Section Two (continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2013 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 21,633,717	$ 5,218,730	$ 26,852,447	$ 812,762
Short-Term Investments	445,854	1,199,826	1,645,680	533,746
Securities Lending Collateral	192,231	792,719	984,950	
Receivables:				
Taxes	3,630,640		3,630,640	
Federal	2,147,856	841,408	2,989,264	34,196
Other Intergovernmental	1,051,457	74,009	1,125,466	1,817
Accounts	800,794	1,957,359	2,758,153	194,055
Interest and Dividends	89,326	139,018	228,344	11,619
Gifts		365,277	365,277	
Investment Trades	7,866	224,424	232,290	
Other	69,956	371,454	441,410	134
From Fiduciary Funds	227,118		227,118	
Due From Component Units (Note 12)	287		287	
Inventories	381,198	156,827	538,025	4,532
Prepaid Items	3,242	115,402	118,644	44,268
Loans and Contracts	84,923	306,091	391,014	1,471
Other Current Assets	68	370,543	370,611	2,275
Restricted:				
Cash and Cash Equivalents	15,667	4,303,136	4,318,803	12,636
Short-Term Investments		1,115,015	1,115,015	
Loans and Contracts	100,476	79,722	180,198	2,986
Total Current Assets	30,882,676	17,630,960	48,513,636	1,656,497
Noncurrent Assets:				
Internal Balances (Note 12)	35,951	(35,951)		
Loans and Contracts	1,633,329	4,425,824	6,059,153	8,096
Investments	30,585,468	8,545,160	39,130,628	589,269
Receivables:				
Taxes	4,675		4,675	
Federal	26,704		26,704	
Gifts		285,580	285,580	19,889
Other	249,240	250	249,490	1,938
Restricted:				
Cash and Cash Equivalents		95,835	95,835	11,764
Short-Term Investments		1,120	1,120	
Investments		30,463,984	30,463,984	417,549
Receivables		180,927	180,927	
Loans and Contracts	1,349,355	3,151,979	4,501,334	8,526
Other	88,018	11,841	99,859	
Assets Held in Trust		5,645	5,645	6,043
Deferred Charges	32,103	67,216	99,319	
Hedging Derivative Asset (Note 7)		17,499	17,499	
Intangible Assets – Service Concession Arrangements (Note 27)		611,170	611,170	
Other Noncurrent Assets	166,951	167,354	334,305	30,549
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	69,972,515	6,174,378	76,146,893	5,411
Depreciable or Amortizable, Net	12,187,255	19,473,888	31,661,143	68,103
Total Noncurrent Assets	116,331,564	73,643,699	189,975,263	1,167,137
Total Assets	147,214,240	91,274,659	238,488,899	2,823,634
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 28)		432,091	432,091	
Total Deferred Outflows of Resources	0	432,091	432,091	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, 2013 (Amounts in Thousands)

	Primary Government			
LIABILITIES	Governmental Activities	Business-Type Activities	Total	Component Units
Current Liabilities:				
Payables:				
Accounts	$ 5,097,152	$ 1,592,486	$ 6,689,638	$ 328,998
Payroll	654,801	790,739	1,445,540	837
Other Intergovernmental	449,749	19,337	469,086	
Federal	112	31,117	31,229	31,031
Investment Trades	36,121	356,615	392,736	
Interest	384,828	62,057	446,885	2,281
Tax Refunds (Note 24)	840,002		840,002	
Annuities		10,329	10,329	
To Fiduciary Funds	2,503		2,503	
Internal Balances (Note 12)	407,895	(407,895)		
Due To Primary Government (Note 12)				287
Unearned Revenue	613,754	3,038,684	3,652,438	379,895
Obligations/Reverse Repurchase Agreement	51,273		51,273	
Obligations/Securities Lending	259,119	792,718	1,051,837	
Claims and Judgments (Note 5)	46,408	15,881	62,289	
Capital Lease Obligations (Note 5, 8)	1,980	3,902	5,882	65
Employees' Compensable Leave (Note 5)	509,919	377,650	887,569	3,785
Notes and Loans Payable (Note 5)	162,905	1,089,785	1,252,690	11,038
General Obligation Bonds Payable (Note 5, 6)	433,638	155,317	588,955	
Revenue Bonds Payable (Note 5, 6)	181,288	2,109,305	2,290,593	3,344
Pollution Remediation Obligation (Note 5)	49,311	30	49,341	
Liabilities Payable From Restricted Assets (Note 5)		538,047	538,047	
Funds Held for Others		140,818	140,818	167,765
Other Current Liabilities	314,246	298,641	612,887	882,154
Total Current Liabilities	10,497,004	11,015,563	21,512,567	1,811,480
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	81,875	41,501	123,376	
Capital Lease Obligations (Note 5, 8)	408	16,096	16,504	11
Employees' Compensable Leave (Note 5)	225,709	351,966	577,675	2,309
Notes and Loans Payable (Note 5)	1,364,942	1,232,651	2,597,593	33,299
General Obligation Bonds Payable (Note 5, 6)	11,655,381	3,514,597	15,169,978	
Revenue Bonds Payable (Note 5, 6)	3,918,291	18,854,210	22,772,501	191,874
Pollution Remediation Obligation (Note 5)	179,736		179,736	
Liabilities Payable From Restricted Assets (Note 5)		2,754,644	2,754,644	
Assets Held for Others		914,465	914,465	
Net Pension Obligation (Note 9)	4,295,392		4,295,392	
Net OPEB Obligation (Note 11)		3,518,703	3,518,703	
Hedging Derivative Liability (Note 7)		393,026	393,026	
Other Noncurrent Liabilities	9	192,969	192,978	195,009
Total Noncurrent Liabilities	21,721,743	31,784,828	53,506,571	422,502
Total Liabilities	32,218,747	42,800,391	75,019,138	2,233,982
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 28)	5,254,633	17,499	5,272,132	
Total Deferred Inflows of Resources	5,254,633	17,499	5,272,132	0
NET POSITION				
Invested in Capital Assets, Net of Related Debt	64,095,431	10,329,909	74,425,340	72,748
Restricted for:				
Education	541,099	2,916,670	3,457,769	178,279
Highways	638,172		638,172	
Debt Service	584,743	383,118	967,861	
Capital Projects		368,486	368,486	
Veterans Land Board Housing Programs		665,486	665,486	
Unemployment Trust Fund		1,844,950	1,844,950	
Funds Held as Permanent Investments:				
Nonexpendable	13,057,787	18,114,742	31,172,529	187,237
Expendable	18,338,458	6,793,894	25,132,352	41,649
Other	1,246,514	5,500	1,252,014	40,448
Unrestricted	11,238,656	7,466,105	18,704,761	69,291
Total Net Position	$ 109,740,860	$ 48,888,860	$ 158,629,720	$ 589,652

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 2,873,598	$ 1,110,854	$ 766,729	$
Education	25,321,607	506,995	7,783,650	
Employee Benefits	437,939	116		
Teacher Retirement State Contributions	2,492,310			
Health and Human Services	44,888,201	2,332,588	29,894,286	9
Public Safety and Corrections	5,316,819	348,876	530,186	447
Transportation	5,384,628	2,363,393	2,869,026	30,157
Natural Resources and Recreation	1,850,253	680,996	1,020,544	635
Regulatory Services	461,418	707,406	3,660	
Interest on General Long-Term Debt	741,397			
Total Governmental Activities	89,768,170	8,051,224	42,868,081	31,248
Business-Type Activities:				
General Government	149,735	57,286	58,519	
Education	23,828,365	12,395,115	7,373,621	350,882
Health and Human Services	3,854,869	2,749,160	1,475,608	
Public Safety and Corrections	91,331	101,082		
Transportation	228,769	119,152		40
Natural Resources and Recreation	319,094	45,546	413,216	
Lottery	3,185,869	4,376,786	2	
Total Business-Type Activities	31,658,032	19,844,127	9,320,966	350,922
Total Primary Government	$ 121,426,202	$ 27,895,351	$ 52,189,047	$ 382,170
COMPONENT UNITS				
Component Units	$ 3,141,218	$ 2,610,614	$ 248,861	$
Total Component Units	$ 3,141,218	$ 2,610,614	$ 248,861	$ 0

General Revenues
Taxes:
Sales and Use
Motor Vehicle and Manufactured Housing
Motor Fuels
Franchise
Oil and Natural Gas Production
Insurance Occupation
Cigarette and Tobacco
Other
Unrestricted Investment Earnings
Settlement of Claims
Gain on Sale of Capital Assets
Other General Revenues
Capital Contributions
Contributions to Permanent and Term Endowments
Special Items (Note 23)
Transfers - Internal Activities (Note 12)
Total General Revenues, Contributions, Special Items and Transfers

Change in Net Position

Net Position, September 1, 2012
Restatements (Note 14)
Net Position, September 1, 2012, as Restated

Net Position, August 31, 2013

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (996,015)	$	$ (996,015)	$
(17,030,962)		(17,030,962)	
(437,823)		(437,823)	
(2,492,310)		(2,492,310)	
(12,661,318)		(12,661,318)	
(4,437,310)		(4,437,310)	
(122,052)		(122,052)	
(148,078)		(148,078)	
249,648		249,648	
(741,397)		(741,397)	
(38,817,617)	0	(38,817,617)	0
	(33,930)	(33,930)	
	(3,708,747)	(3,708,747)	
	369,899	369,899	
	9,751	9,751	
	(109,577)	(109,577)	
	139,668	139,668	
	1,190,919	1,190,919	
0	(2,142,017)	(2,142,017)	0
(38,817,617)	(2,142,017)	(40,959,634)	0
			(281,743)
0	0	0	(281,743)
26,199,771		26,199,771	
3,891,539		3,891,539	
3,214,393		3,214,393	
4,826,435		4,826,435	
4,501,478		4,501,478	
1,781,711		1,781,711	
1,603,086		1,603,086	
2,100,125		2,100,125	
142,724	11,566	154,290	(22,279)
640,565	3,187	643,752	1
376		376	1,003
2,045,961	164,538	2,210,499	8,630
475		475	
	184,108	184,108	
			(248,062)
(4,028,026)	4,028,026		
46,920,613	4,391,425	51,312,038	(260,707)
8,102,996	2,249,408	10,352,404	(542,450)
101,772,176	46,804,735	148,576,911	852,845
(134,312)	(165,283)	(299,595)	279,257
101,637,864	46,639,452	148,277,316	1,132,102
$ 109,740,860	$ 48,888,860	$ 158,629,720	$ 589,652

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2013 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 13,514,666	$ 3,166,863	$ 1,396,005	$ 3,510,109	$ 21,587,643
Short-Term Investments	58,201		60,974	34,846	154,021
Securities Lending Collateral			138,865		138,865
Receivables:					
Accounts	423,993	143,992	86,787	4,130	658,902
Taxes (Note 24)	3,349,830	213,949		71,536	3,635,315
Federal	1,811,496	342,915		20,149	2,174,560
Investment Trades			7,047		7,047
Other Intergovernmental	990,093	61,364			1,051,457
Interest and Dividends	3,131	7,042	64,878	12,509	87,560
Other	319,196				319,196
Due From Other Funds (Note 12)	283,934	298,504		101,434	683,872
Due From Component Units (Note 12)	287				287
Interfund Receivable (Note 12)	48,098			2	48,100
Inventories	235,720	145,295		183	381,198
Prepaid Items	3,231		6	5	3,242
Investments	303,959		29,187,710	754,735	30,246,404
Loans and Contracts	294,293	393,987	3,471	1,026,501	1,718,252
Other Assets	166,951			68	167,019
Restricted:					
Cash and Cash Equivalents	10,942			4,725	15,667
Loans and Contracts	626,178			823,653	1,449,831
Other Assets				88,018	88,018
Total Assets	$ 22,444,199	$ 4,773,911	$ 30,945,743	$ 6,452,603	$ 64,616,456
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 3,085,838	$ 1,234,432	$ 14,512	$ 176,199	$ 4,510,981
Investment Trades			32,146		32,146
Other Intergovernmental	449,749				449,749
Tax Refunds (Note 24)	840,002				840,002
Payroll	541,223	106,247	3,308	4,023	654,801
Federal	112				112
Interest	18,691				18,691
Due To Other Funds (Note 12)	918,360	19,379	51	30,984	968,774
Interfund Payable (Note 12)	2,366			3,171	5,537
Deferred Revenues	1,216,309	3,280,060	88,729	486,758	5,071,856
Obligations/Reverse Repurchase Agreements	51,273				51,273
Obligations/Securities Lending			205,506		205,506
Other Liabilities	278,788	33,641		1,826	314,255
Total Liabilities	7,402,711	4,673,759	344,252	702,961	13,123,683
Fund Balances/(Deficits):					
Nonspendable (Note 13)	599,066	145,295	12,279,926	778,055	13,802,342
Restricted (Note 13)	1,160,444	643,334	18,321,565	4,086,429	24,211,772
Committed (Note 13)	5,159,400			882,686	6,042,086
Assigned (Note 13)	94,935			2,472	97,407
Unassigned (Note 13)	8,027,643	(688,477)			7,339,166
Total Fund Balances	15,041,488	100,152	30,601,491	5,749,642	51,492,773
Total Liabilities and Fund Balances	$ 22,444,199	$ 4,773,911	$ 30,945,743	$ 6,452,603	$ 64,616,456

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, 2013 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 51,492,773
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	$ 69,972,515	
Capital Assets – Depreciable or Amortizable, Net	12,187,255	
		82,159,770
Deferred charges for unamortized bond issuance cost are not current financial resources and are not reported in the funds.		32,103
Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds.		1,213,340
Deferred revenues reported in the governmental funds related to the up-front payments received via the service concession arrangements (SCAs) are reported as deferred inflows of resources in the statement of net postion in accordance with GASB 60.		3,245,415
Deferred inflows of resources are reported in the statement of net position to reflect the unamortized up-front payments received and capital assets acquired in connection with the SCAs. (Note 27)		(5,254,633)
Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (Note 5 and Note 9)		
Claims and Judgments	(128,283)	
Capital Lease Obligations	(2,388)	
Employees' Compensable Leave	(735,628)	
Notes and Loans Payable	(1,527,847)	
General Obligation Bonds Payable	(12,089,019)	
Revenue Bonds Payable	(4,099,579)	
Pollution Remediation Obligation	(229,047)	
Net Pension Obligation	(4,295,392)	
		(23,107,183) *
* current portion = $1,385,449 and noncurrent portion = $21,721,734		
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.		(366,137)
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.		325,412
Net Position of Governmental Activities		$ 109,740,860

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$ 41,672,670	$ 2,419,422	$	$ 3,764,411	$ 47,856,503
Federal	35,107,324	2,856,521		52,083	38,015,928
Licenses, Fees and Permits	2,821,082	1,603,733		753,535	5,178,350
Interest and Other Investment Income	97,581	21,816	2,712,702	178,647	3,010,746
Land Income	47,035	15,637	410,447	32	473,151
Settlement of Claims	579,993	14,135	30,440		624,568
Sales of Goods and Services	2,069,608	62,669	51,121	172,029	2,355,427
Other	4,044,247	1,486	52	22,803	4,068,588
Total Revenues	86,439,540	6,995,419	3,204,762	4,943,540	101,583,261
EXPENDITURES					
Current:					
General Government	2,576,477	27,139		200,455	2,804,071
Education	23,041,151		85,250	2,187,083	25,313,484
Employee Benefits	1,849			16,646	18,495
Teacher Retirement State Contributions	1,675,064				1,675,064
Health and Human Services	44,821,699			19,781	44,841,480
Public Safety and Corrections	4,372,151	702,698		96,299	5,171,148
Transportation	27,621	4,552,595		96,682	4,676,898
Natural Resources and Recreation	1,781,496			58,089	1,839,585
Regulatory Services	365,130	5,721		89,881	460,732
Capital Outlay	187,681	2,155,440	59	1,167,815	3,510,995
Debt Service:					
Principal	23,401	105,192		577,618	706,211
Interest	54,493			682,910	737,403
Other Financing Fees	(456)	1,977		4,974	6,495
Total Expenditures	78,927,757	7,550,762	85,309	5,198,233	91,762,061
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,511,783	(555,343)	3,119,453	(254,693)	9,821,200
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,481,376	171,397		2,406,623	7,059,396
Transfer Out (Note 12)	(5,641,771)	(410,097)	(1,320,887)	(3,511,219)	(10,883,974)
Bonds and Notes Issued	23,000			1,119,407	1,142,407
Bonds Issued for Refunding				98,550	98,550
Premiums on Bonds Issued				199,554	199,554
Payment to Escrow for Refunding				(113,525)	(113,525)
Sale of Capital Assets	12,906	4,318			17,224
Increase in Obligations Under Capital Leases	822				822
Insurance Recoveries	5,257	283			5,540
Total Other Financing Sources (Uses)	(1,118,410)	(234,099)	(1,320,887)	199,390	(2,474,006)
Net Change in Fund Balances	6,393,373	(789,442)	1,798,566	(55,303)	7,347,194
Fund Balances, September 1, 2012	8,863,561	852,902	28,802,925	5,659,907	44,179,295
Restatements (Note 14)	(215,446)	36,692		145,038	(33,716)
Fund Balances, September 1, 2012, as Restated	8,648,115	889,594	28,802,925	5,804,945	44,145,579
Fund Balances, August 31, 2013	$ 15,041,488	$ 100,152	$ 30,601,491	$ 5,749,642	$ 51,492,773

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, 2013 (Amounts in Thousands)

Net Change in Fund Balances		$ 7,347,194
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	$ 3,510,995	
Depreciation Expense (Note 2)	(966,544)	
Amortization Expense (Note 2)	(41,338)	
		2,503,113
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.		(16,848)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,674,298)
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.		40,598
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	(1,240,957)	
Premiums on Bond Proceeds	(199,554)	
Increase in Obligations Under Capital Leases	(822)	
Repayment of Bond and Capital Lease Principal	819,736	
		(621,597)
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.		754,302
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	(229,468)	
Increase in Revenues	27	
Increase in Expenses	(26,047)	
Net Change in Transfers	26,020	
		(229,468)
Change in Net Position of Governmental Activities		$ 8,102,996

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2013 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	Activities – Internal Service Fund*
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 4,463,058	$ 439	$ 248,524	$ 506,709	$ 5,218,730	$ 46,074
Short-Term Investments	252,869			946,957	1,199,826	291,833
Securities Lending Collateral	633,473			159,246	792,719	53,366
Restricted:						
Cash and Cash Equivalents	758,898	1,800,429		1,743,809	4,303,136	
Short-Term Investments	105,434		147,949	861,632	1,115,015	
Loans and Contracts	2,005			77,717	79,722	
Receivables:						
Federal	800,232	28,415		12,761	841,408	
Other Intergovernmental	73,809			200	74,009	
Accounts	1,608,118	297,270	36,664	15,307	1,957,359	141,892
Interest and Dividends	61,821	7,545		69,652	139,018	1,766
Gifts	365,277				365,277	
Investment Trades	108,249			116,175	224,424	819
Other	368,561			2,893	371,454	
Due From Other Funds (Note 12)	613,710	4,732		60,010	678,452	96,174
Interfund Receivable (Note 12)	23,160			544	23,704	
Inventories	133,623		12,246	10,958	156,827	
Prepaid Items	112,065	1,587	1,381	369	115,402	
Loans and Contracts	117,453			188,638	306,091	
Other Current Assets	370,182			361	370,543	
Total Current Assets	10,971,997	2,140,417	446,764	4,773,938	18,333,116	631,924
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	61,682			34,153	95,835	
Short-Term Investments	1,120				1,120	
Investments	26,381,904		739,067	3,343,013	30,463,984	
Receivables	44,950			135,977	180,927	
Loans and Contracts	102,308			3,049,671	3,151,979	
Other	8,683			3,158	11,841	
Loans and Contracts	22,107			4,403,717	4,425,824	
Investments	8,538,659			6,501	8,545,160	339,064
Interfund Receivable (Note 12)	709,159			2,575	711,734	
Gifts Receivable	285,580				285,580	
Other Receivables				250	250	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	3,711,207			2,463,171	6,174,378	
Depreciable or Amortizable, Net	19,043,137		525	430,226	19,473,888	
Assets Held in Trust	362			5,283	5,645	
Deferred Charges	46,940	2,317		17,959	67,216	
Hedging Derivative Asset (Note 7)				17,499	17,499	
Intangible Assets – Service Concession Arrangements (Note 27)				611,170	611,170	
Other Noncurrent Assets	166,966			388	167,354	
Total Noncurrent Assets	59,124,764	2,317	739,592	14,524,711	74,391,384	339,064
Total Assets	70,096,761	2,142,734	1,186,356	19,298,649	92,724,500	970,988
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 28)	176,034			256,057	432,091	
Total Deferred Outflows of Resources	176,034	0	0	256,057	432,091	0
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,395,986	123,540	21,267	51,693	1,592,486	586,171
Payroll	785,106		1,828	3,805	790,739	
Other Intergovernmental	19,337				19,337	
Federal	31,117				31,117	
Investment Trades	235,994			120,621	356,615	3,975
Interest	4,644	9,749		47,664	62,057	
Annuities			10,329		10,329	

Concluded on the following page

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2013 (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)	$ 29,519	$	$ 137,902	$ 96,524	$ 263,945	$ 1,164
Interfund Payable (Note 12)	30,316				30,316	
Unearned Revenue	2,904,533	63,818		70,333	3,038,684	653
Obligations/Securities Lending	633,473			159,245	792,718	53,613
Claims and Judgments (Note 5)	15,881				15,881	
Capital Lease Obligations (Note 5, 8)	3,902				3,902	
Employees' Compensable Leave (Note 5)	373,873		1,278	2,499	377,650	
Notes and Loans Payable (Note 5)	1,089,785				1,089,785	
General Obligation Bonds Payable (Note 5, 6)	9,436			145,881	155,317	
Revenue Bonds Payable (Note 5, 6)	1,856,415	187,165		65,725	2,109,305	
Pollution Remediation Obligation (Note 5)	30				30	
Liabilities Payable From Restricted Assets (Note 5)			271,951	266,096	538,047	
Funds Held for Others	140,818				140,818	
Other Current Liabilities	297,681		433	527	298,641	
Total Current Liabilities	9,857,846	384,272	444,988	1,030,613	11,717,719	645,576
Noncurrent Liabilities:						
Interfund Payable (Note 12)	747,685				747,685	
Claims and Judgments (Note 5)	41,501				41,501	
Capital Lease Obligations (Note 5, 8)	16,096				16,096	
Employees' Compensable Leave (Note 5)	349,995		900	1,071	351,966	
Notes and Loans Payable (Note 5)	125,042			1,107,609	1,232,651	
General Obligation Bonds Payable (Note 5, 6)	11,400			3,503,197	3,514,597	
Revenue Bonds Payable (Note 5, 6)	10,536,896	1,081,186		7,236,128	18,854,210	
Liabilities Payable From Restricted Assets (Note 5)			682,016	2,072,628	2,754,644	
Assets Held for Others	909,182			5,283	914,465	
Net OPEB Obligation (Note 11)	3,518,703				3,518,703	
Hedging Derivative Liability (Note 7)	136,969			256,057	393,026	
Other Noncurrent Liabilities	125,594			67,375	192,969	
Total Noncurrent Liabilities	16,519,063	1,081,186	682,916	14,249,348	32,532,513	0
Total Liabilities	26,376,909	1,465,458	1,127,904	15,279,961	44,250,232	645,576
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 28)				17,499	17,499	
Total Deferred Inflows of Resources	0	0	0	17,499	17,499	0
NET POSITION						
Invested in Capital Assets, Net of Related Debt	9,571,096		525	758,288	10,329,909	
Restricted for:						
Education	2,916,670				2,916,670	
Debt Service	82,223	96,775		204,120	383,118	
Capital Projects	368,486				368,486	
Veterans Land Board Housing Programs				665,486	665,486	
Unemployment Trust Funds		1,844,950			1,844,950	
Funds Held as Permanent Investments:						
Nonexpendable	18,114,742				18,114,742	
Expendable	6,793,894				6,793,894	
Other			5,000	500	5,500	325,412
Unrestricted	6,048,775	(1,264,449)	52,927	2,628,852	7,466,105	
Total Net Position	$ 43,895,886	$ 677,276	$ 58,452	$ 4,257,246	$ 48,888,860	$ 325,412

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, 2013 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
OPERATING REVENUES						
Lottery Collections	$	$	$ 4,376,378	$	$ 4,376,378	$
Tuition Revenue	69,055				69,055	
Tuition Revenue – Pledged	5,218,766				5,218,766	
Discounts and Allowances	(1,334,993)				(1,334,993)	
Hospital Revenue – Pledged	9,512,449				9,512,449	
Discounts and Allowances	(5,035,123)				(5,035,123)	
Professional Fees	4,727,601				4,727,601	
Professional Fees – Pledged	6,369				6,369	
Discounts and Allowances	(3,120,184)				(3,120,184)	
Auxiliary Enterprises	3,773				3,773	
Auxiliary Enterprises – Pledged	1,247,571			100,852	1,348,423	
Discounts and Allowances	(66,201)				(66,201)	
Unemployment Taxes		2,749,160			2,749,160	
Other Sales of Goods and Services	20,782			72,741	93,523	
Other Sales of Goods and Services – Pledged	767,346			138,273	905,619	
Discounts and Allowances	(313)				(313)	
Interest and Investment Income	1,100		2	302,561	303,663	
Interest and Investment Income – Pledged	81			766	847	
Federal Revenue	2,022,245	1,475,602		41,801	3,539,648	
State Grant Revenue	19,362				19,362	
Premium Revenue						1,987,946
Other Operating Grant Revenue	771,668				771,668	
Other Operating Grant Revenue – Pledged	752,655				752,655	
Other Revenues	59,054	162,172	991	68,224	290,441	2,199
Other Revenues – Pledged	258,111				258,111	
Total Operating Revenues	15,901,174	4,386,934	4,377,371	725,218	25,390,697	1,990,145
OPERATING EXPENSES						
Cost of Goods Sold	155,189			73,454	228,643	
Salaries and Wages	10,774,062		17,365	42,809	10,834,236	4,943
Payroll Related Costs	2,411,781		4,652	10,865	2,427,298	1,353
Professional Fees and Services	907,743		6,346	87,200	1,001,289	1,251
Travel	296,397		279	529	297,205	53
Materials and Supplies	1,958,509		1,926	10,255	1,970,690	459
Communication and Utilities	713,948		468	1,927	716,343	250
Repairs and Maintenance	490,241		498	17,957	508,696	258
Rentals and Leases	252,655		4,185	2,275	259,115	241
Printing and Reproduction	65,095		17,601	197	82,893	18
Depreciation and Amortization	1,777,893		182	26,869	1,804,944	
Unemployment Benefit Payments		3,819,188			3,819,188	
Bad Debt Expense	13,369			1,372	14,741	
Interest Expense	1,976			272,684	274,660	
Scholarships	1,073,398				1,073,398	
Lottery Fees and Other Costs			325,818		325,818	
Lottery Prize Payments			2,767,359		2,767,359	
Employee/Participant Benefit Payments				55,789	55,789	1,934,325
Claims and Judgments	26,820				26,820	
Net Change in Pension/OPEB Obligations (Note 11)	650,958				650,958	
Other Expenses	1,434,160		39,189	65,415	1,538,764	530
Total Operating Expenses	23,004,194	3,819,188	3,185,868	669,597	30,678,847	1,943,681
Operating Income (Loss)	(7,103,020)	567,746	1,191,503	55,621	(5,288,150)	46,464

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, 2013 (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	$ 927,473	$	$	$ 124,297	$ 1,051,770	$
Gifts	721,618	6		2,298	723,922	
Gifts – Pledged	138,196				138,196	
Land Income	5,772			13	5,785	
Interest and Investment Income (Loss)	1,324,825	33,206	(68,074)	85,615	1,375,572	(5,912)
Interest and Investment Income – Pledged	564,607				564,607	
Loan Premium and Fees on Securities Lending				278	278	39
Investing Activities Expense	(99,143)			(1,058)	(100,201)	
Interest Expense	(517,833)	(33,453)		(140,723)	(692,009)	
Borrower Rebates and Agent Fees	(3,443)			(168)	(3,611)	(11)
(Loss) on Sale of Capital Assets	(26,059)			(2)	(26,061)	
Settlement of Claims	1			3,186	3,187	18
Claims and Judgments	(745)				(745)	
Other Revenues	45,826				45,826	
Other Revenues – Pledged	44,544				44,544	
Other Expenses	(97,962)	(2,229)		(56,367)	(156,558)	
Total Nonoperating Revenues (Expenses)	3,027,677	(2,470)	(68,074)	17,369	2,974,502	(5,866)
Income (Loss) Before Capital Contributions, Endowments and Transfers	(4,075,343)	565,276	1,123,429	72,990	(2,313,648)	40,598
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	3,017				3,017	
Capital Contributions – Other	347,924			229,450	577,374	
Contributions to Permanent and Term Endowments	184,108				184,108	
Transfer In (Note 12)	5,328,923	92,727		17,195	5,438,845	
Transfer Out (Note 12)	(375,191)	(10,065)	(1,214,102)	(40,930)	(1,640,288)	
Total Capital Contributions, Endowments and Transfers	5,488,781	82,662	(1,214,102)	205,715	4,563,056	0
Change in Net Position	1,413,438	647,938	(90,673)	278,705	2,249,408	40,598
Net Position, September 1, 2012	42,646,772	29,338	149,125	3,979,500	46,804,735	284,814
Restatements (Note 14)	(164,324)			(959)	(165,283)	
Net Position, September 1, 2012, as Restated	42,482,448	29,338	149,125	3,978,541	46,639,452	284,814
Net Position, August 31, 2013	$ 43,895,886	$ 677,276	$ 58,452	$ 4,257,246	$ 48,888,860	$ 325,412

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, 2013 (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	$ 6,457,358	$ 2,751,092	$ 4,502,703	$ 313,130	$ 14,024,283	$ 457,036
Proceeds from Tuition and Fees	3,984,814				3,984,814	
Proceeds from Research Grants and Contracts	3,489,224	1,454,617			4,943,841	
Proceeds from Gifts				28	28	
Proceeds from Loan Programs	261,185			628,514	889,699	
Proceeds from Auxiliaries	1,134,792				1,134,792	
Proceeds from Other Operating Revenues	784,266	176,485		110,953	1,071,704	1,433,595
Payments to Suppliers for Goods and Services	(6,517,487)		(398,639)	(232,320)	(7,148,446)	(3,029)
Payments to Employees	(13,203,860)		(22,084)	(53,075)	(13,279,019)	(6,591)
Payments for Loans Provided	(327,894)			(525,550)	(853,444)	
Payments for Lottery Prizes			(2,890,840)		(2,890,840)	
Payments for Unemployment Benefits		(3,750,439)			(3,750,439)	
Payments for Other Operating Expenses	(917,382)			(184,347)	(1,101,729)	(1,910,842)
Net Cash Provided (Used) by Operating Activities	(4,854,984)	631,755	1,191,140	57,333	(2,974,756)	(29,831)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance	3,000			3,326,228	3,329,228	
Proceeds from Gifts	701,244	6			701,250	
Proceeds from Endowments	84,963				84,963	
Proceeds from Transfers from Other Funds	5,826,423	381,230		343,387	6,551,040	
Proceeds from Loan Programs	19,090				19,090	
Proceeds from Grant Receipts	1,041,944			119,982	1,161,926	
Proceeds from Interfund Payables				40,685	40,685	
Proceeds from Other Noncapital Financing Activities	345,291		17,406	5,263	367,960	
Payments of Principal on Debt Issuance		(265,370)		(764,823)	(1,030,193)	
Payments of Interest	(97)	(69,961)		(274,702)	(344,760)	
Payments of Other Costs on Debt Issuance		(5)		(16,991)	(16,996)	
Payments for Transfers to Other Funds	(775,119)	(298,535)	(1,079,722)	(425,347)	(2,578,723)	
Payments for Grant Disbursements				(43,273)	(43,273)	
Payments for Interfund Receivables				(66,729)	(66,729)	
Payments for Other Noncapital Financing Uses	(365,117)		(169,995)	(496,625)	(1,031,737)	
Net Cash Provided (Used) by Noncapital Financing Activities	6,881,622	(252,635)	(1,232,311)	1,747,055	7,143,731	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	70,774				70,774	
Proceeds from Debt Issuance	1,052,513			856,648	1,909,161	
Proceeds from State Grants and Contracts	35,060				35,060	
Proceeds from Federal Grants and Contracts	188			1,675	1,863	
Proceeds from Gifts	1,178				1,178	
Proceeds from Other Capital and Related Financing Activities	238,283			185	238,468	
Proceeds from Capital Contributions	276,574			847	277,421	
Proceeds from Interfund Payables	16,694				16,694	
Payments for Additions to Capital Assets	(2,868,704)		(225)	(6,387)	(2,875,316)	
Payments of Principal on Debt Issuance	(1,096,771)			(7,710)	(1,104,481)	
Payments for Capital Leases	(1,643)				(1,643)	
Payments of Interest on Debt Issuance	(517,859)			(71,779)	(589,638)	
Payments of Other Costs on Debt Issuance	(130,526)			(857,211)	(987,737)	
Payments for Interfund Receivables	(6,034)				(6,034)	
Net Cash Used by Capital and Related Financing Activities	(2,930,273)	0	(225)	(83,732)	(3,014,230)	0

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2013 (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	$ 14,742,382	$	$ 169,995	$ 4,784,673	$ 19,697,050	$ 20,461
Proceeds from Interest and Investment Income	1,586,416	32,000		255,800	1,874,216	
Proceeds from Principal Payments on Loans	177			277,675	277,852	
Payments to Acquire Investments	(15,602,900)		(17,647)	(5,346,934)	(20,967,481)	
Payments for Nonprogram Loans Provided				(416,554)	(416,554)	
Net Cash Provided by Investing Activities	726,075	32,000	152,348	(445,340)	465,083	20,461
Net Increase (Decrease) in Cash and Cash Equivalents	(177,560)	411,120	110,952	1,275,316	1,619,828	(9,370)
Cash and Cash Equivalents, September 1, 2012	5,471,893	1,389,748	137,572	1,009,422	8,008,635	55,444
Restatements	(10,695)			(67)	(10,762)	
Cash and Cash Equivalents, September 1, 2012, as Restated	5,461,198	1,389,748	137,572	1,009,355	7,997,873	55,444
Cash and Cash Equivalents, August 31, 2013	$ 5,283,638	$ 1,800,868	$ 248,524	$ 2,284,671	$ 9,617,701	$ 46,074
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (7,103,020)	$ 567,746	$ 1,191,503	$ 55,621	$ (5,288,150)	$ 46,464
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	1,777,893		182	26,869	1,804,944	
Bad Debt Expense	290,872			1,372	292,244	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(107,366)		(134,380)	92,006	(149,740)	(198)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(608,338)	(8,023)	(8,474)	30,507	(594,328)	(25,032)
(Increase) Decrease in Due From Other Funds	824			(334)	490	(74,843)
(Increase) Decrease in Inventories	(3,726)		907	(145)	(2,964)	
(Increase) Decrease in Notes Receivable	(1,224)				(1,224)	
(Increase) Decrease in Loans and Contracts	4,514			(45,999)	(41,485)	
(Increase) Decrease in Other Assets	4,760			5,077	9,837	
(Increase) Decrease in Prepaid Expenses	(24,986)		164	(498)	(25,320)	
Increase (Decrease) in Payables	52,015	62,388	141,238	7,406	263,047	23,444
Increase (Decrease) in Deposits	(8,671)				(8,671)	
Increase (Decrease) in Due To Other Funds	4,711			(190)	4,521	276
Increase (Decrease) in Unearned Revenue	127,747	9,644		(922)	136,469	58
Increase (Decrease) in Employees' Compensable Leave	24,087			(8)	24,079	
Increase (Decrease) in Benefits Payable	655,357				655,357	
Increase (Decrease) in Other Liabilities	59,567			(113,429)	(53,862)	
Total Adjustments	2,248,036	64,009	(363)	1,712	2,313,394	(76,295)
Net Cash Provided (Used) by Operating Activities	$ (4,854,984)	$ 631,755	$ 1,191,140	$ 57,333	$ (2,974,756)	$ (29,831)
NONCASH TRANSACTIONS						
Donation of Capital Assets	$ 77,400	$	$	$	$ 77,400	$
Net Change in Fair Value of Investments	$ (699,582)	$	$ (68,074)	$ (9,265)	$ (776,921)	$ (17,215)
Borrowing Under Capital Lease Purchase	$ 1,839	$	$	$	$ 1,839	$
Other	$ 296,644	$	$	$ 229,105	$ 525,749	$

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, 2013 (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	$ 1,973,932	$	$ 529,679	$ 1,106,752
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	24,247,259			
Investments:				
U.S. Government	26,297,672	9,481,663	20,255	52,793
Corporate Equity	26,635,436		47,855	280,296
Corporate Obligations	700,204	692,884	2,242	83
Repurchase Agreements		4,392,353		32,326
Foreign Securities	32,848,250		6,164	
Externally Managed Investments	42,310,617			
Other	12,024,140		2,549,084	74,214
Receivables:				
Federal	32,523			
Interest and Dividends	287,617	13,847	41	627
Accounts	297,923		202	7,431
Other Intergovernmental				1,126
Investment Trades	1,385,936		988	
Other	41,654		4,377	
Due From Other Funds (Note 12)	10,540		1	1,035
Prepaid Items	250			
Properties, at Cost, Net of Accumulated Depreciation or Amortization	43,470		804	
Other Assets			84,010	1,607,563
Total Assets	169,137,423	14,580,747	3,245,716	3,164,246
LIABILITIES				
Payables:				
Accounts	$ 331,354	$ 618	$ 29,318	$ 323
Investment Trades	1,487,333	82,500	876	
Payroll	4,227			
Other Intergovernmental				834,496
Interest			10	
Annuities	715,446			
Due To Other Funds (Note 12)	232,098		6	4,087
Unearned Revenue	40,903		482	
Employees' Compensable Leave	8,433			
Obligations/Securities Lending	24,235,845			
Funds Held for Others			84,010	2,325,329
Other Liabilities	88,803	11,542		11
Total Liabilities	27,144,442	94,660	114,702	3,164,246
NET POSITION				
Held in Trust for:				
Pension Benefits and Other Purposes	141,992,981			
Individuals, Organizations and Other Governments			3,131,014	
Pool Participants		14,486,087		
Total Net Position	$ 141,992,981	$ 14,486,087	$ 3,131,014	$ 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.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	$ 3,106,195	$	$
State Contributions	2,598,439		
Premium Contributions	355,686		
Federal Contributions	125,385		13,343
Other Contributions	1,225,597		156,197
Total Contributions	7,411,302	0	169,540
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	9,723,256		166,129
Interest and Investment Income	2,485,170	25,700	32,836
Total Investing Income	12,208,426	25,700	198,965
Less Investing Activities Expense	257,819	8,178	1,629
Net Income from Investing Activities	11,950,607	17,522	197,336
From Securities Lending Activities:			
Securities Lending Income	146,950		
Less Securities Lending Expense:			
Borrower Rebates	26,017		
Management Fees	26,466		
Net Income from Securities Lending	94,467	0	0
Total Net Investment Income	12,045,074	17,522	197,336
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	0	923,573	0
Other Additions:			
Settlement of Claims			4,202
Other Revenue	3,921		240,105
Transfer In (Note 12)	117,866		471
Total Other Additions	121,787	0	244,778
Total Additions	19,578,163	941,095	611,654
DEDUCTIONS			
Benefits	12,081,842		127,162
Refunds of Contributions	479,776		
Transfer Out (Note 12)	92,287		29
Intergovernmental Payments			64,711
Administrative Expenses	59,478		7,113
Depreciation and Amortization Expense	2,953		39
Settlement of Claims			46,453
Interest Expense	2		4
Loss on Sale of Properties	8		
Loss on Impairment of Capital Assets	104		
Other Expenses	4,044		164,279
Total Deductions	12,720,494	0	409,790
INCREASE IN NET POSITION	6,857,669	941,095	201,864
NET POSITION			
Net Position, September 1, 2012	135,135,312	13,544,992	2,929,150
Net Position, August 31, 2013	$ 141,992,981	$ 14,486,087	$ 3,131,014

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

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

State of Texas
Notes to Financial Statements

Note 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying financial statements of the state of Texas were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented five GASB statements in fiscal 2013.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* addresses the issues related to service concession arrangements (SCAs). As used in this statement, an SCA is an arrangement between the transferor (a government) and an operator (governmental or nongovernmental) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

GASB Statement No. 61, *The Financial Reporting Entity,* amends Statement No. 14, *The Financial Reporting Entity* and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity by adding the benefit or burden requirement relationship between the primary government and an outside organization. The statement clarifies and amends the criteria in determining whether an outside organization should be included as a component unit because it would be "misleading to exclude" from the primary government's financial statements. The statement also amends the criteria for reporting blended component units.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates certain accounting and financial reporting guidance issued on or before Nov. 30, 1989, into GASB's authoritative literature from the following that does not contradict or conflict with GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This statement supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* eliminating the election for enterprise funds and business-type activities to apply after Nov. 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. However, governments can apply guidance from FASB pronouncements issued after Nov. 30, 1989 that do not conflict with or contradict GASB pronouncements as "other accounting literature." Generally, the provisions of GASB 62 are required to be applied retroactively.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* amends GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, by providing guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* was implemented in fiscal 2013 earlier than scheduled due to Texas A&M University's acquisition of the Texas Wesleyan University Law School. This statement establishes accounting and financial reporting standards related to disposals of government operations and government combinations referred to as mergers, acquisitions and transfer of operations. The statement requires the use of carrying values to measure the assets and liabilities in a government merger when there is no exchange of significant consideration. In government acquisitions when there is an exchange of significant consideration, this statement requires measurement of assets acquired and liabilities assumed generally to be based on their acquisition values. For transfer of operations that do not constitute entire legally separate entities and where no significant consideration is exchanged, this statement requires the use of carrying values to measure the assets and liabilities.

FINANCIAL REPORTING ENTITY

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

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

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

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

FINANCIAL REPORTING STRUCTURE

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

Government-wide Financial Statements

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

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

Program revenues include charges for services; operating grants and contributions; and capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

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

Fund Financial Statements

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

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources, and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements.

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

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. Permanent funds are used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

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

The **State Highway Fund**, 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. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

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

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

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

The 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 that are used to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

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

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

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

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

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

Component Units

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

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

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

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

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

Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The state of Texas considers all major revenue (i.e., operating grants and contributions and taxes) reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabilities of the current period and are reported as deferred revenue. Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

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

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

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

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund 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 agency funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

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

Investments

Investments are reported at fair value in the balance sheet or other statements of net financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at date of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities.

Receivables and Payables

The major receivables for governmental activities are federal and taxes receivables. The major receivables for business-type activities are federal, patient and tuition receivables. Receivables represent amounts due to the state as of Aug. 31, 2013, 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 2013 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as deferred revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 24 for details on taxes receivable and tax refunds payable.

Other receivables in the general fund consist primarily of program receivables for health care assistance and supplemental nutrition assistance. Other receivables in the colleges and universities fund consist primarily of public university fund land income and healthcare contractual agreements. 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. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, fiduciary funds and on the government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a table identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation/amortization policy and other detailed information.

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

Long-Term Liabilities

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

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

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

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

Employees' Compensable Leave Balances

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

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

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

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

Capital Lease Obligations

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

Conduit Debt Obligations

Conduit debt issued by the state in the form of bonds is for the express purpose of providing capital financing for a specific third party that is not part of the state's financial reporting entity. The bonds are secured by the property financed and are payable solely from payments received from the third party on the underlying loans. The state has no obligations for the debt beyond the resources provided by the loan with the third party on whose behalf the bonds were issued. The state has chosen to continue reporting conduit debt obligations as long-term liabilities on the balance sheet for debt issued prior to GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations, an Amendment of NCGA Statement 1*, as well as subsequent debt obligations that are substantially the same as those already reported. Interpretation 2, which was effective for Texas beginning Sept. 1, 1996, requires only note disclosure for issuance of all other conduit debt. Note 6 provides details on conduit debt obligations.

Deferred 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 acquisitions and consumptions of net assets by the government that is applicable to future periods. Based on this concept, the state reports the following as deferred outflows of resources or deferred inflows of resources.

- The excess consideration given over the net position acquired in the acquisition of the Texas Wesleyan University Law School is reported as deferred outflows of resources.
- 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) is reported as deferred inflows of resources. Note 27 provides details on SCAs.
- The changes in the fair value of hedging derivative instruments is reported as either deferred outflows of resources or deferred inflows of resources. Note 7 presents additional information about derivative instruments.

Note 28 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
- Imposed by law through constitutional provisions or enabling legislation

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

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

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

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

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed through legislation passed into law by formal action of the Texas Legislature, the state's highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Fund balances are reported as assigned when the state intends for resources to be used for specific purposes, yet the constraints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature, 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 activity is eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as external activity.

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

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

Risk Financing

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

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

Note 2

Capital Assets

Capital assets, which include land, infrastructure, buildings, equipment and intangible assets, of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets of other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. The capitalization thresholds and 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 2013. 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 fair value on the acquisition date. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach. The required supplementary information other than management's discussion and analysis section of this report provides further detail on the state's highway infrastructure.

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

Capital Asset Activity

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/12	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/13
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 9,519,723	$ (662)	$ (34,235)	$ 763,078	$ (1,259)	$ 10,246,645
Infrastructure	50,661,734	1,886	2,004,122	1,047,340		53,715,082
Construction in Progress	6,178,225	(185,056)	(2,878,925)	2,800,243		5,914,487
Other Capital Assets	28,663	1		9	(1)	28,672
Land Use Rights – Permanent	69,360		(2,940)	1,210	(1)	67,629
Total Non-Depreciable & Non-Amortizable Assets	66,457,705	(183,831)	(911,978)	4,611,880	(1,261)	69,972,515
Depreciable Assets						
Buildings and Building Improvements	5,839,729	2,472	136,651	944	(9,993)	5,969,803
Infrastructure	20,516,031	82,193	492,285	256,511	(14,876)	21,332,144
Facilities and Other Improvements	220,986	(1,407)	5,243	136	(2,789)	222,169
Furniture and Equipment	990,281	(5,424)	3,147	73,455	(41,213)	1,020,246
Vehicles, Boats and Aircraft	1,090,702	534	1,069	69,065	(31,960)	1,129,410
Other Capital Assets	140,732	399	1,719	3,042	(1,684)	144,208
Total Depreciable Assets at Historical Cost	28,798,461	78,767	640,114	403,153	(102,515)	29,817,980
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(3,459,152)	2,602		(188,011)	7,308	(3,637,253)
Infrastructure	(11,863,087)	11,472	8,840	(625,357)	12,276	(12,455,856)
Facilities and Other Improvements	(150,713)	918		(7,407)	2,203	(154,999)
Furniture and Equipment	(739,256)	1,442	1,190	(69,895)	37,150	(769,369)
Vehicles, Boats and Aircraft	(661,313)	(98)	(137)	(69,492)	27,273	(703,767)
Other Capital Assets	(66,111)	(222)		(6,382)	757	(71,958)
Total Accumulated Depreciation*	(16,939,632)	16,114	9,893	(966,544)	86,967	(17,793,202)
Depreciable Assets, Net	11,858,829	94,881	650,007	(563,391)	(15,548)	12,024,778
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	23,487			869	(1,004)	23,352
Computer Software	340,107	(5,570)	32,503	22,640	(1,561)	388,119
Other Intangible Capital Assets – Term	48,938			15,832		64,770
Total Intangible Assets at Historical Cost	412,532	(5,570)	32,503	39,341	(2,565)	476,241
Less Accumulated Amortization for:						
Land Use Rights – Term	(8,815)			(3,377)	1,004	(11,188)
Computer Software	(266,347)	5,331		(32,935)	1,523	(292,428)
Other Intangible Capital Assets – Term	(5,122)			(5,026)		(10,148)
Total Accumulated Amortization*	(280,284)	5,331	0	(41,338)	2,527	(313,764)
Amortizable Assets, Net	132,248	(239)	32,503	(1,997)	(38)	162,477
Governmental Activities Capital Assets, Net	$ 78,448,782	$ (89,189)	$ (229,468)	$ 4,046,492	$ (16,847)	$ 82,159,770

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

General Government	$ 54,552
Education	11,185
Employee Benefits	1
Health and Human Services	52,702
Public Safety and Corrections	175,116
Transportation	680,330
Natural Resources and Recreation	32,536
Regulatory Services	1,460
Total	$ 1,007,882

Continued on the following page

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/12	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/13
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 1,570,622	$ (16)	$ 49,340	$ 73,589	$ (9,867)	$ 1,683,668
Infrastructure	1,629,379		135,207			1,764,586
Construction in Progress	2,128,658	(10,234)	(1,902,038)	2,042,468	(927)	2,257,927
Other Capital Assets	403,087	(29)	141	36,772	(575)	439,396
Land Use Rights – Permanent	19,814		2,940	45		22,799
Other Intangible Capital Assets – Permanent				6,002		6,002
Total Non-Depreciable & Non-Amortizable Assets	5,751,560	(10,279)	(1,714,410)	2,158,876	(11,369)	6,174,378
Depreciable Assets						
Buildings and Building Improvements	24,358,847	337	1,463,987	203,398	(61,563)	25,965,006
Infrastructure	1,521,452	100	151,098	19,350	(1,560)	1,690,440
Facilities and Other Improvements	1,615,926	(431)	152,251	17,704	(9,371)	1,776,079
Furniture and Equipment	4,448,241	(11,419)	55,877	472,846	(238,253)	4,727,292
Vehicles, Boats and Aircraft	253,408	(95)	(71)	24,833	(12,670)	265,405
Other Capital Assets	1,427,445	74	2,928	78,942	(39,110)	1,470,279
Total Depreciable Assets at Historical Cost	33,625,319	(11,434)	1,826,070	817,073	(362,527)	35,894,501
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(10,062,425)	(11,382)		(993,024)	32,162	(11,034,669)
Infrastructure	(611,202)	(1,155)	(8,840)	(58,205)	46	(679,356)
Facilities and Other Improvements	(723,252)	4,980		(65,319)	8,575	(775,016)
Furniture and Equipment	(2,938,465)	(960)	(1,174)	(393,856)	187,087	(3,147,368)
Vehicles, Boats and Aircraft	(178,129)	1	94	(21,608)	10,839	(188,803)
Other Capital Assets	(919,255)	(40)		(68,217)	34,300	(953,212)
Total Accumulated Depreciation**	(15,432,728)	(8,556)	(9,920)	(1,600,229)	273,009	(16,778,424)
Depreciable Assets, Net	18,192,591	(19,990)	1,816,150	(783,156)	(89,518)	19,116,077
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255					255
Computer Software	1,185,260	(22,318)	127,723	59,595	(29,584)	1,320,676
Other Intangible Capital Assets – Term	9,572		5			9,577
Total Intangible Assets at Historical Cost	1,195,087	(22,318)	127,728	59,595	(29,584)	1,330,508
Less Accumulated Amortization for:						
Land Use Rights – Term	(64)			(26)		(90)
Computer Software	(794,484)	(14)		(201,566)	25,615	(970,449)
Other Intangible Capital Assets – Term	(1,224)			(934)		(2,158)
Total Accumulated Amortization**	(795,772)	(14)	0	(202,526)	25,615	(972,697)
Amortizable Assets, Net	399,315	(22,332)	127,728	(142,931)	(3,969)	357,811
Business-Type Activities Capital Assets, Net	$ 24,343,466	$ (52,601)	$ 229,468	$ 1,232,789	$(104,856)	$ 25,648,266

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

Education	$ 1,777,893
Transportation	19,792
Lottery	182
Other Business-Type Activities	4,888
Total	$ 1,802,755

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/12	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/13
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 3,705	$	$	$	$	$ 3,705
Construction in Progress	1,897		(279)	88		1,706
Total Non-Depreciable & Non-Amortizable Assets	5,602	0	(279)	88	0	5,411
Depreciable Assets						
Buildings and Building Improvements	42,187			341	(4)	42,524
Infrastructure	21			6		27
Facilities and Other Improvements	449			6	(15)	440
Furniture and Equipment	44,161	8,133	176	5,873	(2,507)	55,836
Vehicles, Boats and Aircraft	11,456	29		2,944	(3,487)	10,942
Other Capital Assets	64	381		1,858	(64)	2,239
Total Depreciable Assets at Historical Cost	98,338	8,543	176	11,028	(6,077)	112,008
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(12,990)			(900)		(13,890)
Infrastructure	(2)					(2)
Facilities and Other Improvements	(427)			(12)	14	(425)
Furniture and Equipment	(28,981)	(1,742)		(3,448)	2,159	(32,012)
Vehicles, Boats and Aircraft	(8,715)			(1,292)	2,700	(7,307)
Other Capital Assets	(9)	(72)		(244)	9	(316)
Total Accumulated Depreciation	(51,124)	(1,814)	0	(5,896)	4,882	(53,952)
Depreciable Assets, Net	47,214	6,729	176	5,132	(1,195)	58,056
Intangible Capital Assets – Amortizable						
Computer Software	22,232		103	3,768		26,103
Total Intangible Assets at Historical Cost	22,232	0	103	3,768	0	26,103
Less Accumulated Amortization for:						
Computer Software	(13,194)			(2,862)		(16,056)
Total Accumulated Amortization	(13,194)	0	0	(2,862)	0	(16,056)
Amortizable Assets, Net	9,038	0	103	906	0	10,047
Component Units Capital Assets, Net	$ 61,854	$ 6,729	$ 0	$ 6,126	$ (1,195)	$ 73,514

The state's capitalization policy regarding works of art and historical treasures is that capitalization is encouraged, but not required, for works of art and historical treasures that meet certain conditions. Works of art and historical treasures not required to be capitalized are those:

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

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 35 million records dating back to 1720, including approximately 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 2013. 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, 2013, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported over 85 percent of the total investment fair value. TRS, PSF, ERS, 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 2013 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan institutions. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

External Investment Pool

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

Deposits

As of Aug. 31, 2013, the carrying amount of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units was $1.5 billion, $439.4 million and $245.1 million, respectively. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net position as part of the "Cash and Cash Equivalents," "Securities Lending Collateral" and "Investments" line items. As of Aug. 31, 2013, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was $1.5 billion, $432.9 million and $194.9 million, respectively.

***Custodial Credit Risk*:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state's securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. As of Aug. 31, 2013, the bank balances exposed to custodial credit risk are presented in the table below.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2013 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 3,347	$
Total Governmental Activities	3,347	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	6	107,138
Other Nonmajor Funds	1,299	
Total Business-Type Activities	1,305	107,138
Total Governmental and Business-Type Activities	$ 4,652	$107,138
FIDUCIARY FUNDS	$ 304,762	$ 0
COMPONENT UNITS	$ 21,909	$ 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 at the left presents the bank balances exposed to foreign currency risk as of Aug. 31, 2013.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2013 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	$ 367	$ 1,315
Bangladeshi Taka		45
Botswana Pula		87
Brazilian Real	331	3,556
British Pound	36	31,907
Canadian Dollar	403	2,047
Chilean Peso		44
Chinese Yuan		5
Colombian Peso		125
Croatian Kuna		105
Czech Koruna		1,283
Danish Krone		40
Egyptian Pound	657	486
Euro	359	141,301
Ghanaian Cedi		236
Hong Kong Dollar		9,745
Hungarian Forint		27
Indian Rupee		1,178
Indonesian Rupiah		746
Japanese Yen		49,173
Jordanian Dinar		74
Kenyan Shilling		15
Lithuanian Litas		45
Malaysian Ringgit	8	6,996
Mauritius Rupee		93
Mexican Peso		1,012
Moroccan Dirham		13
New Israeli Shekel		7
New Zealand Dollar		57
Nigerian Naira		84
Norwegian Krone		1,821
Pakistani Rupee		71
Peruvian Nuevo Sol	1	78
Philippine Peso		147
Polish Zloty		615
Qatar Riyal	1	
Russian Ruble	109	
Singapore Dollar		7,406
South African Rand		450
South Korean Won		9,657
Swedish Krona		378
Swiss Franc	47	2,509
Taiwan Dollar	1,074	6,993
Thai Baht		118
Turkish Lira	1	962
United Arab Emirates Dirham		24
Total	$ 3,394	$ 283,076

Investments

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

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

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

The fair values of investments as of Aug. 31, 2013, are presented in the table below.

Investments Fair Values

August 31, 2013 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds	Component Units
U.S. Treasury	$ 10,038,384	$ 20,768,764	$ 237,758
U.S. Treasury Strips	292,220	88,558	
U.S. Treasury TIPS	1,028,548	5,893,303	
U.S. Government Agency	12,004,927	9,308,114	731,060
Corporate Obligations	5,287,519	1,375,747	7,247
Corporate Asset and Mortgage Backed	2,781,948	598,136	195,704
Corporate Equity	12,287,078	26,542,238	74,808
International Obligations	2,512,829	855,221	2,416
International Equity	3,246,582	32,993,472	64,192
International Other Commingled Funds	2,977,914	4,080,694	14,010
Repurchase Agreements	1,388,337	5,255,444	13,737
Fixed Income and Bond Mutual Fund	82,741	146,914	6,420
Other Mutual Funds	4,471,639	557,085	75,728
Other Commingled Funds	13,560,496	7,081,875	32,122
Commercial Paper	3,380,483	1,081,024	19,127
Invested Collateral	895,335	24,247,259	
Securities Lending Collateral Investment Pool	89,614		
Real Estate	1,685,814		10,398
Derivatives	42,718	97,072	
Externally Managed Investments	20,583,366	43,246,833	105,827
Other Investments	2,854,712	1,696,822	543,461
Total Investments	$ 101,493,204	$ 185,914,575	$ 2,134,015

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, 2013, the investment type balances for the invested securities lending cash collateral are presented in the table below.

Invested Securities Lending Collateral Fair Value

August 31, 2013 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
U.S. Treasury	$ 25,104	$
U.S. Government Agency	36,328	
Corporate Obligations	53,518	
Corporate Asset and Mortgage Backed	3,112	
Equity	50,201	
International Obligations	131,120	
Repurchase Agreements	427,168	2,326,133
Other Commingled Funds		21,921,126
Commercial Paper	142,092	
Other Investments	26,692	
Total Investments	$ 895,335	$ 24,247,259

***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, 2013, the investments exposed to custodial credit risk are presented in the table below.

Investments Exposed to Custodial Credit Risk

August 31, 2013 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Asset and Mortgage Backed	$	$ 3,112
Repurchase Agreements		135,753
Other Governmental Funds		
Repurchase Agreement	2,321	
Total Governmental Activities	2,321	138,865
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Government Agency	7,622	
Corporate Asset and Mortgage Backed		2,103
Corporate Equity	2,668	15,426
Fixed Income and Bond Mutual Fund	3,061	
Other Commingled Funds	13,785	
Other Investments	29,123	
Other Proprietary Funds		
U.S. Treasury		692,816
U.S. Government Agency	15,333	707,968
Repurchase Agreements		114,999
Fixed Income and Bond Mutual Fund		377,193
Other Commingled Funds		936,415
Total Business-Type Activities	71,592	2,846,920
Total Governmental and Business-Type Activities	$ 73,913	$ 2,985,785

***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, 2013, are presented on the following pages.

Investments Exposed to Foreign Currency Risk

August 31, 2013 (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	$	$	$ 1,074	$	$	$	$	$
Australian Dollars	175,025	56,769	5,005	292,163	790	773,425	655	
Bangladeshi Taka						3,113		
Botswana Pula						5,005		
Brazilian Real	50,751	195,532	48,351	112,473		891,815	183	
British Pound	158,821	242,364	139,032	804,031		3,696,786	4,758	337,803
Canadian Dollar	38,971	81,589	1,945	488,165	2,641	1,348,283	263	
Cayman Island Dollar							165	
Chilean Peso	349	4,287	206	17,362		119,194		
Chinese Yuan		106,876	16,218					
Colombian Peso	7,432	870	155	12,942		71,206		
Croatian Kuna						7,767		
Czech Koruna		2,923	1,057	2,446		50,205		
Danish Krone		6,991	271	40,161		175,722	174	
Egyptian Pound		2,784	579	1,805		15,666		
Euro	395,361	183,427	98,041	1,359,934	210,527	5,213,478	1,226,470	3,245,749
Ghanaian Cedi						5,363		
Hong Kong Dollar	1,445	290,598	9,899	301,870		2,778,777		
Hungarian Forint	26,707	1,289	2	2,373		58,876		
Indian Rupee		33,367	3,315	451	1	585,399	212	
Indonesian Rupiah		24,718	3,904	26,394		367,004		
Japanese Yen	98,660	526,998	54,860	738,929		4,208,964	1,001	
Jersey Pound							396	
Jordanian Dinar						6,658		
Kazakhstani Tenge			385					
Kenyan Shilling						8,858		
Kuwaiti Dinar						16,007		
Malaysian Ringgit	7,533	37,066	841	38,519	2	326,729		
Mauritius Rupee						7,649		
Mexican Peso	139,942	30,011	6,113	54,209		522,623	47	
Moroccan Dirham		730	35	925		8,777		
New Israeli Shekel	9,025		1	9,647		37,709		
New Turkish Lira	17,046	20,222	2,818	16,698		257,309		
New Zealand Dollar	99,329		3,366	4,366	667	5,890		
Nigerian Naira	393					9,511		
Norwegian Krone		11,181	150	29,350		163,650		
Omani Rial						8,991		
Pakistani Rupee		1,853				21,662		
Panamanian Balboa			397					
Peruvian Nuevo Sol	239	6	932			6,589		
Philippine Peso		29,303	1,204	10,015		130,423		
Polish Zloty	53,554	11,218	(669)	17,854		179,279		
Qatar Riyal						20,451		
Romanian Lei						7,912		
Russian Ruble	449		1,348	46,285		11,659		
Singapore Dollar	8,226	37,995	1,272	52,672		221,265		
South African Rand	38,460	42,665	(6,508)	75,515		768,526		
South Korean Won	29,436	128,426	7,497	161,118		1,668,663		
Swedish Krona	4,327	39,395	2,057	111,022		502,917	556	
Swiss Franc		48,605	7,502	312,435		1,924,065	2,165	
Taiwan Dollar		87,243	5,178	120,885		1,041,548		
Thai Baht		30,814	2,556	25,022		368,068		
United Arab Emirates Dirham		4,967	735			27,200		
	$ 1,361,481	$ 2,323,082	$ 421,124	$ 5,288,036	$ 214,628	$ 28,656,636	$ 1,237,045	$ 3,583,552

Concluded on the following page

Investments Exposed to Foreign Currency Risk (concluded)

August 31, 2013 (Amounts in Thousands)

	Component Unit		
	International Obligations	International Other Commingled Funds	Other Investments
Argentine Peso	$	$ 117	$
Australian Dollars		51	
Bangladeshi Taka			
Botswana Pula			
Brazilian Real	50	1,004	
British Pound		1,465	
Canadian Dollar		25	
Cayman Island Dollar			
Chilean Peso	34	90	
Chinese Yuan		1,070	
Colombian Peso	69		
Croatian Kuna			
Czech Koruna		114	
Danish Krone		40	
Egyptian Pound		63	
Euro	33	1,965	1,403
Ghanaian Cedi			
Hong Kong Dollar		440	
Hungarian Forint			
Indian Rupee		469	62
Indonesian Rupiah		276	
Japanese Yen		1,618	
Jersey Pound			
Jordanian Dinar			
Kazakhstani Tenge		43	
Kenyan Shilling			
Kuwaiti Dinar			
Malaysian Ringgit		93	
Mauritius Rupee			
Mexican Peso		636	
Moroccan Dirham			
New Israeli Shekel			
New Turkish Lira		315	
New Zealand Dollar			
Nigerian Naira	38		
Norwegian Krone		55	
Omani Rial			
Pakistani Rupee			
Panamanian Balboa		55	
Peruvian Nuevo Sol	23	105	
Philippine Peso		137	
Polish Zloty			
Qatar Riyal			
Romanian Lei			
Russian Ruble	43	170	
Singapore Dollar		174	
South African Rand	30	501	
South Korean Won		1,056	
Swedish Krona		50	
Swiss Franc		896	
Taiwan Dollar		623	
Thai Baht		214	
United Arab Emirates Dirham		80	
	$ 320	$ 14,010	$ 1,465

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

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

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

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

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

As of Aug. 31, 2013, the credit quality distribution for securities with credit risk exposure is presented on the following page.

Investments Exposed to Credit Risk

August 31, 2013 (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	$ 1,546,260	$ 539,277	$ 1,542,052	$ 350,817	$ 58,548			$ 1,039,356	$ 5,076,310
AA	12,890,876	1,482,358	159,329	762,084	834,646			87,102	16,216,395
A	7,392	1,140,852	65,695	398,435	163,854			61,711	1,837,939
BBB		1,135,305	22,595	149,502				176	1,307,578
BB		108,878	12,655	60,321				24,719	206,573
B		90,964	4,521	2,792				2,179	100,456
CCC		4,845	38,438	495					43,778
CC			1,002						1,002
D			170						170
AAAf						2,523,717			2,523,717
AAAm						719,682			719,682
Aaf						15,838			15,838
Af						6,686			6,686
BBBf						487			487
BBf						583			583
Bf						4,241			4,241
A-1							3,186,944		3,186,944
Not Rated	354,923	639,824	920,022	779,802	458,559	1,186,415	254,513	448,367	5,042,425
Total	$ 14,799,451	$ 5,142,303	$ 2,766,479	$ 2,504,248	$ 1,515,607	$ 4,457,649	$ 3,441,457	$ 1,663,610	$ 36,290,804

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	$ 6,850,421	$ 107,132	$ 269,269	$ 174,251	$ 4,861,796	$	$	$ 54,976	$ 12,317,845
AA	4,987,469	201,923	33,691	156,410	97,216			168	5,476,877
A	6	355,548	16,193	89,273				18	461,038
BBB		277,321	9,351	59,203				15	345,890
BB		92,506	17,186	100,037				1	209,730
B		115,862	6,823	43,382				23	166,090
CCC		9,965	24,876						34,841
CC		7,980	1,362						9,342
D			6,198						6,198
AAAf						641			641
Aaf						16,320			16,320
A-1							1,041,968		1,041,968
Not Rated	145,305	203,603	213,189	232,665	32,326	475,122		5,351,737	6,653,947
Total	$ 11,983,201	$ 1,371,840	$ 598,138	$ 855,221	$ 4,991,338	$ 492,083	$ 1,041,968	$ 5,406,938	$ 26,740,727

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	$ 1,221,741	$ 1,122	$ 98,501	$ 250	$	$	$	$ 33,878	$ 1,355,492
AA	45,904	3,598	94,737	1,259	2,251			19,555	167,304
A		1,096		122				6,836	8,054
BBB				176				102	278
BB				38					38
AAAf						7,201			7,201
AAAm						3,961			3,961
A-1							19,127		19,127
Not Rated	14,443	1,432	2,465	571	11,060	64,580		81,441	175,992
Total	$ 1,282,088	$ 7,248	$ 195,703	$ 2,416	$ 13,311	$ 75,742	$ 19,127	$ 141,812	$ 1,737,447

***Concentration of Credit Risk*:** Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. As of Aug. 31, 2013, 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, 2013, the Barclay Aggregate Index duration was 5.4 years and the Barclay's TIPS Index was 7.8 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, 2013, 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, 2013

PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	$ 68,493	1.43
Commercial Mortgage Backed Securities	297,942	4.48
Corporate Obligations	1,377,184	5.87
Yankee – Corporate Obligations	36,191	9.73
Non Agency Mortgage Backed Securities	20,276	7.54
Sovereign Government Debt	90,679	7.04
U.S. Government Agency Commercial Mortgage Backed Securities	77,580	4.41
U.S. Government Agency Mortgage Backed Securities	1,192,857	4.73
U.S. Government Agency Obligations	271,729	5.40
U.S. Taxable Municipal Bonds	63,599	12.60
U.S. Treasury Securities	1,194,222	5.96
U.S. Treasury TIPS	195,310	4.44
Total	$ 4,886,062	4.92
U.S. Treasury TIPS	$ 779,746	7.80
Total Real Return	$ 779,746	7.80

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, 2013.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

August 31, 2013 (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	$ 3,112	$	$ 3,112
Repurchase Agreements	135,753	135,753	
Total	$ 138,865	$ 135,753	$ 3,112

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2013.

Investments Exposed to Interest Rate Risk

August 31, 2013

TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	$ 14,036,216	16.58
U.S. Government STRIPS and TIPS	5,981,861	7.92
U.S. Government Agency Obligations	197,224	10.22
Asset and Mortgage Backed Obligations	140,021	2.44
Corporate Obligations	66,405	3.65
International Government Obligations	214,624	6.87
International Corporate Obligations	134,937	1.65
Total	$ 20,771,288	13.69

As of Aug. 31, 2013, 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, 2013

	Fair Value (In Thousands)		Modified Duration Rate	
ERS Investment Type	Fiduciary Funds	Proprietary Fund	Fiduciary Funds	Proprietary Fund
U.S. Treasury Securities	$ 3,065,613	$ 403,042	2.86	1.53
U.S. Government Agency Obligations	1,055,416	58,835	4.39	4.39
Corporate Obligations	967,243	42,752	3.60	3.11
Corporate Asset and Mortgage Backed Securities	201,597	11,238	2.92	2.92
International Obligations	416,093	21,569	2.44	2.21
Money Market and Bond Fund	302,390	29,662	0.08	0.08
Total	$ 6,008,352	$ 567,098	3.08	1.92

As of Aug. 31, 2013, 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, 2013

UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 463,897	8.06
U.S. Treasury Strips	449	0.98
U.S. Treasury Bills	75,705	0.29
U.S.Treasury Inflation Protected	36,953	13.61
U.S. Agency Asset Backed	3,492	4.01
Total U.S. Government Guaranteed	580,496	7.37
U.S. Government Non-Guaranteed:		
U.S. Agency	14,509	1.19
U.S. Agency Asset Backed	141,604	3.86
Total U.S. Government Non-Guaranteed	156,113	3.61
Total U.S. Government	736,609	6.58
Corporate Obligations:		
Domestic	382,515	5.20
Foreign	341,811	5.28
Total Corporate Obligations	724,326	5.24
Foreign Government and Provincial Obligations	1,185,352	5.19
Other Debt Securities	15,344	10.36
Total Debt Securities	2,661,631	5.62
Other Investment Funds – Debt	23,451	7.00
Convertible Stock	755	14.35
Fixed Income Money Market Funds	2,607,421	0.27
Total	$ 5,293,258	2.99

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, 2013, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was $2.4 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, 2013, the Treasury's aggregate amount of reverse repurchase agreement obligations was $51.3 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $51.2 million. There was no credit exposure during fiscal 2013.

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, 2013, is summarized in the table below.

Securities Lending Activity Summary

August 31, 2013 (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	$ 21,835,123	$ 437,219	$ 21,914,339	$ 21,921,126	$ 6,787
ERS	2,319,691		2,375,120	2,379,498	4,378
PSF	2,269,856	2,128,813	205,506	138,865	(66,641)
UT*,**	869,555		633,473	633,473	
VLB**	87,928		89,614	89,614	
TPHETB**	67,914		69,632	69,632	
Total	$ 27,450,067	$ 2,566,032	$ 25,287,684	$ 25,232,208	$ (55,476)

* 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, 2013.

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, 2013, TRS, PSF, UT, Texas A&M University System (A&M) 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, 2013, swap investments were interest rate, credit default, commodity, equity and total return swaps.

UT and VLB invested in pay-variable, receive-variable and pay-fixed, receive-variable interest rate swap agreements that are reported as investment derivatives because they are ineffective hedges.

***Foreign Currency Risk*:** TRS, UT and A&M have exposure to investment foreign currency risk in swaps, options, futures and forwards derivative investments. As of Aug. 31, 2013, derivative investments exposed to foreign currency risk are presented in the table below.

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2013 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds	
	Swaps	Options	Futures	Forwards	Swaps	Options
Australian Dollars	$	$	$ 9	$ 4,820	$	$
Brazilian Real				(719)		
British Pound	10	(30)	58	(751)	17	
Canadian Dollar			(7)	99		
Chilean Peso				(608)		
Chinese Yuan				(538)		
Columbian Peso				148		
Czech Koruna				(1)		
Danish Krone				(18)		
Euro	30	(36)	151	434	3,758	630
Indian Rupee				(1,470)		
Indonesian Rupiah				4		
Japanese Yen	56		13	9,066		
Malaysian Ringgit				(116)		9
Mexican Peso	35			(91)		
New Israeli Shekel				1		
New Zealand Dollar				2,907	(101)	
Norwegian Kroner				(248)		
Polish Zloty				(844)		
Russian Ruble				(127)		
Singapore Dollar				7		
South African Rand				(11,141)		
South Korean Won				(1,959)		
Swedish Krona				(165)	(308)	
Swiss Franc				(744)		
Taiwan Dollar				(2,563)		
Thai Baht				(45)		39
	$ 131	$ (66)	$ 224	$ (4,662)	$ 3,366	$ 678

***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, 2013, was $125.7 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2013, if all counterparties failed to perform as contracted. This maximum exposure is reduced by $47.3 million of collateral held and by $8.9 million in liabilities included in netting arrangements with those counterparties, resulting in a $69.5 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 82.04 to 131.25 percent of Securities Industry and Financial Markets Association (SIFMA) or one month to three month London Interbank Offered Rate (LIBOR) and receipt of 82.04 to 103 percent of SIFMA or LIBOR. Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rates (Euro Interbank Offered Rate (EURIBOR), LIBOR or Mexican Interbank Rate) and receipt of 0.25 to 6.75 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR or LIBOR) and payment of 0.75 to 2.65 percent. As of Aug. 31, 2013, 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, 2013 (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	$48,899	$23,450	$4,141	$1,991	$(198)	$19,515

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, 2013, the fair value of various investment funds was $64 billion.

Note 4

Short-Term Debt

On Aug. 21, 2012 (with an issue date of Aug. 30, 2012), $9.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2012 (Series 2012), were sold to coordinate the cash flow of the state for fiscal 2013. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2012 notes were repaid during fiscal 2013, bore interest at 2.5 percent and were priced to yield 0.225 percent.

On Aug. 27, 2013, the Texas Comptroller of Public Accounts sold approximately $7.2 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2013, with an issue date of Sep. 03, 2013, and a maturity date of Aug. 28, 2014. The notes bear interest at 2 percent and were priced to yield 0.2007 percent. They are not subject to redemption prior to maturity. On Aug. 27, 2013, good faith funds in the amount of $72 million were received. The balance of the $7.2 billion was received on Sep. 03, 2013.

Short-term debt activity for the fiscal year ended Aug. 31, 2013, is presented in the table below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Beginning Balance 9/1/12	Issued	Redeemed	Ending Balance 8/31/13
Tax and Revenue Anticipation Notes	$ 9,800,000	$	$ 9,800,000	$
	$ 9,800,000	$ 0	$ 9,800,000	$ 0

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2013, is presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Balance 9/1/12	Restatements /Adjustments*	Additions**	Reductions	Balance 8/31/13	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	$ 133,225	$	$ 44,217	$ 49,159	$ 128,283	$ 46,408	$ 81,875
Capital Lease Obligations	11,703	(7,517)	821	2,619	2,388	1,980	408
Employees' Compensable Leave	732,896	(42)	980,705	977,931	735,628	509,919	225,709
Notes and Loans Payable	1,380,802	4,339	287,866	145,160	1,527,847	162,905	1,364,942
General Obligation Bonds Payable	11,314,325	175,461	1,099,007	499,774	12,089,019	433,638	11,655,381
Revenue Bonds Payable	4,276,898	(6,363)	1,058	172,014	4,099,579	181,288	3,918,291
Pollution Remediation Obligation	247,384		46,868	65,205	229,047	49,311	179,736
Governmental Activities Long-Term Liabilities	$ 18,097,233	$ 165,878	$ 2,460,542	$ 1,911,862	$ 18,811,791	$ 1,385,449	$ 17,426,342
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	$ 61,056	$ 2,002	$ 12,239	$ 17,915	$ 57,382	$ 15,881	$ 41,501
Capital Lease Obligations	21,638		3,396	5,036	19,998	3,902	16,096
Employees' Compensable Leave	705,243	47	240,678	216,352	729,616	377,650	351,966
Notes and Loans Payable	2,074,969	16	693,436	445,985	2,322,436	1,089,785	1,232,651
General Obligation Bonds Payable	3,229,549	30,647	595,090	185,372	3,669,914	155,317	3,514,597
Revenue Bonds Payable	19,033,469	5,619	4,353,806	2,429,379	20,963,515	2,109,305	18,854,210
Pollution Remediation Obligation			30		30	30	
Liabilities Payable From Restricted Assets	3,500,487		140,996	348,792	3,292,691	538,047	2,754,644
Business-Type Activities Long-Term Liabilities	$ 28,626,411	$ 38,331	$ 6,039,671	$ 3,648,831	$ 31,055,582	$ 4,289,917	$ 26,765,665
COMPONENT UNITS							
Capital Lease Obligations	$ 110	$	$ 32	$ 66	$ 76	$ 65	$ 11
Employees' Compensable Leave	5,885		3,775	3,566	6,094	3,785	2,309
Notes and Loans Payable	54,082		1,000	10,745	44,337	11,038	33,299
Revenue Bonds Payable	278,919	(927)	30,700	113,474	195,218	3,344	191,874
Component Units Long-Term Liabilities	$ 338,996	$ (927)	$ 35,507	$ 127,851	$ 245,725	$ 18,232	$ 227,493

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

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2014	$ 162,905	$ 16,203	$ 179,108
2015	202,802	15,029	217,831
2016	215,550	17,495	233,045
2017	213,458	16,152	229,610
2018	207,091	14,913	222,004
2019 – 2023	771,626	56,619	828,245
2024 – 2028	154,993	31,586	186,579
2029 – 2033	65,741	9,410	75,151
2034 – 2038	3,541	17	3,558
Total Requirements	1,997,707	177,424	2,175,131
Unamortized Accretion	(469,860)		(469,860)
Total Requirements	$ 1,527,847	$ 177,424	$ 1,705,271

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2014	$ 1,089,785	$ 39,027	$ 1,128,812
2015	6,469	39,514	45,983
2016	21,765	46,014	67,779
2017	5,284	47,448	52,732
2018	4,358	49,804	54,162
2019 – 2023	42,048	289,376	331,424
2024 – 2028	91,500	341,881	433,381
2029 – 2033	199,499	313,801	513,300
2034 – 2038	370,097	244,509	614,606
2039 – 2043	648,702	96,739	745,441
Total Requirements	2,479,507	1,508,113	3,987,620
Unamortized Accretion	(157,071)		(157,071)
Total Requirements	$ 2,322,436	$ 1,508,113	$ 3,830,549

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2014	$ 11,038	$ 111	$ 11,149
2015	4,113	371	4,484
2016	5,256	318	5,574
2017	5,758	260	6,018
2018	5,325	208	5,533
2019 – 2023	11,652	659	12,311
2024 – 2028	1,195	62	1,257
Total Requirements	$ 44,337	$ 1,989	$ 46,326

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

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 employee's 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 2013, TxDOT recognized $158.2 million as a long-term liability for pass-through toll payables related to highway projects constructed under pass-through financing agreements. See Note 15 for additional details. Debt service requirements for notes and loans payable in the long-term liabilities are presented in the tables to the left 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 commence, cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets. Recoveries from the federal government are considered nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2013, the amount expected to offset state remediation costs could not reasonably be estimated.

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

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

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

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

***Other Pollution Remediation Activity*:** A remediation activities estimate for land owned by Texas Tech University in Carson County, Texas, remains pending as of Aug. 31, 2013.

Note 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas had 458 bond issues outstanding as of Aug. 31, 2013. During fiscal 2013 the state paid $512.8 million from the general revenue fund for debt service.

Information on Bond Issuances
August 31, 2013

Description of Issue	Bond Issues Outstanding Number	Amount Issued (in Thousands)	Range of Interest Rates Lowest	Highest	Maturities First Year	Last Year	First Call Date
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	71	$ 13,541,288	0.25	6.07	1998	2045	05/18/2005
Revenue Bonds	20	5,160,596	2.50	7.25	1991	2030	02/01/2001
Governmental Activities Total	91	18,701,884					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	94	4,774,301	1.37	8.06	1995	2047	02/24/1994
Revenue Bonds	259	25,087,131	0.30	15.00	1999	2053	05/04/1995
Business-Type Activities Total	353	29,861,432					
COMPONENT UNITS							
Revenue Bonds	14	1,231,167	2.70	6.10	1986	2041	10/08/1986
Total	458	$ 49,794,483					

Changes in Bonds Payable
For the Fiscal Year Ended August 31, 2013 (Amounts in Thousands)

	Bonds Outstanding 9/1/12	Adjustments *	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/13	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	$ 11,314,325	$ 175,461	$ 1,099,007	$ 360,484	$ 139,290	$ 12,089,019	$ 433,638
Revenue Bonds	4,276,898	(6,363)	1,058	172,014		4,099,579	181,288
Governmental Activities Total	15,591,223	169,098	1,100,065	532,498	139,290	16,188,598	614,926
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,229,549	30,647	595,090	127,962	57,410	3,669,914	155,317
Revenue Bonds	19,033,469	5,619	4,353,806	705,187	1,724,192	20,963,515	2,109,305
Business-Type Activities Total	22,263,018	36,266	4,948,896	833,149	1,781,602	24,633,429	2,264,622
COMPONENT UNITS							
Revenue Bonds	278,919	(927)	30,700	40,679	72,795	195,218	3,344
Total	$ 38,133,160	$ 204,437	$ 6,079,661	$ 1,406,326	$ 1,993,687	$ 41,017,245	$ 2,882,892

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

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2014	$ 390,830	$ 537,527	$ 928,357	$ 174,925	$ 195,650	$ 370,575
2015	419,500	523,557	943,057	162,130	187,905	350,035
2016	405,670	506,665	912,335	165,075	180,182	345,257
2017	373,885	489,627	863,512	167,305	172,359	339,664
2018	385,660	473,156	858,816	171,755	164,188	335,943
2019 – 2023	1,890,610	2,108,875	3,999,485	977,565	692,857	1,670,422
2024 – 2028	2,094,460	1,644,584	3,739,044	1,510,675	402,037	1,912,712
2029 – 2033	2,216,365	1,122,638	3,339,003	686,896	53,651	740,547
2034 – 2038	2,534,145	587,218	3,121,363			
2039 – 2043	796,865	61,165	858,030			
2044 – 2048	45,000	79	45,079			
	11,552,990 *	8,055,091	19,608,081	4,016,326 *	2,048,829	6,065,155
Accretion	(4,701)		(4,701)	(894)		(894)
Premium	541,228		541,228	84,147		84,147
Discount	(498)		(498)			
Total	$ 12,089,019	$ 8,055,091	$ 20,144,110	$ 4,099,579	$ 2,048,829	$ 6,148,408

BUSINESS-TYPE ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2014	$ 151,470	$ 68,105	$ 219,575	$ 2,030,557	$ 774,172	$ 2,804,729
2015	165,274	65,248	230,522	1,068,950	777,108	1,846,058
2016	169,672	62,431	232,103	1,073,626	735,836	1,809,462
2017	181,315	59,661	240,976	1,056,957	692,983	1,749,940
2018	175,050	56,697	231,747	1,061,324	651,069	1,712,393
2019 – 2023	836,360	235,655	1,072,015	3,583,143	2,717,487	6,300,630
2024 – 2028	737,495	151,197	888,692	3,093,593	2,134,742	5,228,335
2029 – 2033	628,250	93,618	721,868	2,516,010	1,588,139	4,104,149
2034 – 2038	361,385	53,233	414,618	2,530,338	1,129,153	3,659,491
2039 – 2043	190,555	12,908	203,463	1,910,849	649,143	2,559,992
2044 – 2048	6,454	683	7,137	512,032	404,695	916,727
2049 – 2053				1,275,904	220,085	1,495,989
	3,603,280 *	859,436	4,462,716	21,713,283 *	12,474,612	34,187,895
Accretion	(288)		(288)	(1,368,260)		(1,368,260)
Premium	66,922		66,922	713,913		713,913
Discount				(20,113)		(20,113)
Loss on Refunding				(75,308)		(75,308)
Total	$ 3,669,914	$ 859,436	$ 4,529,350	$ 20,963,515	$ 12,474,612	$ 33,438,127

COMPONENT UNITS	Revenue Bonds		
Year	Principal	Interest	Total
2014	$ 2,619	$ 6,428	$ 9,047
2015	3,480	8,389	11,869
2016	3,638	8,240	11,878
2017	3,802	8,080	11,882
2018	4,007	7,907	11,914
2019 – 2023	22,930	36,441	59,371
2024 – 2028	32,009	29,743	61,752
2029 – 2033	41,457	20,914	62,371
2034 – 2038	54,092	9,390	63,482
2039 – 2043	19,049	1,062	20,111
	187,083 *	136,594	323,677
Premium	8,135		8,135
Total	$ 195,218	$ 136,594	$ 331,812

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

General Obligation Bonds – General Comments

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

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

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

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

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

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

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

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

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

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

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2013, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, authorized but unissued, are presented in the table below.

General Obligation Bonds Authorized But Unissued

(Amounts in Thousands)

SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	$ 46,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,606,274
Water Development Bonds	6,258,633
College Student Loan Bonds	1,383,565
Texas Military Value Revolving Loan Fund	200,405
Total	9,969,877
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	2,954,697
Transportation Commission Transportation Bonds	2,901,359
Water Development Bonds -	
Economically Distressed Areas Program	151,976
Water Infrastructure Fund Program	101,836
Total	6,274,708
Total General Obligation Bonds	$ 16,244,585

Revenue Bonds – General Comments

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

Self-Supporting

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

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

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

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets as of Aug. 31, 2013, excluding real estate, was $12.5 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	$ 2,508,410	$ 1,406,750	$ 1,101,660
Texas A&M University System	1,254,205	707,905	546,300
Total	$ 3,762,615	$ 2,114,655	$ 1,647,960

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

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

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

The **Texas Department of Transportation** 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 **Adjutant General's Department** assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Adjutant General's Department upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department. As of Aug. 31, 2013, 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.

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	$ 11,047,063	$ 6,066,212	$ 34,188,386	$ 323,679
Current Year Pledged Revenue	430,659	6,823,519	14,723,022	189,908
Current Year Principal and Interest Paid	340,961	375,309	1,507,459	103,873
Term of Commitment Fiscal Year Ending August 31,	2039	2030	2053	2039
Percentage of Revenue Pledged	100%	100%	100%	100%

Build America Bonds

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

The Texas Department of Transportation, the University of Texas System, the Texas Public Finance Authority and the University of Houston System had $3.5 billion, $1.7 billion, $181.8 million and $80 million of Direct Payment BABs outstanding, respectively, as of Aug. 31, 2013.

Under the Budget Control Act of 2011, across-the-board sequestration took effect on March 1, 2013. This resulted in the 35% federal subsidy for BABs interest payments being reduced to 32.34%, or a 7.6% reduction.

Variable Rate Bonds

Eight state agencies had a total of 106 variable rate bond issues with outstanding balances as of Aug. 31, 2013. 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.

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, 2013.

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, 2013, 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, 2013

	Number of				Principal Balance Outstanding (In Thousands)
	Demand Bond Issues	Standby Purchase Agreements	Letters of Credit	Other	
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Office of the Governor	2		2 (c)		$ 45,000
Texas Department of Transportation	2	3 (a)			225,840
Total	4	3	2	0	270,840
Revenue Bonds					
Texas Department of Transportation	1	1 (a)			100,000
Total	1	1	0	0	100,000
Governmental Activities Total	5	4	2	0	$ 370,840
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	48	48 (a)			$ 2,061,345
Total	48	48	0	0	2,061,345
Revenue Bonds					
University of Texas System	3			3 (b)	1,309,210
Texas Department of Housing and Community Affairs	7	7 (a)			267,880
University of Houston System	1			1 (b)	6,440
Total	11	7	0	4	1,583,530
Business-Type Activities Total	59	55	0	4	$ 3,644,875
COMPONENT UNITS					
Revenue Bonds					
Office of the Governor	1		1 (d)		$ 1,620
Component Units Total	1	0	1	0	$ 1,620

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

Demand Bond – Standby Purchase Agreements

August 31, 2013

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
Bank of New York Mellon	1	0.3000%	08/18/16
Bank of Tokyo-Mitsubishi UFJ	3	0.5250%	07/31/15
Bank of Tokyo-Mitsubishi UFJ	2	0.5600%	08/22/14
California Public Employees Retirement System	1	0.0500%	12/13/13
J.P. Morgan Chase Bank	9	0.5600%	07/03/14
J.P. Morgan Chase Bank	3	0.5600%	09/19/14
J.P. Morgan Chase Bank	1	0.6500%	03/07/14
Landesbank Hessen-Thuringen Girozentrale	5	0.3500%	06/30/16
Landesbank Hessen-Thuringen Girozentrale	4	0.4000%	12/31/15
Royal Bank of Canada	1	0.3000%	03/01/15
State Street Bank and Trust Company	1	0.0500%	12/13/13
State Street Bank and Trust Company	4	0.2950%	11/17/14
State Street Bank and Trust Company	4	0.2950%	04/03/15
State Street Bank and Trust Company	1	0.3750%	05/22/15
Sumitomo Mitsui Banking Corp	2	0.5000%	08/12/15
Sumitomo Mitsui Banking Corp	1	0.5000%	11/01/15
Sumitomo Mitsui Banking Corp	1	0.5000%	03/20/16
Sumitomo Mitsui Banking Corp	1	0.6000%	11/18/16
Sumitomo Mitsui Banking Corp	1	0.6000%	05/20/16
Texas Comptroller of Public Accounts*	10	0.1200%	08/31/14
Wells Fargo Bank, NA	1	0.4900%	08/25/14
Wells Fargo Bank, NA	1	0.4900%	12/14/14
Total	59		

* 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, 2013

	Estimated Debt Service (In Thousands)		Rate	Basis
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds				
Texas Department of Transportation				
Texas Mobility Fund Bonds				
Series 2005B	$ 87,204	(a)	10.00%	2% + the greater of: Bank Prime rate + 1.5%, Daily Fed Fds Rate + 2% or 8%
Series 2006B	160,009	(b)	4.25%	1% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Revenue Bonds				
Texas Department of Transportation				
State Highway Fund Revenue Bonds				
Series 2006B	109,181	(c)	5.25%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	$ 356,394			

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

Early Extinguishment of Debt

The table to the right presents early debt extinguishments in fiscal 2013. The source of funds used for the extinguishments included loan repayments and other available funds.

Refunding

The table below summarizes bonds refunded during fiscal 2013 to lower interest rates or to restructure debt service requirements for cash management purposes.

Early Extinguished Debt Issues

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 225
Government Activities Total	$ 225
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 18,755
Veterans Land Board	1,445
Revenue Bonds	
Texas Department of Housing and Community Affairs	413,722
Texas Workforce Commission	116,105
Texas Water Development Board	15,755
University of Houston System	780
Texas State University System	520
Business-Type Activities Total	$ 567,082
COMPONENT UNITS	
Revenue Bonds	
Texas State Affordable Housing Corporation	$ 23,715
Office of the Governor	18,380
Component Units Total	$ 42,095

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 Higher Education Coordinating Board	Current Refunding	$ 98,550	$ 113,200	$ 325	$ 12,891
Governmental Activities Total		98,550	113,200	325	12,891
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds					
Texas Department of Transportation	Current Refunding	810,330	857,150	213,134	114,987
Texas Water Development Board	Current Refunding	68,945	109,310	54,184	51,145
Texas A&M University System	Current Refunding	70,535	76,710	9,999	9,356
Texas Southern University	Current Refunding	62,355	64,485	5,212	4,281
Texas Department of Housing and Community Affairs	Current Refunding	43,915	43,915	9,926	14,696
Texas State University System	Advanced Refunding	15,395	16,195	(2,123)	1,964
Midwestern State University	Advanced Refunding	5,415	4,945	(514)	434
Midwestern State University	Current Refunding	4,710	4,600	(799)	627
Business-Type Activities Total		1,081,600	1,177,310	289,019	197,490
COMPONENT UNITS					
Revenue Bonds					
Texas State Affordable Housing Corporation	Current Refunding		30,700		
Component Units Total		0	30,700	0	0
Total		$ 1,180,150	$ 1,321,210	$ 289,344	$ 210,381

* Other funds totaling approximately $63 million were used to refund/defease additional bonds.

Defeased Bonds

Texas defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company) and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Trust Company to defease $52.1 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. The Texas Water Development Board defeased $63.1 million of general obligation bonds in fiscal 2013. As of Aug. 31, 2013, the amounts of defeased bonds, at par, that remain outstanding for all bond issuers are presented in the table below.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Public Finance Authority	$ 52,100
Texas Water Development Board	36,365
Revenue Bonds	
Texas Public Finance Authority	15,125
Governmental Activities Total	103,590
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	64,890
Veterans Land Board	25,500
Revenue Bonds	
University of Texas System	1,042,708
Texas Water Development Board	156,300
Texas A&M University System	79,715
Texas Southern University	64,485
University of North Texas System	25,385
Texas State University System	16,195
Midwestern State University	9,545
Texas Woman's University	4,065
Stephen F. Austin State University	564
Business-Type Activities Total	1,489,352
Total	$ 1,592,942

Conduit Debt

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

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

As of Aug. 31, 2013, there were 20 series of multifamily housing revenue bonds outstanding with an aggregate $252 million principal amount payable. No bonds were issued in fiscal 2013.

The Private Activity Bond Surface Transportation Corporation, a blended component unit of the state, issued two series of bonds in the aggregate amount of $1 billion that remains outstanding as of Aug. 31, 2013. The proceeds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC to finance the development and expansion of public transportation projects. Debt service is funded from loan and interest repayments from the borrowers.

Conduit bond debt for the Texas Department of Housing and Community Affairs (multifamily housing bonds) and the Texas Small Business Industrial Development Corporation, a discrete component unit of the state, predates the implementation of note disclosure requirements and is reported in the financial statements.

INTEREST RATE SWAPS

Effective interest rate swap agreements are considered hedging derivatives. The aggregate debt service requirements and associated net swap payments are detailed in this note. See Note 7 for additional information on derivatives.

Estimated Debt Service of Swap Payments

Using rates as of Aug. 31, 2013, 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 below 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)

	Variable-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net	Total
2014	$ 117,080	$ 2,476	$ 123,311	$ 242,867
2015	137,035	2,319	118,926	258,280
2016	148,420	2,206	113,735	264,361
2017	149,815	2,083	108,181	260,079
2018	145,150	1,959	102,711	249,820
2019 – 2023	711,790	8,010	433,988	1,153,788
2024 – 2028	752,625	5,268	301,100	1,058,993
2029 – 2033	682,760	2,795	170,995	856,550
2034 – 2038	593,135	1,050	68,798	662,983
2039 – 2043	83,535	117	3,059	86,711
2044 – 2048	1,255	1	13	1,269
Total	$ 3,522,600	$ 28,284	$ 1,544,817	$ 5,095,701

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

(Amounts in Thousands)

	Variable-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net *	Total
2014	$ 950	$ 37	$ (806)	$ 181
2015	1,010	36	(803)	243
2016	1,070	35	(801)	304
2017	1,135	33	(798)	370
2018	1,205	32	(795)	442
2019 - 2023	7,260	137	(3,931)	3,466
2024 - 2028	9,825	89	(3,802)	6,112
2029 - 2033	10,155	26	(2,860)	7,321
2034 - 2038			(1,420)	(1,420)
2039 - 2043			(19)	(19)
Total	$ 32,610	$ 425	$ (16,035)	$ 17,000

* 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)

	Fixed-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net	Total
2014	$	$ 16,488	$ (278)	$ 16,210
2015		16,488	(278)	16,210
2016		16,486	(276)	16,210
2017		16,488	(278)	16,210
2018		16,486	(277)	16,209
2019 - 2023	103,715	74,562	(1,250)	177,027
2024 - 2028	94,300	45,037	(765)	138,572
2029 - 2033	71,120	17,870	(304)	88,686
2034 - 2038	46,560	3,698	(63)	50,195
Total	$ 315,695	$ 223,603	$ (3,769)	$ 535,529

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

Note 7

Derivative Instruments

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

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

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

Summary of Derivative Activity

The fair value of effective hedging derivatives is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred outflows of resources and deferred inflows of resources. The state's cumulative derivative activity as of Aug. 31, 2013, is summarized in the table on the following page. The notional amounts are presented in U.S. dollar equivalents, with the exception of commodity forwards, which are presented in million British thermal units (MMBTU).

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount	
GOVERNMENTAL ACTIVITIES				
Investment Derivatives				
Basis Swaps	$ (25,121)	$	$ 400,000	
Futures	3,627		45,480	
BUSINESS-TYPE ACTIVITIES				
Cash Flow Hedges				
Pay-Fixed Receive-Variable Interest Rate Swaps	$ 395,239	$ (375,527) *	$ 3,470,885	
Commodity Forwards	(3,783,110)		960	**
Investment Derivatives				
Pay-Fixed Receive-Variable Interest Rate Swaps	$ 104	$ (57)	$ 35,215	
Pay-Variable Receive-Fixed Interest Rate Swaps	(758)	26	8,634	
Basis Swaps	12,882	19,628	1,235,638	
Credit Default Swaps	(270)	(77)	53,731	
Equity Swaps	(132)	498	67,448	
Commodity Swaps	(231)	(231)	10,334	
Forwards	(4,351)	(4,662)	2,437,248	
Futures	139		1,814,406	
Options	2,091	48,449	17,404,970	
FIDUCIARY ACTIVITIES				
Investment Derivatives				
Pay-Fixed Receive-Variable Interest Rate Swaps	$ 2,761	$ 1,829	$ 45,411	
Pay-Variable Receive-Fixed Interest Rate Swaps	60	(101)	23,488	
Total Return Swaps	(5,196)	23,624	3,688,910	
Credit Default Swaps	98	3,949	83,846	
Forwards	(36,783)	12,728	9,136,135	
Futures	41,945		10,251,020	
Warrants	24,123	52,114	19,318	
Options	(2,943)	2,928	2,740	

* Of the net $375,527 fair value for cash flow hedges, $17,499 is reported as a hedging derivative asset and $393,026 is reported as a hedging derivative liability.

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

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments
Veterans Land Board (VLB) Hedging and investment derivatives
Texas Department of Housing and Community Affairs (TDHCA) Hedging derivatives
University of Texas System (UT) Hedging and investment derivatives
Texas A&M University System (A&M) Hedging and investment derivatives
Texas Department of Transportation (TxDOT) Investment derivatives
Permanent School Fund (PSF)* Investment derivatives
Employees Retirement System of Texas (ERS) Investment derivatives
Teacher Retirement System of Texas (TRS) Investment derivatives

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

Fair Value

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

Veterans Land Board (VLB) and the University of Texas System (UT) used the zero-coupon method in determining the fair values of their effective interest rate swaps. Several of VLB's effective interest rate swaps contain a provision for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the swap associated with Vet Land Tax Ref Bds Ser '2000, the knock-out is permanent once the option is taken at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

Texas Deparartment of Housing and Community Affairs (TDHCA) based the fair value of its swaps on market conditions as of Aug. 31, 2013. Fair values were directly obtained by the counterparties to the transactions and separately verified by an independent third party. Valuations are based on mid-market levels and may not reflect the amount a counterparty would have required in the event of an early termination of the swap transaction on that date. For swaps with no predefined notional amortization schedule, a valuation was performed based on an assumed notional amortization.

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

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

HEDGING DERIVATIVES

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. Each of the state's interest rate swaps is a contractual agreement entered into between the state and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest rate swaps determined to be hedging derivatives are designated as cash flow hedges. The state also entered into commodity forward contracts to hedge against the future purchase of natural gas. The specific objectives for each category of effective hedges are summarized below.

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

Commodity Forwards: The state enters into commodity forward contracts to meet the objective of hedging the risk that changes in the market price of natural gas will adversely affect the cash flows of the expected purchase of natural gas. As of Aug. 31, 2013, the commodity forward contracts expired and the state did not renew these contracts.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2013, 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 and forward contract. The notional amount for the commodity forwards are expressed as MMBTUs.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Ref Bds Ser '95	$ 31,315	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	18,580	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Land Tax Ref Bds Ser '2000	33,810	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	15,995	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,650	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2002	26,060	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,110	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2003A	30,360	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	31,640	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2003	19,885	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2003	45,590	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2004B	34,445	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2004	20,465	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	32,305	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	34,020	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2005	18,900	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	22,680	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2005C	13,730	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	35,745	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006A	25,345	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006C	18,330	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2006B	20,150	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2006D	37,680	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006C	33,065	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2007C	31,025	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	37,725	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	39,915	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	39,825	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	41,075	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	14,250	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	62,765	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2010B	62,485	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Bds Ser 2010C	70,300	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Tax Ref Bds Ser 2010D	15,535	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Tax Ref Bds Ser 2010E	44,700	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Bds Ser 2011A	70,585	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	71,870	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Bds Ser 2011C	72,865	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	73,420	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	99,280	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Tax Ref Bds, Ser 1994A-2	21,345	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR
Vet Bds Ser 2013A	99,995	03/20/2013	06/01/2043	Pay 1.70%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	149,995	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	$	A- /Baa1
Vet Land Ref Bds Ser '99A	N/A		A- /Baa1
Vet Land Tax Ref Bds Ser '2000	1M LIBOR >= 7.00%	2,700	AAA / Aa2
Vet Hsg Fund II Bds Ser 2001A-2	N/A		A-/ Baa2
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AAA / Aa2
Vet Land Bds Ser 2002	N/A		A- / Baa1
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa3
Vet Land Tax Ref Bds Ser 2002	6M LIBOR >= 7.00%	2,785	A- / Baal
Vet Hsg Fund I Tax Ref Bds Ser 2002B	6M LIBOR > 7.00%	2,165	AAA / Aa2
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A		AAA / Aa2
Vet Land Tax Ref Bds Ser 2003	1M LIBOR >= 7.00%	1,896	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2003	6M LIBOR > 7.00%	4,470	AAA / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	1,442	A+ / Aa3
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa3
Vet Land Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	2,075	A- /Baa1
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	1M LIBOR >= 7.00%	2,594	A+ / Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A		AAA / Aa2
Vet Land Tax Ref Bds Ser 2005	6M LIBOR >= 7.00%	1,542	A+ / Aa3
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	1M LIBOR >= 7.00%;	1,367	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	567	
Vet Hsg Fund I Tax Ref Bds Ser 2005C	1M LIBOR >= 7.00%;	484	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	267	
Vet Hsg Fund II Bds Ser 2006A	N/A		A+/Aa3
Vet Land Tax Ref Bds Ser 2006A	6M LIBOR >= 7.00%	1,931	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006B	1M LIBOR >= 7.00%	1,992	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006C	6M LIBOR >= 7.00%	1,493	A+ / Aa3
Vet Land Tax Ref Bds Ser 2006B	6M LIBOR >= 7.00%	886	AAA / Aa2
Vet Hsg Fund II Bds Ser 2006D	N/A		A/ A2
Vet Land Tax Ref Bds Ser 2006C	1M LIBOR >= 7.00%	2,725	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006E	1M LIBOR >= 7.00%;	2,652	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,018	
Vet Hsg Fund II Tax Ref Bds Ser 2007C	1M LIBOR >= 7.00%;	935	A+ / Aa3
	SIFMA/5Y ISDA CMS > 71%	1,020	
Vet Hsg Fund II Bds Ser 2007A	N/A		AAA / Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2008A	N/A		A+/ Aa3
Vet Hsg Fund II Bds Ser 2008B	N/A		AAA / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	612	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	2,740	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2010B	1M LIBOR >= 7.00%;	2,355	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,427	
Vet Bds Ser 2010C	N/A		A- /Baa1
Vet Tax Ref Bds Ser 2010D	1M LIBOR >= 7.00%;	466	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	208	
Vet Tax Ref Bds Ser 2010E	N/A		AAA / Aa2
Vet Bds Ser 2011A	N/A		A/ A2
Vet Bds Ser 2011B	N/A		A/ A2
Vet Bds Ser 2011C	N/A		AAA/Aa2
Vet Bds Ser 2012A	N/A		AAA/Aa2
Vet Bds Ser 2012B	N/A		AAA/Aa2
Vet Tax Ref Bds, Ser 1994A-2	1M LIBOR >= 7.00%	579	A+/ As3
Vet Bds Ser 2013A	N/A		AAA/Aa2
Vet Bds Ser 2013B	N/A		AAA/Aa2

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	$ 53,000	09/01/2004	09/01/2034	Pay 3.84%; receive 63% of LIBOR + .30%
2004D Single Family	35,000	01/01/2005	03/01/2035	Pay 3.64%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 53% of LIBOR + .45%) and LIBOR
2005A Single Family	57,500	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 53% of LIBOR + .45%) and LIBOR
2006H Single Family	36,000	11/15/2006	09/01/2025	Pay 3.86%; receive 63% of LIBOR +.30%
2007A Single Family	78,700	06/05/2007	09/01/2038	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 53% of LIBOR + .45%) and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS*				
RFS Bonds 2007B	166,293	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	166,293	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	193,178	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	193,178	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	137,770	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	137,770	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	314,730	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA

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

Concluded on the following page

Hedging Forward Contracts: Significant Terms and Credit Ratings

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

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

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

(Amounts in Thousands)

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

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2013, the state was not exposed to credit 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 decrease the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

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

The state was exposed to basis risk on its commodity forward contracts because the commodity purchase was priced based on a pricing point of Waha Natural Gas Hub, while the hedging forward contracts were settled on the NYMEX pricing point.

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

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

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

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. The maturity dates of the state's effective interest rate swaps were designed to extend to the maturity dates of the underlying bonds. However, in the case of the swap associated with the Vet Land Tax Ref Bds Ser ‘2000, the state will be subject to rollover risk if the counterparty exercises the option to terminate the swap contract.

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

Swap Payments and Associated Debt

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

Contingent Features

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

INVESTMENT DERIVATIVES

Investment derivatives expose the state to certain investment related risks. In January 2013, the state reduced its exposure to credit and interest rate risk by terminating all constant maturity basis swaps associated with Texas Mobility Fund bonds. Note 3 discloses detail about the state's investment derivatives.

Note 8

Leases

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

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for fiscal 2013 were $319.7 million for the primary government and $4.2 million for discrete component units. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2013.

Noncancelable Operating Lease Obligations

August 31, 2013 (Amounts in Thousands)

	Minimum Future Lease Payments	
Year	Primary Government	Component Units
2014	$ 272,537	$ 2,543
2015	226,255	2,202
2016	180,944	1,686
2017	141,738	1,391
2018	111,208	6,868
2019 – 2023	216,885	1,082
2024 – 2028	20,889	
2029 – 2033	6,454	
2034 – 2038	2,794	
2039 – 2043	2,545	
Total	$ 1,182,249	$ 15,772

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, 2013.

Noncancelable Operating Lease Rental Income

August 31, 2013 (Amounts in Thousands)

	Minimum Future Lease Rental Income
Year	Primary Government
2014	$ 23,700
2015	19,793
2016	17,152
2017	15,227
2018	14,056
2019 and beyond	81,263
Total	$ 171,191

The historical cost of PSF's leased assets is $363.5 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are re-appraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2013, PSF reported contingent rental revenues in the amount of $842 thousand.

The historical cost of UT's leased buildings and leased land is $129.2 million and $4 million, respectively. As of Aug. 31, 2013, the carrying value of UT's leased assets was $100.2 million and the related accumulated depreciation was $33.4 million. UT did not report any contingent rental revenues.

The historical cost of A&M's leased buildings and leased land is $90 million and $1.1 million, respectively. As of Aug. 31, 2013, the carrying value of A&M's leased assets was $63.4 million and the related accumulated depreciation was $27.7 million. A&M did not report any contingent rental revenues.

The historical cost of Tech's leased building space is $21.7 million. As of Aug. 31, 2013, the carrying value of Tech's leased building space was $10.5 million and the related accumulated depreciation was $11.2 million. The historical cost, accumulated depreciation and carrying value of the leased building space represents 8.7 percent of the full carrying value of the leased buildings. Tech did not report any contingent rental revenues.

Capital Leases

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

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

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

Future Capital Lease Payments

August 31, 2013 (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
2014	$ 1,980	$ 10	$ 1,990	$ 3,902	$ 707	$ 4,609	$ 65	$ 7	$ 72
2015	363	6	369	3,627	588	4,215	11	1	12
2016	45	16	61	2,181	472	2,653			
2017				1,568	388	1,956			
2018				1,423	325	1,748			
2019 – 2023				4,300	1,034	5,334			
2024 – 2028				2,570	340	2,910			
2029 – 2033				427	8	435			
Total	$ 2,388	$ 32	$ 2,420	$ 19,998	$ 3,862	$ 23,860	$ 76	$ 8	$ 84

The table below presents an analysis of the property recorded under capital leases by asset category as of Aug. 31, 2013.

Assets Under Capital Leases

August 31, 2013 (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	$	$	$ 781	$	$	$
Buildings			20,234	(5,000)		
Furniture and Equipment	18,941	(14,977)	6,565	(2,818)	270	(159)
Vehicles, Boats, Aircraft			386	(89)		
Computer Software	8,717	(6,390)	753	(256)		
Other Assets			6,084			
Total	$ 27,658	$ (21,367)	$ 34,803	$ (8,163)	$ 270	$ (159)

Note 9

Retirement Plans

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

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

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

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

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

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

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

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

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

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

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

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

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

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

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

Required Contribution Rates

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

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

** JRS1 is funded on a pay-as-you-go basis. Therefore, there is not a required employer contribution rate.

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

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

The elected class members are vested after eight years of service credit and may retire at age 50 with 12 years of service credit or at age 60 with eight years of service credit. The monthly standard annuity equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change. The maximum standard annuity is 100 percent of the state salary of a district judge.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

sation multiplied by the number of years of service credit.

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

Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement.

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

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

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

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

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the ERS, LECOS or JRS2 plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period already exceeds 30 years by one or more years. According to the actuarial valuations as of Aug. 31, 2013, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS, LECOS and JRS2 plans over any period of time. Therefore, the 30 year funding objective is not being realized for any of the plans.

Teacher Retirement System of Texas

The Board of Trustees of TRS is the administrator of one pension plan (TRS Plan). The TRS Plan, established under Texas Government Code, Chapters 821-824, is considered a cost-sharing multiple-employer defined benefit plan with a special funding situation. The state is required by statute to make contributions to the TRS Plan. For fiscal 2013 the state made the majority of contributions to the TRS Plan. A special funding situation is created, which results in the state reporting the TRS Plan as if it was the sole employer. The employers of the TRS Plan include the state of Texas, TRS and 1,307 public schools, service centers, charter schools and community colleges. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan, provided they are employed for one-half or more of the standard work load and are not exempted from membership under Texas Government Code, Section 822.002. The commissioner of the Texas Education Agency may also elect to participate in the TRS Plan in lieu of participation in the ERS Plan in the same manner and under the same conditions as other members of the TRS Plan.

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

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

Some members who established membership on or before Aug. 31, 2005, are considered "grandfathered," which in certain instances results in different retirement provisions than for non-grandfathered members. These differences are noted where applicable. In order to be grandfathered, members had to meet at least one of the following criteria on or before Aug. 31, 2005:

- The member was at least 50 years of age.
- The sum of the member's age and years of service credit equaled at least 70.
- The member had at least 25 years of service credit.

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

- Members may retire at age 65 with five years of service credit or when the sum of the member's age and years of service credit equals at least 80 years (known as the "Rule of 80") and membership is maintained until retirement.
- The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit.
- For grandfathered members, the three highest annual salaries are used to calculate the annuity benefit.
- At normal retirement age, the minimum monthly standard annuity is the greater of $150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.
- Members qualify for early retirement with reduced benefits at age 55 with five years of service credit or any age below 50 with 30 years of service credit, provided the member does not meet the Rule of 80 and membership is maintained until retirement.

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

- Members may retire at age 65 with five years of service credit, or at age 60 if the member meets the Rule of 80.
- The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit.
- For grandfathered members, the three highest annual salaries are used to calculate the annuity benefit.
- At normal retirement age, the minimum monthly standard annuity is the greater of $150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.
- Members qualify for early retirement with reduced benefits if the member meets one of the following criteria:
  - The member is age 55 with five years of service credit but does not meet the Rule of 80.
  - The member has 30 or more years of service credit, but is less than age 60 and does not meet the Rule of 80.
  - The member is less than age 60, meets the Rule of 80 and has five years of service credit.
- Grandfathered members who re-enter TRS on or after Sept. 1, 2007, qualify for early retirement with reduced benefits if the member meets one of the following criteria:
  - The member is at least age 55 with at least five years of service credit but does not meet the Rule of 80.
  - The member has 30 years of service credit but does not meet the Rule of 80 and is below age 60.
  - The member is below age 55 and meets the Rule of 80.

Grandfathered members receive full retirement benefits for early retirement if they meet all of the following criteria:

- The member is at least age 55.
- The member meets the Rule of 80.
- The member has at least 20 years of service credit.

Although grandfathered members receive full retirement benefits by meeting these criteria, they are still considered early-age retirees. This may affect other aspects of post-retirement activities, such as obtaining employment with the state of Texas after retirement.

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

TRS also offers two other annuity payment options:

- **The Deferred Retirement Option Plan (DROP)** DROP allowed members to freeze their standard annuity and, instead of retiring, have a portion of the frozen standard annuity deposited into a DROP account, for up to five years, while continuing to work for a TRS-affiliated employer. The plan was closed for new participants effective Dec. 31, 2005.
- **A Partial Lump-Sum Cash Option (PLSO)** PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits. Grandfathered members may participate in the PLSO plan if they meet the Rule of 80 or are at least age 65 with at least five years of service credit.

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

State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by such action. According to the actuarial valuation as of Aug. 31, 2013, if payroll grows as expected, contributions are sufficient to amortize the current unfunded accrued liabilities of the TRS Plan over a period of 28 years based on the smoothed asset value as of the valuation date. Therefore, the 30 year funding objective is being realized.

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 percent, respectively, for fiscal 2013. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 2.5 percent of payroll.

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

The employers of ORP are institutions of higher education, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2013 resulted in participant contributions of $231.5 million and employer contributions of $276.8 million.

As of Aug. 31, 2013, ORP had 37,404 participants. The total participant contributions were $263.6 million and total employer contributions were $310.7 million. Additional information for ORP is included in the fiscal 2013 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board.

Fire Fighters' Pension Commissioner

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. As of Aug. 31, 2013, there were 216 member fire departments participating in TESRS. The state is not an employer of the TESRS plan.

The statutory authority for TESRS is found in Texas Government Code, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. Per Texas Government Code, Section 865.015, the state is required to appropriate a limited amount to make the fund actuarially sound. The appropriations may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. Legislative appropriations to make the fund actuarially sound for the past three fiscal years are:

- Fiscal 2013: $572.3 thousand
- Fiscal 2012: $572.3 thousand
- Fiscal 2011: $502.9 thousand

The member fire department contributions to the fund were $4.7 million for fiscal 2013. Contributions made were equal to the yearly statutorily required contributions.

Total members in the pension plans administered by ERS and TRS are presented in the table below.

Retirement Systems' Membership

	ERS	LECOS	JRS1	JRS2	TRS
Retirees and Beneficiaries Currently Receiving Benefits	91,367	9,089	421	254	348,228
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	96,015	10,187	4	152	83,878
Current Employees: Vested and Non-Vested	133,669	37,415	13	545	937,534
Total Members	321,051	56,691	438	951	1,369,640

Actuarial methods and assumptions for the pension plans administered by ERS and TRS are presented in the table below.

Actuarial Methods and Assumptions

	ERS	LECOS	JRS1	JRS2	TRS
Actuarial Valuation Date	Aug. 31, 2013	Aug. 31, 2013	Aug. 31, 2013	Aug. 31, 2013	Aug. 31, 2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open
Remaining Amortization Period	30 years	30 years	30 years*	30 years	30 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	Market	20% of market plus 80% of expected actuarial value	5-year Smoothed Market
Actuarial Assumptions:					
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%
Payroll Growth	3.5%	3.5%	N/A	3.5%	3.50%
Projected Salary Increases	0.0%-11.5%	5.0%-11.5%	3.5%	3.5%	4.25%-7.25%
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None

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

Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS
Annual Required Contribution (ARC)	$ 741,730	$ 36,388	$ 20,336	$ 10,586	$ 3,033,665
Interest on Net Pension Obligation (NPO)	89,295	5,919	5,278	117	144,086
Adjustment to ARC	(67,028)	(4,443)	(5,640)	(88)	(108,130)
Annual Pension Cost	763,997	37,864	19,974	10,615	3,069,621
Employer Contributions Made	(375,737)	(7,117)	(25,578)	(4,549)	(2,252,373)
Increase (Decrease) in NPO	388,260	30,747	(5,604)	6,066	817,248
Net Pension Obligation, September 1, 2012	1,116,173	73,990	65,977	1,468	1,801,067
Net Pension Obligation, August 31, 2013*	$ 1,504,433	$ 104,737	$ 60,373	$ 7,534	$ 2,618,315

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

Three–Year Trend Information

(Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/(Asset)
ERS			
08/31/13	$ 763,997	49.2%	$ 1,504,433
08/31/12	719,678	48.2%	1,116,173
08/31/11	715,931	57.8%	743,151
LECOS			
08/31/13	$ 37,864	18.8%	$ 104,737
08/31/12	35,818	0.0% *	73,990
08/31/11	36,953	65.6%	38,169
JRS1			
08/31/13	$ 19,974	128.1%	$ 60,373
08/31/12	21,033	125.8%	65,977
08/31/11	22,651	119.1%	71,408
JRS2			
08/31/13	$ 10,615	42.9%	$ 7,534
08/31/12	10,616	39.1%	1,468
08/31/11	11,512	103.7%	(4,997)
TRS			
08/31/13	$ 3,069,621	73.4%	$ 2,618,315
08/31/12	2,801,967	73.2%	1,801,067
08/31/11	2,740,560	85.1%	1,051,481

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

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for fiscal 2013 is presented in the table above.

Trend Information

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

The table at left presents the three-year trend information regarding annual pension cost and the net pension obligation/(asset) of the plans.

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
ERS						
08/31/13	$ 24,667,639	$ 30,987,987	$ 6,320,348	79.6%	$ 5,959,473	106.1%
LECOS						
08/31/13	$ 843,017	$ 1,149,712	$ 306,695	73.3%	$ 1,627,699	18.8%
JRS1						
08/31/13	$ 0	$ 252,943	$ 252,943	0.0%	$ 1,904	13,284.8%
JRS2						
08/31/13	$ 318,026	$ 359,044	$ 41,018	88.6%	$ 77,854	52.7%
TRS						
08/31/13	$ 121,729,819	$ 150,666,094	$ 28,936,275	80.8%	$ 36,504,576	79.3%

Funded Status

Information on the state's pension plans funded status for each plan as of Aug. 31, 2013, is presented in the table above.

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.

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

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

Texas Guaranteed Student Loan Corporation

The Texas Guaranteed Student Loan Corporation (TGSLC), a discrete component unit of the state, maintains its own defined contribution retirement plan, the TGSLC Money Purchase Pension Plan and Trust (the Plan). The Plan covers substantially all employees of the TGSLC. As of June 30, 2013, there were 690 participants in the Plan. Employees do not contribute to the Plan; TGSLC's contributions to the Plan are generally based on 9 percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately $37.9 million and $36.1 million, respectively, in the Plan year ended June 30, 2013. Total TGSLC contributions were approximately $3.1 million for the fiscal year ended Sept. 30, 2013. Plan amendments are subject to the Plan's Board of Trustees' approval and the TGSLC Board of Directors' ratification.

Note 10

Deferred Compensation

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457. The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

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

Note 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are established by the General Appropriations Act.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

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

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

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

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

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT and A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code, Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

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

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ended	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/13	$ 146,454	$ 682,065	21.5%	$ 2,799,478
8/31/12	142,737	639,952	22.3%	2,263,867
8/31/11	124,280	595,169	20.9%	1,766,652
A&M Plan				
8/31/13	$ 61,529	$ 176,876	34.8%	$ 719,225
8/31/12	63,131	190,200	33.2%	603,878
8/31/11	40,489	174,919	23.1%	476,809

For the fiscal year ended Aug. 31, 2013, 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 next column. 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, 2013

	UT Plan		A&M Plan	
Level of Coverage	**Employer**	**Plan Member**	**Employer**	**Plan Member***
Retiree Only	$ 483	$	$ 370	$ 79
Retiree/Spouse	736	208	548	257
Retiree/Children	645	218	482	190
Retiree/Family	900	410	637	346

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

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the employer annual required contributions (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The table below presents the components of the annual OPEB cost for the UT and A&M plans for fiscal 2013 and the net OPEB obligation for these two plans as of Aug. 31, 2013.

Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	$ 640,898	$ 165,148
Interest on Net OPEB Obligation	158,471	44,083
Adjustment to ARC	(117,304)	(32,355)
Annual OPEB Cost	682,065	176,876
Employer Contributions Made	(146,454)	(61,529)
Increase in Net OPEB Obligation	535,611	115,347
Net OPEB Obligation, September 1, 2012	2,263,867	603,878
Net OPEB Obligation, August 31, 2013	$ 2,799,478	$ 719,225

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2013, is presented in the table below.

Funded Status

(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2012	Sept. 1, 2012
Actuarial Value of Plan Assets	$	$
Actuarial Accrued Liability (AAL)	6,939,197	1,924,980
Unfunded Actuarial Accrued Liability (UAAL)	$ 6,939,197	$ 1,924,980
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	$ 5,674,298	$ 1,149,300
UAAL as a Percentage of Covered Payroll	122.3%	167.5%

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The table below provides additional detail on the actuarial methods and assumptions used in the UT plan and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2012	Sept. 1, 2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Amortization Period	30 years	30 years
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Projected Salary Increases	4.75% to 7.75%	3.50%
Investment Rate of Return	7.00%	7.30%
Includes Inflation at	3.50%	3.00%
Health Care Trend Rates	8% initial 5.5% ultimate	9% initial 5% ultimate
Mortality Tables	TRS and PBGC tables*	RP-2000 Table applied on a gender-specific basis

* For service retirees, the mortality tables used by TRS retirement plan that reflect TRS specific experience was adopted as most of the UT EGIP OPEB plan members participate in the TRS retirement plan. For disablility retirees, the 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 61 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 45. No disclosure of actuarial information as it relates to the entire plan is required on individual employer reports. Instead, the OPEB plan discloses all required actuarial calculations in the notes to its financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at:

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

Plan Description

Retirees of state agencies, institutions of higher education (not part of UT and A&M Systems) 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, 2013

	ERS SRHP	
Level of Coverage	Employer	Plan Member
Retiree Only	$ 470	$
Retiree/Spouse	740	269
Retiree/Children	651	180
Retiree/Family	920	449

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2013 the state contributed $471 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2012 and fiscal 2011, the state contributed $425 million and $394.2 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 1,255 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 2013 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, 2013
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	$ 160,953
On Behalf From State	241,577
On Behalf From Federal Government	74,511
	$ 477,041

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

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

Plan Description

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

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

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

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

Medicare Part D

In fiscal 2013 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 2013.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2013
(Amounts in Thousands)

UT Plan	$ 9,057
A&M Plan	3,830
ERS SRHP	13,605
TRS-Care	24,975
	$ 51,467

Note 12

Interfund Activity and Transactions

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

Reciprocal Interfund Activity

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

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

Nonreciprocal Interfund Activity

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

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

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

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

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The interfund receivables/

payables include loans for energy efficiency programs of approximately $48.3 million. There is also a $732.3 million 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 $3 billion transfer from the property tax relief fund and a $1.1 billion transfer from the lottery fund to the foundation school fund for educational programs. There is also a $1 billion transfer from the permanent school fund to the available school fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2013, 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	$ 7,757	$ 788	$ 40,341	$ 1,578	$ 48,098	$ 2,366
Nonmajor Governmental Funds	2	359		2,812	2	3,171
	7,759	1,147	40,341	4,390	48,100	5,537
PROPRIETARY FUNDS						
Colleges and Universities	23,160	30,316	709,159	747,685	732,319	778,001
Nonmajor Enterprise Funds	544		2,575		3,119	
	23,704	30,316	711,734	747,685	735,438	778,001
Total	$ 31,463	$ 31,463	$ 752,075	$ 752,075	$ 783,538	$ 783,538

Due From/Due To

(Amounts in Thousands)

	Due From			Due To		
Fund Type	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
GOVERNMENTAL FUNDS						
General Fund	$ 283,934	$	$ 287	$ 918,360	$	$
State Highway Fund	298,504			19,379		
Permanent School Fund				51		
Nonmajor Governmental Funds	101,434			30,984		
	683,872	0	287	968,774	0	0
PROPRIETARY FUNDS						
Colleges and Universities	613,710			29,519		
Unemployment Trust Fund	4,732					
Lottery Fund				137,902		
Nonmajor Enterprise Funds	60,010			96,524		
Internal Service Fund	96,174			1,164		
	774,626	0	0	265,109	0	0
FIDUCIARY FUNDS						
Pension and Other Employee Benefit Trust Funds	10,540			232,098		
Private-Purpose Trust Funds	1			6		
Agency Funds	1,035			4,087		
	11,576	0	0	236,191	0	0
DISCRETELY PRESENTED COMPONENT UNITS	0	0	0	0	287	0
Total	$ 1,470,074	$ 0	$ 287	$ 1,470,074	$ 287	$ 0

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
GOVERNMENTAL FUNDS		
General Fund	$ 4,481,376	$ 5,641,771
State Highway Fund	171,397	410,097
Permanent School Fund		1,320,887
Nonmajor Governmental Funds	2,406,623	3,511,219
	7,059,396	10,883,974
PROPRIETARY FUNDS		
Colleges and Universities	5,328,923	375,191
Unemployment Trust Fund	92,727	10,065
Lottery Fund		1,214,102
Nonmajor Enterprise Funds	17,195	40,930
	5,438,845	1,640,288
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	117,866	92,287
Private-Purpose Trust Funds	471	29
	118,337	92,316
Total	$ 12,616,578	$ 12,616,578

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances	$ 35,951	$ (35,951)	$ 0
CURRENT LIABILITIES			
Internal Balances	$ 407,895	$ (407,895)	$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$ (4,028,026)
Business-Type Activities	$ 4,028,026

Note 13

Classification of Fund Balances/ Net Position

The table on the following page presents a summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2013.

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 balance is determined by the governmental function for which the funds are restricted, committed, assigned or unassigned. The governmental function is assigned to an agency and all fund balances reported by the agency reflect that function.

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

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

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

Of the $7.3 billion governmental funds total unassigned fund balance, $6.2 billion is for the economic stabilization fund (ESF). The ESF was authorized by the Texas Constitution, Article III, Section 49g. In November of each year a transfer is made equal to 75 percent of the excess of the prior fiscal year collections for oil and natural gas production taxes over 1987 collections. The

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

(Amounts in Thousands)

MAJOR FUNDS

General Fund	
Nonspendable:	
Inventory	$ 235,720
Prepaid Items	3,231
Long-term Receivables	360,115
	$ 599,066
Restricted for:	
General Government	$ 702,400
Education	137,221
Health and Human Services	49,030
Public Safety and Corrections	54,364
Natural Resources and Recreation	217,429
	$ 1,160,444
Committed to:	
General Government	$ 1,516,932
Education	1,115,019
Health and Human Services	704,249
Public Safety and Corrections	31,778
Natural Resources and Recreation	1,519,926
Regulatory Services	271,496
	$ 5,159,400
Assigned to:	
General Government	$ 9,277
Education	108
Health and Human Services	76,314
Public Safety and Corrections	5,558
Transportation	1,685
Natural Resources and Recreation	900
Regulatory Services	1,093
	$ 94,935
Unassigned:	
General Government	$ 7,394,334
Education	103,188
Employee Benefits	61
Health and Human Services	189,219
Public Safety and Corrections	213,300
Transportation	26,032
Natural Resources and Recreation	93,247
Regulatory Services	8,262
	$ 8,027,643
State Highway Fund	
Nonspendable:	
Inventory	$ 145,295
	$ 145,295
Restricted for:	
General Government	$ 2,902
Public Safety and Corrections	2,260
Transportation	638,172
	$ 643,334
Unassigned:	
Transportation	$ (688,477)
	$ (688,477)
Permanent School Fund	
Nonspendable:	
Permanent Fund Principal	$ 12,279,920
Prepaid Items	6
	$ 12,279,926
Restricted for:	
Public School Support	$ 18,321,565
	$ 18,321,565

NONMAJOR FUNDS

Special Revenue Funds	
Nonspendable:	
Inventory	$ 178
Prepaid Items	5
	$ 183
Restricted for:	
General Government	$ 52,607
Education	1,200,246
Health and Human Services	332
Public Safety and Corrections	1,014
Natural Resources and Recreation	1,096,920
	$ 2,351,119
Committed to:	
General Government	$ 49,746
Employee Benefits	1
Public Safety and Corrections	8,976
Natural Resources and Recreation	209
Regulatory Services	813,434
	$ 872,366
Assigned to:	
General Government	$ 997
Education	1,078
Transportation	397
	$ 2,472
Debt Service Funds	
Restricted for:	
Debt Service	$ 816,971
	$ 816,971
Capital Projects Funds	
Nonspendable:	
Inventory	$ 5
	$ 5
Restricted for:	
General Government	$ 86,783
Education	139
Health and Human Services	2,639
Public Safety and Corrections	18,904
Transportation	798,180
Natural Resources and Recreation	11,342
	$ 917,987
Permanent Funds	
Nonspendable:	
Permanent Fund Principal	$ 777,867
	$ 777,867
Restricted for:	
Natural Resources and Recreation	$ 352
	$ 352
Committed to:	
Education	$ 10,320
	$ 10,320

ALL GOVERNMENTAL FUNDS

Nonspendable	$ 13,802,342
Restricted	24,211,772
Committed	6,042,086
Assigned	97,407
Unassigned	7,339,166
Total Fund Balances – Governmental Funds	$ 51,492,773

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 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.

Restatements to Fund Balances/Net Position

(Amounts in Thousands)

	September 1, 2012, As Previously Reported	Restatements	September 1, 2012, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES			
Major Funds:			
General Fund	$ 8,863,561	$ (215,446)	$ 8,648,115
State Highway Fund	852,902	36,692	889,594
Permanent School Fund	28,802,925		28,802,925
Total Major Funds	38,519,388	(178,754)	38,340,634
Nonmajor Funds:			
Special Revenue Funds	3,274,868	46	3,274,914
Debt Service Funds	1,389,875	(636,172)	753,703
Capital Project Funds	241,925	781,164	1,023,089
Permanent Funds	753,239		753,239
Total Nonmajor Funds	5,659,907	145,038	5,804,945
Total Governmental Funds	44,179,295	(33,716)	44,145,579
Governmental Activities Adjustments:			
Capital Assets	78,448,782	(89,189)	78,359,593
Long-Term Liabilities	(22,127,653)	9,527	(22,118,126)
Deferred Revenue	986,938	(20,934)	966,004
Internal Service Fund	284,814		284,814
Total Governmental Activities Adjustments	57,592,881	(100,596)	57,492,285
Total Governmental Activities	101,772,176	(134,312)	101,637,864
BUSINESS-TYPE ACTIVITIES			
Major Funds:			
Colleges and Universities	42,646,772	(164,324)	42,482,448
Unemployment Trust Fund	29,338		29,338
Lottery Fund	149,125		149,125
Total Major Funds	42,825,235	(164,324)	42,660,911
Nonmajor Enterprise Funds	3,979,500	(959)	3,978,541
Total Business-Type Activities	46,804,735	(165,283)	46,639,452
Total Primary Government	148,576,911	(299,595)	148,277,316
FIDUCIARY FUNDS			
Pension and Other Employee Benefit Trust Funds	135,135,312		135,135,312
External Investment Trust Funds	13,544,992		13,544,992
Private-Purpose Trust Funds	2,929,150		2,929,150
Total Fiduciary Funds	151,609,454	0	151,609,454
DISCRETELY PRESENTED COMPONENT UNITS	852,845	279,257	1,132,102
Total Reporting Entity	$ 301,039,210	$ (20,338)	$ 301,018,872

Note 14

Restatement of Beginning Balances

During fiscal 2013, 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 at right and discussed on the following page.

Restatements by Types of Activity

(Amounts in Thousands)

Type of Activity	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Units	Total
A. Capital Asset Adjustments	$ (89,189)	$ (52,601)	$	$ 6,730	$ (135,060)
B. GASB 61 Implementation		(103,938)		271,968	168,030
C. Grant Advances	(201,551)				(201,551)
D. Miscellaneous Adjustments	156,428	(8,744)		559	148,243
Total Restatements	$ (134,312)	$ (165,283)	$ 0	$ 279,257	$ (20,338)

Restatements are grouped in the table above by the following four types of activity:

A. These restatements are for adjustments to capital assets and accumulated depreciation or amortization. The restatements include an amount of $82.1 million to report bridges that were not previously reported upon their completion.

B. This restatement is to record new component units recognized under GASB 61 and to reclassify blended component units to discrete component units in order to comply with this new standard.

C. This restatement is to correct grant advances in the Texas Enterprise Fund that were recorded as receivables in prior years and were not reclassified in accordance with GASB 33 to grant expense after the grant requirements had been met.

D. These are miscellaneous restatements necessary to correct accounting errors in the prior period or recognize changes in the application of accounting principles and methodologies, including restatements for funds reclassified to a different fund type, to improve consistency within the financial reporting entity.

Note 15

Commitments and Contingencies

COMMITMENTS

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board had loan commitments totaling $385.7 million as of Aug. 31, 2013. The Texas Department of Transportation (TxDOT) has an equity loan agreement of $15.6 billion. Of this amount, $6 billion is related to North Texas Tollway Authority for State Highway 161 Project in Dallas. The remainder of $9.6 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 Dallas/Fort Worth area.

Investment Funds

As of Aug. 31, 2013, state agencies, public employee retirement systems and institutions of higher education had entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2013, the remaining commitment was $30.6 billion.

Construction and Other Commitments

As of Aug. 31, 2013, TxDOT had contractual commitments of approximately $10 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, 2013, the amount of unrealized payables for uncompleted pass-through toll agreements was $431 million. In addition, TxDOT has equity grant commitments of $323.6 million to various local toll project entities.

CONTINGENCIES

Protested Tax Payments

As of Aug. 31, 2013, pending litigation filed by taxpayers seeking refunds of state taxes totaled $203 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse ruling in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2013. These claims total $86.3 million and include a number of lawsuits and claims that may be significant to individual state agencies. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed 850 cases exercising eminent domain for $219 million.

Federal Assistance

The state receives federal financial assistance subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state but is considered immaterial to its overall financial condition.

The Texas Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments – about 60 to 65 percent of that total.

An actual liability is realized only after a completed investigation substantiates an overpayment and the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Guaranteed Debt

In 1983, the voters of the state approved a constitutional amendment that provides for the guarantee by the permanent school fund of up to a defined capacity of $76.8 billion in school district bonds as of Aug. 31, 2013. 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, 2013, $55.2 billion in debt was guaranteed by the permanent school fund for outstanding bond issues in 810 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The $55.2 billion represents the principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities), nor does it include interest on current interest bonds or variable rate notes. The amount also excludes bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2013, none of the school districts with guaranteed debt have defaulted on the guaranteed 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 Affair's (TDHCA) derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. As of Aug. 31, 2013, the aggregate fair value of all derivative instruments with collateral provisions was $25.1 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, 2013.

The Teacher Retirement System of Texas (TRS) is party to derivative instruments with provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug, 31, 2013, the aggregate fair value of all derivative instruments with these provisions was $45 million. If the collateral posting thresholds did not exist, TRS would be required to post the aggregate amount of $6.5 million in collateral to its counterparties. TRS posted no collateral as of Aug. 31, 2013.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded

State agencies and institutions of higher education issued $1.9 billion in new bonds and commercial paper and $1.5 billion in refunding bonds since Aug. 31, 2013, as presented in the table below and on the following page. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Other Subsequent Events

The Texas Workforce Commission transferred $95.6 million of taxes to the unemployment trust fund in September 2013 in accordance with Texas Labor Code, Section 204.123. The taxes were originally deposited to the employment and training investment holding fund, an account within the general revenue fund. Texas Labor Code, Section 204.061, defines a statutory floor for the unemployment trust fund as 1 percent of total taxable wages for the four quarters ended June 30, 2013. This transfer was required because the unemployment trust fund balance was below that floor.

An application was submitted by the Grand Parkway Transportation Corporation, a blended component unit of the Texas Department of Transportation (TxDOT), for a loan from the U.S. Department of Transportation in the amount of $840 million to fund and reimburse eligible costs of the Grand Parkway system. The loan is expected to be finalized in fiscal year 2014.

On Sept. 23, 2013 the Governor of Texas approved the transfer of approximately $116.7 million in depreciable and nondepreciable infrastructure as well as related right-of-way from the Loop 49 Toll Facility in Smith County to the North East Texas Regional Mobility Authority. The actual change in asset valuation for TxDOT will be recorded in fiscal year 2014. The transferred segments will be utilized for the operation and maintenance of a turnpike project.

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2013

(Amounts in Thousands)

	Description	Amount	Issuance Date	Purpose
Stephen F. Austin University	Revenue Financing Sytem Revenue Refunding Bonds, Series 2013	$ 22,255	09/11/13	Refund $7.19 million of 2002 bonds and $16.72 million of 2004 bonds.
Texas A&M University	Revenue Financing System Bonds, Series 2013C	239,965	10/01/13	Finance redevelopment of Kyle Field Stadium.
	Revenue Financing System Bonds, Series 2013D	94,365	10/01/13	Finance redevelopment of Kyle Field Stadium.
	Revenue Financing System Commercial Paper	87,000	12/03/13	Provides interim construction financing.
	Permanent University Funds Bonds, Series 2013	208,465	12/11/13	$150 million for construction projects and also to refund Permanent University Bonds, Series 2003.
Department of Housing and Community Affairs	Multifamily Revenue Bonds MF, Series 2013	14,500	09/24/13	Finance acquisition, construction and equipping of multifamily rental housing developments.
Texas Department of Transportation	Senior Lien Revenue Bonds, Series 2013	274,030	09/12/13	Issue conduit debt related to financing the North Tarrant Express project.
	Grand Parkway System Subordinate Tier Toll Revenue Refunding Bond Anticipation Notes, Series 2014A	733,130	02/14/14	Refund 2013C and D bonds
	Grand Parkway System Toll Revenue Refunding Bonds, Series 2014B	106,800	02/14/14	Refund 2013C and D bonds
	Grand Parkway System Toll Revenue Refunding Bonds, Series 2014C	107,515	02/14/14	Refund 2013C and D bonds

Concluded on the following page.

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2013 (concluded)

(Amounts in Thousands)

	Description	Amount	Issuance Date	Purpose
Texas Higher Education Coordinating Board	College Student Loan Bonds, Series 2013B	$ 113,740	10/23/13	Provide low interest student loans.
Texas Public Finance Authority	General Obligation Commercial Paper Notes, Series 2008	3,000	09/26/13	To fund projects for the Texas Military Department and the Department of Public Safety.
	General Obligation Commercial Paper Notes, Series 2008	24,400	10/15/13	To fund projects for the Texas Parks and Wildlife Department, the Texas Historical Commission and the Department of Public Safety.
	General Obligation Commercial Paper Notes, Series 2008	23,600	11/07/13	To fund projects for the Texas Department of State Health Service, the Department of Public Safety and the Texas Department of Criminal Justice.
	Revenue Commercial Paper, Series 2003 (Master Lease)	1,000	10/23/13	Finance capital equipment purchases.
	General Obligation Commercial Paper Notes, CPRIT Series A	55,200	11/25/13	Finance cancer research projects.
	General Obligation Refunding Bonds, Series 2013	40,370	12/17/13	Refund Series 2003 and partially refund 2003A bonds.
Texas State Affordable Housing Corporation*	Multifamily Housing Mortgage Revenue Bonds, Series 2013	11,500	09/26/13	To fund the Gateway Northwest Project.
Water Development Board	Water Financial Assistance Refunding Bonds, Taxable Series 2013D	20,000	12/03/13	Refund Water Financial Assistance Bonds, Series 2002D.
	Water Financial Assistance Refunding Bonds, Taxable Series 2013D	15,095	12/03/13	Refund Water Financial Assistance Bonds, Series 2002C.
	Water Financial Assistance Refunding Bonds, Taxable Series 2013D	27,295	12/03/13	Refund Water Financial Assistance and Refunding Bonds, Series 2000, 2000B and 2003C.
	Water Financial Assistance Refunding Bonds, Taxable Series 2013D	73,465	12/03/13	Refund Water Financial Assistance and Refunding Bonds, Series 2000, 2000B and Water Financial Assistance Bonds, Series 200A, 2002A, 2002E and 2003A.
University of Houston System	Revenue and Refunding Bonds, Series 2013A.	50,155	09/17/13	For construction projects and refunding of $40 million in Revenue Refunding Bonds, Series 2003 and 2006 and Revenue Bonds, Series 2005 and 2006.
	Revenue and Refunding Bonds, Series 2013B.	102,420	09/17/13	Refund commercial paper and finance various construction projects.
University of Texas System	Permanent University Fund Taxable Commercial Paper Notes, Series B	90,000	10/30/13	To finance a variety of capital projects and equipment purchases at various institutions.
	Revenue Financing System Commercial Paper Notes, Series A	73,411	11/05/13	To finance a variety of capital projects and equipment purchases at various institutions.
	Permanent University Fund (PUF) Taxable Commercial Paper Notes, Series B	25,000	01/23/14	To finance a variety of capital projects and equipment purchases at various institutions.
	Revenue Financing System Commercial Paper Notes, Series B	100,865	02/04/14	To finance a variety of capital projects and equipment purchases at various institutions and retirement of $41.3 million in Series A notes.
	Permanent University Fund Bonds, Series 2014A	240,340	02/11/14	Refund $252.5 million of PUF Taxable commercial paper notes.
Veterans Land Board	General Obligation State of Texas Veterans Bonds, Series 2013C	297,600	10/24/13	Refund the Veterans' Housing Assistance Fund II, Series 1999A-2.
	General Obligation Bonds, Series 2014A	150,000	02/26/14	Augment the Veterans Housing Assistance Fund.
	Total Bond and Commercial Paper Issued/Refunded	$ 3,426,481		

* Discretely presented component unit

Note 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income, and personnel. The state of Texas and its employees are covered by numerous immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claims adjustment expenditures/expenses. In addition, estimated recoveries on unsettled claims, such as salvage and subrogation, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Unallocated claim adjustment expenditures/expenses are not included in the liability for claims and judgments.

There were no significant reductions in insurance coverage in the past year. Also, in the past three years, settlements have not exceeded insurance coverage.

Property and Liability

The Texas Labor Code, Chapter 412, 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 (TxDOT) administer separate self-insured workers' compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by UT and A&M are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS). Public school employees and their dependents are covered by the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employee Group Benefits Program

Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

University of Texas System and Texas A&M University System

UT and A&M provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers a choice of four preferred provider organization plans statewide as well as HMO plans in certain service areas. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The 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, 2012, and Aug. 31, 2013. 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
2013	$ 787,456	$ 2,846,831	$ 2,829,489	$ 804,798
2012	$ 760,167	$ 2,726,971	$ 2,699,682	$ 787,456

Of the fiscal 2013 claims liability ending balance, $186 million relates to long-term claims liabilities, which are reported in Note 5. Of the remaining, $618 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, 2013, 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 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, 2013, 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 governor, with the advice and consent of the Senate, appoints three of the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Trust Company) is a legally separate entity established by the Legislature. The 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.

Texas Governor's Mansion Restoration Fund (TGMRF) is a legally separate entity established to raise awareness and provide financial assistance to the state for the restoration of the Texas Governor's Mansion. TGMRF is closely related to the state of Texas because the Office of the Governor provides administrative services to TGMRF, including accounting, the filing of taxes and the collection of donations. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Cancer Prevention and Research Institute of Texas Foundation (CPRIT Foundation) is a legally separate entity established to augment the activities of the Cancer Prevention and Research Institute of Texas (CPRIT), a state agency, in the form of public outreach, marketing and executive recruitment. The five-member board is appointed by CPRIT's oversight committee, which can also remove board members at any time with or without cause. The CPRIT Foundation was dissolved in May 2013, but final close-out is not expected to occur until fiscal 2014, and financial activity is reported for fiscal 2013. The CPRIT Foundation did not issue separate financial statements for fiscal 2013. Information about the CPRIT Foundation may be obtained by contacting CPRIT at P.O. Box 12097, Austin, Texas 78711.

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, 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.

Texas Private Activity Bond Surface Transportation Corporation (TxPABST) is a legally separate entity that acts on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (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.

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. Separate financial statements 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.

National Wind Resource Center (NWRC) is a legally separate entity established to support research at Texas Tech University (TTU). Five of the nine members of the governing board of NWRC are TTU personnel. TTU controls all assets of NWRC and may modify NWRC's budget. Separate financial statements may be obtained by contacting NWRC at P.O. Box 41091, 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).

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.

Texas State University – San Marcos Research Foundation (SMRF) is a legally separate entity established to support the mission of Texas State University – San Marcos 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 – San Marcos comprise the entirety of SMRF's officers and directors. Texas State University – San Marcos is able to impose its will on SMRF through its ability to remove board members at will, its ability to modify or approve the budget of SMRF, its ability to modify or approve the rates or fees affecting revenues of SMRF and its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of SMRF. SMRF is reported for the fiscal year ended Feb. 28, 2013. Separate financial statements may be obtained by contacting Texas State University, Office of the President for Finance and Support Services, at 601 University Drive, 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 – San Marcos. 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 – San Marcos. There is no formal governing board for the Freeman Foundation. Texas State University – San Marcos 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 – San Marcos, 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, Office of the President for Finance and Support Services, at 601 University Drive, 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 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.

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 June 30, 2013. Separate financial statements may be obtained by contacting the Book Store 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 P.O. Box 20627, Houston, Texas 77225.

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 four-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 7505 South Main, Suite 500, 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 (System) board of regents. The president may remove appointed board members at will. Separate financial statements may be obtained by contacting MDASC at 7505 South Main, Suite 500, 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 P.O. Box 6053, Tyler, Texas 75711-6053.

University of Texas Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to the System. UTIMCO's nine-member board consists of three members of the System board of regents, the chancellor of the System, three members appointed by the System board of regents and two members appointed by the Texas A&M board of regents. The System 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 its ability to unilaterally abolish Fine Arts. Fine Arts is reported for the fiscal year ended Dec. 31, 2012. Separate financial statements may be obtained by contacting UT–Austin at Main Building, P.O. Box T, Austin, Texas 78713.

Communication Foundation 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 Communication Foundation through its ability to remove appointed board members at will, its ability to modify or approve the Communication Foundation's budget, its ability to veto, overrule or modify the decisions of the Communication Foundation and its ability to unilaterally abolish the Communication Foundation. 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.

Texas Guaranteed Student Loan Corporation (TGSLC) is a private nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. All nine members of TGSLC's board are appointed by the governor with the advice and consent of the Senate. The state of Texas imposes its will on TGSLC through its application of the Texas Sunset Act. TGSLC's liabilities are not debts of the state. TGSLC received a one-time appropriation of $1.5 million to fund initial startup operations. TGSLC is reported for the fiscal year ended Sept. 30, 2013. Separate financial statements may be obtained by contacting TGSLC at P.O. Box 83100, Round Rock, Texas 78683-3100.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. TRS is subject to the budget approval powers of the Texas Legislature, and therefore is fiscally dependent on the state of Texas. The retired 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 active employees insurance are reported in the pension and other employee benefit trust funds financial statements. Separate financial statements may be obtained by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The annual budget for the State Bar of Texas must be reviewed and approved by the Supreme Court, thus making the State Bar of Texas fiscally dependent on the state of Texas. The State Bar is reported for the fiscal year ended May 31, 2013. 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 operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and 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** (OneStar) are legally separate nonprofit corporations that administer the AmeriCorps*Texas program. They serve as the state's liaison to and oversee Texas' participation in OneStar programs for the Corporation for National and Community Service (a federal agency), as well as prepare a comprehensive three-year national service plan for the state. The governor appoints all members of OneStar's boards. The governor can also remove any board member at will. The OneStar Foundation Inc. performs all administrative duties of the OneStar National Service Commission Inc., as well as provides technical assistance, education, information and other support to the volunteer community. OneStar is reported for the fiscal year ended Dec. 31, 2012. 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 Higher Education Tuition Scholarship Foundation, Inc. (TPHETSF) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. TPHETSF is a direct-support organization of the prepaid tuition program and is authorized by the Texas Education Code. TPHETSF was previously reported as a blended component unit. Due to an analysis performed this year of the financial relationship between TPHETSF and the primary government, it was determined that TPHETSF should be reported as a discrete component unit. TPHETSF 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 TPHETSF. Separate financial statements 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. TMPF was previously reported as a blended component unit. Due to an analysis performed this year of the financial relationship between TMPF and the primary government, it was determined that TMPF should be reported as a discrete component unit. The Comptroller appoints the Match Foundation'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. Separate financial statements 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, 2012. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building E, Suite 530, Austin, Texas 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit corporation created by the Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the fiscal year ended Dec. 31, 2012. Separate financial statements may be obtained by contacting the Stamping Office at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System (THRS) 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, 2012. Financial statements may be obtained by contacting THRS at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Pool (THIP) (previously titled Texas Health Insurance Risk Pool) 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, 2012. Financial statements may be obtained by contacting THIP at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas Title Insurance Guaranty Association (TTIGA) is a legally separate non-profit 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. TDI is able to impose its will on TTIGA through its ability to veto, overrule or modify the decisions of TTIGA. TTIGA is reported for the fiscal year ended Dec. 31, 2012. Separate financial statements may be obtained by contacting TTIGA at 106 East 6th Street, Suite 300, Austin, Texas 78701-3661.

Texas Life and Health Insurance Guaranty Association (TLHIGA), previously titled Life, Accident, Health and Hospital Service Insurance Guaranty Association, 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. TDI is able to impose its will on TLHIGA through its ability to veto, overrule or modify the decisions of TLHIGA. TLHIGA is reported for the fiscal year ended Dec. 31, 2012. Separate financial statements may be obtained by contacting TLHIGA at 515 Congress Avenue, Suite 1875, Austin, Texas 78701.

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. The nine-member board of directors consists of five members selected by member insurers, with the approval of TDI's commissioner, and four members appointed by the commissioner. TDI is able to impose its will on TPCIGA due to the requirements that TPCIGA's plan of operation, and any amendments, must be approved by TDI's commissioner. TPCIGA is reported for the fiscal year ended Dec. 31, 2012. Separate financial statements may be obtained by contacting TPCIGA at 9120 Burnet Road, Austin, Texas 78758-5204.

Fair Access to Insurance Requirements Plan Association (FAIRPA) is a legally separate entity established to administer the Fair Access to Insurance Requirements Plan (FAIR 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, 2012. Separate financial statements may be obtained by contacting FAIRPA at 5700 South Mopac, Building A, Austin, Texas 78749.

Texas Boll Weevil Eradication Foundation Inc. (Foundation) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is governed by 21 board members. The Texas Department of Agriculture's (TDA) commissioner appoints five of the board members. Although TDA must approve the Foundation's budget, assessment fees and debt, a financial benefit or financial burden does not exist between the Foundation and the primary government. Therefore, the primary government is not financially accountable for the Foundation. However, based on the Foundation's financial relationship with the TDA, omitting the Foundation would result in incomplete financial statements. The Foundation is reported for the fiscal year ended Dec. 31, 2012. 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. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers TAFA with the assistance of the board. 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 (Authority) is a legally separate entity created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects, and primarily benefits the citizens of Texas. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller. 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. 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.

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's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created to assist the Office of the Governor with the improvement of the Texas health care system. THSA promotes and coordinates the 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, 2012. THSA's financial statements may be obtained by contacting THSA at 221 E. 9th St., Suite 201, Austin, Texas 78701.

Beacon State Fund is a legally separate organization established to assist the Governor's Commission for Women (Commission) to promote issues affecting the women of Texas. The Beacon State Fund 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 the Beacon State Fund to ensure funds are expended properly and the public purpose is being accomplished. The Beacon State Fund is reported for the year ended Dec. 31, 2012. Financial statements may be obtained by contacting the Commission at P.O. Box 12428, Austin, Texas 78711.

State Agency Council is a legally separate organization established to assist the Governor's Commission for Women (Commission) by honoring women who have made significant contributions to Texas through their work in state government. The board of directors is appointed by the director of the Commission. The director of the Commission is required to sign all contracts and has check signing privileges. Expenses exceeding $500 require the Commission director's signature. Financial statements for the State Agency Council may be obtained by contacting the Commission at P.O. Box 12428, Austin, Texas 78711.

Film Texas Fund is a legally separate nonprofit organization created to support, encourage and promote the development of the film, television and multimedia industry in Texas. The Film Texas Fund is closely related to the Office of the Governor Texas Film Commission (Commission). However, the Commission is not financially accountable for the Film Texas Fund and the Film Texas Fund supports its own mission in promoting the film industry in Texas. Due to the Film Texas Fund's close financial relationship with the Commission, omitting the Film Texas Fund would result in misleading financial statements. The Film Texas Fund is reported for the year ended Dec. 31, 2012. Financial statements for the Film Texas Fund 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 non-profit 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 year ended Dec. 31, 2012. 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 Angelo State University (ASU), a campus within the Texas Tech University System. The ASU 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 (Foundation) 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 Foundation. Therefore, the Foundation 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 Foundation at 1155 Union Circle #311250, Denton, Texas 76203-5017.

Casa Verde Research Center, Sociedad Anonimo (Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. The board of Casa Verde is appointed by executive management of Texas A&M University. The executive management can also remove board members at will and modify the budget of Casa Verde. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center) is a legally separate organization established in Mexico City, Mexico, to serve as a central point of contact for the support and promotion of Texas A&M University's international education, research and outreach activities. In addition, the Mexico Center provides services outside of Texas A&M University, such as to Mexican government entities. The executive management of Texas A&M University appoints the voting majority of the board of the Mexico Center. It can also remove board members at will and approve and modify the Mexico Center's budget. The Mexico Center is reported for the year ended Dec. 31, 2012. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

National Biosecurity Foundation (NBF) is a legally separate nonprofit corporation established to develop national, regional and local biosecurity countermeasures against unconventional weapons, including biological, chemical and radioactive weapons, and communicable diseases applicable to both military and civilian populations. The board consists of initially three directors, originally appointed by the deputy general counsel of the Texas A&M University System (A&M). Additional directors may be elected by a majority of the existing directors of NBF. A&M can modify or approve the budget of NBF, as well as veto, overrule or modify the decisions of NBF's board. NBF was originally scheduled to be dissolved at the end of fiscal 2012. However, it was never officially dissolved, and is still in existence and operational as of fiscal 2013. Separate financial statements may be obtained by contacting Texas A&M University System, Office of Budgets and Accounting, at 301 Tarrow, Suite 350, College Station, Texas 77840-7896.

Texas 4-H Inc. is a legally separate nonprofit organization established to prepare the youth of Texas to meet the challenges of childhood, adolescence and adulthood through a coordinated, long-term, progressive series of educational experiences that enhance life skills and develop social, emotional, physical and cognitive competencies. Texas 4-H Inc. serves as the central organization for the subordinate organizations and affiliate organizations that comprise the 4-H program in Texas. Texas A&M AgriLife Extension Service is responsible for the Texas 4-H programs. Although the state of Texas is not financially accountable for Texas 4-H Inc., Texas 4-H Inc. is closely related to the Texas A&M University System. Failure to include the financial information of Texas 4-H Inc. would result in misleading financial statements. Separate financial statements may be obtained by contacting Texas A&M University System, Office of Budgets and Accounting, at 301 Tarrow, Suite 350, College Station, Texas 77840-7896.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

Life, Accident, Health and Hospital Service Insurance Guaranty Association changed its name to the **Texas Life and Health Insurance Guaranty Association** (Association). Due to an analysis performed this year of the financial relationship between the Association and the primary government, it was determined that the Association should be reported as a discrete component unit.

Texas Title Insurance Guaranty Association (Guaranty Association) was previously reported as a related organization. Due to an analysis performed this year of the financial relationship between the Guaranty Association and the primary government, it was determined that the Guaranty Association should be reported as a discrete component unit.

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 Self-Insurance Group Guaranty Association (TSIGGA) is a legally separate entity created to provide payment of workers' compensation insurance benefits for injured employees covered by an insolvent workers' compensation self-insurance group. The commissioner of the Division of Workers' Compensation appoints two of the six board members, and approves three other members selected by representatives of the certified workers' compensation self-insurance groups.

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. (Foundation) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The Foundation provides funds for student scholarships and faculty awards and assists the chancellor in performing his/her duties. The board of directors is comprised of all members of the Texas State University System board of regents, which is appointed by the governor.

Texas Farm and Ranch Lands Conservation Council (Council) was established to advise and assist the commissioner of the General Land Office with the administration of the Texas Farm and Ranch Lands Conservation Program and to select applicants to receive grants under the program. Due to an analysis performed this year, it was determined that the Council is not legally separate from the primary government. Therefore, the Council is no longer reported as a related organization.

Operation Game Thief Committee was established to administer the operation game thief program. The program facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's natural or cultural resources and the public safety of persons using those natural or cultural resources. The program also pays rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the members of the committee.

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

River Authorities are political subdivisions created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution for irrigation, power and all other useful purposes of storm waters, flood waters and the waters of rivers and streams; the reclamation and irrigation of arid, semiarid and other lands needing irrigation; the reclamation of drainage of overflowed lands and other lands needing drainage; the conservation and development of forests, water and hydro-electric power; the navigation of inland and coastal waters; and the preservation and conservation of all such natural resources of the state. The state of Texas appoints the voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

Note 20

Deficit Fund Balances/Net Position of Individual Nonmajor Funds

Proprietary Funds

The **Texas Prepaid Tuition Plans** reported a deficit of $541.6 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**, a blended component unit of the Texas Department of Transportation, reported a deficit of $15.9 million. The deficit is due to the payment of bond issuance costs. None of the segments of the Grand Parkway were opened to traffic as of August 31, 2013, thus no revenues were collected to offset the bond issuance costs.

Discretely Presented Component Units

The **Teacher Retirement System** reported a deficit of $117.6 million for ActiveCare. The deficit is due to increasing claim costs. The Teacher Retirement System

Board of Trustees has authorized premium rate increases for plan year 2014 to offset higher claim costs.

The **Texas Windstorm Insurance Association** and the **Fair Access to Insurance Requirement Plan Association,** both discrete component units, reported deficits of $122.4 million and $19 million, respectively. The deficits are due to increased liabilities associated with claim settlements and estimated claim settlements.

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 $311.7 million is based on the payments received in December 2013. Tobacco settlement revenues were $484 million in fiscal 2012 and $483.8 million in fiscal 2013. Cumulative actual tobacco settlement revenues as of fiscal 2013 were $8.1 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $2.2 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	$ 2,176,516	Expendable
Term Endowments	34,185	Expendable
	$ 2,210,701	

True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those required to be retained in perpetuity.

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.

Net appreciation on related investment balances for the Robert G. Carr and Nona K. Carr Scholarship Foundation, previously included as part of Texas Tech University System's net appreciation, is now disclosed separately based on the determination that the foundation is a discrete component unit with an ending net appreciation balance of $3.4 million.

Note 23

Extraordinary and Special Items

The state did not report extraordinary items in fiscal 2013. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state did report one special item in fiscal 2013. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. The Texas Guaranteed Student Loan Corp., a discrete component unit, was transformed from a public nonprofit corporation to a private nonprofit corporation and made a one-time gift of $248 million to the state's Veterans Assistance program.

Note 24

Taxes Receivable and Tax Refunds Payable

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

Texas franchise tax receivables represent balances due as of Aug. 31, 2013, for business activity that occurred in calendar year 2012. The franchise tax payments were due May 15, 2013; however, taxpayers were allowed to extend the filing date to November 2013.

Franchise taxes are considered earned when the underlying business activity occurs. There are no required estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2013 is not due until May 2014. 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, 2013 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	$ 1,770,978
Motor Vehicle and Manufactured Housing	144,586
Motor Fuels	5,537
Oil and Natural Gas Production	670,541
Franchise	261,668
Insurance Occupation	217,844
Cigarette and Tobacco	24,733
Other	253,943
Total Taxes Receivable*	$ 3,349,830
Liquidity Characteristics:	
Current Taxes Receivable	$ 3,345,155
Noncurrent Taxes Receivable	4,675
Total Taxes Receivable	$ 3,349,830

* Total Taxes Receivable General Fund	$ 3,349,830
Motor Fuel Taxes Receivable in Other Govermental Funds:	
State Highway Fund	213,949
Nonmajor Governmental Funds	71,536
Total Taxes Receivable – Balance Sheet – Governmental Funds	$ 3,635,315

Tax Refunds Payable by Tax Type

August 31, 2013 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	$ 269,551
Franchise	570,451
Total Tax Refunds Payable	$ 840,002

Note 25

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. COBRA members are allowed to remain in their eligible insurance program for 18 months, or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA plan administrators for the state include the Employees Retirement

System of Texas, the University of Texas System and the Texas A&M University System.

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 2013, the cost to the state was approximately $35.7 million for 3,954 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Health Care Related Termination Benefits

There were no material non-health care related voluntary or involuntary termination benefits reported in fiscal 2013.

Note 26

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. There were no activities identified that met the criteria for qualification as a segment. Therefore, the State did not report segment information in fiscal 2013.

Note 27

Service Concession Arrangements

The state of Texas has seven 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 below.

Service Concession Arrangements

August 31, 2013

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	Under Construction	52 years	2009	2061
North Tarrant Exp Seg 3A and 3B	Preliminary Activity	52 years	2009	2061
LBJ/IH-635 Managed Lanes	Under Construction	52 years	2009	2061
Grand Parkway Seg D, E, F1, F2, G	Under Construction	40 years	2013	2053*

* These are estimated end dates. The concession period extends until Harris County/GPTC is fully reimbursed for costs of construction and debt service.

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

- 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, 2013, are presented in the table below.

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

August 31, 2013 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	$	$ 250,000	$ 228,261
SH 130 Segments 5 and 6	126,701	1,434,228	1,498,580
SH 121 Concession	1,756,073	1,338,296	3,489,021
North Tarrant Exp Seg 1 and 2-West		472,177	38,771
North Tarrant Exp Seg 3A and 3B		72,941	
LBJ/IH-635 Managed Lanes		75,070	
Grand Parkway Seg D, E, F1, F2, G		36,327	
	$ 1,882,774	$ 3,679,039	$ 5,254,633

* The balance of cash and cash equivalents is the amount of unspent up-front concession payments.

** The deferred inflows of resources balance that relates to up-front payments received and recorded in the governmental fund financial statements is recorded as deferred revenues.

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), 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.

TxDOT has committed funds in the form of a $9.6 billion toll equity loan agreement (TELA) to 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), E, F1, F2 and G 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, 2013, no drawdowns of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of $611.2 million for its costs of design, construction and right-of-way acquisition for the fiscal year ended Aug. 31, 2013. This amount is reported as business-type activities.

Note 28

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2013, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements and the acquisition of Texas Wesleyan University Law School by Texas A&M University.

The table below presents the balances of deferred outflows of resources and deferred inflows of resources as of Aug. 31, 2013.

Deferred Outflows of Resources and Deferred Inflows of Resources per the Government-wide Financial Statements

August 31, 2013 (Amounts in Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Hedging Derivatives (Note 7)	$ 393,026	$ 17,499
Government Acquisition	39,065	
SCAs (Note 27)		5,254,633
Total	$ 432,091	$ 5,272,132

Deferred outflows of resources of $393 million were related to hedging derivatives in a liability position and $17.5 million of deferred inflows of resources were related to hedging derivatives in an asset position. The net hedging derivative liability of $375.5 million is disclosed in Note 7.

Deferred outflows of resources of $39 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. 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 2013 was $0.2 million.

Deferred inflows of resources of $5.3 billion were related to service concession arrangements (SCA) entered into by the Texas Department of Transportation with non-state entities. This amount reflects the unamortized balance of up-front concession payments received and capital assets acquired from these entities. Details of the state's service concession arrangements are disclosed in Note 27.