Section Two (continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2016 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 23,667,977	$ 5,652,961	$ 29,320,938	$ 1,587,790
Short-Term Investments	365,012	1,148,956	1,513,968	57,222
Securities Lending Collateral	1,372,067	790,981	2,163,048	
Receivables:				
Taxes	2,765,354		2,765,354	
Federal	1,967,184	758,327	2,725,511	44
Other Intergovernmental	530,867	130,500	661,367	1,288
Accounts	828,441	2,260,689	3,089,130	37,737
Interest and Dividends	84,983	257,675	342,658	769
Gifts		297,604	297,604	
Investment Trades	1,965	532,203	534,168	
Other	85,966	455,594	541,560	559
From Fiduciary Funds	507,440		507,440	
Inventories	403,687	186,195	589,882	3,479
Prepaid Items	5,396	215,963	221,359	4,677
Loans and Contracts	74,114	354,816	428,930	527
Other Current Assets		363,001	363,001	2,955
Restricted:				
Cash and Cash Equivalents	26,631	3,472,649	3,499,280	3,460
Short-Term Investments		502,760	502,760	
Loans and Contracts	117,217	104,370	221,587	2,598
Total Current Assets	32,804,301	17,485,244	50,289,545	1,703,105
Noncurrent Assets:				
Internal Balances (Note 12)	21,489	(21,489)		
Loans and Contracts	1,352,632	5,669,165	7,021,797	5,889
Investments	40,269,344	12,436,955	52,706,299	5,105
Receivables:				
Taxes	34,641		34,641	
Gifts		752,975	752,975	4,389
Other	350,778	29,059	379,837	778
Restricted:				
Cash and Cash Equivalents		85,876	85,876	4,675
Short-Term Investments		8,822	8,822	
Investments		40,719,178	40,719,178	494,244
Receivables		175,451	175,451	
Loans and Contracts	1,439,597	3,764,044	5,203,641	6,564
Other	90,542	13,309	103,851	
Assets Held in Trust		14,894	14,894	6,967
Prepaid Items				2,844
Intangible Assets – Service Concession Arrangements (Note 26)		2,326,591	2,326,591	
Other Noncurrent Assets	79,915	154,813	234,728	363
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	28,641,153	5,524,221	34,165,374	842
Depreciable or Amortizable, Net	71,369,212	24,384,254	95,753,466	31,822
Total Noncurrent Assets	143,649,303	96,038,118	239,687,421	564,482
Total Assets	176,453,604	113,523,362	289,976,966	2,267,587
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	6,183,264	1,654,463	7,837,727	
Total Deferred Outflows of Resources	6,183,264	1,654,463	7,837,727	0

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, 2016 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 4,228,062	$ 1,776,873	$ 6,004,935	$ 503,075
Payroll	773,131	951,619	1,724,750	895
Other Intergovernmental	538,710	12,876	551,586	
Federal	846	56,534	57,380	
Investment Trades	51,771	746,509	798,280	
Interest	324,633	122,891	447,524	889
Tax Refunds (Note 23)	805,784		805,784	
Annuities		7,888	7,888	
To Fiduciary Funds	85,826		85,826	
Internal Balances (Note 12)	894,273	(894,273)		
Unearned Revenue	997,126	3,457,532	4,454,658	305,098
Obligations/Reverse Repurchase Agreement	44,211		44,211	
Obligations/Securities Lending	1,416,684	790,981	2,207,665	
Claims and Judgments (Note 5)	41,895	110,918	152,813	
Capital Lease Obligations (Note 5, 8)	4,023	13,373	17,396	44
Employees' Compensable Leave (Note 5)	572,498	442,114	1,014,612	1,543
Notes and Loans Payable (Note 5)	207,237	102,409	309,646	6,709
General Obligation Bonds Payable (Note 5, 6)	557,999	225,545	783,544	
Revenue Bonds Payable (Note 5, 6)	199,851	2,271,228	2,471,079	4,713
Pollution Remediation Obligation (Note 5)	39,661		39,661	
Liabilities Payable From Restricted Assets (Note 5)		490,256	490,256	
Short Term Debt (Note 4)		957,159	957,159	
Funds Held for Others		148,686	148,686	180,965
Other Current Liabilities	279,504	192,403	471,907	142,528
Total Current Liabilities	12,063,725	11,983,521	24,047,246	1,146,459
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	76,951	45,548	122,499	
Capital Lease Obligations (Note 5, 8)	23,021	57,084	80,105	131
Employees' Compensable Leave (Note 5)	284,078	417,401	701,479	1,095
Notes and Loans Payable (Note 5)	1,215,670	2,092,838	3,308,508	9,379
General Obligation Bonds Payable (Note 5, 6)	14,501,809	4,104,270	18,606,079	
Revenue Bonds Payable (Note 5, 6)	4,090,533	21,139,469	25,230,002	76,945
Pollution Remediation Obligation (Note 5)	221,406	1,023	222,429	
Liabilities Payable From Restricted Assets (Note 5)		2,435,631	2,435,631	
Assets Held for Others		837,442	837,442	
Net Pension Liability (Note 9)	34,381,648	3,878,026	38,259,674	
Net Pension Obligation (Note 9)	38,565		38,565	
Net OPEB Obligation (Note 11)		5,765,230	5,765,230	
Investment Derivative Instrument Liability		233,840	233,840	
Hedging Derivative Liability (Note 7)		702,351	702,351	
Other Noncurrent Liabilities		242,551	242,551	461,893
Total Noncurrent Liabilities	54,833,681	41,952,704	96,786,385	549,443
Total Liabilities	66,897,406	53,936,225	120,833,631	1,695,902
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	16,995,010	593,603	17,588,613	
Total Deferred Inflows of Resources	16,995,010	593,603	17,588,613	0
NET POSITION				
Net Investment in Capital Assets	72,247,981	11,847,190	84,095,171	21,661
Restricted for:				
Education	898,817	3,262,463	4,161,280	
Transportation	3,833,790		3,833,790	
Debt Service	582,108	431,132	1,013,240	
Capital Projects	358,636	907,354	1,265,990	
Veterans Land Board Housing Programs		152,745	152,745	
Unemployment Trust Fund		1,186,951	1,186,951	
Funds Held as Permanent Investments:				
Nonexpendable	16,527,409	23,245,420	39,772,829	212,255
Expendable	22,090,065	9,365,299	31,455,364	24,650
Other	2,650,343	4,189,966	6,840,309	79,978
Unrestricted	(20,444,697)	6,059,477	(14,385,220)	233,141
Total Net Position	$ 98,744,452	$ 60,647,997	$ 159,392,449	$ 571,685

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 2,583,707	$ 1,214,866	$ 885,664	$ 890
Education	28,775,870	640,800	7,219,769	98
Employee Benefits	40,546	71		
Teacher Retirement State Contributions	2,080,935			
Health and Human Services	55,584,169	4,885,841	35,758,642	102
Public Safety and Corrections	6,214,653	328,660	408,377	187
Transportation	5,837,122	2,678,980	3,941,358	39,496
Natural Resources and Recreation	2,013,773	671,388	1,144,553	6,600
Regulatory Services	737,203	546,396	3,374	
Interest on General Long-Term Debt	159,953			
Total Governmental Activities	104,027,931	10,967,002	49,361,737	47,373
Business-Type Activities:				
General Government	121,463	59,849	66,474	
Education	28,555,418	15,118,887	9,162,197	67,773
Employee Benefits	1,584			
Health and Human Services	3,145,846	2,369,689	91,576	
Public Safety and Corrections	99,414	111,739		
Transportation	352,735	256,137	2,237	
Natural Resources and Recreation	392,417	41,758	560,713	540
Lottery	3,665,907	5,068,213		
Total Business-Type Activities	36,334,784	23,026,272	9,883,197	68,313
Total Primary Government	$ 140,362,715	$ 33,993,274	$ 59,244,934	$ 115,686
COMPONENT UNITS				
Component Units	$ 2,690,909	$ 2,609,042	$ 46,864	$ 0
Total Component Units	$ 2,690,909	$ 2,609,042	$ 46,864	$ 0

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

Concluded on the following page

STATE OF TEXAS

Statement of Activities (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
Functions/Programs	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ (482,287)	$	$ (482,287)	$
Education	(20,915,203)		(20,915,203)	
Employee Benefits	(40,475)		(40,475)	
Teacher Retirement State Contributions	(2,080,935)		(2,080,935)	
Health and Human Services	(14,939,584)		(14,939,584)	
Public Safety and Corrections	(5,477,429)		(5,477,429)	
Transportation	822,712		822,712	
Natural Resources and Recreation	(191,232)		(191,232)	
Regulatory Services	(187,433)		(187,433)	
Interest on General Long-Term Debt	(159,953)		(159,953)	
Total Governmental Activities	(43,651,819)	0	(43,651,819)	0
Business-Type Activities:				
General Government		4,860	4,860	
Education		(4,206,561)	(4,206,561)	
Employee Benefits		(1,584)	(1,584)	
Health and Human Services		(684,581)	(684,581)	
Public Safety and Corrections		12,325	12,325	
Transportation		(94,361)	(94,361)	
Natural Resources and Recreation		210,594	210,594	
Lottery		1,402,306	1,402,306	
Total Business-Type Activities	0	(3,357,002)	(3,357,002)	0
Total Primary Government	(43,651,819)	(3,357,002)	(47,008,821)	0
COMPONENT UNITS				
Component Units				(35,003)
Total Component Units	0	0	0	(35,003)
General Revenues				
Taxes:				
Sales and Use	27,964,415		27,964,415	
Motor Vehicle and Manufactured Housing	4,525,239		4,525,239	
Motor Fuels	3,468,212		3,468,212	
Franchise	2,031,051		2,031,051	
Oil and Natural Gas Production	3,638,527		3,638,527	
Insurance Occupation	2,241,153		2,241,153	
Cigarette and Tobacco	1,390,796		1,390,796	
Other	2,275,043		2,275,043	
Unrestricted Investment Earnings	282,494	142,738	425,232	3,484
Net Decrease in Fair Value of Investments	(1)		(1)	
Settlement of Claims	670,386	848	671,234	
Gain on Sale of Capital Assets	54,797	1,044	55,841	151
Loss on Other Financial Activity	(59,904)		(59,904)	
Other General Revenues	2,259,154	175,050	2,434,204	9,490
Capital Contributions	56,450	5,854	62,304	
Contributions to Permanent and Term Endowments		217,683	217,683	
Transfers - Internal Activities (Note 12)	(4,777,546)	4,777,546		
Total General Revenues, Contributions, Special Items and Transfers	46,020,266	5,320,763	51,341,029	13,125
Change in Net Position	2,368,447	1,963,761	4,332,208	(21,878)
Net Position, September 1, 2015	94,286,652	53,421,004	147,707,656	596,915
Restatements (Note 14)	2,089,353	5,263,232	7,352,585	(3,352)
Net Position, September 1, 2015, as Restated	96,376,005	58,684,236	155,060,241	593,563
Net Position, August 31, 2016	$ 98,744,452	$ 60,647,997	$ 159,392,449	$ 571,685

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2016 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 13,782,057	$ 4,160,200	$ 2,362,024	$ 3,334,243	$ 23,638,524
Short-Term Investments	75,089		96,759	145,258	317,106
Securities Lending Collateral			1,362,217		1,362,217
Receivables:					
Accounts	430,122	150,596	91,230	1,175	673,123
Taxes (Note 23)	2,494,807	228,730		76,458	2,799,995
Federal	1,392,191	554,769		20,224	1,967,184
Investment Trades			1,965		1,965
Other Intergovernmental	446,005	84,862			530,867
Interest and Dividends	7,224	6,006	57,428	12,077	82,735
Other	436,744				436,744
Due From Other Funds (Note 12)	146,929	675,737	5	325,441	1,148,112
Interfund Receivable (Note 12)	30,774				30,774
Inventories	241,544	161,972		171	403,687
Prepaid Items	2,773		2,279	344	5,396
Investments	2,005,447		34,844,034	3,033,278	39,882,759
Loans and Contracts	298,808	322,761	2,919	802,258	1,426,746
Other Assets	79,915				79,915
Restricted:					
Cash and Cash Equivalents	25,131			1,500	26,631
Loans and Contracts	586,587			970,227	1,556,814
Other Assets				90,542	90,542
Total Assets	$ 22,482,147	$ 6,345,633	$ 38,820,860	$ 8,813,196	$ 76,461,836
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 2,588,953	$ 899,171	$ 11,593	$ 112,708	$ 3,612,425
Investment Trades			51,771		51,771
Other Intergovernmental	538,710				538,710
Tax Refunds (Note 23)	805,784				805,784
Payroll	698,019	72,136	2,223	753	773,131
Federal	846				846
Interest	18,692				18,692
Due To Other Funds (Note 12)	1,897,023	60,350	17	163,862	2,121,252
Interfund Payable (Note 12)	139			2,622	2,761
Unearned Revenues	477,542	156,788	67,538	721,247	1,423,115
Obligations/Reverse Repurchase Agreements	44,211				44,211
Obligations/Securities Lending			1,406,541		1,406,541
Other Liabilities	274,667	2,245		2,592	279,504
Total Liabilities	7,344,586	1,190,690	1,539,683	1,003,784	11,078,743
Deferred Inflows of Resources:					
Deferred Inflows of Resources (Note 27)	465,594	102,126	17,248		584,968
Total Deferred Inflows of Resources	465,594	102,126	17,248	0	584,968
Fund Balances					
Nonspendable (Note 13)	727,627	161,972	15,732,177	797,682	17,419,458
Restricted (Note 13)	1,546,665	3,178,132	21,531,752	6,874,588	33,131,137
Committed (Note 13)	4,602,271	1,140,219		135,303	5,877,793
Assigned (Note 13)	115,275	572,494		1,839	689,608
Unassigned (Note 13)	7,680,129				7,680,129
Total Fund Balances	14,671,967	5,052,817	37,263,929	7,809,412	64,798,125
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 22,482,147	$ 6,345,633	$ 38,820,860	$ 8,813,196	$ 76,461,836

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, 2016 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 64,798,125
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	$ 28,641,153	
Capital Assets – Depreciable or Amortizable, Net	71,369,212	
		100,010,365
Reversal of prior year unearned tax revenues recorded in governmental funds but not in the Statement of Net Position.		426,652
Deferred inflows of resources represent revenues state earned to be collected after fiscal year-end but not available soon enough to pay current year's expenditures, therefore are deferred in the funds but not reportable in the Statement of Net Position. (Note 27)		584,968
Deferred outflows of resources were reported in the Statement of Net Position to reflect the loss on bond/debt refunding and impact of pension implementation. (Note 27)		6,183,264
Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized upfront payments received and capital assets acquired in connection with the Service Concession Arrangements and impact of pension implementation. (Note 26, 27)		(16,995,010)
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, 9, and RSI)		
Claims and Judgments	(118,846)	
Capital Lease Obligations	(27,044)	
Employees' Compensable Leave	(856,576)	
Notes and Loans Payable	(1,422,907)	
General Obligation Bonds Payable	(15,059,808)	
Revenue Bonds Payable	(4,290,384)	
Pollution Remediation Obligation	(261,067)	
Net Pension Liability	(34,381,648)	
Net Pension Obligation	(38,565)	
		(56,456,845) *
* current portion = $1,623,164 and noncurrent portion = $54,833,681		
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.		(305,941)
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.		498,874
Net Position of Governmental Activities		$ 98,744,452

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$ 42,597,570	$ 2,625,365	$	$ 2,747,761	$ 47,970,696
Federal	40,296,287	3,937,843		49,832	44,283,962
Licenses, Fees and Permits	3,038,396	1,569,521		657,794	5,265,711
Interest and Other Investment Income	111,872	40,664	2,083,594	169,457	2,405,587
Land Income	18,516	12,104	524,700	37	555,357
Settlement of Claims	635,491	47,519	1,972	180	685,162
Sales of Goods and Services	4,626,984	4,083	76,978	131,759	4,839,804
Other	4,914,435	18,930	4,067	315,809	5,253,241
Total Revenues	96,239,551	8,256,029	2,691,311	4,072,629	111,259,520
EXPENDITURES					
Current:					
General Government	2,622,829	1,719		244,265	2,868,813
Education	27,658,325		114,473	898,705	28,671,503
Employee Benefits	27,698			19,500	47,198
Teacher Retirement State Contributions	2,080,935				2,080,935
Health and Human Services	55,522,638			21,282	55,543,920
Public Safety and Corrections	5,964,269	2,552		71,402	6,038,223
Transportation	137,249	3,413,589		92,700	3,643,538
Natural Resources and Recreation	2,063,003			61,096	2,124,099
Regulatory Services	413,887	(2,166)		324,117	735,838
Capital Outlay	246,141	5,159,467	610	964,513	6,370,731
Debt Service:					
Principal	89,394	120,651		536,394	746,439
Interest	140,914			650,688	791,602
Other Financing Fees	1,907	1,390		8,290	11,587
Total Expenditures	96,969,189	8,697,202	115,083	3,892,952	109,674,426
Excess (Deficiency) of Revenues Over (Under) Expenditures	(729,638)	(441,173)	2,576,228	179,677	1,585,094
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,513,353	571,871		2,501,778	7,587,002
Transfer Out (Note 12)	(7,273,103)	(448,683)	(1,056,412)	(3,587,114)	(12,365,312)
Bonds and Notes Issued	207,500			881,827	1,089,327
Bonds Issued for Refunding	369,404			1,323,381	1,692,785
Premiums on Bonds Issued				358,635	358,635
Payment to Escrow for Refunding	(298,211)			(1,527,003)	(1,825,214)
Sale of Capital Assets	5,720	67,107	4	3	72,834
Service Concession Arrangement		25,479			25,479
Increase in Obligations Under Capital Leases	1,280				1,280
Gain on Other Financial Activity	(59,904)				(59,904)
Insurance Recoveries	3,494				3,494
Capital Contributions	55,484				55,484
Total Other Financing Sources (Uses)	(2,474,983)	215,774	(1,056,408)	(48,493)	(3,364,110)
Net Change in Fund Balances	(3,204,621)	(225,399)	1,519,820	131,184	(1,779,016)
Fund Balances, September 1, 2015	17,882,009	5,286,794	33,833,543	7,677,774	64,680,120
Restatements (Note 14)	(5,421)	(8,578)	1,910,566	454	1,897,021
Fund Balances, September 1, 2015, as Restated	17,876,588	5,278,216	35,744,109	7,678,228	66,577,141
Fund Balances, August 31, 2016	$ 14,671,967	$ 5,052,817	$ 37,263,929	$ 7,809,412	$ 64,798,125

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, 2016 (Amounts in Thousands)

Net Change in Fund Balances		$ (1,779,016)
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	$ 6,370,731	
Depreciation Expense (Note 2)	(1,905,886)	
Amortization Expense (Note 2)	(59,649)	
		4,405,196
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.		(18,037)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(2,699,551)
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.		58,408
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	(2,782,112)	
Premiums on Bond Proceeds	(358,635)	
Increase in Obligations Under Capital Leases	(1,280)	
Repayment of Bond and Capital Lease Principal	2,571,653	
		(570,374)
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.		2,970,957
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 (Note 2)	864	
Increase in Revenues	100	
Increase in Expenses	(1,750)	
Net Change in Transfers	1,650	
		864
Change in Net Position of Governmental Activities		$ 2,368,447

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2016 (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	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 4,562,528	$ 364	$ 214,254	$ 875,815	$ 5,652,961	$ 29,453
Short-Term Investments	308,662			840,294	1,148,956	47,906
Securities Lending Collateral	729,335			61,646	790,981	9,850
Restricted:						
Cash and Cash Equivalents	1,253,677	1,206,595		1,012,377	3,472,649	
Short-Term Investments	143,502		80,418	278,840	502,760	
Loans and Contracts				104,370	104,370	
Receivables:						
Federal	735,455	1,540		21,332	758,327	
Other Intergovernmental	130,500				130,500	
Accounts	1,961,298	248,291	18,923	32,177	2,260,689	155,318
Interest and Dividends	72,743	4,864		180,068	257,675	2,248
Gifts	297,604				297,604	
Investment Trades	490,001			42,202	532,203	
Other	450,237			5,357	455,594	
Due From Other Funds (Note 12)	964,267	2,964		95,253	1,062,484	506,963
Interfund Receivable (Note 12)	48,475			150	48,625	
Inventories	161,115		14,505	10,575	186,195	
Prepaid Items	211,867		789	3,307	215,963	
Loans and Contracts	140,438			214,378	354,816	
Other Current Assets	362,922			79	363,001	
Total Current Assets	13,024,626	1,464,618	328,889	3,778,220	18,596,353	751,738
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	51,579			34,297	85,876	
Short-Term Investments	8,822				8,822	
Investments	37,628,935		592,086	2,498,157	40,719,178	
Receivables	50,435			125,016	175,451	
Loans and Contracts	95,800			3,668,244	3,764,044	
Other	11,709			1,600	13,309	
Loans and Contracts	26,833			5,642,332	5,669,165	
Investments	12,374,840			62,115	12,436,955	386,585
Interfund Receivable (Note 12)	971,261			2,140	973,401	
Gifts Receivable	752,975				752,975	
Other Receivables		29,059			29,059	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	4,810,534			713,687	5,524,221	
Depreciable or Amortizable, Net	22,323,963		433	2,059,858	24,384,254	
Assets Held in Trust	362			14,532	14,894	
Intangible Assets - Service Concessions Arrangements (Note 26)				2,326,591	2,326,591	
Other Noncurrent Assets	154,813				154,813	
Total Noncurrent Assets	79,262,861	29,059	592,519	17,148,569	97,033,008	386,585
Total Assets	92,287,487	1,493,677	921,408	20,926,789	115,629,361	1,138,323
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 27)	1,258,817			395,646	1,654,463	
Total Deferred Outflows of Resources	1,258,817	0	0	395,646	1,654,463	0
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,625,839	65,858	26,458	58,718	1,776,873	615,637
Payroll	945,240		2,153	4,226	951,619	
Other Intergovernmental	12,876				12,876	
Federal	55,767	767			56,534	
Investment Trades	702,863			43,646	746,509	
Interest	28,937	2,078		91,876	122,891	
Annuities			7,888		7,888	

Concluded on the following page

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2016 (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	
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	$ 29,889	$	$ 121,542	$ 10,256	$ 161,687	$ 13,006
Interfund Payable (Note 12)	55,139			10	55,149	
Unearned Revenue	3,312,315	137,690		7,527	3,457,532	663
Obligations/Securities Lending	729,335			61,646	790,981	10,143
Short-Term Debt (Note 4)	957,159				957,159	
Claims and Judgments (Note 5)	110,918				110,918	
Capital Lease Obligations (Note 5, 8)	13,373				13,373	
Employees' Compensable Leave (Note 5)	437,891		1,450	2,773	442,114	
Notes and Loans Payable (Note 5)	90,094			12,315	102,409	
General Obligation Bonds Payable (Note 5, 6)	3,417			222,128	225,545	
Revenue Bonds Payable (Note 5, 6)	1,964,158	215,852		91,218	2,271,228	
Liabilities Payable From Restricted Assets (Note 5)	26,493		165,193	298,570	490,256	
Funds Held for Others	148,686				148,686	
Other Current Liabilities	185,573		1,249	5,581	192,403	
Total Current Liabilities	11,435,962	422,245	325,933	910,490	13,094,630	639,449
Noncurrent Liabilities:						
Interfund Payable (Note 12)	994,890				994,890	
Claims and Judgments (Note 5)	45,548				45,548	
Capital Lease Obligations (Note 5, 8)	57,084				57,084	
Employees' Compensable Leave (Note 5)	414,940		1,222	1,239	417,401	
Notes and Loans Payable (Note 5)	1,293,883			798,955	2,092,838	
General Obligation Bonds Payable (Note 5, 6)	27,333			4,076,937	4,104,270	
Revenue Bonds Payable (Note 5, 6)	13,012,012	88,935		8,038,522	21,139,469	
Liabilities Payable From Restricted Assets (Note 5)	20,923		522,504	1,892,204	2,435,631	
Pollution Remediation Obligation (Note 5)	1,023				1,023	
Assets Held for Others	822,910			14,532	837,442	
Net OPEB Obligation (Note 11)	5,765,230				5,765,230	
Net Pension Liability (Note 9)	3,878,026				3,878,026	
Derivative Instrument Liability	233,840				233,840	
Hedging Derivative Liability (Note 7)	338,726			363,625	702,351	
Other Noncurrent Liabilities	100,202			142,349	242,551	
Total Noncurrent Liabilities	27,006,570	88,935	523,726	15,328,363	42,947,594	0
Total Liabilities	38,442,532	511,180	849,659	16,238,853	56,042,224	639,449
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 27)	592,607			996	593,603	
Total Deferred Inflows of Resources	592,607	0	0	996	593,603	0
NET POSITION						
Net Investment in Capital Assets	11,133,119		432	713,639	11,847,190	
Restricted for:						
Education	3,262,463				3,262,463	
Debt Service	57,066	100,333		273,733	431,132	
Capital Projects	907,354				907,354	
Veterans Land Board Housing Programs				152,745	152,745	
Unemployment Trust Funds		1,186,951			1,186,951	
Funds Held as Permanent Investments:						
Nonexpendable	23,245,420				23,245,420	
Expendable	9,365,299				9,365,299	
Other			5,000	4,184,966	4,189,966	498,874
Unrestricted	6,540,444	(304,787)	66,317	(242,497)	6,059,477	
Total Net Position	$ 54,511,165	$ 982,497	$ 71,749	$ 5,082,586	$ 60,647,997	$ 498,874

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, 2016 (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	$	$	$ 5,067,864	$	$ 5,067,864	$
Tuition Revenue	157,685				157,685	
Tuition Revenue – Pledged	6,147,670				6,147,670	
Discounts and Allowances	(1,540,043)				(1,540,043)	
Hospital Revenue – Pledged	12,549,693				12,549,693	
Discounts and Allowances	(7,181,552)				(7,181,552)	
Professional Fees	5,855,427				5,855,427	
Professional Fees – Pledged	113,346				113,346	
Discounts and Allowances	(3,965,708)				(3,965,708)	
Auxiliary Enterprises	3,132				3,132	
Auxiliary Enterprises – Pledged	1,511,191			110,451	1,621,642	
Discounts and Allowances	(81,426)				(81,426)	
Unemployment Taxes		2,369,625			2,369,625	
Other Sales of Goods and Services	21,734			57,183	78,917	
Other Sales of Goods and Services – Pledged	961,906			273,879	1,235,785	
Discounts and Allowances	(6,213)				(6,213)	
Interest and Investment Income	3,618			351,227	354,845	
Interest and Investment Income – Pledged	52				52	
Federal Revenue	1,919,497	91,576		57,764	2,068,837	
State Grant Revenue	30,511				30,511	
Premium Revenue						2,513,580
Other Operating Grant Revenue	960,567				960,567	
Other Operating Grant Revenue – Pledged	1,020,068				1,020,068	
Other Revenues	66,793	157,999	776	68,316	293,884	1,480
Other Revenues – Pledged	480,330				480,330	
Total Operating Revenues	19,028,278	2,619,200	5,068,640	918,820	27,634,938	2,515,060
OPERATING EXPENSES						
Cost of Goods Sold	192,979			78,779	271,758	
Salaries and Wages	12,633,890		19,365	46,233	12,699,488	6,225
Payroll Related Costs	3,163,969		6,378	13,402	3,183,749	2,078
Professional Fees and Services	1,253,124		5,789	106,861	1,365,774	1,475
Travel	331,442		346	728	332,516	56
Materials and Supplies	2,330,986		2,051	13,110	2,346,147	603
Communication and Utilities	689,905		519	2,263	692,687	361
Repairs and Maintenance	620,299		533	15,453	636,285	354
Rentals and Leases	328,990		5,070	2,488	336,548	170
Printing and Reproduction	71,904		23,709	197	95,810	28
Depreciation and Amortization	2,072,767		235	121,160	2,194,162	
Unemployment Benefit Payments		3,141,308			3,141,308	
Bad Debt Expense	27,265		172	1,732	29,169	
Interest Expense	282			293,656	293,938	
Scholarships	1,128,720				1,128,720	
Lottery Fees and Other Costs			378,070		378,070	
Lottery Prize Payments			3,186,430		3,186,430	
Employee/Participant Benefit Payments				131,961	131,961	2,455,030
Net Change in Pollution Remediation Obligation	1,023			(1,530)	(507)	
Claims and Judgments	26,673				26,673	
Net Change in OPEB Obligations	796,380				796,380	
Other Expenses	1,901,924		37,240	80,605	2,019,769	8,039
Total Operating Expenses	27,572,522	3,141,308	3,665,907	907,098	35,286,835	2,474,419
Operating Income (Loss)	(8,544,244)	(522,108)	1,402,733	11,722	(7,651,897)	40,641

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, 2016 (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	
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 946,166	$	$	$ 217,783	$ 1,163,949	$
Gifts	758,890			260	759,150	
Gifts – Pledged	144,258				144,258	
Land Income	133			12	145	
Interest and Investment Income	2,738,576	30,961	11,958	107,730	2,889,225	19,403
Interest and Investment Income – Pledged	518,862				518,862	
Loan Premium and Fees on Securities Lending				148	148	26
Investing Activities Expense	(129,197)			(371)	(129,568)	
Interest Expense	(567,437)	(4,535)		(174,109)	(746,081)	
Borrower Rebates and Agent Fees	(6,789)			(96)	(6,885)	63
Loss on Sale of Capital Assets	(29,050)			(2)	(29,052)	
Settlement of Claims	846			2	848	25
Claims and Judgments	(706)				(706)	
Other Revenues	62,904				62,904	
Other Revenues – Pledged	53,617			56	53,673	
Other Expenses	(84,381)	(4)		(49,337)	(133,722)	
Total Nonoperating Revenues (Expenses)	4,406,692	26,422	11,958	102,076	4,547,148	19,517
Income (Loss) Before Capital Contributions, Endowments and Transfers	(4,137,552)	(495,686)	1,414,691	113,798	(3,104,749)	60,158
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	2,054				2,054	
Capital Contributions – Other	69,536			2,410	71,946	
Contributions to Permanent and Term Endowments	217,683				217,683	
Transfer In (Note 12)	6,511,661			120,284	6,631,945	
Transfer Out (Note 12)	(405,456)		(1,392,306)	(57,356)	(1,855,118)	(1,750)
Total Capital Contributions, Endowments and Transfers	6,395,478	0	(1,392,306)	65,338	5,068,510	(1,750)
Change in Net Position	2,257,926	(495,686)	22,385	179,136	1,963,761	58,408
Net Position, September 1, 2015	46,988,113	1,478,183	49,364	4,905,344	53,421,004	440,466
Restatements (Note 14)	5,265,126			(1,894)	5,263,232	
Net Position, September 1, 2015, as Restated	52,253,239	1,478,183	49,364	4,903,450	58,684,236	440,466
Net Position, August 31, 2016	$ 54,511,165	$ 982,497	$ 71,749	$ 5,082,586	$ 60,647,997	$ 498,874

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 Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2016 (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	
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	$ 7,809,085	$ 2,410,090	$ 5,091,850	$ 523,856	$ 15,834,881	$ 517,336
Proceeds from Tuition and Fees	4,798,045				4,798,045	
Proceeds from Research Grants and Contracts	3,838,669	88,735			3,927,404	
Proceeds from Gifts				52	52	
Proceeds from Loan Programs	335,785			714,464	1,050,249	
Proceeds from Auxiliaries	1,458,584				1,458,584	
Proceeds from Other Operating Revenues	896,867	154,671		73,993	1,125,531	1,809,300
Payments to Suppliers for Goods and Services	(8,012,699)		(458,196)	(297,995)	(8,768,890)	(2,615)
Payments to Employees	(15,506,705)		(25,391)	(56,944)	(15,589,040)	(5,246)
Payments for Loans Provided	(348,340)			(820,655)	(1,168,995)	
Payments for Lottery Prizes			(3,214,430)		(3,214,430)	
Payments for Unemployment Benefits		(3,148,636)			(3,148,636)	
Payments for Other Operating Expenses	(1,133,987)			(231,514)	(1,365,501)	(2,436,007)
Net Cash Provided (Used) by Operating Activities	(5,864,696)	(495,140)	1,393,833	(94,743)	(5,060,746)	(117,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				1,698,672	1,698,672	
Proceeds from Gifts	905,636				905,636	
Proceeds from Endowments	387,063				387,063	
Proceeds from Transfers from Other Funds	7,117,490	50,831		499,526	7,667,847	
Proceeds from Interfund Payables				27,308	27,308	
Proceeds from Loan Programs	20,282				20,282	
Proceeds from Grant Receipts	1,043,021			215,427	1,258,448	
Proceeds from Other Noncapital Financing Activities	483,144		7,410	208	490,762	
Payments of Principal on Debt Issuance		(347,843)		(519,812)	(867,655)	
Payments of Interest	(3,242)	(7,013)		(384,027)	(394,282)	
Payments of Other Costs on Debt Issuance		(3)		(2,409)	(2,412)	
Payments for Transfers to Other Funds	(1,755,229)	(49,883)	(1,398,340)	(533,720)	(3,737,172)	
Payments for Grant Disbursements	(18,781)			(69,448)	(88,229)	
Payments for Interfund Receivables				(48,400)	(48,400)	
Payments for Other Noncapital Financing Uses	(396,663)		(83,085)	(280,681)	(760,429)	
Net Cash Provided (Used) by Noncapital Financing Activities	7,782,721	(353,911)	(1,474,015)	602,644	6,557,439	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	46,168			53	46,221	
Proceeds from Debt Issuance	4,274,316				4,274,316	
Proceeds from State Grants and Contracts	37,753				37,753	
Proceeds from Federal Grants and Contracts	379			1,983	2,362	
Proceeds from Gifts	2,084				2,084	
Proceeds from Other Capital and Related Financing Activities	67,293			12	67,305	
Proceeds from Capital Contributions	210,135				210,135	
Proceeds from Interfund Payables	79,930				79,930	
Payments for Additions to Capital Assets	(3,512,598)		(146)	(7,892)	(3,520,636)	
Payments of Principal on Debt Issuance	(2,434,820)			(1,745)	(2,436,565)	
Payments for Capital Leases	(4,656)			(1,670)	(6,326)	
Payments of Interest on Debt Issuance	(673,993)			(107,051)	(781,044)	
Payments of Other Costs on Debt Issuance	(64,360)			(17)	(64,377)	
Payments for Interfund Receivables	(4,842)				(4,842)	
Net Cash (Used) by Capital and Related Financing Activities	(1,977,211)	0	(146)	(116,327)	(2,093,684)	0

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2016 (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	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$19,665,748	$	$ 83,085	$ 3,169,310	$ 22,918,143	$ 111,449
Proceeds from Interest and Investment Income	1,320,475	33,764		289,195	1,643,434	402
Proceeds from Principal Payments on Loans	2			452,550	452,552	
Payments to Acquire Investments	(20,824,951)		(7,509)	(2,617,219)	(23,449,679)	
Payments for Nonprogram Loans Provided				(1,482,225)	(1,482,225)	
Net Cash Provided (Used) by Investing Activities	161,274	33,764	75,576	(188,389)	82,225	111,851
Net Increase (Decrease) in Cash and Cash Equivalents	102,088	(815,287)	(4,752)	203,185	(514,766)	(5,381)
Cash and Cash Equivalents, September 1, 2015	5,765,696	2,022,246	219,006	1,488,255	9,495,203	34,834
Restatements				231,049	231,049	
Cash and Cash Equivalents, September 1, 2015, as Restated	5,765,696	2,022,246	219,006	1,719,304	9,726,252	34,834
Cash and Cash Equivalents, August 31, 2016	$ 5,867,784	$ 1,206,959	$ 214,254	$ 1,922,489	$ 9,211,486	$ 29,453
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (8,544,244)	$ (522,108)	$ 1,402,733	$ 11,722	$ (7,651,897)	$ 40,641
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	2,072,767		235	121,160	2,194,162	
Bad Debt Expense	406,642		172	1,732	408,546	
Pension Expense	350,737				350,737	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(347,557)			62,263	(285,294)	(1,725)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(608,645)	16,007	23,210	(4,680)	(574,108)	(1,683)
(Increase) Decrease in Due From Other Funds	(376)			1,040	664	(186,677)
(Increase) Decrease in Inventories	(9,696)		(1,741)	1,874	(9,563)	
(Increase) Decrease in Notes Receivable	(639)				(639)	
(Increase) Decrease in Loans and Contracts	(14,261)			(295,065)	(309,326)	
(Increase) Decrease in Other Assets	(65,016)			10,130	(54,886)	
(Increase) Decrease in Prepaid Expenses	(28,711)		197	(3,025)	(31,539)	
Increase (Decrease) in Payables	98,707	(20,758)	(30,973)	(46,371)	605	34,509
Increase (Decrease) in Deposits	3,937			3,084	7,021	
Increase (Decrease) in Due To Other Funds	(407)			(4,552)	(4,959)	10,612
Increase (Decrease) in Unearned Revenue	80,480	31,719		(7)	112,192	(12,909)
Increase (Decrease) in Employees' Compensable Leave	43,043			(34)	43,009	
Increase (Decrease) in Benefits Payable	784,131				784,131	
Increase (Decrease) in Other Liabilities	(85,588)			45,986	(39,602)	
Total Adjustments	2,679,548	26,968	(8,900)	(106,465)	2,591,151	(157,873)
Net Cash Provided (Used) by Operating Activities	$ (5,864,696)	$ (495,140)	$ 1,393,833	$ (94,743)	$ (5,060,746)	$ (117,232)
NONCASH TRANSACTIONS						
Donation of Capital Assets	$ 35,603	$	$	$ 1,870	$ 37,473	$
Net Change in Fair Value of Investments	$ 1,204,574	$	$ 11,958	$ 35,098	$ 1,251,630	$ 7,771
Borrowing Under Capital Lease Purchase	$ 19,935	$	$	$	$ 19,935	$
Other	$ 555,908	$	$	$ (548)	$ 555,360	$

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 Fiduciary Net Position

August 31, 2016 (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	$ 1,030,034	$ 647	$ 890,861	$ 1,376,396
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	18,303,221			
Investments:				
U.S. Government	23,901,669	9,163,605	92,477	391,978
Corporate Equity	27,699,757		69,269	401,937
Corporate Obligations	40,726	1,207,866	2,961	223
Repurchase Agreements		3,078,116		32,935
Foreign Securities	34,310,289		54,470	
Externally Managed Investments	58,443,169			
Other	14,224,487	844,970	2,772,333	157,373
Receivables:				
Federal	189,308			
Interest and Dividends	285,390	9,447	82	1,055
Accounts	475,538		100	9,922
Taxes				10
Investment Trades	1,400,819			
Other	119,141		4,369	
Due From Other Funds (Note 12)	96,415			8
Prepaid Items	70			
Loans and Contracts			644	
Properties, at Cost, Net of Accumulated				
Depreciation or Amortization	77,076		688	
Other Assets			106,280	1,389,122
Total Assets	180,597,109	14,304,651	3,994,548	3,760,959
LIABILITIES				
Payables:				
Accounts	$ 376,299	$ 5,999	$ 20,507	$ 1,109
Investment Trades	654,973	9,935		
Payroll	5,313			
Other Intergovernmental				995,021
Interest			6	
Annuities	138,542			
Due To Other Funds (Note 12)	517,399			638
Unearned Revenue	1,022		556	
Employees' Compensable Leave	11,680			
Obligations/Securities Lending	18,290,867			
Payable from Restricted Assets			752	
Funds Held for Others			106,347	2,764,179
Other Liabilities	139,471	379	293,419	12
Total Liabilities	20,135,566	16,313	421,587	3,760,959
NET POSITION				
Restricted for Pensions	159,809,350			
Held in Trust for:				
OPEB and Other Purposes**	652,193			
Individuals, Organizations and Other Governments			3,572,961	
Pool Participants		14,288,338		
Total Net Position	$ 160,461,543	$ 14,288,338	$ 3,572,961	$ 0

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.

** Other Post Employment Benefits (OPEB)

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	$ 3,948,734	$	$
State Contributions	3,427,552		
Premium Contributions	597,551		
Federal Contributions	193,926		4,166
Other Contributions	1,830,491		201,202
Total Contributions	9,998,254	0	205,368
Investment Income:			
From Investing Activities:			
Net Increase in Fair Value of Investments	4,562,514		61,387
Interest, Dividend and Other	6,157,477	54,967	136,926
Total Investing Income	10,719,991	54,967	198,313
Less Investing Activities Expense	274,252	7,374	3,673
Net Income from Investing Activities	10,445,739	47,593	194,640
From Securities Lending Activities:			
Securities Lending Income	166,353		
Less Securities Lending Expense:			
Borrower Rebates	60,102		
Management Fees	10,627		
Net Income from Securities Lending	95,624	0	0
Total Net Investment Income	10,541,363	47,593	194,640
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	0	1,617,803	0
Other Additions:			
Settlement of Claims	7,137		4,714
Other Revenue	3,490		249,376
Transfer In (Note 12)	112,944		7,854
Total Other Additions	123,571	0	261,944
Total Additions	20,663,188	1,665,396	661,952
DEDUCTIONS			
Benefits	14,362,899		180,136
Refunds of Contributions	459,989		
Transfer Out (Note 12)	109,688		7,877
Intergovernmental Payments			52,336
Administrative Expenses	71,280		5,763
Depreciation and Amortization Expense	4,330		39
Settlement of Claims			5,168
Interest Expense	14		8
Loss on Impairment of Capital Assets	1		
Other Expenses	13,042		241,256
Total Deductions	15,021,243	0	492,583
INCREASE IN NET POSITION	5,641,945	1,665,396	169,369
NET POSITION			
Net Position, September 1, 2015	154,819,598	12,874,456	3,613,514
Restatements (Note 14)		(251,514)	(209,922)
Net Position, September 1, 2015, as Restated	154,819,598	12,622,942	3,403,592
Net Position, August 31, 2016	$ 160,461,543	$ 14,288,338	$ 3,572,961

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
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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 accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented four GASB statements in fiscal 2016.

GASB Statement No. 72, *Fair Value Measurement and Application*, modifies the previous definition of fair value and an investment as it addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments. GASB Statement No. 72 also sets forth disclosure requirements about fair value measurements, the level of fair value hierarchy and valuation techniques.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well for as assets accumulated for the purposes of providing pensions. The provisions of GASB Statements No. 67 and 68 that are amended by this statement are not applicable to Texas. The Judicial Retirement System of Texas Plan One (JRS1Plan) which is outside the scope of GASB Statement No. 68 was removed from the pension and other employee benefit trust fund and was reported under the general revenue fund. The other requirements of the statement will be effective in 2017 and therefore will be implemented next year.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 reduces the hierarchy of GAAP to two authoritative categories. It also addresses the use of non-authoritative literature in the event that no guidance is available within the authoritative GAAP for the accounting treatment of a particular transaction or event.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain investment pools and pool participants. It establishes criteria for a qualifying external investment pool to elect to measure and report its investments at amortized cost instead of fair value.

Financial Reporting Entity

For financial reporting purposes, the state of Texas includes all agencies, boards, commissions, authorities, institutions of higher education and other organizations that compose 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 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. The government-wide 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, junior and community colleges are excluded from the state's financial reporting entity. These entities are legally separate and fiscally independent from the state. The state is not financially accountable for these entities and it will not make the state's financial statements misleading to exclude them.

Financial Reporting Structure

The basic financial statements include government-wide financial statements, fund financial statements and notes to the 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 – its financial position at the end of the fiscal year and the change in financial position resulting from the activities of the fiscal year, 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. These statements also report all current and noncurrent assets and liabilities, revenues, expenses, and gains and losses of the state using an economic resources measurement focus and an accrual basis of accounting.

The statement of net position is presented in a net position format. The net position is displayed in three components: net investment in capital assets; restricted (presented with major categories of restrictions); and unrestricted. This statement reports deferred outflows of resources and deferred inflows of resources in separate categories from assets and liabilities and distinguishes between restricted and unrestricted current and noncurrent assets.

The statement of activities reflects both the gross expense and net expense/revenue by function (public safety and corrections, transportation, etc.) The net expense/revenue is calculated by netting program expenses, including depreciation and amortization, against program revenues for each program. The net expense/revenue identifies the extent to which each function draws from the general revenues of the state or is self-financing through fees and intergovernmental aid.

Program revenues are directly associated with a function of governmental or business-type activities. Internally dedicated resources are reported as general revenues rather than program revenues.

Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Charges for services arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided. 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 from other governments, organizations or individuals. 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.

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. Other expenses reported for each function are clearly identifiable to that particular function and are direct expenses. The amount of direct interest expense included in direct expenses in the statement of activities is $613.1 million.

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 finance 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 nonmajor 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 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 to the reporting entity-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 payments. 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 capi-

tal 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**, a special revenue 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. Proprietary funds are reported using economic resources measurement focus and full accrual basis of accounting. 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), to 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 major enterprise funds for the state 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 and uses the fees 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 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 discretely presented.

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 nonexchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which partially amended GASB Statement No. 33.

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 current financial resources.

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 revenues (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 inflows of resources. Unearned revenue is recorded 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 as they would be under the modified accrual basis of accounting used in the governmental fund financial statements. Proceeds of long-term debt are recorded as liabilities rather than other financing sources under the modified accrual basis. 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 nonoperating 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 budgetary 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 enterprise funds, discrete component units, employee benefit trust funds and agency funds. 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 with exceptions. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Texas local government investment pool (TexPool) and Texas local government investment pool prime (TexPool Prime) meet the criteria for a qualifying external investment pool under GASB Statement No. 79. 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 revenue and taxes receivables. The major receivables for business-type activities are gifts, pledges, donations and patient receivables. Receivables represent amounts due to the state as of Aug. 31, 2016, 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 2016 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 unearned 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 23 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 supplemental nutrition assistance. Other receivables in the colleges and universities fund consist primarily of receivables from investments and from external parties and other companies. Other receivables in proprietary funds other than the colleges and universities fund consist of receivables related to unemployment compensation benefit overpayments. Other receivables in the pension and other employee benefit trust funds consist primarily of receivables for rebate income from pharmaceutical manufacturers for prescription drugs under a retiree group health insurance program. 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/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.

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 has adopted the depreciation method for reporting its highway system. The Texas Department of Transportation, the state agency responsible for construction and maintenance of the state's road and highway systems adopted the composite approach for reporting infrastructure and bridges. The composite approach is a method for calculating depreciation of a group of similar and dissimilar assets of the same class (all the roads and bridges of the state) using the same depreciation rate. The composite depreciation rate for 2016 is 2.5 percent based on a 40-year weighted average life expectancy of the assets in service.

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 and discounts are currently amortized over the life of the bonds using the straight-line method. State agencies also have options of using bonds outstanding or the effective interest method. Bonds payable are reported net of the applicable bond accretion, premium or discount. Gain/loss on refunding is reported as deferred inflows of resources or deferred outflows of resources, respectively, and amortized over a shorter final maturity of the refunded or the refunding bonds. Issuance costs are expensed in the period incurred.

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 and the related premiums are 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 or annual 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 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 Interpretation 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 Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, *Elements of Financial Statements*, as the consumptions and acquisitions of net assets by the government that are applicable to future periods. Based on this concept, the state reports the following as deferred outflows of resources or deferred inflows of resources:

- various types of revenues earned but not available within 60 days of fiscal year end.
- gains and losses on bond refunding transactions.
- the difference between the fair value of the capital assets constructed or improved and the present value of contractual liabilities in service concession arrangements (SCAs) reported as deferred inflows of resources. Note 26 provides details on SCAs.
- the changes in the fair value of hedging derivative instruments reported as either deferred outflows of resources or deferred inflows of resources. Note 7 presents additional information about derivative instruments.
- certain changes in net pension liability reported as either deferred outflows of resources or deferred inflows of resources. Note 9 provides details on pensions.
- the excess consideration given over the net position acquired in the acquisition of the Texas Wesleyan University Law School reported as deferred outflows of resources.

Note 27 provides details on deferred outflows of resources and deferred inflows of resources.

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; or
- 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.

Net investment in capital assets, 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 net investment in capital assets. The unspent portion of the debt is included in the "Restricted for Capital Projects" category of net position.

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; or
- 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, agency governing board, or the agency head 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 Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts shall determine the procedures and policies for determining assigned fund balances. 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 activities are presented on the fund financial statements but are not carried forward to the government-wide financial statements. The interfund activities on the government-wide financial statements are consolidated to present only the activities between governmental activities and business-type activities. Interfund services provided and used are allocated to various functions within the primary government. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are also presented on the fund financial statements, but not carried forward to 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 been incurred at the date of the financial statements 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 of governmental funds, which include land, infrastructure, buildings, equipment and intangible assets 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 estimated useful lives of the state's various categories of capital assets are presented in the table below.

Capitalization of Assets

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	0	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 tables on the following pages present the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2016. The adjustments 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 construction in progress. The additions column includes current year purchases, depreciation and amortization. The deletions column includes 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 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 the acquisition value. 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 is reported using the depreciation approach.

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. In proprietary fund types, $359.1 million of interest was charged to expense and $29.9 million of interest was capitalized, for a net $389 million of interest cost incurred.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/15	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/16
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 11,601,206	$ 55,255	$ (1,357)	$ 959,526	$ (5,004)	$ 12,609,626
Infrastructure	548		88			636
Construction in Progress	12,443,817	47,437	(2,333,343)	5,680,751		15,838,662
Other Capital Assets	44,443	1	27,990	27	(146)	72,315
Land Use Rights – Permanent	94,196			25,728	(10)	119,914
Total Non-Depreciable & Non-Amortizable Assets	24,184,210	102,693	(2,306,622)	6,666,032	(5,160)	28,641,153
Depreciable Assets						
Buildings and Building Improvements	6,080,670	(3,144)	99,697	16,892	(8,171)	6,185,944
Infrastructure	79,165,551		2,166,851	3,964,979	(5,338)	85,292,043
Facilities and Other Improvements	226,526	(206)	5,974	1,270	(306)	233,258
Furniture and Equipment	1,142,539	1,258	8,257	89,601	(44,887)	1,196,768
Vehicles, Boats and Aircraft	1,166,957	66	1,783	121,525	(44,083)	1,246,248
Other Capital Assets	146,363	209	6,056	1,192	(1,353)	152,467
Total Depreciable Assets at Historical Cost	87,928,606	(1,817)	2,288,618	4,195,459	(104,138)	94,306,728
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(3,968,362)	(2,769)	28	(182,601)	5,156	(4,148,548)
Infrastructure	(15,491,755)	(41)		(1,554,741)		(17,046,537)
Facilities and Other Improvements	(166,637)	54		(6,517)	266	(172,834)
Furniture and Equipment	(852,833)	(1,051)	657	(80,542)	43,064	(890,705)
Vehicles, Boats and Aircraft	(739,127)	45	37	(75,701)	39,961	(774,785)
Other Capital Assets	(83,533)	(204)		(5,784)	1,008	(88,513)
Total Accumulated Depreciation*	(21,302,247)	(3,966)	722	(1,905,886)	89,455	(23,121,922)
Depreciable Assets, Net	66,626,359	(5,783)	2,289,340	2,289,573	(14,683)	71,184,806
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	20,901			1,452	(2,913)	19,440
Computer Software	490,323	2,014	17,750	27,840	(10,964)	526,963
Other Intangible Capital Assets – Term	79,673					79,673
Total Intangible Assets at Historical Cost	590,897	2,014	17,750	29,292	(13,877)	626,076
Less Accumulated Amortization for:						
Land Use Rights – Term	(14,163)			(2,329)	2,913	(13,579)
Computer Software	(356,252)	(193)		(49,353)	10,360	(395,438)
Other Intangible Capital Assets – Term	(24,686)			(7,967)		(32,653)
Total Accumulated Amortization*	(395,101)	(193)	0	(59,649)	13,273	(441,670)
Amortizable Assets, Net	195,796	1,821	17,750	(30,357)	(604)	184,406
Governmental Activities Capital Assets, Net	$ 91,006,365	$ 98,731	$ 468	$ 8,925,248	$ (20,447)	$ 100,010,365

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

General Government	$ 48,905
Education	20,990
Employee Benefits	2
Health and Human Services	54,966
Public Safety and Corrections	176,218
Transportation	1,623,568
Natural Resources and Recreation	37,770
Regulatory Services	3,116
Total	$ 1,965,535

Continued on the following page

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/15	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/16
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 1,764,690	$	$ 1,357	$ 278,759	$ (5,076)	$ 2,039,730
Construction in Progress	3,213,413	(916)	(2,923,122)	2,445,151	(1,053)	2,733,473
Other Capital Assets	692,675		93	22,425	(857)	714,336
Land Use Rights – Permanent	22,799					22,799
Other Intangible Capital Assets – Permanent	6,002		7,881			13,883
Total Non-Depreciable & Non-Amortizable Assets	5,699,579	(916)	(2,913,791)	2,746,335	(6,986)	5,524,221
Depreciable Assets						
Buildings and Building Improvements	29,183,354	(355)	1,982,524	186,990	(102,384)	31,250,129
Infrastructure	3,648,684	(1,204)	149,273	4,836	(932)	3,800,657
Facilities and Other Improvements	2,332,634	(593)	402,315	27,335	(4,162)	2,757,529
Furniture and Equipment	5,282,205	609	76,923	511,721	(238,062)	5,633,396
Vehicles, Boats and Aircraft	292,950	5	(1,089)	25,111	(12,556)	304,421
Other Capital Assets	1,586,170	(1,972)	8,633	64,591	(14,945)	1,642,477
Total Depreciable Assets at Historical Cost	42,325,997	(3,510)	2,618,579	820,584	(373,041)	45,388,609
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(13,160,198)	(4,537)		(1,212,734)	82,162	(14,295,307)
Infrastructure	(876,949)	(43)		(104,009)		(981,001)
Facilities and Other Improvements	(923,086)	3		(95,614)	1,914	(1,016,783)
Furniture and Equipment	(3,572,093)	(576)	(1)	(470,542)	187,869	(3,855,343)
Vehicles, Boats and Aircraft	(209,969)	(3)	(75)	(22,242)	11,668	(220,621)
Other Capital Assets	(1,050,022)	1,982		(75,688)	13,428	(1,110,300)
Total Accumulated Depreciation**	(19,792,317)	(3,174)	(76)	(1,980,829)	297,041	(21,479,355)
Depreciable Assets, Net	22,533,680	(6,684)	2,618,503	(1,160,245)	(76,000)	23,909,254
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255					255
Computer Software	1,326,839	55	295,120	23,183	(115,557)	1,529,640
Other Intangible Capital Assets – Term	9,890				(9,578)	312
Total Intangible Assets at Historical Cost	1,336,984	55	295,120	23,183	(125,135)	1,530,207
Less Accumulated Amortization for:						
Land Use Rights – Term	(141)			(25)		(166)
Computer Software	(1,020,002)	(56)		(150,112)	115,172	(1,054,998)
Other Intangible Capital Assets – Term	(4,051)			(800)	4,808	(43)
Total Accumulated Amortization**	(1,024,194)	(56)	0	(150,937)	119,980	(1,055,207)
Amortizable Assets, Net	312,790	(1)	295,120	(127,754)	(5,155)	475,000
Business-Type Activities Capital Assets, Net	$ 28,546,049	$ (7,601)	$ (168)	$ 1,458,336	$ (88,141)	$ 29,908,475

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

Education	$ 2,072,768
Transportation	54,041
Lottery	235
Other Business-Type Activities	4,722
Total	$ 2,131,766

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/15	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/16
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 386	$	$	$	$	$ 386
Construction in Progress	160		(122)	418		456
Total Non-Depreciable & Non-Amortizable Assets	546	0	(122)	418	0	842
Depreciable Assets						
Buildings and Building Improvements	7,787	11,144		2	(2)	18,931
Facilities and Other Improvements	401					401
Furniture and Equipment	39,622	(3,167)	122	810	(2,116)	35,271
Vehicles, Boats and Aircraft	5,137			220	(304)	5,053
Other Capital Assets	2,244				(306)	1,938
Total Depreciable Assets at Historical Cost	55,191	7,977	122	1,032	(2,728)	61,594
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,897)	(80)		(182)	2	(6,157)
Facilities and Other Improvements	(397)					(397)
Furniture and Equipment	(21,479)	2,723		(3,293)	1,848	(20,201)
Vehicles, Boats and Aircraft	(2,059)			(875)	205	(2,729)
Other Capital Assets	(721)	204		(179)	258	(438)
Total Accumulated Depreciation	(30,553)	2,847	0	(4,529)	2,313	(29,922)
Depreciable Assets, Net	24,638	10,824	122	(3,497)	(415)	31,672
Intangible Capital Assets – Amortizable						
Computer Software	424					424
Total Intangible Assets at Historical Cost	424	0	0	0	0	424
Less Accumulated Amortization for:						
Computer Software	(262)			(12)		(274)
Total Accumulated Amortization	(262)	0	0	(12)	0	(274)
Amortizable Assets, Net	162	0	0	(12)	0	150
Component Units Capital Assets, Net	$ 25,346	$ 10,824	$ 0	$ (3,091)	$ (415)	$ 32,664

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; and/or
- 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 36 million records dating back to 1720, including approximately 45 thousand maps, sketches and plat maps.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Texas 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's office, 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 2016. The Trust Company safe-keeps U.S. Government securities in book-entry form for the major investment funds, safe-keeps 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, 2016, 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 more than 89 percent of the total investment fair value; this does not include the investments held by the Texas Comptroller's Treasury Pool. TRS, PSF, ERS, UT and Texas Prepaid Higher Education Tuition Board (TPHETB) 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 2016, 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 and PSF 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 by contacting:

Texas Treasury Safekeeping Trust Company
208 E. 10th St., 4th floor
Austin, Texas 78701.

Deposits

As of Aug. 31, 2016, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.2 billion, $344.5 million and $222.7 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 and investment related line items. As of Aug. 31, 2016, the total bank balances for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.2 billion, $337.6 million and $204.4 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. The bank balances exposed to custodial credit risk as of Aug. 31, 2016, are presented in the table below.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2016 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 10,017	$
Total Governmental Activities	10,017	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	1,339	102,692
Total Business-Type Activities	1,339	102,692
Total Governmental and Business-Type Activities	$ 11,356	$ 102,692
FIDUCIARY FUNDS	$ 142,150	$ 0
COMPONENT UNITS	$ 560,846	$ 0

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 below presents the bank balances exposed to foreign currency risk as of Aug. 31, 2016.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2016 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	$ 1,568	$ 9,556
Bangladeshi Taka		61
Botswana Pula		22
Brazilian Real	30	1,773
British Pound	203	8,182
Canadian Dollar	(15)	6,817
Chilean Peso	155	449
Chinese Yuan Renminbi		8
Colombian Peso		129
Croatian Kuna		54
Czech Koruna		449
Danish Krone	8	69
Egyptian Pound		1,463
Euro	9	25,498
Ghanaian Cedi		162
Hong Kong Dollar	1,395	11,500
Hungarian Forint		2
Indian Rupee		3,637
Indonesian Rupiah		417
Israeli New Shekel	12	70
Japanese Yen	4	39,051
Jordanian Dinar		87
Kenyan Shilling		31
Kuwaiti Dinar		36
Malaysian Ringgit		1,278
Mauritius Rupee		22
Mexican Peso	73	3,106
Moroccan Dirham		164
New Zealand Dollar	1	668
Nigerian Naira		92
Norwegian Kroner		1,975
Omani Rial		56
Pakistan Rupee		76
Peruvian Nuevo Sol		82
Philippine Peso		32
Polish Zloty		318
Qatar Riyal	407	74
Romanian New Lei		71

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Bank Balances Exposed to Foreign Currency Risk (concluded)

August 31, 2016 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Singapore Dollar	$ 40	$ 632
South African Rand		2,338
South Korean Won	93	289
Sri Lankan Rupee		67
Swedish Krona	1	116
Swiss Franc	5	(507)
Taiwan Dollar	2,695	6,924
Thai Baht	54	193
Tunisian Dinar		57
Turkish Lira	8	253
United Arab Emirates Dirham		896
Vietnamese Dong		125
Total	$ 6,746	$ 128,920

Investments

The state's investments are recorded at fair value and have been categorized based upon a fair value hierarchy in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

In accordance with GASB Statement No. 72, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which may be in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment to consider both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used to value certain securities without relying exclusively on quoted prices for those securities by comparing them to benchmark or comparable securities.
2. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount. These techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models, binomial or lattice models that incorporate present value techniques and the multi-period excess earnings method.
3. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset or its current replacement cost. From the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

GASB Statement No. 72 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace and other characteristics particular to the transaction.

GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

- Level 1 inputs – Unadjusted, quoted prices in active markets that are accessible at the mea-

surement date for identical assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 inputs – Inputs, other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs – Inputs are unobservable inputs and should be used only if relevant Level 1 and Level 2 inputs are not available. The state may use their own data or assumptions to develop unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

The state has some investments that are not subject to GASB Statement No. 72. Investments not measured at fair value include money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less. These investments are reported at amortized cost.

U.S. treasury securities, equity securities, fixed income money market and bond mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt and debt derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Index linked debt securities are valued by multiplying the external market price feed by the applicable day's index ratio. Level 2 debt securities also have non-proprietary information from multiple independent sources that were readily available to market participants who are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Level 3 debt securities use proprietary information or single source pricing. Value of equity securities classified in Level 3 is based on last trade data that is 30 days or more before the fiscal year-end or not qualified to be reported in Level 1, Level 2 or at NAV. Real assets classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers, except for the lands with interest in oil and gas described below.

The fair value of the state permanent school fund (PSF) and permanent university fund (PUF) lands' interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on Aug. 31, 2016. A percentage of probable and possible reserves of oil and gas are included in the fair value estimate. The PSF and PUF lands' surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. The PSF and PUF lands are categorized as Level 3 in the fair value hierarchy. The remaining minerals, the trust minerals, because of size, distribution, and limited production histories are valued at three times the previous 12 months revenue. This measure has been used historically to determine the selling price of these types of properties by willing parties. Other types of real estate holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent state certified or other licensed appraiser or tax

assessments used for real estate investments with values that are not significant or by any other generally accepted industry standard. The fair values of investments as of Aug. 31, 2016, are presented in the tables below.

Investments Fair Values
Governmental & Business Type Activities

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 2,814,858	$ 2,307,441	$	$ 5,122,299
U.S. Treasury Strips	315,352			315,352
U.S. Treasury TIPS	1,103,108			1,103,108
U.S. Government Agency Obligations	1,281,969	7,038,900		8,320,869
Corporate Obligations	62,040	4,501,505	972	4,564,517
Corporate Asset and Mortgage Backed Securities	2,915	3,196,053		3,198,968
Equity	10,490,532	4,578	36,633	10,531,743
International Obligations (Govt and Corp)	2	5,402,285	6,761	5,409,048
International Equity	3,719,661	10,994	37	3,730,692
International Other Commingled Funds	488,642	255,861		744,503
Repurchase Agreement	1,638,347			1,638,347
Mutual Funds - Domestic/International	655,274		910	656,184
Fixed Income Money Market and Bond Mutual Fund	5,986,169	6,173	243	5,992,585
Other Commingled Funds	182,828	89,058	87,886	359,772
Commercial Paper	391,246	8,279,899		8,671,145
Invested Collateral	9,850	2,124,975		2,134,825
Securities Lending Collateral Investment Pool	28,223			28,223
Real Estate	41	111	8,621,183	8,621,335
Derivatives - Domestic/International	238	61,130		61,368
Externally Managed Investments - Domestic/International	4,893,512		1,039,238	5,932,750
Miscellaneous	1,476,447	104,526	12,285	1,593,258
Total Investments at Fair Value	35,541,254	33,383,489	9,806,148	78,730,891
INVESTMENTS AT NAV				
U.S. Government Agency Obligations				84,830
Equity				49,914
International Equity				168,858
International Other Commingled Funds				2,515,906
Repurchase Agreement				9,013
Mutual Funds - Domestic/International				88,150
Fixed Income Money Market and Bond Mutual Fund				211,275
Other Commingled Funds				14,292,643
Real Estate				2,135,487
Externally Managed Investments - Domestic/International				26,843,184
Miscellaneous				5,875
Total Investments at NAV				46,405,135
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				177,871
U.S. Government Agency Obligations				761,372
International Other Commingled Funds				95,784
Repurchase Agreement				671,754
Fixed Income Money Market and Bond Mutual Fund				363,676
Other Commingled Funds				134,004
Externally Managed Investments - Domestic/International				12,598
Miscellaneous				46,066
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				2,263,125
Total of Investments - Governmental & Business Type Activities				$ 127,399,151

Investments Fair Values
Fiduciary Funds

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 17,809,539	$ 1,921,429	$	$ 19,730,968
U.S. Treasury Strips		226,386		226,386
U.S. Treasury TIPS		5,169,585		5,169,585
U.S. Government Agency Obligations	1,862	9,744,931		9,746,793
Corporate Obligations	2,961	1,253,206		1,256,167
Corporate Asset and Mortgage Backed Securities	6	537,402		537,408
Equity	28,017,837	63,288	3,936	28,085,061
International Obligations (Govt and Corp)		1,174,639	1,366	1,176,005
International Equity	32,263,140	213	4,103	32,267,456
International Other Commingled Funds			18,914	18,914
Repurchase Agreement	171,666	3,337,001		3,508,667
Mutual Funds - Domestic/International	1,047,806		77	1,047,883
Fixed Income Money Market and Bond Mutual Fund	727,794	142,502		870,296
Other Commingled Funds	576,461			576,461
Commercial Paper		2,010,804		2,010,804
Invested Collateral	5,367,141	12,926,877		18,294,018
Derivatives - Domestic/International	7,014	34,490		41,504
Externally Managed Investments - Domestic/International			707,215	707,215
Miscellaneous	645,180	10,001		655,181
Total Investments at Fair Value	86,638,407	38,552,754	735,611	125,926,772
INVESTMENTS AT NAV				
Equity				418
International Equity				1,699
International Other Commingled Funds				4,733,036
Mutual Funds - Domestic/International				587,808
Fixed Income Money Market and Bond Mutual Fund				4,743
Other Commingled Funds				3,991,563
Externally Managed Investments - Domestic/International				60,048,532
Miscellaneous				3,228,039
Total Investments at NAV				72,595,838
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				33,149
U.S. Government Agency Obligations				7,993
Repurchase Agreement				804,845
Fixed Income Money Market and Bond Mutual Fund				15,058
Invested Collateral				9,203
Externally Managed Investments - Domestic/International				9,267
Miscellaneous				1,900
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				881,415
Total of Investments - Fiduciary Funds				$ 199,404,025

Investments Fair Values Discrete Components

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 5,025	$ 31,571	$	$ 36,596
U.S. Government Agency Obligations	4,010	91,698		95,708
Corporate Obligations		32,037		32,037
Corporate Asset and Mortgage Backed Securities		117,414		117,414
Equity	11,045	117		11,162
International Obligations (Govt and Corp)		35,946	1,045	36,991
International Other Commingled Funds		6,123		6,123
Repurchase Agreement	22,922			22,922
Mutual Funds - Domestic/International	163,843		13	163,856
Fixed Income Money Market and Bond Mutual Fund	37,703	(453)		37,250
Other Commingled Funds		7,497		7,497
Commercial Paper	7,547	115,842		123,389
Real Estate			13,468	13,468
Derivatives - Domestic/International		160		160
Externally Managed Investments - Domestic/International		79,617	11,229	90,846
Miscellaneous	490,853			490,853
Total Investments at Fair Value	742,948	517,569	25,755	1,286,272
INVESTMENTS AT NAV				
International Other Commingled Funds				19,737
Mutual Funds - Domestic/International				73
Fixed Income Money Market and Bond Mutual Fund				11,767
Other Commingled Funds				13,362
Externally Managed Investments - Domestic/International				48,977
Miscellaneous				134
Total Investments at NAV				94,050
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
Repurchase Agreement				553,761
Fixed Income Money Market and Bond Mutual Fund				3,213
Other Commingled Funds				323
Miscellaneous				1,652
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				558,949
Total of Investments - Discrete Components				$ 1,939,271

The state utilizes the net asset value (NAV) per share as a method for determining fair value for certain investments in equity, repurchase agreements, commingled funds, mutual funds, real estate, fixed income money market, and externally managed investment. These investments calculate the NAV consistent with the Financial Accounting Standards Board's (FASB) measurement principles for investment companies and the state does not intend to sell all or portion of the investment for an amount that is different from the NAV. These investments are exempt from classification within the fair value hierarchy.

TRS, PSF, ERS and UT account for 90% of the value reported at NAV. For more detailed information about the redemption frequency, redemption notice period, related unfunded commitments, redemption restrictions, and the significant investment strategies of these agencies pertaining to their investments reported at NAV, please refer to the individual financial statements of the agency by contacting:

Employment Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711

Teacher Retirement System of Texas
1000 Red River St.
Austin, Texas 78701

Texas Permanent School Fund
400 West 15th St.
Austin, Texas 78701

The University of Texas
601 Colorado St.
Austin, TX 78701

The investments measured at NAV per share as of Aug. 31, 2016, including unfunded commitments, are presented in the table below.

Investments Reported at Net Asset Value (NAV)

August 31, 2016 (Amounts in Thousands)

INVESTMENT TYPE	Fair Value	Redemption Frequency	Redemption Notice Period	Unfunded Commitment
Alternative	$ 16,154,329	Quarterly	180 days	$ 13,228,433
Commingled Funds	8,953,397	Daily - Annually	1 - 90 days	
Energy, Natural Resources, Infrastructure	4,170,203	Monthly, Quarterly	45 - 90 days	3,902,770
Fixed Income	2,344,552	Daily - Quarterly	1 - 90 days	118,376
Hedge funds	29,711,699	Daily - 5yr	0 - 2yr	762,675
Mutual Funds	6,073,869	Daily - Monthly	1 - 30 days	
Private Equity	23,259,631	Daily - Annually	4 - 180 days	13,560,973
Real Estate	22,809,054	Monthly - Quarterly	45 - 90 days	12,139,220
Risk Parity	5,533,459	Monthly	5 - 15 days	300,000
U.S. Government Obligations	84,830	NA	NA	
Total Investments at Fair Value	$ 119,095,023			$ 44,012,447

Alternative: These investments are externally managed and invest in multiple types of assets and securities, which may include hedge funds, private equity, and the other types described below.

Commingled Funds: An external manager pools and invests the funds of several institutional investors. Securities are owned by the overall fund and each investor owns a pro rata share of the fund. The Security Exchange Commission (SEC) does not oversee commingled funds.

Energy, Natural Resources and Infrastructure: Energy, natural resources and infrastructure funds are also referred to as real assets. Real assets are physical assets that have value due to their substance and properties. Real assets include precious metals, commodities, agricultural land, machinery and oil.

Fixed Income: Fixed income investments generally pay a return on a fixed schedule, though the amount of the payments can vary. These investments include private fixed income funds and bonds issues by countries in emerging markets.

Hedge Funds: Hedge funds may be broadly defined as pooled funds that are not registered with the SEC, are typically available only to institutional investors or individuals with a high net worth and use advanced trading strategies such as leverage, derivatives, short selling and arbitrage.

Mutual Funds: Similar to commingled funds, the funds of multiple investors are pooled by the external manager. The investors own shares of the fund but do not own the individual securities. The public, as well as institutional investors can invest in mutual funds. In contrast with commingled funds, mutual funds are regulated by the SEC.

Private Equity: Private equity funds are privately managed investment pools, typically organized as limited partnerships. They are managed by the fund's general partners who typically make long-term investments in private companies and who may take a controlling

interest with the aim of increasing the value of these companies, often by helping to manage the companies. Private equity fund strategies include venture capital investments and leveraged buyouts among others.

Real Estate: Includes real estate held for investment directly or through investment vehicles such as private investment funds, which are limited partnerships that invest in real estate. Such investments are designed to produce high current income and/or capital gains through appreciation in the underlying real estate.

Risk Parity: Risk parity is a portfolio allocation strategy based on targeting risk levels across the various components of an investment portfolio. The risk parity approach to asset allocation allows investors to target specific levels of risk and to divide that risk equally across the entire investment portfolio in order to achieve optimal portfolio diversification for each individual investor. Risk parity strategies are in contrast to traditional allocation methods that are based on holding a certain percentage of investment classes, such as 60 percent stocks and 40 percent bonds, within one's investment portfolio.

U.S. Government Obligations: These investments are made in an index fund which invests in securities issued by the U.S. Treasury and U.S. Government Agencies.

TRS, PSF, ERS, UT and TPHETB 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, 2016, the investment type balances for the invested securities lending cash collateral are presented in the tables below.

Invested Securities Lending Collateral Fair Value Governmental and Business Type Activities

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$	$ 27,070	$	$ 27,070
U.S. Government Agency Obligations		145,115		145,115
Corporate Obligations		103,668		103,668
Corporate Asset and Mortgage Backed Securities		433,053		433,053
Equity		2,055		2,055
International Obligations (Govt and Corp)		232,872		232,872
Repurchase Agreement	9,850	458,947		468,797
Commercial Paper		455,215		455,215
Miscellaneous		266,980		266,980
Total Investments at Fair Value	$ 9,850	$ 2,124,975	$ 0	$ 2,134,825

Invested Securities Lending Collateral Fair Value Fiduciary Funds

August 31, 2016 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
Repurchase Agreement	$ 5,077,148	$	$	$ 5,077,148
Commercial Paper	289,993	12,926,877		13,216,870
Total Investments at Fair Value	5,367,141	12,926,877	0	18,294,018
INVESTMENTS AT NOT SUBJECT TO GASB 72				
Miscellaneous				9,203
Total Investment not subject to GASB 72				9,203
Total of Investments - Fiduciary Funds				$ 18,303,221

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, 2016, the investments exposed to custodial credit risk are presented in the table below.

Investments Exposed to Custodial Credit Risk

August 31, 2016 (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		
U.S. Government Obligations	$	$ 145,115
Corporate Obligations		51,747
Corporate Asset and Mortgage Backed		433,053
Repurchase Agreements		60,276
Commercial Paper		404,955
Miscellaneous		267,071
Total Governmental Activities	0	1,362,217
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury	4,606	
U.S. Government Agency	4,471	
Corporate Obligations	5,364	
Corporate Equity	32,014	
International Equity	4,336	
Fixed Income and Bond Mutual Fund	21,639	
Other Proprietary Funds		
Repurchase Agreement	13,947	
Total Business-Type Activities	86,377	0
Total Governmental and Business-Type Activities	$ 86,377	$ 1,362,217

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. TRS, PSF and ERS do not have an investment policy 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, 2016, are presented on the following pages.

Investments Exposed to Foreign Currency Risk

August 31, 2016 (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	$	$	$ 260	$	$ 9,547	$ 34	$	$
Australian Dollar	215,452	74,715	710	289,126	127,781	777,432	883	
Bangladeshi Taka						10,108		
Botswana Pula						4,538		
Brazilian Real	133,042	352,488	31,953	82,243		803,963	54	
British Pound	168,602	248,889	61,723	708,456	280,852	3,193,871	4,395	525,938
Canadian Dollar	56,173	158,741	16,132	499,444		1,305,817	1,171	
CFA Franc	3,570							
Chilean Peso		245	286	12,641		85,895		
Chinese Yuan (Offshore)			7,499					
Chinese Yuan Renminbi	762	223,665	57,072	10,387		6,122		
Colombian Peso	21,600	64	2,073	5,314		35,649		
Croatian Kuna						7,348		
Czech Koruna	1,447	5,748	418	1,495		48,130		
Danish Krone	38,033	9,017	16,377	63,940		391,426	728	
Egyptian Pound		16,837	339	2,211		30,291		
Euro	322,702	266,304	101,362	1,358,616	191,083	5,611,218	610,814	2,328,911
Ghanaian Cedi						2,344		
Hong Kong Dollar	255	235,252	3,410	336,794		3,178,237		
Hungarian Forint	51,674		12	3,241		63,830		
Indian Rupee	1,279	87,392	6,857	975	86	1,007,166	2	
Indonesian Rupiah	43,865	20,122	728	29,731		437,101		
Israeli New Shekel	11,054		1,879	19,253		29,533		
Japanese Yen	306,430	387,132	(25,340)	788,758	3,530	4,283,479	1,197	
Jordanian Dinar						6,835		
Kazakhstani Tenge			93					
Kenyan Shilling						9,099		
Kuwaiti Dinar						17,981		
Lithuanian Litas				902				
Malaysian Ringgit	111,595	20,132	1,875	30,363		188,272		
Mauritius Rupee						6,595		
Mexican Peso	230,420	104,118	5,043	46,147	7,525	427,731		
Moroccan Dirham		2,724				6,976		
New Zealand Dollar	166,266		(936)	6,292	13,332	25,370		
Nigerian Naira						4,189		
Norwegian Kroner	53,680	1,055	653	21,621		301,262		
Omani Rial						6,415		
Pakistan Rupee						62,263		
Peruvian Nuevo Sol	284		266			5,669		
Philippine Peso		11,608	449	16,171		147,849		
Polish Zloty	68,315	3,099	558	11,775		120,906		
Qatar Riyal	56	9,668	500	10,458		39,046		
Romanian New Lei	4,177					11,967		
Russian Ruble	513		1,242	26,562		37,366		
Singapore Dollar	63,830	42,593	4,860	41,010		140,136		
South African Rand	76,351	38,443	4,557	75,600	4,910	807,058	157	
South Korean Won	11,910	301,381	13,042	161,881		1,710,390		
Sri Lankan Rupee						7,471		
Swedish Krona	587	22,074	(979)	92,309		322,069	432	
Swiss Franc	100	50,189	(3,552)	298,479		1,163,655	2,140	
Taiwan Dollar	172	86,485	11,101	131,487		1,026,950		
Thai Baht	12,968	38,695	3,321	25,887		321,820	260	
Tunisian Dinar						2,487		
Turkish Lira	9	11,670	1,727	14,026		237,863		
United Arab Emirates Dirham		28,817	637	9,562		47,682		
Venezuelan Boliviar Fuerte				7,894				
Vietnamese Dong		18,344	350			7,053		
Total	$ 2,177,173	$ 2,877,706	$ 328,557	$ 5,241,051	$ 638,646	$ 28,533,957	$ 622,233	$ 2,854,849

Concluded on the following page

Investments Exposed to Foreign Currency Risk (concluded)

August 31, 2016 (Amounts in Thousands)

	Component Unit		
	International Obligations	International Other Commingled Funds	Other Investments
Argentine Peso	$	$	$
Australian Dollar		83	
Bangladeshi Taka			
Botswana Pula			
Brazilian Real	19	307	130
British Pound		308	1,108
Canadian Dollar			210
CFA Franc	512		
Chilean Peso			
Chinese Yuan (Offshore)			
Chinese Yuan Renminbi	107	1,008	1,340
Colombian Peso	200	3	37
Croatian Kuna			
Czech Koruna			
Danish Krone		60	279
Egyptian Pound			
Euro	171	486	1,900
Ghanaian Cedi			
Hong Kong Dollar	28	262	
Hungarian Forint		3	
Indian Rupee	57	640	126
Indonesian Rupiah		64	
Israeli New Shekel		241	17
Japanese Yen		221	
Jordanian Dinar			
Kazakhstani Tenge			
Kenyan Shilling			
Kuwaiti Dinar			
Lithuanian Litas			116
Malaysian Ringgit		107	
Mauritius Rupee			
Mexican Peso	21	138	550
Moroccan Dirham			
New Zealand Dollar		5	
Nigerian Naira			
Norwegian Kroner			70
Omani Rial			
Pakistan Rupee			
Peruvian Nuevo Sol	10		
Philippine Peso		50	
Polish Zloty		40	
Qatar Riyal	8	54	
Romanian New Lei			
Russian Ruble	31	111	263
Singapore Dollar	11	276	
South African Rand	9	250	63
South Korean Won	38	534	
Sri Lankan Rupee			
Swedish Krona		14	
Swiss Franc			
Taiwan Dollar	23	513	
Thai Baht	17	222	
Tunisian Dinar			
Turkish Lira		114	65
United Arab Emirates Dirham		7	198
Venezuelan Boliviar Fuente			1,019
Vietnamese Dong			
Total	$ 1,262	$ 6,121	$ 7,491

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 noncash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio.

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

As of Aug. 31, 2016, the credit quality distribution for securities with credit risk exposure is presented on the following pages.

Investments Exposed to Credit Risk*

August 31, 2016 (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	$ 1,550,579	$ 153,311	$ 2,391,510	$ 2,756,676	$ 129,082	$	$	$ 180,198	$ 7,161,356
AA	10,301,668	1,722,171	70,576	402,184	1,940,488			164,718	14,601,805
A	19,069	816,370	38,383	572,686	114,999			41,510	1,603,017
BBB	3,622	1,295,625	185,761	434,553				98	1,919,659
BB	257	133,303	2,504	213,765				32,477	382,306
B		131,322	2,293	29,668					163,283
CCC		12,842	14,510	1,446					28,798
CC			497						497
C								1,696	1,696
D		184	3,965						4,149
AAAf						4,494,095			4,494,095
AAAm						1,815,185			1,815,185
A-1							9,077,616		9,077,616
A-2							3,110		3,110
A-3							104,570		104,570
Not Rated	161,524	617,820	924,194	994,917	194,951	1,518,294	262,445	5,944,464	10,618,609
Total	$ 12,036,719	$ 4,882,948	$ 3,634,193	$ 5,405,895	$ 2,379,520	$ 7,827,574	$ 9,447,741	$ 6,365,161	$ 51,979,751

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	$ 7,599,734	$ 192	$ 203,459	$ 211,771	$ 3,877,478	$	$	$ 1,076,562	$ 12,969,196
AA	5,049,859	127,481	13,645	19,889	139,240			132	5,350,246
A		65,613	8,912	34,695				1	109,221
BBB		76,917	11,079	38,163				1,017	127,176
BB		502,696	24,989	122,716				27,941	678,342
B		336,973	32,928	97,905				5	467,811
CCC		47,968	46,209	12,911					107,088
CC			1,036						1,036
C		7							7
D		3,169	10,703					4	13,876
AAAf						43,469			43,469
AAAm						127			127
A-1							1,909,219		1,909,219
Not Rated	59,809	92,191	184,448	637,955	32,935	1,022,504		411,762	2,441,604
Total	$ 12,709,402	$ 1,253,207	$ 537,408	$ 1,176,005	$ 4,049,653	$ 1,066,100	$ 1,909,219	$ 1,517,424	$ 24,218,418

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	$ 6,207	$	$ 106,076	$ 34,990	$ 552,527	$	$	$ 473,136	$ 1,172,936
AA	94,932	20,494	223	3	22,922			323	138,897
A		3,758		754					4,512
BBB				93					93
BB				41					41
AAAf						10,395			10,395
A-1							123,390		123,390
Not Rated	369	7,785	11,115	1,110		62,378		5,067	87,824
Total	$ 101,508	$ 32,037	$ 117,414	$ 36,991	$ 575,449	$ 72,773	$ 123,390	$ 478,526	$ 1,538,088

* Credit risk exposure for investments may be less than their fair values due to classification differences. The total fair value of investments is appropriately greater than the credit risk exposure.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. UT's investment policy states that no more than 5 percent of its cumulative market value of fixed income securities may be invested in a single issuer. PSF's policy precludes exceeding 2.5 percent, ERS employs a limit of 3 percent, TRS sets the limit at 20 percent and the Texas Comptroller does not place a limit on the amount the Treasury Pool may invest in any one issuer. As of Aug. 31, 2016, 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, 2016, the Barclay's Aggregate Bond Index duration was 5.83 years and the Barclay's TIPS Index was 4.04 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, 2016, PSF's investments by investment type, fair value and the effective weighted duration rate are presented in the table below.

Investments Exposed to Interest Rate Risk

August 31, 2016

PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	$ 62,082	0.85
Collateralized Loan Obligations	160,345	0.06
Commercial Mortgage Backed Securities	100,791	5.31
Corporate Obligations	932,595	8.22
Non U.S. Government Agency Obligations	78,315	2.60
Non Agency Mortgage Backed Securities	71,869	3.67
Sovereign Government Debt	115,095	5.83
U.S. Government Agency Commercial Mortgage Backed Securities	31,929	3.40
U.S. Government Agency Mortgage Backed Securities	794,038	3.34
U.S. Government Agency Obligations	76,230	6.00
U.S. Taxable Municipal Bonds	88,493	8.60
U.S. Treasury Securities	1,373,439	5.54
U.S. Treasury TIPS	103,529	17.02
Total	$ 3,988,750	5.70
U.S. Treasury TIPS	$ 925,869	6.16
Emerging Market Debt	1,991,121	5.22
Total Real Return	$ 6,905,740	

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, 2016.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

August 31, 2016 (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	$ 433,053	$ 269,163	$ 163,890
Certificates of Deposit	267,071	267,071	
Commercial Paper	404,955	404,955	
Floating Rate Notes	51,747	40,243	11,504
Repurchase Agreements	60,276	60,276	
Agencies	145,115	10,019	135,096
Total	$ 1,362,217	$ 1,051,727	$ 310,490

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2016.

Investments Exposed to Interest Rate Risk

August 31, 2016

TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	$ 14,234,244	18.49
U.S. Government STRIPS and TIPS	5,395,972	5.34
U.S. Government Agency Obligations	12,000	11.03
Asset and Mortgage Backed Obligations	157,237	1.17
Corporate Obligations	30,923	3.26
International Government Obligations	645,941	7.84
International Corporate Obligations	7,312	4.24
Total	$ 20,483,629	14.53

As of Aug. 31, 2016, ERS' investments by investment type, fair value and the modified duration rate are presented in the table below.

Investments Exposed to Interest Rate Risk

August 31, 2016

ERS Investment Type	Fair Value (In Thousands) Fiduciary Funds	Fair Value (In Thousands) Proprietary Fund	Modified Duration Rate Fiduciary Funds	Modified Duration Rate Proprietary Fund
U.S. Treasury Securities	$ 3,565,889	$ 211,351	3.79	4.21
U.S. Government Agency Obligations	697,241	46,566	3.68	3.68
Corporate Obligations	1,018,355	59,428	4.64	4.62
Corporate Asset and Mortgage Backed Securities	159,582	10,658	2.93	2.93
International Obligations	306,513	18,204	3.65	3.57
Real Estate Investment Trust	28,945	1,679	5.87	5.87
Money Market and Bond Fund	730,884	46,486	0.08	0.08
Total	$ 6,507,409	$ 394,372	3.48	3.67

As of Aug. 31, 2016, UT's investments by investment type, fair value and the modified duration rate are presented in the table below.

Investments Exposed to Interest Rate Risk

August 31, 2016

UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 348,996	9.26
U.S. Treasury Inflation Protected	42,322	7.18
U.S. Agency Asset Backed	23,251	2.79
Total U.S. Government Guaranteed	414,569	8.69
U.S. Government Non-Guaranteed:		
U.S. Agency	6,297	0.13
U.S. Agency Asset Backed	127,616	3.85
Total U.S. Government Non-Guaranteed	133,913	3.68
Total U.S. Government	548,482	7.47
Corporate Obligations:		
Domestic	680,481	6.44
Foreign	443,748	5.98
Total Corporate Obligations	1,124,229	6.26
Foreign Government and Provincial Obligations	2,011,358	6.20
Other Debt Securities	14,922	11.84
Total Debt Securities	3,698,991	6.43
Other Investment Funds – Debt	30,679	7.00
Fixed Income Money Market Funds	2,361,470	0.21
Total	$ 6,091,140	4.02

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, 2016, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was $1.8 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, 2016, the Treasury's aggregate amount of reverse repurchase agreement obligations was $44.2 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $44.1 million. There was no credit exposure during fiscal 2016.

Securities Lending

TRS, PSF, ERS, UT, TPHETB and the Veterans Land Board (VLB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and UT established their own separately managed securities lending programs. TPHETB has its own separately managed securities lending programs but also participates in collateral investment pools. 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. TRS, ERS, 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 TRS, PSF, ERS, UT, TPHETB and VLB if the borrowers fail to return the securities.

TRS, PSF, ERS, UT, TPHETB and VLB 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, 2016, is summarized in the table below.

Securities Lending Activity Summary

August 31, 2016 (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	$ 18,303,012	$ 615,404	$ 18,116,023	$ 18,128,073	$ 12,050
ERS	180,916		184,987	184,998	11
PSF	1,992,332	642,994	1,406,541	1,362,217	(44,324)
UT*,**	849,602	143,898	729,335	729,335	
VLB**	30,930		28,223	28,223	
TPHETB**	32,647		33,423	33,423	
Total	$ 21,389,439	$ 1,402,296	$ 20,498,532	$ 20,466,269	$ (32,263)

* 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, 2016.

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, 2016, TRS, PSF, UT, Texas A&M University System (A&M), Texas Tech University System (TTU) and VLB held investment derivatives (swaps, options, futures and forwards).

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, 2016, swap investments were interest rate, credit default, commodity, equity and total return swaps.

UT and VLB invested in pay-variable, 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 swaps, options, futures and forwards derivative investments. As of Aug. 31, 2016, derivative investments exposed to foreign currency risk are presented in the table below.

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2016 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
	Swaps	Options	Futures	Forwards	Swaps	Options	Futures	Forwards
Australian Dollar	$ (40)	$ (11)	$ 3	$ (331)	$ 2,877	$	$ 16,030	$ (1,401)
Brazilian Real		(4,805)		(750)			(1,629)	1,147
British Pound	42,434	(197)		6,060	8		11,253	13,399
Canadian Dollar	14,310		(1)	15			7,301	(1,995)
Chilean Peso				282				(70)
Chinese Yuan Renminbi				(44)				(108)
Chinese Yuan (Offshore)				7,499				(421)
Colombian Peso				(151)				689
Czech Koruna				22				
Danish Krone				43				36
Euro	57,168	(128)	(27)	1,072	1,793		7,135	(6,521)
Hong Kong Dollar				3	126		(409)	(15)
Hungarian Forint								(48)
Indian Rupee				132				586
Indonesian Rupiah								(23)
Israeli New Shekel				9				(106)
Japanese Yen	(25,430)	(7)	(2)	(23,746)	(384)		2,584	(5,512)
Malaysian Ringgit				19				(274)
Mexican Peso	(69)			(263)			262	(328)
New Zealand Dollar				(977)				1,867
Norwegian Kroner				357				8,260
Philippine Peso								(87)
Polish Zloty				22				100
Russian Ruble				157				(393)
Singapore Dollar				2,142			(311)	(205)
South African Rand				(314)			(593)	(2,191)
South Korean Won				522			1,625	(1,927)
Swedish Krona	58			(455)			63	167
Swiss Franc				(34)	58		(60)	84
Taiwan Dollar								(481)
Thai Baht				(133)		750	319	(91)
Turkish Lira								486
Total	$ 88,431	$ (5,148)	$ (27)	$ (8,842)	$ 4,478	$ 750	$ 43,570	$ 4,624

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 collateral 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.

The aggregate fair value of investment derivative instruments in asset positions as of Aug. 31, 2016, was $305.5 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than BBB using the Standard & Poor's

rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2016, if all counterparties failed to perform as contracted. This maximum exposure is reduced by $47.8 million of collateral held and by $280.2 million in liabilities included in netting arrangements with those counterparties, resulting in a negative $22.5 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, UT and VLB 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 82.04 to 103 percent of one month to three month London Interbank Offered Rate (LIBOR). Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rates (Euro Interbank Offered Rate (EURIBOR), LIBOR, Mexican Interbank Rate, Bank Bill Swap Rate or Canadian Dollar Offered Rate) and receipt of 0.00 to 5.61 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR, LIBOR, Mexican Interbank Rate, Johannesburg Interbank Agreed Rate or Stockholm Interbank Offered Rate) and payment of 0.00 to 8.50 percent. As of Aug. 31, 2016, the investment maturities for the state's swap contracts exposed to interest rate risk are presented in the table below.

Derivative Investments Exposed to Interest Rate Risk

August 31, 2016 (Amounts in Thousands)

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**11-15**	**More than 15**
Interest Rate Swaps	$(6,562)	$10,998	$(2,119)	$(3,405)	$2,397	$(14,433)

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, 2016, the fair value of various investment funds was $93.7 billion.

Note 4

Short-Term Debt

During fiscal 2016, Texas Department of Transportation issued flexible rate revolving notes under its short-term borrowing program for $400 million to cover cash management operations in the state highway fund, and $750 million matured.

Texas Workforce Commission received temporary transfers (loans) for $165.6 million from the Comptroller's office to avoid interest liabilities related to the Cash Management Improvement Act (CMIA). The loans were repaid in full during fiscal 2016.

Texas Tech University System issued commercial paper notes for $13 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds, and $5.2 million matured.

The University of North Texas System issued commercial paper notes for $20.3 million to finance project costs of eligible projects and to refinance, renew or refund commercial paper notes, prior encumbered obligations and parity debt, including interest, and $2 million matured.

Texas State University System issued commercial paper notes for $2.6 million to finance project costs of eligible projects and to refinance, renew, or refund commercial paper notes, prior encumbered obligations and parity debt, including interest, and $2.4 million matured.

The University of Houston System issued commercial paper notes for $32.1 million to finance various capital projects and $45.9 million matured.

The University of Texas System issued commercial paper notes for $928.8 million to provide interim financing for capital improvements and to finance equipment purchases, and $1.6 billion matured.

In addition, for fiscal 2016, the state Comptroller announced the state did not issue state of Texas Tax and Revenue Anticipation Notes.

Short-term debt activity for the fiscal year ended Aug. 31, 2016, is presented below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Beginning Balance 9/1/15	Issued	Redeemed	Ending Balance 8/31/16
Commercial Paper	$ 1,598,243	$ 996,844	$ 1,637,928	$ 957,159
Flexible Rate Revolving Notes	350,000	400,000	750,000	
General Revenue Advances		165,642	165,642	
	$ 1,948,243	$ 1,562,486	$ 2,553,570	$ 957,159

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2016, is presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Balance 9/1/15	Restatements /Adjustments*	Additions**	Reductions	Balance 8/31/16	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	$ 116,260	$	$ 42,922	$ 40,336	$ 118,846	$ 41,895	$ 76,951
Capital Lease Obligations	29,757	(4)	1,280	3,989	27,044	4,023	23,021
Employees' Compensable Leave	838,030	17,277	940,835	939,566	856,576	572,498	284,078
Notes and Loans Payable	1,547,503		305,718	430,314	1,422,907	207,237	1,215,670
General Obligation Bonds Payable	14,177,418	241,445	2,533,645	1,892,700	15,059,808	557,999	14,501,809
Revenue Bonds Payable	4,490,215	(35,246)		164,585	4,290,384	199,851	4,090,533
Pollution Remediation Obligation	310,302		36,036	85,271	261,067	39,661	221,406
Governmental Activities Long-Term Liabilities	$ 21,509,485	$ 223,472	$ 3,860,436	$ 3,556,761	$ 22,036,632	$ 1,623,164	$ 20,413,468
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	$ 138,912	$	$ 1,164,473	$ 1,146,919	$ 156,466	$ 110,918	$ 45,548
Capital Lease Obligations	60,773		19,935	10,251	70,457	13,373	57,084
Employees' Compensable Leave	817,425		350,279	308,189	859,515	442,114	417,401
Notes and Loans Payable	1,243,477	(12,101)	1,339,409	375,538	2,195,247	102,409	2,092,838
General Obligation Bonds Payable	3,954,563	30,397	627,917	283,062	4,329,815	225,545	4,104,270
Revenue Bonds Payable	21,466,229	203,988	3,825,434	2,084,954	23,410,697	2,271,228	21,139,469
Pollution Remediation Obligation	1,650		1,023	1,650	1,023		1,023
Liabilities Payable From Restricted Assets	3,063,729		143,491	281,333	2,925,887	490,256	2,435,631
Business-Type Activities Long-Term Liabilities	$ 30,746,758	$ 222,284	$ 7,471,961	$ 4,491,896	$ 33,949,107	$ 3,655,843	$ 30,293,264
COMPONENT UNITS							
Capital Lease Obligations	$ 45	$	$ 181	$ 51	$ 175	$ 44	$ 131
Employees' Compensable Leave	2,829		764	955	2,638	1,543	1,095
Notes and Loans Payable	23,914			7,826	16,088	6,709	9,379
Revenue Bonds Payable	114,666	(1,290)		31,718	81,658	4,713	76,945
Component Units Long-Term Liabilities	$ 141,454	$ (1,290)	$ 945	$ 40,550	$ 100,559	$ 13,009	$ 87,550

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

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 employees' salary or wage compensation was paid.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2017	$ 207,237	$ 19,034	$ 226,271
2018	202,350	19,719	222,069
2019	202,960	18,394	221,354
2020	199,187	17,103	216,290
2021	171,865	15,738	187,603
2022 - 2026	484,473	61,553	546,026
2027 - 2031	87,886	36,728	124,614
2032 - 2036	68,657	12,646	81,303
2037 - 2041	8,670	52	8,722
Total Requirements	1,633,285	200,967	1,834,252
Unamortized Accretion	(210,378)		(210,378)
Total Requirements	$ 1,422,907	$ 200,967	$ 1,623,874

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2017	$ 102,409	$ 51,584	$ 153,993
2018	49,703	38,006	87,709
2019	46,066	37,177	83,243
2020	21,689	36,603	58,292
2021	21,707	62,731	84,438
2022 - 2026	137,564	303,520	441,084
2027 - 2031	141,672	290,062	431,734
2032 - 2036	169,279	271,768	441,047
2037 - 2041	291,112	246,330	537,442
2042 - 2046	551,955	183,866	735,821
2047 - 2051	662,091	54,395	716,486
Total Requirements	$ 2,195,247	$ 1,576,042	$ 3,771,289

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2017	$ 6,709	$ 106	$ 6,815
2018	3,039	96	3,135
2019	1,053	79	1,132
2020	2,055	74	2,129
2021	1,911	64	1,975
2022 - 2026	804	178	982
2027 - 2031	517	2	519
Total Requirements	$ 16,088	$ 599	$ 16,687

Capital lease obligations are described in detail in Note 8.

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 employees' salary or wage compensation was paid.

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 2016, TxDOT recognized an additional $30 million as a long-term liability for pass-through toll payables related to highway projects constructed under pass-through financing agreements. At Aug. 31, 2016, there was a pass-through toll payable of $1.1 billion. See Note 15 for additional details.

At Aug. 31, 2016, TxDOT included a Bond Anticipation Note (BAN) with an outstanding amount totaling $733.5 million and an unamortized premium outstanding of $12.1 million as notes and loans payable. On Dec. 15, 2016, the BAN was refunded through the issuance of a long-term secured loan with Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). Interest associated with this refunding totaled $700 million and is included in the debt service requirements for business-type activities table. The unamortized premium associated with the BAN was not refunded and is included as amounts due within one year.

At Aug. 31, 2016, the University of Texas System (UT) included $1 billion in commercial paper outstanding as notes and loans payable as they were refunded through the issuance of long-term bonds in September 2016. Interest associated with this refinancing totaled $776.9 million and is included in the debt service requirements for business-type activities table. $11.2 million in principal and $28.1 million in interest is included as amounts due within one year.

Debt service requirements for notes and loans payable in the long-term liabilities are presented in the tables on the previous page.

General obligation bonds and revenue bonds are described in detail in Note 6.

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 begin 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.

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 (TCEQ) 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.

Major Remediation Activity: TCEQ oversees the cleanup of leaking petroleum storage tanks (LPST). Cleanup costs are paid by the owners' environmental liability insurance or other financial assurance mechanisms or from their own funds. If the responsible party is unknown, unwilling or financially unable to do the work, state and federal funds are used to pay for the corrective actions. Revenue is generated from a fee on

the delivery of petroleum products removed from bulk storage facilities. State statutes allow cost recovery from the current owner or any previous responsible owner, however, to date this has not been necessary.

TCEQ calculates expected outlays related to this pollution remediation by establishing the average cost of cleanup and multiplying that cost by the number of active sites, plus direct salaries and benefits for the duration of the cleanup. This methodology is based upon historical experience in estimating these cleanups. At Aug. 31, 2016, there were 325 active state lead sites, with a total estimated pollution remediation obligation of $73.2 million. The amount of the estimated pollution remediation assumes that there will be no major increases in the cost of providing these cleanup services.

The TCEQ Superfund Section includes the State Superfund, Federal Superfund, Superfund Site Discovery and Assessment (SSDAP) and the Preliminary Assessment/Site Inspection (PA/SI) Programs. On behalf of TCEQ, the section identifies, ranks, and addresses sites contaminated with hazardous substances, which no parties are willing to address through a permit, corrective action, voluntary cleanup or enforcement program. These sites are identified through referral from internal and external groups such as TCEQ Enforcement, TCEQ Regional Offices, TCEQ Water Supply Division, public complaints and the United States Environmental Protection Agency (EPA).

Site estimates may change drastically from one year to another as the investigations progress and a better understanding of site conditions is obtained. The estimate of liabilities is limited to sites that have been, or are, being assessed and ranked for the Superfund program. Cost recovery activities during fiscal 2016 resulted in collections of $665 thousand.

At the end of fiscal 2016, Texas had 64 sites with pollution remediation obligations in the state and federal Superfund programs and one site that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2016, is $134.4 million.

TCEQ is responsible for collecting fees for a remediation fund designed to help pay for the cleanup of contaminated dry cleaner sites. The fees are generated from the annual registration of facilities and drop stations, as well as from the sale of perchloroethylene and other dry cleaning solvents. TCEQ receives applications for remediation, and then ranks and prioritizes them for corrective action. Legislation in 2007 established requirements for property owners and preceding property owners who wish to claim benefits from the remediation fund, and authorized a lien against property owners and preceding property owners who fail to pay registration fees due during corrective action. No additional cost recovery is allowed by statute.

The pollution remediation obligation is measured by the national average cleanup cost, as calculated by the State Coalition for Remediation of Drycleaners. Direct salary and benefit costs are added to the national average and the total cost is multiplied by the number of active sites. The amount of the estimated pollution remediation assumes that there will be no major increases in the cost of providing these cleanup services. At Aug. 31, 2016, there were 195 active sites, with a total estimated pollution remediation obligation of $43 million.

The Railroad Commission of Texas (Commission) currently has two areas of remediation: abandoned oil and gas wells and mines. Under Texas Natural Resource Code, Section 89.043, the Commission may plug abandoned wells if the wells will cause or are likely to cause a serious threat of pollution or injury to the public health. The Commission has 38 active well plugging projects as of Aug. 31, 2016, with an estimated cost of $3 million.

Under the Texas Surface Coal Mining and Reclamation Act, the Commission administers funds from the U.S. Department of the Interior for the Abandoned

Mine Land Reclamation Program. The Commission has one grading project as of Aug. 31, 2016, with an estimated cost of $262 thousand.

The Commission enters into contracts with third parties for abandoned site remediation and abandoned well plugging. These contracts are used to estimate the amount of the plugging and pollution remediation obligation. Cost recoveries from the responsible parties are deposited into the oil and gas regulation and cleanup fund.

TxDOT is responsible for the cleanup and remediation of several polluted sites. Regulatory requirements established by federal and state law obligate TxDOT to perform these pollution remediation activities. Historical cost averages were used to calculate the estimated pollution remediation obligation liabilities. The areas of remediation include compliance with asbestos regulations, lead based paint regulations, compliance with Federal Safe Drinking Water Act, and compliance with state LPST cleanup at an estimated cost of $6.1 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 434 bond issues outstanding as of Aug. 31, 2016. Scheduled debt service payments from the general revenue fund for fiscal 2016 totaled $656.2 million.

Information on Bond Issuances

August 31, 2016

Description of Issue	Bond Issues Outstanding		Range of Interest Rates		Maturities		First Call Date
	Number	Amount Issued (in Thousands)	Lowest	Highest	First Year	Last Year	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	75	$ 17,797,305	0.1800	6.0700	2005	2046	05/18/2005
Revenue Bonds	14	5,347,020	1.0000	5.3300	2008	2034	10/01/2016
Governmental Activities Total	89	23,144,325					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	73	5,151,385	0.2250	5.2500	1996	2047	10/31/1995
Revenue Bonds	263	28,318,429	0.1200	15.0000	1999	2054	05/04/1995
Business-Type Activities Total	336	33,469,814					
COMPONENT UNITS							
Revenue Bonds	9	389,798	2.7000	6.1000	2006	2042	12/01/2007
Total	434	$ 57,003,937					

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2017	$ 459,175	$ 627,848	$ 1,087,023	$ 166,300	$ 184,831	$ 351,131
2018	466,665	611,844	1,078,509	168,695	175,940	344,635
2019	487,480	590,933	1,078,413	166,360	168,470	334,830
2020	460,485	569,667	1,030,152	169,710	160,548	330,258
2021	476,685	548,299	1,024,984	175,605	152,032	327,637
2022 – 2026	2,559,520	2,386,770	4,946,290	1,241,950	598,915	1,840,865
2027 – 2031	2,778,070	1,748,029	4,526,099	1,445,115	274,019	1,719,134
2032 – 2036	2,715,960	1,120,819	3,836,779	500,750	43,339	544,089
2037 – 2041	2,379,025	483,373	2,862,398			
2042 – 2046	954,895	90,859	1,045,754			
	13,737,960 *	8,778,441	22,516,401	4,034,485 *	1,758,094	5,792,579
Premium	1,322,233		1,322,233	255,899		255,899
Discount	(385)		(385)			
Total	$ 15,059,808	$ 8,778,441	$ 23,838,249	$ 4,290,384	$ 1,758,094	$ 6,048,478

BUSINESS-TYPE ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2017	$ 219,350	$ 91,642	$ 310,992	$ 2,149,824	$ 907,666	$ 3,057,490
2018	225,105	87,565	312,670	879,452	866,582	1,746,034
2019	242,540	83,283	325,823	751,712	832,748	1,584,460
2020	242,145	78,622	320,767	764,430	801,843	1,566,273
2021	233,900	74,222	308,122	795,626	773,845	1,569,471
2022 – 2026	1,122,990	302,755	1,425,745	4,035,785	3,435,898	7,471,683
2027 – 2031	788,025	197,875	985,900	3,366,416	2,716,707	6,083,123
2032 – 2036	563,740	123,624	687,364	3,352,688	2,010,284	5,362,972
2037 – 2041	429,250	60,651	489,901	3,469,614	1,268,549	4,738,163
2042 – 2046	162,160	10,978	173,138	1,696,433	621,592	2,318,025
2047 – 2051	1,610	69	1,679	753,960	328,028	1,081,988
2052 – 2056				830,543	48,568	879,111
	4,230,815 *	1,111,286	5,342,101	22,846,483 *	14,612,310	37,458,793
Accretion				(614,015)		(614,015)
Premium	99,000		99,000	1,196,537		1,196,537
Discount				(18,308)		(18,308)
Total	$ 4,329,815	$ 1,111,286	$ 5,441,101	$ 23,410,697	$ 14,612,310	$ 38,023,007

COMPONENT UNITS	Revenue Bonds		
Year	Principal	Interest	Total
2017	$ 4,713	$ 2,408	$ 7,121
2018	1,691	2,952	4,643
2019	1,771	2,874	4,645
2020	1,858	2,789	4,647
2021	1,942	2,699	4,641
2022 – 2026	11,508	11,887	23,395
2027 – 2031	15,116	8,593	23,709
2032 – 2036	20,117	4,912	25,029
2037 – 2041	15,718	1,247	16,965
2042 – 2046	1,170	16	1,186
	75,604	40,377	115,981
Premium	6,054		6,054
Total	$ 81,658	$ 40,377	$ 122,035

* Includes accretion adjustments on deep discount bonds.

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Bonds Outstanding 9/1/15	Adjustments *	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/16	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	$ 14,177,418	$ 241,445	$ 2,533,645	$ 447,550	$ 1,445,150	$ 15,059,808	$ 557,999
Revenue Bonds	4,490,215	(35,246)		164,585		$ 4,290,384	199,851
Governmental Activities Total	18,667,633	206,199	2,533,645	612,135	1,445,150	19,350,192	757,850
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,954,563	30,397	627,917	190,357	92,705	$ 4,329,815	225,545
Revenue Bonds	21,466,229	203,988	3,825,434	904,571	1,180,383	$ 23,410,697	2,271,228
Business-Type Activities Total	25,420,792	234,385	4,453,351	1,094,928	1,273,088	27,740,512	2,496,773
COMPONENT UNITS							
Revenue Bonds	114,666	(1,290)		31,718		$ 81,658	4,713
	114,666	(1,290)	0	31,718	0	81,658	4,713
Total	$ 44,203,091	$ 439,294	$ 6,986,996	$ 1,738,781	$ 2,718,238	$ 47,172,362	$ 3,259,336

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

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, earnings on temporary investments and general revenues.

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** (TxDOT), prior to Jan 1, 2015, through the Texas mobility fund, issued 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 provided 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. After Jan. 1, 2015, TxDOT may only issue debt to refund existing debt in certain circumstances. 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, 2016, 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	$ 49,750
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,208,929
Water Development Bonds	5,998,014
College Student Loan Bonds	1,214,895
Texas Military Value Revolving Loan Fund	200,405
Total	9,146,993
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	2,037,487
Transportation Commission Transportation Bonds	697,008
Water Development Bonds - Economically Distressed Areas Program	53,492
Total	2,952,827
Total General Obligation Bonds	$ 12,099,820

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 (inactive) 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, 2016, excluding real estate, was $15.2 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented in the table below.

Permanent University Fund Bonds

(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$ 3,034,155	$ 1,990,155	$ 1,044,000
Texas A&M University System	1,517,078	915,375	601,703
Total	$ 4,551,233	$ 2,905,530	$ 1,645,703

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 **Texas Department of Transportation** 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 Transportation Commission** 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.

Not 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 **Texas Military Department**, previously named 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 Texas Military 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 Texas Military Department. As of Aug. 31, 2016, 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, $1.6 billion, $181.8 million and $80 million of direct payment BABs outstanding, respectively, as of Aug. 31, 2016.

Under the Budget Control Act of 2011, across-the-board sequestration took effect on March 1, 2013. This resulted in the 35 percent federal subsidy for BABs interest payments being reduced by the applicable federal sequestration reduction rate.

Variable Rate Bonds

Seven state agencies had a total of 85 variable rate bond issues with outstanding balances as of Aug. 31, 2016. 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	$ 11,112,796	$ 5,783,564	$ 35,335,708	$ 115,981
Current Year Pledged Revenue	449,381	8,300,451	17,241,074	82,195
Current Year Principal and Interest Paid	321,493	343,749	1,824,035	35,762
Term of Commitment Fiscal Year Ending August 31,	2045	2034	2054	2042
Percentage of Revenue Pledged	100%	100%	90%	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, 2016.

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, 2016, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in the table below and on the following page.

Demand Bonds

August 31, 2016

	Number of				Principal Balance Outstanding (In Thousands)
	Demand Bond Issues	Standby Purchase Agreements	Letters of Credit	Other	
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Department of Transportation	1	2 (a)			$ 150,000
Office of the Governor	2		2 (c)		45,000
Total	3	2	2	0	195,000
Revenue Bonds					
Texas Department of Transportation	1	1 (a)			100,000
Total	1	1	0	0	100,000
Governmental Activities Total	4	3	2	0	$ 295,000
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	4	4 (a)			$ 446,610
Total	4	4	0	0	446,610
Revenue Bonds					
University of Texas System	3			3 (b)	1,207,675
Texas Department of Housing and Community Affairs	6	6 (a)			141,560
University of Houston System	1			1 (b)	1,895
Total	10	6	0	4	1,351,130
Business-Type Activities Total	14	10	0	4	$ 1,797,740

(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 U.S. Bank National Association will be used until remarketed.

Demand Bond – Standby Purchase Agreements

August 31, 2016

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0900%	11/07/16
Bank of Tokyo-Mitsubishi UFJ	1	0.3500%	09/04/18
California Public Employees Retirement System	1	0.1500%	12/13/16
Landesbank Hessen-Thuringen Girozentrale	1	0.2800%	01/20/21
Landesbank Hessen-Thuringen Girozentrale	1	0.3200%	12/31/19
Mizuho Bank, LTD.	1	0.3400%	07/19/19
State Street Bank and Trust Company	1	0.1500%	12/13/16
Texas Comptroller of Public Accounts*	6	0.1200%	08/31/17
Total	13		

* Treasury Operations Division of the Texas Comptroller of Public Accounts

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, 2016

	Estimated Debt Service (In Thousands)	Rate	Basis
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2006B	170,085 (a)	8.50%	1% + the greater of: 3.0% + Daily Fed Fds Rate or Bank prime rate + 2% or 7.5%
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	109,281 (b)	5.31%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	$ 279,366		

(a) – Replacement debt is subject to quarterly payments over three years starting the first day of the first month of that period.
(b) – 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 table to the right presents early debt extinguishments in fiscal 2016. The source of funds used for the extinguishments included loan repayments and other available funds.

Refunding

The table below summarizes bonds refunded during fiscal 2016 to lower interest rates or to restructure debt service requirements for cash management purposes.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 8,735
Veterans Land Board	5,000
Revenue Bonds	
Texas Department of Housing and Community Affairs	183,168
Texas Workforce Commission	134,295
University of Houston System	7,535
University of North Texas System	4,535
Business-Type Activities Total	$ 343,268

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 Department of Transportation	Advanced Refunding	$ 911,360	$ 967,210	$ 128,548	$ 83,442
Texas Department of Transportation	Current Refunding	254,105	281,025	60,065	31,994
Texas Public Finance Authority	Advanced Refunding	157,520	161,705	17,959	14,746
Texas Water Development Board	Current Refunding	30,125	35,210	6,613	5,927
Governmental Activities Total		1,353,110	1,445,150	213,185	136,109
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	74,845	78,970	15,910	13,730
Revenue Bonds					
University of Texas System	Advanced Refunding	80,790	87,145	8,355	7,597
Texas A&M University System	Advanced Refunding	533,900	535,190	76,414	64,015
University of Houston System	Advanced Refunding	63,605	67,525	11,368	9,431
University of North Texas System	Current Refunding	45,865	45,605	8,903	4,470
Texas Department of Housing and Community Affairs	Current Refunding	93,560	94,945	(9,599)	132
Texas State Technical College	Advanced Refunding	19,330	20,440	2,106	1,341
Business-Type Activities Total		911,895	929,820	113,457	100,716
Total		$ 2,265,005	$ 2,374,970	$ 326,642	$ 236,825

* Other funds totaling approximately $32.1 million were used to refund/defease additional bonds.

Defeased Bonds

Texas defeases various bond issues by placing funds in irrevocable trusts with external financial institutions to provide for all future debt service payments on the old bonds. As of Aug. 31, 2016, the amounts of defeased bonds, at par, that remain outstanding for all bond issuers are presented in the table on the following page. Also included are various bond issues defeased by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company). Funds placed in the Trust Company to defease $304.2 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.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Department of Transportation	$ 1,807,110
Texas Public Finance Authority	304,155
Revenue Bonds	
Texas Department of Transportation	837,635
Governmental Activities Total	2,948,900
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	38,610
Veterans Land Board	15,500
Revenue Bonds	
University of Texas System	373,543
Texas A&M University System	535,190
Texas Department of Transportation	96,962
Texas State University System	82,260
University of Houston System	67,525
Texas Department of Housing and Community Affairs	8,850
University of North Texas System	4,535
Midwestern State University	18,195
Texas State Technical College	6,030
Business-Type Activities Total	1,247,200
Total	$ 4,196,100

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-rate or fixed-rate financing to nonprofit borrowers/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, 2016, there were 13 series of multifamily housing revenue bonds outstanding with an aggregate $166 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued four series of bonds in the aggregate amount of $1.6 billion that remains outstanding as of Aug. 31, 2016. The proceeds were loaned to LBJ Infrastructure Group LLC, NTE Mobility Partners LLC, NTE Mobility Partners Segments 3 LLC and Blueridge Transportation Group, LLC to finance the development and expansion of public transportation projects. Debt service is funded from loan and interest repayments from the borrowers. The bonds do not constitute a debt or pledge of the faith and credit of TxPABST, Texas Department of Transportation, or the state of Texas. Remaining bond authority has expired.

Conduit bond debt for the Texas Department of Housing and Community Affairs (multifamily housing bonds) 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, 2016, 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 tables to the right and on the following page.

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 Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2017	$ 171,245	$ 26,370	$ 100,817	$ 298,432
2018	176,655	25,246	95,938	297,839
2019	182,865	23,875	90,812	297,552
2020	175,315	22,467	85,575	283,357
2021	167,575	21,056	80,326	268,957
2022-2026	876,780	85,289	326,603	1,288,672
2027-2031	785,690	54,209	205,655	1,045,554
2032-2036	673,290	28,196	103,764	805,250
2037-2041	407,880	8,135	22,356	438,371
2042-2046	70,270	940	1,840	73,050
2047-2051	280	1	238	519
Total	$ 3,687,845	$ 295,784	$ 1,113,924	$ 5,097,553

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 Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net *	Total
2017	$ 1,135	$ 200	$ (1,115)	$ 220
2018	1,205	192	(1,112)	285
2019	1,280	183	(1,110)	353
2020	1,365	174	(1,108)	431
2021	1,445	164	(1,105)	504
2022-2026	8,705	654	(5,486)	3,873
2027-2031	11,780	304	(4,876)	7,208
2032-2036	2,665	19	(3,234)	(550)
2037-2041			(550)	(550)
Total	$ 29,580	$ 1,890	$ (19,696)	$ 11,774

* 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 Principal	Fixed-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2017	$	$ 16,612	$ 299	$ 16,911
2018		16,611	304	16,915
2019		16,613	308	16,921
2020	24,740	16,611	312	41,663
2021	25,980	15,375	279	41,634
2022-2026	114,370	55,934	1,140	171,444
2027-2031	104,045	28,795	732	133,572
2032-2036	46,560	8,587	219	55,366
Total	$ 315,695	$ 175,138	$ 3,593	$ 494,426

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.

The state implemented GASB Statement No. 72, *Fair Value Measurement and Application*, for fiscal year 2016. It requires the use of appropriate valuation techniques for which sufficient data are available to measure fair value and that maximize the use of relevant observable inputs while minimizing the use of unobservable inputs. Valuation techniques consistent with the market approach, cost approach, or income approach should be used to measure fair value.

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 outflows of resources and deferred inflows of resources. The state's cumulative derivative activity as of Aug. 31, 2016, is summarized in the table on the following page. The notional amounts are presented in U.S. dollar equivalents.

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)
Investment derivatives

Permanent School Fund (PSF) *
Investment derivatives

Teacher Retirement System of Texas (TRS)
Investment derivatives

Texas Tech University System (TTU)
Investment derivatives

Texas Woman's University (TWU) **
Investment derivatives

Midwestern State University (MSU) **
Investment derivatives

Stephen F. Austin State University (SFA) **
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.

** Stephen F. Austin, Midwestern State University, and Texas Woman's University invest funds in Texas A&M University System's investment pool which includes investment derivatives in the form of forward currency exchange contracts.

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
Investment Derivatives			
Futures	$ 4,082	$	$ 20,268
BUSINESS-TYPE ACTIVITIES			
Cash Flow Hedges			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (158,071)	$ (702,351) *	$ 3,681,995
Investment Derivatives			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (14,923)	$ (15,500)	$ 504,840
Pay-Variable Receive-Fixed Interest Rate Swaps	(14,839)	(15,716)	412,561
Basis Swaps	(11,989)	16,182	829,860
Commodity Swaps	(1,031)	(1,031)	17,056
Credit Default Swaps	2,386	1,830	252,798
Currency Swaps	(2,819)	(2,819)	292,798
Equity Swaps	255	255	69,962
Foreign Currency Forward	(8,849)	(8,849)	3,493,240
Futures	(2,266)		989,092
Inflation Swaps			
Options	3,705	1,097	2,177,503
Total Return Swaps	254	(486)	(141,495)
Volatility Swaps	3	3	100
FIDUCIARY ACTIVITIES			
Investment Derivatives			
Credit Default Swaps	$ 13,740	$ 2,864	$ 343,307
Forwards Contracts	(76,767)	4,625	(1,726,437)
Futures	449,969		4,313,621
Options	27,574	5,982	3,693
Pay-Fixed Receive-Variable Interest Rate Swaps	(18,162)	(4,609)	(273,187)
Pay-Variable Receive-Fixed Interest Rate Swaps	4,674	1,854	80,803
Rights	(6,189)	1,185	6,638
Total Return Swaps	13,533	15,867	(160,461)
Warrants	(4,067)	13,735	10,216
DISCRETE COMPONENT UNITS			
Investment Derivatives			
Futures	$ (687)	$	$ 4,991
Options	594	222	2,231
Total Return Swaps	33	(63)	(18,260)

* The entire $702,351 fair value for cash flow hedges is reported as a hedging derivative liability.

Fair Value

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

The University of Texas System (UT) has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows. UT continued to use the zero-coupon method in determining the fair values of their effective interest rate swaps, but also considered the nonperformance risk of the parties, as required by GASB Statement No. 72. All UT's interest rate swaps are classified in Level 2 of the fair value hierarchy.

The Veteran Land Board's fair value measurements of it swap transactions were calculated by an independent third-party swap advisory consultant using the Income Approach, as described in GASB Statement No. 72. Using observable inputs from interest rate markets and credit default swap prices, the fair value measurements are determined based upon the present value of future implied cash flows. Since the inputs to these

fair value measurements are observable from market data sources, they constitute Level 2 measurements, as described in GASB Statement No. 72.

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 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding), 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.

Texas Department of Housing and Community Affairs (TDHCA) adopted the Income Approach from GASB Statement No. 72 in the fair value measurement of their derivative instruments. Using observable inputs of interest rate markets and municipal bond yields, the fair value measurement is based on the present value of future implied cash flows reflective of nonperformance risk. All TDHCA's derivative instruments are classified in Level 2 of the fair value hierarchy.

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 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.

In fiscal 2016 the state entered into a treasury interest rate lock, a hedging derivative, in order to hedge interest rate exposure and lock in a treasury rate of 3.04% on the issuance of the Series 2016A bonds. The treasury lock was terminated on January 7th, 2016. Therefore, the hedging derivative treasury lock is not included in the derivative tables.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2016, are presented in the tables on the following pages. 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.

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	$ 8,945	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	10,325	06/01/1999	12/01/2018	Pay 5.112%; receive 68% 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	24,640	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	14,400	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,570	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	24,775	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	26,035	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	28,625	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	28,215	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	30,370	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	31,980	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	32,085	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	33,930	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	33,800	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	34,955	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	60,870	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Bds Ser 2011A	60,790	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	62,060	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Bds Ser 2011C	63,235	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	63,540	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	85,720	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	90,350	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	136,035	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	36,035	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	27,000	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	10,195	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	56,800	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	140,320	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	30,200	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	15,320	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	28,165	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	11,000	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	19,510	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	23,325	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	16,450	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	14,590	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	19,825	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	35,080	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	15,915	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	57,620	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR

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

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 Hsg Fund II Bds Ser 2001A-2	N/A		BBB+/Baa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AA-/Aa2
Vet Land Bds Ser 2002	N/A		BBB+/A3
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A		AA-/Aa2
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A		AA-/Aa2
Vet Hsg Fund II Bds Ser 2006A	N/A		AA-/Aa3
Vet Hsg Fund II Bds Ser 2006D	N/A		A+/A1
Vet Hsg Fund II Bds Ser 2007A	N/A		AA/Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2008A	N/A		AA-/Aa3
Vet Hsg Fund II Bds Ser 2008B	N/A		AA-/Aa2
Vet Bds Ser 2010C	N/A		BBB+/A3
Vet Bds Ser 2011A	N/A		BBB+/Baa2
Vet Bds Ser 2011B	N/A		BBB+/Baa2
Vet Bds Ser 2011C	N/A		AA-/Aa2
Vet Bds Ser 2012A	N/A		AA-/Aa2
Vet Bds Ser 2012B	N/A		AA-/Aa2
Vet Bds Ser 2013A	N/A		AA-/Aa2
Vet Bds Ser 2013B	N/A		AA-/Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%;	2,652	A+ / Aa3
	6M LIBOR > 4.00% and	1,018	
	SIFMA/LIBOR Ratio > 74%		
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%;	935	A+ / Aa3
	SIFMA/5Y ISDA CMS > 71%	1,020	
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	612	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	2,740	A+ / Aa3
Vet Bds Ser 2014A	N/A	N/A	AA-/Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR > 7.00%	4,470	AA-/Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR >= 7.00%	1,442	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	1M LIBOR >= 7.00%	2,594	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	1M LIBOR >= 7.00%;	484	A+ / Aa3
	6M LIBOR > 4.00% and	267	
	SIFMA/LIBOR Ratio > 74%		
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	1M LIBOR >= 7.00%;	1,367	A+ / Aa3
	6M LIBOR > 4.00% and	567	
	SIFMA/LIBOR Ratio > 74%		
Vet Land Tax Ref Bds Ser 2014B-3	1M LIBOR >= 7.00%	2,700	AA-/Aa2
Vet Land Tax Ref Bds Ser 2014B-3	6M LIBOR >= 7.00%	1,542	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	6M LIBOR > 7.00%	2,165	AA-/Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	1M LIBOR >= 7.00%	579	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%	1,992	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	6M LIBOR >= 7.00%	1,493	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%;	2,355	A+ / Aa3
	6M LIBOR > 4.00% and	1,427	
	SIFMA/LIBOR Ratio > 74%		

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

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
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS (concluded)				
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	$ 34,470	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	21,900	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	13,915	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	20,525	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	15,510	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	17,570	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	18,260	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	28,775	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Bds Ser 2014D	95,385	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% of 1M LIBOR
Vet Bds Ser 2015A	119,595	02/11/2015	06/01/2045	Pay 1.510%; receive 68% of 1M LIBOR
Vet Bds Ser 2015B	123,345	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of 1M LIBOR
Vet Bds Ser 2016	249,705	12/01/2016	12/01/2046	Pay 1.564%; receive 68% of 1M LIBOR
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	33,530	03/01/2014	09/01/2034	Pay 3.67%; receive 65.5% of LIBOR + .20%
2004D Single Family	25,700	01/01/2005	03/01/2035	Pay 3.08%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
2005A Single Family	31,130	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
2007A Single Family	38,405	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	164,490	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	164,490	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	185,080	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	185,080	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	123,950	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	123,950	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	260,635	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

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, 2016, the state was not exposed to credit

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
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS (concluded)			
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	N/A	N/A	AA-/Aa2
Vet Land Tax Ref Bds Ser 2014C-3	6M LIBOR >= 7.00%	$ 1,931	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-3	1M LIBOR >= 7.00%;	465	A+ / Aa3
	6M LIBOR > 4.00% and	208	
	SIFMA/LIBOR Ratio > 74%		
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,785	BBB+/A3
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	1,896	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,075	BBB+/A3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	886	AA-/Aa2
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	2,725	A+ / Aa3
Vet Bds Ser 2014D	N/A	N/A	AA-/Aa2
Vet Bds Ser 2015A	N/A	N/A	BBB+/Baa2
Vet Bds Ser 2015B	N/A	N/A	AA-/Aa2
Vet Bds Ser 2016	N/A	N/A	AA-/Aa2
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A		AA- (Stable)/Aa2 (Stable)
2004D Single Family	N/A		A (Review Upgrade)/A1 (Stable)
2005A Single Family	N/A		A+ (Stable)/ Aa3 (Stable)
2007A Single Family	N/A		A+ (Stable)/ Aa3 (Stable)
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
RFS Bonds 2007B	N/A		Aa2/AA-
RFS Bonds 2007B	N/A		Aa3/A+
PUF Bonds 2008A	N/A		Aa2/AA-
PUF Bonds 2008A	N/A		Aa3/AA-
RFS Bonds 2008B	N/A		Aa3/A+
RFS Bonds 2008B	N/A		A3/BBB+
RFS Bonds 2008B	N/A		Aa3/A+

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

risk because the swaps recorded in the positive position were 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 decreases, 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 affecting the tax-exempt market that do not have a similar effect on the taxable market.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) 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. At termination, if the fair value of the swap is negative, 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 underlying bonds. However, in the case of the swap associated with the Vet Land Tax Ref Bds Ser 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) 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 Standard & Poor's and Moody's Investor Service. 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 appropriation 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 the year ended Aug. 31, 2016, are $415 million for the primary government, $2.3 million for discrete component units and $3.3 million for fiduciary funds. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2016.

Noncancelable Operating Lease Obligations

August 31, 2016 (Amounts in Thousands)

	Minimum Future Lease Payments		
Year	Primary Government	Component Units	Fiduciary Funds
2017	$ 320,341	$ 1,945	$ 1,779
2018	268,078	1,852	1,584
2019	215,356	1,680	1,455
2020	163,731	1,581	1,327
2021	131,640	1,493	731
2022-2026	297,086	3,554	
2027-2031	24,313		
2032-2036	9,336		
2037-2041	9,887		
2042 and beyond	12,440		
Total	$ 1,452,208	$ 12,105	$ 6,876

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 rental income on noncancelable operating leases as of Aug. 31, 2016.

Noncancelable Operating Lease Rental Income

August 31, 2016 (Amounts in Thousands)

	Minimum Future Lease Rental Income		
Year	Primary Government	Component Units	Fiduciary Funds
2017	$ 34,974	$ 254	$ 42
2018	30,495	62	42
2019	26,921	12	41
2020	20,486		41
2021	17,545		41
2022 and beyond	331,453		435
Total	$ 461,874	$ 328	$ 642

The historical cost of the PSF leased assets is $271.1 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are reappraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2016, PSF reported contingent rental revenues in the amount of $1.2 million.

As of Aug. 31, 2016, the carrying value of UT's leased assets is $95.1 million. The historical cost of UT's leased buildings is $129.8 million and related accumulated depreciation is $45.6 million. The historical cost of UT's leased equipment is $2.6 million and related accumulated depreciation is $2.3 million. The historical cost of UT's leased land is $10.5 million. UT reported contingent rental revenues of $414 thousand.

As of Aug. 31, 2016, the carrying value of A&M's leased assets is $91.7 million. The historical cost of A&M's leased buildings is $149.2 million and related accumulated depreciation is $58.9 million. The historical cost of A&M's leased equipment is $87 thousand and related accumulated depreciation is $80 thousand. The historical cost of A&M's leased land is $1.4 million.

As of Aug. 31, 2016, the carrying value of Tech's leased assets is $44 million. The historical cost of Tech's leased buildings is $61 million and the related accumulated depreciation is $17.3 million. The historical cost of Tech's leased land is $291 thousand.

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, 2016 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2017	$ 4,023	$ 10	$ 4,033	$ 13,373	$ 2,601	$ 15,974	$ 44	$ 2	$ 46
2018	3,998	9	4,007	10,708	2,226	12,934	46	7	53
2019	3,652	8	3,660	7,880	1,925	9,805	47	4	51
2020	3,635	7	3,642	3,679	1,626	5,305	38	2	40
2021	3,632	7	3,639	2,607	1,491	4,098			
2022-2026	8,104		8,104	10,548	6,062	16,610			
2027-2031				12,371	3,519	15,890			
2032-2036				9,291	730	10,021			
Total	$ 27,044	$ 41	$ 27,085	$ 70,457	$ 20,180	$ 90,637	$ 175	$ 15	$ 190

The following table presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2016.

Assets Under Capital Leases

August 31, 2016 (Amounts in Thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities			
Type	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	$	$	$ 11	$	$	$
Buildings			50,386	(7,195)		
Furniture and Equipment	36,261	(14,223)	35,236	(10,302)	273	(67)
Vehicles, Boats, Aircraft			450	(169)		
Computer Software	1,036	(259)	5,402	(1,585)		
Other Assets			4,517			
Total	$ 37,297	$ (14,482)	$ 96,002	$ (19,251)	$ 273	$ (67)

Note 9

Retirement Plans

Defined Benefit Pension Plans

The state of Texas has three retirement systems in its financial reporting entity – Employees Retirement System of Texas (ERS), Teacher Retirement System of Texas (TRS), and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans:

- ERS – the Employees Retirement System of Texas Plan (ERS Plan), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan), the Judicial Retirement System of Texas Plan One (JRS1 Plan) and Judicial Retirement System of Texas Plan Two (JRS2 Plan);
- TRS – the Teacher Retirement System of Texas Plan (TRS Plan); and
- TESRS – the Texas Emergency Services Retirement System Plan (TESRS Plan).

ERS, LECOS, JRS2, TRS and TESRS Plans are administered through trust; JRS1 Plan is operated on a pay-as-you-go basis.

The state implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, in fiscal 2015. In fiscal year 2016, the state implemented the effective paragraphs of the GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The implementation of GASB Statement No. 73 does not impact the reporting of the ERS, LECOS, JRS2, TRS and TESRS Plans which are administered through trust and accounted for and reported in accordance with GASB Statement No. 68 requirements. The implementation of GASB Statement No. 73 does not affect the disclosure for the JRS1 Plan in fiscal 2016. JRS1 Plan is operated on a pay-as-you-go basis with no plan assets and is not set up under trust or equivalent arrangements. This plan is still reported under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Employees Retirement System of Texas (ERS)

The board of trustees of ERS is the administrator of the ERS, LECOS, JRS1 and JRS2 Plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. Each of these four plans is considered a single employer defined benefit plan under GASB Statement No. 68. The benefit and contribution provisions of the ERS Plans are authorized by state law and may be amended by the Legislature.

Employees Retirement System of Texas Plan (ERS Plan)

In addition to the state of Texas, the ERS Plan includes employers that are component units of the state. ERS and the Texas Treasury Safekeeping Trust company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS Plan. Pension activity for the ERS Plan is reported in governmental activities in the state's basic financial statements. Additionally, due to immateriality separate disclosure for the State Bar of Texas is not presented.

The ERS Plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who are included in the coverage of TRS, JRS1 and JRS2 Plans. Elected class includes elected state officials not included in the coverage of the JRS1 and JRS2 Plans, members of the Legislature and district and criminal district attorneys.

The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class 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.

ERS issues a stand-alone audited Comprehensive Annual Financial Report (CAFR). Information on vesting and tier requirements may be obtained from ERS' CAFR:

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan)

The LECOS Plan provides a supplemental retirement benefit to some employees in the ERS employee class.

The LECOS Plan covers custodial officers employed by the Department of Criminal Justice and law enforcement officers commissioned by the Department of Public Safety, the Alcoholic Beverage Commission, the Parks and Wildlife Department, and the State Board of Pharmacy.

The monthly benefit amount payable to LECOS Plan members is equal to the excess of total benefit over the regular benefit payable to the same members under the ERS Plan.

Total monthly standard annuity of the LECOS Plan members 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 number of years of service credit. The average monthly compensation of the LECOS Plan members may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation. Information on vesting and tier requirements may be obtained from ERS' CAFR.

Judicial Retirement System of Texas Plan Two (JRS2 Plan)

The JRS2 Plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissioners to a court who first became members after Aug. 31, 1985.

The monthly benefit for members of the JRS2 Plan 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. Information on vesting and tier requirements may be obtained from ERS' CAFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2015 is presented in the table below.

Employees Retirement System's Membership

	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries Currently Receiving Benefits	100,003	10,845	322
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	101,122	12,962	148
Current Employees Vested and Non-Vested	142,409	38,526	563
Total Members	343,534	62,333	1,033

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2015 are presented in the table below.

Required Contribution Rates

	Employer			Members		
Plan	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	8.0%	8.0%	8.0%	6.9%	8.0%	6.9%
LECOS*	1.7%**	N/A	N/A	0.5%	N/A	N/A
JRS2	15.663%	N/A	N/A	6.9%	N/A	N/A

* Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.

** The 1.7% consists of 0.5% of member payroll and a portion of court costs collected under Local Government Code, Section 133.102. The contribution from the court costs equals approximately 1.2% of payroll.

The state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2015 measurement period were $500.4 million, $26.7 million and $12.5 million respectively.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from Sept. 1, 2006 through Aug. 31, 2011. There is a slight modification in the assumption of withdraw rate of member contributions in the fiscal 2015 valuation. Higher percentage of individuals was assumed to withdraw their contributions when terminating due to higher member contribution level. Additionally, the actuarial valuation as of Aug. 31, 2015, also incorporates the most significant across-the-board pay increases budgeted by the state Legislature for the fiscal 2014 - 2015 biennium. The table on the following page presents the actuarial methods and assumptions used to measure the total pension liability for the ERS, LECOS and JRS2 Plans as of the Aug. 31, 2015, measurement date.

Actuarial Methods and Assumptions

	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	August 31, 2015	August 31, 2015	August 31, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Actuarial Assumptions:			
Discount Rate	6.86%	5.00%	7.06%
Investment Rate of Return	8.0%	8.0%	8.0%
Inflation	3.5%	3.5%	3.5%
Salary Increase	0% to 11.5%	5% to 11.5%	3.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected	None	None

The following table presents the single blended rate applied to measure the total pension liability, the long-term expected rate of return on pension plan investments and the 20-year municipal bond rate for the ERS, LECOS and JRS2 Plans.

Assumptions for Single Discount Rate

	ERS Plan	LECOS Plan	JRS2 Plan
Single discount rate	6.86%	5.00%	7.06%
Investment rate of return	8.00%	8.00%	8.00%
Municipal bond rate*	3.79%	3.79%	3.79%
Year fiduciary net position depleted	2053	2037	2045

* The source of the municipal bond rate is the Federal Reserve Statistical Release H. 15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality.

The fiduciary net position for the ERS, LECOS and JRS2 Plans is projected to be depleted in fiscal 2053, 2037 and 2045 respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal 2052 for the ERS Plan, fiscal 2036 for the LECOS Plan and fiscal 2044 for the JRS2 Plan. The municipal bond rate was applied to all remaining projected benefit payments after fiscal 2052 for the ERS Plan, after fiscal 2036 for the LECOS Plan and after fiscal 2044 for the JRS2 Plan.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of the Legislature's commitment to increase funding for the pension funds. The Legislature passed House Bill No. 9 in the 84th legislative session during fiscal 2015 to increase the member contribution rates for fiscal 2016 and 2017. The state contribution rates also increased as a result of this legislative session. The Legislature also maintained some changes made by Senate Bill 1459 in the 83rd legislative session. Considering these above events, the projected employer contributions are based on fiscal 2015 funding level.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on

investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the ERS, LECOS and JRS2 Plans' investment portfolio are presented below.

Target Allocations

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis for the ERS, LECOS and JRS2 Plans are presented in the table to the right.

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

	1% Decrease	Current Discount Rate	1% Increase
ERS Plan			
Discount Rate	5.86%	6.86%	7.86%
NPL	$ 17,714,684	$ 13,266,444	$ 9,537,338
LECOS Plan			
Discount Rate	4.00%	5.00%	6.00%
NPL	$ 1,187,830	$ 920,646	$ 703,605
JRS2 Plan			
Discount Rate	6.06%	7.06%	8.06%
NPL	$ 119,035	$ 75,154	$ 37,394

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statements No. 67 and No. 31. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2015 CAFR.

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2015. For fiscal 2016 reporting, the measurement date of the state's net pension liability is Aug. 31, 2015. The schedule of changes in the state's net pension liability for the fiscal year ending Aug. 31, 2016 is presented on the following page.

Schedule of Changes in Net Pension Liability

As of Measurement Date of August 31, 2015 (Amounts in Thousands)

	ERS Plan	LECOS Plan***	JRS2 Plan
Total Pension Liability			
Service Cost	$ 1,231,203	$ 57,459	$ 16,244
Interest on the Total Pension Liability	2,373,850	87,222	30,786
Benefit Changes**	(87,835)		
Difference between Expected and Actual Experience of the Total Pension Liability	(284,751)	(9,640)	(10,067)
Assumption Changes*	(3,429,167)	148,114	35,653
Benefit Payments and Refunds	(2,049,291)	(61,344)	(19,238)
Net Change in Total Pension Liability	(2,245,991)	221,811	53,378
Total Pension Liability – Beginning	39,510,917	1,542,978	386,286
Total Pension Liability – Ending	$ 37,264,926	$ 1,764,789	$ 439,664
Plan Fiduciary Net Position			
Contributions – Employer	$ 500,395	$ 26,728	$ 12,457
Contributions – Member	462,160	8,376	5,465
Pension Plan Net Investment Income	56,941	1,918	820
Benefit Payments and Refunds	(2,049,291)	(61,344)	(19,238)
Pension Plan Administrative Expense	(21,840)	(1,412)	(284)
Net Change in Plan Fiduciary Net Position	(1,051,635)	(25,734)	(780)
Plan Fiduciary Net Position – Beginning	25,050,117	869,877	365,290
Plan Fiduciary Net Position – Ending	$ 23,998,482	$ 844,143	$ 364,510
Net Pension Liability – Beginning	14,460,800	673,101	20,996
Net Pension Liability – Ending	$ 13,266,444	$ 920,646	$ 75,154

* The change in the total pension liability due to the change in the single discount is included as an assumption change.
** The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.
*** The actuarial valuation as of August 31, 2015 incorporated the impact of eliminating the 90-day waiting period for LECOS members but there was no immediate impact on the net pension liability.

The change of discount rate and a slight change in the assumption of the withdraw rate of member contributions at termination are the assumption changes during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date.

For the fiscal year ending Aug. 31, 2016, the state recognized pension expense of $342.3 million, $98.3 million and $14.2 million respectively for the ERS, LECOS and JRS2 Plans. At Aug. 31, 2016, the state reported deferred outflows of resources and deferred inflows of resources from the following sources for these plans.

Deferred Outflows of Resources and Deferred Inflows of Resources

(Amounts in Thousands)

	ERS Plan		LECOS Plan		JRS2 Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	$ 293,614	$	$ 55,089	$	$ 7,703
Changes of assumptions	461,180	2,364,209	161,030		26,171	12,697
Net difference between projected and actual investment return	642,720		23,140		10,260	
Contributions subsequent to the measurement date	686,763		27,497		12,374	
Total	$ 1,790,663	$ 2,657,823	$ 211,667	$ 55,089	$ 48,805	$ 20,400

The $686.8 million, $27.5 million and $12.4 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the ERS, LECOS and JRS2 Plans respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years for the ERS, LECOS and JRS2 Plans.

Amortization Impact of Deferred Outflows and Inflows of Resources on Pension Expense*

(Amounts in Thousands)
Year ended August 31:

	ERS Plan	LECOS Plan	JRS2 Plan
2017	$ (774,891)	$ 29,047	$ 1,559
2018	(993,222)	29,047	2,101
2019	(166,354)	29,047	6,702
2020	380,545	40,297	5,668
2021		1,642	
Thereafter			

* Positive amounts indicate increase in pension expense; negative amounts indicate decrease in pension expense.

Judicial Retirement System of Texas Plan One (JRS1 Plan)

The JRS1 Plan covers the same kind of membership as the JRS2 Plan except JRS1 Plan members began membership prior to Sept. 1, 1985.

As a result of new judicial officers participating in the JRS2 Plan, the JRS1 Plan membership continues to decrease. The table below presents the membership for the JRS1 Plan as of Aug. 31,2016.

Employees Retirement System's Membership

	JRS1 Plan
Retirees and Beneficiaries	
Currently Receiving Benefits	374
Terminated Employees Entitled to	
Benefits But Not Yet Receiving Them	2
Current Employees	
Vested and Non-Vested	10
Total Members*	386

* Totals are from actuarial valuation as of Aug. 31, 2016.

Members are required to contribute a percentage of their monthly gross compensation 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 statutorily established like the other ERS Plans. The contribution requirements for the state and the members are presented in the table below.

Required Contribution Rates

JRS1 Plan	
Employer	Members
4419.1%	9.5%

The state's annual pension cost and net pension obligation for fiscal 2016 for the JRS1 Plan is presented in the table below.

Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	JRS1 Plan
Annual Required Contribution (ARC)	$ 17,906
Interest on Net Pension Obligation (NPO)	1,779
Adjustment to ARC	(2,598)
Annual Pension Cost	17,087
Employer Contributions Made	(25,481)
Increase (Decrease) in Net Pension Obligation	(8,394)
Net Pension Obligation, September 1, 2015	46,959
Net Pension Obligation, August 31, 2016*	$ 38,565

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

The three-year trend information regarding annual pension cost and the net pension obligation of the JRS1 Plan is presented in the table below.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
JRS1 Plan			
8/31/16	$ 17,087	149.1%	$ 38,565
8/31/15	19,174	138.4%	46,959
8/31/14	21,670	127.9%	54,328

Information on the state's funded status as of Aug. 31, 2016 for the JRS1 Plan is presented in the table below.

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
JRS1 Plan						
8/31/16	$ 0	$ 328,044	$ 328,044	0.0%	$ 577	56,853.4%

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. There are no plan assets for the JRS1 Plan. The plan membership and discount rate continues to decrease. As a result, the actuarial accrued liability increased in fiscal 2016 compared with the fiscal 2015 amount.

The actuarial methods and significant assumptions used for the JRS1 Plan are presented in the table below.

Actuarial Methods and Assumptions

	JRS1 Plan
Actuarial Valuation Date	Aug. 31, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Actuarial Assumptions	
Investment Rate of Return	3.79%
Projected Salary Increases	3.50%
Includes Inflation at	3.50%
Cost-of-Living Adjustments	3.50%

Teacher Retirement System of Texas (TRS)

Teacher Retirement System of Texas Plan (TRS Plan)

TRS is the administrator of the TRS plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation.

The employers of the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, community and junior colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half

or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan.

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

TRS issued a stand-alone audited Comprehensive Annual Financial Report (CAFR). The TRS CAFR may be obtained from:

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

The state is both an employer and a non-employer contributing entity under the TRS Plan. The state makes contributions to the plan for its employees as well as the employees of the Texas public school districts. During the measurement period of 2015 for fiscal 2016 reporting, the amount of the state's contributions recognized by the plan was $417.7 million for the state as an employer and $1.6 billion for the state as a non-employer contributing entity. Similar to the ERS, LECOS and JRS2 Plans, the contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period of fiscal 2015 are presented in the table below.

Required Contribution Rates

	TRS Plan
Contribution Rates	
Employer	6.8%
Non-Employer Contributing Entity (State)	6.8%
Employees	6.7%

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the Aug. 31, 2015 measurement date.

Actuarial Methods and Assumptions

	TRS Plan
Actuarial Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Actuarial Assumptions:	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Mortality	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the four-year period ending Aug. 31, 2014 and adopted in September 2015. There have been changes in inflation, salary increase and mortality assumptions since the prior measurement date. The inflation assumption decreased from 3.00 percent as of the prior measurement date to 2.50 percent as of the current measurement date. The salary increase assumption changed from a range of 4.25 percent to 7.25

percent to a range of 3.50 percent to 9.50 percent since the prior measurement date. The mortality assumption changed from the one based on 1994 Group Annuity Mortality Table to the one based on the RP 2014 employee Mortality Tables for the active members. For the retired members, the new 2015 TRS Healthy Pensioner Mortality Tables were used for the mortality assumption.

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

The discount rate of 8.00 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. The projected cash flows into and out of the pension plan assumed that members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8.00 percent long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

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

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

Target Allocations

TRS Plan

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

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in the table below.

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

TRS Plan		
State as Employer		
1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
$ 7,817,129	$ 4,989,195	$ 2,633,703
State as Non-Employer Contributing Entity		
1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
$ 29,767,826	$ 18,998,983	$ 10,029,207

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2015 CAFR.

At Aug. 31, 2016, the state reported a liability of $5 billion for its proportionate share of the collective net pension liability as an employer and a liability of $19 billion for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2015, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The state's proportion decreased from 16.97 percent at August 31, 2014 to 14.11 percent at August 31, 2015 and from 60.37 percent to 53.75 percent for its role as an employer and non-employer contributing entity respectively. The state's proportions of the collective net pension liability were based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period Sept. 1, 2014 through Aug. 31, 2015.

The state recognized pension expense for its employees' pension and grant expense for the pension of Texas public school district and junior college employees. For the year ending Aug. 31, 2016, the state recognized pension expense of $382.6 million and grant expense of $1.7 billion. At Aug. 31, 2016, the state reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

Deferred Outflows and Deferred Inflows of Resources

(Amounts in Thousands)

	State as Employer		State as Non-Employer Contributing Entity	
TRS Plan	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 58,314	$ 191,739	$ 207,419	$ 730,148
Changes of assumptions	245,094	177,993	871,785	677,800
Net difference between projected and actual investment return	189,440		982,346	
Change in proportion and contribution difference	9,998	664,280		1,519,771
Contributions subsequent to the measurement date	466,216		1,675,631	
Total	$ 969,062	$ 1,034,012	$ 3,737,181	$ 2,927,719

The $466.2 million and $1.7 billion reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as an employer and non-employer contributing entity respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense and grant expense as follows.

Amortization Impact of Deferred Outflows and Inflows of Resources on Pension/Grant Expense

(Amounts in Thousands)
Year Ended August 31:

	TRS Plan	
	State as Employer	State as Non-Employer Contributing Entity
	Pension Expense*	Grant Expense*
2017	$ (151,324)	$ (340,053)
2018	(151,324)	(340,053)
2019	(151,324)	(340,053)
2020	195,106	892,174
2021	(115,720)	(290,544)
Thereafter	(156,582)	(447,641)

* Positive amounts indicate increase in pension or grant expense; negative amounts indicate decrease in pension or grant expense.

Texas Emergency Services Retirement System (TESRS)

Texas Emergency Services Retirement System plan (TESRS Plan)

TESRS is an agency of the state of Texas and the administrator of the TESRS Plan, a cost-sharing multiple-employer defined benefit pension plan with a special funding situation.

The TESRS Plan provides pension benefits for emergency services personnel who serve without significant monetary remuneration through participating fire or emergency services departments within the state. The TESRS Plan provides pension benefits to members with vested service and their beneficiaries as well as death and disability benefits to active volunteer fire fighters and first responders. The benefit and contribution provisions of the TESRS Plan are set by the TESRS board authorized by state law and may be amended by the board. Members are 50 percent vested after the tenth year of service, with the vesting percent increasing 10.00 percent for each of the next five years of service. For a vested member, the monthly pension benefit equals the member's vested percent multiplied by six times the average monthly contribution of the governing body (of the participating department) over the member's years of qualified service. For years of service in excess of 15 years, the monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic postretirement benefit changes.

Contribution provisions are composed of two parts: Part One contributions and Part Two contributions. Part One contributions are determined by the TESRS Board of Trustees and Part Two contributions are actuarially determined.

Part One contributions: Contributions are made by the governing bodies for the participating departments. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for the department. The contributions from the governing bodies are at a minimum rate of $36 per member and there is no limit to the maximum rate. Individuals who are members of the TESRS Plan are not required, nor allowed, to make contributions. The state is required to contribute an amount necessary to make the system "actuarially sound" each year, which may not exceed one-third of the total contributions made by participating governing bodies in a particular year.

Part Two contributions: In case the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation, an actuarially determined contribu-

tion not to exceed 15 percent of the Part One contributions is to be actuarially adjusted for participating governing bodies near the end of each even-numbered calendar year based on the most recent actuarial valuation. According to the actuarial valuation as of Aug. 31, 2014, the Part Two contribution rate was 0.00 percent.

The state of Texas is not an employer of the members under the TESRS Plan. However, the state makes contributions directly to the TESRS Plan for members of the participating fire or emergency services departments in the state. During the measurement period of 2015 for fiscal 2016 reporting, the amount of the state's contributions recognized by the plan was $1.6 million.

The total pension liability is determined by an actuarial valuation as of Aug. 31, 2014 and rolled over to the measurement date of August 31, 2015. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the Aug. 31, 2015 measurement date.

Actuarial Methods and Assumptions

	TESRS Plan
Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Actuarial Assumptions:	
Discount Rate	7.75%
Investment Rate of Return	7.75%
Inflation	3.50%
Salary Increase	N/A
Mortality	RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.
Ad Hoc Post-Retirement Benefit Changes	None

The discount rate of 7.75 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. The plan's actuary used an alternative method to determine the discount rate. In the actuarial valuation as of Aug. 31, 2014, the actuary used an actuarial value of assets which was $7.9 million less than the TESRS Plan's fiduciary net position as of Aug. 31, 2014 together with the conservative level dollar amortization method and determined that the TESRS Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on the TESRS Plan investments was applied to all periods of projected benefit payments without incorporating the municipal bond rate.

The long-term expected rate of return on the TESRS Plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In addition, the final 7.75 percent assumption reflected a reduction of 0.2 percent for adverse deviation.

The target allocation and expected arithmetic real rates of return for each major asset class for the TESRS Plan's investment portfolio are presented below.

Target Allocation

TESRS Plan

Asset Class	Target Allocation	Long-Term Expected Arithmetic Net Real Rate of Return
Equities		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed International	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnership	5%	7.1%
Fixed income		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0%	0.0%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in the table below.

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

TESRS Plan

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
$ 16,189	$ 9,252	$ 5,255

The TESRS Plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TESRS. Contributions are recognized immediately upon billing, reflecting actual participation in the member fire department during the prior quarter. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the TESRS Plan are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, determines the fair values for the individual investments. More detailed information on the plan's investment policy, assets, and fiduciary net position may be obtained from the fiscal 2015 audited Annual Financial Report for TESRS:

Texas Emergency Services Retirement System
P. O. Box 12577
Austin, Texas 78711

At Aug. 31, 2016, the state reported a liability of $9.3 million for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2015, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2014 and rolled over to the measurement date of Aug. 31, 2015. The state's proportion as a non-employer contributing entity increased from 33.79 percent at Aug. 31, 2014 to 34.66 percent at Aug. 31, 2015. The state's proportion of the collective net pension liability was based on a fiscal 2015 schedule of contributions consisting of Part One contributions by the contributing fire and emergency services department members and the appropriated "maximum state contributions" as defined in the Texas Emergency Services Retirement System Act.

There has been no change of actuarial methods and assumptions and no change of benefit terms since the prior measurement date.

The state recognized grant expense as a non-employer contributing entity for the pension of the volunteer emergency services personnel in the state. For the year ending Aug. 31, 2016, the state recognized grant expense of $1.4 million. At Aug. 31, 2016, the state reported deferred outflows of resources and deferred inflows of resources related to the emergency services personnel's pension from the following sources.

Deferred Outflows of Resources and Deferred Inflows of Resources

(Amounts in Thousands)

	TESRS Plan	
	State as Non-Employer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment return	$ 1,729	$
Change in proportion and contribution difference	7	173
Contributions subsequent to the measurement date	1,584	
Total	$ 3,320	$ 173

The $1.6 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as a non-employer contributing entity will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to the emergency services personnel's pension will be recognized in grant expense as follows.

Amortization Impact of Deferred Outflows and Deferred Inflows of Resources on Grant Expense

(Amounts in Thousands)
Year ended August 31:

	TESRS Plan State as Non-Employer Contributing Entity Grant Expense*
2017	$226
2018	279
2019	337
2020	723
2021	
Thereafter	

* Positive amounts indicate increase in grant expense; negative amounts indicate decrease in grant expense.

Defined Contribution Pension Plan

Optional Retirement Program

The state's contributions to the Optional Retirement Program (ORP) are authorized by Texas Government 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 6.60 percent, respectively, for fiscal 2016. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 1.90 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 some two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2016 resulted in participant contributions of $255.7 million and employer contributions of $307.1million.

As of Aug. 31, 2016, ORP had 37,613 participants. The total participant contributions were $286.1 million and total employer contributions were $343 million. Additional information for ORP is included in the fiscal 2016 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board. The report can be obtained from:

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

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 two deferred compensation plans. The first one, for UT employees, was created in accordance with Internal Revenue Code, Section 457(b), where 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. The second one, Physician Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP), was created for physicians of the University of Texas M.D. Anderson Cancer Center (M.D. Anderson), a component unit of UT. It was established in accordance with Internal Revenue Code, Section 457(f). Only physicians hired before July 1, 1986, participate in the SRP. The remainder of eligible employees participates in the RBP. Assets of the SRP/RBP remain subject to the claims of the general creditors of M.D. Anderson.

The Texas A&M University System (A&M System) offers a deferred compensation plan created in accordance with Internal Revenue Code, Section 457(f). It allows the A&M System to defer income for eligible participants without regard to the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. All A&M System employees are eligible to participate in this plan subject to the approval of the A&M System's board of regents, chancellor, or any chancellor-designated member chief executive officer.

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 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 University of Texas System Employee Group Insurance Program (UT Plan) and Texas A&M University System Group Insurance Program (A&M Plan). The UT Plan is administered by the University of Texas System (UT) and the A&M Plan is administered by the Texas A&M University System (A&M).

UT and A&M each issue a publicly 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 University 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 University 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 Ended	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/16	$ 197,816	$ 860,270	23.0%	$ 4,647,431
8/31/15	185,328	810,956	22.9%	3,984,976
8/31/14	166,517	726,387	22.9%	3,359,348
A&M Plan				
8/31/16	$ 64,215	$ 198,140	32.4%	$ 1,117,799
8/31/15	62,620	186,728	33.5%	983,874
8/31/14	50,099	190,640	26.3%	859,766

For the fiscal year ended Aug. 31, 2016, 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 in the table below. 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, 2016

	UT Plan		A&M Plan	
Level of Coverage	Employer	Plan Member	Employer	Plan Member*
Retiree Only	$ 567	$	$ 548	$ 10
Retiree/Spouse	864	244	819	281
Retiree/Children	757	255	758	200
Retiree/Family	1,056	481	927	390

* 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 Statement No. 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 table below presents the components of the annual OPEB cost for the UT and A&M plans for fiscal 2016 and the net OPEB obligation for these two plans as of Aug. 31, 2016.

Annual OPEB Cost and Net OPEB Obligation
(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	$ 804,985	$ 178,632
Interest on Net OPEB Obligation	239,099	72,806
Adjustment to ARC	(183,813)	(53,298)
Annual OPEB Cost	860,271	198,140
Employer Contributions Made	(197,816)	(64,215)
Increase in Net OPEB Obligation	662,455	133,925
Net OPEB Obligation, September 1, 2015	3,984,976	983,874
Net OPEB Obligation, August 31, 2016	$ 4,647,431	$ 1,117,799

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2016, based on UT's valuation as of Dec. 31, 2015 and A&M's valuation as of Sept. 1, 2014 valid for fiscal 2016 reporting, is presented in the table above in the next column.

Funded Status
(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2015	Sept. 1, 2014
Actuarial Value of Plan Assets	$	$
Actuarial Accrued Liability (AAL)	8,584,045	2,002,649
Unfunded Actuarial Accrued Liability (UAAL)	$ 8,584,045	$ 2,002,649
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	$ 5,948,245	$ 1,440,510
UAAL as a Percentage of Covered Payroll	144.3%	139.0%

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. The amounts which determine 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 the 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 tech-

niques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The table below provides additional detail on the actuarial methods and assumptions used in the UT and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2015	Sept. 1, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay	Level Percent of Pay
Amortization Period	30 years, Open	30 years, Open
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Projected Salary Increases	4.5% to 10.5%	4.75% to 7.75%
Investment Rate of Return	6.00%	7.40%
Includes Inflation at	3.50%	3.50%
Health Care Trend Rates	7% in Fiscal 2017 Increasing to 8.00% in Fiscal 2018 and declining to 5.5% in Fiscal 2024	8% in Fiscal 2016 declining to 5.5% in Fiscal 2022
Mortality Tables[1]	TRS tables[2]	TRS and PBGC tables[3]

1. As most of the UT and A&M group insurance program OPEB plan members participate in the Teacher Retirement System (TRS) retirement plan, the mortality tables used by TRS retirement plan that reflects TRS specific experience was adopted for UT and A&M service retirees and UT disability retirees.
2. For UT service retirees, tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 were used. For disability retirees, same mortality tables for service retirees but using a three-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members were used.
3. For A&M service retirees, tables based on TRS experience were used. For disability retirees, the Pension Benefit Guaranty Corporation (PBGC) male and female disability mortality tables were used.

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 62 participating employers.

There is no special funding situation in SRHP. 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.

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 Statement No. 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 publicly 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 including the University of Texas Medical Branch Correctional Managed Care program and the University of Texas Mental Sciences Institute of the University of Texas Health Science Center at Houston (other parts of UT and A&M are under the UT Plan and A&M Plan, respectively) 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, 2016

	ERS SRHP	
Level of Coverage	Employer	Plan Member
Retiree Only	$ 577	$
Retiree/Spouse	907	330
Retiree/Children	798	221
Retiree/Family	1,128	551

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2016 the state contributed $576 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2015 and fiscal 2014, the state contributed $549 million and $535 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 1,222 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. The fiscal 2016 contributions to the TRS-Care OPEB plan are presented in the table below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2016
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	$ 189,112
On Behalf From State	297,071
On Behalf From Federal Government	23,824
	$ 510,007

TRS issues a publicly 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. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year.

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

Medicare Part D

In fiscal 2016 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 table below presents Medicare Part D receipts from the federal government as reported by the OPEB administrators in fiscal 2016.

Medicare Part D Receipts
For the Fiscal Year Ended August 31, 2016
(Amounts in Thousands)

UT Plan	$ 11,621
A&M Plan	4,276
ERS SRHP	69,185
TRS-Care	58,230
	$ 143,312

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 govern-

ment-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 $30.7 million. There is also a $1 billion receivable for Texas A&M University System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a $1.9 billion transfer from the property tax relief fund and a $1.4 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, 2016, is presented in the tables below and on the following page.

Interfund Receivables/Payables

(Amounts in Thousands)

	Current		Noncurrent		Total	
Fund Type	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
GOVERNMENTAL FUNDS						
General Fund	$ 6,954	$ 122	$ 23,820	$ 17	$ 30,774	$ 139
Nonmajor Governmental Funds		308		2,314		2,622
	6,954	430	23,820	2,331	30,774	2,761
PROPRIETARY FUNDS						
Colleges and Universities	48,475	55,139	971,261	994,890	1,019,736	1,050,029
Nonmajor Enterprise Funds	150	10	2,140		2,290	10
	48,625	55,149	973,401	994,890	1,022,026	1,050,039
Total	$ 55,579	$ 55,579	$ 997,221	$ 997,221	$ 1,052,800	$ 1,052,800

Due From/Due To

(Amounts in Thousands)

Fund Type	Due From: Other Funds	Due From: Primary Government	Due From: Component Unit	Due To: Other Funds	Due To: Primary Government	Due To: Component Unit
GOVERNMENTAL FUNDS						
General Fund	$ 146,929	$	$	$ 1,897,023	$	$
State Highway Fund	675,737			60,350		
Permanent School Fund	5			17		
Nonmajor Governmental Funds	325,441			163,862		
	1,148,112	0	0	2,121,252	0	
PROPRIETARY FUNDS						
Colleges and Universities	964,267			29,889		
Unemployment Trust Fund	2,964					
Lottery Fund				121,542		
Nonmajor Enterprise Funds	95,253			10,256		
Internal Service Fund	506,963			13,006		
	1,569,447	0	0	174,693	0	0
FIDUCIARY FUNDS						
Agency Funds	8			638		
Pension and Other Employee Benefit Trust Funds	96,415			517,399		
	96,423	0	0	518,037	0	0
DISCRETELY PRESENTED COMPONENT UNITS	0	0	0	0	0	0
Total	$ 2,813,982	$ 0	$ 0	$ 2,813,982	$ 0	$ 0

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In: Other Funds	Transfers Out: Other Funds
GOVERNMENTAL FUNDS		
General Fund	$ 4,513,353	$ 7,273,103
State Highway Fund	571,871	448,683
Permanent School Fund		1,056,412
Nonmajor Governmental Funds	2,501,778	3,587,114
	7,587,002	12,365,312
PROPRIETARY FUNDS		
Colleges and Universities	6,511,661	405,456
Lottery Fund		1,392,306
Nonmajor Enterprise Funds	120,284	57,356
Internal Service Funds		1,750
	6,631,945	1,856,868
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	112,944	109,688
Private-Purpose Trust Funds	7,854	7,877
	120,798	117,565
Total	$ 14,339,745	$ 14,339,745

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances	$ 21,489	$ (21,489)	$ 0
CURRENT LIABILITIES			
Internal Balances	$ 894,273	$ (894,273)	$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$ (4,777,546)
Business-Type Activities	$ 4,777,546

Note 13

Classification of Fund Balances/ Net Position

The table on the following pages presents a summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2016.

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. For the general fund, special revenue funds, capital projects funds and nonmajor permanent funds, the specific purpose of the fund is determined by the Texas Legislature. The revenues received to fund the programs within the fund and the applicable expenditures allowed from the fund are derived through statute. The fund may support multiple programs within multiple agencies. The remaining unspent fund balances are determined to be restricted, committed, assigned or unassigned at fiscal year-end. Unassigned fund balances are then reported by the governmental function assigned to the agency.

Of the $7.7 billion governmental funds total unassigned fund balance, $10.2 billion is for the economic stabilization fund (ESF). The ESF was authorized by the Texas Constitution, Article III, Section 49g. This authorized a transfer to the ESF within 90 days after the end of the fiscal year. In November of each year a transfer is made from the general revenue fund equal to 75 percent of the excess of the prior fiscal year collections for oil and natural gas production taxes over 1987 collections. An amendment to the Texas Constitution, passed in November 2014, amended the transfer to include the state highway fund. As of fiscal 2015, the ESF receives at least one-half of the 75 percent transferred and the remainder is transferred to the state highway fund.

The ESF shall also receive a transfer from the general revenue fund, by the 90th day of each biennium, for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. 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.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB Statement No. 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.

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

(Amounts in Thousands)

	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	$ 241,544	$ 161,972	$	$ 170	$ 403,686
Long-term Receivables	483,310				483,310
Permanent Principal			15,729,898	797,512	16,527,410
Prepaid Items	2,773		2,279		5,052
Total Nonspendable	727,627	161,972	15,732,177	797,682	17,419,458
Restricted:					
Capital Purposes	130,164			492,751	622,915
Debt Service				268,032	268,032
Economic and Consumer Affairs	500,143			47,984	548,127
Education – Public Schools	550,486		21,531,752	868,835	22,951,073
Education – Loan Programs				1,044,645	1,044,645
Environment and Natural Resources – Other	22			2,736,455	2,736,477
General Government*	125,341			295,429	420,770
Parks and Recreation	70,940			17,245	88,185
Public Health and Welfare – Federal Programs	17,895				17,895
Public Health and Welfare – Public Programs	80,075			14,022	94,097
Public Safety and Criminal Justice	56,868				56,868
Public Safety and Criminal Justice – Corrections				4,724	4,724
Public Safety and Criminal Justice – Law Enforcement	9,311			3,188	12,499
Transportation – Construction		1,791,918			1,791,918
Transportation – Licensing and Regulation		116,489			116,489
Transportation – Maintenance		258,333			258,333
Transportation – Other	5,420	1,011,392		1,081,278	2,098,090
Total Restricted	1,546,665	3,178,132	21,531,752	6,874,588	33,131,137

Concluded on the following page

* General Government is tasked with the collection of revenues that benefit the state overall and has expenditures that are not restricted to carry out specific programs or purposes. Included in the classification are the fund balances of state agencies that are semi-independent and do not receive appropriations for operating purposes.

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

(Amounts in Thousands)

	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Committed:					
Capital Purposes	$ 2,930	$	$	$	$ 2,930
Economic and Consumer Affairs	769,530			6,278	775,808
Education – Public Schools	75,211			10,563	85,774
Education – Loan Programs	399,038				399,038
Environment and Natural Resources – Other	2,089,397			186	2,089,583
General Government*	450,896			34,048	484,944
Parks and Recreation	116,601				116,601
Public Health and Welfare – Federal Programs	255				255
Public Health and Welfare – Public Programs	533,517				533,517
Public Safety and Criminal Justice	139,506			9,418	148,924
Public Safety and Criminal Justice – Corrections				3,411	3,411
Public Safety and Criminal Justice – Law Enforcement	25,390				25,390
Transportation – Construction		667,347			667,347
Transportation – Maintenance		96,209			96,209
Transportation – Other		376,663		71,399	448,062
Total Committed	4,602,271	1,140,219	0	135,303	5,877,793
Assigned:					
Economic and Consumer Affairs	14,082				14,082
Environment and Natural Resources – Other	6,287				6,287
General Government*	94,906			1,839	96,745
Transportation – Construction		335,069			335,069
Transportation – Maintenance		48,306			48,306
Transportation – Other		189,119			189,119
Total Assigned	115,275	572,494	0	1,839	689,608
Unassigned:					
Economic and Consumer Affairs	11,135				11,135
Education	170,487				170,487
Environment and Natural Resources	147,050				147,050
General Government*	(3,453,943)				(3,453,943)
General Government - ESF	10,164,315				10,164,315
Public Health and Welfare	316,836				316,836
Public Safety and Corrections	273,982				273,982
Transportation	50,267				50,267
Total Unassigned	7,680,129	0	0	0	7,680,129
Total Fund Balances – Governmental Funds	$ 14,671,967	$ 5,052,817	$ 37,263,929	$ 7,809,412	$ 64,798,125

* General Government is tasked with the collection of revenues that benefit the state overall and has expenditures that are not restricted to carry out specific programs or purposes. Included in the classification are the fund balances of state agencies that are semi-independent and do not receive appropriations for operating purposes.

Note 14

Restatement of Beginning Balances

During fiscal 2016, 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 presented in the table below and discussed on the following page.

Restatements to Net Position/Fund Balances

(Amounts in Thousands)

	September 1, 2015, As Previously Reported	GASB Statements No. 72	Change in Reporting Entity	Correction of Prior Year Errors	September 1, 2015, As Restated
GOVERNMENT-WIDE ACTIVITIES:					
PRIMARY GOVERNMENT:					
Governmental Activities	$ 94,286,652	$ 1,910,566	$ (1,240)	$ 180,027	$ 96,376,005
Business-type Activities	53,421,004	5,264,168		(936)	58,684,236
Total Primary Government	$ 147,707,656	$ 7,174,734	$ (1,240)	$ 179,091	$ 155,060,241
Discrete Component Units	$ 563,920	$	$ 34,354	$ (4,711)	$ 593,563
FUND FINANCIAL STATEMENTS:					
GOVERNMENTAL FUNDS					
Major Governmental Funds:					
General Fund	$ 17,882,009	$	$	$ (5,421)	$ 17,876,588
State Highway Fund	5,286,794			(8,578)	5,278,216
Permanent School Fund	33,833,543	1,910,566			35,744,109
Nonmajor Governmental Funds:					
Special Revenue Funds	4,730,048		(1,240)	(1,517)	4,727,291
Debt Service Funds	770,745				770,745
Capital Project Funds	1,106,824			3,211	1,110,035
Permanent Funds	1,070,157				1,070,157
Total Governmental Funds	$ 64,680,120	$ 1,910,566	$ (1,240)	$ (12,305)	$ 66,577,141
PROPRIETARY FUNDS					
Major Enterprise Funds:					
Colleges and Universities	$ 46,988,113	$ 5,264,168	$	$ 958	$ 52,253,239
Unemployment Trust Fund	1,478,183				1,478,183
Lottery Fund	49,364				49,364
Nonmajor Enterprise Funds	4,905,344			(1,894)	4,903,450
Total Proprietary Funds	$ 53,421,004	$ 5,264,168	$	$ (936)	$ 58,684,236
Internal Service	$ 440,466	$	$	$	$ 440,466
FIDUCIARY FUNDS					
Pension and Other Employee Benefit Trust Funds	$ 154,819,598	$	$	$	$ 154,819,598
External Investment Trust Funds	12,874,456			(251,514)	12,622,942
Private-Purpose Trust Funds	3,613,514			(209,922)	3,403,592
Total Fiduciary Funds	$ 171,307,568	$	$	$ (461,436)	$ 170,846,132
Total Reporting Entity *	$ 319,579,144	$ 7,174,734	$ 33,114	$ (287,056)	$ 326,499,936

* Reporting entity includes primary government, discrete component units and fiduciary funds.

Restatements are grouped in the table on the previous page by the following types of activity:

GASB Pronouncements and Related Items

These restatements are to record the effect of the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. As a result, the state restated sovereign lands, previously recorded at historical cost, at fair value with a $1.9 billion restatement increase in the permanent school fund and a $5.3 billion restatement increase in the colleges and universities fund.

Changes in the Reporting Entity

The $1.2 million restatement decrease in the special revenue fund is to record the Alamo Endowment, previously a blended component unit, as a discretely presented component unit. The $34.4 million restatement increase in discrete component units is a result of abolishing the Texas Health Insurance Pool as of Aug. 31, 2015 and removing the Texas Title Insurance Guaranty Association, Texas Life and Health Insurance Guaranty Association and Texas Property and Casualty Insurance Guaranty Association as discretely presented component units from the state of Texas reporting entity.

Correction of Prior Year Errors

Government-wide activities

Governmental activities include a restatement increase of $98.7 million for adjustments to capital assets and accumulated depreciation or amortization. The remaining restatements primarily include increases of $81.3 million to correct accounting errors in the prior period related to consumable inventories, materials and supplies, equipment, vehicles, capital outlay, accounts receivables, license, fees and changes in interest payable calculation method.

Business-type activities include a restatement decrease of $3.4 million for adjustments to capital assets and accumulated depreciation or amortization. The remaining restatements primarily include increases of $2.5 million to correct accounting errors in the prior period related to legislative appropriations and changes in accounting principle.

Discrete component units include restatement decrease of $4.7 million to correct accounting errors in the prior period related to revenue write-offs and fund balance.

Fund Financial Statements-Governmental

The restatements for governmental funds of $5.4 million decrease in the general fund and $8.6 million decrease in the state highway fund primarily include correction of accounting errors in the prior period related to legislative appropriations, consumable inventories, materials and supplies, equipment, vehicles, license fees and permits, capital outlay and accounts receivables.

The restatements for other nonmajor governmental funds of $1.5 million decrease in special revenue funds and $3.2 million increase in capital projects funds primarily include correc-

tion of accounting errors in the prior period related to correct the interest rate on loans and overstated payables.

Fund Financial Statements-Proprietary

The restatements for colleges and universities of $958 thousand increase primarily include correction of accounting errors in the prior period related to capital assets, accumulated depreciation or amortization and changes in accounting principle. The other non-major funds primarily include $1.9 million restatement decrease to correct accounting errors in the prior period related to legislative appropriations.

Fund Financial Statements-Fiduciary

The restatements for external investment trust funds of $251.5 million decrease and private-purpose trust funds of $209.9 million decrease are to correct accounting errors in the prior period related to Texpool and Texpool Prime investment, liabilities and funds held in local banks.

Restatements to Change in Net Position

(Amounts in Thousands)

	Sept. 1, 2014 Previously Reported	Change in Net Position Aug 31, 2015 As Previously Reported	GASB Statement No. 72	Change in Reporting Entity	Correction of Prior Year Errors	Change in Net Position Aug 31, 2015 as Restated	Net Position Sept 1, 2015 as Restated
GOVERNMENT-WIDE ACTIVITIES:							
PRIMARY GOVERNMENT:							
Governmental Activities	$ 90,637,576	$ 3,649,076	$ 1,910,566	$ (1,240)	$ 180,027	$ 5,738,429	$ 96,376,005
Business-type Activities	52,482,712	938,292	5,264,168		(936)	6,201,524	58,684,236
Total Primary Government	$ 143,120,288	$ 4,587,368	$ 7,174,734	$ (1,240)	$ 179,091	$ 11,939,953	$ 155,060,241
Discrete Component Units	$ 525,511	$ 38,409	$ 0	$ 34,354	$ (4,711)	$ 68,052	$ 593,563

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 of $3.9 billion as of Aug. 31, 2016. The Texas Department of Transportation (TxDOT) has equity loan commitments of $15.4 billion. Of this amount, $5.9 billion is related to North Texas Tollway Authority for State Highway 161 Project in Dallas. The remaining $9.5 billion is used by the Grand Parkway Transportation Corporation to pay for certain costs related to development, construction, operation, maintenance and financing of projects in Harris County and possible extensions or expansions of the Grand Parkway in the Houston area.

Investment Funds

As of Aug. 31, 2016, state agencies, public employee retirement systems and institutions of higher education have 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, 2016, the remaining commitment was $44 billion.

Construction and Other Commitments

As of Aug. 31, 2016, TxDOT had contractual commitments of approximately $11.9 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, 2016, the amount of unrealized payables for uncompleted pass-through toll agreements was $174.2 million. In addition, TxDOT has equity grant commitments of $251 million to various local toll project entities.

The University of North Texas system initiated approximately $457 million in capital commitments for construction and renovation of various facilities in numerous stages of development.

Contingencies

Protested Tax Payments

As of Aug. 31, 2016, pending litigation filed by taxpayers seeking refunds of state taxes totaled $213 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse rulings 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, 2016. These claims totaled $125.9 million and include a number of lawsuits and claims that may be significant to individual state agencies. Although the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed 685 cases exercising eminent domain for $368.9 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 55 to 60 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, Texas voters approved a constitutional amendment that establishes the guarantee of the permanent school fund for a defined capacity of up to $97 billion in school district bonds as of Aug. 31, 2016. 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, 2016, $67.3 billion debt in outstanding bond issues was guaranteed by the permanent school fund for 837 school districts and $961 million for 14 charter districts within the state. Under statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. These dollar amounts represent the principal amount and do not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities), nor do they include interest on current interest bonds or variable rate notes. These amounts also exclude bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2016, none of the school districts or charter districts with guaranteed debt have defaulted on the debt.

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' (TDHCA) hedging 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, 2016, the aggregate fair value of all derivative instruments with collateral provisions was $15.1 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, 2016.

The Teacher Retirement System of Texas (TRS) investment derivative instruments include provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2016, the aggregate fair value of all derivative instruments with these provisions was $27.3 million. If the collateral posting thresholds of all these investment derivative instruments did not exist, TRS would be required to post the aggregate amount of $9.1 million in collateral to its counterparties. Where none of the contractual thresholds were surpassed, TRS has posted no collateral as of Aug. 31, 2016.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued $5.2 billion in new bonds and commercial paper and $3 billion in refunding bonds since Aug. 31, 2016, as presented in the table below and on the following pages. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Other Subsequent Events

On Nov. 4, 2015, Texas voters approved the ballot measure known as Proposition 7, which created a constitutional amendment for transportation funding. The amendment increases money to build roads by adding sales tax revenue to the State Highway Fund beginning in fiscal year 2018.

On Sept. 16, 2016, ITT Educational Services filed for bankruptcy and on October 16, 2016, Career Point College, announced the immediate closure of its Austin and San Antonio campuses. It is expected that these closures, which affected thousands of Texas students, will have a significant effect on the Career School or College Tuition Trust Account Fund, which assists students of closed schools in recovering tuition or in arranging similar training in another school.

On Sept. 30, 2016, Texas Department of Housing and Community Affairs issued a $29.5 million multifamily governmental note to finance the acquisition, construction and equipping the Mercantile Apartments multifamily rental housing development.

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2016
(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
OFFICE OF THE GOVERNOR			
State of Texas General Obligation Refunding Bonds, Series 2016	$ 25,490	11/17/16	To fund the Texas Military Value Revolving Loan Program managed by the Office of the Governor and to provide debt service savings.
VETERANS LAND BOARD			
State of Texas Veterans' Bonds, Series 2017	250,000	01/12/17	To augment the Veterans' Housing Assistance Fund II.
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Multifamily Revenue Bonds, Series 2016	18,750	09/15/16	To fund the acquisition, construction, and equipping of multifamily rental housing developments.
TEXAS PUBLIC FINANCE AUTHORITY			
State of Texas Revenue Commercial Paper Program, Series 2016A (Taxable) and 2016B (Tax-Exempt)	10,000	09/15/16	To fund project expenditures for the Texas Facilities Commission.
General Obligation Commercial Paper Notes, Series 2008	2,500	09/21/16	To fund various projects of multiple agencies.
General Obligation Commercial Paper Notes, Series 2008	1,500	10/20/16	To fund various projects of multiple agencies.
MLPP Commercial Paper Notes, Series 2003	1,500	10/11/16	To fund equipment purchases.
General Obligation CPRIT Commercial Paper Notes, Series A (Taxable)	58,000	10/19/16	To fund CPRIT's grant awards.
General Obligation Commercial Paper Notes, Series 2008	2,000	11/18/16	To fund various projects of multiple agencies.
General Obligation Commercial Paper Notes, Series 2008	3,250	12/13/16	To fund various projects of multiple agencies.
Master Lease Purchase Program Notes, Series 2003	500	01/9/17	To fund equipment purchases.

Continued on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2016 (continued)

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS PUBLIC FINANCE AUTHORITY (concluded)			
General Obligation Commercial Paper Notes, Series 2008	7,500	01/20/17	To fund various projects of multiple agencies.
TPFA General Obligation Bonds, Taxable, Series 2017	375,000	01/25/17	To refund outstanding commercial paper and fund CPRIT's grant awards.
TEXAS WATER DEVELOPMENT BOARD			
State Water Implementation Revenue Fund, Texas Revenue Bonds, Series 2016	600,065	10/13/16	To provide financial assistance through the purchase of or entering into political subdivision obligations, and to pay the costs of issuance of the bonds.
TEXAS DEPARTMENT OF TRANSPORTATION			
State Highway Fund Revenue Bonds, Series 2016A	601,210	10/26/16	To fund highway improvement projects.
State Highway Fund Revenue Refunding Put Bonds, Series 2016B	89,370	10/26/16	To refund outstanding bonds to finance highway improvement projects.
Texas Highway Improvement General Obligation Bonds, Series 2016A	588,755	11/02/16	To fund highway improvement projects and pay costs of issuance.
Grand Parkway Transportation Corporation Revenue Bonds, Series 2016	83,775	12/07/16	To refund debt and pay costs of issuance.
Grand Parkway Transportation Corporation (TIFIA Loan)	840,645	12/13/16	To refund debt and pay costs of issuance.
Interstate Highway 35E Project (TIFIA Loan)	285,000	12/1/16	To pay a portion of the eligible project costs.
Texas Mobility Fund General Obligation Bonds, Series 2017A	296,020	02/01/17	To refund debt and pay costs of issuance.
Texas Mobility Fund General Obligation Bonds, Series 2017B	474,135	02/01/17	To refund debt and pay costs of issuance.
TEXAS SOUTHERN UNIVERSITY			
Texas Southern University Revenue Financing System Bonds, Series 2016	55,490	09/15/16	To fund acquisition, construction, and improvements of Texas Southern University educational facilities.
MIDWESTERN STATE UNIVERSITY			
Revenue Bonds, Series 2016A	49,845	9/15/16	To fund new construction and renovations across Midwestern University campus.
Revenue Refunding Bonds, Series 2016A	22,405	9/15/16	To advance refund a portion of the Midwestern State University outstanding Series 2008 and Series 2010 revenue bonds.
Revenue Refunding Bonds, Series 2016B	11,790	9/15/16	To advance refund the remaining 2008 Series revenue bonds on a taxable basis.
STEPHEN F. AUSTIN STATE UNIVERSITY			
Revenue Financing System Revenue Refunding and Improvement Bonds, Series 2016	61,205	09/07/16	To refund certain outstanding Series 2008 and 2009 Revenue Financing System Revenue Bonds; for constructing building; and, for paying the costs of issuance.
TEXAS HIGHER EDUCATION COORDINATING BOARD			
State of Texas General Obligation Bonds, Series 2016	180,000	12/13/16	Fund ongoing student loan program which provides low interest loans to eligible Texas college students.
TEXAS TECH UNIVERSITY SYSTEM			
Revenue Financing System Commercial Paper Notes Tax-Exempt, Series A	25,000	10/20/16	To fund new building construction and renovation.
Revenue Financing System Commercial Paper Notes Taxable, Series A	7,200	12/01/17	To fund new construction, renovation and additions across university system campuses.
Revenue Financing System Commercial Paper Notes Tax-Exempt & Taxable, Series A	22,127	01/20/17	To fund new construction, renovation and additions across university system campuses and refund ASU Energy Efficiency Capital Leases.
Revenue Financing System Commercial Paper Notes Tax-Exempt & Taxable, Series 2017A & 2017B	374,735	01/31/17	To reimburse commercial paper and fund new projects in progress.

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2016 (concluded)

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
UNIVERSITY OF NORTH TEXAS			
Revenue Financing System Commercial Paper Program, Series B	5,200	02/02/17	To fund construction and renovation costs of various projects.
Revenue Financing System Refunding Bonds, Series 2017A	7,600	01/31/17	To refund outstanding commercial paper.
Revenue Financing System Refunding Bonds, Series 2017B	14,300	01/31/17	To refund outstanding commercial paper.
TEXAS STATE UNIVERSITY SYSTEM			
Texas State University System Revenue Bonds, 2017A	401,039	01/31/17	To finance new construction, expansion and renovations.
Texas State University System Revenue Bonds, 2017B	30,800	01/31/17	To finance student center renovations.
TEXAS A&M UNIVERSITY SYSTEM			
Revenue Financing System Taxable Commercial Paper Notes	32,014	12/14/16	To provide interim financing for construction projects.
Revenue Financing System Commercial Paper Notes	20,000	12/20/16	To provide interim financing for construction projects.
Revenue Financing System Taxable Commercial Paper Notes	5,000	01/18/17	To provide interim financing for construction projects.
Revenue Financing System Bonds, Taxable Series 2017A	388,705	01/31/17	To provide construction funds for eligible projects, refund portion of outstanding Taxable Commercial Paper Notes and pay the costs of issuance.
Permanent University Fund Commercial Paper Notes	30,000	02/03/17	To provide interim financing for construction projects.
UNIVERSITY OF TEXAS SYSTEM			
Permanent University Fund Bonds, Series 2016B	272,350	09/01/16	To refund principal amount of Permanent University Fund Commercial Paper Notes, Series A and to pay the costs of issuance.
Revenue Financing System Bonds, Series 2016F	376,030	09/01/16	To refund principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance.
Revenue Financing System Bonds, Series 2016G	250,000	09/15/16	To refund principal amount of Revenue Financing System Commercial Paper Notes, Series A and to pay the costs of issuance.
Revenue Financing System Taxable Commercial Paper Notes, Series B	45,000	09/22/16	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Taxable Commercial Paper Notes, Series B	50,000	10/21/16	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Refunding Bonds, Series 2016H	233,350	11/17/16	To refund principal amount of Revenue Financing System Bonds Series 2006D and Series 2006F and to pay the costs of issuance.
Revenue Financing System Taxable Commercial Paper Notes, Series B	20,000	11/22/16	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Refunding Bonds, Series 2016I	184,725	11/30/16	To refund principal amount of Revenue Financing System Bonds Series 2006E, to advance refund principal amount of Revenue Financing System Bonds Series 2010A and to pay the costs of issuance.
Revenue Financing System Taxable Commercial Paper Notes, Series B	58,000	12/22/16	To finance a variety of capital projects and equipment purchases at various University of Texas institutions.
Revenue Financing System Bonds, Series 2016J	306,925	01/04/17	To finance a variety of capital projects and to pay the costs of issuance.
Revenue Financing System Commercial Paper Notes, Series B	50,000	01/20/17	To finance a variety of capital projects and equipment purchases at various University of Texas institutions.
Total Bond and Commercial Paper Issued/Refunded	$ 8,205,800		

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, states that the State Office of Risk Management (SORM) shall operate as a full-service risk and insurance manager for state agencies and shall administer programs to reduce property and liability losses, including workers' compensation losses.

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 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 Employees 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 at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers employees of participating entities the option of three preferred provider organization plans and also offers employees of certain areas the option of choosing coverage under an HMO plan. In fiscal 2016, 1,101 entities participated in the program. 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 table below presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ended Aug. 31, 2015 and Aug. 31, 2016. Claims and judgment amounts presented in Note 5 are also included in the table below.

Changes in Claims Liability Balances

(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
2016	$ 820,194	$ 3,832,798	$ 3,781,756	$ 871,236
2015	$ 825,181	$ 3,504,388	$ 3,509,375	$ 820,194

Of the fiscal 2016 claims liability ending balance, $275.3 million relates to long-term claims liabilities, which are reported in Note 5. $690.2 million relates to the state's health, life and dental insurance programs, and the remainder to miscellaneous claims and judgments, all of 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, 2016, 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. 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. Other component units are discretely presented. None of the discrete 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 fiscal year ended Aug. 31, 2016 unless indicated otherwise.

Blended Component Units

The state is financially accountable for the following legally separate entities. 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, or the component units' debts are expected to be repaid entirely or almost entirely with the resources of the state. The component units' financial data is blended in the appropriate funds within the financial statements.

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 six-member board is composed of three elected members and three members who are appointed respectively by the Governor, the Speaker of the Texas House of Representatives, and the Chief Justice of the Supreme Court of Texas. 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 Texas 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's office 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.

Alamo Complex Management (ACM) is a legally separate entity established to operate exclusively for the benefit of The Alamo Endowment, a discretely presented component unit of the Texas General Land Office (GLO). ACM has contracted with The Alamo Endowment for the preservation, management, education, maintenance, operation and restoration of the Alamo Complex. The GLO appoints the voting majority of the ACM. GLO is able to impose its will on ACM through its ability to remove board members at will, its ability to modify or approve the budget of ACM, its ability to modify or approve the rates or fees affecting revenues of ACM, its ability to veto, overrule or modify the decisions of ACM's governing body, its ability to appoint, hire, reassign or dismiss those persons responsible for ACM's day-to-day operations, and its ability to unilaterally abolish ACM by ordering ACM to cease operations. ACM is reported for the fiscal year ended Jun. 30, 2016. Information about ACM may be obtained by contacting GLO at 1700 N. Congress Ave. Austin, TX 78701.

Grand Parkway Association (GPA) is a legally separate entity established to facilitate the efficient development of the city of Houston's third outer highway loop to serve the regional mobility needs of the metropolitan Houston area. The Texas Transportation Commission, which is the governing body of the Texas Department of Transportation (TxDOT), appoints the voting majority of the GPA's governing board, and has the ability to remove appointed board members at will. Separate financial statements may be obtained by contacting

the GPA at 4544 Post Oak Place, Suite 222, Houston, Texas 77027. GPA was dissolved on Aug. 25, 2016.

Texas Private Activity Bond Surface Transportation Corporation (TxPABST) is a legally separate entity that acts on behalf of TxDOT in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (CDA) entered into by TxDOT. Bonds issued by TxPABST are not legal obligations of the state and are payable solely from payments received by or on behalf of a CDA developer. The Texas Transportation Commission appoints the voting majority of TxPABST's governing board, and has the ability to remove appointed board members at will. TxPABST does not have any financial activity, as its sole purpose is to issue debt on behalf of TxDOT. TxPABST does not issue separate financial statements. Information about TxPABST may be obtained by contacting TxPABST at 125 East 11th Street, Austin, Texas 78701.

Grand Parkway Transportation Corporation (GPTC) is a legally separate entity that acts on behalf of TxDOT in the promotion and development of the Grand Parkway project by issuing bonds and entering into CDAs with developers for the design and construction of several segments of the Grand Parkway project. The Texas Transportation Commission appoints the voting majority of GPTC's governing board, and has the ability to remove appointed board members at will. The financial activity of GPTC is reported in the financial statements of TxDOT. Information about GPTC may be obtained by contacting GPTC at 125 East 11th Street, Austin, Texas 78701.

Windham School District (WSD) is a legally separate entity that provides education to inmates within the Texas Department of Criminal Justice. The Texas Board of Criminal Justice serves as the board of trustees for the WSD. The primary government is able to impose its will on the WSD through its ability to modify or approve the budget of the WSD. WSD's entire debt is covered by the state of Texas through appropriations, and the state is liable for any and all outstanding debt. WSD does not issue separate financial statements. Information about WSD may be obtained by contacting the Texas Department of Criminal Justice at P.O. Box 13034, Austin, Texas 78711.

Friends of the Texas Historical Commission (Friends) is a legally separate entity whose sole purpose is to support the activities of the Texas Historical Commission (THC). Friends is reported as a component unit due to it being closely related to the primary government. The THC provides office space to Friends. In addition, the staff of Friends participates in programs sponsored by THC. Separate financial statements may be obtained by contacting Friends at P.O. Box 13497, Austin, Texas 78711.

Texas Tech Foundation Inc. (TTF) is a legally separate entity established to financially support and serve the fundraising needs of Texas Tech University System (TTUS). The governing board of TTF is appointed by the TTUS board of regents. The board of regents has the ability to impose its will on TTF through its ability to veto, override, or modify the decisions of TTF and its ability to modify or approve the budget of TTF. Separate financial statements may be obtained by contacting TTF at P.O. Box 41102, Lubbock, Texas 79409.

Texas Tech Physician Associates (TTPA) is a legally separate entity established for the sole purpose of, and is operated exclusively for, the benefit of the Texas Tech University Health Science Center (TTUHSC) and TTUHSC at El Paso. The nine-member governing board of TTPA is appointed by TTUHSC. TTUHSC controls all financial and operational transactions of TTPA, and has the ability to remove board members at will. Separate financial statements may be obtained by contacting TTPA at Provider Payor Relations, 3601 4th Street, Lubbock, Texas 79430.

The Angelo State University Foundation (ASUF) is a legally separate nonprofit organization created exclusively to provide financial assistance to Angelo State University (ASU) primarily from gifts and earnings on endowed funds. There is no appointment of board members. The Texas Tech University System Chancellor, Angelo State University President, Angelo Faculty Senate president and ASU Chief Financial officer are non-voting ex-officio members on the Board of Directors. ASUF is closely related to ASU. Failure to include the financial information of ASUF would result in misleading financial statements. Separate financial statements may be obtained by contacting the Angelo State University Foundation at 2601 W. Ave N, San Angelo, TX 76909.

Texas State University Research Foundation (TSURF) is a legally separate entity established to support the mission of Texas State University and its objectives of promoting higher education, conducting research, providing public service and assisting in economic development in Texas. The key business officers of Texas State University compose the entirety of TSURF's officers and directors. Texas State University is able to impose its will on TSURF through its ability to remove board members at will, its ability to modify or approve the budget of TSURF, its ability to modify or approve the rates or fees affecting revenues of TSURF and its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of TSURF. TSURF is reported for the fiscal year ended Feb. 28, 2016. Separate financial statements may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office, 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Harold M. Freeman Educational Foundation (Freeman Foundation) is a legally separate entity formed through a trust to make the use of the Freeman Ranch available exclusively to Texas State University. The Freeman Ranch is used and operated solely for farm, ranch and game management, education, and research purposes in connection with the educational activities of Texas State University. There is no formal governing board for the Freeman Foundation. Texas State University acts as an active co-trustee to operate the ranch. Frost Bank operates as an inactive trustee to ensure the provisions of the trust are followed. Based on the Freeman Foundation being closely related to Texas State University, the Freeman Foundation is included as a blended component unit. Separate financial statements are not issued by the Freeman Foundation. Information about the Freeman Foundation may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office, 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Texas A&M Research Foundation (TAMRF) is a legally separate entity established to facilitate research and development within the Texas A&M University System (A&M). The A&M board of regents appoints the voting majority of TAMRF, and can impose its will through its ability to remove appointed board members at will. A&M can also impose its will through its ability to modify or approve the budget of TAMRF. Separate financial statements may be obtained by contacting TAMRF at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas 77845.

Southwestern Health Systems Inc. (SHSI) is a legally separate entity established to support the University of Texas Southwestern Medical Center (UTSWMC). Its four-member governing board is appointed by the UTSWMC. UTSWMC has the ability to impose its will on SHSI through its ability to remove appointed board members at will, its ability to modify or approve the budget of SHSI and its ability to modify or approve rates or fees affecting revenues of SHSI. Separate financial statements may be obtained by contacting SHSI at 5323 Harry Hines Boulevard, Dallas, Texas 75390.

Southwestern Moncrief Cancer Center (SW Moncrief) is a legally separate entity established to support the UTSWMC. Its four-member governing board is appointed by the president of UTSWMC. UTSWMC has the ability to impose its will on SW Moncrief through its ability to remove appointed board members at will, its ability to modify or approve the budget of SW Moncrief and its ability to modify or approve rates or fees affecting revenues of SW Moncrief. Separate financial statements may be obtained by contacting SW Moncrief at 400 West Magnolia Avenue, Fort Worth, Texas 76104.

Moncrief Cancer Foundation (Moncrief) is a legally separate entity established to support the UTSWMC. Its six-member governing board is appointed by the president of UTSWMC. UTSWMC has the ability to impose its will on Moncrief through its ability to remove appointed board members at will, its ability to modify or approve the budget of Moncrief and its ability to modify or approve rates or fees affecting revenues of Moncrief. Separate financial statements may be obtained by contacting Moncrief at 5323 Harry Hines Boulevard, Dallas, Texas 75390.

St. Paul Medical Foundation (SPMF) is a legally separate nonprofit organization created exclusively to support the advancement of patient care and research activities of the programs and facilities at St. Paul Hospital. There is no appointment of board members. The president of the St. Paul Hospital and the president of UTSWMC compose a majority of the board. SPMF is closely related to the University of Texas System. Failure to include the financial information of the SPMF would result in misleading financial statements. The SPMF is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting the SPMF at 5909 Harry Hines Boulevard, Dallas, Texas 75390.

U.T. Southwestern Accountable Care Network (UTSACN) is a legally separate entity established to support the UTSWMC. Its nine-member governing board is appointed by SHSI. SHSI has the ability to impose its will on UTSACN through its ability to remove appointed board members at will and its ability to appoint, hire, reassign or dismiss those responsible for the UTSACN's day-to-day operations. Separate financial statements may be obtained by contacting UTSACN at 5323 Harry Hines Boulevard, Dallas, Texas 75390.

University of Texas Medical Branch Healthcare Systems Inc. (Healthcare Systems) is a legally separate entity established to support the University of Texas Medical Branch at Galveston (UTMB). Its eight-member governing board is appointed by the UTMB. UTMB has the ability to impose its will on Healthcare Systems through its ability to remove appointed board members, its ability to modify the budget of Healthcare Systems, its ability to appoint, hire, reassign or dismiss those responsible for Healthcare Systems' day-to-day operations and its ability to unilaterally abolish Healthcare Systems. Separate financial statements may be obtained by contacting Healthcare Systems at 301 University Boulevard, Galveston, Texas 77555.

University Medical Branch Student Book Store Inc. (Book Store) is a legally separate entity established to operate the book store for UTMB. Its five-member governing board is appointed by UTMB. UTMB has the ability to impose its will through its ability to remove appointed board members at will and its ability to appoint, hire, reassign or dismiss those responsible for the Book Store's day-to-day operations. The Book Store is reported for the fiscal year ended Jun. 30, 2016. Separate financial statements may be obtained by contacting the Book Store at 301 University Boulevard, Galveston, Texas 77555.

Medical Branch Innovations, Inc., (MBII) is a newly blended entity beginning in fiscal 2016. MBII is blended rather than discretely presented because it operates exclusively in support of the education, clini-

cal, and research missions of UTMB. Its three-member board is appointed by UTMB. Separate financial statements may be obtained by contacting MBII at 301 University Boulevard, Galveston, Texas 77555.

University of Texas Physicians (UT Physicians) is a legally separate entity established to provide management services for the physician practice plan at the University of Texas Health Science Center at Houston (UTHSCH). Its five-member governing board is appointed by UTHSCH. UTHSCH has the ability to impose its will on UT Physicians through its ability to modify or approve the budget of UT Physicians, its ability to modify or approve rates or fees affecting revenues of UT Physicians and its ability to appoint, hire, reassign or dismiss those responsible for UT Physicians' day-to-day operations. Separate financial statements may be obtained by contacting UT Physicians at 6431 Fannin Street, Suite JJL 475, Houston, Texas 77030.

University of Texas System Medical Foundation (Medical Foundation) is a legally separate entity established to support the medical residency programs at UTHSCH. Its three-member governing board is appointed by the UTHSCH. UTHSCH has the ability to impose its will on the Medical Foundation through its ability to modify or approve the budget of the Medical Foundation and its ability to appoint, hire, reassign or dismiss those responsible for the Medical Foundation's day-to-day operations. Separate financial statements may be obtained by contacting the Medical Foundation at 6431 Fannin, Suite JJL 310, Houston, Texas 77030.

University Physicians Group (UPG) is a legally separate entity established to provide health care education and research activity to the University of Texas Health Science Center at San Antonio (UTHSCSA). Its five-member governing board consists of the dean of the School of Medicine and four members elected by the practice plan (physicians) at UTHSCSA. UTHSCSA has the ability to remove board members at will, the ability to modify or approve the budget of UPG, the ability to veto, overrule or modify the decisions of UPG's board, the ability to appoint, hire, reassign or dismiss those responsible for UPG's day-to-day operations and the ability to unilaterally abolish UPG. Separate financial statements may be obtained by contacting UPG at 6126 Wurzbach Road, San Antonio, Texas 78238.

M.D. Anderson Physicians Network (MDAPN) is a legally separate entity established to support the University of Texas M.D. Anderson Cancer Center (Cancer Center). MDAPN's nine-member board is appointed by the president of the Cancer Center. The president can also remove appointed board members at will. Separate financial statements may be obtained by contacting MDAPN at 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

M.D. Anderson Services Corporation (MDASC) is a legally separate entity established to support the Cancer Center. The seven-member board is appointed by the president of the Cancer Center and the University of Texas System (UT) board of regents. The president may remove appointed board members at will. Separate financial statements may be obtained by contacting MDASC at 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

East Texas Quality Care Network (ETQCN) is a legally separate entity established to provide agency nursing services to the University of Texas Health Science Center at Tyler (UTHSCT). Its four-member governing board is appointed by UTHSCT. UTHSCT has the ability to remove board members at will, the ability to modify or approve the budget of ETQCN, the ability to modify or approve rates or fees affecting revenues of ETQCN, the ability to veto, overrule or modify the decisions of ETQCN's board, the ability to appoint, hire, reassign or dismiss those responsible for ETQCN's day-to-day operations and the ability to unilaterally abolish ETQCN. Separate financial statements may be

obtained by contacting ETQCN at 11937 US Highway 271, Tyler, Texas 75708.

University of Texas Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to UT. UTIMCO's nine-member board consists of three members of the UT board of regents, the chancellor of UT, three members appointed by the UT board of regents and two members appointed by the A&M board of regents. UT has the ability to impose its will through its ability to modify or approve UTIMCO's budget, its ability to modify or approve rates or fees affecting UTIMCO's revenues, its ability to veto, overrule or modify the decisions of UTIMCO's board, its ability to appoint, hire, reassign or dismiss those responsible for UTIMCO's day-to-day operations and its ability to unilaterally abolish UTIMCO. Separate financial statements may be obtained by contacting UTIMCO at 401 Congress Avenue, Suite 2800, Austin, Texas 78701.

University of Texas Fine Arts Foundation (Fine Arts) is a legally separate entity established to acquire the Suida-Manning Art Collection for the University of Texas at Austin (UT-Austin) Blanton Museum of Art. Fine Arts' three-member governing board is appointed by UT-Austin. UT-Austin has the ability to impose its will on Fine Arts through its ability to remove appointed board members at will, its ability to modify or approve Fine Arts' budget, its ability to veto, overrule or modify the decisions of Fine Arts and unilaterally abolish Fine Arts. Fine Arts is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting UT-Austin at Main Building, P.O. Box T, Austin, Texas 78713.

University of Texas Communication Foundation (UTCF) is a legally separate entity established to support the UT-Austin College of Communication. Its three-member governing board is appointed by UT-Austin. UT-Austin has the ability to impose its will on the UTCF through its ability to remove appointed board members at will, its ability to modify or approve the UTCF's budget, its ability to veto, overrule or modify the decisions of UTCF and unilaterally abolish UTCF. Separate financial statements may be obtained by contacting UT-Austin at P.O. Box 7322, Austin, Texas 78713.

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 nor are the component units' debts expected to be repaid entirely or almost entirely with the resources of the state. The component units' financial data is discretely presented in the component unit column of the state's government-wide financial statements. Based on an analysis performed at year end, none of the discretely presented component units met the materiality threshold for presentation; however, omission of the following discretely presented component units would result in misleading financial statements.

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. The active employees insurance program and 403(b) administrative program are reported in the component unit column of the government-wide financial statements; whereas the employee benefit trust fund and retired employees insurance are reported in the pension and other employee benefit trust funds financial

statements. TRS has a new blended component unit, Teacher Retirement Investment Company of Texas Ltd. (TRICOT). It is a private company limited by shares in the United Kingdom that began operating in Nov. 2015. TRICOT was formed for the purpose of opening a London investment office to increase investment opportunities for the TRS portfolio. TRICOT serves the pension trust fund. Separate financial statements may be obtained by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas (State Bar) 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 must be reviewed and approved by the Supreme Court, thus making the State Bar fiscally dependent on the state of Texas. The State Bar is reported for the fiscal year ended May 31, 2016. 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 Nonprofit 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 provides single and multi-family loans to low and moderate 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 the Comptroller. 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, Inc. (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. OneStar 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 fiscal year ended Dec. 31, 2015. 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 Prepaid Tuition Scholarship Foundation (TPTSF) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. TPTSF is a direct-support organization of the Texas Guaranteed Tuition Plan and is authorized by the Texas Education Code. TPTSF is governed by a board composed of the Comptroller, a member appointed by the governor with the advice and consent of the Senate and three members appointed jointly by the Comptroller and the member who is appointed by the governor. The Comptroller assigns and supervises employees responsible for the day-to-day operations of TPTSF. TPTSF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Match the Promise Foundation (TMPF) is a legally separate entity established to implement the Texas Save and Match Program, which helps families save for college by offering competitive matching scholarships and tuition grants to Texas students who participate in the Texas Tuition Promise Fund. The Comptroller appoints TMPF's governing board, and can remove appointed board members at will. The Comptroller also assigns and supervises employees responsible for the day-to-day operations of TMPF. TMPF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

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 fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building A, 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 fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting the Stamping Office at 805 Las Cimas Parkway, Suite 150, Austin, Texas 78746-6526.

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 fiscal year ended Dec. 31, 2015. Financial statements may be obtained by contacting the Texas Health Reinsurance System, c/o Pool Administrators Inc., 628 Hebron Ave. Suite 100, Glastonbury, CT 06033

Texas Health Insurance Pool (THIP) 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. The nine-member board of directors is appointed by TDI's commissioner. TDI approves all rates and rate schedules before they are used. THIP is reported for the fiscal year ended Dec. 31, 2015. Financial statements may be obtained by contacting the THIP at P.O. Box 17463, San Antonio, Texas 78217. THIP was dissolved on Aug. 31, 2015.

Texas Property and Casualty Insurance Guaranty Association (TPCIGA) is a legally separate entity created to assess the cost of providing protection among insurers for providing a mechanism for the payment of covered claims, to avoid excessive delay in payments, to avoid financial loss to claimants or policyholders due to an insurer's impairment, and to assist in the detection and prevention of insurer insolvencies. TDI's commissioner does not appoint a simple majority of TPCIGA's governing board. TDI is unable to impose its will on TPCIGA and no financial benefit/burden relationship exists. TPCIGA is no longer reported as a component unit, but is reported here because its activity was removed from the fiscal 2016 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

Fair Access to Insurance Requirements Plan Association (FAIRPA) is a legally separate entity established to administer the Fair Access to Insurance Requirements Plan, which delivers property insurance to Texas residents in underserved areas. The 11-member governing board is appointed by TDI's commissioner. The commissioner may remove appointed board members at will. FAIRPA is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting FAIRPA at 5700 South Mopac, Building A, Austin, Texas 78749-1461.

Texas Boll Weevil Eradication Foundation Inc. (TBWEF) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is governed by 21 board members. The Texas Department of Agriculture's (TDA) commissioner appoints five of the board members. Although TDA must approve the TBWEF's budget, assessment fees and debt, a financial benefit or financial burden does not exist between the TBWEF and the primary government. Therefore, the primary government is not financially accountable for the TBWEF. However, based on the TBWEF's financial relationship with the TDA, omitting the TBWEF would result in incomplete financial statements. The TBWEF is reported for the fiscal year ended Dec. 31, 2015. 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, and primarily benefits the citizens of Texas. TAFA is governed by a board of directors composed of the Commissioner of Agriculture, Deputy Commissioner of Agriculture-Designee, the Director of the Institute for International Agribusiness studies at Prairie View A&M University, and nine members appointed by the Commissioner of Agriculture. The commissioner of TDA administers TAFA with the assistance of the board of directors. 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. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (TWRFA) 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, and primarily benefits the citizens of Texas. A board of directors, composed of the three members of the Texas Water Development Board (TWDB), governs TWRFA. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the TWRFA operations. Prior to any bonds being issued by the TWRFA, 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. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Appraiser Licensing and Certification Board (TALCB) is a legally separate entity statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) to serve the real estate community in Texas. The governor appoints the members of the governing 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. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Economic Development Corporation (TED Corp.), a legally separate nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. TED Corp.'s services primarily benefit the Texas citizenry. The board of directors is appointed by the governor. The Office of the Governor is the oversight agency for TED Corp., and has the ability to remove board members at will. The TED Corp. is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements may be obtained by contacting TED Corp. at P.O. Box 684702, Austin, Texas 78768.

Texas Small Business Industrial Development Corporation (TSBIDC) is a legally separate entity and was chartered to promote economic development in the state of Texas. TSBIDC's services primarily benefit the Texas citizenry. The board of directors is appointed by the governor. The Office of the Governor is the oversight agency for TSBIDC. The Articles of Incorporation and Bylaws of TSBIDC cannot be changed without the approval of the Office of the Governor. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711. TSBIDC has been dissolved pursuant to changes made to section 489.108 of the Government Code during the 84th Regular Legislative Session.

Texas Disaster Relief Fund (TDRF), a legally separate 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 financial relationship with the Office of the Governor, omitting TDRF would result in misleading financial statements. TDRF is reported for the fiscal year ended Dec. 31, 2015. 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 for the improvement of the Texas health care system. THSA promotes and coordinates the electronic 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 fiscal year ended Sept. 30, 2015. THSA's financial statements may be obtained by contacting THSA at 221 E. 9th St., Suite 201, Austin, Texas 78701.

Beacon State Fund (BSF) is a legally separate organization established to assist the Governor's Commission for Women (GCW) to promote issues affecting the women of Texas. BSF increases public awareness through the distribution of information, media events and community outreach programs. 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 BSF to ensure funds are expended properly and the public purpose is being accomplished. BSF is reported for the fiscal year ended Dec. 31, 2015. Financial statements may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

State Agency Council (SAC) is a legally separate organization established to assist the GCW by honoring women who have made significant contributions to Texas through their work in state government. SAC also provides opportunities for professional development to its state agency representatives and supports community outreach programs consistent with the goals of GCW. The director of GCW appoints the board and has operational influence on the activities of the corporation. Financial statements for the State Agency Council may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

Film Texas Fund (FTF) 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 (OGTFC). However, the OGTFC is not financially accountable for FTF and FTF supports its own mission in promoting the film industry in Texas. Due to the FTF's close financial relationship with the OGTFC, omitting FTF would result in misleading financial statements. FTF is reported for the fiscal year ended Dec. 31, 2015. Financial statements for FTF may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Governor's Mansion Administration (TGMA) is a legally separate nonprofit organization established to support the financial administration of catering and facility expenses associated with the use of the official residence of the governor of the state of Texas for non-political events. TGMA is closely related to the state of Texas because the Office of the Governor provides administrative services, including accounting services, to TGMA. TGMA is reported for the fiscal year ended Dec. 31, 2015. Separate financial statements for TGMA may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Robert G. Carr and Nona K. Carr Scholarship Foundation (Carr Foundation) is a legally separate entity established for the sole purpose of providing scholarships to students of ASU, a campus within the Texas Tech University System (TTU System). The TTU System board of regents serves as the governing board for the Carr Foundation, and has the ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of the Carr Foundation. Separate financial statements may be obtained by contacting the Carr Foundation at P.O. Box 11007C, ASU Station, San Angelo, Texas 76909.

University of North Texas Foundation (UNTF) is a legally separate entity established to raise funding for scholarships for students of the University of North Texas, as well as provide funding for the benefit of the University of North Texas. The majority

of endowments supporting the University of North Texas scholarships and other University programs are owned by the UNTF. Therefore, the UNTF is closely related to the University of North Texas, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting the UNTF at 1155 Union Circle #311250, Denton, Texas 76203-5017.

The Alamo Endowment (TAE) is a legally separate entity established to provide resources and support for the preservation and maintenance of the Alamo Complex. The Texas General Land Office (GLO) appoints the voting majority of TAE and can impose its will through its ability to remove board members at will. GLO can also impose its will through its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of TAE. TAE was reported as a blended component unit in fiscal 2015. However, TAE does not provide services exclusively to benefit GLO. TAE is reported for the fiscal year ended Jun. 30, 2016. Separate financial statements may be obtained by contacting TAE at P.O. Box 2099, San Antonio, TX 78297.

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 entities.

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.

Texas Title Insurance Guaranty Association (TTIGA) is a legally separate nonprofit organization 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. TTIGA was reported as a discretely presented component unit in fiscal 2015. However, TDI is unable to impose its will on TTIGA, nor does a financial benefit/burden relationship exist, therefore, TTIGA has been classified as a related organization. TTIGA's activity was removed from the fiscal 2016 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

Texas Life and Health Insurance Guaranty Association (TLHIGA) is a legally separate entity created to protect 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 TLHIGA's nine-member board of directors. TLHIGA was reported as a discretely presented component unit in fiscal 2015. However, TDI is unable to impose its will in a way that significantly influences the programs, projects, activities or level of services performed or provided by TLHIGA, nor does a financial benefit/burden relationship exist, therefore, TTIGA has been classified as a related organization. TLHIGA's activity was removed from the fiscal 2016 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

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.

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. (TSUSF) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The TSUSF 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.

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 (PWF) is a legally separate nonprofit organization established to manage and conserve the natural and cultural resources of Texas. The PWF provides private support to the Texas Parks and Wildlife Department (Department), but the Department is not financially accountable for the PWF, nor is the PWF fiscally dependent on the Department. The PWF is governed by a group of trustees, the majority of whom are appointed by the chairman of the Department.

The College for All Texans (CFAT) Foundation is a Texas non-profit organization that is organized to support The Higher Education Coordinating Board (THECB) program initiatives. THECB is unable to impose its will on CFAT and there is no financial benefit or burden relationship between THECB and CFAT.

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 River Municipal Water Authority

Note 20

Deficit Fund Balances/Net Position of Individual Nonmajor Funds

Proprietary Funds

The Texas Prepaid Tuition Plans reported a deficit of $550.2 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and 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.

The **Grand Parkway Transportation Corporation (GPTC)**, a blended component unit of the Texas Department of Transportation, reported a deficit of $23.3 million. The deficit is primarily due to the total expense exceeding the revenue by $39.9 million. The large expense in fiscal 2016 included $62.4 million of amortization and $46.5 million of interest. Interest was capitalized as intangible assets prior to substantial completion of the five segments of the System in March 2016. Starting April 2016, interest was reported as expense. Amortization of intangible assets began in fiscal 2016.

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 $300.1 million is based on the payments received in December 2016. Tobacco settlement revenues were $485.5 million in fiscal 2015 and $480.2 million in fiscal 2016. Cumulative actual tobacco settlement revenues as of fiscal 2016 were $9.6 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $2.5 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 are presented in the table below.

Donor-Restricted Endowments
(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	$ 2,439,841	Expendable
Term Endowments	40,303	Expendable
	$ 2,480,144	

Net appreciation on investments held by discrete component unit donor-restricted endowments is negative at year-end and is therefore not included in the 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. Non-expendable funds are those required to be retained in perpetuity.

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

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported on the balance sheet – governmental funds, are detailed by tax type in the tables to the right.

Texas franchise tax receivables represent balances due as of Aug. 31, 2016, for business-type activity that occurred in calendar year 2015. The franchise tax payments were due May 16, 2016; however, taxpayers were allowed to extend the filing date to November 2016.

Franchise taxes are considered earned when the business-type activity occurs. There are no required quarterly estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2016 is not due until May 2017. 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.

Taxes Receivable by Tax Type

August 31, 2016 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	$ 1,532,469
Motor Vehicle and Manufactured Housing	78,634
Motor Fuels	214
Oil and Natural Gas Production	198,482
Franchise	177,426
Insurance Occupation	259,289
Cigarette and Tobacco	24,160
Other	224,133
Total Taxes Receivable*	$ 2,494,807
Liquidity Characteristics:	
Current Taxes Receivable	$ 2,460,183
Noncurrent Taxes Receivable	34,624
Total Taxes Receivable	$ 2,494,807
* Total Taxes Receivable General Fund	$ 2,494,807
Motor Fuel Taxes Receivable in Other Governmental Funds:	
Current Taxes Receivable:	
State Highway Fund	228,717
Nonmajor Governmental Funds	76,454
Noncurrent Taxes Receivable:	
State Highway Fund	13
Nonmajor Governmental Funds	4
Total Taxes Receivable – Balance Sheet – Governmental Funds	$ 2,799,995

Tax Refunds Payable by Tax Type

August 31, 2016 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	$ 142,955
Franchise	662,829
Total Tax Refunds Payable	$ 805,784

Note 24

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.

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 2016, the cost to the state was approximately $28.1 million for 2,944 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

Under Texas Government Code 659.255, some agencies may offer voluntary or involuntary termination payments for separation. In addition to termination payments, agencies may also offer career counseling and outplacement services.

Note 25

Segment Information

Primary Government

A segment is a separately identifiable activity 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. Segment disclosure is not required for an activity whose only outstanding debt is conduit debt or if an individual fund is both a segment and reported as a major fund. Therefore, the following programs have met the requirements for disclosure. These programs were funded by the issuance of revenue bonds, which require revenues, expenses, gains, losses, assets and liabilities to be separately accounted for:

The Single Family Bond Program was created to originate below-market rate loans for eligible low- and moderate-income residents who are purchasing a residence.

The Residential Mortgage Revenue Bond Program (RMRB) was created to purchase single-family loans, while proceeds from the remaining RMRB bond issues are used to purchase pass-through certificates created through the origination of single-family loans.

The Collateralized Home Mortgage Revenue Bond Program was created to purchase pass-through certificates created through the funding of loans made to finance the purchase by eligible borrowers of new and existing single-family residences in the state.

Condensed Statement of Net Position

August 31, 2016 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
ASSETS			
Current Restricted Assets	$ 42,172	$ 25,924	$ 80
Noncurrent Restricted Assets	400,778	269,164	3,414
Total Assets	442,950	295,088	3,494
Deferred Outflows of Resources	15,096		
LIABILITIES			
Current Liabilities	6,515	5,925	5
Noncurrent Liabilities	351,861	178,956	1,715
Total Liabilities	358,376	184,881	1,720
NET POSITION			
Restricted	99,670	110,207	1,774
Total Net Position	$ 99,670	$ 110,207	$ 1,774

Condensed Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
OPERATING REVENUES (EXPENSES)			
Interest and Investment Income	$ 19,995	$ 9,647	$ 252
Net Decrease in Fair Value	(3,267)	(389)	(78)
Other Operating Revenues	213		
Operating Expenses	(15,865)	(7,545)	(144)
Operating Income	1,076	1,713	30
NONOPERATING REVENUES (EXPENSES)			
Transfer In (Out)	(394)	6,376	
Changes in Net Position	682	8,089	30
Net Position, September 1, 2015	98,988	102,118	1,744
Net Position, August 31, 2016	$ 99,670	$ 110,207	$ 1,774

Condensed Statement of Cash Flows

For the Fiscal Year Ended August 31, 2016 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
NET CASH PROVIDED (USED) BY:			
Operating Activities	$ (3,077)	$ (5,406)	$ (1)
Noncapital Financing Activities	(25,846)	(36,197)	(1,066)
Investing Activities	35,260	46,069	1,058
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,337	4,466	(9)
Cash and Cash Equivalents, September 1, 2015	34,040	20,542	71
Cash and Cash Equivalents, August 31, 2016	$ 40,377	$ 25,008	$ 62

Note 26

Service Concession Arrangements

The state of Texas has eight arrangements that fit the criteria of a service concession arrangement (SCA). As the transferor in these arrangements, the state retains ownership rights and title to all assets associated with an SCA. All of these arrangements were entered into by the Texas Department of Transportation (TxDOT). The fees the operator collects are in the form of tolls. Project maintenance and operations will transfer back to TxDOT once the arrangements have ended.

A general description of each SCA, including status, term and duration, is presented in the table on the following page.

These arrangements were entered to:

- improve mobility by expanding existing road capacity and introducing managed toll lanes, traditional toll lanes and other strategies aimed at reducing traffic congestion;
- enable the state to deliver these projects faster than would be possible using traditional funding sources; and
- shift the majority of the financial risk to the operator.

In the year an SCA project opens for traffic, TxDOT records the capital assets acquired under the SCA at their fair value with a corresponding entry to deferred inflows of resources. The deferred inflows of resources balance will then be reduced and revenue will be recognized in a systematic manner over the term of the arrangement, beginning when the infrastructure assets are placed into operation. Up-front concession payments received are recorded as assets (cash and cash equivalents) with an offset to deferred inflows of resources. Revenue is recognized and the deferred inflows of resources are reduced in a systematic and rational manner over the term of the arrangement. SCA amounts reported as of Aug. 31, 2016, are presented in the tables on the following page.

Service Concession Arrangements

August 31, 2016

Arrangement Name	Construction Status	Term of Concession	Concession Dates Begin	Concession Dates End
IH 10 "Katy Managed Lanes"	Complete	46 years	2010	2055*
SH 130 Segments 5 and 6	Complete	50 years	2012	2062
SH 121 Concession	Complete	50 years	2009	2059
North Tarrant Exp Seg 1 and 2-West	Complete	52 years	2009	2061
North Tarrant Exp Seg 3A and 3B	Under Construction	52 years	2009	2061
LBJ/IH-635 Managed Lanes	Complete	52 years	2009	2061
Grand Parkway Seg D, E, F1, F2, G	Complete	40 years	2013	2053*
SH 288	Under Construction	52 years	2016	2068

* Estimated. Concession period extends until Harris County/Grand Parkway Transportation Corporation is fully reimbursed for cost of construction and debt service.

Service Concession Arrangements – Amounts Recognized in Financial Statements – Governmental Activities

August 31, 2016 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	$	$	$ 211,956
SH 130 Segments 5 and 6	112,365	1,438,396	1,406,830
SH 121 Concession	698,059	1,336,604	3,256,420
North Tarrant Exp Seg 1 and 2-West		2,393,315	1,647,531
North Tarrant Exp Seg 3A and 3B		309,656	
LBJ/IH-635 Managed Lanes		2,659,571	2,029,072
Grand Parkway Seg D, E, F1, F2, G		2,397,288	2,308,677
SH 288	25,479	4,741	25,479
	$ 835,903	$ 10,539,571	$ 10,885,965

** The deferred inflows of resources balance represents unamortized up-front payments and capital improvements TxDOT received under these eight SCAs.

In some cases, TxDOT is obligated to make contributions of public funds to the SCA project during the construction period for portions of the project's design, construction or right-of-way costs. Outlays of TxDOT funds related to SCA projects are recorded as additions to construction in progress as they are incurred.

The Grand Parkway Transportation Corporation (GPTC) is a blended component unit of TxDOT. In fiscal 2013, GPTC and TxDOT entered into an arrangement that fits the criteria of an SCA. Pursuant to this arrangement, GPTC is responsible for the design, construction, financing and operation of Segments D (Harris County) and E, F1, F2 and G of the Grand Parkway (State Highway 99) for a period until the bonds or other debt secured is fully repaid. GPTC will be entitled to all toll revenues during the operations period. At the end of the arrangement, operation of the roadway will be transferred to TxDOT.

The objective of this arrangement is to deliver this project in partnership with TxDOT more quickly than would be possible under a traditional structure.

As of Aug. 31, 2016, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling $251 million and $15.4 billion, respectively. Payments of these amounts are made subject to executed financial assistance agreements between TxDOT and the applicable public or private entity. Of the outstanding toll equity loan commitment, $5.9 billion is related to a toll equity loan agreement (TELA) with the North Texas Tollway Authority and $9.5 billion is related to a TELA with the GPTC. Under the TELA, TxDOT has agreed to lend a negotiated amount each year should revenues of the projects be insufficient to cover operations and maintenance, including debt service. The GPTC funds are to be used to pay for certain costs relating to the development, construction, operation, maintenance and financing of Segments D (Harris County) and E, F1, F2 and G (State Highway 99) and the predevelopment of possible extensions or expansions of the Grand Parkway. The maximum amount of money that can be paid by TxDOT to GPTC under the TELA is equal to the aggregate amount of costs that are authorized under

Article VIII, Section 7a of the Texas Constitution and Section 222.103 of the Texas Transportation Code, i.e. the "Eligible Costs". As of Aug. 31, 2016, no drawdowns of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of $2.3 billion for its costs of design, construction and right-of-way acquisition for the year ended Aug. 31, 2016. This amount is reported as business-type activities.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2016, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements, bond refunding, pensions, the acquisition of Texas Wesleyan University Law School by Texas A&M University, and various types of revenues earned but not available at the fiscal year end.

The table to the right presents the balances of deferred outflows of resources and deferred inflows of resources as of Aug. 31, 2016 for governmental activities, business-type activities and governmental funds.

Deferred outflows of resources in business-type activities of $705.6 million was composed of $702.4 million related to hedging derivatives in a liability position and $3.2 million related to unamortized interest rate lock termination payment. The interest rate lock termination payment was made by the University of Texas in connection with its 2016A bond issuance. The hedging derivative liability of $702.4 million is disclosed in Note 7.

Deferred Outflows of Resources and Deferred Inflows of Resources

August 31, 2016 (Amounts in Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Government-wide Financial Statements		
Governmental Activities		
Bond/Debt refunding	$ 218,821	$
SCAs (Note 26)		10,885,965
Pensions (Note 9)	5,964,443	6,109,045
Total	$ 6,183,264	$ 16,995,010
Business-Type Activities		
Bond/Debt refunding	$ 125,326	$ 7,432
Derivatives (Note 7)	705,586 *	
Pensions (Note 9)	796,254	586,171
Government Acquisitions	27,297	
Total	$ 1,654,463	$ 593,603
Fund Financial Statements		
Governmental Funds		
Revenue Earned But Not Available	$	$ 584,968
Total	$ 0	$ 584,968

* The $705,586,028.72 of deferred outflows of resources is composed of $702,350,517.89 related to hedging derivatives in a liability and $3,235,510.85 related to unamortized interest rate lock termination payment.

Deferred outflows of resources in business-type activities of $27.3 million represent the unamortized balance of the excess consideration provided by Texas A&M University over the net position acquired in the acquisition of Texas Wesleyan University Law School. Texas A&M University and Texas Wesleyan University Law School are not in the same financial reporting entity. The objective of the acquisition of Texas Wesleyan University Law School is to enhance the academic ranking of Texas A&M University by having a law school. The acquisition was finalized on Aug. 13, 2013, with no contingent consideration arrangements. The total consideration provided was $53.9 million, net position acquired was $14.7 million, and amortization for fiscal 2016 was $3.9 million.

Deferred inflows of resources in governmental activities of $10.9 billion were related to service concession

arrangements (SCA) entered into by the Texas Department of Transportation (TxDOT) with non-state entities. This amount reflects the unamortized balance of up-front concession payments received and capital improvements acquired from these entities. Details of the state's SCAS are disclosed in Note 26.

Deferred outflows of resources of $218.8 million in governmental activities were related to losses TxDOT and Texas Public Finance Authority incurred in bond refunding transactions. TxDOT and several universities also had bond refunding transactions in fiscal 2016 in business-type activities for $7.4 million in deferred inflows of resources related to gains and $125.3 million in deferred outflows of resources related to losses, respectively.

Deferred inflows of resources of $585 million in governmental funds were related to various types of revenues earned but not available within 60 days of fiscal year end.

The State implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* in fiscal 2015. In fiscal 2016, the state reported $6 billion of deferred outflows of resources and $6.1 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported $796.3 million of deferred outflows of resources and $586.2 million of deferred inflows of resources related to pensions in business-type activities. Details of the state's pensions are disclosed in Note 9.

Note 28

Nonexchange Financial Guarantees

The state of Texas has two active programs that extend nonexchange financial guarantees to other entities.

The Texas Education Code, Title 2, Subtitle I, Chapter 45 provides for the guarantee of school district bonds by the permanent school fund (PSF). The PSF is also authorized for use to guarantee revenue bonds issued for certain open-enrollment charter schools designated by the commissioner of education. In the event of default by a school district or charter school, funds may be withheld from state money payable to the district or school in an amount necessary for payment of principal and/or interest. Guarantees extend through maturity dates of the bonds. At this date no school districts or charter schools have defaulted on their guaranteed bond indebtedness. As of Aug. 31, 2016, the total principal debt guaranteed on bond issues is $68.3 billion.

The Texas Credit Enhancement Program (TCEP) was established to provide a guarantee fund for issuing tax exempt revenue bonds to provide financing for the acquisition, construction, repair or renovation of Texas charter school facilities within federal program guidelines. A consortium consisting of the Texas Public Finance Authority Charter School Finance Corporation (CSFC), the Texas Charter Schools Association and Texas Education Agency was awarded a federal grant to create the guarantee fund. The CSFC is a nonprofit corporation created by the board of directors of the Texas Public Finance Authority (TPFA) pursuant to section 53.351 of the Texas Education Code. TPFA provides administrative and staff support for CSFC. Reimbursement periods commence on the date of a guarantee payment and end 12 months following such payment. Borrowers will reimburse CSFC within the guarantee period by making level monthly principal repayments for each guaranty period during the reimbursement period. Guarantees extend through maturity dates of the bonds. At this date only one charter school has defaulted on its guaranteed bond indebtedness. A demand for payment has not been received from CSFC at this time. As of Aug. 31, 2016, $5.1 million of available grant funds have been committed.