGS LC received a one-time appropriation of \$1.5 million to fund initial startup operations. TGS LC is reported for the year ended Sept. 30, 2012. Separate financial statements may be obtained by contacting TGS LC at P.O. Box 83100, Round Rock, Texas 78683-3100.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. TRS is subject to the budget approval powers of the Texas Legislature, and therefore is fiscally dependent on the state of Texas. Separate financial statements may be obtained

by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The annual budget for the State Bar of Texas must be reviewed and approved by the Supreme Court, thus making the State Bar of Texas fiscally dependent on the state of Texas. The State Bar is reported for the year ended May 31, 2012. Separate financial statements may be obtained by contacting the State Bar at 1414 Colorado St., Austin, Texas 78701.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Non-profit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and Comptroller of Public Accounts. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

OneStar National Service Commission Inc. and **OneStar Foundation** (OneStar) are legally separate nonprofit corporations that administer the AmeriCorps*Texas program. They serve as the state's liaison to and oversee Texas' participation in OneStar programs for the Corporation for National and Community Service (a federal agency), as well as prepare a comprehensive three-year national service plan for the state. The governor appoints all members of OneStar's

boards. The governor can also remove any board member at will. The OneStar Foundation Inc. performs all administrative duties of the OneStar National Service Commission Inc., as well as provides technical assistance, education, information and other support to the volunteer community. OneStar is reported for the year ended Dec. 31, 2011. The financial statements of OneStar can be obtained by contacting OneStar at 9011 Mountain Ridge Drive, Suite 100, Austin, Texas 78759.

Texas Low-Level Radioactive Waste Disposal Compact Commission (Commission) is a legally separate organization established to promote the health, safety and welfare of the citizens and environment of the states participating in the Texas Low-Level Radioactive Waste Disposal Compact (Compact), known as party states. There are currently three party states, Texas, Maine and Vermont, with Texas serving as the host party state. The mission of the Commission is to:

- Limit the number of radioactive waste disposal facilities
- Effectively, efficiently and economically manage low-level radioactive waste
- Encourage the reduction of the generation thereof

Since Texas serves as the host party state for the Compact, it is entitled to six voting members, whereas the other party states are only entitled to one voting member. The governor appoints the six members of the Commission serving on behalf of Texas. As host state, Texas has the authority to establish the disposal fees assessed at the facility for disposal of low-level radioactive waste generated in the party states. The Texas Legislature, with the approval of the governor, also has the authority to revise the portion of the Compact pertaining to the volume of waste the host state will dispose of without the consent of the nonhost party states. The financial statements of the Commission may be obtained by contacting the Commission at 333 Guadalupe St. #3-240, Austin, Texas 78701.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building E, Suite 530, Austin, Texas 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit corporation created by the Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting the Stamping Office at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System is a legally separate entity that reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the

assessment rates against reinsured health benefit plan issuers. Financial statements are presented on statutory accounting principles established by TDI, and are reported for the year ended Dec. 31, 2011. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool (THIRP) is a legally separate entity that provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. TDI approves all rates and rate schedules before they are used. The nine-member board of directors is appointed by TDI's commissioner. THIRP is reported for the year ended Dec. 31, 2011. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas Boll Weevil Eradication Foundation Inc. (Foundation) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is fiscally dependent on the Texas Department of Agriculture (TDA) and governed by 21 board members. TDA's commissioner appoints five of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses. TAFA primarily benefits the citizens of Texas. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount sufficient to pay those obligations. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers TAFA with the assistance of the board. Separate financial state-

ments may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority

(Authority) is a legally separate entity created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller of Public Accounts. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas On-Site Wastewater Treatment Research Council

(Council) was abolished effective Sept. 1, 2011. Its purpose was to award competitive grants and contracts to support applied research, demonstration projects and information transfer regarding on-site wastewater treatment. Upon its abolishment, the Council's activities and functions were absorbed by the Texas Commission on Environmental Quality.

Texas Appraiser Licensing and Certification Board

(TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in the presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by

contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Economic Development Corporation

(TED Corp), a nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for TED Corp, and has the ability to remove board members at will. The board of directors is appointed by the governor. TED Corp's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Small Business Industrial Development Corporation

(TSBIDC) was chartered to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for TSBIDC. The board of directors is appointed by the governor, and all programs and expenditures of TSBIDC must be approved on behalf of the state by the Texas Economic Development Bank. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Disaster Relief Fund (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. Based on TDRF's relationship with the Office of the Governor, omitting TDRF would result in misleading financial statements. TDRF's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created to assist the Office of the Governor with the improvement of the Texas health care system. THSA promotes and coordinates the elec-

tronic exchange of health information throughout the state to ensure information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor declares the purposes of THSA are fulfilled or that THSA is inoperative or abandoned. THSA is reported for the year ended Sept. 30, 2011. THSA's financial statements may be obtained by contacting THSA at 221 E. 9th St., Suite 201, Austin, Texas 78701.

Beacon State Fund is a legally separate organization established to assist the Governor's Commission for Women (Commission) to promote issues affecting the women of Texas. Members of the board of trustees are appointed by the Office of the Governor or someone designated by the Office of the Governor. The Office of the Governor has fiscal oversight over the Beacon State Fund to ensure funds are expended properly and the public purpose is being accomplished. The Beacon State Fund increases public awareness through the distribution of information, media events and community outreach programs. The Beacon State Fund is reported for the year ended Dec. 31, 2011. Financial statements may be obtained by contacting the Commission at P.O. Box 12428, Austin, Texas 78711.

State Agency Council is a legally separate organization established to assist the Governor's Commission for Women (Commission) by honoring women who have made significant contributions to Texas through their work in state government. The board of directors is appointed by the director of the Commission. The director of the Commission is required to sign all contracts and has check signing privileges. Expenses exceeding \$500 require the Commission director's signature. Financial statements for the State Agency Council may

be obtained by contacting the Commission at P.O. Box 12428, Austin, Texas 78711.

Film Texas Fund is a legally separate nonprofit organization created to support, encourage and promote the development of the film, television and multimedia industry in Texas. The Film Texas Fund is closely related to the Office of the Governor Texas Film Commission (Commission). However, the Commission is not financially accountable for the Film Texas Fund and the Film Texas Fund supports its own mission in promoting the film industry in Texas. Due to the Film Texas Fund's close relationship with the Commission, omitting the Film Texas Fund would result in misleading financial statements. The Film Texas Fund is reported for the year ended Dec. 31, 2011. Financial statements for the Film Texas Fund may be obtained by contacting the Office of the Governor at P.O. Box 13246, Austin, Texas 78711.

Casa Verde Research Center, Sociedad Anonimo (Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. The board of Casa Verde is appointed by executive management of Texas A&M University. The executive management can also remove board members at will and modify the budget of Casa Verde. Casa Verde is reported for the year ended Sept. 30, 2011. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center) is a legally separate organization established in Mexico City, Mexico, to serve as a central point of contact for the support and promotion of Texas A&M University's international education, research and outreach activities. In addition, the

Mexico Center provides services outside of Texas A&M University, such as to Mexican government entities. The executive management of Texas A&M University appoints the voting majority of the board of the Mexico Center. It can also remove board members at will and approve and modify the Mexico Center's budget. The Mexico Center is reported for the year ended Dec. 31, 2011. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

National Biosecurity Foundation (Foundation) is a legally separate nonprofit corporation established to develop national, regional and local biosecurity countermeasures against unconventional weapons, including biological, chemical and radioactive weapons, and communicable diseases applicable to both military and civilian populations. The board consists of initially three directors, originally appointed by the deputy general counsel of the Texas A&M University System (A&M). Additional directors may be elected by a majority of the existing directors of the Foundation. A&M can modify or approve the budget of the Foundation, as well as veto, overrule or modify the decisions of the Foundation's board. The Foundation was dissolved at the end of fiscal 2012. Separate financial statements may be obtained by contacting Texas A&M University System, Office of Budgets and Accounting, 301 Tarrow, Suite 350, College Station, Texas 77840-7896.

Texas 4-H Inc. is a legally separate nonprofit organization established to prepare the youth of Texas to meet the challenges of childhood, adolescence and adulthood through a coordinated, long-term, progressive series of educational experiences that enhance life skills and develop social, emotional, physical and cognitive competencies. Texas 4-H Inc. serves as the central organization for the subordinate organizations and affiliate organizations that comprise the 4-H program in Texas. Texas A&M AgriLife Extension Service is

responsible for the Texas 4-H programs. Although the state of Texas is not financially accountable for Texas 4-H Inc., Texas 4-H Inc. is closely related to the Texas A&M System. Failure to include the financial information of Texas 4-H Inc. would result in misleading financial statements. Separate financial statements may be obtained by contacting Texas A&M University System, Office of Budgets and Accounting, 301 Tarrow, Suite 350, College Station, Texas 77840-7896.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

Life, Accident, Health and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts due to the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints the Association's nine-member board of directors.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

Texas Mutual Insurance Company (Texas Mutual) operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. The governor, with the advice and consent of the Senate, appoints five of the nine members of Texas Mutual's board of directors.

Midwestern State University Charitable Trust (Trust) is a nonprofit organization with the sole purpose

of educational and other activities of Midwestern State University. It is governed by a board of trustees of no less than three members. This board appoints individuals to fill vacancies on the board as they occur with the approval of the Midwestern State University board of regents, which is appointed by the governor. The Trust's board of trustees serves under the direction of the board of regents, which has the power by majority vote to appoint or remove any or all of the trustees.

Charter School Finance Corporation is a nonprofit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency.

Texas State University System Foundation Inc. (Foundation) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The Foundation provides funds for student scholarships and faculty awards and assists the chancellor in performing his/her duties. The board of directors is comprised of all members of the Texas State University System board of regents, which is appointed by the governor.

Texas Farm and Ranch Lands Conservation Council was established to advise and assist the commissioner of the General Land Office with the administration of the Texas Farm and Ranch Lands Conservation Program and to select applicants to receive grants under the program. The governor appoints the members of the council.

Operation Game Thief Committee was established to administer the operation game thief program. The program facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's natural or cultural resources and the public safety of persons using those natural or cultural

resources. The program also pays rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the members of the committee.

Parks and Wildlife Foundation (Foundation) is a legally separate nonprofit organization established to manage and conserve the natural and cultural resources of Texas. The Foundation provides private support to the Texas Parks and Wildlife Department (Department), but the Department is not financially accountable to the Foundation, nor is the Foundation fiscally dependent on the Department. The Foundation is governed by a group of trustees, the majority of whom are appointed by the chairman of the Department.

River Authorities are political subdivisions created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution for irrigation, power and all other useful purposes of storm waters, flood waters and the waters of rivers and streams; the reclamation and irrigation of arid, semiarid and other lands needing irrigation; the reclamation of drainage of overflowed lands and other lands needing drainage; the conservation and development of forests, water and hydro-electric power; the navigation of inland and coastal waters; and the preservation and conservation of all such natural resources of the state. The state of Texas appoints the voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority

- Red River Authority
- Sabine River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

NOTE 20

Deficit Fund Balances/Net Position

Proprietary Funds

The **Texas Prepaid Tuition Plans**, a nonmajor enterprise fund, reported a deficit of \$620.8 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and of actual and projected contributions from account holders and investment earnings on those contributions to the Texas Guaranteed Tuition Plan (Plan). The Plan was closed to new enrollment in 2003 when tuition was deregulated. Over the life of the Plan, actual tuition and required fees for Texas public four-year colleges and universities grew at a higher percentage rate than the Plan's investment return.

Discretely Presented Component Units

The Texas Low-Level Radioactive Waste Disposal Compact Commission, a discrete component unit, reported a deficit of \$116.4 thousand. The deficit is due to the fund having no assets or program revenues to offset the operating expenditures.

NOTE 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.1 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other court-ordered factors. A revenue accrual of \$312.5 million is based on the payments received in December 2012. Tobacco settlement revenues were \$474.7 million in fiscal 2011 and \$484 million in fiscal 2012. Cumulative actual tobacco settlement revenues as of fiscal 2012 were \$7.6 billion.

NOTE 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$2.1 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported can be found in the "Donor-Restricted Endowments" table. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms.

Nonexpendable funds are those required to be retained in perpetuity.

Donor-Restricted Endowments

(Amounts in Thousands)

| Donor-Restricted Endowments | Amount of Net Appreciation | Reported in Net Position |
|-----------------------------|----------------------------|--------------------------|
| True Endowments | \$ 2,034,786 | Expendable |
| Term Endowments | 35,340 | Expendable |
| | <u>\$ 2,070,126</u> | |

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

NOTE 23

Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state did not report special items in the current fiscal year. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

NOTE 24

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type in the following tables.

Taxes Receivable by Tax Type

August 31, 2012 (Amounts in Thousands)

| Tax Type | Taxes Receivable |
|---|---------------------|
| Sales and Use Tax | \$ 1,550,483 |
| Motor Vehicle and Manufactured Housing | 133,374 |
| Motor Fuels | 7,256 |
| Oil and Natural Gas Production | 633,027 |
| Franchise | 233,843 |
| Insurance Occupation | 200,287 |
| Cigarette and Tobacco | 19,736 |
| Other | 160,654 |
| Total Taxes Receivable* | <u>\$ 2,938,660</u> |
| Liquidity Characteristics: | |
| Current Taxes Receivable | \$ 2,802,208 |
| Noncurrent Taxes Receivable | 136,452 |
| Total Taxes Receivable | <u>\$ 2,938,660</u> |
| * Total Taxes Receivable General Fund | \$ 2,938,660 |
| Motor Fuel Taxes Receivable in Other Governmental Funds: | |
| State Highway Fund | 218,717 |
| Nonmajor Governmental Funds | 73,135 |
| Total Taxes Receivable – Balance Sheet – Governmental Funds | <u>\$ 3,230,512</u> |

Tax Refunds Payable by Tax Type

August 31, 2012 (Amounts in Thousands)

| Tax Type | Tax Refunds Payable |
|--------------------------------|---------------------|
| Franchise | \$ 453,256 |
| Oil and Natural Gas Production | 272,221 |
| Total Tax Refunds Payable | <u>\$ 725,477</u> |

Texas franchise tax receivables represent balances due at Aug. 31, 2012, for business activity that occurred in calendar year 2011. The franchise tax payments were due May 15, 2012; however, taxpayers were allowed to extend the filing date to November 2012.

Franchise taxes are considered earned when the underlying business activity occurs. There are no required

estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2012 is not due until May 2013. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

NOTE 25

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. COBRA members are allowed to remain in their eligible insurance program for 18 months, or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

As part of the American Recovery and Reinvestment Act (ARRA), employees involuntarily terminated between Sept. 1, 2008, and May 31, 2010, are eligible for a 65 percent subsidy of COBRA premiums for up to a 15 month period. The administrators of the COBRA premium assistance program recover the subsidy as a credit on their quarterly employment tax return.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2012, the

cost to the state was approximately \$31.8 million for 4,647 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Health Care Related Termination Benefits

There were no material non-health care related voluntary or involuntary termination benefits accepted in fiscal 2012.

NOTE 26

Segment Information

Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which required these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. Pursuant to the board exercising an option redemption provision, the entire \$21.8 million principal amount outstanding of the Veteran's Homes revenue bonds were redeemed on Aug. 1, 2012, resulting in a zero balance at fiscal year-end. Therefore, the condensed financial statements are not required or presented.



Section Two

(continued)

Required
Supplementary Information
Other Than MD&A

STATE OF TEXAS

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Budgetary Amounts | | Actual Amounts | Final |
|---|---------------------|---------------------|---------------------|--------------------|
| | Original | Final | Budgetary Basis | to Actual Variance |
| REVENUES | | | | |
| Taxes | \$ 35,987,443 | \$ 35,603,220 | \$ 38,400,547 | \$ 2,797,327 |
| Federal | 31,258,619 | 38,264,461 | 35,452,450 | (2,812,011) |
| Licenses, Fees and Permits | 2,439,391 | 2,608,937 | 2,775,037 | 166,100 |
| Interest and Other Investment Income | 253,890 | 121,841 | 535,425 | 413,584 |
| Land Income | 13,410 | 13,487 | 32,042 | 18,555 |
| Settlement of Claims | 462,475 | 532,639 | 586,770 | 54,131 |
| Sales of Goods and Services | 1,396,373 | 2,253,987 | 1,153,896 | (1,100,091) |
| Other | 3,027,848 | 3,213,744 | 3,815,972 | 602,228 |
| Total Revenues | <u>74,839,449</u> | <u>82,612,316</u> | <u>82,752,139</u> | <u>139,823</u> |
| EXPENDITURES | | | | |
| General Government | 5,151,737 | 4,183,962 | 2,825,903 | 1,358,059 |
| Education | 23,344,816 | 23,939,874 | 26,270,766 | (2,330,892) |
| Employee Benefits | 1,233,067 | 4,312 | 1,665 | 2,647 |
| Teacher Retirement Benefits | 1,822,440 | 1,822,440 | 1,640,592 | 181,848 |
| Health and Human Services | 33,620,295 | 38,832,770 | 43,639,682 | (4,806,912) |
| Public Safety and Corrections | 4,281,172 | 5,444,594 | 4,479,095 | 965,499 |
| Transportation | 178,619 | 180,218 | 31,269 | 148,949 |
| Natural Resources and Recreation | 1,366,919 | 1,642,190 | 1,547,667 | 94,523 |
| Regulatory Services | 282,295 | 349,930 | 343,454 | 6,476 |
| Total Expenditures | <u>71,281,360</u> | <u>76,400,290</u> | <u>80,780,093</u> | <u>(4,379,803)</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | <u>3,558,089</u> | <u>6,212,026</u> | <u>1,972,046</u> | <u>(4,239,980)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer In | 1,292,754 | 2,085,617 | 4,891,199 | 2,805,582 |
| Transfer Out | (6,683,857) | (7,337,860) | (5,779,918) | 1,557,942 |
| Sale of Capital Assets | 8,192 | 11,064 | 18,816 | 7,752 |
| Insurance Recoveries | 2,018 | 2,170 | 1,467 | (703) |
| Available Beginning Balances | 1,339,639 | 1,339,639 | 1,339,639 | |
| Total Other Financing Sources (Uses) | <u>(4,041,254)</u> | <u>(3,899,370)</u> | <u>471,203</u> | <u>4,370,573</u> |
| Excess (Deficiency) of Revenues and Other | | | | |
| Financing Sources Over (Under) Expenditures | | | | |
| and Other Financing Uses | <u>\$ (483,165)</u> | <u>\$ 2,312,656</u> | <u>\$ 2,443,249</u> | <u>\$ 130,593</u> |

STATE OF TEXAS

Budgetary Comparison Schedule

Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Budgetary Amounts | | Actual Amounts | Final |
|--|---------------------|---------------------|---------------------|--------------------|
| | Original | Final | Budgetary Basis | to Actual Variance |
| REVENUES | | | | |
| Taxes | \$ 41,800 | \$ 41,787 | \$ 2,160,780 | \$ 2,118,993 |
| Federal | 2,755,747 | 3,181,028 | 2,870,276 | (310,752) |
| Licenses, Fees and Permits | 1,281,670 | 1,267,476 | 1,277,341 | 9,865 |
| Interest and Other Investment Income | 42,899 | 42,899 | 39,678 | (3,221) |
| Land Income | 5,624 | 5,624 | 9,650 | 4,026 |
| Settlement of Claims | 1,000 | 1,969 | 24,429 | 22,460 |
| Sales of Goods and Services | 209,288 | 218,291 | 9,064 | (209,227) |
| Other | 3,741 | 4,290 | 1,834 | (2,456) |
| Total Revenues | <u>4,341,769</u> | <u>4,763,364</u> | <u>6,393,052</u> | <u>1,629,688</u> |
| EXPENDITURES | | | | |
| General Government | 21,058 | 24,090 | 17,169 | 6,921 |
| Employee Benefits | 67,593 | | | |
| Public Safety and Corrections | 579,129 | 711,959 | 647,566 | 64,393 |
| Transportation | 7,546,232 | 7,805,864 | 6,485,489 | 1,320,375 |
| Regulatory | 4,226 | 4,226 | 2,548 | 1,678 |
| Total Expenditures | <u>8,218,238</u> | <u>8,546,139</u> | <u>7,152,772</u> | <u>1,393,367</u> |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | <u>(3,876,469)</u> | <u>(3,782,775)</u> | <u>(759,720)</u> | <u>3,023,055</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer In | 2,274,370 | 2,271,223 | 433,409 | (1,837,814) |
| Transfer Out | | | (453,685) | (453,685) |
| Sale of Capital Assets | 4,521 | 4,521 | 12,318 | 7,797 |
| Insurance Recoveries | 12,846 | 12,847 | 159 | (12,688) |
| Available Beginning Balances | 4,150,822 | 4,150,822 | 4,150,822 | |
| Total Other Financing Sources (Uses) | <u>6,442,559</u> | <u>6,439,413</u> | <u>4,143,023</u> | <u>(2,296,390)</u> |
| Excess of Revenues and Other Financing Sources | | | | |
| Over Expenditures and Other Financing Uses | <u>\$ 2,566,090</u> | <u>\$ 2,656,638</u> | <u>\$ 3,383,303</u> | <u>\$ 726,665</u> |

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is presented below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2012 (Amounts in Thousands)

| | General Fund | State Highway Fund |
|--|--------------------|---------------------|
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis | \$2,443,249 | \$3,383,303 |
| Basis of Accounting Differences: | | |
| Receivables and Deferred Revenues | (690,818) | 463,845 |
| Payables | 1,553,579 | 82,358 |
| Perspective Differences: | | |
| Beginning Cash Balances Reported as Other Financing Sources | (1,339,639) | (4,150,822) |
| Other Revenues Not Budgeted | 175,192 | |
| Other Expenditures Not Budgeted | (151,777) | (63,845) |
| Entity Differences: | | |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities | <u>88</u> | <u>2,779</u> |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis | <u>\$1,989,874</u> | <u>\$ (282,382)</u> |

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are:

- **Basis of Accounting Differences:** Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

- **Perspective Differences:** Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.

The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

- **Entity Differences:** Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The \$2.3 billion variance in education was due to various prior year educational programs in that year's budget primarily being spent in this fiscal year. The \$4.8 billion variance in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates by agencies in this particular function.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitu-

tion, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary con-

trol is defined as the level at which the governing body must approve any over-expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 20 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2012, \$100,000 was transferred to the Texas Veteran's Commission to provide additional funds for staffing needs in processing veteran's claims for disability benefits. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

The state adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets and summarize the results

using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government

- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

Although bridges are an integral part of the highway system, the state elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system, 5 percent of the non-interstate system (national, state and farm-to-market roadways) and 20 percent of the Central Texas Turnpike System toll roads. For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component and each component are weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMAP assessments. The results of the condition assessments are presented below.

| Year | Interstate Condition (Minimum 80%) | Non-Interstate Condition (Minimum 75%) | Central Texas Turnpike System (Minimum 80%) |
|------|---------------------------------------|---|--|
| 2012 | 82.0% | 77.7% | 86.2% |
| 2011 | 83.0% | 78.5% | 89.9% |
| 2010 | 83.6% | 77.9% | 87.9% |
| 2009 | 81.4% | 76.5% | 90.5% |
| 2008 | 83.7% | 79.0% | 91.7% |

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

| Maintenance Cost (Amounts in Thousands) | | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|--|--------------|--------------|--------------|--------------|--------------|
| INTERSTATE HIGHWAYS | | | | | | |
| Estimate | | \$ 191,442 | \$ 604,837 | \$ 568,456 | \$ 534,263 | \$ 502,128 |
| Actual | | \$ 346,326 | \$ 361,825 | \$ 333,253 | \$ 326,305 | \$ 438,237 |
| OTHER HIGHWAYS | | | | | | |
| Estimate | | \$ 2,224,822 | \$ 3,282,946 | \$ 3,005,713 | \$ 2,687,869 | \$ 2,455,243 |
| Actual | | \$ 1,594,432 | \$ 1,517,604 | \$ 1,423,734 | \$ 1,519,110 | \$ 1,649,317 |
| CENTRAL TEXAS TURNPIKE SYSTEM | | | | | | |
| Estimate | | \$ 10,050 | \$ 11,578 | \$ 11,371 | \$ 9,179 | \$ 6,910 |
| Actual | | \$ 10,628 | \$ 11,439 | \$ 6,972 | \$ 7,262 | \$ 5,411 |

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting pro-

cesses, TxDOT intends to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) are considered as they may have a major impact on needed funds and the condition of Texas roads.

Other Condition Assessments

A separate annual inspection is performed on the Central Texas Turnpike System in accordance with Section 707 of the Indenture Trust. Those inspections are

performed by the general engineering consultant (GEC) of the Central Texas Turnpike System. The fiscal 2012 inspection noted that overall the Central Texas Turnpike System was in excellent condition, achieving an overall score of 95 percent. While the GEC inspection uses the same general criteria as TxMAP, both parties have different areas of focus, timing and methodology that may contribute to a difference in scores. The evaluation covers all 65 miles of the system rather than a 20 percent random sample.

Schedules of Funding Progress

The schedules of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

| Schedules of Funding Progress – OPEB* | | | | | | |
|---|--------------------------------------|--|-------------------------------|-----------------------------|----------------------------|--|
| (Amounts in Thousands) | | | | | | |
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
| UT System Employee Group Insurance Program (UT Plan) | | | | | | |
| 12/31/10 | \$ 0 | \$ 5,956,798 | \$ 5,956,798 | 0.0% | \$ 5,309,413 | 112.2% |
| 12/31/09 | 0 | 5,676,868 | 5,676,868 | 0.0% | 5,026,491 | 112.9% |
| 12/31/08 | 0 | 5,102,765 | 5,102,765 | 0.0% | 4,820,568 | 105.9% |
| A&M Care Health and Life Plan (A&M Plan) | | | | | | |
| 09/01/10 | \$ 0 | \$ 1,854,690 | \$ 1,854,690 | 0.0% | \$ 1,313,538 | 141.2% |
| 09/01/09 | 0 | 1,864,320 | 1,864,320 | 0.0% | 1,315,292 | 141.7% |
| 09/01/08 | 0 | 1,258,563 | 1,258,563 | 0.0% | 1,260,683 | 99.8% |

* Addresses for obtaining the financial reports of the OPEB plans are provided in Note 11.

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented below.

| Schedules of Funding Progress – Pension* | | | | | | |
|--|--------------------------------------|--|-------------------------------|-----------------------------|----------------------------|--|
| (Amounts in Thousands) | | | | | | |
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
| Employees Retirement System of Texas (ERS) | | | | | | |
| 08/31/12 | \$ 24,272,514 | \$ 29,377,069 | \$ 5,104,555 | 82.6% | \$ 5,676,509 | 89.9% |
| 08/31/11 | 23,997,445 | 28,398,213 | 4,400,768 | 84.5% | 5,795,185 | 75.9% |
| 08/31/10 | 23,628,567 | 27,668,876 | 4,040,309 | 85.4% | 5,930,141 | 68.1% |
| Law Enforcement and Custodial Officer Supplemental Retirement (LECOS) | | | | | | |
| 08/31/12 | \$ 832,451 | \$ 1,015,668 | \$ 183,217 | 82.0% | \$ 1,498,979 | 12.2% |
| 08/31/11 | 830,522 | 960,953 | 130,431 | 86.4% | 1,475,432 | 8.8% |
| 08/31/10 | 802,897 | 930,747 | 127,850 | 86.3% | 1,507,950 | 8.5% |
| Judicial Retirement System Plan One (JRS1) | | | | | | |
| 08/31/12 | \$ 0 | \$ 232,922 | \$ 232,922 | 0.0% | \$ 2,200 | 10,587.4% |
| 08/31/11 | 0 | 245,777 | 245,777 | 0.0% | 2,200 | 11,171.7% |
| 08/31/10 | 0 | 264,077 | 264,077 | 0.0% | 2,827 | 9,341.2% |
| Judicial Retirement System Plan Two (JRS2) | | | | | | |
| 08/31/12 | \$ 300,433 | \$ 315,199 | \$ 14,766 | 95.3% | \$ 68,778 | 21.5% |
| 08/31/11 | 283,936 | 300,163 | 16,227 | 94.6% | 69,655 | 23.3% |
| 08/31/10 | 264,515 | 281,760 | 17,245 | 93.9% | 68,755 | 25.1% |
| Teacher Retirement System of Texas (TRS) | | | | | | |
| 08/31/12 | \$ 118,326,042 | \$ 144,427,226 | \$ 26,101,184 | 81.9% | \$ 35,444,569 | 73.6% |
| 08/31/11 | 115,252,828 | 139,315,090 | 24,062,262 | 82.7% | 36,797,011 | 65.4% |
| 08/31/10 | 111,292,528 | 134,191,110 | 22,898,582 | 82.9% | 36,628,844 | 62.5% |

* Addresses for obtaining the financial reports for the pension plans are provided in Note 9.

Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following plans varied significantly from the previous year to the current year due to changes in actuarial assumptions or benefit provisions. Significant changes are summarized below and the effects of those changes are incorporated into the 2012 valuations.

Pension Plans

The salary increase assumptions were modified since the prior valuations of the ERS, LECOS, JRS1 and JRS2 pension plans to reflect no across-the-board salary increases.

There were no changes to actuarial assumptions and methods for TRS since the prior valuation.

OPEB Plans

The University of Texas System (UT) and the Texas A&M University System (A&M) opted to perform actuarial valuations of their respective OPEB plans on a biennial basis rather than on an annual basis starting with fiscal 2012. While a true actuarial valuation was not performed for either plan, the results of the prior actuarial valuations were rolled forward using standard actuarial techniques to obtain the current year OPEB plan obligations.



Section Two

(continued)

Other
Supplementary Information
Combining Financial
Statements and Schedules



Section Two
(continued)

Governmental Funds

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2012 (Amounts in Thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Funds |
|--|-----------------------------|--------------------------|------------------------------|--------------------|----------------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,221,870 | \$ 1,287,006 | \$ 691,533 | \$ 27,997 | \$ 3,228,406 |
| Short-Term Investments | 17,266 | 93,009 | | 6,807 | 117,082 |
| Receivables: | | | | | |
| Accounts | 64 | 888 | 2,145 | 41 | 3,138 |
| Taxes | 73,135 | | | | 73,135 |
| Federal | 1,055 | 20,973 | | | 22,028 |
| Investment Trades | | | | 5,571 | 5,571 |
| Interest and Dividends | 12,271 | 212 | | 28 | 12,511 |
| Due From Other Funds | 68,392 | | 4,280 | 778 | 73,450 |
| Interfund Receivable | | | 457 | | 457 |
| Inventories | 154 | | 3 | | 157 |
| Prepaid Items | 5 | | | | 5 |
| Investments | 14 | 7,788 | | 729,947 | 737,749 |
| Loans and Contracts | 1,031,177 | | | | 1,031,177 |
| Other Assets | 88 | | | | 88 |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 4,725 | | | | 4,725 |
| Loans and Contracts | 789,064 | | | | 789,064 |
| Other Assets | 88,001 | | | | 88,001 |
| Total Assets | \$ 3,307,281 | \$ 1,409,876 | \$ 698,418 | \$ 771,169 | \$ 6,186,744 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | \$ 19,366 | \$ 46 | \$ 63,723 | \$ 1,541 | \$ 84,676 |
| Investment Trades | | | | 633 | 633 |
| Payroll | 4,155 | | 83 | | 4,238 |
| Due To Other Funds | 899 | 19,555 | 31,764 | 15,756 | 67,974 |
| Interfund Payable | 2,840 | | 98 | | 2,938 |
| Deferred Revenues | 4,772 | 400 | 359,733 | | 364,905 |
| Other Liabilities | 381 | | 1,092 | | 1,473 |
| Total Liabilities | 32,413 | 20,001 | 456,493 | 17,930 | 526,837 |
| Fund Balances: | | | | | |
| Nonspendable | 159 | | 3 | 745,211 | 745,373 |
| Restricted | 2,469,125 | 1,389,875 | 241,922 | 352 | 4,101,274 |
| Committed | 803,376 | | | 7,676 | 811,052 |
| Assigned | 2,208 | | | | 2,208 |
| Total Fund Balances | 3,274,868 | 1,389,875 | 241,925 | 753,239 | 5,659,907 |
| Total Liabilities and Fund Balances | \$ 3,307,281 | \$ 1,409,876 | \$ 698,418 | \$ 771,169 | \$ 6,186,744 |

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Funds |
|---|-----------------------------|--------------------------|------------------------------|--------------------|----------------------------|
| REVENUES | | | | | |
| Taxes | \$ 3,477,300 | \$ | \$ | \$ | \$ 3,477,300 |
| Federal | 4,341 | 54,012 | | | 58,353 |
| Licenses, Fees and Permits | 381,000 | 372,942 | | | 753,942 |
| Interest and Other Investment Income | 83,627 | 9,034 | 4,427 | 21,293 | 118,381 |
| Land Income | 4 | | | 11 | 15 |
| Sales of Goods and Services | 2,458 | | 184,102 | | 186,560 |
| Other | 39,845 | | 4 | 15,756 | 55,605 |
| Total Revenues | <u>3,988,575</u> | <u>435,988</u> | <u>188,533</u> | <u>37,060</u> | <u>4,650,156</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General Government | 233,263 | 1,258 | 27,421 | 2,798 | 264,740 |
| Education | 1,133,815 | | 2,448 | 2,905 | 1,139,168 |
| Employee Benefits | 11,873 | | | | 11,873 |
| Health and Human Services | 1,038 | | 1,242 | 990 | 3,270 |
| Public Safety and Corrections | 58,672 | | 22,357 | | 81,029 |
| Transportation | 2,025 | 2,748 | | | 4,773 |
| Natural Resources and Recreation | 52,443 | | 6,783 | 288 | 59,514 |
| Regulatory Services | 67,074 | | | | 67,074 |
| Capital Outlay | 2,632 | | 650,621 | | 653,253 |
| Debt Service: | | | | | |
| Principal | | 496,420 | | | 496,420 |
| Interest | 159 | 681,527 | | | 681,686 |
| Other Financing Fees | 1,096 | 908 | | | 2,004 |
| Total Expenditures | <u>1,564,090</u> | <u>1,182,861</u> | <u>710,872</u> | <u>6,981</u> | <u>3,464,804</u> |
| Excess (Deficiency) of Revenues | | | | | |
| Over (Under) Expenditures | <u>2,424,485</u> | <u>(746,873)</u> | <u>(522,339)</u> | <u>30,079</u> | <u>1,185,352</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfer In | 1,109,382 | 842,669 | 1,254 | | 1,953,305 |
| Transfer Out | (3,546,416) | (246,410) | (183,263) | (18,393) | (3,994,482) |
| Bonds and Notes Issued | 149,291 | 11,891 | 77,435 | | 238,617 |
| Bonds Issued for Refunding | | 37,940 | | | 37,940 |
| Premiums on Bonds Issued | 14,381 | | | | 14,381 |
| Payment to Escrow for Refunding | | (62,086) | | | (62,086) |
| Total Other Financing Sources (Uses) | <u>(2,273,362)</u> | <u>584,004</u> | <u>(104,574)</u> | <u>(18,393)</u> | <u>(1,812,325)</u> |
| Net Change in Fund Balances | <u>151,123</u> | <u>(162,869)</u> | <u>(626,913)</u> | <u>11,686</u> | <u>(626,973)</u> |
| Fund Balances, September 1, 2011 | 4,002,160 | 1,554,996 | 868,892 | 757,309 | 7,183,357 |
| Restatements | (878,415) | (2,252) | (54) | (15,756) | (896,477) |
| Fund Balances, September 1, 2011, as Restated | <u>3,123,745</u> | <u>1,552,744</u> | <u>868,838</u> | <u>741,553</u> | <u>6,286,880</u> |
| Fund Balances, August 31, 2012 | <u>\$ 3,274,868</u> | <u>\$ 1,389,875</u> | <u>\$ 241,925</u> | <u>\$ 753,239</u> | <u>\$ 5,659,907</u> |

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increases and calculated amounts from franchise taxes. The fund was established with the intent of reducing school district property taxes.

The **Texas Transportation Corporations** issue bonds and notes – currently only conduit debt – to finance the cost of projects. The corporations act on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements entered into by TxDOT.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2012 (Amounts in Thousands)

| | Property Tax Relief Fund | Texas Transportation Corporations | Water Development Funds | System Benefit Fund | Available School Fund | Other Nonmajor Special Revenue Funds* | Totals |
|--------------------------------------|--------------------------------|---|-------------------------------|---------------------------|-----------------------------|---|---------------------|
| ASSETS | | | | | | | |
| Cash and Cash Equivalents | \$ | \$ 101 | \$ 79,385 | \$766,658 | \$ 88,590 | \$ 287,136 | \$ 1,221,870 |
| Short-Term Investments | | | 17,257 | | | 9 | 17,266 |
| Receivables: | | | | | | | |
| Accounts | | | 39 | | | 25 | 64 |
| Taxes | | | | | 73,135 | | 73,135 |
| Federal | | | | | | 1,055 | 1,055 |
| Interest and Dividends | 18 | | 3,022 | | 34 | 9,197 | 12,271 |
| Due From Other Funds | | 533 | | | 65,866 | 1,993 | 68,392 |
| Inventories | | | | | | 154 | 154 |
| Prepaid Items | | | | | | 5 | 5 |
| Investments | | | | | | 14 | 14 |
| Loans and Contracts | | | 1,024,809 | | | 6,368 | 1,031,177 |
| Other Assets | | 4 | | | | 84 | 88 |
| Restricted: | | | | | | | |
| Cash and Cash Equivalents | | | | | | 4,725 | 4,725 |
| Loans and Contracts | | | | | | 789,064 | 789,064 |
| Other Assets | | | | | | 88,001 | 88,001 |
| Total Assets | <u>\$ 18</u> | <u>\$ 638</u> | <u>\$ 1,124,512</u> | <u>\$766,658</u> | <u>\$227,625</u> | <u>\$1,187,830</u> | <u>\$ 3,307,281</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Payables: | | | | | | | |
| Accounts | \$ | \$ 467 | \$ 762 | \$ 12,970 | \$ | \$ 5,167 | \$ 19,366 |
| Payroll | | | | | | 4,155 | 4,155 |
| Due To Other Funds | | | 662 | | | 237 | 899 |
| Interfund Payable | | | 2,840 | | | | 2,840 |
| Deferred Revenues | | | | | 4,350 | 422 | 4,772 |
| Other Liabilities | | | | | | 381 | 381 |
| Total Liabilities | <u>0</u> | <u>467</u> | <u>4,264</u> | <u>12,970</u> | <u>4,350</u> | <u>10,362</u> | <u>32,413</u> |
| Fund Balances: | | | | | | | |
| Nonspendable | | | | | | 159 | 159 |
| Restricted | | | 1,120,062 | | 223,275 | 1,125,788 | 2,469,125 |
| Committed | 18 | | 186 | 753,688 | | 49,484 | 803,376 |
| Assigned | | 171 | | | | 2,037 | 2,208 |
| Total Fund Balances | <u>18</u> | <u>171</u> | <u>1,120,248</u> | <u>753,688</u> | <u>223,275</u> | <u>1,177,468</u> | <u>3,274,868</u> |
| Total Liabilities and Fund Balances | <u>\$ 18</u> | <u>\$ 638</u> | <u>\$ 1,124,512</u> | <u>\$766,658</u> | <u>\$227,625</u> | <u>\$1,187,830</u> | <u>\$ 3,307,281</u> |

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Property Tax Relief Fund | Texas Transportation Corporations | Water Development Funds | System Benefit Fund | Available School Fund | Other Nonmajor Special Revenue Funds* | Totals |
|--|--------------------------------|---|-------------------------------|---------------------------|-----------------------------|---|---------------------|
| REVENUES | | | | | | | |
| Taxes | \$ 2,699,969 | \$ | \$ | \$ | \$ 777,331 | \$ | \$ 3,477,300 |
| Federal | | | 76 | | | 4,265 | 4,341 |
| Licenses, Fees and Permits | | | | 149,085 | | 231,915 | 381,000 |
| Interest and Other Investment Income | 944 | | 26,839 | 4,174 | 635 | 51,035 | 83,627 |
| Land Income | | | | | | 4 | 4 |
| Sales of Goods and Services | | | 294 | | | 2,164 | 2,458 |
| Other | | 1,591 | 1,995 | | | 36,259 | 39,845 |
| Total Revenues | <u>2,700,913</u> | <u>1,591</u> | <u>29,204</u> | <u>153,259</u> | <u>777,966</u> | <u>325,642</u> | <u>3,988,575</u> |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General Government | | | | | | 233,263 | 233,263 |
| Education | | | | | 1,117,555 | 16,260 | 1,133,815 |
| Employee Benefits | | | | | | 11,873 | 11,873 |
| Health and Human Services | | | | | | 1,038 | 1,038 |
| Public Safety and Corrections | | | | | | 58,672 | 58,672 |
| Transportation | | 2,025 | | | | | 2,025 |
| Natural Resources and Recreation | | | 49,401 | | | 3,042 | 52,443 |
| Regulatory Services | | | | 67,074 | | | 67,074 |
| Capital Outlay | | | | | | 2,632 | 2,632 |
| Debt Service: | | | | | | | |
| Interest | | | 159 | | | | 159 |
| Other Financing Fees | | | | | | 1,096 | 1,096 |
| Total Expenditures | <u>0</u> | <u>2,025</u> | <u>49,560</u> | <u>67,074</u> | <u>1,117,555</u> | <u>327,876</u> | <u>1,564,090</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>2,700,913</u> | <u>(434)</u> | <u>(20,356)</u> | <u>86,185</u> | <u>(339,589)</u> | <u>(2,234)</u> | <u>2,424,485</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfer In | | | 540 | | 1,020,887 | 87,955 | 1,109,382 |
| Transfer Out | (2,700,937) | | (74,811) | | (598,976) | (171,692) | (3,546,416) |
| Bonds and Notes Issued | | | 63,676 | | | 85,615 | 149,291 |
| Premiums on Bonds Issued | | | | | | 14,381 | 14,381 |
| Total Other Financing Sources (Uses) | <u>(2,700,937)</u> | <u>0</u> | <u>(10,595)</u> | <u>0</u> | <u>421,911</u> | <u>16,259</u> | <u>(2,273,362)</u> |
| Net Change in Fund Balances | <u>(24)</u> | <u>(434)</u> | <u>(30,951)</u> | <u>86,185</u> | <u>82,322</u> | <u>14,025</u> | <u>151,123</u> |
| Fund Balances, September 1, 2011 | 42 | 910,614 | 1,151,199 | 667,503 | 74,332 | 1,198,470 | 4,002,160 |
| Restatements | | (910,009) | | | 66,621 | (35,027) | (878,415) |
| Fund Balances, September 1, 2011, as Restated | <u>42</u> | <u>605</u> | <u>1,151,199</u> | <u>667,503</u> | <u>140,953</u> | <u>1,163,443</u> | <u>3,123,745</u> |
| Fund Balances, August 31, 2012 | <u>\$ 18</u> | <u>\$ 171</u> | <u>\$ 1,120,248</u> | <u>\$ 753,688</u> | <u>\$ 223,275</u> | <u>\$ 1,177,468</u> | <u>\$ 3,274,868</u> |

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

Budgetary Comparison Schedule Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Property Tax Relief Fund | | | | Water Development Funds * | | | |
|---|--------------------------|--------------------|--------------------|--------------------|---------------------------|------------------|--------------------|---------------------|
| | Budgetary Amounts | | Actual Amounts | Final To Actual | Budgetary Amounts | | Actual Amounts | Final To Actual |
| | Original | Final | Budgetary Basis | Variance | Original | Final | Basis | Variance |
| | | | | | | | | |
| REVENUES | | | | | | | | |
| Taxes | \$2,190,124 | \$2,132,930 | \$2,699,969 | \$ 567,039 | \$ | \$ | \$ | \$ |
| Federal | | | | | 10,060 | 10,060 | 76 | (9,984) |
| Licenses, Fees and Permits | | | | | | | | |
| Interest and Other Investment Income | 8,870 | 693 | 968 | 275 | 23,528 | 23,528 | 26,582 | 3,054 |
| Sales of Goods and Services | | | | | 300 | 300 | 425 | 125 |
| Other | | | | | 3,000 | 3,000 | 1,996 | (1,004) |
| Total Revenues | <u>2,198,994</u> | <u>2,133,623</u> | <u>2,700,937</u> | <u>567,314</u> | <u>36,888</u> | <u>36,888</u> | <u>29,079</u> | <u>(7,809)</u> |
| EXPENDITURES | | | | | | | | |
| General Government | | | | | | | | |
| Education | 2,198,994 | 2,198,994 | | 2,198,994 | | | | |
| Employee Benefits | | | | | | | | |
| Health and Human Services | | | | | | | | |
| Public Safety and Corrections | | | | | | | | |
| Transportation | | | | | | | | |
| Natural Resources and Recreation | | | | | 7,719 | 10,312 | 46,900 | (36,588) |
| Regulatory Services | | | | | | | | |
| Total Expenditures | <u>2,198,994</u> | <u>2,198,994</u> | <u>0</u> | <u>2,198,994</u> | <u>7,719</u> | <u>10,312</u> | <u>46,900</u> | <u>(36,588)</u> |
| Excess (Deficiency) of Revenues | | | | | | | | |
| Over (Under) Expenditures | <u>0</u> | <u>(65,371)</u> | <u>2,700,937</u> | <u>2,766,308</u> | <u>29,169</u> | <u>26,576</u> | <u>(17,821)</u> | <u>(44,397)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfer In | | | | | | | 539 | 539 |
| Transfer Out | | | (2,700,937) | (2,700,937) | | | (74,811) | (74,811) |
| Available Beginning Balances | | | | | 69,216 | 69,216 | 69,216 | |
| Total Other Financing Sources (Uses) | <u>0</u> | <u>0</u> | <u>(2,700,937)</u> | <u>(2,700,937)</u> | <u>69,216</u> | <u>69,216</u> | <u>(5,056)</u> | <u>(74,272)</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) | | | | | | | | |
| Expenditures and Other Financing Uses | <u>\$ 0</u> | <u>\$ (65,371)</u> | <u>\$ 0</u> | <u>\$ 65,371</u> | <u>\$ 98,385</u> | <u>\$ 95,792</u> | <u>\$ (22,877)</u> | <u>\$ (118,669)</u> |

* The Water Development Funds received bond proceeds of \$63.7 million not included on this schedule.

** The activity of the Texas transportation corporations, now discretely presented, is not shown on this schedule because there is no legally adopted budget.

| System Benefit Fund | | | | Available School Fund | | | | Other Nonmajor Special Revenue Funds** | | | |
|---------------------|------------------|--------------------------------|--------------------------|-----------------------|--------------------|--------------------------------|--------------------------|--|------------------|--------------------------------|--------------------------|
| Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance | Budgetary Amounts | | Actual Amounts Budgetary Basis | Final To Actual Variance |
| Original | Final | | | Original | Final | | | Original | Final | | |
| \$ | \$ | \$ | \$ | \$ | \$ | \$ 708,547 | \$ 708,547 | \$ | \$ | \$ | \$ |
| | | | | | | | | 372,754 | 263,099 | 3,542 | (259,557) |
| 144,262 | 144,262 | 149,085 | 4,823 | | | | | 88,470 | 88,470 | 95,335 | 6,865 |
| 9,596 | 9,596 | 4,174 | (5,422) | 1,380 | 908 | 640 | (268) | 704 | 704 | 18,184 | 17,480 |
| | | | | | | | | | | 2,442 | 2,442 |
| | | | | | | | | 20 | 20 | 132 | 112 |
| <u>153,858</u> | <u>153,858</u> | <u>153,259</u> | <u>(599)</u> | <u>1,380</u> | <u>908</u> | <u>709,187</u> | <u>708,279</u> | <u>461,948</u> | <u>352,293</u> | <u>119,635</u> | <u>(232,658)</u> |
| | | | | | | | | 428,496 | 157,901 | 110,101 | 47,800 |
| | | | | 1,099,949 | 1,099,949 | 1,117,555 | (17,606) | | | 7,039 | (7,039) |
| | | | | | | | | 589,706 | 15,756 | 11,765 | 3,991 |
| | | | | | | | | 19,994 | 19,996 | | 19,996 |
| | | | | | | | | 5,000 | 5,000 | 540 | 4,460 |
| | | | | | | | | | 3 | | 3 |
| | | | | | | | | 4,958 | 5,336 | 5,711 | (375) |
| <u>81,235</u> | <u>84,097</u> | <u>69,724</u> | <u>14,373</u> | | | | | | | | |
| <u>81,235</u> | <u>84,097</u> | <u>69,724</u> | <u>14,373</u> | <u>1,099,949</u> | <u>1,099,949</u> | <u>1,117,555</u> | <u>(17,606)</u> | <u>1,048,154</u> | <u>203,992</u> | <u>135,156</u> | <u>68,836</u> |
| | | | | | | | | | | | |
| <u>72,623</u> | <u>69,761</u> | <u>83,535</u> | <u>13,774</u> | <u>(1,098,569)</u> | <u>(1,099,041)</u> | <u>(408,368)</u> | <u>690,673</u> | <u>(586,206)</u> | <u>148,301</u> | <u>(15,521)</u> | <u>(163,822)</u> |
| | | | | | | | | | | | |
| | | | | 1,549,455 | 1,778,392 | 1,020,887 | (757,505) | | | 29,506 | 29,506 |
| | | | | | (608,069) | (598,976) | 9,093 | | | (38,222) | (38,222) |
| <u>683,123</u> | <u>683,123</u> | <u>683,123</u> | | <u>10,857</u> | <u>10,857</u> | <u>10,857</u> | | <u>122,758</u> | <u>122,758</u> | <u>122,758</u> | |
| <u>683,123</u> | <u>683,123</u> | <u>683,123</u> | <u>0</u> | <u>1,560,312</u> | <u>1,181,180</u> | <u>432,768</u> | <u>(748,412)</u> | <u>122,758</u> | <u>122,758</u> | <u>114,042</u> | <u>(8,716)</u> |
| | | | | | | | | | | | |
| <u>\$755,746</u> | <u>\$752,884</u> | <u>\$766,658</u> | <u>\$13,774</u> | <u>\$ 461,743</u> | <u>\$ 82,139</u> | <u>\$ 24,400</u> | <u>\$ (57,739)</u> | <u>\$(463,448)</u> | <u>\$271,059</u> | <u>\$98,521</u> | <u>\$(172,538)</u> |

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas opportunity plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Department of Transportation Texas Mobility Fund** receives proceeds from the sale of general obligation bonds and the revenues dictated by statute to provide for the debt service requirements of those bonds. The bond proceeds provide a method of financing for the construction, reconstruction, acquisition and expansion of state highway projects. The proceeds remain in the fund until transferred to the state highway fund.

The **Texas Public Finance Authority G.O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on the sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2012 (Amounts in Thousands)

| | Texas College Student Loan Bonds Interest and Sinking Fund | Texas Department of Transportation Texas Mobility Fund | Texas Public Finance Authority G.O. Bond Funds | Texas Public Finance Authority Commercial Paper Funds | Texas Department of Transportation State Highway Debt Service Fund | Other Nonmajor Debt Service Funds | Totals |
|--------------------------------------|--|--|--|--|---|---|---------------------|
| ASSETS | | | | | | | |
| Cash and Cash Equivalents | \$ 17,804 | \$ 1,118,551 | \$ 45 | \$ 5,120 | \$ 145,466 | \$ 20 | \$ 1,287,006 |
| Short-Term Investments | 93,009 | | | | | | 93,009 |
| Receivables: | | | | | | | |
| Accounts | 355 | 533 | | | | | 888 |
| Federal | | 9,710 | | | 11,263 | | 20,973 |
| Interest and Dividends | 212 | | | | | | 212 |
| Investments | 7,788 | | | | | | 7,788 |
| Total Assets | <u>\$ 119,168</u> | <u>\$ 1,128,794</u> | <u>\$ 45</u> | <u>\$ 5,120</u> | <u>\$ 156,729</u> | <u>\$ 20</u> | <u>\$ 1,409,876</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Payables: | | | | | | | |
| Accounts | \$ 19 | \$ 12 | \$ 15 | \$ | \$ | \$ | \$ 46 |
| Due To Other Funds | | 19,555 | | | | | 19,555 |
| Deferred Revenues | | 400 | | | | | 400 |
| Total Liabilities | <u>19</u> | <u>19,967</u> | <u>15</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>20,001</u> |
| Fund Balances: | | | | | | | |
| Restricted | 119,149 | 1,108,827 | 30 | 5,120 | 156,729 | 20 | 1,389,875 |
| Total Fund Balances | <u>119,149</u> | <u>1,108,827</u> | <u>30</u> | <u>5,120</u> | <u>156,729</u> | <u>20</u> | <u>1,389,875</u> |
| Total Liabilities and Fund Balances | <u>\$ 119,168</u> | <u>\$ 1,128,794</u> | <u>\$ 45</u> | <u>\$ 5,120</u> | <u>\$ 156,729</u> | <u>\$ 20</u> | <u>\$ 1,409,876</u> |

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Texas College Student Loan Bonds Interest and Sinking Fund | Texas Department of Transportation Texas Mobility Fund | Texas Public Finance Authority G.O. Bond Funds | Texas Public Finance Authority Commercial Paper Funds | Texas Department of Transportation State Highway Debt Service Fund | Other Nonmajor Debt Service Funds | Totals |
|--|--|--|--|--|---|---|---------------------|
| REVENUES | | | | | | | |
| Federal | \$ 20 | \$ 23,304 | \$ 3,659 | \$ | \$ 27,029 | \$ | \$ 54,012 |
| Licenses, Fees and Permits | | 372,942 | | | | | 372,942 |
| Interest and Other Investment Income | 1,033 | 7,131 | 26 | 35 | 787 | 22 | 9,034 |
| Total Revenues | <u>1,053</u> | <u>403,377</u> | <u>3,685</u> | <u>35</u> | <u>27,816</u> | <u>22</u> | <u>435,988</u> |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General Government | | | 1,021 | 237 | | | 1,258 |
| Transportation | | 2,748 | | | | | 2,748 |
| Debt Service: | | | | | | | |
| Principal | 59,430 | 46,770 | 160,115 | 13,820 | 114,510 | 101,775 | 496,420 |
| Interest | 31,724 | 284,760 | 89,683 | 164 | 200,386 | 74,810 | 681,527 |
| Other Financing Fees | | 514 | | | | 394 | 908 |
| Total Expenditures | <u>91,154</u> | <u>334,792</u> | <u>250,819</u> | <u>14,221</u> | <u>314,896</u> | <u>176,979</u> | <u>1,182,861</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(90,101)</u> | <u>68,585</u> | <u>(247,134)</u> | <u>(14,186)</u> | <u>(287,080)</u> | <u>(176,957)</u> | <u>(746,873)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfer In | 104,135 | | 237,683 | 14,629 | 287,582 | 198,640 | 842,669 |
| Transfer Out | (6,000) | (239,981) | (1) | (426) | | (2) | (246,410) |
| Bonds and Notes Issued | | | 9,423 | | | 2,468 | 11,891 |
| Bonds Issued for Refunding | | | | | | 37,940 | 37,940 |
| Payment to Escrow for Refunding | | | | | | (62,086) | (62,086) |
| Total Other Financing Sources (Uses) | <u>98,135</u> | <u>(239,981)</u> | <u>247,105</u> | <u>14,203</u> | <u>287,582</u> | <u>176,960</u> | <u>584,004</u> |
| Net Change in Fund Balances | <u>8,034</u> | <u>(171,396)</u> | <u>(29)</u> | <u>17</u> | <u>502</u> | <u>3</u> | <u>(162,869)</u> |
| Fund Balances, September 1, 2011 | 111,115 | 1,280,223 | 59 | 5,103 | 158,479 | 17 | 1,554,996 |
| Restatements | | | | | (2,252) | | (2,252) |
| Fund Balances, September 1, 2011, as Restated | <u>111,115</u> | <u>1,280,223</u> | <u>59</u> | <u>5,103</u> | <u>156,227</u> | <u>17</u> | <u>1,552,744</u> |
| Fund Balances, August 31, 2012 | <u>\$ 119,149</u> | <u>\$ 1,108,827</u> | <u>\$ 30</u> | <u>\$ 5,120</u> | <u>\$ 156,729</u> | <u>\$ 20</u> | <u>\$ 1,389,875</u> |

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission buildings and facilities.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new Department of Public Safety buildings and crime lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used for public road and highway development, construction and improvement projects. The funds are also used to establish, acquire, operate, maintain and dispose of airports and air navigation facilities.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of courthouses.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2012 (Amounts in Thousands)

| | Texas Public Finance Authority Administration Project Funds | Texas Parks and Wildlife Department Project Funds | Texas Facilities Commission Project Funds | Texas Department of Criminal Justice Prison Project Funds | Texas Youth Commission Project Funds |
|--------------------------------------|---|--|--|---|--|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,800 | \$ 13,899 | \$ 36,928 | \$ 14,733 | \$ 7,893 |
| Accounts Receivable | | | 2,145 | | |
| Due From Other Funds | | | 3,435 | | 845 |
| Interfund Receivable | | | | | |
| Inventories | 3 | | | | |
| Total Assets | <u>\$ 1,803</u> | <u>\$ 13,899</u> | <u>\$ 42,508</u> | <u>\$ 14,733</u> | <u>\$ 8,738</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | \$ 58 | \$ 637 | \$ 1,173 | \$ 1,072 | \$ 243 |
| Payroll | 83 | | | | |
| Due To Other Funds | | | | | |
| Interfund Payable | 20 | 78 | | | |
| Deferred Revenues | | | | | |
| Other Liabilities | | | 466 | 626 | |
| Total Liabilities | <u>161</u> | <u>715</u> | <u>1,639</u> | <u>1,698</u> | <u>243</u> |
| Fund Balances: | | | | | |
| Nonspendable | 3 | | | | |
| Restricted | 1,639 | 13,184 | 40,869 | 13,035 | 8,495 |
| Total Fund Balances | <u>1,642</u> | <u>13,184</u> | <u>40,869</u> | <u>13,035</u> | <u>8,495</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,803</u> | <u>\$ 13,899</u> | <u>\$ 42,508</u> | <u>\$ 14,733</u> | <u>\$ 8,738</u> |

| Texas Health Agencies Project Funds | Texas Department of Public Safety Project Funds | Texas Department of Transportation Project Funds | Texas Historical Commission Project Funds | Other Nonmajor Capital Projects Funds | Totals |
|-------------------------------------|---|--|---|---------------------------------------|-------------------|
| \$ 10,512 | \$ 10,802 | \$ 548,934 | \$ 32,806 | \$ 13,226 | \$ 691,533 |
| | | | | | 2,145 |
| | | | | | 4,280 |
| | | | 457 | | 457 |
| | | | | | 3 |
| <u>\$ 10,512</u> | <u>\$ 10,802</u> | <u>\$ 548,934</u> | <u>\$ 33,263</u> | <u>\$ 13,226</u> | <u>\$ 698,418</u> |
| | | | | | |
| \$ 483 | \$ 191 | \$ 56,515 | \$ 1,753 | \$ 1,598 | \$ 63,723 |
| | | | | | 83 |
| | | 31,764 | | | 31,764 |
| | | | | | 98 |
| | | 359,733 | | | 359,733 |
| | | | | | 1,092 |
| <u>483</u> | <u>191</u> | <u>448,012</u> | <u>1,753</u> | <u>1,598</u> | <u>456,493</u> |
| | | | | | 3 |
| <u>10,029</u> | <u>10,611</u> | <u>100,922</u> | <u>31,510</u> | <u>11,628</u> | <u>241,922</u> |
| <u>10,029</u> | <u>10,611</u> | <u>100,922</u> | <u>31,510</u> | <u>11,628</u> | <u>241,925</u> |
| <u>\$ 10,512</u> | <u>\$ 10,802</u> | <u>\$ 548,934</u> | <u>\$ 33,263</u> | <u>\$ 13,226</u> | <u>\$ 698,418</u> |

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Texas Public Finance Authority Administration Project Funds | Texas Parks and Wildlife Department Project Funds | Texas Facilities Commission Project Funds | Texas Department of Criminal Justice Prison Project Funds | Texas Youth Commission Project Funds |
|---|---|--|--|---|--|
| REVENUES | | | | | |
| Interest and Other Investment Income | \$ 14 | \$ 113 | \$ 222 | \$ 132 | \$ 41 |
| Sales of Goods and Services | | | 3,142 | | |
| Other | | | | 2 | |
| Total Revenues | <u>14</u> | <u>113</u> | <u>3,364</u> | <u>134</u> | <u>41</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General Government | 1,829 | | 11,339 | | |
| Education | | | | | |
| Health and Human Services | | | | | |
| Public Safety and Corrections | | | | 19,277 | |
| Natural Resources and Recreation | | 6,783 | | | |
| Capital Outlay | | 10,132 | 3,836 | 8,933 | 5,087 |
| Total Expenditures | <u>1,829</u> | <u>16,915</u> | <u>15,175</u> | <u>28,210</u> | <u>5,087</u> |
| Deficiency of Revenues | | | | | |
| Under Expenditures | <u>(1,815)</u> | <u>(16,802)</u> | <u>(11,811)</u> | <u>(28,076)</u> | <u>(5,046)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfer In | 1,012 | 4 | 5 | | 5 |
| Transfer Out | (2,173) | (3) | (11) | (2) | |
| Bonds and Notes Issued | 1,350 | 23,700 | 13,000 | 10,000 | 5,550 |
| Total Other Financing Sources (Uses) | <u>189</u> | <u>23,701</u> | <u>12,994</u> | <u>9,998</u> | <u>5,555</u> |
| Net Change in Fund Balances | <u>(1,626)</u> | <u>6,899</u> | <u>1,183</u> | <u>(18,078)</u> | <u>509</u> |
| Fund Balances, September 1, 2011 | 3,268 | 6,285 | 39,686 | 31,113 | 7,986 |
| Restatements | | | | | |
| Fund Balances, September 1, 2011, as Restated | <u>3,268</u> | <u>6,285</u> | <u>39,686</u> | <u>31,113</u> | <u>7,986</u> |
| Fund Balances, August 31, 2012 | <u>\$ 1,642</u> | <u>\$ 13,184</u> | <u>\$ 40,869</u> | <u>\$ 13,035</u> | <u>\$ 8,495</u> |

| Texas Health Agencies Project Funds | Texas Department of Public Safety Project Funds | Texas Department of Transportation Project Funds | Texas Historical Commission Project Funds | Other Nonmajor Capital Projects Funds | Totals |
|-------------------------------------|---|--|---|---------------------------------------|---------------------|
| \$ 125 | \$ 160 | \$ 3,310 180,960 | \$ 172 | \$ 138 | \$ 4,427 184,102 |
| | 2 | | | | 4 |
| <u>125</u> | <u>162</u> | <u>184,270</u> | <u>172</u> | <u>138</u> | <u>188,533</u> |
| | | | 14,253 | | 27,421 |
| | | | | 2,448 | 2,448 |
| 1,242 | | | | | 1,242 |
| | 2,843 | | | 237 | 22,357 |
| | | | | | 6,783 |
| 14,917 | 22,032 | 565,456 | 4,985 | 15,243 | 650,621 |
| <u>16,159</u> | <u>24,875</u> | <u>565,456</u> | <u>19,238</u> | <u>17,928</u> | <u>710,872</u> |
| (16,034) | (24,713) | (381,186) | (19,066) | (17,790) | (522,339) |
| 22 | 25 | | 145 | 36 | 1,254 |
| (2) | (55) | (180,961) | (14) | (42) | (183,263) |
| 2,000 | | | 21,835 | | 77,435 |
| <u>2,020</u> | <u>(30)</u> | <u>(180,961)</u> | <u>21,966</u> | <u>(6)</u> | <u>(104,574)</u> |
| (14,014) | (24,743) | (562,147) | 2,900 | (17,796) | (626,913) |
| 22,548 | 35,354 | 663,501 | 29,727 | 29,424 | 868,892 |
| 1,495 | | (432) | (1,117) | | (54) |
| <u>24,043</u> | <u>35,354</u> | <u>663,069</u> | <u>28,610</u> | <u>29,424</u> | <u>868,838</u> |
| <u>\$ 10,029</u> | <u>\$ 10,611</u> | <u>\$ 100,922</u> | <u>\$ 31,510</u> | <u>\$ 11,628</u> | <u>\$ 241,925</u> |

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** was established by the Legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account was designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **National Research University Fund** was established by the Legislature to provide a dedicated, independent and equitable source of funding to enable emerging research universities to achieve national prominence as major research universities. The fund consists of appropriations and transfers under the Texas Constitution and amounts provided by law, gifts, grants and interest. The Texas Constitution required that balances in the permanent higher education fund be transferred to the national research university fund on Jan. 1, 2010. Funds are allocated to eligible universities based on an equitable formula.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2012 (Amounts in Thousands)

| | Permanent Health Fund for Higher Education | National Research University Fund | Other Nonmajor Permanent Funds | Totals |
|--|---|--|---|--------------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 11,144 | \$ 15,768 | \$ 1,085 | \$ 27,997 |
| Short-Term Investments | 1,298 | 5,509 | | 6,807 |
| Receivables: | | | | |
| Accounts | 41 | | | 41 |
| Investment Trades | 971 | 4,600 | | 5,571 |
| Interest and Dividends | 6 | 22 | | 28 |
| Due From Other Funds | 240 | | 538 | 778 |
| Investments | 133,652 | 593,239 | 3,056 | 729,947 |
| Total Assets | <u>\$ 147,352</u> | <u>\$ 619,138</u> | <u>\$ 4,679</u> | <u>\$ 771,169</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Payables: | | | | |
| Accounts | \$ 700 | \$ 304 | \$ 537 | \$ 1,541 |
| Investment Trades | 140 | 493 | | 633 |
| Due To Other Funds | | 15,756 | | 15,756 |
| Total Liabilities | <u>840</u> | <u>16,553</u> | <u>537</u> | <u>17,930</u> |
| Fund Balances: | | | | |
| Nonspendable | 138,836 | 602,585 | 3,790 | 745,211 |
| Restricted | | | 352 | 352 |
| Committed | 7,676 | | | 7,676 |
| Total Fund Balances | <u>146,512</u> | <u>602,585</u> | <u>4,142</u> | <u>753,239</u> |
| Total Liabilities and Fund Balances | <u>\$ 147,352</u> | <u>\$ 619,138</u> | <u>\$ 4,679</u> | <u>\$ 771,169</u> |

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Permanent Health Fund for Higher Education | National Research University Fund | Other Nonmajor Permanent Funds | Totals |
|---|---|--|---|-------------------|
| REVENUES | | | | |
| Interest and Other Investment Income | \$ 3,913 | \$ 15,192 | \$ 2,188 | \$ 21,293 |
| Land Income | | | 11 | 11 |
| Other | | 15,756 | | 15,756 |
| Total Revenues | <u>3,913</u> | <u>30,948</u> | <u>2,199</u> | <u>37,060</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 1,004 | 1,794 | | 2,798 |
| Education | 756 | | 2,149 | 2,905 |
| Health and Human Services | 990 | | | 990 |
| Natural Resources and Recreation | 288 | | | 288 |
| Total Expenditures | <u>3,038</u> | <u>1,794</u> | <u>2,149</u> | <u>6,981</u> |
| Excess of Revenues Over Expenditures | <u>875</u> | <u>29,154</u> | <u>50</u> | <u>30,079</u> |
| OTHER FINANCING USES | | | | |
| Transfer Out | (2,625) | (15,756) | (12) | (18,393) |
| Total Other Financing Uses | <u>(2,625)</u> | <u>(15,756)</u> | <u>(12)</u> | <u>(18,393)</u> |
| Net Change in Fund Balances | <u>(1,750)</u> | <u>13,398</u> | <u>38</u> | <u>11,686</u> |
| Fund Balances, September 1, 2011 | 148,262 | 604,943 | 4,104 | 757,309 |
| Restatements | | (15,756) | | (15,756) |
| Fund Balances, September 1, 2011, as Restated | <u>148,262</u> | <u>589,187</u> | <u>4,104</u> | <u>741,553</u> |
| Fund Balances, August 31, 2012 | <u>\$ 146,512</u> | <u>\$ 602,585</u> | <u>\$ 4,142</u> | <u>\$ 753,239</u> |



Section Two
(continued)

Enterprise Funds



Nonmajor Enterprise Funds

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds and water pollution control revolving funds that receive proceeds from bonds issued by the Texas Water Development Board to provide assistance to political subdivisions.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Department of Transportation Turnpike Authority**, a division within the Texas Department of Transportation, receives proceeds from the

sale of bonds used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Texas Prepaid Tuition Plans** offer programs that allow Texas families to lock in the cost of future college tuition and required fees at current prices.

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds

August 31, 2012 (Amounts in Thousands)

| | Texas Water Development Board Funds | Texas Department of Housing and Community Affairs | Texas Department of Transportation Turnpike Authority | Veterans Land Board Loan Program Funds |
|-------------------------------------|--|---|---|--|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 121,016 | \$ 41,260 | \$ 8,007 | \$ |
| Short-Term Investments | 591,888 | | 300,254 | |
| Securities Lending Collateral | | | | 85,056 |
| Restricted: | | | | |
| Cash and Cash Equivalents | | 175,630 | 19,323 | 334,420 |
| Short-Term Investments | | | 6,326 | 74,990 |
| Loans and Contracts | | 20,788 | | 62,753 |
| Receivables: | | | | |
| Federal | 1,713 | | | 4,157 |
| Other Intergovernmental | | | 200 | |
| Accounts | 38 | 1,011 | 3,996 | 24,752 |
| Interest and Dividends | 29,273 | 13,348 | 283 | 19,848 |
| Investment Trades | | | | |
| Other | | 119 | | |
| Due From Other Funds | 19 | 4 | 502 | 166 |
| Interfund Receivable | 130 | 260 | | 4 |
| Inventories | | 15 | 224 | |
| Prepaid Items | | | 8 | 19 |
| Loans and Contracts | 122,950 | 2,177 | | |
| Other Current Assets | | 27 | | |
| Total Current Assets | <u>867,027</u> | <u>254,639</u> | <u>339,123</u> | <u>606,165</u> |
| Noncurrent Assets: | | | | |
| Restricted: | | | | |
| Cash and Cash Equivalents | | | | |
| Investments | | 1,351,616 | 114,999 | 432,223 |
| Receivables | | | | |
| Loans and Contracts | | 1,101,545 | | 1,898,908 |
| Other | | | | 4,550 |
| Loans and Contracts | 4,186,845 | 46,823 | | |
| Investments | | | | (387) |
| Interfund Receivable | 2,710 | | | |
| Other Receivables | | | 450 | |
| Capital Assets: | | | | |
| Non-Depreciable or Non-Amortizable | | | 2,277,014 | 3,500 |
| Depreciable or Amortizable, Net | | 127 | 337,799 | 62,491 |
| Assets Held in Trust | | | | |
| Deferred Charges | | 8,958 | 37,647 | |
| Other Noncurrent Assets | | 341 | | |
| Total Noncurrent Assets | <u>4,189,555</u> | <u>2,509,410</u> | <u>2,767,909</u> | <u>2,401,285</u> |
| Total Assets | <u>5,056,582</u> | <u>2,764,049</u> | <u>3,107,032</u> | <u>3,007,450</u> |
| DEFERRED OUTFLOWS | | | | |
| Deferred Outflow of Resources | | 46,907 | | 389,775 |
| Total Deferred Outflow of Resources | <u>0</u> | <u>46,907</u> | <u>0</u> | <u>389,775</u> |

| Texas Department of Criminal Justice Institutional Division | Texas Prepaid Tuition Plans | Other Nonmajor Enterprise Funds | Totals |
|---|-----------------------------------|--|-------------------|
| \$ | \$ 1,669 | \$ 36,923 | \$ 208,875 |
| | 96,653 | | 892,142 |
| | | | 181,709 |
| | 236,537 | 500 | 766,410 |
| | | | 81,316 |
| | | | 83,541 |
| | | | 5,870 |
| | | | 200 |
| 1,581 | | 222 | 31,600 |
| | 3,978 | 81 | 66,811 |
| | 126,094 | | 126,094 |
| | 279 | 2,587 | 2,985 |
| 40,514 | | 62 | 41,267 |
| | | | 394 |
| 9,104 | | 1,085 | 10,428 |
| | | 245 | 272 |
| | 44,832 | 2,115 | 172,074 |
| | 234 | | 261 |
| <u>51,199</u> | <u>510,276</u> | <u>43,820</u> | <u>2,672,249</u> |
| | | | |
| | | 34,137 | 34,137 |
| | 1,404,414 | 84 | 3,303,336 |
| | 149,819 | | 149,819 |
| | | | 3,000,453 |
| | | | 4,550 |
| | | 21,645 | 4,255,313 |
| | | | (387) |
| | | | 2,710 |
| | | | 450 |
| 283 | | 381 | 2,281,178 |
| 360 | | 414 | 401,191 |
| | | 2,538 | 2,538 |
| | | | 46,605 |
| | | | 341 |
| <u>643</u> | <u>1,554,233</u> | <u>59,199</u> | <u>13,482,234</u> |
| <u>51,842</u> | <u>2,064,509</u> | <u>103,019</u> | <u>16,154,483</u> |
| | | | |
| | | | 436,682 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>436,682</u> |

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds (concluded)

August 31, 2012 (Amounts in Thousands)

| | Texas Water Development Board Funds | Texas Department of Housing and Community Affairs | Texas Department of Transportation Turnpike Authority | Veterans Land Board Loan Program Funds |
|---|--|---|---|--|
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts Payable | \$ 283 | \$ 1,351 | \$ | \$ 28,282 |
| Payroll | | | | |
| Investment Trades | | | | |
| Interest | 9,432 | 27,800 | 3,664 | 3,441 |
| Due To Other Funds | 1,654 | | 516 | 262 |
| Interfund Payable | | | | |
| Unearned Revenue | 53,241 | 17,156 | 1,056 | 212 |
| Obligations/Securities Lending | | | | 85,056 |
| Employees' Compensable Leave | | 503 | | |
| General Obligation Bonds Payable | 37,828 | | | 82,167 |
| Revenue Bonds Payable | 16,990 | 117,013 | 7,288 | |
| Liabilities Payable From Restricted Assets | | | | |
| Other Current Liabilities | | 58 | | 762 |
| Total Current Liabilities | <u>119,428</u> | <u>163,881</u> | <u>12,524</u> | <u>200,182</u> |
| Noncurrent Liabilities: | | | | |
| Employees' Compensable Leave | | 417 | | |
| Notes and Loans Payable | | | 1,057,877 | |
| General Obligation Bonds Payable | 1,031,410 | | | 2,048,228 |
| Revenue Bonds Payable | 889,914 | 2,243,400 | 1,609,462 | |
| Liabilities Payable From Restricted Assets | | | | |
| Assets Held for Others | | | | |
| Hedging Derivative Liability | | 46,907 | | 389,775 |
| Other Noncurrent Liabilities | | 71,593 | | |
| Total Noncurrent Liabilities | <u>1,921,324</u> | <u>2,362,317</u> | <u>2,667,339</u> | <u>2,438,003</u> |
| Total Liabilities | <u>2,040,752</u> | <u>2,526,198</u> | <u>2,679,863</u> | <u>2,638,185</u> |
| NET POSITION | | | | |
| Invested in Capital Assets, Net of Related Debt | | 127 | 512,057 | 65,990 |
| Restricted for: | | | | |
| Debt Retirement | | 201,984 | 7,247 | |
| Veterans Land Board Housing Programs | | | | 693,050 |
| Other | | | | |
| Unrestricted | <u>3,015,830</u> | <u>82,647</u> | <u>(92,135)</u> | |
| Total Net Position | <u>\$ 3,015,830</u> | <u>\$ 284,758</u> | <u>\$ 427,169</u> | <u>\$ 759,040</u> |

| Texas Department of Criminal Justice Institutional Division | Texas Prepaid Tuition Plans | Other Nonmajor Enterprise Funds | Totals |
|---|-----------------------------------|--|---------------------|
| \$ 5,950 | \$ 541 | \$ 1,107 | \$ 37,514 |
| 1,412 | | 2,113 | 3,525 |
| | 145,619 | | 145,619 |
| | | | 44,337 |
| 594 | 77 | 62 | 3,165 |
| | | 89 | 89 |
| | 579 | 101 | 72,345 |
| | 96,653 | | 181,709 |
| 743 | 49 | 662 | 1,957 |
| | | | 119,995 |
| | | | 141,291 |
| | 251,971 | | 251,971 |
| | 72 | | 892 |
| <u>8,699</u> | <u>495,561</u> | <u>4,134</u> | <u>1,004,409</u> |
| 522 | 51 | 439 | 1,429 |
| | | 25,000 | 1,082,877 |
| | | | 3,079,638 |
| | | | 4,742,776 |
| | 2,189,723 | | 2,189,723 |
| | | 2,538 | 2,538 |
| | | | 436,682 |
| | | | 71,593 |
| <u>522</u> | <u>2,189,774</u> | <u>27,977</u> | <u>11,607,256</u> |
| <u>9,221</u> | <u>2,685,335</u> | <u>32,111</u> | <u>12,611,665</u> |
| 643 | | 625 | 579,442 |
| | | | 209,231 |
| | | | 693,050 |
| | | 500 | 500 |
| <u>41,978</u> | <u>(620,826)</u> | <u>69,783</u> | <u>2,497,277</u> |
| <u>\$ 42,621</u> | <u>\$ (620,826)</u> | <u>\$ 70,908</u> | <u>\$ 3,979,500</u> |

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Texas Water Development Board Funds | Texas Department of Housing and Community Affairs | Texas Department of Transportation Turnpike Authority | Veterans Land Board Loan Program Funds |
|---|--|---|---|--|
| OPERATING REVENUES | | | | |
| Auxiliary Enterprises – Pledged | \$ | \$ | \$ | \$ |
| Other Sales of Goods and Services | | | | 6,359 |
| Other Sales of Goods and Services – Pledged | | | 75,695 | 28,876 |
| Interest and Investment Income | 69,054 | 118,308 | | 97,280 |
| Interest and Investment Income – Pledged | 80,268 | | | |
| Federal Revenue | | | | 31,992 |
| Other Revenues | 4,335 | 21,591 | 10,111 | 750 |
| Total Operating Revenues | <u>153,657</u> | <u>139,899</u> | <u>85,806</u> | <u>165,257</u> |
| OPERATING EXPENSES | | | | |
| Cost of Goods Sold | | | | |
| Salaries and Wages | 6,697 | 8,895 | 1,199 | |
| Payroll Related Costs | 1,211 | 2,193 | | |
| Professional Fees and Services | 1,035 | 2,687 | 9,313 | 64,834 |
| Travel | 57 | 208 | | 52 |
| Materials and Supplies | 23 | 167 | 4,323 | 4,128 |
| Communication and Utilities | 52 | 92 | 1,060 | |
| Repairs and Maintenance | 2 | 245 | 15,155 | (429) |
| Rentals and Leases | 164 | 67 | | |
| Printing and Reproduction | 2 | 44 | 20 | 2 |
| Depreciation and Amortization | | 662 | 17,266 | 4,479 |
| Bad Debt Expense | | 2,412 | | |
| Interest Expense | 102,454 | 99,622 | | 71,946 |
| Employee/Participant Benefit Payments | | | | |
| Other Expenses | 2,109 | 6,329 | 24,803 | 10,523 |
| Total Operating Expenses | <u>113,806</u> | <u>123,623</u> | <u>73,139</u> | <u>155,535</u> |
| Operating Income (Loss) | <u>39,851</u> | <u>16,276</u> | <u>12,667</u> | <u>9,722</u> |

| Texas Department of Criminal Justice Institutional Division | Texas Prepaid Tuition Plans | Other Nonmajor Enterprise Funds | Totals |
|--|--|--|----------------|
| \$ 102,342 | \$ 58,050 | \$ 8,353 | \$ 102,342 |
| | | | 72,762 |
| | | | 104,571 |
| | | 726 | 285,368 |
| | | | 80,268 |
| | | | 31,992 |
| 251 | 1,140 | 21,799 | 59,977 |
| <u>102,593</u> | <u>59,190</u> | <u>30,878</u> | <u>737,280</u> |
| | | | |
| 73,078 | | 1,470 | 74,548 |
| 13,009 | 770 | 11,721 | 42,291 |
| 4,017 | 182 | 2,689 | 10,292 |
| 10 | 2,583 | 3,239 | 83,701 |
| 41 | 21 | 187 | 566 |
| 95 | 93 | 1,003 | 9,832 |
| | 33 | 602 | 1,839 |
| 188 | 294 | 864 | 16,319 |
| 670 | 25 | 1,036 | 1,962 |
| 81 | 18 | 57 | 224 |
| 66 | 3 | 393 | 22,869 |
| 2 | | | 2,414 |
| | 1 | 44 | 274,067 |
| | 160,063 | | 160,063 |
| 57 | 14,370 | 2,736 | 60,927 |
| <u>91,314</u> | <u>178,456</u> | <u>26,041</u> | <u>761,914</u> |
| | | | |
| 11,279 | (119,266) | 4,837 | (24,634) |

Concluded on the following page

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Texas Water Development Board Funds | Texas Department of Housing and Community Affairs | Texas Department of Transportation Turnpike Authority | Veterans Land Board Loan Program Funds |
|--|--|---|---|--|
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Federal Revenue | \$ 306,069 | \$ | \$ | \$ 905 |
| Gifts | | | | 35 |
| Land Income | | | 13 | |
| Interest and Investment Income | | | 6,855 | 33,593 |
| Loan Premium and Fees on Securities Lending | | | | |
| Investing Activities Expense | | | | |
| Interest Expense | | | (142,675) | (1,274) |
| Borrower Rebates and Agent Fees | | | | (125) |
| Gain (Loss) on Sale of Capital Assets | | | | (464) |
| Settlement of Claims | | | 378 | |
| Other Expenses | (74,946) | | (31) | |
| Total Nonoperating Revenues (Expenses) | <u>231,123</u> | <u>0</u> | <u>(135,460)</u> | <u>32,670</u> |
| Income (Loss) Before Capital Contributions and Transfers | <u>270,974</u> | <u>16,276</u> | <u>(122,793)</u> | <u>42,392</u> |
| CAPITAL CONTRIBUTIONS AND TRANSFERS | | | | |
| Capital Contributions – Other | | | 15 | 12 |
| Transfer In | 2,336 | 2,566 | 55,242 | 1,001 |
| Transfer Out | (7,810) | | | (22,653) |
| Total Capital Contributions and Transfers | <u>(5,474)</u> | <u>2,566</u> | <u>55,257</u> | <u>(21,640)</u> |
| Change in Net Position | <u>265,500</u> | <u>18,842</u> | <u>(67,536)</u> | <u>20,752</u> |
| Net Position, September 1, 2011 | 2,750,330 | 265,916 | 495,095 | 738,288 |
| Restatements | | | (390) | |
| Net Position, September 1, 2011, as Restated | <u>2,750,330</u> | <u>265,916</u> | <u>494,705</u> | <u>738,288</u> |
| Net Position, August 31, 2012 | <u>\$ 3,015,830</u> | <u>\$ 284,758</u> | <u>\$ 427,169</u> | <u>\$ 759,040</u> |

| Texas Department of Criminal Justice Institutional Division | Texas Prepaid Tuition Plans | Other Nonmajor Enterprise Funds | Totals |
|---|-----------------------------------|--|---------------------|
| \$ | \$ | \$ | \$ |
| | 76 | 318 | 307,292 |
| | | 768 | 879 |
| | | | 13 |
| | 117,441 | 115 | 158,004 |
| | 343 | | 343 |
| | (892) | | (892) |
| | | | (143,949) |
| | (132) | | (257) |
| 1 | | | (463) |
| | | | 378 |
| | | | (74,977) |
| <u>1</u> | <u>116,836</u> | <u>1,201</u> | <u>246,371</u> |
| | | | |
| <u>11,280</u> | <u>(2,430)</u> | <u>6,038</u> | <u>221,737</u> |
| | | | |
| | | | 27 |
| 5,912 | | 1,299 | 68,356 |
| (4,548) | | (275) | (35,286) |
| <u>1,364</u> | <u>0</u> | <u>1,024</u> | <u>33,097</u> |
| | | | |
| <u>12,644</u> | <u>(2,430)</u> | <u>7,062</u> | <u>254,834</u> |
| | | | |
| 29,973 | (618,396) | 63,823 | 3,725,029 |
| 4 | | 23 | (363) |
| <u>29,977</u> | <u>(618,396)</u> | <u>63,846</u> | <u>3,724,666</u> |
| | | | |
| <u>\$ 42,621</u> | <u>\$ (620,826)</u> | <u>\$ 70,908</u> | <u>\$ 3,979,500</u> |

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Texas Water Development Board Funds | Texas Department of Housing and Community Affairs | Texas Department of Transportation Turnpike Authority | Veterans Land Board Loan Program Funds |
|---|--|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Proceeds from Customers | \$ | \$ | \$ 84,684 | \$ 21,257 |
| Proceeds from Gifts | | | | 35 |
| Proceeds from Loan Programs | | 80,615 | | 497,463 |
| Proceeds from Auxiliaries | | | | 675 |
| Proceeds from Other Operating Revenues | | 19,116 | | 49,291 |
| Payments to Suppliers for Goods and Services | (1,716) | (10,979) | (54,396) | (79,908) |
| Payments to Employees | (7,878) | (11,201) | (1,198) | |
| Payments for Loans Provided | | (18,775) | | (344,486) |
| Payments for Other Operating Expenses | | | | (57) |
| Net Cash Provided (Used) by Operating Activities | <u>(9,594)</u> | <u>58,776</u> | <u>29,090</u> | <u>144,270</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Proceeds from Debt Issuance | 312,501 | 89,915 | | 149,990 |
| Proceeds from Transfers from Other Funds | 139,774 | 1,691 | 55,758 | 69,078 |
| Proceeds from Grant Receipts | 307,254 | | | |
| Proceeds from Interfund Payables | 41,628 | | | |
| Proceeds from Other Noncapital Financing Activities | | | | |
| Payments of Principal on Debt Issuance | (104,165) | (124,603) | | (70,967) |
| Payments of Interest | (104,941) | (101,565) | | (72,406) |
| Payments of Other Costs on Debt Issuance | (412) | (1,732) | | |
| Payments for Transfers to Other Funds | (192,902) | | | (91,400) |
| Payments for Grant Disbursements | (76,163) | | | |
| Payments for Interfund Receivables | (61,873) | | | |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>260,701</u> | <u>(136,294)</u> | <u>55,758</u> | <u>(15,705)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from Sale of Capital Assets | | | | |
| Proceeds from Federal Grants and Contracts | | | | 968 |
| Proceeds from Other Capital and Related Financing Activities | | | 13 | |
| Proceeds from Capital Contributions | | | 3,117 | |
| Payments for Additions to Capital Assets | | (59) | (180) | (1,914) |
| Payments of Principal on Debt Issuance | | | (4,505) | (22,220) |
| Payments for Capital Leases | | | | |
| Payments of Interest on Debt Issuance | | | (71,278) | (1,388) |
| Payments of Other Costs on Debt Issuance | | | (32) | |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>0</u> | <u>(59)</u> | <u>(72,865)</u> | <u>(24,554)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from Sale of Investments | 633,714 | 261,964 | 75,926 | 198,843 |
| Proceeds from Interest and Investment Income | 149,376 | 61,992 | 7,382 | 8,795 |
| Proceeds from Principal Payments on Loans | 383,910 | | | |
| Payments to Acquire Investments | (611,447) | (368,751) | (367,578) | (328,306) |
| Payments for Nonprogram Loans Provided | (808,383) | | | |
| Net Cash Provided (Used) by Investing Activities | <u>(252,830)</u> | <u>(44,795)</u> | <u>(284,270)</u> | <u>(120,668)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(1,723)</u> | <u>(122,372)</u> | <u>(272,287)</u> | <u>(16,657)</u> |
| Cash and Cash Equivalents, September 1, 2011 | 122,739 | 339,262 | 299,617 | 351,077 |
| Restatements | | | | |
| Cash and Cash Equivalents, September 1, 2011, as Restated | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Cash and Cash Equivalents, August 31, 2012 | <u>\$ 121,016</u> | <u>\$ 216,890</u> | <u>\$ 27,330</u> | <u>\$ 334,420</u> |

| Texas Department of Criminal Justice Institutional Division | Texas Prepaid Tuition Plans | Other Nonmajor Enterprise Funds | Totals |
|---|-----------------------------------|--|---------------------|
| \$ 102,925 | \$ 64,038 | \$ 8,521 | \$ 281,425 |
| | | | 35 |
| | | | 578,078 |
| | | | 675 |
| 251 | 642 | 21,754 | 91,054 |
| (72,825) | (146,693) | (4,306) | (370,823) |
| (17,028) | (964) | (13,860) | (52,129) |
| | | | (363,261) |
| (1,139) | | (7,228) | (8,424) |
| <u>12,184</u> | <u>(82,977)</u> | <u>4,881</u> | <u>156,630</u> |
| | | 5,000 | 557,406 |
| 5,911 | | 1,556 | 273,768 |
| | | 486 | 307,740 |
| | | | 41,628 |
| | | 222 | 222 |
| | | | (299,735) |
| | | (42) | (278,954) |
| | | (4) | (2,148) |
| (17,988) | | (213) | (302,503) |
| | | | (76,163) |
| | | | (61,873) |
| <u>(12,077)</u> | <u>0</u> | <u>7,005</u> | <u>159,388</u> |
| | | | |
| 105 | | | 105 |
| | | | 968 |
| | | | 13 |
| | | | 3,117 |
| | | (26) | (2,179) |
| | | | (26,725) |
| | | (16) | (16) |
| | | | (72,666) |
| | | | (32) |
| <u>105</u> | <u>0</u> | <u>(42)</u> | <u>(97,415)</u> |
| | | | |
| 18,696 | 3,192,456 | | 4,381,599 |
| 39 | 34,749 | 791 | 263,124 |
| | | 3,336 | 387,246 |
| (18,947) | (3,179,975) | | (4,875,004) |
| | | (7,396) | (815,779) |
| <u>(212)</u> | <u>47,230</u> | <u>(3,269)</u> | <u>(658,814)</u> |
| | | | |
| 0 | (35,747) | 8,575 | (440,211) |
| | | | |
| 0 | 273,953 | 62,984 | 1,449,632 |
| | | 1 | 1 |
| <u>0</u> | <u>0</u> | <u>62,985</u> | <u>1,449,633</u> |
| | | | |
| <u>\$ 0</u> | <u>\$ 238,206</u> | <u>\$ 71,560</u> | <u>\$ 1,009,422</u> |

Concluded on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Texas Water Development Board Funds | Texas Department of Housing and Community Affairs | Texas Department of Transportation Turnpike Authority | Veterans Land Board Loan Program Funds |
|---|--|---|---|---|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | \$ 39,851 | \$ 16,276 | \$ 12,667 | \$ 9,722 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation and Amortization | | 662 | 17,266 | 4,479 |
| Bad Debt Expense | | 2,412 | | |
| Operating Income (Loss) and Cash Flow Categories Classification Differences | (50,654) | 25,493 | | 71,983 |
| Changes in Assets and Liabilities: | | | | |
| (Increase) Decrease in Receivables | 1,185 | 850 | (989) | (11,078) |
| (Increase) Decrease in Due From Other Funds | | | | |
| (Increase) Decrease in Inventories | | | | |
| (Increase) Decrease in Loans and Contracts | | 13,662 | | 63,883 |
| (Increase) Decrease in Other Assets | | 554 | | (1,555) |
| (Increase) Decrease in Prepaid Expenses | | | 146 | |
| Increase (Decrease) in Payables | (62) | (800) | | 4,811 |
| Increase (Decrease) in Due To Other Funds | 86 | | | |
| Increase (Decrease) in Unearned Revenue | | (1,777) | | |
| Increase (Decrease) in Employees' Compensable Leave | | | | |
| Increase (Decrease) in Benefits Payable | | | | |
| Increase (Decrease) in Other Liabilities | | 1,444 | | 2,025 |
| Total Adjustments | <u>(49,445)</u> | <u>42,500</u> | <u>16,423</u> | <u>134,548</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ (9,594)</u> | <u>\$ 58,776</u> | <u>\$ 29,090</u> | <u>\$ 144,270</u> |
| NONCASH TRANSACTIONS | | | | |
| Net Change in Fair Value of Investments | \$ (648) | \$ 6,557 | \$ | \$ 25,382 |
| Other | \$ | \$ | \$ | \$ (415) |

| Texas Department of Criminal Justice Institutional Division | Texas Prepaid Tuition Plans | Other Nonmajor Enterprise Funds | Totals |
|---|-----------------------------------|--|-------------------|
| \$ 11,279 | \$ (119,266) | \$ 4,837 | \$ (24,634) |
| 66 | 3 | 393 | 22,869 |
| 2 | | | 2,414 |
| | | (566) | 46,256 |
| 583 | 8,699 | (45) | (795) |
| | | 135 | 135 |
| (680) | | (185) | (865) |
| | | | 77,545 |
| | (466) | 219 | (1,248) |
| | | (1) | 145 |
| 934 | 85 | 251 | 5,219 |
| | | (48) | 38 |
| | 325 | 29 | (1,423) |
| | (2) | 108 | 106 |
| | 27,583 | | 27,583 |
| | 62 | (246) | 3,285 |
| <u>905</u> | <u>36,289</u> | <u>44</u> | <u>181,264</u> |
| <u>\$ 12,184</u> | <u>\$ (82,977)</u> | <u>\$ 4,881</u> | <u>\$ 156,630</u> |
| \$ | \$ 82,368 | \$ | \$ 113,659 |
| \$ | \$ | \$ | \$ (415) |

Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules were prepared to report the breakdown of the following universities:

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

STATE OF TEXAS

Schedule of Net Position

Colleges and Universities – Major Enterprise Fund

August 31, 2012 (Amounts in Thousands)

| | University of Texas System | Texas A&M University System | Texas Tech University System | University of Houston System | Texas State University System |
|-------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|--|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | \$ 2,325,376 | \$ 753,737 | \$ 334,509 | \$ 331,228 | \$ 439,913 |
| Short-Term Investments | | (975) | | 249,721 | 719 |
| Securities Lending Collateral | 511,401 | | | | |
| Restricted: | | | | | |
| Cash and Cash Equivalents | 224,860 | 339,664 | 139,151 | 42,780 | 80,601 |
| Short-Term Investments | | | | | 99 |
| Loans and Contracts | | | | | |
| Receivables: | | | | | |
| Federal | 406,534 | 91,481 | 43,245 | 44,937 | 18,519 |
| Other Intergovernmental | 57,330 | 5,586 | | | |
| Accounts | 1,001,938 | 146,762 | 54,295 | 17,144 | 96,122 |
| Interest and Dividends | 56,849 | 6,560 | 430 | 374 | 192 |
| Gifts | 91,507 | 27,241 | 37,566 | 17,099 | 5,309 |
| Investment Trades | 187,857 | 160,396 | | | |
| Other | 272,144 | 4,408 | 3,415 | 5,047 | 2,452 |
| Due From Other Funds | 270,935 | 123,220 | 118,447 | 93,661 | 101,360 |
| Interfund Receivable | | 22,390 | | | |
| Inventories | 87,625 | 24,907 | 3,942 | 2,019 | 4,077 |
| Prepaid Items | | | 35,131 | 27,232 | 10,590 |
| Loans and Contracts | 50,371 | 25,997 | 1,590 | 14,400 | 10,416 |
| Other Current Assets | 231,729 | 75,219 | 451 | | 38,973 |
| Total Current Assets | <u>5,776,456</u> | <u>1,806,593</u> | <u>772,172</u> | <u>845,642</u> | <u>809,342</u> |
| Noncurrent Assets: | | | | | |
| Restricted: | | | | | |
| Cash and Cash Equivalents | (90,413) | | 46,410 | 9,881 | 16,987 |
| Short-Term Investments | | | | | |
| Investments | 26,653,839 | 758,817 | 409,681 | | 141,567 |
| Receivables | | | | 30,090 | 1,692 |
| Loans and Contracts | 73,655 | 4,137 | | 14,914 | 1,070 |
| Loans and Contracts | | 21,959 | 3,382 | | 7 |
| Investments | 2,180,674 | 1,744,977 | 814,958 | 638,584 | 90,086 |
| Interfund Receivable | | 734,790 | | | |
| Gifts Receivable | 119,364 | 60,513 | 44,503 | | |
| Capital Assets: | | | | | |
| Non-Depreciable or Non-Amortizable | 1,995,415 | 684,058 | 131,297 | 268,113 | 203,677 |
| Depreciable or Amortizable, Net | 10,427,141 | 2,934,427 | 1,282,056 | 806,336 | 1,087,082 |
| Assets Held in Trust | | 362 | | | |
| Deferred Charges | | | | 48,395 | |
| Other Noncurrent Assets | 193,703 | 32 | | | |
| Total Noncurrent Assets | <u>41,553,378</u> | <u>6,944,072</u> | <u>2,732,287</u> | <u>1,816,313</u> | <u>1,542,168</u> |
| Total Assets | <u>47,329,834</u> | <u>8,750,665</u> | <u>3,504,459</u> | <u>2,661,955</u> | <u>2,351,510</u> |
| DEFERRED OUTFLOWS | | | | | |
| Deferred Outflow of Resources | 334,084 | 2,244 | | | |
| Total Deferred Outflow of Resources | <u>334,084</u> | <u>2,244</u> | <u>0</u> | <u>0</u> | <u>0</u> |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|----------------------------------|--------------------------|------------------------------------|---------------------------|-----------------------------|-------------------------------|-------------------|
| \$ 268,997 | \$ 12,685 | \$ 48,368 | \$ 22,235 | \$ 9,391 | \$ 25,757 | \$ 4,572,196 |
| | 38,607 | 20,143 | | 20,334 | 8,240 | 336,789 |
| | | | | | | 511,401 |
| 37,989 | 4,097 | 12,810 | 26,130 | (2,554) | 11,194 | 916,722 |
| | 59,699 | | 18,504 | | 20,655 | 98,957 |
| | | | | 17 | | 17 |
| 31,613 | 2,093 | 12,422 | 7,751 | 289 | 11,130 | 670,014 |
| 524 | | 200 | 5,806 | | | 69,446 |
| 62,061 | 11,794 | 9,710 | 20,330 | 5,298 | 11,006 | 1,436,460 |
| 464 | 657 | 147 | | 58 | 73 | 65,804 |
| 3,945 | | | 600 | 2,360 | | 185,627 |
| | | | | | | 348,253 |
| 8,053 | 2,101 | | 122 | 1,417 | | 299,159 |
| 85,817 | 26,559 | 5,927 | 6,692 | 1,289 | 14,266 | 848,173 |
| | | | | | | 22,390 |
| 2,215 | 847 | 666 | 201 | 257 | 2,769 | 129,525 |
| | 979 | 20,897 | 17,065 | 7,855 | | 119,749 |
| 7,236 | 5,781 | 2,320 | | | | 118,111 |
| 29,561 | | | | | | 375,933 |
| <u>538,475</u> | <u>165,899</u> | <u>133,610</u> | <u>125,436</u> | <u>46,011</u> | <u>105,090</u> | <u>11,124,726</u> |
| | | | | | 110 | (17,025) |
| | | | | 944 | 509 | 1,453 |
| 25,934 | 103,025 | 10,071 | 39,063 | 4,155 | | 28,146,152 |
| | | | | | | 31,782 |
| 5,039 | | 4,866 | 1,850 | 56 | | 105,587 |
| | | 1,528 | | | | 26,876 |
| 113,130 | | 33,367 | | 25,002 | | 5,640,778 |
| | | | | | | 734,790 |
| 1,335 | | | | 1,111 | | 226,826 |
| | | | | | | |
| 116,409 | 4,846 | 8,493 | 31,271 | 11,633 | 15,170 | 3,470,382 |
| 737,245 | 231,171 | 226,412 | 212,734 | 122,694 | 122,935 | 18,190,233 |
| | | | | | | 362 |
| | | | 955 | | | 49,350 |
| 230 | | | | 1,155 | | 195,120 |
| <u>999,322</u> | <u>339,042</u> | <u>284,737</u> | <u>285,873</u> | <u>166,750</u> | <u>138,724</u> | <u>56,802,666</u> |
| <u>1,537,797</u> | <u>504,941</u> | <u>418,347</u> | <u>411,309</u> | <u>212,761</u> | <u>243,814</u> | <u>67,927,392</u> |
| | | | | | | 336,328 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>336,328</u> |

Concluded on the following page

STATE OF TEXAS

Schedule of Net Position**Colleges and Universities – Major Enterprise Fund (concluded)**

August 31, 2012 (Amounts in Thousands)

| | University of Texas System | Texas A&M University System | Texas Tech University System | University of Houston System | Texas State University System |
|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|--|
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Payables: | | | | | |
| Accounts | \$ 848,215 | \$ 376,865 | \$ 43,111 | \$ 42,351 | \$ 58,760 |
| Payroll | 414,166 | 110,951 | 55,769 | 40,415 | 27,906 |
| Other Intergovernmental | | | | | 16,715 |
| Federal | 29,333 | | | 119 | |
| Investment Trades | 299,904 | 87,550 | | | |
| Interest | | | | | |
| Due To Other Funds | 15,827 | 2,574 | 2,952 | 586 | 2,978 |
| Interfund Payable | 23,426 | 620 | | | |
| Unearned Revenue | 1,236,041 | 505,829 | 176,862 | 186,195 | 306,040 |
| Obligations/Securities Lending | 511,401 | | | | |
| Claims and Judgments | 12,761 | 2,311 | 1,307 | 329 | |
| Capital Lease Obligations | 1,406 | 637 | 158 | 375 | 23 |
| Employees' Compensable Leave | 317,132 | 9,220 | 4,823 | 11,324 | 10,459 |
| Notes and Loans Payable | 607,570 | 8,008 | 27,159 | 25,123 | |
| General Obligation Bonds Payable | | | | | |
| Revenue Bonds Payable | 1,576,050 | 119,748 | 27,681 | 34,706 | 40,230 |
| Funds Held for Others | 32,935 | 34,369 | 31,541 | 9,009 | 4,345 |
| Hedging Derivative Liability | | 2,244 | | | |
| Other Current Liabilities | 205,047 | 37,666 | 4,566 | 1,882 | 3,114 |
| Total Current Liabilities | <u>6,131,214</u> | <u>1,298,592</u> | <u>375,929</u> | <u>352,414</u> | <u>470,570</u> |
| Noncurrent Liabilities: | | | | | |
| Interfund Payable | 743,201 | 4,091 | | | |
| Claims and Judgments | 26,012 | 4,257 | 14,074 | 5 | |
| Capital Lease Obligations | 3,098 | 2,733 | 155 | 6,632 | |
| Employees' Compensable Leave | 156,199 | 93,259 | 35,077 | 12,063 | 10,018 |
| Notes and Loans Payable | 22,181 | 195,325 | | | |
| General Obligation Bonds Payable | | | | | |
| Revenue Bonds Payable | 5,508,973 | 2,222,470 | 520,389 | 842,330 | 732,136 |
| Assets Held for Others | 775,951 | 71,533 | | | |
| Net OPEB Obligation | 2,263,867 | 603,878 | | | |
| Hedging Derivative Liability | 334,084 | | | | |
| Other Noncurrent Liabilities | 64,207 | 23,784 | 562 | | 2,524 |
| Total Noncurrent Liabilities | <u>9,897,773</u> | <u>3,221,330</u> | <u>570,257</u> | <u>861,030</u> | <u>744,678</u> |
| Total Liabilities | <u>16,028,987</u> | <u>4,519,922</u> | <u>946,186</u> | <u>1,213,444</u> | <u>1,215,248</u> |
| NET POSITION | | | | | |
| Invested in Capital Assets, Net of Related Debt | 5,265,136 | 1,284,223 | 862,710 | 450,813 | 518,393 |
| Restricted for: | | | | | |
| Education | 1,654,456 | 263,085 | 285,518 | 156,605 | 74,822 |
| Debt Retirement | 5,665 | | 27,939 | 55,229 | 3,194 |
| Capital Projects | 235,369 | 84,373 | 17,551 | 2,219 | 83,856 |
| Funds Held as Permanent Investments: | | | | | |
| Nonexpendable | 14,308,698 | 404,634 | 624,472 | 370,404 | 113,329 |
| Expendable | 5,705,278 | 133,894 | 37,769 | 42,725 | 13,222 |
| Unrestricted | 4,460,329 | 2,062,778 | 702,314 | 370,516 | 329,446 |
| Total Net Position | <u>\$31,634,931</u> | <u>\$4,232,987</u> | <u>\$2,558,273</u> | <u>\$1,448,511</u> | <u>\$1,136,262</u> |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|----------------------------------|--------------------------|------------------------------------|---------------------------|-----------------------------|-------------------------------|----------------------|
| \$ 23,225 | \$ 2,401 | \$ 3,198 | \$ 8,558 | \$ 2,288 | \$ 5,241 | \$ 1,414,213 |
| 29,963 | 5,178 | 8,036 | 7,116 | 3,995 | 6,432 | 709,927 |
| | 1,717 | | | | | 18,432 |
| | 1,742 | | | | 171 | 31,365 |
| | | | | | | 387,454 |
| | | 2,709 | 1,990 | | 254 | 4,953 |
| 130 | 324 | 1,292 | 36 | | | 26,699 |
| | | 1,496 | | 252 | | 25,794 |
| 166,140 | 37,862 | 62,470 | 46,995 | 23,001 | 16,447 | 2,763,882 |
| | | | | | | 511,401 |
| | | | | | | 16,708 |
| 7 | 223 | 84 | | 19 | 582 | 3,514 |
| 2,737 | 2,034 | 427 | 2,574 | 180 | 588 | 361,498 |
| 2,434 | | 782 | 2,462 | | | 673,538 |
| | | 960 | 5,021 | 1,405 | 1,694 | 9,080 |
| 23,488 | 4,691 | 8,485 | 7,987 | 3,748 | 2,579 | 1,849,393 |
| 13,804 | | 15,244 | | 95 | 1,501 | 142,843 |
| | | | | | | 2,244 |
| 9,598 | 1,149 | 3,630 | 13,624 | 68 | 1,278 | 281,622 |
| <u>271,526</u> | <u>57,321</u> | <u>108,813</u> | <u>96,363</u> | <u>35,051</u> | <u>36,767</u> | <u>9,234,560</u> |
| | | | | | | |
| | | 11,195 | | 2,041 | 6,018 | 766,546 |
| | | | | | | 44,348 |
| 3 | 1,167 | 170 | | 95 | 4,071 | 18,124 |
| 18,083 | 1,261 | 3,440 | 2,766 | 1,325 | 4,710 | 338,201 |
| 39,198 | | 807 | 61,043 | | | 318,554 |
| | | 6,540 | 9,241 | 1,455 | 3,600 | 20,836 |
| 441,576 | 78,247 | 152,805 | 93,723 | 76,750 | 62,488 | 10,731,887 |
| 1,702 | | | | | | 849,186 |
| | | | | | | 2,867,745 |
| | | | | | | 334,084 |
| 1,555 | | | 66 | 179 | | 92,877 |
| <u>502,117</u> | <u>80,675</u> | <u>174,957</u> | <u>166,839</u> | <u>81,845</u> | <u>80,887</u> | <u>16,382,388</u> |
| | | | | | | |
| 773,643 | 137,996 | 283,770 | 263,202 | 116,896 | 117,654 | 25,616,948 |
| | | | | | | |
| 348,266 | 153,127 | 54,155 | 65,279 | 50,205 | 80,715 | 9,133,022 |
| | | | | | | |
| 53,947 | 27,801 | 14,136 | 65 | | 1,177 | 2,531,612 |
| 516 | 4,923 | | 2,818 | | 78 | 100,362 |
| 45,917 | 59,532 | 102 | | 6,409 | 172 | 535,500 |
| | | | | | | |
| 46,439 | 10,687 | 6,966 | 36,558 | 4,130 | 619 | 15,926,936 |
| 3,011 | | 2,780 | | 6,903 | | 5,945,582 |
| 266,058 | 110,875 | 56,438 | 43,387 | 28,218 | 43,399 | 8,473,758 |
| <u>\$ 764,154</u> | <u>\$ 366,945</u> | <u>\$ 134,577</u> | <u>\$ 148,107</u> | <u>\$ 95,865</u> | <u>\$ 126,160</u> | <u>\$ 42,646,772</u> |

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | University of Texas System | Texas A&M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|--|
| OPERATING REVENUES | | | | | |
| Tuition Revenue | \$ | \$ 33,740 | \$ 7,684 | \$ | \$ |
| Tuition Revenue – Pledged | 1,851,366 | 964,287 | 416,376 | 529,723 | 543,316 |
| Discounts and Allowances | (458,153) | (228,045) | (92,619) | (87,461) | (127,370) |
| Hospital Revenue – Pledged | 9,050,488 | | | | |
| Discounts and Allowances | (4,912,239) | | | | |
| Professional Fees | 4,084,298 | 925 | 247,383 | | |
| Professional Fees – Pledged | 4,500 | 451 | 1,384 | | |
| Discounts and Allowances | (2,857,643) | | (25,888) | | |
| Auxiliary Enterprises | | | | | |
| Auxiliary Enterprises – Pledged | 453,120 | 271,551 | 127,435 | 68,546 | 117,925 |
| Discounts and Allowances | (13,784) | (28,888) | | | |
| Other Sales of Goods and Services | | 21,199 | 3,413 | | |
| Other Sales of Goods and Services – Pledged | 387,130 | 216,992 | 10,385 | 37,866 | 23,826 |
| Discounts and Allowances | (202) | | | | |
| Interest and Investment Income | | 1,881 | | | |
| Interest and Investment Income – Pledged | | | | | |
| Federal Revenue | 1,394,359 | 412,683 | 59,848 | 60,408 | 33,760 |
| State Grant Revenue | | 1,166 | 7,529 | 9,515 | 5,224 |
| Other Operating Grant Revenue | 362,796 | 201,983 | 154,335 | | 6,859 |
| Other Operating Grant Revenue – Pledged | 651,957 | 23,930 | 3,341 | 19,298 | |
| Other Revenues | 7,484 | 33,506 | | | 108 |
| Other Revenues – Pledged | 102,414 | 24,658 | | 894 | 11,442 |
| Total Operating Revenues | <u>10,107,891</u> | <u>1,952,019</u> | <u>920,606</u> | <u>638,789</u> | <u>615,090</u> |
| OPERATING EXPENSES | | | | | |
| Cost of Goods Sold | 92,127 | 20,259 | 11,783 | 2,467 | 7,007 |
| Salaries and Wages | 6,316,379 | 1,506,447 | 714,652 | 509,940 | 451,292 |
| Payroll Related Costs | 1,508,504 | 318,910 | 123,831 | 87,344 | 91,226 |
| Professional Fees and Services | 354,742 | 232,007 | 58,959 | 57,522 | 47,632 |
| Travel | 133,635 | 74,051 | 23,961 | 13,928 | 15,038 |
| Materials and Supplies | 1,382,170 | 224,619 | 68,039 | 38,255 | 85,440 |
| Communication and Utilities | 393,135 | 132,386 | 46,807 | 46,436 | 48,086 |
| Repairs and Maintenance | 233,002 | 96,738 | 33,957 | 14,912 | 19,244 |
| Rentals and Leases | 130,238 | 51,381 | 14,316 | 24,037 | 6,566 |
| Printing and Reproduction | 33,627 | 12,265 | 5,054 | 4,129 | 4,302 |
| Depreciation and Amortization | 1,015,622 | 235,012 | 113,594 | 78,676 | 69,615 |
| Bad Debt Expense | 2,688 | 1,011 | 1,169 | | 900 |
| Interest Expense | | 53 | 14 | 1,958 | 11 |
| Scholarships | 381,664 | 192,082 | 55,166 | 87,991 | 114,173 |
| Claims and Judgments | 11,426 | 5,296 | 1,113 | 1,389 | 84 |
| Net Change in Pension/OPEB Obligations | 497,215 | 127,069 | | | |
| Other Expenses | 851,437 | 269,853 | 91,195 | 35,139 | 27,511 |
| Total Operating Expenses | <u>13,337,611</u> | <u>3,499,439</u> | <u>1,363,610</u> | <u>1,004,123</u> | <u>988,127</u> |
| Operating Loss | <u>(3,229,720)</u> | <u>(1,547,420)</u> | <u>(443,004)</u> | <u>(365,334)</u> | <u>(373,037)</u> |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|----------------------------------|--------------------------|------------------------------------|---------------------------|-----------------------------|-------------------------------|-------------------|
| \$ 6,627 | \$ 808 | \$ 3,747 | \$ | \$ | \$ 7,673 | \$ 60,279 |
| 310,109 | 89,506 | 87,270 | 82,526 | 40,644 | 36,954 | 4,952,077 |
| (64,211) | (20,885) | (22,373) | (20,716) | (11,250) | (22,316) | (1,155,399) |
| | | | | | | 9,050,488 |
| | | | | | | (4,912,239) |
| 78,727 | | | | | | 4,411,333 |
| | | | | | | 6,335 |
| | | | | | | (2,883,531) |
| 1,275 | | 1,674 | | | 907 | 3,856 |
| 51,136 | 27,562 | 37,657 | 11,919 | 8,258 | 13,185 | 1,188,294 |
| (273) | (4,963) | (9,647) | | | (3,963) | (61,518) |
| | | 1,139 | | | | 25,751 |
| 34,551 | | 4,721 | 226 | 1,166 | 4,969 | 721,832 |
| | | | | | | (202) |
| | | | | | | 1,881 |
| | | | | | 104 | 104 |
| 49,704 | 3,274 | 5,053 | 38,226 | 1,399 | 6,526 | 2,065,240 |
| 2,702 | | | 1,233 | | | 27,369 |
| 16,934 | 1,059 | 1,058 | | 210 | 2,373 | 747,607 |
| | | | 894 | | | 699,420 |
| 39 | 744 | | 4,654 | | | 46,535 |
| 559 | 734 | 20 | | 1,586 | | 142,307 |
| <u>487,879</u> | <u>97,839</u> | <u>110,319</u> | <u>118,962</u> | <u>42,013</u> | <u>46,412</u> | <u>15,137,819</u> |
| | | | | | | |
| 717 | 58 | 8,496 | | | 4,393 | 147,307 |
| 390,157 | 84,468 | 85,570 | 89,578 | 36,796 | 67,865 | 10,253,144 |
| 66,873 | 15,241 | 15,888 | 15,640 | 7,249 | 12,833 | 2,263,539 |
| 32,685 | 2,782 | 2,992 | 6,818 | 3,391 | 837 | 800,367 |
| 10,876 | 1,813 | 2,402 | 3,439 | 1,413 | 1,064 | 281,620 |
| 51,656 | 13,590 | 13,262 | 11,769 | 5,273 | 12,163 | 1,906,236 |
| 16,543 | 7,076 | 10,523 | 6,214 | 2,974 | 6,452 | 716,632 |
| 20,475 | 3,801 | 5,459 | 4,488 | 2,021 | 2,466 | 436,563 |
| 7,078 | 2,031 | 1,738 | 2,457 | 629 | 1,344 | 241,815 |
| 4,043 | 642 | 561 | 716 | 111 | 100 | 65,550 |
| 49,831 | 14,433 | 16,340 | 14,270 | 9,748 | 9,804 | 1,626,945 |
| 420 | 906 | 354 | 2,175 | 121 | | 9,744 |
| 1 | | | | | 2 | 2,039 |
| 63,978 | 15,790 | 19,466 | 26,616 | 8,539 | 12,440 | 977,905 |
| | | | | | | 19,308 |
| | | | | | | 624,284 |
| 51,167 | 6,724 | 4,577 | 11,773 | | 8,907 | 1,358,283 |
| <u>766,500</u> | <u>169,355</u> | <u>187,628</u> | <u>195,953</u> | <u>78,265</u> | <u>140,670</u> | <u>21,731,281</u> |
| | | | | | | |
| (278,621) | (71,516) | (77,309) | (76,991) | (36,252) | (94,258) | (6,593,462) |

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | University of Texas System | Texas A&M University System | Texas Tech University System | University of Houston System | Texas State University System |
|---|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|--|
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Federal Revenue | \$ 338,058 | \$ 199,778 | \$ 45,246 | \$ 78,356 | \$ 103,779 |
| Gifts | 306,255 | 99,298 | 81,187 | | 31,865 |
| Gifts – Pledged | 25,571 | 20,400 | 4,011 | 78,122 | |
| Land Income | | 6,398 | | | |
| Interest and Investment Income | 3,293,123 | 76,579 | 36,020 | | 11,948 |
| Interest and Investment Income – Pledged | 285,051 | 70,120 | 10,191 | 31,619 | |
| Investing Activities Expense | (71,800) | (3,925) | | | |
| Interest Expense | (268,856) | (106,367) | (24,016) | (38,013) | (36,692) |
| Borrower Rebates and Agent Fees | | (2,185) | | | |
| Gain (Loss) on Sale of Capital Assets | (14,735) | 543 | (1,066) | | (431) |
| Claims and Judgments | | (167) | | | (255) |
| Other Revenues | | 7,536 | 9,610 | | |
| Other Revenues – Pledged | 17,798 | 7,477 | 1,323 | 48,734 | (69) |
| Other Expenses | (28,862) | (52,617) | | (38,990) | (2,216) |
| Total Nonoperating Revenues (Expenses) | <u>3,881,603</u> | <u>322,868</u> | <u>162,506</u> | <u>159,828</u> | <u>107,929</u> |
| Income (Loss) Before Capital Contributions, Endowments and Transfers | <u>651,883</u> | <u>(1,224,552)</u> | <u>(280,498)</u> | <u>(205,506)</u> | <u>(265,108)</u> |
| CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS | | | | | |
| Capital Contributions – Federal | 15,260 | | | | 29 |
| Capital Contributions – Other | 213,519 | 2,151 | 11,663 | 4 | 3,116 |
| Contributions to Permanent and Term Endowments | 119,071 | 5,400 | 661 | 8,313 | 1,197 |
| Transfer In | 2,441,267 | 1,484,545 | 420,867 | 339,027 | 336,717 |
| Transfer Out | (516,311) | (14,842) | (15,037) | (9,092) | (9,409) |
| Total Capital Contributions, Endowments and Transfers | <u>2,272,806</u> | <u>1,477,254</u> | <u>418,154</u> | <u>338,252</u> | <u>331,650</u> |
| Change in Net Position | <u>2,924,689</u> | <u>252,702</u> | <u>137,656</u> | <u>132,746</u> | <u>66,542</u> |
| Net Position, September 1, 2011 | 28,734,619 | 3,977,927 | 2,420,617 | 1,315,996 | 1,065,290 |
| Restatements | (24,377) | 2,358 | | (231) | 4,430 |
| Net Position, September 1, 2011, as Restated | <u>28,710,242</u> | <u>3,980,285</u> | <u>2,420,617</u> | <u>1,315,765</u> | <u>1,069,720</u> |
| Net Position, August 31, 2012 | <u>\$31,634,931</u> | <u>\$4,232,987</u> | <u>\$2,558,273</u> | <u>\$1,448,511</u> | <u>\$1,136,262</u> |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|----------------------------------|--------------------------|------------------------------------|---------------------------|-----------------------------|-------------------------------|----------------------|
| \$ 44,415 | \$ 20,062 | \$ 22,201 | \$ | \$ 8,794 | \$ 26,611 | \$ 887,300 |
| 12,284 | 1,186 | 2,905 | | 6,722 | | 541,702 |
| | | 10 | 2,112 | | 726 | 130,952 |
| | | 117 | | 10 | | 6,525 |
| 6,333 | 1,006 | 798 | 1,681 | 16 | 99 | 3,427,603 |
| | 4,234 | 977 | 3,284 | 2,112 | 157 | 407,745 |
| (148) | | (105) | (277) | | | (76,255) |
| (21,587) | (3,860) | (7,446) | (7,630) | (3,575) | (3,377) | (521,419) |
| | | | | | | (2,185) |
| (583) | (4,223) | (379) | | (46) | (115) | (21,035) |
| (264) | | | | | | (686) |
| 2,997 | | 94 | | | 19 | 20,256 |
| | | | 10,208 | | | 85,471 |
| (988) | (14) | (560) | | (2) | (10,158) | (134,407) |
| <u>42,459</u> | <u>18,391</u> | <u>18,612</u> | <u>9,378</u> | <u>14,031</u> | <u>13,962</u> | <u>4,751,567</u> |
| <u>(236,162)</u> | <u>(53,125)</u> | <u>(58,697)</u> | <u>(67,613)</u> | <u>(22,221)</u> | <u>(80,296)</u> | <u>(1,841,895)</u> |
| | | | | | | 15,289 |
| 1,617 | | 88 | 38 | 4,999 | 7,196 | 244,391 |
| 1,688 | | 97 | 151 | 222 | | 136,800 |
| 249,218 | 66,338 | 60,661 | 76,547 | 24,991 | 82,275 | 5,582,453 |
| (5,656) | (2,161) | (1,199) | (831) | (962) | (926) | (576,426) |
| <u>246,867</u> | <u>64,177</u> | <u>59,647</u> | <u>75,905</u> | <u>29,250</u> | <u>88,545</u> | <u>5,402,507</u> |
| <u>10,705</u> | <u>11,052</u> | <u>950</u> | <u>8,292</u> | <u>7,029</u> | <u>8,249</u> | <u>3,560,612</u> |
| 753,479 | 355,730 | 133,646 | 139,955 | 88,899 | 117,978 | 39,104,136 |
| (30) | 163 | (19) | (140) | (63) | (67) | (17,976) |
| <u>753,449</u> | <u>355,893</u> | <u>133,627</u> | <u>139,815</u> | <u>88,836</u> | <u>117,911</u> | <u>39,086,160</u> |
| <u>\$ 764,154</u> | <u>\$ 366,945</u> | <u>\$ 134,577</u> | <u>\$ 148,107</u> | <u>\$ 95,865</u> | <u>\$ 126,160</u> | <u>\$ 42,646,772</u> |

STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund**

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | University of Texas System | Texas A&M University System | Texas Tech University System | University of Houston System | Texas State University System |
|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Proceeds from Customers | \$ 5,292,226 | \$ 235,480 | \$ 239,060 | \$ 37,607 | \$ 17,680 |
| Proceeds from Tuition and Fees | 1,421,171 | 757,834 | 328,631 | 440,123 | 435,022 |
| Proceeds from Research Grants and Contracts | 2,401,810 | 792,047 | 237,311 | 123,844 | 39,273 |
| Proceeds from Loan Programs | 105,840 | 8,199 | 1,583 | 148,142 | 35,682 |
| Proceeds from Auxiliaries | 443,805 | 232,700 | 123,385 | 67,639 | 117,067 |
| Proceeds from Other Operating Revenues | 507,889 | 68,850 | | 931 | 18,255 |
| Payments to Suppliers for Goods and Services | (4,159,886) | (1,117,426) | (190,468) | (210,929) | (290,011) |
| Payments to Employees | (7,794,276) | (1,829,059) | (842,549) | (596,820) | (538,782) |
| Payments for Loans Provided | (108,976) | (9,050) | (785) | (154,798) | (35,895) |
| Payments for Other Operating Expenses | | (228,729) | (234,908) | (110,566) | (97,935) |
| Net Cash Used by Operating Activities | <u>(1,890,397)</u> | <u>(1,089,154)</u> | <u>(338,740)</u> | <u>(254,827)</u> | <u>(299,644)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Proceeds from Debt Issuance | | | | | 1,995 |
| Proceeds from Gifts | 346,952 | 135,517 | 64,586 | 53,417 | 33,177 |
| Proceeds from Endowments | 115,942 | 5,400 | | 8,313 | 106 |
| Proceeds from Transfers from Other Funds | 2,229,333 | 1,319,169 | 337,309 | 339,888 | 301,629 |
| Proceeds from Loan Programs | | | | | 25 |
| Proceeds from Grant Receipts | | 210,854 | 45,256 | 78,380 | 103,653 |
| Proceeds from Interfund Payables | | | | | 71,415 |
| Proceeds from Other Noncapital Financing Activities | 332,045 | 99,977 | 74,706 | | 851 |
| Payments of Principal on Debt Issuance | | | | | (36,450) |
| Payments of Interest | | | | | (37,145) |
| Payments of Other Costs of Debt Issuance | | | | | (122) |
| Payments for Transfers to Other Funds | (239,528) | (14,314) | (9,933) | (46,741) | (3,706) |
| Payments for Grant Disbursements | | | | | |
| Payments for Other Noncapital Uses | <u>(5,087)</u> | <u>(64,473)</u> | <u>(12,999)</u> | <u>(863)</u> | <u>(10,709)</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>2,779,657</u> | <u>1,692,130</u> | <u>498,925</u> | <u>432,394</u> | <u>424,719</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Proceeds from Sale of Capital Assets | 3,986 | 1,574 | 148 | | |
| Proceeds from Debt Issuance | 912,381 | 691,494 | 263,583 | 287,112 | 13,378 |
| Proceeds from State Grants and Contracts | | 24,176 | | | |
| Proceeds from Federal Grants and Contracts | | | | | 11 |
| Proceeds from Gifts | | | | | |
| Proceeds from Other Capital and Related Financing Activities | | 40 | | 114,509 | 24,091 |
| Proceeds from Capital Contributions | 242,178 | | 52,076 | 50,929 | |
| Proceeds from Interfund Payables | | 4,711 | | | |
| Payments for Additions to Capital Assets | (1,662,436) | (436,508) | (156,029) | (189,343) | (157,197) |
| Payments of Principal on Debt Issuance | (691,981) | (475,007) | (219,875) | (99,515) | (49,051) |
| Payments for Capital Leases | | (416) | | (366) | (21) |
| Payments of Interest on Debt Issuance | (268,981) | (106,367) | (27,129) | (38,014) | (17,722) |
| Payments of Other Costs on Debt Issuance | (8,272) | (2,182) | (1,538) | (143,803) | (540) |
| Payments for Interfund Receivables | | (3,256) | | | |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(1,473,125)</u> | <u>(301,741)</u> | <u>(88,764)</u> | <u>(18,491)</u> | <u>(187,051)</u> |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|----------------------------------|--------------------------|------------------------------------|---------------------------|-----------------------------|-------------------------------|--------------------|
| \$ 123,342 | \$ | \$ 5,716 | \$ | \$ | \$ 5,201 | \$ 5,956,312 |
| 256,322 | 69,429 | 72,082 | 58,597 | 29,688 | 20,784 | 3,889,683 |
| 70,519 | 4,334 | 3,718 | 47,811 | 1,672 | 9,449 | 3,731,788 |
| 8,201 | | | | | | 307,647 |
| 52,138 | 22,598 | 29,740 | 11,919 | 8,320 | 9,935 | 1,119,246 |
| 552 | 1,477 | 20 | 1,074 | 2,752 | | 601,800 |
| (235,350) | (38,481) | (49,620) | | (17,651) | (35,961) | (6,345,783) |
| (471,779) | (99,709) | (101,504) | (104,439) | (43,438) | (82,540) | (12,504,895) |
| (6,193) | (9,595) | (21,368) | | | | (346,660) |
| (84,450) | | (529) | (75,530) | (8,613) | (13,543) | (854,803) |
| <u>(286,698)</u> | <u>(49,947)</u> | <u>(61,745)</u> | <u>(60,568)</u> | <u>(27,270)</u> | <u>(86,675)</u> | <u>(4,445,665)</u> |
| | | | | | | 1,995 |
| 10,831 | 1,186 | 2,915 | 3,053 | 4,766 | | 656,400 |
| 1,688 | | | | 222 | | 131,671 |
| 227,566 | 65,498 | 54,972 | 86,422 | 20,875 | 78,770 | 5,061,431 |
| | 20,062 | | | | | 20,087 |
| 44,180 | | 22,201 | | 8,814 | 26,611 | 539,949 |
| | | | | | | 71,415 |
| 3,647 | | | | | 18 | 511,244 |
| | | | | | | (36,450) |
| | | | | | | (37,145) |
| | | | | | | (122) |
| (2,527) | (36) | (1,199) | (126) | (962) | | (319,072) |
| | | (560) | | | | (560) |
| <u>(968)</u> | <u></u> | <u>(111)</u> | <u></u> | <u>(2)</u> | <u>(9,734)</u> | <u>(104,946)</u> |
| <u>284,417</u> | <u>86,710</u> | <u>78,218</u> | <u>89,349</u> | <u>33,713</u> | <u>95,665</u> | <u>6,495,897</u> |
| | | 3 | | | | 5,711 |
| 55,997 | 17,915 | 3,202 | 64,180 | 43 | 32,706 | 2,341,991 |
| | | 8,426 | | | | 32,602 |
| | | | | | | 11 |
| | | | | | 3,868 | 3,868 |
| 25,153 | | 126 | | 3,559 | | 167,478 |
| 1,444 | | 88 | | 3,889 | | 350,604 |
| | | | | | 2,523 | 7,234 |
| (89,309) | (14,480) | (11,830) | (80,759) | (4,617) | (19,929) | (2,822,437) |
| (19,708) | (23,410) | (10,863) | (14,036) | (4,920) | (10,545) | (1,618,911) |
| | (212) | | | (12) | | (1,027) |
| (25,557) | (3,860) | (7,667) | (7,699) | (3,575) | (3,391) | (509,962) |
| (825) | | | | | (1,349) | (158,509) |
| | | | | | | (3,256) |
| <u>(52,805)</u> | <u>(24,047)</u> | <u>(18,515)</u> | <u>(38,314)</u> | <u>(5,633)</u> | <u>3,883</u> | <u>(2,204,603)</u> |

Concluded on the following page

STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund (concluded)**

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | University of Texas System | Texas A&M University System | Texas Tech University System | University of Houston System | Texas State University System |
|--|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|--|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Proceeds from Sale of Investments | \$ 9,921,694 | \$ 1,603,339 | \$ 389,701 | \$ 577,782 | \$ 186,463 |
| Proceeds from Interest and Investment Income | 1,370,544 | 47,682 | 55,726 | 13,870 | 3,493 |
| Payments to Acquire Investments | (10,424,839) | (1,720,649) | (461,471) | (690,495) | (198,722) |
| Net Cash Provided (Used) by Investing Activities | <u>867,399</u> | <u>(69,628)</u> | <u>(16,044)</u> | <u>(98,843)</u> | <u>(8,766)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>283,534</u> | <u>231,607</u> | <u>55,377</u> | <u>60,233</u> | <u>(70,742)</u> |
| Cash and Cash Equivalents, September 1, 2011 | <u>2,176,289</u> | <u>861,794</u> | <u>464,693</u> | <u>323,656</u> | <u>608,243</u> |
| Cash and Cash Equivalents, August 31, 2012 | <u>\$ 2,459,823</u> | <u>\$ 1,093,401</u> | <u>\$ 520,070</u> | <u>\$ 383,889</u> | <u>\$ 537,501</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | | | | |
| Operating Loss | \$ (3,229,720) | \$ (1,547,420) | \$ (443,004) | \$ (365,334) | \$ (373,037) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | | | | |
| Depreciation and Amortization | 1,015,622 | 235,012 | 113,594 | 78,676 | 69,615 |
| Bad Debt Expense | 249,415 | 2,218 | 1,169 | | 581 |
| Operating Loss and Cash Flow Categories Classification Differences | (51,592) | (84) | (2) | (6,675) | (273) |
| Changes in Assets and Liabilities: | | | | | |
| (Increase) Decrease in Receivables | (333,302) | 18,144 | 2,582 | 28,786 | (26,664) |
| (Increase) Decrease in Due From Other Funds | | (1,316) | 1,323 | | (1,763) |
| (Increase) Decrease in Inventories | (7,857) | (742) | (449) | 61 | 381 |
| (Increase) Decrease in Notes Receivable | | | 532 | | (650) |
| (Increase) Decrease in Loans and Contracts | (3,135) | (951) | | | (1,755) |
| (Increase) Decrease in Other Assets | (43,046) | 586 | | (7,892) | 1 |
| (Increase) Decrease in Prepaid Expenses | | (6,813) | (6,765) | 1,624 | 4,703 |
| Increase (Decrease) in Payables | (79,802) | 52,176 | (2,063) | 10,791 | (11,177) |
| Increase (Decrease) in Deposits | (8,084) | 2,745 | | | 19 |
| Increase (Decrease) in Due To Other Funds | | 1,069 | 695 | | 1,183 |
| Increase (Decrease) in Unearned Revenue | 75,936 | 21,880 | (1,457) | 4,362 | 38,119 |
| Increase (Decrease) in Employees' Compensable Leave | 20,118 | 1,267 | (1,107) | (544) | 1,093 |
| Increase (Decrease) in Benefits Payable | 497,214 | 127,068 | (1,708) | 1,007 | 859 |
| Increase (Decrease) in Other Liabilities | 7,836 | 6,007 | (2,080) | 311 | (879) |
| Total Adjustments | <u>1,339,323</u> | <u>458,266</u> | <u>104,264</u> | <u>110,507</u> | <u>73,393</u> |
| Net Cash Used by Operating Activities | <u>\$ (1,890,397)</u> | <u>\$ (1,089,154)</u> | <u>\$ (338,740)</u> | <u>\$ (254,827)</u> | <u>\$ (299,644)</u> |
| NONCASH TRANSACTIONS | | | | | |
| Donation of Capital Assets | \$ 57,245 | \$ 2,083 | \$ 11,663 | \$ | \$ 527 |
| Net Change in Fair Value of Investments | \$ 1,558,117 | \$ 95,034 | \$ 18,561 | \$ 16,097 | \$ 8,118 |
| Borrowing Under Capital Lease Purchase | \$ 2,266 | \$ | \$ 274 | \$ | \$ |
| Other | \$ (26,311) | \$ 306,899 | \$ (915) | \$ | \$ (93) |

| University of North Texas System | Texas Woman's University | Stephen F. Austin State University | Texas Southern University | Midwestern State University | Texas State Technical College | Totals |
|----------------------------------|--------------------------|------------------------------------|---------------------------|-----------------------------|-------------------------------|-----------------------|
| \$ 39,414 | \$ 39,974 | \$ | \$ 448 | \$ 14,072 | \$ 10,513 | \$ 12,783,400 |
| 4,520 | 4,567 | 1,522 | 1,404 | 720 | 316 | 1,504,364 |
| (68,556) | (52,819) | (5,866) | (10,644) | (14,453) | (25,802) | (13,674,316) |
| (24,622) | (8,278) | (4,344) | (8,792) | 339 | (14,973) | 613,448 |
| (79,708) | 4,438 | (6,386) | (18,325) | 1,149 | (2,100) | 459,077 |
| 386,694 | 12,344 | 67,564 | 66,690 | 5,688 | 39,161 | 5,012,816 |
| <u>\$ 306,986</u> | <u>\$ 16,782</u> | <u>\$ 61,178</u> | <u>\$ 48,365</u> | <u>\$ 6,837</u> | <u>\$ 37,061</u> | <u>\$ 5,471,893</u> |
| | | | | | | |
| \$ (278,621) | \$ (71,516) | \$ (77,309) | \$ (76,991) | \$ (36,252) | \$ (94,258) | \$ (6,593,462) |
| | | | | | | |
| 49,831 | 14,433 | 16,340 | 14,270 | 9,748 | 9,804 | 1,626,945 |
| 420 | 906 | 354 | | 121 | | 255,184 |
| 142 | | | 2,955 | (20) | (104) | (55,653) |
| (16,035) | 12,020 | 3,080 | 3,403 | (359) | (624) | (308,969) |
| (477) | 555 | (65) | | (1) | 889 | (378) |
| | (72) | (144) | (6) | 1 | 336 | (8,968) |
| | | | | | | (118) |
| 1,209 | | (528) | | 252 | | (4,908) |
| (10,250) | | (9) | | | 1 | (60,609) |
| | 44 | (1,011) | 1,254 | (89) | | (7,053) |
| (42,325) | (151) | (4,271) | 4,074 | (1,323) | (1,043) | (75,114) |
| | | | | | 277 | (5,043) |
| | (622) | 129 | | | | 2,454 |
| 9,490 | (5,454) | 2,765 | (4,837) | 639 | (1,478) | 139,965 |
| | (102) | 205 | 516 | 13 | (431) | 21,028 |
| | | | | | | 624,440 |
| (82) | 12 | (1,281) | (5,206) | | (44) | 4,594 |
| (8,077) | 21,569 | 15,564 | 16,423 | 8,982 | 7,583 | 2,147,797 |
| <u>\$ (286,698)</u> | <u>\$ (49,947)</u> | <u>\$ (61,745)</u> | <u>\$ (60,568)</u> | <u>\$ (27,270)</u> | <u>\$ (86,675)</u> | <u>\$ (4,445,665)</u> |
| | | | | | | |
| \$ (582) | \$ | \$ | \$ 1,469 | \$ | \$ 4,052 | \$ 76,457 |
| \$ 1,718 | \$ 674 | \$ 589 | \$ 3,284 | \$ 1,285 | \$ | \$ 1,703,477 |
| \$ | \$ | \$ | \$ | \$ | \$ 5 | \$ 2,545 |
| \$ 1,666 | \$ | \$ | \$ | \$ 445 | \$ 708 | \$ 282,399 |





Section Two
(continued)

Fiduciary
Funds
(And Similar Component Units)



Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **State Employees Retirement System (S.E.R.S.) Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who completed 20 or more years of service or became occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters’ Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state’s general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized

to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

August 31, 2012 (Amounts in Thousands)

| | Teacher Retirement System Trust Account | S.E.R.S. Trust Account | Law Enforcement and Custodial Officer Supplement Retirement Fund | Judicial Retirement System - Plan Two Trust Fund | Fire Fighters' Relief and Retirement Fund |
|---|--|------------------------------|---|---|--|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,188,154 | \$ 40,601 | \$ 2,011 | \$ 1,075 | \$ 229 |
| Securities Lending Collateral | 21,557,057 | 1,334,399 | 45,848 | 18,017 | |
| Investments: | | | | | |
| U.S. Government | 19,408,991 | 6,800,539 | 233,341 | 92,134 | |
| Corporate Equity | 22,026,999 | 6,380,862 | 218,941 | 86,448 | 29,333 |
| Corporate Obligations | 578,596 | 302,437 | 10,377 | 4,097 | |
| Foreign Securities | 25,959,294 | 5,186,598 | 177,963 | 70,268 | 19,796 |
| Externally Managed Investments | 33,867,730 | 2,025,667 | 69,505 | 27,444 | |
| Other | 8,151,620 | 1,021,944 | 35,010 | 13,779 | 17,737 |
| Receivables: | | | | | |
| Federal | | | | | |
| Interest and Dividends | 245,553 | 81,889 | 2,810 | 1,110 | 46 |
| Accounts | 127,122 | 57,480 | 601 | 687 | 1,151 |
| Investment Trades | 1,310,240 | 70,196 | 2,409 | 951 | 123 |
| Other | 446 | | | | |
| Due From Other Funds | 2,683 | 7,368 | | | |
| Prepaid Items | | 3,323 | 114 | 45 | |
| Properties, at Cost, Net of Accumulated Depreciation or Amortization | 29,086 | 11,454 | | | |
| Total Assets | <u>134,453,571</u> | <u>23,324,757</u> | <u>798,930</u> | <u>316,055</u> | <u>68,415</u> |
| LIABILITIES | | | | | |
| Payables: | | | | | |
| Accounts | \$ 31,222 | \$ 18,537 | \$ 446 | \$ 182 | \$ 142 |
| Investment Trades | 521,430 | 140,223 | 4,811 | 1,900 | 192 |
| Payroll | 3,024 | | | | |
| Annuities | 691,237 | | | | |
| Due To Other Funds | 77,360 | 3,275 | 157 | 45 | |
| Unearned Revenue | 29,989 | 558 | | | 142 |
| Employees' Compensable Leave Obligations/Securities Lending | 5,222 | 2,261 | | | |
| Other Liabilities | 21,535,537 | 1,334,259 | 45,843 | 18,015 | |
| Other Liabilities | 108,663 | | | | |
| Total Liabilities | <u>23,003,684</u> | <u>1,499,113</u> | <u>51,257</u> | <u>20,142</u> | <u>476</u> |
| NET POSITION | | | | | |
| Held in Trust for Pension Benefits and Other Purposes | <u>\$ 111,449,887</u> | <u>\$ 21,825,644</u> | <u>\$ 747,673</u> | <u>\$ 295,913</u> | <u>\$ 67,939</u> |

| Judicial Retirement System - Plan One Fund | Retired School Employees Group Insurance Trust | State Retiree Health Plan Trust | Deferred Compensation Trust Fund | State Employee Cafeteria Plan Trust Fund | TexaSaver Administrative Trust Fund | Totals |
|--|--|---------------------------------|----------------------------------|--|-------------------------------------|-----------------------|
| \$ | \$ 807,899 | \$ 27,742 | \$ 2,344 | \$ 7,914 | \$ 2,797 | \$ 2,080,766 |
| | | | | | | 22,955,321 |
| | | | | | | 26,535,005 |
| | | | | | | 28,742,583 |
| | | | | | | 895,507 |
| | | | | | | 31,413,919 |
| | | | | | | 35,990,346 |
| | | 109,579 | | | | 9,349,669 |
| | 9,970 | | | | | 9,970 |
| | 316 | 1 | | 3 | 1 | 331,729 |
| | 49,858 | 11,066 | 39 | 6,969 | 48 | 255,021 |
| | | | | | | 1,383,919 |
| | 1,000 | | | | | 1,446 |
| 292 | | 1,331 | | 8 | 55 | 11,737 |
| | | | | 250 | | 3,732 |
| | | | | | | 40,540 |
| <u>292</u> | <u>869,043</u> | <u>149,719</u> | <u>2,383</u> | <u>15,144</u> | <u>2,901</u> | <u>160,001,210</u> |
| \$ 292 | \$ 107,880 | \$ 127,724 | \$ 1,276 | \$ 11,681 | \$ | \$ 299,382 |
| | 110 | | | | | 668,556 |
| | | | | | | 3,134 |
| | 19,820 | 21,261 | 99 | 45 | 66 | 691,237 |
| | | 734 | 19 | | | 122,128 |
| | | | | | | 31,442 |
| | 219 | | | | | 7,702 |
| | | | | | | 22,933,654 |
| | | | | | | 108,663 |
| <u>292</u> | <u>128,029</u> | <u>149,719</u> | <u>1,394</u> | <u>11,726</u> | <u>66</u> | <u>24,865,898</u> |
| <u>\$ 0</u> | <u>\$ 741,014</u> | <u>\$ 0</u> | <u>\$ 989</u> | <u>\$ 3,418</u> | <u>\$ 2,835</u> | <u>\$ 135,135,312</u> |

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Teacher Retirement System Trust Account | S.E.R.S. Trust Account | Law Enforcement and Custodial Officer Supplement Retirement Fund | Judicial Retirement System - Plan Two Trust Fund | Fire Fighters' Relief and Retirement Fund |
|---|--|------------------------------|---|---|--|
| ADDITIONS | | | | | |
| Contributions: | | | | | |
| Member Contributions | \$ 2,188,020 | \$ 411,066 | \$ 7,287 | \$ 4,170 | \$ 3,891 |
| State Contributions | 1,395,040 | 347,121 | (3) | 4,150 | |
| Premium Contributions | | | | | |
| Federal Contributions | | | | | |
| Other Contributions | 795,277 | | | | |
| Total Contributions | <u>4,378,337</u> | <u>758,187</u> | <u>7,284</u> | <u>8,320</u> | <u>3,891</u> |
| Investment Income: | | | | | |
| From Investing Activities: | | | | | |
| Net Appreciation in Fair Value of Investments | 5,972,016 | 1,096,853 | 33,945 | 34,224 | 3,676 |
| Interest and Investment Income | 1,923,959 | 567,786 | 19,574 | 7,587 | 1,650 |
| Total Investing Income | <u>7,895,975</u> | <u>1,664,639</u> | <u>53,519</u> | <u>41,811</u> | <u>5,326</u> |
| Less Investing Activities Expense | 153,283 | 55,631 | 1,805 | 706 | 435 |
| Net Income from Investing Activities | <u>7,742,692</u> | <u>1,609,008</u> | <u>51,714</u> | <u>41,105</u> | <u>4,891</u> |
| From Securities Lending Activities: | | | | | |
| Securities Lending Income | 168,074 | 2,696 | 93 | 36 | |
| Less Securities Lending Expense: | | | | | |
| Borrower Rebates* | 28,029 | (3,490) | (120) | (47) | |
| Management Fees | 35,439 | 524 | 18 | 7 | |
| Net Income from Securities Lending | <u>104,606</u> | <u>5,662</u> | <u>195</u> | <u>76</u> | <u>0</u> |
| Total Net Investment Income | <u>7,847,298</u> | <u>1,614,670</u> | <u>51,909</u> | <u>41,181</u> | <u>4,891</u> |
| Other Additions: | | | | | |
| Other Revenue | 1,868 | 268 | 1 | | 2 |
| Transfer In | 15,011 | 71,329 | | | |
| Total Other Additions | <u>16,879</u> | <u>71,597</u> | <u>1</u> | <u>0</u> | <u>2</u> |
| Total Additions | <u>12,242,514</u> | <u>2,444,454</u> | <u>59,194</u> | <u>49,501</u> | <u>8,784</u> |
| DEDUCTIONS | | | | | |
| Benefits | 7,725,763 | 1,701,963 | 46,874 | 12,803 | 3,522 |
| Refunds of Contributions | 381,231 | 88,069 | 1,219 | 179 | |
| Transfer Out | 73,345 | 15,051 | | | |
| Administrative Expenses | 30,914 | 16,015 | 829 | 226 | 89 |
| Depreciation and Amortization Expense | 1,618 | 1,010 | | | |
| Interest Expense | | | | | |
| Other Expenses | 541 | 795 | 15 | 4 | 3 |
| Total Deductions | <u>8,213,412</u> | <u>1,822,903</u> | <u>48,937</u> | <u>13,212</u> | <u>3,614</u> |
| INCREASE (DECREASE) IN NET POSITION | <u>4,029,102</u> | <u>621,551</u> | <u>10,257</u> | <u>36,289</u> | <u>5,170</u> |
| NET POSITION | | | | | |
| Net Position, September 1, 2011 | 107,420,785 | 21,204,093 | 737,416 | 259,624 | 62,465 |
| Restatements | | | | | 304 |
| Net Position, September 1, 2011, as Restated | <u>107,420,785</u> | <u>21,204,093</u> | <u>737,416</u> | <u>259,624</u> | <u>62,769</u> |
| Net Position, August 31, 2012 | <u>\$ 111,449,887</u> | <u>\$ 21,825,644</u> | <u>\$ 747,673</u> | <u>\$ 295,913</u> | <u>\$ 67,939</u> |

* The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

| Judicial Retirement System - Plan One Fund | Retired School Employees Group Insurance Trust | State Retiree Health Plan Trust | Deferred Compensation Trust Fund | State Employee Cafeteria Plan Trust Fund | TexaSaver Administrative Trust Fund | Totals |
|--|--|---------------------------------|----------------------------------|--|-------------------------------------|-----------------------|
| \$ | \$ 176,751 | \$ 134,993 | \$ | \$ 94,072 | \$ | \$ 3,020,250 |
| | 245,618 | 483,636 | | | | 2,475,562 |
| | 363,348 | | | | | 363,348 |
| | 68,634 | 80,336 | | | | 148,970 |
| | 179,002 | | | 1,915 | | 976,194 |
| <u>0</u> | <u>1,033,353</u> | <u>698,965</u> | <u>0</u> | <u>95,987</u> | <u>0</u> | <u>6,984,324</u> |
| | | | | | | 7,140,714 |
| | 5,190 | 329 | 12 | 19 | 27 | 2,526,133 |
| <u>0</u> | <u>5,190</u> | <u>329</u> | <u>12</u> | <u>19</u> | <u>27</u> | <u>9,666,847</u> |
| | | 1 | | | | 211,861 |
| <u>0</u> | <u>5,190</u> | <u>328</u> | <u>12</u> | <u>19</u> | <u>27</u> | <u>9,454,986</u> |
| | | | | | | 170,899 |
| | | | | | | 24,372 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>35,988</u> |
| <u>0</u> | <u>5,190</u> | <u>328</u> | <u>12</u> | <u>19</u> | <u>27</u> | <u>110,539</u> |
| | | | | | | 9,565,525 |
| | | | 485 | 76 | 606 | 3,306 |
| 26,464 | 2,017 | | | | | 114,821 |
| <u>26,464</u> | <u>2,017</u> | <u>0</u> | <u>485</u> | <u>76</u> | <u>606</u> | <u>118,127</u> |
| 26,464 | 1,040,560 | 699,293 | 497 | 96,082 | 633 | 16,667,976 |
| 26,464 | 1,186,702 | 696,085 | | 92,093 | | 11,492,269 |
| | | | | | | 470,698 |
| | 3,708 | 3,014 | 437 | 447 | 576 | 88,396 |
| | | | | | | 56,255 |
| | | | | | | 2,628 |
| | | | | 12 | | 12 |
| | 6 | 194 | 15 | 2,027 | 20 | 3,620 |
| <u>26,464</u> | <u>1,190,416</u> | <u>699,293</u> | <u>452</u> | <u>94,579</u> | <u>596</u> | <u>12,113,878</u> |
| <u>0</u> | <u>(149,856)</u> | <u>0</u> | <u>45</u> | <u>1,503</u> | <u>37</u> | <u>4,554,098</u> |
| | 890,870 | | 944 | 1,915 | 2,798 | 130,580,910 |
| <u>0</u> | <u>890,870</u> | <u>0</u> | <u>944</u> | <u>1,915</u> | <u>2,798</u> | <u>304</u> |
| <u>\$ 0</u> | <u>\$ 741,014</u> | <u>\$ 0</u> | <u>\$ 989</u> | <u>\$ 3,418</u> | <u>\$ 2,835</u> | <u>\$ 135,135,312</u> |



Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the money received in the settlement of the State of Texas v. The American Tobacco Co., et. al., designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas College Savings Plans** receive money contributed by account holders, money acquired from private sources and income from investment of deposits. The plans may be used only to pay costs of program administration and operations, make payments to state, private or independent institutions of higher education and make refunds to account holders.

Other Private-Purpose Trust Funds account for other assets held in a trustee capacity where principal and income benefit individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Private-Purpose Trust Funds

August 31, 2012 (Amounts in Thousands)

| | Tobacco Settlement Permanent Trust (Political Subdivisions) | Texas Insurance Companies Assets Account - Reserve and Custodial Fund | Catastrophe Reserve Trust Fund | Inmate Trust and Employee Service Option Fund | Texas College Savings Plans | Other Private- Purpose Trust Funds | Totals |
|--|---|--|--------------------------------------|---|--------------------------------------|---|--------------------|
| ASSETS | | | | | | | |
| Cash and Cash Equivalents | \$ | \$259,554 | \$176,199 | \$6,391 | \$2,089 | \$42,675 | \$486,908 |
| Restricted Cash and Cash Equivalents | | | | | | 14 | 14 |
| Investments: | | | | | | | |
| U.S. Government | | | | 18,947 | | 1,232 | 20,179 |
| Corporate Equity | 256,175 | | | | | 11,264 | 267,439 |
| Corporate Obligations | | | | | | 2,388 | 2,388 |
| Other | 1,783,154 | | | | 355,998 | 15,529 | 2,154,681 |
| Receivables: | | | | | | | |
| Interest and Dividends | 46 | 1 | 1 | | 28 | 11 | 87 |
| Accounts | | | | | | 212 | 212 |
| Investment Trades | 15,053 | | | | 692 | | 15,745 |
| Other | | | | | 102 | 4,301 | 4,403 |
| Due From Other Funds | | | | | | 6 | 6 |
| Properties, at Cost, Net of Accumulated Depreciation or Amortization | | | | | | 843 | 843 |
| Other Assets | | 91,292 | | | | | 91,292 |
| Total Assets | 2,054,428 | 350,847 | 176,200 | 25,338 | 358,909 | 78,475 | 3,044,197 |
| LIABILITIES | | | | | | | |
| Payables: | | | | | | | |
| Accounts | \$1,035 | \$1 | \$ | \$2,505 | \$129 | \$17,187 | \$20,857 |
| Investment Trades | 1,976 | | | | 490 | | 2,466 |
| Interest | | | | | | 14 | 14 |
| Due To Other Funds | | | | | 3 | 5 | 8 |
| Unearned Revenue | | | | | 373 | 18 | 391 |
| Funds Held for Others | | 91,292 | | | | | 91,292 |
| Other Liabilities | | | | | 19 | | 19 |
| Total Liabilities | 3,011 | 91,293 | 0 | 2,505 | 1,014 | 17,224 | 115,047 |
| NET POSITION | | | | | | | |
| Held in Trust for Individuals, Organizations and Other Governments | 2,051,417 | 259,554 | 176,200 | 22,833 | 357,895 | 61,251 | 2,929,150 |
| Total Net Position | \$2,051,417 | \$259,554 | \$176,200 | \$22,833 | \$357,895 | \$61,251 | \$2,929,150 |

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Tobacco Settlement Permanent Trust (Political Subdivisions) | Texas Insurance Companies Assets Account - Reserve and Custodial Fund | Catastrophe Reserve Trust Fund | Inmate Trust and Employee Service Option Fund | Texas College Savings Plans | Other Private- Purpose Trust Funds | Totals |
|--|---|---|--------------------------------------|---|--------------------------------------|---|---------------------|
| ADDITIONS | | | | | | | |
| Contributions: | | | | | | | |
| Federal Contributions | \$ | \$ | \$ | \$ | \$ | \$ 7,299 | \$ 7,299 |
| Other Contributions | | | | | 121,453 | | 121,453 |
| Total Contributions | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>121,453</u> | <u>7,299</u> | <u>128,752</u> |
| Investment Income: | | | | | | | |
| From Investing Activities: | | | | | | | |
| Net Appreciation in | | | | | | | |
| Fair Value of Investments | 32,878 | | | | 27,285 | 458 | 60,621 |
| Interest and Investment Income | 24,164 | 208 | 120 | | 1,730 | 1,389 | 27,611 |
| Total Investing Income | <u>57,042</u> | <u>208</u> | <u>120</u> | <u>0</u> | <u>29,015</u> | <u>1,847</u> | <u>88,232</u> |
| Less Investing Activities Expense | | | | | | | |
| Net Income from Investing Activities | | | | | 1,420 | | 1,420 |
| | <u>57,042</u> | <u>208</u> | <u>120</u> | <u>0</u> | <u>27,595</u> | <u>1,847</u> | <u>86,812</u> |
| Total Net Investment Income | <u>57,042</u> | <u>208</u> | <u>120</u> | <u>0</u> | <u>27,595</u> | <u>1,847</u> | <u>86,812</u> |
| Other Additions: | | | | | | | |
| Settlement of Claims | | | | | | 4,964 | 4,964 |
| Other Revenue | | 111,793 | 46,164 | 143,879 | 384 | 3,115 | 305,335 |
| Total Other Additions | <u>0</u> | <u>111,793</u> | <u>46,164</u> | <u>143,879</u> | <u>384</u> | <u>8,079</u> | <u>310,299</u> |
| Total Additions | <u>57,042</u> | <u>112,001</u> | <u>46,284</u> | <u>143,879</u> | <u>149,432</u> | <u>17,225</u> | <u>525,863</u> |
| DEDUCTIONS | | | | | | | |
| Benefits | | | | | 95,151 | 586 | 95,737 |
| Transfer Out | | | | | | 188 | 188 |
| Intergovernmental Payments | 50,000 | | | | | 8,669 | 58,669 |
| Administrative Expenses | 6,063 | 20 | | | 386 | 304 | 6,773 |
| Depreciation and Amortization Expense | | | | | | 39 | 39 |
| Settlement of Claims | | 88,145 | | | | 5,519 | 93,664 |
| Interest Expense | | | | | | 4 | 4 |
| Other Expenses | | 43,724 | 8 | 143,556 | | 1,262 | 188,550 |
| Total Deductions | <u>56,063</u> | <u>131,889</u> | <u>8</u> | <u>143,556</u> | <u>95,537</u> | <u>16,571</u> | <u>443,624</u> |
| INCREASE (DECREASE) IN NET POSITION | <u>979</u> | <u>(19,888)</u> | <u>46,276</u> | <u>323</u> | <u>53,895</u> | <u>654</u> | <u>82,239</u> |
| NET POSITION | | | | | | | |
| Net Position, September 1, 2011 | <u>2,050,438</u> | <u>279,442</u> | <u>129,924</u> | <u>22,510</u> | <u>304,000</u> | <u>60,597</u> | <u>2,846,911</u> |
| Net Position, August 31, 2012 | <u>\$ 2,051,417</u> | <u>\$ 259,554</u> | <u>\$ 176,200</u> | <u>\$ 22,833</u> | <u>\$ 357,895</u> | <u>\$ 61,251</u> | <u>\$ 2,929,150</u> |



Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller's office for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

Other Agency Funds account for other resources held by the state in an agent capacity for individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Agency Funds

August 31, 2012 (Amounts in Thousands)

| | Texas Public Finance Authority Bond Escrow Account | Life, Health, Accident and Casualty Insurance Companies Trust Account | Texas Workers' Compensation Self Insurance Fund | City, County, MTA and SPD Sales Tax Trust Account | Other Agency Funds | Totals |
|---------------------------|--|--|---|---|--------------------------|--------------------|
| ASSETS | | | | | | |
| Cash and Cash Equivalents | \$ 148 | \$ 317 | \$ 8,980 | \$ 791,322 | \$ 269,567 | \$ 1,070,334 |
| Investments: | | | | | | |
| U.S. Government | 215,562 | | | | 42 | 215,604 |
| Corporate Equity | | | | | 177,289 | 177,289 |
| Corporate Obligations | | | | | 10 | 10 |
| Repurchase Agreements | | | | | 32,313 | 32,313 |
| Other | | | | | 59,870 | 59,870 |
| Receivables: | | | | | | |
| Interest and Dividends | 1,236 | | | | | 1,236 |
| Accounts | | | | | 7,979 | 7,979 |
| Other Intergovernmental | | | | | 2,358 | 2,358 |
| Due From Other Funds | | | | | 900 | 900 |
| Other Assets | | 1,095,984 | 535,066 | | 111,103 | 1,742,153 |
| Total Assets | <u>\$216,946</u> | <u>\$1,096,301</u> | <u>\$544,046</u> | <u>\$791,322</u> | <u>\$661,431</u> | <u>\$3,310,046</u> |
| LIABILITIES | | | | | | |
| Payables: | | | | | | |
| Accounts | \$ | \$ | \$ | \$ | \$ 205 | \$ 205 |
| Other Intergovernmental | | | | 791,322 | | 791,322 |
| Due To Other Funds | | | | | 27,229 | 27,229 |
| Funds Held for Others | 216,946 | 1,096,301 | 544,046 | | 633,986 | 2,491,279 |
| Other Liabilities | | | | | 11 | 11 |
| Total Liabilities | <u>\$216,946</u> | <u>\$1,096,301</u> | <u>\$544,046</u> | <u>\$791,322</u> | <u>\$661,431</u> | <u>\$3,310,046</u> |

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Balance September 1, 2011 | Additions | Deductions | Balance August 31, 2012 |
|--|------------------------------|----------------------|----------------------|----------------------------|
| Texas Public Finance Authority Bond Escrow Account | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 149 | \$ | \$ 1 | \$ 148 |
| Investments | 359,704 | | 144,142 | 215,562 |
| Interest and Dividends Receivable | 1,391 | | 155 | 1,236 |
| Total Assets | <u>\$ 361,244</u> | <u>\$ 0</u> | <u>\$ 144,298</u> | <u>\$ 216,946</u> |
| LIABILITIES | | | | |
| Funds Held for Others | \$ 361,244 | \$ | \$ 144,298 | \$ 216,946 |
| Total Liabilities | <u>\$ 361,244</u> | <u>\$ 0</u> | <u>\$ 144,298</u> | <u>\$ 216,946</u> |
| Life, Health, Accident and Casualty Insurance Companies Trust Account | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 278 | \$ 317 | \$ 278 | \$ 317 |
| Other Assets | 1,092,430 | 394,525 | 390,971 | 1,095,984 |
| Total Assets | <u>\$ 1,092,708</u> | <u>\$ 394,842</u> | <u>\$ 391,249</u> | <u>\$ 1,096,301</u> |
| LIABILITIES | | | | |
| Funds Held for Others | \$ 1,092,708 | \$ 394,842 | \$ 391,249 | \$ 1,096,301 |
| Total Liabilities | <u>\$ 1,092,708</u> | <u>\$ 394,842</u> | <u>\$ 391,249</u> | <u>\$ 1,096,301</u> |
| Texas Workers' Compensation Self-Insurance Fund | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 10,020 | \$ 13,069 | \$ 14,109 | \$ 8,980 |
| Other Assets | 563,466 | 535,066 | 563,466 | 535,066 |
| Total Assets | <u>\$ 573,486</u> | <u>\$ 548,135</u> | <u>\$ 577,575</u> | <u>\$ 544,046</u> |
| LIABILITIES | | | | |
| Accounts Payable | \$ | \$ 2,041 | \$ 2,041 | \$ |
| Funds Held for Others | 573,486 | 3,049 | 32,489 | 544,046 |
| Total Liabilities | <u>\$ 573,486</u> | <u>\$ 5,090</u> | <u>\$ 34,530</u> | <u>\$ 544,046</u> |
| City, County, MTA and SPD Sales Tax Trust Account | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 726,981 | \$ 7,829,206 | \$ 7,764,865 | \$ 791,322 |
| Total Assets | <u>\$ 726,981</u> | <u>\$ 7,829,206</u> | <u>\$ 7,764,865</u> | <u>\$ 791,322</u> |
| LIABILITIES | | | | |
| Payables: | | | | |
| Accounts | \$ | \$ 6,699,380 | \$ 6,699,380 | \$ |
| Other Intergovernmental | 726,981 | 791,322 | 726,981 | 791,322 |
| Funds Held for Others | | 8,556,187 | 8,556,187 | |
| Total Liabilities | <u>\$ 726,981</u> | <u>\$ 16,046,889</u> | <u>\$ 15,982,548</u> | <u>\$ 791,322</u> |

Concluded on the following page

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)

| | Balance September 1, 2011 | Additions | Deductions | Balance August 31, 2012 |
|----------------------------------|------------------------------|----------------------|----------------------|----------------------------|
| Other Agency Funds | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 617,117 | \$ 10,307,553 | \$ 10,655,103 | \$ 269,567 |
| Investments | 225,179 | 250,396 | 206,051 | 269,524 |
| Receivables: | | | | |
| Accounts | 7,233 | 9,305 | 8,559 | 7,979 |
| Other Intergovernmental | 918 | 1,440 | | 2,358 |
| Due From Other Funds | 738 | 1,766 | 1,604 | 900 |
| Interfund Receivable | | 122,061 | 122,061 | |
| Other Assets | 76,564 | 49,183 | 14,644 | 111,103 |
| Total Assets | <u>\$ 927,749</u> | <u>\$ 10,741,704</u> | <u>\$ 11,008,022</u> | <u>\$ 661,431</u> |
| LIABILITIES | | | | |
| Payables: | | | | |
| Accounts | \$ 229 | \$ 757,924 | \$ 757,948 | \$ 205 |
| Due To Other Funds | 2,988 | 920,598 | 896,357 | 27,229 |
| Interfund Payable | | 121,994 | 121,994 | |
| Funds Held for Others | 924,523 | 10,420,048 | 10,710,585 | 633,986 |
| Other Liabilities | 9 | 19 | 17 | 11 |
| Total Liabilities | <u>\$ 927,749</u> | <u>\$ 12,220,583</u> | <u>\$ 12,486,901</u> | <u>\$ 661,431</u> |
| Totals – All Agency Funds | | | | |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 1,354,545 | \$ 18,150,145 | \$ 18,434,356 | \$ 1,070,334 |
| Investments | 584,883 | 250,396 | 350,193 | 485,086 |
| Receivables: | | | | |
| Interest and Dividends | 1,391 | | 155 | 1,236 |
| Accounts | 7,233 | 9,305 | 8,559 | 7,979 |
| Other Intergovernmental | 918 | 1,440 | | 2,358 |
| Due From Other Funds | 738 | 1,766 | 1,604 | 900 |
| Interfund Receivable | | 122,061 | 122,061 | |
| Other Assets | 1,732,460 | 978,774 | 969,081 | 1,742,153 |
| Total Assets | <u>\$ 3,682,168</u> | <u>\$ 19,513,887</u> | <u>\$ 19,886,009</u> | <u>\$ 3,310,046</u> |
| LIABILITIES | | | | |
| Payables: | | | | |
| Accounts | \$ 229 | \$ 7,459,345 | \$ 7,459,369 | \$ 205 |
| Other Intergovernmental | 726,981 | 791,322 | 726,981 | 791,322 |
| Due To Other Funds | 2,988 | 920,598 | 896,357 | 27,229 |
| Interfund Payable | | 121,994 | 121,994 | |
| Funds Held for Others | 2,951,961 | 19,374,126 | 19,834,808 | 2,491,279 |
| Other Liabilities | 9 | 19 | 17 | 11 |
| Total Liabilities | <u>\$ 3,682,168</u> | <u>\$ 28,667,404</u> | <u>\$ 29,039,526</u> | <u>\$ 3,310,046</u> |



Section Two
(concluded)

Discretely Presented Component Units



Discretely Presented Component Units

A statement of net position and a statement of activities were prepared to report the breakdown of the following discretely presented component units:

Texas Guaranteed Student Loan Corporation
Teacher Retirement System of Texas
State Bar of Texas
Texas State Affordable Housing Corporation
OneStar National Service Commission
Texas Low-Level Radioactive Waste Disposal Compact Commission
Texas Windstorm Insurance Association
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas Boll Weevil Eradication Foundation Inc.
Texas Agricultural Finance Authority
Texas Water Resources Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Economic Development Corporation
Texas Small Business Industrial Development Corporation
Texas Disaster Relief Fund
Texas Health Services Authority
Beacon State Fund
State Agency Council
Film Texas Fund
Casa Verde Research Center, Sociedad Anonimo
Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center)
National Biosecurity Foundation
Texas 4-H Inc.

STATE OF TEXAS

Combining Statement of Net Position – Component Units

August 31, 2012 (Amounts in Thousands)*

| | Texas Guaranteed Student Loan Corporation | Teacher Retirement System of Texas | State Bar of Texas | Texas State Affordable Housing Corporation | OneStar National Service Commission | Texas Low-Level Radioactive Waste Disposal Compact Commission | Texas Windstorm Insurance Association |
|------------------------------------|---|---|--------------------------|--|--|--|--|
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash and Cash Equivalents | \$ 52,049 | \$ 174,147 | \$ 18,864 | \$ 4,408 | \$ 793 | \$ | \$ 374,629 |
| Short-Term Investments | 694,744 | | 19,822 | 2,005 | | | 100,064 |
| Restricted: | | | | | | | |
| Cash and Cash Equivalents | | | | 28,908 | | | |
| Loans and Contracts | | | | 1,012 | | | |
| Receivables: | | | | | | | |
| Federal | 32,740 | | | | 80 | | |
| Other Intergovernmental | | | | | | | |
| Accounts | | 87,442 | 1,711 | 265 | | | 21,103 |
| Interest and Dividends | 7,923 | 80 | | 426 | | | |
| Other | | | | | 1 | | |
| Inventories | | | 681 | | | | |
| Prepaid Items | | | 753 | 31 | | | 34,098 |
| Loans and Contracts | | | | | | | |
| Other Current Assets | 1,778 | | | | 27 | | |
| Total Current Assets | <u>789,234</u> | <u>261,669</u> | <u>41,831</u> | <u>37,055</u> | <u>901</u> | <u>0</u> | <u>529,894</u> |
| Noncurrent Assets: | | | | | | | |
| Restricted: | | | | | | | |
| Investments | | | | 249,753 | | | |
| Loans and Contracts | | | | 9,339 | | | |
| Loans and Contracts | | | | | | | |
| Investments | | | | 1,051 | | | |
| Other Receivables | | | | | | | |
| Other Noncurrent Assets | | | | 9,599 | 3 | | 521 |
| Capital Assets: | | | | | | | |
| Non-Depreciable or Non-Amortizable | 5,036 | | 330 | 232 | | | |
| Depreciable or Amortizable, Net | 37,881 | | 9,952 | 1,374 | | | 99 |
| Total Noncurrent Assets | <u>42,917</u> | <u>0</u> | <u>10,282</u> | <u>271,348</u> | <u>3</u> | <u>0</u> | <u>620</u> |
| Total Assets | <u>832,151</u> | <u>261,669</u> | <u>52,113</u> | <u>308,403</u> | <u>904</u> | <u>0</u> | <u>530,514</u> |

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

| | Texas Guaranteed Student Loan Corporation | Teacher Retirement System of Texas | State Bar of Texas | Texas State Affordable Housing Corporation | OneStar National Service Commission | Texas Low-Level Radioactive Waste Disposal Compact Commission | Texas Windstorm Insurance Association |
|---|---|---|--------------------------|--|--|--|--|
| LIABILITIES | | | | | | | |
| Current Liabilities: | | | | | | | |
| Payables: | | | | | | | |
| Accounts Payable | \$ 6,421 | \$ 215,377 | \$ 2,225 | \$ 188 | \$ 70 | \$ 27 | \$ 102,783 |
| Payroll | | 122 | | | | | |
| Federal Interest | 30,046 | | | 2,812 | | | |
| Due To Primary Government | | | | | | 89 | |
| Unearned Revenue | | | 10,053 | | 723 | | 159,588 |
| Capital Lease Obligations | | | 54 | | | | |
| Employees' Compensable Leave | 2,038 | 85 | 509 | | | | |
| Notes and Loans Payable | | | | 72 | | | |
| Revenue Bonds Payable | | | | 25,053 | | | |
| Funds Held for Others | | | 267 | | | | |
| Other Current Liabilities | | | | 332 | | | 212,264 |
| Total Current Liabilities | <u>38,505</u> | <u>215,584</u> | <u>13,108</u> | <u>28,457</u> | <u>793</u> | <u>116</u> | <u>474,635</u> |
| Noncurrent Liabilities: | | | | | | | |
| Capital Lease Obligations | | | 56 | | | | |
| Employees' Compensable Leave | 1,167 | 56 | 913 | | | | |
| Notes and Loans Payable | | | | 4,543 | | | |
| Revenue Bonds Payable | | | | 233,866 | | | |
| Other Noncurrent Liabilities | 241,310 | | | 4,702 | | | |
| Total Noncurrent Liabilities | <u>242,477</u> | <u>56</u> | <u>969</u> | <u>243,111</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Liabilities | <u>280,982</u> | <u>215,640</u> | <u>14,077</u> | <u>271,568</u> | <u>793</u> | <u>116</u> | <u>474,635</u> |
| NET POSITION | | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 42,917 | | 10,171 | 864 | | | 4,615 |
| Restricted for: | | | | | | | |
| Education | 140,847 | | | | | | |
| Other | | 46,029 | | 27,642 | 163 | | |
| Unrestricted | <u>367,405</u> | | <u>27,865</u> | <u>8,329</u> | <u>(52)</u> | <u>(116)</u> | <u>51,264</u> |
| Total Net Position | <u>\$ 551,169</u> | <u>\$ 46,029</u> | <u>\$ 38,036</u> | <u>\$ 36,835</u> | <u>\$ 111</u> | <u>\$ (116)</u> | <u>\$ 55,879</u> |

Continued on the following page

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

| | Surplus Lines Stamping Office of Texas | Texas Health Reinsurance System | Texas Health Insurance Risk Pool | Texas Boll Weevil Eradication Foundation Inc. | Texas Agricultural Finance Authority | Texas Water Resources Finance Authority | Texas On-Site Wastewater Treatment Research Council** |
|------------------------------------|---|--|--|--|---|--|--|
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash and Cash Equivalents | \$ 913 | \$ 570 | \$ 35,173 | \$ 85,397 | \$ 15,627 | \$ 1,548 | \$ |
| Short-Term Investments | 4,753 | | 23,000 | | | 32,216 | |
| Restricted: | | | | | | | |
| Cash and Cash Equivalents | | | | | | | |
| Loans and Contracts | | | | | | | |
| Receivables: | | | | | | | |
| Federal | | | | 3,600 | | | |
| Other Intergovernmental | | | | 2,754 | | | |
| Accounts | 204 | 1 | 62,128 | 2,099 | | | |
| Interest and Dividends | | | | | 33 | 134 | |
| Other | 9 | | | 6 | | | |
| Inventories | | | | 3,171 | | | |
| Prepaid Items | 83 | | | 147 | 2 | | |
| Loans and Contracts | | | | | 191 | 639 | |
| Other Current Assets | | | | | 11 | | |
| Total Current Assets | <u>5,962</u> | <u>571</u> | <u>120,301</u> | <u>97,174</u> | <u>15,864</u> | <u>34,537</u> | <u>0</u> |
| Noncurrent Assets: | | | | | | | |
| Restricted: | | | | | | | |
| Investments | | | | | | | |
| Loans and Contracts | | | | | | | |
| Loans and Contracts | | | | | 3,478 | 5,333 | |
| Investments | | | | | | 2,182 | |
| Other Receivables | | | | 1,653 | | | |
| Other Noncurrent Assets | 43 | | 9 | | | | |
| Capital Assets: | | | | | | | |
| Non-Depreciable or Non-Amortizable | | | | | | | |
| Depreciable or Amortizable, Net | 3,140 | | 11 | 2,928 | | | |
| Total Noncurrent Assets | <u>3,183</u> | <u>0</u> | <u>20</u> | <u>4,581</u> | <u>3,478</u> | <u>7,515</u> | <u>0</u> |
| Total Assets | <u>9,145</u> | <u>571</u> | <u>120,321</u> | <u>101,755</u> | <u>19,342</u> | <u>42,052</u> | <u>0</u> |

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

| | Surplus Lines Stamping Office of Texas | Texas Health Reinsurance System | Texas Health Insurance Risk Pool | Texas Boll Weevil Eradication Foundation Inc. | Texas Agricultural Finance Authority | Texas Water Resources Finance Authority | Texas On-Site Wastewater Treatment Research Council** |
|---|---|--|--|--|---|--|--|
| LIABILITIES | | | | | | | |
| Current Liabilities: | | | | | | | |
| Payables: | | | | | | | |
| Accounts Payable | \$ 12 | \$ 21 | \$ 1,180 | \$ 514 | \$ 48 | \$ | \$ |
| Payroll | 37 | | | 477 | 14 | | |
| Federal Interest | | | | 244 | | | |
| Due To Primary Government | | | | | | | |
| Unearned Revenue | | | 78,212 | | | | |
| Capital Lease Obligations | | | | | | | |
| Employees' Compensable Leave | 61 | | | 935 | 10 | | |
| Notes and Loans Payable | | | | 500 | 8,998 | | |
| Revenue Bonds Payable | | | | | | | |
| Funds Held for Others | | | | | | | |
| Other Current Liabilities | 78 | 550 | 40,929 | | | | |
| Total Current Liabilities | <u>188</u> | <u>571</u> | <u>120,321</u> | <u>2,670</u> | <u>9,070</u> | <u>0</u> | <u>0</u> |
| Noncurrent Liabilities: | | | | | | | |
| Capital Lease Obligations | | | | | | | |
| Employees' Compensable Leave | | | | | 15 | | |
| Notes and Loans Payable | | | | 39,969 | | | |
| Revenue Bonds Payable | | | | | | | |
| Other Noncurrent Liabilities | | | | | | | |
| Total Noncurrent Liabilities | <u>0</u> | <u>0</u> | <u>0</u> | <u>39,969</u> | <u>15</u> | <u>0</u> | <u>0</u> |
| Total Liabilities | <u>188</u> | <u>571</u> | <u>120,321</u> | <u>42,639</u> | <u>9,085</u> | <u>0</u> | <u>0</u> |
| NET POSITION | | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 3,140 | | | 1,423 | | | |
| Restricted for: | | | | | | | |
| Education | | | | | | | |
| Other | | | | | | | |
| Unrestricted | <u>5,817</u> | | | <u>57,693</u> | <u>10,257</u> | <u>42,052</u> | |
| Total Net Position | <u>\$ 8,957</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 59,116</u> | <u>\$ 10,257</u> | <u>\$ 42,052</u> | <u>\$ 0</u> |

Continued on the following page

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

** This fund has activity on the combining statement of activities – component units.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

| | Texas Appraiser Licensing and Certification Board | Texas Economic Development Corporation | Texas Small Business Industrial Development Corporation | Texas Disaster Relief Fund | Texas Health Services Authority | Beacon State Fund | State Agency Council |
|------------------------------------|---|---|---|-------------------------------------|--|-------------------------|----------------------------|
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash and Cash Equivalents | \$ 562 | \$ 1,963 | \$ 8,262 | \$ 686 | \$ 1,090 | \$ 179 | \$ 9 |
| Short-Term Investments | | | | | | | 20 |
| Restricted: | | | | | | | |
| Cash and Cash Equivalents | | | 2,000 | | | | |
| Loans and Contracts | | | | | | | |
| Receivables: | | | | | | | |
| Federal | | | | | | | |
| Other Intergovernmental | | | | | 7 | | |
| Accounts | | 10 | | | | | |
| Interest and Dividends | | | 23 | | | | |
| Other | | | | | | | |
| Inventories | 3 | | | | | | |
| Prepaid Items | | 207 | 5 | | | | 1 |
| Loans and Contracts | | | 776 | | | | |
| Other Current Assets | | | | | 8 | | |
| Total Current Assets | <u>565</u> | <u>2,180</u> | <u>11,066</u> | <u>686</u> | <u>1,105</u> | <u>179</u> | <u>30</u> |
| Noncurrent Assets: | | | | | | | |
| Restricted: | | | | | | | |
| Investments | | | | | | | |
| Loans and Contracts | | | | | | | |
| Loans and Contracts | | | 9,876 | | | | |
| Investments | | | | | | | |
| Other Receivables | | | | | | | |
| Other Noncurrent Assets | | | | | | | |
| Capital Assets: | | | | | | | |
| Non-Depreciable or Non-Amortizable | | | | | | | |
| Depreciable or Amortizable, Net | 100 | 5 | | | 19 | | |
| Total Noncurrent Assets | <u>100</u> | <u>5</u> | <u>9,876</u> | <u>0</u> | <u>19</u> | <u>0</u> | <u>0</u> |
| Total Assets | <u>665</u> | <u>2,185</u> | <u>20,942</u> | <u>686</u> | <u>1,124</u> | <u>179</u> | <u>30</u> |

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

| | Texas Appraiser Licensing and Certification Board | Texas Economic Development Corporation | Texas Small Business Industrial Development Corporation | Texas Disaster Relief Fund | Texas Health Services Authority | Beacon State Fund | State Agency Council |
|---|---|---|---|-------------------------------------|--|-------------------------|----------------------------|
| LIABILITIES | | | | | | | |
| Current Liabilities: | | | | | | | |
| Payables: | | | | | | | |
| Accounts | \$ 41 | \$ 86 | \$ 77 | \$ | \$ | \$ | \$ |
| Payroll | 93 | | | | | | |
| Federal Interest | | | 3 | | | | |
| Due To Primary Government | | | | | | | |
| Unearned Revenue | | | | | 1,105 | | 5 |
| Capital Lease Obligations | | | | | | | |
| Employees' Compensable Leave | 63 | | | | | | |
| Notes and Loans Payable | | | | | | | |
| Revenue Bonds Payable | | | | | | | |
| Funds Held for Others | | | | | | | |
| Other Current Liabilities | | | | | | | |
| Total Current Liabilities | <u>197</u> | <u>86</u> | <u>80</u> | <u>0</u> | <u>1,105</u> | <u>0</u> | <u>5</u> |
| Noncurrent Liabilities: | | | | | | | |
| Capital Lease Obligations | | | | | | | |
| Employees' Compensable Leave | 33 | | | | | | |
| Notes and Loans Payable | | | | | | | |
| Revenue Bonds Payable | | | 20,000 | | | | |
| Other Noncurrent Liabilities | | | | | | | |
| Total Noncurrent Liabilities | <u>33</u> | <u>0</u> | <u>20,000</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Liabilities | <u>230</u> | <u>86</u> | <u>20,080</u> | <u>0</u> | <u>1,105</u> | <u>0</u> | <u>5</u> |
| NET POSITION | | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 100 | | | | | | |
| Restricted for: | | | | | | | |
| Education | | | | | | | |
| Other | 335 | | | | | | |
| Unrestricted | | 2,099 | 862 | 686 | 19 | 179 | 25 |
| Total Net Position | <u>\$ 435</u> | <u>\$ 2,099</u> | <u>\$ 862</u> | <u>\$ 686</u> | <u>\$ 19</u> | <u>\$ 179</u> | <u>\$ 25</u> |

Continued on the following page

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2012 (Amounts in Thousands)*

| | Film Texas Fund | Casa Verde Research Center | Mexico Center | National Biosecurity Foundation** | Texas 4-H Inc. | Totals |
|------------------------------------|-----------------------|----------------------------------|------------------|---|-------------------|------------------|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and Cash Equivalents | \$ 4 | \$ 2 | \$ 38 | \$ | \$ 16 | \$ 776,929 |
| Short-Term Investments | | | | | | 876,624 |
| Restricted: | | | | | | |
| Cash and Cash Equivalents | | | | | | 30,908 |
| Loans and Contracts | | | | | | 1,012 |
| Receivables: | | | | | | |
| Federal | | | | | | 36,420 |
| Other Intergovernmental | | | | | | 2,761 |
| Accounts | | | | | | 174,963 |
| Interest and Dividends | | | | | | 8,619 |
| Other | | 13 | 34 | | | 63 |
| Inventories | | | | | | 3,855 |
| Prepaid Items | | | | | | 35,327 |
| Loans and Contracts | | | | | | 1,606 |
| Other Current Assets | | 1 | | | | 1,825 |
| Total Current Assets | <u>4</u> | <u>16</u> | <u>72</u> | <u>0</u> | <u>16</u> | <u>1,950,912</u> |
| Noncurrent Assets: | | | | | | |
| Restricted: | | | | | | |
| Investments | | | | | | 249,753 |
| Loans and Contracts | | | | | | 9,339 |
| Loans and Contracts | | | | | | 18,687 |
| Investments | | | | | | 3,233 |
| Other Receivables | | | | | | 1,653 |
| Other Noncurrent Assets | | 36 | | | | 10,211 |
| Capital Assets: | | | | | | |
| Non-Depreciable or Non-Amortizable | | 4 | | | | 5,602 |
| Depreciable or Amortizable, Net | | 649 | 94 | | | 56,252 |
| Total Noncurrent Assets | <u>0</u> | <u>689</u> | <u>94</u> | <u>0</u> | <u>0</u> | <u>354,730</u> |
| Total Assets | <u>4</u> | <u>705</u> | <u>166</u> | <u>0</u> | <u>16</u> | <u>2,305,642</u> |

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (concluded)

August 31, 2012 (Amounts in Thousands)*

| | Film Texas Fund | Casa Verde Research Center | Mexico Center | National Biosecurity Foundation** | Texas 4-H Inc. | Totals |
|---|-----------------------|----------------------------------|------------------|---|-------------------|-------------------|
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Payables: | | | | | | |
| Accounts | \$ | \$ | \$ | \$ | \$ | \$ 329,070 |
| Payroll | | 16 | | | | 759 |
| Federal | | | | | | 30,046 |
| Interest | | | | | | 3,059 |
| Due To Primary Government | | | | | | 89 |
| Unearned Revenue | | | | | | 249,686 |
| Capital Lease Obligations | | | | | | 54 |
| Employees' Compensable Leave | | | | | | 3,701 |
| Notes and Loans Payable | | | | | | 9,570 |
| Revenue Bonds Payable | | | | | | 25,053 |
| Funds Held for Others | | | | | | 267 |
| Other Current Liabilities | | 1 | 6 | | | 254,160 |
| Total Current Liabilities | <u>0</u> | <u>17</u> | <u>6</u> | <u>0</u> | <u>0</u> | <u>905,514</u> |
| Noncurrent Liabilities: | | | | | | |
| Capital Lease Obligations | | | | | | 56 |
| Employees' Compensable Leave | | | | | | 2,184 |
| Notes and Loans Payable | | | | | | 44,512 |
| Revenue Bonds Payable | | | | | | 253,866 |
| Other Noncurrent Liabilities | | 603 | 50 | | | 246,665 |
| Total Noncurrent Liabilities | <u>0</u> | <u>603</u> | <u>50</u> | <u>0</u> | <u>0</u> | <u>547,283</u> |
| Total Liabilities | <u>0</u> | <u>620</u> | <u>56</u> | <u>0</u> | <u>0</u> | <u>1,452,797</u> |
| NET POSITION | | | | | | |
| Invested in Capital Assets, Net of Related Debt | | | | | | 63,230 |
| Restricted for: | | | | | | |
| Education | | | | | | 140,847 |
| Other | | | | | | 74,169 |
| Unrestricted | 4 | 85 | 110 | | 16 | 574,599 |
| Total Net Position | <u>\$ 4</u> | <u>\$ 85</u> | <u>\$ 110</u> | <u>\$ 0</u> | <u>\$ 16</u> | <u>\$ 852,845</u> |

* Amounts reported as of Aug. 31, 2012, unless otherwise indicated in Note 19.

** This fund has activity on the combining statement of activities – component units.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)*

| | Texas Guaranteed Student Loan Corporation | Teacher Retirement System of Texas | State Bar of Texas | Texas State Affordable Housing Corporation | OneStar National Service Commission | Texas Low-Level Radioactive Waste Disposal Compact Commission |
|--|---|---|--------------------------|--|--|--|
| EXPENSES | | | | | | |
| Salaries and Wages | \$ 42,445 | \$ 1,262 | \$ 16,755 | \$ 1,503 | \$ 1,116 | \$ |
| Payroll Related Costs | 13,317 | 333 | 4,544 | | 285 | |
| Professional Fees and Services | 12,181 | 547 | 2,953 | 307 | 559 | 49 |
| Travel | 1,599 | 6 | 7,143 | 63 | 123 | 28 |
| Materials and Supplies | 1,318 | 8 | 1,876 | | 38 | 2 |
| Communications and Utilities | 1,054 | 2 | 1,285 | | 34 | 1 |
| Repairs and Maintenance | 3,500 | 2 | 896 | | | |
| Rentals and Leases | 589 | 61 | 1,438 | 39 | 230 | 3 |
| Printing and Reproduction | 335 | | 2,092 | | 4 | 1 |
| Claims and Judgments | | | 576 | | | |
| Bad Debt Expense | | | | | | |
| Cost of Goods Sold | | | 577 | | | |
| Depreciation and Amortization | 4,879 | | 966 | 667 | | |
| Other Financing Fees | 42 | | | | | |
| Public Assistance Payments | 21,932 | | | | 11,825 | |
| Employee/Participant Benefit Payments | | 1,891,956 | | | | |
| Direct Interest Expense | | | | | | |
| Interest Expense – Other | | | 6 | 10,762 | | |
| Other Expenses | 62,871 | 6 | 3,452 | 2,181 | 131 | 32 |
| Total Expenses | <u>166,062</u> | <u>1,894,183</u> | <u>44,559</u> | <u>15,522</u> | <u>14,345</u> | <u>116</u> |
| PROGRAM REVENUES | | | | | | |
| Charges for Services | 1,026 | 1,750,218 | 39,870 | 2,353 | | |
| Operating Grants and Contributions | 253,396 | 105 | 6,153 | 11,981 | 14,355 | |
| Total Program Revenues | <u>254,422</u> | <u>1,750,323</u> | <u>46,023</u> | <u>14,334</u> | <u>14,355</u> | <u>0</u> |
| Net Program Revenues (Expenses) | <u>88,360</u> | <u>(143,860)</u> | <u>1,464</u> | <u>(1,188)</u> | <u>10</u> | <u>(116)</u> |
| GENERAL REVENUES | | | | | | |
| Unrestricted Investment Earnings | (8,688) | 1,698 | | | | |
| Other General Revenues | | | | 684 | | |
| Gain on Sale of Capital Assets | | | 5 | | | |
| Total General Revenues | <u>(8,688)</u> | <u>1,698</u> | <u>5</u> | <u>684</u> | <u>0</u> | <u>0</u> |
| Change in Net Position | <u>79,672</u> | <u>(142,162)</u> | <u>1,469</u> | <u>(504)</u> | <u>10</u> | <u>(116)</u> |
| Net Position, September 1, 2011 | 471,497 | 188,191 | 36,367 | 37,339 | 101 | |
| Restatements | | | 200 | | | |
| Net Position, September 1, 2011, as Restated | <u>471,497</u> | <u>188,191</u> | <u>36,567</u> | <u>37,339</u> | <u>101</u> | <u>0</u> |
| Net Position, August 31, 2012 | <u>\$ 551,169</u> | <u>\$ 46,029</u> | <u>\$ 38,036</u> | <u>\$ 36,835</u> | <u>\$ 111</u> | <u>\$ (116)</u> |

* Amounts reported for the fiscal year ended Aug. 31, 2012, unless otherwise indicated in Note 19.

| Texas Windstorm Insurance Association | Surplus Lines Stamping Office of Texas | Texas Health Reinsurance System | Texas Health Insurance Risk Pool | Texas Boll Weevil Eradication Foundation Inc. | Texas Agricultural Finance Authority | Texas Water Resources Finance Authority |
|--|--|--|--|--|---|---|
| \$ 14,834 | \$ 1,204 | \$ | \$ 364 | \$ 16,542 | \$ 438 | \$ 2 |
| 2,598 | 391 | | | | 42 | |
| | 433 | | 12,551 | 964 | 32 | |
| | 4 | | 3 | 324 | 13 | |
| | 33 | | 44 | 7,540 | 3 | |
| | 37 | | | 525 | | |
| | 44 | | | 953 | | |
| 957 | 253 | | 75 | 732 | 1 | |
| | 3 | | | | | |
| | | | | 304 | (22) | |
| 675 | 237 | | 5 | 1,401 | (5) | |
| | | | | | 221 | 4,564 |
| | | | | | 41 | |
| | | | | 1,273 | | |
| 284,775 | 169 | 48 | 305,567 | 3,988 | 86 | 12 |
| 303,839 | 2,808 | 48 | 318,609 | 34,546 | 850 | 4,578 |
| | | | | | | |
| 321,954 | 1,953 | 47 | 309,352 | 34,302 | 963 | |
| 291 | 35 | 1 | 9,257 | 14,932 | | 1,928 |
| 322,245 | 1,988 | 48 | 318,609 | 49,234 | 963 | 1,928 |
| 18,406 | (820) | 0 | 0 | 14,688 | 113 | (2,650) |
| | | | | 184 | 191 | |
| | | | | 4 | | |
| | | | | 730 | | |
| 0 | 0 | 0 | 0 | 918 | 191 | 0 |
| 18,406 | (820) | 0 | 0 | 15,606 | 304 | (2,650) |
| 41,552 | 9,777 | | | 43,510 | 9,953 | 44,702 |
| (4,079) | | | | | | |
| 37,473 | 9,777 | 0 | 0 | 43,510 | 9,953 | 44,702 |
| \$ 55,879 | \$ 8,957 | \$ 0 | \$ 0 | \$ 59,116 | \$ 10,257 | \$ 42,052 |

Concluded on the following page

STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2012 (Amounts in Thousands)*

| | Texas On-Site Wastewater Treatment Research Council | Texas Appraiser Licensing and Certification Board | Texas Economic Development Corporation | Texas Small Business Industrial Development Corporation | Texas Disaster Relief Fund | Texas Health Services Authority |
|--|--|---|---|---|-------------------------------------|--|
| EXPENSES | | | | | | |
| Salaries and Wages | \$ | \$ 843 | \$ | \$ | \$ | \$ 273 |
| Payroll Related Costs | | 215 | | | | 38 |
| Professional Fees and Services | | 67 | 475 | | 1 | 194 |
| Travel | | 24 | 262 | | | 13 |
| Materials and Supplies | | 32 | 220 | | | 8 |
| Communication and Utilities | | 7 | 13 | | 1 | 10 |
| Repairs and Maintenance | | (4) | | | | |
| Rentals and Leases | | 109 | 73 | | | 20 |
| Printing and Reproduction | | 1 | 17 | | | |
| Claims and Judgments | | | | | | |
| Bad Debt Expense | | | | | | |
| Cost of Goods Sold | | | | | | |
| Depreciation and Amortization | | 13 | 6 | | | 3 |
| Other Financing Fees | | | | | | |
| Public Assistance Payments | | | | | 54 | |
| Employee/Participant Benefit Payments | | | | | | |
| Direct Interest Expense | | | | 67 | | |
| Interest Expense – Other | | | | | | |
| Other Expenses | 210 | 928 | 199 | 753 | | 8 |
| Total Expenses | <u>210</u> | <u>2,235</u> | <u>1,265</u> | <u>820</u> | <u>56</u> | <u>567</u> |
| PROGRAM REVENUES | | | | | | |
| Charges for Services | | 1,810 | 61 | | | 583 |
| Operating Grants and Contributions | | | 1,246 | 461 | 24 | |
| Total Program Revenues | <u>0</u> | <u>1,810</u> | <u>1,307</u> | <u>461</u> | <u>24</u> | <u>583</u> |
| Net Program Revenues (Expenses) | <u>(210)</u> | <u>(425)</u> | <u>42</u> | <u>(359)</u> | <u>(32)</u> | <u>16</u> |
| GENERAL REVENUES | | | | | | |
| Unrestricted Investment Earnings | | | 1 | 3 | | |
| Other General Revenues | | 726 | | | | |
| Gain on Sale of Capital Assets | | | | | | |
| Total General Revenues | <u>0</u> | <u>726</u> | <u>1</u> | <u>3</u> | <u>0</u> | <u>0</u> |
| Change in Net Position | <u>(210)</u> | <u>301</u> | <u>43</u> | <u>(356)</u> | <u>(32)</u> | <u>16</u> |
| Net Position, September 1, 2011 | 210 | 134 | 2,004 | 1,218 | 718 | 1,164 |
| Restatements | | | 52 | | | (1,161) |
| Net Position, September 1, 2011, as Restated | <u>210</u> | <u>134</u> | <u>2,056</u> | <u>1,218</u> | <u>718</u> | <u>3</u> |
| Net Position, August 31, 2012 | <u>\$ 0</u> | <u>\$ 435</u> | <u>\$ 2,099</u> | <u>\$ 862</u> | <u>\$ 686</u> | <u>\$ 19</u> |

* Amounts reported for the fiscal year ended Aug. 31, 2012, unless otherwise indicated in Note 19.

| Beacon State Fund | State Agency Council | Film Texas Fund | Casa Verde Research Center | Mexico Center | National Biosecurity Foundation | Texas 4-H Inc. | Totals |
|-------------------|----------------------|-----------------|----------------------------|---------------|---------------------------------|----------------|------------|
| \$ | \$ | \$ | \$ 173 | \$ | \$ | \$ | \$ 97,754 |
| | | | 50 | | | | 21,813 |
| 1 | | | 21 | | 33 | 1 | 31,369 |
| 1 | | 1 | 56 | | 2 | | 9,665 |
| 26 | 2 | | 52 | | | | 11,202 |
| 1 | | | 20 | | | | 2,990 |
| | | | 13 | | | | 5,404 |
| 1 | | | 7 | | | | 4,588 |
| 6 | | | | | | | 2,459 |
| | | | | | | | 576 |
| | | | | | | | 282 |
| | | | | 127 | | | 704 |
| | | | 46 | 27 | | | 8,925 |
| | | | 9 | 14 | 3 | | 63 |
| 11 | 1 | | | | | | 38,608 |
| | | | | | | | 1,891,956 |
| | | | | | | | 108 |
| | | | | | | | 12,041 |
| 6 | 2 | | 7 | 199 | | 63 | 665,693 |
| 53 | 5 | 1 | 454 | 367 | 38 | 64 | 2,806,200 |
| | | | | | | | |
| 118 | | | | 130 | | 80 | 2,464,820 |
| 29 | 1 | | 451 | 171 | | | 314,817 |
| 147 | 1 | 0 | 451 | 301 | 0 | 80 | 2,779,637 |
| 94 | (4) | (1) | (3) | (66) | (38) | 16 | (26,563) |
| | | | | | | | (6,611) |
| | | | | | | | 1,414 |
| | | | | | | | 735 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | (4,462) |
| 94 | (4) | (1) | (3) | (66) | (38) | 16 | (31,025) |
| | | | (327) | 162 | 38 | | 888,310 |
| 85 | 29 | 5 | 415 | 14 | | | (4,440) |
| 85 | 29 | 5 | 88 | 176 | 38 | 0 | 883,870 |
| \$ 179 | \$ 25 | \$ 4 | \$ 85 | \$ 110 | \$ 0 | \$ 16 | \$ 852,845 |



Section Three

Statistical
Section



State of Texas Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and other supplementary information says about the state’s overall financial health.

| Contents | Pages |
|--|--------------|
| Financial Trends Information These schedules contain trend information intended to help the reader understand how the state’s financial position has changed over time. | 249 – 255 |
| Revenue Capacity Information These schedules contain information intended to help the reader assess the state’s most significant revenue source – state tax collections. | 256 – 258 |
| Debt Capacity Information These schedules present information intended to assist users in understanding and assessing the state’s current levels of outstanding debt and the ability to issue additional debt. | 259 – 263 |
| Demographic and Economic Information These schedules provide demographic and economic indicators intended to help the reader understand the socio-economic environment within which the state’s financial activities take place. | 264 – 266 |
| Operating Information These schedules provide contextual information about the state’s operations and resources intended to assist readers in using financial statement information to understand and assess the state’s economic condition. | 267 – 269 |

Sources: Unless otherwise noted, the information in these schedules is derived from the Texas Comprehensive Annual Financial Report databases for the relevant years.



STATE OF TEXAS
Statistical Section – Financial Trends Information
Net Position by Component
Last Ten Fiscal Years

(Amounts in Millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 49,254 | \$ 51,407 | \$ 53,815 | \$ 55,473 | \$ 56,438 |
| Restricted | 20,846 | 22,213 | 24,110 | 25,993 | 29,347 |
| Unrestricted | (28) | 541 | 3,753 | 8,696 | 12,565 |
| Total Governmental Activities Net Position | <u>70,072</u> | <u>74,161</u> | <u>81,678</u> | <u>90,162</u> | <u>98,350</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Invested in Capital Assets, Net of Related Debt | 5,737 | 6,464 | 6,253 | 6,871 | 7,343 |
| Restricted | 15,168 | 17,628 | 20,581 | 22,812 | 25,815 |
| Unrestricted | 6,167 | 5,805 | 7,076 | 8,056 | 9,741 |
| Total Business-Type Activities Net Position | <u>27,072</u> | <u>29,897</u> | <u>33,910</u> | <u>37,739</u> | <u>42,899</u> |
| PRIMARY GOVERNMENT | | | | | |
| Invested in Capital Assets, Net of Related Debt | 54,991 | 57,871 | 60,068 | 62,344 | 63,781 |
| Restricted | 36,014 | 39,841 | 44,691 | 48,805 | 55,162 |
| Unrestricted | 6,139 | 6,346 | 10,829 | 16,752 | 22,306 |
| Total Primary Government Net Position | <u>\$ 97,144</u> | <u>\$ 104,058</u> | <u>\$ 115,588</u> | <u>\$ 127,901</u> | <u>\$ 141,249</u> |
| 2008 | | | | | |
| GOVERNMENTAL ACTIVITIES | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 58,208 | \$ 59,720 | \$ 60,744 | \$ 61,917 | \$ 63,458 |
| Restricted | 31,358 | 32,663 | 26,136 | 32,014 | 33,817 |
| Unrestricted | 11,105 | 3,479 | 8,025 | 3,322 | 4,497 |
| Total Governmental Activities Net Position | <u>100,671</u> | <u>95,862</u> | <u>94,905</u> | <u>97,253</u> | <u>101,772</u> |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Invested in Capital Assets, Net of Related Debt | 7,385 | 7,655 | 7,933 | 9,243 | 9,713 |
| Restricted | 24,882 | 18,744 | 22,209 | 24,375 | 27,539 |
| Unrestricted | 9,885 | 8,619 | 7,230 | 8,516 | 9,553 |
| Total Business-Type Activities Net Position | <u>42,152</u> | <u>35,018</u> | <u>37,372</u> | <u>42,134</u> | <u>46,805</u> |
| PRIMARY GOVERNMENT | | | | | |
| Invested in Capital Assets, Net of Related Debt | 65,593 | 67,375 | 68,677 | 71,160 | 73,171 |
| Restricted | 56,240 | 51,407 | 48,345 | 56,389 | 61,356 |
| Unrestricted | 20,990 | 12,098 | 15,255 | 11,838 | 14,050 |
| Total Primary Government Net Position | <u>\$ 142,823</u> | <u>\$ 130,880</u> | <u>\$ 132,277</u> | <u>\$ 139,387</u> | <u>\$ 148,577</u> |

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position

Last Ten Fiscal Years

(Amounts in Thousands)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| GOVERNMENTAL ACTIVITIES: | | | | | |
| Expenses | | | | | |
| General Government | \$ 2,026,241 | \$ 2,234,369 | \$ 2,206,793 | \$ 2,681,117 | \$ 2,555,309 |
| Education | 15,935,961 | 16,250,938 | 16,293,851 | 18,025,550 | 21,313,526 |
| Employee Benefits | 22,644 | 60,536 | 50,544 | 56,718 | 61,171 |
| Teacher Retirement State Contributions | 2,435,727 | 2,269,667 | 2,083,530 | 1,932,325 | 2,017,000 |
| Health and Human Services | 24,742,714 | 25,060,588 | 27,302,426 | 28,808,315 | 30,886,484 |
| Public Safety and Corrections | 4,207,856 | 4,030,120 | 4,086,450 | 5,084,923 | 5,035,761 |
| Transportation | 3,562,159 | 3,476,342 | 3,766,301 | 4,452,154 | 4,252,129 |
| Natural Resources and Recreation | 835,139 | 864,508 | 1,070,481 | 961,178 | 1,217,201 |
| Regulatory Services | 324,567 | 375,951 | 349,420 | 282,067 | 314,266 |
| Indirect Interest on Long-Term Debt | 366,847 | 338,693 | 417,854 | 54,121 | 229,354 |
| Total Expenses | <u>54,459,855</u> | <u>54,961,712</u> | <u>57,627,650</u> | <u>62,338,468</u> | <u>67,882,201</u> |
| Program Revenues | | | | | |
| Charges for Services: | | | | | |
| General Government | 1,378,735 | 1,695,987 | 802,588 | 1,199,924 | 1,141,278 |
| Education | 485,676 | 520,621 | 594,702 | 626,224 | 584,971 |
| Employee Benefits | 112 | 171 | 97 | 120 | 116 |
| Teacher Retirement State Contributions | | | 10 | 93,694 | 26,661 |
| Health and Human Services | 821,773 | 838,377 | 1,124,402 | 1,177,825 | 2,059,789 |
| Public Safety and Corrections | 148,420 | 164,959 | 463,097 | 441,803 | 823,602 |
| Transportation | 974,627 | 1,016,809 | 1,342,073 | 1,373,339 | 1,530,669 |
| Natural Resources and Recreation | 437,834 | 473,608 | 716,981 | 570,872 | 714,687 |
| Regulatory Services | 92,875 | 212,919 | 534,469 | 596,705 | 604,199 |
| Operating Grants and Contributions | 22,801,211 | 24,501,850 | 26,667,982 | 28,979,226 | 29,995,409 |
| Capital Grants and Contributions | 2,570,634 | 2,773,764 | 3,253,051 | 2,803,006 | 1,823,686 |
| Total Program Revenues | <u>29,711,897</u> | <u>32,199,065</u> | <u>35,499,452</u> | <u>37,862,738</u> | <u>39,305,067</u> |
| Total Governmental Activities | | | | | |
| Net Program Expense | <u>(24,747,958)</u> | <u>(22,762,647)</u> | <u>(22,128,198)</u> | <u>(24,475,730)</u> | <u>(28,577,134)</u> |
| General Revenues | | | | | |
| Taxes: | | | | | |
| Sales and Use | 14,349,758 | 15,564,085 | 16,260,689 | 18,475,176 | 20,230,164 |
| Motor Vehicle and Manufactured Housing | 2,795,211 | 2,665,258 | 2,897,031 | 3,046,856 | 3,338,498 |
| Motor Fuels | 2,790,936 | 2,931,753 | 2,915,680 | 3,053,476 | 3,149,043 |
| Franchise | 1,532,820 | 1,657,141 | 2,203,578 | 2,632,780 | 3,273,050 |
| Oil and Natural Gas Production | 1,531,275 | 1,918,989 | 2,409,276 | 3,441,638 | 2,692,032 |
| Insurance Occupation | 1,179,553 | 1,192,829 | 1,213,627 | 1,238,846 | 1,368,340 |
| Cigarette and Tobacco | 583,159 | 540,404 | 596,569 | 547,000 | 1,325,712 |
| Other | 1,405,325 | 1,426,026 | 1,435,701 | 1,558,073 | 1,694,750 |
| Unrestricted Investment Earnings | 239,198 | 211,239 | 327,516 | 760,207 | 941,938 |
| Federal Jobs and Growth Tax Relief Funds | 354,535 | 354,535 | | | |
| Settlement of Claims | 563,196 | 523,518 | 885,975 | 583,787 | 538,836 |
| Gain on Sale of Capital Assets | 6,359 | 31,189 | 8,461 | 2,762 | 3,942 |
| Other General Revenues | 787,866 | 723,157 | 822,652 | 1,071,679 | 1,627,330 |
| Capital Contributions | 600 | 944 | 107 | 1,449 | 309 |
| Transfers | <u>(3,069,447)</u> | <u>(2,867,137)</u> | <u>(2,966,197)</u> | <u>(3,513,639)</u> | <u>(3,383,910)</u> |
| Total General Revenues, Contributions and Transfers | <u>25,050,344</u> | <u>26,873,930</u> | <u>29,010,665</u> | <u>32,900,090</u> | <u>36,800,034</u> |
| Change in Net Position – Governmental Activities | <u>302,386</u> | <u>4,111,283</u> | <u>6,882,467</u> | <u>8,424,360</u> | <u>8,222,900</u> |

Source: 2003-12 state of Texas financial statements

| 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 2,659,822 | \$ 3,052,177 | \$ 3,451,868 | \$ 4,037,805 | \$ 3,116,737 |
| 24,986,076 | 24,952,375 | 27,344,876 | 28,643,283 | 25,724,127 |
| 86,195 | 220,272 | 252,457 | 324,477 | 423,492 |
| 1,761,759 | 1,667,325 | 2,200,408 | 2,262,638 | 2,390,178 |
| 32,426,046 | 38,124,180 | 41,487,191 | 44,875,285 | 44,737,457 |
| 5,020,897 | 6,026,868 | 6,231,847 | 5,539,155 | 5,294,730 |
| 4,478,109 | 4,025,226 | 4,146,987 | 4,377,794 | 4,484,662 |
| 1,451,450 | 1,673,915 | 1,559,708 | 1,474,675 | 1,634,659 |
| 398,885 | 445,938 | 447,557 | 408,115 | 410,724 |
| 578,059 | 525,648 | 755,314 | 797,030 | 715,148 |
| <u>73,847,298</u> | <u>80,713,924</u> | <u>87,878,213</u> | <u>92,740,257</u> | <u>88,931,914</u> |
| 1,171,997 | 1,010,388 | 984,639 | 1,019,521 | 1,036,382 |
| 821,291 | 474,249 | 463,719 | 632,584 | 480,475 |
| 107 | 109 | 135 | 100 | 134 |
| | 33,624 | | | |
| 1,832,315 | 1,825,395 | 1,782,704 | 2,101,440 | 1,910,599 |
| 331,101 | 354,117 | 336,134 | 330,198 | 342,782 |
| 1,785,835 | 1,920,123 | 1,891,247 | 1,999,695 | 2,224,635 |
| 661,657 | 574,032 | 605,751 | 587,423 | 699,872 |
| 635,089 | 646,959 | 687,746 | 666,158 | 710,209 |
| 25,900,072 | 32,410,929 | 43,148,227 | 47,220,463 | 42,796,231 |
| 2,585,507 | 2,619,631 | 2,453,183 | 2,538,949 | 47,578 |
| <u>35,724,971</u> | <u>41,869,556</u> | <u>52,353,485</u> | <u>57,096,531</u> | <u>50,248,897</u> |
| <u>(38,122,327)</u> | <u>(38,844,368)</u> | <u>(35,524,728)</u> | <u>(35,643,726)</u> | <u>(38,683,017)</u> |
| 21,640,855 | 21,026,034 | 19,558,426 | 21,751,249 | 24,349,600 |
| 3,384,597 | 2,568,599 | 2,624,725 | 3,001,387 | 3,580,663 |
| 3,000,148 | 3,155,941 | 3,060,246 | 3,108,153 | 3,195,332 |
| 4,712,183 | 3,303,170 | 3,809,109 | 3,998,073 | 4,574,184 |
| 4,036,033 | 1,335,296 | 2,157,334 | 3,069,384 | 3,727,498 |
| 1,446,828 | 1,295,330 | 1,309,620 | 1,379,621 | 1,528,111 |
| 1,454,187 | 1,564,061 | 1,394,122 | 1,551,420 | 1,428,413 |
| 1,744,400 | 1,680,362 | 1,676,452 | 1,802,300 | 1,954,752 |
| 1,041,840 | 178,470 | 575,642 | 334,621 | 645,813 |
| 555,476 | 555,626 | 925,676 | 584,305 | 620,898 |
| | | | 99 | 7,163 |
| 1,392,565 | 1,769,051 | 2,017,783 | 1,533,427 | 1,880,352 |
| 8,653 | 1,554 | 30,845 | 108,119 | 930 |
| <u>(3,909,529)</u> | <u>(4,268,014)</u> | <u>(4,491,627)</u> | <u>(4,179,888)</u> | <u>(3,944,781)</u> |
| <u>40,508,236</u> | <u>34,165,480</u> | <u>34,648,353</u> | <u>38,042,270</u> | <u>43,548,928</u> |
| <u>2,385,909</u> | <u>(4,678,888)</u> | <u>(876,375)</u> | <u>2,398,544</u> | <u>4,865,911</u> |

Concluded on the following page

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position (concluded)

Last Ten Fiscal Years

(Amounts in Thousands)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------------------|---------------------|---------------------|----------------------|----------------------|
| BUSINESS-TYPE ACTIVITIES: | | | | | |
| Expenses | | | | | |
| General Government | \$ 235,098 | \$ 187,064 | \$ 142,142 | \$ 162,499 | \$ 186,628 |
| Education | 13,340,397 | 13,538,233 | 14,716,405 | 15,982,582 | 17,165,602 |
| Employee Benefits | 517,912 | 615,692 | | | |
| Teacher Retirement State Contributions | | | 761,240 | 813,133 | 909,845 |
| Health and Human Services | 2,964,169 | 2,203,096 | 1,540,459 | 1,253,431 | 1,204,609 |
| Public Safety and Corrections | 68,419 | 68,828 | 71,308 | 73,775 | 75,305 |
| Transportation | 16,937 | 22,725 | 346 | 16,339 | 125,910 |
| Natural Resources and Recreation | 157,902 | 146,815 | 264,707 | 284,241 | 283,653 |
| Regulatory Services | | | | | |
| Lottery | 2,163,670 | 2,426,019 | 2,594,241 | 2,687,084 | 2,691,210 |
| Total Expenses | <u>19,464,504</u> | <u>19,208,472</u> | <u>20,090,848</u> | <u>21,273,084</u> | <u>22,642,762</u> |
| Program Revenues | | | | | |
| Charges for Services: | | | | | |
| General Government | 50,669 | 44,166 | 27,947 | 37,245 | 42,713 |
| Education | 5,549,390 | 5,845,956 | 6,662,679 | 7,284,371 | 8,268,639 |
| Employee Benefits | 584,709 | 758,255 | | | |
| Teacher Retirement State Contributions | | | 823,910 | 861,648 | 939,879 |
| Health and Human Services | 1,603,241 | 1,783,807 | 1,963,403 | 1,862,804 | 1,665,242 |
| Public Safety and Corrections | 71,694 | 75,094 | 77,521 | 79,032 | 82,779 |
| Transportation | | 39,162 | 14 | 13 | 16,757 |
| Natural Resources and Recreation | 3,002 | 3,911 | 22,106 | 33,716 | 41,034 |
| Lottery | 3,131,532 | 3,488,941 | 3,663,414 | 3,775,491 | 3,774,948 |
| Operating Grants and Contributions | 6,244,537 | 6,356,243 | 8,086,139 | 7,200,099 | 9,001,427 |
| Capital Grants and Contributions | 162,991 | 272,997 | 211,726 | 155,541 | 197,731 |
| Total Program Revenues | <u>17,401,765</u> | <u>18,668,532</u> | <u>21,538,859</u> | <u>21,289,960</u> | <u>24,031,149</u> |
| Total Business-Type Activities | | | | | |
| Net Program Revenue (Expense) | <u>(2,062,739)</u> | <u>(539,940)</u> | <u>1,448,011</u> | <u>16,876</u> | <u>1,388,387</u> |
| General Revenues | | | | | |
| Unrestricted Investment Earnings | 28,020 | 193,347 | 68,423 | 55,150 | 245,977 |
| Settlement of Claims | 5 | 4 | 20 | 94 | 283 |
| Gain on Sale of Capital Assets | | | 6,431 | 276 | 13,363 |
| Other General Revenue | 329,235 | 194,474 | 126,957 | 91,017 | 266,722 |
| Capital Contributions | 1,318 | 2,715 | 133 | 3,874 | 1,364 |
| Contributions to Permanent and Term Endowments | 235,997 | 235,182 | 145,919 | 123,939 | 184,193 |
| Special Items | | | | (38,898) | (318,813) |
| Extraordinary Items | 36,532 | (13,401) | | | |
| Transfers | 3,069,447 | 2,867,137 | 2,966,197 | 3,513,639 | 3,383,910 |
| Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers | <u>3,700,554</u> | <u>3,479,458</u> | <u>3,314,080</u> | <u>3,749,091</u> | <u>3,776,999</u> |
| Change in Net Position – Business-Type Activities | <u>1,637,815</u> | <u>2,939,518</u> | <u>4,762,091</u> | <u>3,765,967</u> | <u>5,165,386</u> |
| Change in Net Position – Primary Government | <u>\$ 1,940,201</u> | <u>\$ 7,050,801</u> | <u>\$11,644,558</u> | <u>\$ 12,190,327</u> | <u>\$ 13,388,286</u> |

| 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------|------------------------|---------------------|---------------------|---------------------|
| \$ 177,012 | \$ 180,543 | \$ 162,620 | \$ 150,406 | \$ 149,663 |
| 18,619,716 | 20,135,452 | 20,943,292 | 22,226,690 | 22,667,443 |
| 1,467,185 | 4,908,112 | 7,826,452 | 6,055,958 | 5,117,829 |
| 80,607 | 83,498 | 87,120 | 86,262 | 91,313 |
| 164,280 | 220,881 | 206,822 | 209,880 | 215,845 |
| 247,018 | 304,577 | 353,641 | 423,140 | 346,150 |
| <u>2,634,446</u> | <u>2,680,273</u> | <u>2,681,627</u> | <u>2,783,798</u> | <u>3,027,943</u> |
| <u>23,390,264</u> | <u>28,513,336</u> | <u>32,261,574</u> | <u>31,936,134</u> | <u>31,616,186</u> |
| 43,106 | 42,147 | 47,377 | 49,717 | 50,996 |
| 8,705,756 | 9,253,972 | 9,907,344 | 10,931,371 | 11,671,987 |
| 1,058,134 | 1,027,897 | 2,107,474 | 2,675,581 | 2,894,246 |
| 87,365 | 90,469 | 93,734 | 95,736 | 102,593 |
| 48,958 | 66,375 | 73,312 | 74,877 | 85,819 |
| 42,964 | 46,682 | 44,973 | 43,374 | 40,084 |
| 3,672,423 | 3,720,995 | 3,739,165 | 3,811,862 | 4,191,587 |
| 4,808,580 | 3,613,083 | 13,292,594 | 14,103,243 | 12,543,063 |
| 245,962 | 95,889 | 305,669 | 281,741 | 259,750 |
| <u>18,713,248</u> | <u>17,957,509</u> | <u>29,611,642</u> | <u>32,067,502</u> | <u>31,840,125</u> |
| <u>(4,677,016)</u> | <u>(10,555,827)</u> | <u>(2,649,932)</u> | <u>131,368</u> | <u>223,939</u> |
| 190,974 | 129,445 | 134,195 | 86,295 | 133,680 |
| 6 | 14,691 | 1,384 | 1,215 | 378 |
| 269 | 609 | | 1 | 543 |
| 270,787 | 156,903 | 241,013 | 222,640 | 248,725 |
| | | | 3,045 | |
| 167,692 | 120,404 | 136,577 | 126,971 | 136,800 |
| (150,026) | | | | |
| <u>3,909,529</u> | <u>4,268,014</u> | <u>4,491,627</u> | <u>4,179,888</u> | <u>3,944,781</u> |
| 4,389,231 | 4,690,066 | 5,004,796 | 4,620,055 | 4,464,907 |
| <u>(287,785)</u> | <u>(5,865,761)</u> | <u>2,354,864</u> | <u>4,751,423</u> | <u>4,688,846</u> |
| <u>\$ 2,098,124</u> | <u>\$ (10,544,649)</u> | <u>\$ 1,478,489</u> | <u>\$ 7,149,967</u> | <u>\$ 9,554,757</u> |

STATE OF TEXAS
Statistical Section – Financial Trends Information
Fund Balances – Governmental Funds
Last Ten Fiscal Years

(Amounts in Millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------------|-------------------|-----------------|-----------------|-----------------|------------------|------------------|-----------------|-----------------|
| GENERAL FUND | | | | | | | | |
| Reserved | \$ 1,042 | \$ 1,185 | \$ 1,752 | \$ 1,648 | \$ 2,138 | \$ 2,471 | \$ 3,380 | \$ 5,460 |
| Unreserved | (2,326) | (1,562) | 286 | 5,673 | 8,698 | 8,184 | 5,586 | 2,950 |
| Total General Fund | <u>\$ (1,284)</u> | <u>\$ (377)</u> | <u>\$ 2,038</u> | <u>\$ 7,321</u> | <u>\$ 10,836</u> | <u>\$ 10,655</u> | <u>\$ 8,966</u> | <u>\$ 8,410</u> |
| ALL OTHER GOVERNMENTAL FUNDS | | | | | | | | |
| Reserved | \$20,485 | \$21,850 | \$24,275 | \$25,999 | \$29,054 | \$27,957 | \$25,586 | \$28,193 |
| Unreserved | | | | | | | | |
| Special Revenue | 1,256 | 1,309 | 1,460 | 910 | 1,847 | 4,953 | 5,323 | 3,343 |
| Capital Projects | 14 | 15 | | 7 | (11) | (124) | (111) | (204) |
| Permanent | 458 | 492 | 546 | 575 | 632 | 564 | 477 | 1,028 |
| Total All Other Governmental Funds | <u>\$22,213</u> | <u>\$23,666</u> | <u>\$26,281</u> | <u>\$27,491</u> | <u>\$31,522</u> | <u>\$33,350</u> | <u>\$31,275</u> | <u>\$32,360</u> |

| | 2011* | 2012 |
|---------------------|-----------------|-----------------|
| GENERAL FUND | | |
| Nonspendable | \$ 501 | \$ 678 |
| Restricted | 1,393 | 1,764 |
| Committed | 4,185 | 5,283 |
| Assigned | 29 | 44 |
| Unassigned | 1,077 | 1,095 |
| Total General Fund | <u>\$ 7,185</u> | <u>\$ 8,864</u> |

| | | |
|-------------------------------------|-----------------|-----------------|
| ALL OTHER GOVERNMENTAL FUNDS | | |
| Nonspendable | \$ 12,254 | \$ 12,915 |
| Restricted | 22,606 | 21,897 |
| Committed | 758 | 1,013 |
| Assigned | 2 | 2 |
| Unassigned | (738) | (511) |
| Total All Other Governmental Funds | <u>\$34,882</u> | <u>\$35,316</u> |

* Due to the changes in the state's fund structure initiated when GASB Statement No. 54 was implemented, information for fund balances is available for the line items presented only beginning in fiscal 2011.

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years*

(Amounts in Millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|---------------|-----------------|-----------------|
| REVENUES BY SOURCE | | | | | | | | | | |
| Tax Collections | \$25,939 | \$27,976 | \$29,830 | \$33,867 | \$36,670 | \$41,256 | \$37,654 | \$35,868 | \$39,632 | \$44,171 |
| Federal Funds | 23,017 | 24,382 | 25,851 | 28,212 | 26,967 | 28,656 | 35,699 | 42,483 | 44,907 | 38,219 |
| Licenses, Fees and Permits | 2,921 | 3,332 | 3,590 | 4,011 | 4,324 | 4,522 | 4,433 | 4,533 | 4,661 | 5,076 |
| Interest and Other Investment Income | 2,118 | 2,435 | 3,317 | 3,218 | 4,574 | (368) | (1,957) | 2,171 | 3,609 | 3,204 |
| Land Income | 298 | 482 | 544 | 462 | 422 | 650 | 390 | 384 | 551 | 432 |
| Settlement of Claims | 563 | 523 | 883 | 583 | 539 | 555 | 555 | 614 | 593 | 611 |
| Sales of Goods and Services | 1,131 | 1,109 | 1,445 | 1,503 | 2,697 | 2,063 | 1,962 | 1,816 | 2,125 | 1,860 |
| Other Revenues | 1,464 | 1,754 | 1,918 | 2,159 | 2,730 | 2,590 | 3,192 | 3,499 | 3,087 | 3,888 |
| Total Revenues | 57,451 | 61,993 | 67,378 | 74,015 | 78,923 | 79,924 | 81,928 | 91,368 | 99,165 | 97,461 |
| EXPENDITURES BY FUNCTION | | | | | | | | | | |
| General Government | 1,961 | 2,191 | 2,151 | 2,530 | 2,415 | 2,628 | 3,025 | 3,352 | 3,981 | 3,065 |
| Education | 15,927 | 16,220 | 16,204 | 18,025 | 21,317 | 24,976 | 24,941 | 27,331 | 28,639 | 25,715 |
| Employee Benefits | 12 | 12 | 12 | 13 | 14 | 14 | 13 | 15 | 14 | 14 |
| Teacher Retirement State Contributions | | | | | | 1,781 | 1,729 | 1,830 | 1,854 | 1,641 |
| Health and Human Services | 24,690 | 25,039 | 27,192 | 28,761 | 30,855 | 32,355 | 37,988 | 41,367 | 44,869 | 44,709 |
| Public Safety and Corrections | 4,067 | 3,887 | 3,952 | 4,939 | 4,897 | 4,864 | 5,802 | 6,006 | 5,415 | 5,114 |
| Transportation | 3,065 | 2,970 | 3,246 | 3,909 | 3,702 | 3,895 | 3,399 | 3,474 | 3,647 | 3,788 |
| Natural Resources and Recreation | 787 | 844 | 1,039 | 930 | 1,172 | 1,420 | 1,606 | 1,566 | 1,518 | 1,619 |
| Regulatory Services | 311 | 371 | 345 | 294 | 317 | 393 | 434 | 438 | 407 | 412 |
| Debt Service: | | | | | | | | | | |
| Principal | 367 | 211 | 306 | 393 | 437 | 415 | 596 | 731 | 592 | 580 |
| Interest | 360 | 335 | 375 | 238 | 370 | 428 | 513 | 720 | 757 | 725 |
| Other Financing Fees | | | | 2 | 14 | 15 | 15 | 41 | 16 | 8 |
| Capital Outlay | 2,654 | 2,830 | 3,735 | 3,938 | 4,368 | 4,404 | 3,738 | 3,539 | 3,737 | 3,528 |
| Total Expenditures | 54,201 | 54,910 | 58,557 | 63,972 | 69,878 | 77,588 | 83,799 | 90,410 | 95,446 | 90,918 |
| Excess (Deficiency) of Revenues | | | | | | | | | | |
| Over (Under) Expenditures | 3,250 | 7,083 | 8,821 | 10,043 | 9,045 | 2,336 | (1,871) | 958 | 3,719 | 6,543 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Transfer In | 5,793 | 6,984 | 7,488 | 7,343 | 7,765 | 13,832 | 9,737 | 11,465 | 6,138 | 7,278 |
| Transfer Out | (10,937) | (11,842) | (12,248) | (12,433) | (12,887) | (17,777) | (14,033) | (15,987) | (10,344) | (11,249) |
| Bonds and Notes Issued | 383 | 87 | 1,242 | 1,440 | 3,471 | 2,988 | 1,940 | 3,808 | 1,566 | 338 |
| Bonds Issued for Refunding | 164 | 58 | 208 | 72 | 249 | 515 | 271 | 385 | 547 | 38 |
| Payment to Escrow for Refunding | (164) | (69) | (208) | (72) | (263) | (559) | (309) | (214) | (580) | (62) |
| Premiums on Bonds Issued ** | | | | | 126 | 180 | 33 | 48 | 85 | 14 |
| Sale of Capital Assets | 21 | 50 | 37 | 17 | 29 | 22 | 16 | 14 | 9 | 31 |
| Increases in Obligations Under Capital Leases | 4 | | | 3 | | 1 | | 10 | 3 | 3 |
| Insurance Recoveries | | | | 7 | 2 | 15 | 18 | 15 | 12 | 2 |
| Total Other Financing Sources (Uses) | (4,736) | (4,732) | (3,481) | (3,623) | (1,508) | (783) | (2,327) | (456) | (2,564) | (3,607) |
| NET CHANGE IN FUND BALANCES | \$ (1,486) | \$ 2,351 | \$ 5,340 | \$ 6,420 | \$ 7,537 | \$ 1,553 | \$ (4,198) | \$ 502 | \$ 1,155 | \$ 2,936 |
| DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES | | | | | | | | | | |
| | 1.4% | 1.0% | 1.2% | 1.1% | 1.3% | 1.2% | 1.4% | 1.7% | 1.5% | 1.5% |

* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2007.

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Taxable Sales by Industry
For the Calendar Years 2002 through 2011*

(Amounts in Millions)

| NAICS** Industry | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Agriculture, Forestry, Fishing, Hunting | \$ 127 | \$ 108 | \$ 105 | \$ 137 | \$ 149 | \$ 147 | \$ 152 | \$ 132 | \$ 138 | \$ 146 |
| Mining, Quarrying, Oil & Gas Extraction | 2,862 | 3,342 | 3,897 | 5,329 | 8,143 | 11,351 | 15,950 | 10,038 | 13,361 | 21,502 |
| Utilities | 4,801 | 5,282 | 5,485 | 7,543 | 9,022 | 9,305 | 9,881 | 9,576 | 9,491 | 10,217 |
| Construction | 6,857 | 7,003 | 8,071 | 9,271 | 11,583 | 13,144 | 14,180 | 11,013 | 10,847 | 12,645 |
| Manufacturing | 17,653 | 16,319 | 17,543 | 20,733 | 24,336 | 27,021 | 27,145 | 22,423 | 23,256 | 28,089 |
| Wholesale Trade | 14,919 | 17,324 | 19,000 | 21,634 | 25,044 | 26,663 | 28,512 | 22,225 | 22,585 | 27,281 |
| Retail Trade | 99,690 | 102,215 | 108,078 | 116,307 | 127,389 | 135,050 | 138,266 | 130,657 | 134,900 | 140,985 |
| Transportation, Warehousing | 830 | 1,208 | 1,390 | 1,317 | 1,805 | 1,832 | 2,907 | 2,168 | 1,933 | 3,249 |
| Information | 23,884 | 23,900 | 24,804 | 26,579 | 29,538 | 30,933 | 33,305 | 32,753 | 33,321 | 34,492 |
| Finance, Insurance | 1,955 | 1,894 | 1,819 | 1,913 | 2,099 | 2,183 | 2,868 | 2,637 | 2,423 | 2,699 |
| Real Estate, Rental, Leasing | 5,766 | 5,569 | 5,820 | 6,832 | 8,102 | 9,062 | 9,397 | 7,348 | 7,391 | 8,942 |
| Professional, Scientific, Technical Serv. | 5,147 | 4,812 | 5,181 | 6,282 | 7,069 | 7,657 | 8,400 | 7,760 | 7,683 | 8,686 |
| Management of Companies, Enterprises | 1,649 | 1,930 | 1,972 | 2,008 | 802 | 525 | 854 | 322 | 303 | 372 |
| Admin Supt Waste Mgmt Remediation Serv. | 6,827 | 7,050 | 7,554 | 7,995 | 8,692 | 9,434 | 9,886 | 9,368 | 9,563 | 10,040 |
| Educational Services | 281 | 294 | 341 | 379 | 406 | 428 | 337 | 371 | 450 | 473,281 |
| Health Care, Social Assistance | 422 | 513 | 547 | 600 | 623 | 743 | 757 | 790 | 812 | 866 |
| Arts, Entertainment, Recreation | 2,316 | 2,710 | 2,885 | 2,875 | 3,019 | 3,215 | 3,481 | 3,537 | 3,633 | 3,885 |
| Accommodation, Food Services | 22,931 | 23,653 | 25,438 | 27,313 | 29,750 | 31,962 | 33,667 | 33,246 | 34,600 | 37,126 |
| Other Services (Except Public Admin) | 5,892 | 6,083 | 6,295 | 6,824 | 7,452 | 7,889 | 8,087 | 7,248 | 7,632 | 8,358 |
| Public Administration | 1,881 | 1,692 | 2,072 | 1,565 | 1,474 | 1,468 | 1,641 | 1,662 | 1,676 | 1,739 |
| Nonclassifiable | 5 | 9 | 8 | 8 | 6 | 4 | 4 | 4 | 4 | 6 |
| Other | 3,263 | 1,655 | 648 | 221 | 98 | 57 | 19 | 56 | 66 | 133 |
| Total Taxable Sales | \$ 229,958 | \$ 234,565 | \$ 248,953 | \$ 273,665 | \$ 306,601 | \$ 330,073 | \$ 349,696 | \$ 315,334 | \$ 326,068 | \$ 834,739 |
| Direct Sales Tax Rate | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% | 6.25% |

* Fiscal 2012 data is not available until mid-year of the following fiscal year.

** North American Industry Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports"

STATE OF TEXAS

Statistical Section – Revenue Capacity Information

State Tax Collections and Retail Sales

Last Ten Fiscal Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

State Tax Collections Per Capita, 2003-12*

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Tax Collections | \$25,939 | \$27,976 | \$29,830 | \$33,867 | \$36,670 | \$41,256 | \$37,654 | \$35,868 | \$39,632 | \$44,171 |
| Percentage Tax Collection Change From Prior Year | 3.2% | 7.9% | 6.6% | 13.5% | 8.3% | 12.5% | (8.7)% | (4.7)% | 10.5% | 11.5% |
| Resident Population | 21.9 | 22.3 | 22.7 | 23.3 | 23.8 | 24.2 | 24.7 | 25.1 | 25.6 | 26.0 |
| Percentage Population Change From Prior Year | 1.6% | 1.6% | 1.8% | 2.6% | 1.9% | 2.0% | 2.0% | 1.9% | 1.7% | 1.6% |
| State Tax Collections Per Capita | \$ 1,184 | \$ 1,255 | \$ 1,314 | \$ 1,454 | \$ 1,541 | \$ 1,705 | \$ 1,524 | \$ 1,429 | \$ 1,548 | \$ 1,699 |

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collection figures are from the 2003-12 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and were revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales

Last Ten Years*

(Amounts in Millions)

| Year | Retail Sales | Percent Change |
|--------|-----------------|-------------------|
| 2003 | \$306,342 | 5.4% |
| 2004 | \$340,363 | 11.1% |
| 2005 | \$364,788 | 7.2% |
| 2006 | \$380,303 | 4.3% |
| 2007 | \$394,884 | 3.8% |
| 2008 | \$435,256 | 10.2% |
| 2009 | \$389,524 | (10.5)% |
| 2010 | \$400,445 | 2.8% |
| 2011 | \$435,901 | 8.9% |
| 2012** | \$217,400 | 7.3% |

* Reported amounts for retail sales may be revised as more complete information is received.

** Amount is for first half of fiscal 2012 and the percentage change is calculated over the first half of fiscal 2011.

Source: Texas Comptroller of Public Accounts.

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Texas Gross State Product by Industry
Last Ten Years*

(Amounts in Millions, Except Percentage Data)

| NAICS** Industry | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agriculture, Forestry and Fishing | | | | | | | | | | |
| | \$ 8,345 | \$ 9,871 | \$ 8,493 | \$ 7,290 | \$ 8,724 | \$ 7,717 | \$ 6,145 | \$ 9,762 | \$ 9,889 | \$ 9,470 |
| % Change | 19.8 | 18.3 | (14.0) | (14.2) | 19.7 | (11.5) | (20.4) | 58.9 | 1.3 | (4.2) |
| Mining and Natural Resources | | | | | | | | | | |
| | 59,851 | 69,286 | 83,554 | 97,471 | 111,471 | 145,122 | 86,498 | 97,086 | 118,629 | 137,622 |
| % Change | 30.6 | 15.8 | 20.6 | 16.7 | 14.4 | 30.2 | (40.4) | 12.2 | 22.2 | 16.0 |
| Construction | | | | | | | | | | |
| | 45,445 | 47,418 | 53,083 | 56,117 | 59,005 | 60,976 | 57,747 | 55,955 | 57,970 | 60,965 |
| % Change | 7.0 | 4.3 | 11.9 | 5.7 | 5.1 | 3.3 | (5.3) | (3.1) | 3.6 | 5.2 |
| Manufacturing | | | | | | | | | | |
| | 98,171 | 131,971 | 137,612 | 158,139 | 173,041 | 151,287 | 138,928 | 173,194 | 192,004 | 201,242 |
| % Change | 1.6 | 34.4 | 4.3 | 14.9 | 9.4 | (12.6) | (8.2) | 24.7 | 10.9 | 4.8 |
| Trade, Transportation and Utilities | | | | | | | | | | |
| | 161,431 | 170,650 | 181,079 | 196,465 | 210,414 | 217,974 | 207,280 | 217,670 | 229,814 | 241,874 |
| % Change | 3.7 | 5.7 | 6.1 | 8.5 | 7.1 | 3.6 | (4.9) | 5.0 | 5.6 | 5.2 |
| Information | | | | | | | | | | |
| | 37,676 | 40,586 | 42,216 | 43,910 | 47,646 | 45,452 | 43,683 | 42,381 | 44,900 | 47,435 |
| % Change | 0.8 | 7.7 | 4.0 | 4.0 | 8.5 | (4.6) | (3.9) | (3.0) | 5.9 | 5.6 |
| Financial Activities | | | | | | | | | | |
| | 133,401 | 135,190 | 142,816 | 151,970 | 163,052 | 181,704 | 181,212 | 193,232 | 199,389 | 204,666 |
| % Change | 3.2 | 1.3 | 5.6 | 6.4 | 7.3 | 11.4 | (0.3) | 6.6 | 3.2 | 2.6 |
| Professional and Business Services | | | | | | | | | | |
| | 80,005 | 87,564 | 97,003 | 107,008 | 120,844 | 130,796 | 124,657 | 133,997 | 144,666 | 156,173 |
| % Change | 2.8 | 9.4 | 10.8 | 10.3 | 12.9 | 8.2 | (4.7) | 7.5 | 8.0 | 8.0 |
| Educational and Health Services | | | | | | | | | | |
| | 53,447 | 57,783 | 59,376 | 63,422 | 67,928 | 73,130 | 79,255 | 85,408 | 90,001 | 94,269 |
| % Change | 5.7 | 8.1 | 2.8 | 6.8 | 7.1 | 7.7 | 8.4 | 7.8 | 5.4 | 4.7 |
| Leisure and Hospitality Services | | | | | | | | | | |
| | 29,409 | 30,911 | 32,882 | 35,003 | 37,519 | 37,806 | 38,142 | 40,777 | 43,511 | 46,501 |
| % Change | 2.9 | 5.1 | 6.4 | 6.5 | 7.2 | 0.8 | 0.9 | 6.9 | 6.7 | 6.9 |
| Other Private Services | | | | | | | | | | |
| | 20,633 | 21,321 | 22,499 | 23,832 | 25,478 | 27,231 | 27,856 | 29,470 | 31,208 | 32,713 |
| % Change | 0.7 | 3.3 | 5.5 | 5.9 | 6.9 | 6.9 | 2.3 | 5.8 | 5.9 | 4.8 |
| Government, including Schools | | | | | | | | | | |
| | 96,675 | 101,130 | 107,943 | 113,784 | 122,229 | 130,078 | 138,137 | 143,967 | 146,146 | 147,174 |
| % Change | 5.9 | 4.6 | 6.7 | 5.4 | 7.4 | 6.4 | 6.2 | 4.2 | 1.5 | 0.7 |
| TOTAL | | | | | | | | | | |
| | \$ 824,489 | \$ 903,681 | \$ 968,556 | \$ 1,054,411 | \$ 1,147,351 | \$ 1,209,273 | \$ 1,129,540 | \$ 1,222,899 | \$ 1,308,127 | \$ 1,380,104 |
| % Change | 5.3 | 9.6 | 7.2 | 8.9 | 8.8 | 5.4 | (6.6) | 8.3 | 7.0 | 5.5 |
| TOTAL (In 2005 Chained Dollars) | | | | | | | | | | |
| | 914,892 | 964,924 | 968,556 | 1,016,315 | 1,071,592 | 1,077,144 | 1,057,675 | 1,113,104 | 1,149,908 | 1,186,540 |
| % Change | 2.4 | 5.5 | 0.4 | 4.9 | 5.4 | 0.5 | (1.8) | 5.2 | 3.3 | 3.2 |

* The U.S. Bureau of Economic Analysis periodically revises its personal income and gross product data for states. These revisions include data changes for previous years, as new and more complete information becomes available.

** North American Industry Classification System

Source: U.S. Bureau of Economic Analysis for 2003-2011 and Texas Comptroller of Public Accounts Forecast Model for 2012

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Legal Debt Margin Information
Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-------------------|-------------------|-------------------|-------------------|---------------------|
| Debt Service Limit* | \$ 1,318,449 | \$ 1,344,627 | \$ 1,405,937 | \$ 1,518,628 | \$ 1,664,884 |
| Total Net Debt Service Applicable to Limit | <u>626,185</u> | <u>622,433</u> | <u>620,989</u> | <u>545,725</u> | <u>605,518</u> |
| Legal Debt Service Margin | <u>\$ 692,264</u> | <u>\$ 722,194</u> | <u>\$ 784,948</u> | <u>\$ 972,903</u> | <u>\$ 1,059,366</u> |
| Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit | 47.5% | 46.3% | 44.2% | 35.9% | 36.4% |

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Debt Service Limit* | \$ 1,773,089 | \$ 1,795,118 | \$ 1,759,856 | \$ 1,782,305 | \$ 1,908,572 |
| Total Net Debt Service Applicable to Limit | <u>1,450,498</u> | <u>1,464,078</u> | <u>1,443,705</u> | <u>1,318,175</u> | <u>1,329,298</u> |
| Legal Debt Service Margin | <u>\$ 322,591</u> | <u>\$ 331,040</u> | <u>\$ 316,151</u> | <u>\$ 464,130</u> | <u>\$ 579,274</u> |
| Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit | 81.8% | 81.6% | 82.0% | 74.0% | 69.7% |

Legal Debt Service Margin Calculation for Fiscal 2012

| | |
|---|-------------------|
| Unrestricted General Revenue fiscal 2010 | \$34,014,030 |
| Unrestricted General Revenue fiscal 2011 | 38,213,158 |
| Unrestricted General Revenue fiscal 2012 | 42,287,113 |
| Debt Service Limit* | 1,908,572 |
| Debt Service Applicable to Limit: | |
| Debt Service on Outstanding Debt Payable from General Revenue (GR) | 510,550 |
| Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR | <u>818,748</u> |
| Total Net Debt Service Applicable to Limit | 1,329,298 |
| Legal Debt Service Margin | <u>\$ 579,274</u> |

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Ratio of Outstanding Debt by Type

Last Ten Fiscal Years

(Amounts in Millions, Except Percentage Data and Per Capita)

| Fiscal Year | Governmental Activities | | | | Business-Type Activities | | | | Total Primary Government | Percentage of Personal Income | Per Capita |
|-------------|--------------------------|---------------|-----------------|----------------|--------------------------|---------------|-----------------|----------------|--------------------------|-------------------------------|------------|
| | General Obligation Bonds | Revenue Bonds | Notes and Loans | Capital Leases | General Obligation Bonds | Revenue Bonds | Notes and Loans | Capital Leases | | | |
| 2003 | \$3,185 | \$ 739 | \$ 103 | \$52 | \$2,599 | \$9,277 | \$1,889 | \$23 | \$17,867 | 2.7% | 808 |
| 2004 | 3,116 | 679 | 116 | 48 | 2,719 | 10,844 | 1,920 | 12 | 19,454 | 2.8% | 865 |
| 2005 | 3,972 | 632 | 262 | 44 | 2,815 | 11,749 | 1,614 | 14 | 21,102 | 2.8% | 921 |
| 2006 | 4,479 | 1,152 | 331 | 15 | 2,739 | 12,378 | 1,741 | 12 | 22,847 | 2.8% | 975 |
| 2007 | 6,757 | 2,031 | 216 | 11 | 2,775 | 12,304 | 2,029 | 14 | 26,137 | 3.0% | 1,094 |
| 2008 | 8,061 | 3,445 | 340 | 10 | 2,708 | 13,370 | 2,437 | 14 | 30,385 | 3.2% | 1,250 |
| 2009 | 9,745 | 3,287 | 150 | 8 | 2,927 | 15,488 | 2,348 | 13 | 33,966 | 3.7% | 1,367 |
| 2010 | 10,086 | 5,620 | 761 | 15 | 2,944 | 17,043 | 3,103 | 14 | 39,586 | 4.1% | 1,563 |
| 2011 | 11,520 | 5,456 | 1,150 | 14 | 2,956 | 18,767 | 2,006 | 20 | 41,889 | 4.1% | 1,624 |
| 2012 | 11,314 | 4,277 | 1,381 | 12 | 3,230 | 19,033 | 2,075 | 22 | 41,344 | 3.8% | 1,584 |

Source: 2003-12 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Debt Capacity Information**Ratios of General Bonded Debt Outstanding****Last Ten Fiscal Years***

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|
| Bonded Debt (General Obligation Bonds Only) | \$ 5,784 | \$ 5,835 | \$ 6,787 | \$ 7,218 | \$ 9,532 | \$ 10,768 | \$ 12,672 | \$ 13,029 | \$ 14,476 | \$ 14,544 |
| Percentage Bonded Debt Change From Prior Year | 0.5% | 0.9% | 16.3% | 6.4% | 32.1% | 13.0% | 17.7% | 2.8% | 11.1% | 0.5% |
| Tax Collections | 25,939 | 27,976 | 29,830 | 33,867 | 36,670 | 41,256 | 37,654 | 35,868 | 39,632 | 44,171 |
| Percentage Bonded Debt to Tax Collections | 22.3% | 20.9% | 22.8% | 21.3% | 26.0% | 26.1% | 33.7% | 36.3% | 36.5% | 32.9% |
| Resident Population | 21.9 | 22.3 | 22.7 | 23.3 | 23.8 | 24.2 | 24.7 | 25.1 | 25.6 | 26.0 |
| General Bonded Debt Per Capita | \$ 264 | \$ 262 | \$ 299 | \$ 310 | \$ 401 | \$ 445 | \$ 513 | \$ 519 | \$ 565 | \$ 559 |

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collection amounts are from the 2003-12 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Pledged Revenue Bond Coverage
Last Ten Fiscal Years

(Amounts in Thousands, Except Ratio Data)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Pledged Revenue Bond Amount | \$ 93,942 | \$ 101,178 | \$ 150,119 | \$ 81,011 | \$ 5,765,826 |
| Operating Expenditures | 11,772 | 2,525 | 15,540 | 1,452 | 6,881,279 |
| Net Available Revenue | <u>\$ 82,170</u> | <u>\$ 98,653</u> | <u>\$ 134,579</u> | <u>\$ 79,559</u> | <u>\$ (1,115,453)</u> |
| Debt Service – | | | | | |
| Principal | \$ 74,106 | \$ 77,058 | \$ 84,087 | \$ 86,056 | \$ 104,077 |
| Interest | 37,478 | 33,314 | 26,115 | 25,764 | 66,822 |
| Total Debt Service | <u>\$ 111,584</u> | <u>\$ 110,372</u> | <u>\$ 110,202</u> | <u>\$ 111,820</u> | <u>\$ 170,899</u> |
| Coverage Ratio | 0.7 | 0.9 | 1.2 | 0.7 | (6.5) |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| Pledged Revenue Bond Amount | \$ 6,401,630 | \$ 7,049,189 | \$ 8,369,686 | \$ 9,088,841 | \$ 9,869,477 |
| Operating Expenditures | 536,191 | 885,294 | 839,699 | 364,043 | 1,457,567 |
| Net Available Revenue | <u>\$ 5,865,439</u> | <u>\$ 6,163,895</u> | <u>\$ 7,529,987</u> | <u>\$ 8,724,798</u> | <u>\$ 8,411,910</u> |
| Debt Service – | | | | | |
| Principal | \$ 490,032 | \$ 440,036 | \$ 532,128 | \$ 623,346 | \$ 683,150 |
| Interest | 371,983 | 492,366 | 503,958 | 537,104 | 560,359 |
| Total Debt Service | <u>\$ 862,015</u> | <u>\$ 932,402</u> | <u>\$ 1,036,086</u> | <u>\$ 1,160,450</u> | <u>\$ 1,243,509</u> |
| Coverage Ratio | 6.8 | 6.6 | 7.3 | 7.5 | 6.8 |
| COMPONENT UNITS* | | | | | |
| Pledged Revenue Bond Amount | \$ 16,215 | \$ 11,781 | \$ 13,524 | \$ 13,704 | \$ 13,034 |
| Operating Expenditures | | 349 | 225 | 264 | 91 |
| Net Available Revenue | <u>\$ 16,215</u> | <u>\$ 11,432</u> | <u>\$ 13,299</u> | <u>\$ 13,440</u> | <u>\$ 12,943</u> |
| Debt Service – | | | | | |
| Principal | \$ 12,130 | \$ 11,050 | \$ | \$ 5,840 | \$ 5,485 |
| Interest | 5,463 | 2,937 | 3,628 | 4,940 | 5,051 |
| Total Debt Service | <u>\$ 17,593</u> | <u>\$ 13,987</u> | <u>\$ 3,628</u> | <u>\$ 10,780</u> | <u>\$ 10,536</u> |
| Coverage Ratio | 0.9 | 0.8 | 3.7 | 1.2 | 1.2 |
| Total Combined Coverage Ratio | 6.0 | 5.9 | 6.7 | 6.9 | 5.1 |

* Component unit amounts from 2003 to 2007 were adjusted to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources.
 Operating expenditures include capital outlay expenditures.

Source: 2003-12 state of Texas financial statements and bond reporting system

| 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 6,748,490 | \$ 6,640,110 | \$ 5,522,453 | \$ 6,085,973 | \$ 6,619,706 |
| 7,447,496 | 7,233,759 | 6,085,684 | 6,729,036 | 6,075,344 |
| <u>\$ (699,006)</u> | <u>\$ (593,649)</u> | <u>\$ (563,231)</u> | <u>\$ (643,063)</u> | <u>\$ 544,362</u> |
| \$ 112,250 | \$ 156,490 | \$ 168,785 | \$ 161,750 | \$ 170,650 |
| 118,203 | 152,025 | 147,501 | 263,708 | 210,694 |
| <u>\$ 230,453</u> | <u>\$ 308,515</u> | <u>\$ 316,286</u> | <u>\$ 425,458</u> | <u>\$ 381,344</u> |
| (3.0) | (1.9) | (1.8) | (1.5) | 1.4 |
| \$10,225,735 | \$10,700,325 | \$11,514,734 | \$12,864,956 | \$13,595,957 |
| 11,698,563 | 8,481,872 | 9,202,811 | 9,986,234 | 10,516,772 |
| <u>\$ (1,472,828)</u> | <u>\$ 2,218,453</u> | <u>\$ 2,311,923</u> | <u>\$ 2,878,722</u> | <u>\$ 3,079,185</u> |
| \$ 420,487 | \$ 455,540 | \$ 482,474 | \$ 638,223 | \$ 637,203 |
| 558,666 | 620,323 | 703,116 | 792,065 | 827,258 |
| <u>\$ 979,153</u> | <u>\$ 1,075,863</u> | <u>\$ 1,185,590</u> | <u>\$ 1,430,288</u> | <u>\$ 1,464,461</u> |
| (1.5) | 2.1 | 2.0 | 2.0 | 2.1 |
| \$ 10,971 | \$ 62,397 | \$ 63,667 | \$ 97,297 | \$ 42,905 |
| 552 | 1,051 | 1,332 | 1,038 | 754 |
| <u>\$ 10,419</u> | <u>\$ 61,346</u> | <u>\$ 62,335</u> | <u>\$ 96,259</u> | <u>\$ 42,151</u> |
| \$ 5,090 | \$ 78,793 | \$ 42,762 | \$ 58,588 | \$ 29,849 |
| 3,610 | 16,926 | 5,194 | 11,760 | 10,943 |
| <u>\$ 8,700</u> | <u>\$ 95,719</u> | <u>\$ 47,956</u> | <u>\$ 70,348</u> | <u>\$ 40,792</u> |
| 1.2 | 0.6 | 1.3 | 1.4 | 1.0 |
| (1.8) | 1.1 | 1.2 | 1.2 | 1.9 |

STATE OF TEXAS
Statistical Section – Demographic and Economic Information
Texas Nonfarm Employment Detail: Number of Jobs
Calendar Years 2003-2012*

| Employment by Industry | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------------------|------------------|------------------|-------------------|-------------------|
| GOODS-PRODUCING | | | | | |
| Natural Resources and Mining | 146,600 | 153,042 | 166,000 | 185,775 | 207,417 |
| Construction | 552,000 | 544,267 | 566,750 | 605,308 | 648,150 |
| Manufacturing | | | | | |
| Durables | 560,375 | 559,883 | 570,183 | 599,750 | 613,117 |
| Nondurables | 338,992 | 330,483 | 326,650 | 324,175 | 321,008 |
| Total, Goods-Producing | <u>1,597,967</u> | <u>1,587,675</u> | <u>1,629,583</u> | <u>1,715,008</u> | <u>1,789,692</u> |
| SERVICE-PROVIDING | | | | | |
| Trade, Transportation, and Utilities | | | | | |
| Wholesale Trade | 458,458 | 463,100 | 477,267 | 497,883 | 518,892 |
| Retail Trade | 1,069,350 | 1,083,842 | 1,109,092 | 1,132,325 | 1,161,175 |
| Transportation and Warehousing | 339,533 | 350,656 | 361,274 | 374,729 | 387,571 |
| Utilities | 48,392 | 47,294 | 45,709 | 44,346 | 45,538 |
| Information | 233,725 | 224,875 | 223,083 | 221,592 | 220,983 |
| Financial Activities | | | | | |
| Finance and Insurance | 417,233 | 425,442 | 436,342 | 451,125 | 461,742 |
| Real Estate and Rental and Leasing | 168,275 | 169,883 | 173,142 | 177,067 | 182,225 |
| Professional and Business Services | | | | | |
| Professional, Scientific and Technical | 451,433 | 467,975 | 493,267 | 522,542 | 558,158 |
| Management, Administrative and Support | 607,267 | 632,633 | 668,400 | 718,275 | 744,142 |
| Educational and Health Services | | | | | |
| Educational Services, Private | 132,183 | 136,142 | 140,592 | 143,117 | 146,875 |
| Health Care and Social Assistance | 986,442 | 1,013,225 | 1,043,150 | 1,072,658 | 1,107,225 |
| Leisure and Hospitality | 858,550 | 885,025 | 906,833 | 940,283 | 979,792 |
| Other Services | 355,392 | 353,225 | 347,817 | 347,833 | 355,300 |
| Government | | | | | |
| Federal Civilian | 180,442 | 180,608 | 181,908 | 185,358 | 186,417 |
| State | 342,008 | 340,200 | 348,633 | 352,217 | 357,283 |
| Local | 1,124,267 | 1,134,092 | 1,152,575 | 1,167,408 | 1,189,642 |
| Total, Service-Providing | <u>7,772,950</u> | <u>7,908,217</u> | <u>8,109,084</u> | <u>8,348,758</u> | <u>8,602,960</u> |
| Total Nonfarm Employment | <u>9,370,917</u> | <u>9,495,892</u> | <u>9,738,667</u> | <u>10,063,766</u> | <u>10,392,652</u> |

* Data in the table are annual averages. Prior years are subject to annual benchmark revisions.

** Data for 2012 includes estimates for the final month.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Source: Texas Workforce Commission and Texas Comptroller of Public Accounts

| 2008 | 2009 | 2010 | 2011 | 2012** |
|-------------------|-------------------|-------------------|-------------------|-------------------|
| 230,058 | 202,308 | 206,383 | 235,492 | 259,216 |
| 673,842 | 597,275 | 563,825 | 558,758 | 578,124 |
| 607,800 | 536,383 | 517,150 | 539,508 | 556,988 |
| 316,767 | 301,867 | 295,183 | 295,470 | 297,703 |
| <u>1,828,467</u> | <u>1,637,833</u> | <u>1,582,541</u> | <u>1,629,228</u> | <u>1,692,031</u> |
| 528,967 | 499,275 | 496,683 | 512,142 | 526,695 |
| 1,174,375 | 1,141,367 | 1,136,608 | 1,159,175 | 1,182,692 |
| 392,452 | 371,938 | 370,654 | 382,744 | 393,214 |
| 47,307 | 47,862 | 48,296 | 49,223 | 51,684 |
| 217,217 | 204,208 | 195,608 | 195,158 | 193,228 |
| 461,783 | 452,633 | 454,400 | 462,600 | 464,327 |
| 185,300 | 175,358 | 170,958 | 175,600 | 185,286 |
| 586,475 | 563,042 | 566,808 | 583,467 | 593,114 |
| 749,883 | 688,933 | 708,192 | 753,875 | 791,294 |
| 148,692 | 150,708 | 155,800 | 164,092 | 173,186 |
| 1,138,258 | 1,185,733 | 1,228,883 | 1,259,217 | 1,292,191 |
| 1,005,967 | 1,005,717 | 1,008,225 | 1,043,750 | 1,091,510 |
| 363,092 | 360,875 | 360,317 | 369,125 | 381,241 |
| 191,142 | 197,658 | 209,650 | 201,175 | 199,658 |
| 362,142 | 368,083 | 374,650 | 366,425 | 361,183 |
| 1,223,642 | 1,251,733 | 1,271,575 | 1,247,800 | 1,220,527 |
| <u>8,776,694</u> | <u>8,665,123</u> | <u>8,757,307</u> | <u>8,925,568</u> | <u>9,101,030</u> |
| <u>10,605,161</u> | <u>10,302,956</u> | <u>10,339,848</u> | <u>10,554,796</u> | <u>10,793,061</u> |

STATE OF TEXAS
Statistical Section – Demographic and Economic Information
Texas and U.S. Selected Statistics
Last Ten Calendar Years*

| Year | Population (Thousands) | | | | Total Personal Income (Millions) | | | | Per Capita Income | | | |
|--------|---------------------------|-------------------|---------|-------------------|-------------------------------------|-------------------|------------|-------------------|-------------------|-------------------|--------|-------------------|
| | Texas | Percent Change | U.S. | Percent Change | Texas | Percent Change | U.S. | Percent Change | Texas | Percent Change | U.S. | Percent Change |
| 2003 | 22,077 | 1.6% | 291,116 | 0.9% | 652,610 | 3.9% | 9,378,150 | 3.5% | 29,560 | 2.2% | 32,214 | 2.5% |
| 2004 | 22,443 | 1.7% | 293,758 | 0.9% | 696,796 | 6.8% | 9,937,275 | 6.0% | 31,048 | 5.0% | 33,828 | 5.0% |
| 2005 | 22,897 | 2.0% | 296,460 | 0.9% | 756,683 | 8.6% | 10,485,900 | 5.5% | 33,047 | 6.4% | 35,370 | 4.6% |
| 2006 | 23,426 | 2.3% | 299,282 | 1.0% | 824,281 | 8.9% | 11,268,100 | 7.5% | 35,187 | 6.5% | 37,650 | 6.4% |
| 2007 | 23,891 | 2.0% | 302,227 | 1.0% | 884,119 | 7.3% | 11,912,275 | 5.7% | 37,006 | 5.2% | 39,415 | 4.7% |
| 2008 | 24,371 | 2.0% | 304,948 | 0.9% | 962,992 | 8.9% | 12,460,150 | 4.6% | 39,514 | 6.8% | 40,860 | 3.7% |
| 2009 | 24,857 | 2.0% | 307,580 | 0.9% | 907,630 | (5.7)% | 11,930,200 | (4.3)% | 36,515 | (7.6)% | 38,787 | (5.1)% |
| 2010 | 25,305 | 1.8% | 310,064 | 0.8% | 965,237 | 6.3% | 12,373,525 | 3.7% | 38,143 | 4.5% | 39,906 | 2.9% |
| 2011 | 25,729 | 1.7% | 312,376 | 0.7% | 1,030,750 | 6.8% | 12,991,200 | 5.0% | 40,063 | 5.0% | 41,588 | 4.2% |
| 2012** | 26,107 | 1.5% | 315,311 | 0.9% | 1,081,448 | 4.9% | 13,423,740 | 3.3% | 41,423 | 3.4% | 42,573 | 2.4% |

* Prior years are subject to revisions.

** Numbers for 2012 include some forecast model quarterly estimates for the latter part of the year.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts

**Texas and U.S. Employment and
Unemployment Rates**
Last Ten Calendar Years*
(Thousands of Jobs and Percent)

| Year | Nonfarm Employment | | | | Unemployment Percentage Rate | |
|--------|-----------------------|-------------------|---------|-------------------|---------------------------------|------|
| | Texas | Percent Change | U.S. | Percent Change | Texas | U.S. |
| 2003 | 9,370 | (0.5)% | 129,996 | (0.3)% | 6.7% | 6.0% |
| 2004 | 9,497 | 1.4% | 131,419 | 1.1% | 6.0% | 5.5% |
| 2005 | 9,740 | 2.6% | 133,695 | 1.7% | 5.3% | 5.1% |
| 2006 | 10,066 | 3.3% | 136,092 | 1.8% | 4.9% | 4.6% |
| 2007 | 10,395 | 3.3% | 137,588 | 1.1% | 4.4% | 4.6% |
| 2008 | 10,607 | 2.0% | 136,794 | (0.6)% | 4.9% | 5.8% |
| 2009 | 10,307 | (2.8)% | 130,789 | (4.4)% | 7.5% | 9.3% |
| 2010 | 10,340 | 0.3% | 129,856 | (0.7)% | 8.2% | 9.6% |
| 2011 | 10,555 | 2.1% | 131,359 | 1.2% | 7.9% | 8.9% |
| 2012** | 10,793 | 2.3% | 133,241 | 1.4% | 6.9% | 8.1% |

* Prior years are subject to benchmark revisions.

** Texas numbers for 2012 include an estimate for the final month of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics – historical data was revised

STATE OF TEXAS
Statistical Section – Operating Information
Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| FUNCTION | | | | | | | | | | |
| General Government | 13,607 | 13,034 | 13,435 | 12,999 | 13,438 | 13,155 | 13,720 | 13,801 | 13,692 | 12,955 |
| Education | 133,857 | 134,456 | 140,367 | 144,636 | 146,944 | 152,121 | 156,375 | 159,918 | 161,636 | 161,670 |
| Employee Benefits | 315 | 302 | 292 | 294 | 302 | 311 | 325 | 344 | 338 | 334 |
| Teacher Retirement State Contributions | 441 | 440 | 451 | 444 | 445 | 454 | 476 | 496 | 514 | 515 |
| Health and Human Services | 52,238 | 49,288 | 48,389 | 49,097 | 50,910 | 53,161 | 56,067 | 58,071 | 58,717 | 57,790 |
| Public Safety and Corrections | 53,231 | 51,473 | 51,397 | 51,564 | 50,889 | 50,340 | 52,165 | 53,209 | 51,771 | 52,310 |
| Transportation | 14,717 | 14,078 | 14,551 | 14,744 | 14,748 | 14,148 | 13,257 | 12,692 | 12,513 | 12,436 |
| Natural Resources and Recreation | 8,299 | 7,990 | 8,053 | 8,018 | 8,014 | 8,264 | 8,484 | 8,646 | 8,388 | 7,855 |
| Regulatory Services | 3,882 | 3,779 | 3,882 | 3,869 | 3,828 | 3,891 | 4,048 | 4,052 | 3,942 | 3,841 |
| Total FTEs | <u>280,587</u> | <u>274,840</u> | <u>280,817</u> | <u>285,665</u> | <u>289,518</u> | <u>295,845</u> | <u>304,917</u> | <u>311,229</u> | <u>311,511</u> | <u>309,706</u> |
| Percentage Change | 1.3% | (2.0)% | 2.2% | 1.7% | 1.3% | 2.2% | 3.1% | 2.1% | 0.1% | (0.6)% |

Source: Texas State Auditor's Office

STATE OF TEXAS
Statistical Section – Operating Information
Capital Asset Statistics by Function
Last Eight Fiscal Years*

| Function | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| GENERAL GOVERNMENT | | | | | | | | |
| Number of Texas Facilities Commission Owned Facilities | 71 | 75 | 75 | 137 | 137 | 133 | 133 | 131 |
| State Real Property Inventory in Acres | 2,446,418 | 2,425,037 | 1,322,123 | 1,325,319 | 1,329,671 | 1,342,038 | 1,333,113 | 1,342,680 |
| EDUCATION | | | | | | | | |
| Number of School Districts (Independent and Common) | 1,037 | 1,033 | 1,031 | 1,031 | 1,031 | 1,030 | 1,029 | 1,244 |
| Number of Students | 4,383,871 | 4,505,572 | 4,576,933 | 4,671,493 | 4,749,571 | 4,847,844 | 4,933,617 | 4,978,120 |
| Number of Higher Education Institutions | 145 | 145 | 145 | 145 | 145 | 148 | 148 | 148 |
| HEALTH AND HUMAN SERVICES | | | | | | | | |
| Number of State Mental Health Facilities | 39 | 39 | 39 | 39 | 39 | 39 | 39 | 39 |
| Number of State Hospitals | 10 | 10 | 10 | 11 | 11 | 11 | 11 | 11 |
| PUBLIC SAFETY AND CORRECTIONS | | | | | | | | |
| Number of State Prisons – Texas Department of Criminal Justice only | 106 | 106 | 106 | 112 | 113 | 112 | 111 | 111 |
| Number of Available Beds (Capacity) | 155,277 | 156,520 | 156,652 | 160,622 | 159,656 | 159,771 | 163,144 | 162,057 |
| Number of Authorized Vehicular State Patrol Units | 1,095 | 1,195 | 1,281 | 1,281 | 1,494 | 1,811 | 1,572 | 1,791 |
| TRANSPORTATION | | | | | | | | |
| Centerline Miles of Highways** | 79,645 | 79,696 | 79,849 | 79,975 | 80,066 | 79,903 | 79,903 | 80,233 |
| Number of Bridges*** | 32,421 | 33,322 | 32,996 | 33,118 | 33,393 | 33,679 | 33,883 | 34,337 |
| NATURAL RESOURCES AND RECREATION | | | | | | | | |
| Number of State Parks Managed | 117 | 112 | 110 | 93 | 93 | 93 | 93 | 94 |
| Number of Park Acreage | 610,319 | 608,716 | 602,892 | 605,470 | 614,790 | 604,799 | 621,491 | 624,602 |

* Prior years are subject to revisions.

** Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

*** Number of bridges are the bridges owned by the state. Texas Department of Transportation also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites. Complete capital asset statistics by function for all data presented only available from 2005-12.

STATE OF TEXAS
Statistical Section – Operating Information
Operating Indicators by Function
Last Eight Fiscal Years

| Function | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| GENERAL GOVERNMENT / REGULATORY SERVICES | | | | | | | | |
| Number of Tax Returns Processed | 3,796,940 | 3,904,659 | 4,251,103 | 4,054,947 | 4,471,082 | 4,594,272 | 4,642,495 | 4,820,459 |
| Number of Licenses Issued | 1,494,693 | 1,554,754 | 1,166,069 | 1,243,330 | 1,310,014 | 1,314,903 | 1,332,146 | 1,422,788 |
| EDUCATION | | | | | | | | |
| Average Daily School Attendance (ADA) | 4,099,615 | 4,205,729 | 4,260,406 | 4,326,176 | 4,420,134 | 4,506,950 | 4,592,226 | 4,633,341 |
| Percent of Students Passing TAKS Test* | 62% | 67% | 70% | 72% | 74% | 77% | 76% | N/A |
| Texas Higher Education Enrollments | 1,184,373 | 1,211,582 | 1,228,897 | 1,264,286 | 1,366,436 | 1,464,081 | 1,509,098 | 1,481,581 |
| Higher Education Degrees Awarded** | 185,326 | 188,258 | 193,321 | 198,298 | 209,868 | 224,498 | 238,665 | N/A |
| HEALTH AND HUMAN SERVICES | | | | | | | | |
| Number of Medicaid Clients Served*** | 2,779,373 | 2,873,786 | 2,832,214 | 2,877,203 | 3,002,731 | 3,296,439 | 3,541,286 | 3,652,574 |
| Number of TANF Clients Served *** | 219,045 | 172,776 | 145,838 | 125,309 | 113,786 | 121,290 | 116,386 | 107,274 |
| Number of Immunizations | 6,381,835 | 11,617,682 | 12,827,417 | 12,771,928 | 12,734,334 | 14,412,427 | 12,258,819 | 13,393,087 |
| PUBLIC SAFETY AND CORRECTIONS | | | | | | | | |
| Number of New Prison Population | 73,815 | 74,170 | 73,525 | 74,283 | 72,738 | 72,315 | 73,988 | 74,232 |
| Number of Prison Population Released | 69,846 | 71,214 | 72,032 | 72,002 | 72,218 | 71,063 | 70,916 | 77,316 |
| Average Daily Prison Population | 151,448 | 151,734 | 152,805 | 155,588 | 155,432 | 154,315 | 155,830 | 154,933 |
| Authorized Number of Troopers Patrolling Texas Highways | 1,628 | 1,628 | 1,689 | 1,709 | 1,825 | 1,814 | 1,794 | 1,791 |
| TRANSPORTATION | | | | | | | | |
| Number of Construction Contracts Processed for Letting | 989 | 1,075 | 877 | 694 | 710 | 1,169 | 944 | 750 |
| Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract | 18,554 | 15,811 | 13,197 | 8,462 | 15,671 | 16,160 | 14,749 | 18,693 |
| – Via State Sources | 7,318 | 6,406 | 5,984 | 6,344 | 5,910 | 6,718 | 8,389 | 9,643 |
| Number of Vehicles Registered | 19,624,460 | 20,609,866 | 21,432,773 | 24,359,319 | 24,607,246 | 21,570,282 | 21,939,786 | 22,618,153 |
| NATURAL RESOURCES AND RECREATION | | | | | | | | |
| Number of State Parks Visits (in Millions) | 5.2 | 5.0 | 4.9 | 4.3 | 4.5 | 4.4 | 4.3 | 4.3 |
| Number of Parks and Wildlife Licenses Issued**** | 2,626,957 | 2,625,225 | 2,665,045 | 2,892,695 | 2,932,002 | 2,749,336 | 2,873,967 | 2,891,267 |

* The TAKS (Texas Assessment of Knowledge and Skills) is being phased out beginning in 2012 and will be replaced by the STARR (State of Texas Assessments of Academic Readiness). Due to the transition, ratings were suspended in 2012 while a new accountability system is developed. The new state rating system will debut in 2013.

** The 2012 degrees conferred will not be available until later in 2013.

*** Prior years are subject to revisions. Medicaid caseload is based on data through December 2012. Fiscal 2011 data was finalized March 2012, and fiscal 2012 data will be finalized March 2013. TANF is based on data through November 2012.

**** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites (complete operating indicators by function for all data presented only available from 2005-12).



Texas Comptroller of Public Accounts
Publication #96-471. Printed February 2013.

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