


Section Two (continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2015 (Amounts in Thousands)

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 29,260,808	\$ 5,203,570	\$ 34,464,378	\$ 1,811,239
Short-Term Investments	520,337	1,127,797	1,648,134	94,658
Securities Lending Collateral	538,494	790,978	1,329,472	
Receivables:				
Taxes	3,562,293		3,562,293	
Federal	2,373,434	868,311	3,241,745	28
Other Intergovernmental	682,266	112,464	794,730	4,386
Accounts	881,273	2,151,070	3,032,343	20,514
Interest and Dividends	94,325	234,743	329,068	2,936
Gifts		312,111	312,111	
Investment Trades	18,260	296,051	314,311	
Other	89,384	418,603	507,987	312
From Fiduciary Funds	321,274		321,274	
Due From Primary Government (Note 12)				1,500
Inventories	412,373	176,628	589,001	2,029
Prepaid Items	1,740	158,704	160,444	3,197
Loans and Contracts	120,163	333,366	453,529	519
Other Current Assets		395,539	395,539	3,350
Restricted:				
Cash and Cash Equivalents	20,216	4,176,307	4,196,523	15,961
Short-Term Investments		524,397	524,397	
Loans and Contracts	114,094	82,252	196,346	3,360
Total Current Assets	<u>39,010,734</u>	<u>17,362,891</u>	<u>56,373,625</u>	<u>1,963,989</u>
Noncurrent Assets:				
Internal Balances (Note 12)	27,392	(27,392)		
Loans and Contracts	1,397,957	4,638,908	6,036,865	6,425
Investments	34,353,063	11,215,375	45,568,438	446,880
Receivables:				
Taxes	79,884		79,884	
Gifts		787,131	787,131	17,031
Other	318,492	43,736	362,228	5,840
Restricted:				
Cash and Cash Equivalents		115,326	115,326	12,983
Short-Term Investments		37,756	37,756	
Investments		33,917,933	33,917,933	480,781
Receivables		156,186	156,186	
Loans and Contracts	1,354,554	3,486,328	4,840,882	7,708
Other	89,431	11,560	100,991	
Assets Held in Trust		5,570	5,570	6,883
Prepaid Items				2,481
Hedging Derivative Asset (Note 7)		1,828	1,828	
Intangible Assets – Service Concession				
Arrangements (Note 26)		2,059,570	2,059,570	
Other Noncurrent Assets	129,781	70,581	200,362	11,599
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	24,184,210	5,699,579	29,883,789	546
Depreciable or Amortizable, Net	66,822,155	22,846,470	89,668,625	24,800
Total Noncurrent Assets	<u>128,756,919</u>	<u>85,066,445</u>	<u>213,823,364</u>	<u>1,023,957</u>
Total Assets	<u>167,767,653</u>	<u>102,429,336</u>	<u>270,196,989</u>	<u>2,987,946</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	4,665,492	1,260,119	5,925,611	
Total Deferred Outflows of Resources	<u>4,665,492</u>	<u>1,260,119</u>	<u>5,925,611</u>	<u>0</u>

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

Concluded on the following page

STATE OF TEXAS

Statement of Net Position (concluded)

August 31, 2015 (Amounts in Thousands)

LIABILITIES	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Current Liabilities:				
Payables:				
Accounts	\$ 5,147,930	\$ 1,640,220	\$ 6,788,150	\$ 608,503
Payroll	711,176	874,904	1,586,080	769
Other Intergovernmental	563,899	12,691	576,590	
Federal	879	80,023	80,902	
Investment Trades	26,835	357,910	384,745	
Interest	405,668	108,821	514,489	1,230
Tax Refunds (Note 23)	741,703		741,703	
Annuities		9,483	9,483	
To Fiduciary Funds	165,114		165,114	
Internal Balances (Note 12)	734,625	(734,625)		
Due To Component Units (Note 12)	1,500		1,500	
Unearned Revenue	811,293	3,331,831	4,143,124	350,962
Obligations/Reverse Repurchase Agreement	47,144		47,144	
Obligations/Securities Lending	590,129	790,978	1,381,107	
Claims and Judgments (Note 5)	40,647	107,344	147,991	
Capital Lease Obligations (Note 5, 8)	3,696	8,644	12,340	11
Employees' Compensable Leave (Note 5)	580,447	427,796	1,008,243	1,653
Notes and Loans Payable (Note 5)	190,008	48,808	238,816	9,841
General Obligation Bonds Payable (Note 5, 6)	524,972	195,378	720,350	
Revenue Bonds Payable (Note 5, 6)	199,831	2,223,497	2,423,328	13,322
Pollution Remediation Obligation (Note 5)	50,703	1,650	52,353	
Liabilities Payable From Restricted Assets (Note 5)		553,014	553,014	
Short Term Debt (Note 4)	350,000	1,598,243	1,948,243	
Funds Held for Others		150,043	150,043	168,278
Other Current Liabilities	255,326	449,979	705,305	640,632
Total Current Liabilities	<u>12,143,525</u>	<u>12,236,632</u>	<u>24,380,157</u>	<u>1,795,201</u>
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	75,613	31,568	107,181	
Capital Lease Obligations (Note 5, 8)	26,061	52,129	78,190	34
Employees' Compensable Leave (Note 5)	257,583	389,629	647,212	1,176
Notes and Loans Payable (Note 5)	1,357,495	1,194,669	2,552,164	14,073
General Obligation Bonds Payable (Note 5, 6)	13,652,446	3,759,185	17,411,631	
Revenue Bonds Payable (Note 5, 6)	4,290,384	19,242,732	23,533,116	101,344
Pollution Remediation Obligation (Note 5)	259,599		259,599	
Liabilities Payable From Restricted Assets (Note 5)		2,510,715	2,510,715	
Assets Held for Others		831,744	831,744	
Net Pension Liability (Note 9)	32,557,541	3,267,991	35,825,532	
Net Pension Obligation (Note 9)	46,959		46,959	
Net OPEB Obligation (Note 11)		4,968,850	4,968,850	
Hedging Derivative Liability (Note 7)		546,108	546,108	
Other Noncurrent Liabilities		227,293	227,293	512,198
Total Noncurrent Liabilities	<u>52,523,681</u>	<u>37,022,613</u>	<u>89,546,294</u>	<u>628,825</u>
Total Liabilities	<u>64,667,206</u>	<u>49,259,245</u>	<u>113,926,451</u>	<u>2,424,026</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	13,479,287	1,009,206	14,488,493	
Total Deferred Inflows of Resources	<u>13,479,287</u>	<u>1,009,206</u>	<u>14,488,493</u>	<u>0</u>
NET POSITION				
Net Investment in Capital Assets	70,898,289	11,571,493	82,469,782	25,221
Restricted for:				
Education	402,537	3,122,354	3,524,891	
Highways	3,644,006		3,644,006	
Debt Service	520,237	289,645	809,882	
Capital Projects		983,259	983,259	
Veterans Land Board Housing Programs		25,284	25,284	
Unemployment Trust Fund		2,003,818	2,003,818	
Funds Held as Permanent Investments:				
Nonexpendable	14,298,506	21,535,342	35,833,848	209,198
Expendable	20,594,642	1,571,517	22,166,159	42,387
Other	3,214,592	3,686,971	6,901,563	123,333
Unrestricted	(19,286,157)	8,631,321	(10,654,836)	163,781
Total Net Position	<u>\$ 94,286,652</u>	<u>\$ 53,421,004</u>	<u>\$ 147,707,656</u>	<u>\$ 563,920</u>

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 3,672,395	\$ 1,235,102	\$ 549,199	\$ 5
Education	28,057,482	710,897	4,031,057	
Employee Benefits	7,064	71		
Teacher Retirement State Contributions	2,735,913			
Health and Human Services	51,792,158	3,793,377	33,972,359	542
Public Safety and Corrections	5,779,455	323,419	365,690	323
Transportation	5,088,956	2,472,458	3,296,856	52,400
Natural Resources and Recreation	2,167,711	680,476	1,512,157	17,958
Regulatory Services	488,780	662,538	4,145	9
Interest on General Long-Term Debt	814,564			
Total Governmental Activities	<u>100,604,478</u>	<u>9,878,338</u>	<u>43,731,463</u>	<u>71,237</u>
Business-Type Activities:				
General Government	113,069	64,388	68,378	
Education	26,443,474	14,431,570	6,593,134	129,305
Health and Human Services	2,585,461	2,496,371	99,861	
Public Safety and Corrections	98,032	112,255		
Transportation	251,897	193,794	1,602	2,409
Natural Resources and Recreation	279,335	47,562	564,949	
Lottery	3,296,218	4,530,468		
Total Business-Type Activities	<u>33,067,486</u>	<u>21,876,408</u>	<u>7,327,924</u>	<u>131,714</u>
Total Primary Government	<u>\$ 133,671,964</u>	<u>\$ 31,754,746</u>	<u>\$ 51,059,387</u>	<u>\$ 202,951</u>
COMPONENT UNITS				
Component Units	\$ 2,554,135	\$ 2,525,711	\$ 61,486	\$
Total Component Units	<u>\$ 2,554,135</u>	<u>\$ 2,525,711</u>	<u>\$ 61,486</u>	<u>\$ 0</u>

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

Concluded on the following page

STATE OF TEXAS

Statement of Activities (concluded)

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			Component Units
	Primary Government			
	Governmental Activities	Business-Type Activities	Total	
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ (1,888,089)	\$	\$ (1,888,089)	\$
Education	(23,315,528)		(23,315,528)	
Employee Benefits	(6,993)		(6,993)	
Teacher Retirement State Contributions	(2,735,913)		(2,735,913)	
Health and Human Services	(14,025,880)		(14,025,880)	
Public Safety and Corrections	(5,090,023)		(5,090,023)	
Transportation	732,758		732,758	
Natural Resources and Recreation	42,880		42,880	
Regulatory Services	177,912		177,912	
Interest on General Long-Term Debt	(814,564)		(814,564)	
Total Governmental Activities	<u>(46,923,440)</u>	<u>0</u>	<u>(46,923,440)</u>	<u>0</u>
Business-Type Activities:				
General Government		19,697	19,697	
Education		(5,289,465)	(5,289,465)	
Health and Human Services		10,771	10,771	
Public Safety and Corrections		14,223	14,223	
Transportation		(54,092)	(54,092)	
Natural Resources and Recreation		333,176	333,176	
Lottery		1,234,250	1,234,250	
Total Business-Type Activities	<u>0</u>	<u>(3,731,440)</u>	<u>(3,731,440)</u>	<u>0</u>
Total Primary Government	<u>(46,923,440)</u>	<u>(3,731,440)</u>	<u>(50,654,880)</u>	<u>0</u>
COMPONENT UNITS				
Component Units				33,062
Total Component Units	<u>0</u>	<u>0</u>	<u>0</u>	<u>33,062</u>
General Revenues				
Taxes:				
Sales and Use	29,072,568		29,072,568	
Motor Vehicle and Manufactured Housing	4,541,039		4,541,039	
Motor Fuels	3,495,904		3,495,904	
Franchise	4,808,823		4,808,823	
Oil and Natural Gas Production	3,987,325		3,987,325	
Insurance Occupation	2,056,729		2,056,729	
Cigarette and Tobacco	1,522,941		1,522,941	
Other	2,287,677		2,287,677	
Unrestricted Investment Earnings	153,315	67,089	220,404	1,881
Net Increase in Fair Value of Investments	1		1	
Settlement of Claims	590,685	306	590,991	
Gain on Sale of Capital Assets	50,749	40,440	91,189	1,778
Gain on Other Financial Activity	22,266		22,266	
Other General Revenues	2,171,101	186,006	2,357,107	1,688
Capital Contributions (Distributions)	713	3,817	4,530	
Contributions to Permanent and Term Endowments		182,754	182,754	
Transfers - Internal Activities (Note 12)	(4,189,320)	4,189,320		
Total General Revenues, Contributions, Special Items and Transfers	<u>50,572,516</u>	<u>4,669,732</u>	<u>55,242,248</u>	<u>5,347</u>
Change in Net Position	<u>3,649,076</u>	<u>938,292</u>	<u>4,587,368</u>	<u>38,409</u>
Net Position, September 1, 2014	119,405,256	56,177,318	175,582,574	525,511
Restatements (Note 14)	<u>(28,767,680)</u>	<u>(3,694,606)</u>	<u>(32,462,286)</u>	
Net Position, September 1, 2014, as Restated	<u>90,637,576</u>	<u>52,482,712</u>	<u>143,120,288</u>	<u>525,511</u>
Net Position, August 31, 2015	<u>\$ 94,286,652</u>	<u>\$ 53,421,004</u>	<u>\$ 147,707,656</u>	<u>\$ 563,920</u>

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2015 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 19,038,800	\$ 3,993,646	\$ 2,610,768	\$ 3,582,762	\$ 29,225,976
Short-Term Investments	53,462		139,141	156,377	348,980
Securities Lending Collateral			524,452		524,452
Receivables:					
Accounts	446,028	174,123	103,437	4,051	727,639
Taxes (Note 23)	3,297,682	258,185		86,310	3,642,177
Federal	1,797,370	575,533		531	2,373,434
Investment Trades			18,260		18,260
Other Intergovernmental	615,359	66,906			682,265
Interest and Dividends	4,884	5,883	59,898	21,802	92,467
Other	407,870			6	407,876
Due From Other Funds (Note 12)	138,218	1,511,336		174,037	1,823,591
Interfund Receivable (Note 12)	38,188				38,188
Inventories	227,798	184,345		230	412,373
Prepaid Items	1,740				1,740
Investments	247,573		31,074,300	2,677,152	33,999,025
Loans and Contracts	311,931	368,206	2,930	835,053	1,518,120
Other Assets	129,781				129,781
Restricted:					
Cash and Cash Equivalents	18,716			1,500	20,216
Loans and Contracts	566,151			902,497	1,468,648
Other Assets				89,431	89,431
Total Assets	\$ 27,341,551	\$ 7,138,163	\$ 34,533,186	\$ 8,531,739	\$ 77,544,639
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 3,380,914	\$ 999,738	\$ 17,213	\$ 170,825	\$ 4,568,690
Investment Trades			26,835		26,835
Other Intergovernmental	563,899				563,899
Tax Refunds (Note 23)	741,703				741,703
Payroll	606,662	101,155	2,238	1,121	711,176
Federal	879				879
Interest	18,692				18,692
Due To Other Funds (Note 12)	2,514,623	54,456	103	156,840	2,726,022
Due To Component Unit (Note 12)	1,500				1,500
Interfund Payable (Note 12)	902			3,766	4,668
Unearned Revenues	475,956	201,514	53,026	508,645	1,239,141
Obligations/Reverse Repurchase Agreements	47,144				47,144
Obligations/Securities Lending			575,807		575,807
Short Term Debt (Note 4)		350,000			350,000
Other Liabilities	243,611	8,886		2,829	255,326
Total Liabilities	8,596,485	1,715,749	675,222	844,026	11,831,482
Deferred Inflows of Resources:					
Deferred Inflows of Resources (Note 27)	863,057	135,620	24,421	9,939	1,033,037
Total Deferred Inflows of Resources	863,057	135,620	24,421	9,939	1,033,037
Fund Balances/(Deficits):					
Nonspendable (Note 13)	842,541	184,345	13,496,148	802,589	15,325,623
Restricted (Note 13)	899,501	3,653,020	20,337,395	6,323,546	31,213,462
Committed (Note 13)	4,765,490	1,410,911		549,665	6,726,066
Assigned (Note 13)	23,482	38,518		1,974	63,974
Unassigned (Note 13)	11,350,995				11,350,995
Total Fund Balances	17,882,009	5,286,794	33,833,543	7,677,774	64,680,120
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 27,341,551	\$ 7,138,163	\$ 34,533,186	\$ 8,531,739	\$ 77,544,639

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, 2015 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 64,680,120

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	\$ 24,184,210	
Capital Assets – Depreciable or Amortizable, Net	66,822,155	91,006,365

Reversal of prior year unearned tax revenues recorded in governmental funds but not in the Statement of Net Position.		441,420
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Deferred inflows of resources represent revenues state earned to be collected after fiscal year-end but not available soon enough to pay current year's expenditures, therefore are deferred in the funds but not reportable in the Statement of Net Position. (Note 27)		1,033,037
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Deferred outflows of resources were reported in the Statement of Net Position to reflect the loss on bond/debt refunding and impact of pension implementation. (Note 27)		4,665,492
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Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized upfront payments received and capital assets acquired in connection with the Service Concession Arrangements and impact of pension implementation. (Note 26, 27)		(13,479,287)
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Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the Statement of Net Position. (Note 5, 9)

Claims and Judgments	(116,260)	
Capital Lease Obligations	(29,757)	
Employees' Compensable Leave	(838,030)	
Notes and Loans Payable	(1,547,503)	
General Obligation Bonds Payable	(14,177,418)	
Revenue Bonds Payable	(4,490,215)	
Pollution Remediation Obligation	(310,302)	
Net Pension Liability	(32,557,541)	
Net Pension Obligation	(46,959)	(54,113,985) *

* current portion = \$1,590,304 and noncurrent portion = \$52,523,681

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the Statement of Net Position.		(386,976)
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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.		440,466
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Net Position of Governmental Activities \$ 94,286,652

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 44,936,371	\$ 2,582,836	\$	\$ 3,576,718	\$ 51,095,925
Federal	38,626,324	3,185,869		56,927	41,869,120
Licenses, Fees and Permits	3,157,896	1,548,207		602,233	5,308,336
Interest and Other Investment Income (Loss)	157,704	26,205	(819,148)	61,085	(574,154)
Land Income	38,306	15,590	583,019	773	637,688
Settlement of Claims	561,567	22,911	4,083	1,636	590,197
Sales of Goods and Services	3,459,519	38,516	83,890	165,722	3,747,647
Other	4,637,143	9,167	5,178	24,648	4,676,136
Total Revenues	<u>95,574,830</u>	<u>7,429,301</u>	<u>(142,978)</u>	<u>4,489,742</u>	<u>107,350,895</u>
EXPENDITURES					
Current:					
General Government	2,616,953	11,833		244,498	2,873,284
Education	26,529,797		132,515	1,274,274	27,936,586
Employee Benefits	1,808			12,625	14,433
Teacher Retirement State Contributions	2,735,912				2,735,912
Health and Human Services	51,727,363			13,857	51,741,220
Public Safety and Corrections	4,982,331	538,850		74,098	5,595,279
Transportation	89,333	3,277,039		214,185	3,580,557
Natural Resources and Recreation	2,108,866			76,849	2,185,715
Regulatory Services	386,926	4,518		94,550	485,994
Capital Outlay	171,092	4,536,634	158	739,473	5,447,357
Debt Service:					
Principal	86,526	112,443		558,403	757,372
Interest	110,051			646,416	756,467
Other Financing Fees	558	3,205		14,025	17,788
Total Expenditures	<u>91,547,516</u>	<u>8,484,522</u>	<u>132,673</u>	<u>3,963,253</u>	<u>104,127,964</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,027,314</u>	<u>(1,055,221)</u>	<u>(275,651)</u>	<u>526,489</u>	<u>3,222,931</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,779,123	3,016,315		1,913,377	9,708,815
Transfer Out (Note 12)	(8,989,547)	(439,063)	(838,672)	(3,674,352)	(13,941,634)
Bonds and Notes Issued	244,600			2,333,185	2,577,785
Bonds Issued for Refunding		781,080		1,162,060	1,943,140
Premiums on Bonds Issued		133,433		509,027	642,460
Payment to Escrow for Refunding		(910,971)		(1,373,044)	(2,284,015)
Sale of Capital Assets	7,977	70,827			78,804
Gain on Other Financial Activity	22,266				22,266
Insurance Recoveries	22,090	355			22,445
Total Other Financing Sources (Uses)	<u>(3,913,491)</u>	<u>2,651,976</u>	<u>(838,672)</u>	<u>870,253</u>	<u>(1,229,934)</u>
Net Change in Fund Balances	<u>113,823</u>	<u>1,596,755</u>	<u>(1,114,323)</u>	<u>1,396,742</u>	<u>1,992,997</u>
Fund Balances, September 1, 2014	17,759,170	3,690,716	34,951,220	6,261,811	62,662,917
Restatements (Note 14)	9,016	(677)	(3,354)	19,221	24,206
Fund Balances, September 1, 2014, as Restated	<u>17,768,186</u>	<u>3,690,039</u>	<u>34,947,866</u>	<u>6,281,032</u>	<u>62,687,123</u>
Fund Balances, August 31, 2015	<u>\$ 17,882,009</u>	<u>\$ 5,286,794</u>	<u>\$ 33,833,543</u>	<u>\$ 7,677,774</u>	<u>\$ 64,680,120</u>

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

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

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

Net Change in Fund Balances \$ 1,992,997

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	\$ 5,447,357	
Depreciation Expense (Note 2)	(1,855,209)	
Amortization Expense (Note 2)	(48,374)	
	3,543,774	3,543,774

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position. (28,055)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (1,358,658)

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. 61,156

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	(4,520,925)	
Premiums on Bond Proceeds	(642,460)	
Repayment of Bond and Capital Lease Principal	3,041,387	
	(2,121,998)	(2,121,998)

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. 1,559,376

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

Capital Asset Transfers (Note 2)	484	
Increase in Revenues	15,216	
Increase in Expenses	(58,231)	
Net Change in Transfers	43,015	
	484	484

Change in Net Position of Governmental Activities \$ 3,649,076

Statement of Net Position – Proprietary Funds

August 31, 2015 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 4,538,571	\$ 521	\$ 219,006	\$ 445,472	\$ 5,203,570	\$ 34,834
Short-Term Investments	158,033			969,764	1,127,797	171,357
Securities Lending Collateral	687,047			103,931	790,978	14,042
Restricted:						
Cash and Cash Equivalents	1,146,096	2,021,725		1,008,486	4,176,307	
Short-Term Investments	72,713		92,866	358,818	524,397	
Loans and Contracts	10			82,242	82,252	
Receivables:						
Federal	856,407	654		11,250	868,311	
Other Intergovernmental	112,414			50	112,464	
Accounts	1,831,004	250,504	42,305	27,257	2,151,070	153,634
Interest and Dividends	67,646	7,668		159,429	234,743	1,857
Gifts	312,111				312,111	
Investment Trades	222,037			74,014	296,051	
Other	414,580			4,023	418,603	
Due From Other Funds (Note 12)	841,118	3,912		84,429	929,459	320,287
Interfund Receivable (Note 12)	37,770			872	38,642	
Inventories	151,418		12,764	12,446	176,628	
Prepaid Items	157,436		986	282	158,704	
Loans and Contracts	129,105			204,261	333,366	
Other Current Assets	394,711			828	395,539	
Total Current Assets	<u>12,130,227</u>	<u>2,284,984</u>	<u>367,927</u>	<u>3,547,854</u>	<u>18,330,992</u>	<u>696,011</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	81,029			34,297	115,326	
Short-Term Investments	37,756				37,756	
Investments	30,275,746		619,593	3,022,594	33,917,933	
Receivables	33,237			122,949	156,186	
Loans and Contracts	93,774			3,392,554	3,486,328	
Other	9,184			2,376	11,560	
Loans and Contracts	29,054			4,609,854	4,638,908	
Investments	11,126,876			88,499	11,215,375	354,040
Interfund Receivable (Note 12)	974,653			2,290	976,943	
Gifts Receivable	787,131				787,131	
Other Receivables		43,736			43,736	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	4,964,648			734,931	5,699,579	
Depreciable or Amortizable, Net	20,758,947		522	2,087,001	22,846,470	
Assets Held in Trust	362			5,208	5,570	
Hedging Derivative Asset (Note 7)				1,828	1,828	
Intangible Assets – Service Concession Arrangements (Note 26)						
Other Noncurrent Assets	70,379			202	70,581	
Total Noncurrent Assets	<u>69,242,776</u>	<u>43,736</u>	<u>620,115</u>	<u>16,164,153</u>	<u>86,070,780</u>	<u>354,040</u>
Total Assets	<u>81,373,003</u>	<u>2,328,720</u>	<u>988,042</u>	<u>19,712,007</u>	<u>104,401,772</u>	<u>1,050,051</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 27)	941,684			318,435	1,260,119	
Total Deferred Outflows of Resources	<u>941,684</u>	<u>0</u>	<u>0</u>	<u>318,435</u>	<u>1,260,119</u>	<u>0</u>
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,420,970	84,657	29,784	104,809	1,640,220	579,242
Payroll	869,244		1,979	3,681	874,904	
Other Intergovernmental	12,691				12,691	
Federal	77,301	2,722			80,023	
Investment Trades	281,218			76,692	357,910	
Interest	26,563	4,557		77,701	108,821	
Annuities			9,483		9,483	

Concluded on the following page

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2015 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	\$ 26,999	\$	\$ 127,576	\$ 34,131	\$ 188,706	\$ 2,449
Interfund Payable (Note 12)	44,745			25	44,770	
Unearned Revenue	3,216,676	105,971		9,184	3,331,831	13,572
Obligations/Securities Lending	687,047			103,931	790,978	14,322
Short-Term Debt (Note 4)	1,598,243				1,598,243	
Claims and Judgments (Note 5)	107,344				107,344	
Capital Lease Obligations (Note 5, 8)	8,644				8,644	
Employees' Compensable Leave (Note 5)	423,839		1,391	2,566	427,796	
Notes and Loans Payable (Note 5)	36,708			12,100	48,808	
General Obligation Bonds Payable (Note 5, 6)	1,065			194,313	195,378	
Revenue Bonds Payable (Note 5, 6)	1,913,187	213,431		96,879	2,223,497	
Liabilities Payable From Restricted						
Assets (Note 5)	54,138		204,207	294,669	553,014	
Pollution Remediation Obligation	120			1,530	1,650	
Funds Held for Others	150,043				150,043	
Other Current Liabilities	439,363		932	9,684	449,979	
Total Current Liabilities	<u>11,396,148</u>	<u>411,338</u>	<u>375,352</u>	<u>1,021,895</u>	<u>13,204,733</u>	<u>609,585</u>
Noncurrent Liabilities:						
Interfund Payable (Note 12)	1,004,335				1,004,335	
Claims and Judgments (Note 5)	31,568				31,568	
Capital Lease Obligations (Note 5, 8)	52,129				52,129	
Employees' Compensable Leave (Note 5)	387,516		1,102	1,011	389,629	
Notes and Loans Payable (Note 5)	424,104			770,565	1,194,669	
General Obligation Bonds Payable (Note 5, 6)	3,450			3,755,735	3,759,185	
Revenue Bonds Payable (Note 5, 6)	11,538,956	439,199		7,264,577	19,242,732	
Liabilities Payable From Restricted						
Assets (Note 5)	18,629		562,224	1,929,862	2,510,715	
Assets Held for Others	826,536			5,208	831,744	
Net OPEB Obligation (Note 11)	4,968,850				4,968,850	
Net Pension Liability (Note 9)	3,267,991				3,267,991	
Hedging Derivative Liability (Note 7)	261,613			284,495	546,108	
Other Noncurrent Liabilities	139,364			87,929	227,293	
Total Noncurrent Liabilities	<u>22,925,041</u>	<u>439,199</u>	<u>563,326</u>	<u>14,099,382</u>	<u>38,026,948</u>	<u>0</u>
Total Liabilities	<u>34,321,189</u>	<u>850,537</u>	<u>938,678</u>	<u>15,121,277</u>	<u>51,231,681</u>	<u>609,585</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 27)	1,005,385			3,821	1,009,206	
Total Deferred Inflows of Resources	<u>1,005,385</u>	<u>0</u>	<u>0</u>	<u>3,821</u>	<u>1,009,206</u>	<u>0</u>
NET POSITION						
Net Investment in Capital Assets	10,878,193		521	692,779	11,571,493	
Restricted for:						
Education	3,122,354				3,122,354	
Debt Service	41,634			248,011	289,645	
Capital Projects	983,259				983,259	
Veterans Land Board Housing Programs				25,284	25,284	
Unemployment Trust Funds		2,003,818			2,003,818	
Funds Held as Permanent Investments:						
Nonexpendable	21,535,342				21,535,342	
Expendable	1,571,517				1,571,517	
Other			5,000	3,681,971	3,686,971	440,466
Unrestricted	<u>8,855,814</u>	<u>(525,635)</u>	<u>43,843</u>	<u>257,299</u>	<u>8,631,321</u>	
Total Net Position	<u>\$ 46,988,113</u>	<u>\$ 1,478,183</u>	<u>\$ 49,364</u>	<u>\$ 4,905,344</u>	<u>\$ 53,421,004</u>	<u>\$ 440,466</u>

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

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

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
OPERATING REVENUES						
Lottery Collections	\$	\$	\$ 4,530,057	\$	\$ 4,530,057	\$
Tuition Revenue	148,220				148,220	
Tuition Revenue – Pledged	5,802,942				5,802,942	
Discounts and Allowances	(1,453,438)				(1,453,438)	
Hospital Revenue – Pledged	11,910,300				11,910,300	
Discounts and Allowances	(6,649,945)				(6,649,945)	
Professional Fees	5,561,711				5,561,711	
Professional Fees – Pledged	6,585				6,585	
Discounts and Allowances	(3,766,634)				(3,766,634)	
Auxiliary Enterprises	2,712				2,712	
Auxiliary Enterprises – Pledged	1,427,411			112,026	1,539,437	
Discounts and Allowances	(77,619)				(77,619)	
Unemployment Taxes		2,496,355			2,496,355	
Other Sales of Goods and Services	25,272			66,151	91,423	
Other Sales of Goods and Services – Pledged	930,745			210,379	1,141,124	
Discounts and Allowances	(5,778)				(5,778)	
Interest and Investment Income	3,305			436,897	440,202	
Interest and Investment Income (Loss) – Pledged	47			(17,074)	(17,027)	
Federal Revenue	1,945,250	99,854		53,748	2,098,852	
State Grant Revenue	23,648				23,648	
Premium Revenue						2,330,679
Other Operating Grant Revenue	901,352				901,352	
Other Operating Grant Revenue – Pledged	897,600				897,600	
Other Revenues	65,593	167,613	857	78,230	312,293	1,856
Other Revenues – Pledged	434,636				434,636	
Total Operating Revenues	<u>18,133,915</u>	<u>2,763,822</u>	<u>4,530,914</u>	<u>940,357</u>	<u>26,369,008</u>	<u>2,332,535</u>
OPERATING EXPENSES						
Cost of Goods Sold	179,660			78,265	257,925	
Salaries and Wages	11,825,404		18,485	42,539	11,886,428	5,692
Payroll Related Costs	2,773,956		5,516	11,933	2,791,405	1,683
Professional Fees and Services	1,125,258		5,543	94,683	1,225,484	2,145
Travel	311,506		363	705	312,574	44
Materials and Supplies	2,188,003		1,581	13,368	2,202,952	514
Communication and Utilities	711,161		515	2,440	714,116	324
Repairs and Maintenance	552,736		778	9,558	563,072	273
Rentals and Leases	304,671		4,279	2,271	311,221	166
Printing and Reproduction	68,009		20,357	173	88,539	20
Depreciation and Amortization	1,922,711		172	58,526	1,981,409	
Unemployment Benefit Payments		2,575,638			2,575,638	
Bad Debt Expense	6,281		373	589	7,243	
Interest Expense	185			230,534	230,719	
Scholarships	1,071,889				1,071,889	
Lottery Fees and Other Costs			343,144		343,144	
Lottery Prize Payments			2,858,319		2,858,319	
Employee/Participant Benefit Payments				139,531	139,531	2,242,195
Net Change in Pollution Remediation Obligation				1,530	1,530	
Claims and Judgments	32,729				32,729	
Net Change in Pension/OPEB Obligations	749,736				749,736	
Other Expenses	1,708,894		36,793	78,100	1,823,787	25,832
Total Operating Expenses	<u>25,532,789</u>	<u>2,575,638</u>	<u>3,296,218</u>	<u>764,745</u>	<u>32,169,390</u>	<u>2,278,888</u>
Operating Income (Loss)	<u>(7,398,874)</u>	<u>188,184</u>	<u>1,234,696</u>	<u>175,612</u>	<u>(5,800,382)</u>	<u>53,647</u>

Concluded on the following page

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	\$ 951,392	\$	\$	\$ 158,027	\$ 1,109,419	\$
Gifts	683,004			1,688	684,692	
Gifts – Pledged	145,309				145,309	
Land Income	22,946			13	22,959	
Interest and Investment Income (Loss)	259,835	43,266	(3,692)	21,121	320,530	6,200
Interest and Investment Income – Pledged	735,186				735,186	
Loan Premium and Fees on Securities Lending				170	170	18
Investing Activities Expense	(111,125)			(345)	(111,470)	(7)
Interest Expense	(512,893)	(9,905)		(125,005)	(647,803)	
Borrower Rebates and Agent Fees	(5,382)			(105)	(5,487)	75
Gain (Loss) on Sale of Capital Assets	(2,671)			5	(2,666)	
Settlement of Claims	304			2	306	1,223
Claims and Judgments	(693)			(6)	(699)	
Other Revenues	30,330			2,336	32,666	
Other Revenues – Pledged	37,484				37,484	
Other Expenses	(68,465)	83		(21,145)	(89,527)	
Total Nonoperating Revenues (Expenses)	<u>2,164,561</u>	<u>33,444</u>	<u>(3,692)</u>	<u>36,756</u>	<u>2,231,069</u>	<u>7,509</u>
Income (Loss) Before Capital Contributions, Endowments and Transfers	<u>(5,234,313)</u>	<u>221,628</u>	<u>1,231,004</u>	<u>212,368</u>	<u>(3,569,313)</u>	<u>61,156</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	5,308				5,308	
Capital Contributions – Other	127,333			2,406	129,739	
Contributions to Permanent and Term Endowments	182,754				182,754	
Transfer In (Note 12)	6,004,452	42,815		102,692	6,149,959	
Transfer Out (Note 12)	<u>(661,839)</u>		<u>(1,242,702)</u>	<u>(55,614)</u>	<u>(1,960,155)</u>	
Total Capital Contributions, Endowments and Transfers	<u>5,658,008</u>	<u>42,815</u>	<u>(1,242,702)</u>	<u>49,484</u>	<u>4,507,605</u>	<u>0</u>
Change in Net Position	<u>423,695</u>	<u>264,443</u>	<u>(11,698)</u>	<u>261,852</u>	<u>938,292</u>	<u>61,156</u>
Net Position, September 1, 2014	50,245,002	1,213,740	61,062	4,657,514	56,177,318	379,310
Restatements (Note 14)	<u>(3,680,584)</u>			<u>(14,022)</u>	<u>(3,694,606)</u>	
Net Position, September 1, 2014, as Restated	<u>46,564,418</u>	<u>1,213,740</u>	<u>61,062</u>	<u>4,643,492</u>	<u>52,482,712</u>	<u>379,310</u>
Net Position, August 31, 2015	<u>\$ 46,988,113</u>	<u>\$ 1,478,183</u>	<u>\$ 49,364</u>	<u>\$ 4,905,344</u>	<u>\$ 53,421,004</u>	<u>\$ 440,466</u>

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

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

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Business Type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	\$ 7,451,719	\$ 2,506,914	\$ 4,525,166	\$ 393,431	\$ 14,877,230	\$ 500,524
Proceeds from Tuition and Fees	4,523,270				4,523,270	
Proceeds from Research Grants and Contracts	3,873,884	107,737			3,981,621	
Proceeds from Gifts				38	38	
Proceeds from Loan Programs	267,915			480,281	748,196	
Proceeds from Auxiliaries	1,366,814				1,366,814	1,683,936
Proceeds from Other Operating Revenues	1,106,146	165,710		141,011	1,412,867	2,592
Payments to Suppliers for Goods and Services	(7,364,783)		(406,324)	(266,621)	(8,037,728)	(8,638)
Payments to Employees	(14,458,842)		(23,714)	(54,396)	(14,536,952)	(8,419)
Payments for Loans Provided	(278,377)			(492,183)	(770,560)	
Payments for Lottery Prizes			(2,848,668)		(2,848,668)	
Payments for Unemployment Benefits		(2,581,489)			(2,581,489)	
Payments for Other Operating Expenses	(992,771)			(217,909)	(1,210,680)	(2,256,566)
Net Cash Provided (Used) by Operating Activities	(4,505,025)	198,872	1,246,460	(16,348)	(3,076,041)	(86,571)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				537,865	537,865	
Proceeds from Gifts	873,453				873,453	
Proceeds from Endowments	297,262				297,262	
Proceeds from Transfers from Other Funds	6,022,536	738,418		626,710	7,387,664	
Proceeds from Interfund Payables	95,543			1,757	97,300	
Proceeds from Loan Programs	20,068				20,068	
Proceeds from Grant Receipts	961,997			153,390	1,115,387	
Proceeds from Other Noncapital Financing Activities	302,128		2,470	1,652	306,250	
Payments of Principal on Debt Issuance		(324,795)		(413,713)	(738,508)	
Payments of Interest	(155)	(15,682)		(361,959)	(377,796)	
Payments of Other Costs on Debt Issuance		(260)		(1,016)	(1,276)	
Payments for Transfers to Other Funds	(1,693,760)	(695,588)	(1,237,768)	(490,431)	(4,117,547)	
Payments for Grant Disbursements	(22,400)			(8,795)	(31,195)	
Payments for Interfund Receivables				(61,271)	(61,271)	
Payments for Other Noncapital Financing Uses	(437,756)		(110,440)	(508,991)	(1,057,187)	
Net Cash Provided (Used) by Noncapital Financing Activities	6,418,916	(297,907)	(1,345,738)	(524,802)	4,250,469	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	72,742				72,742	
Proceeds from Debt Issuance	3,256,762			1,891,231	5,147,993	
Proceeds from State Grants and Contracts	29,388				29,388	
Proceeds from Gifts	1,071				1,071	
Proceeds from Other Capital and Related Financing Activities	201,038			759	201,797	
Proceeds from Capital Contributions	249,617			200	249,817	
Payments for Additions to Capital Assets	(3,288,344)		(317)	(4,962)	(3,293,623)	
Payments of Principal on Debt Issuance	(2,495,705)			(1,816,335)	(4,312,040)	
Payments for Capital Leases	(2,817)				(2,817)	
Payments of Interest on Debt Issuance	(568,693)			(91,992)	(660,685)	
Payments of Other Costs on Debt Issuance	(83,954)			(10,909)	(94,863)	
Payments for Interfund Receivables	(2,842)			(10,652)	(13,494)	
Net Cash (Used) by Capital and Related Financing Activities	(2,631,737)	0	(317)	(42,660)	(2,674,714)	0

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Business Type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	\$ 18,455,582	\$	\$ 110,440	\$ 2,553,375	\$ 21,119,397	\$ 100,272
Proceeds from Interest and Investment Income	1,701,575	43,796		283,543	2,028,914	102
Proceeds from Principal Payments on Loans	482			532,626	533,108	
Payments to Acquire Investments	(19,407,383)		(3,199)	(2,504,981)	(21,915,563)	
Payments for Nonprogram Loans Provided				(249,520)	(249,520)	
Net Cash Provided by Investing Activities	<u>750,256</u>	<u>43,796</u>	<u>107,241</u>	<u>615,043</u>	<u>1,516,336</u>	<u>100,374</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>32,410</u>	<u>(55,239)</u>	<u>7,646</u>	<u>31,233</u>	<u>16,050</u>	<u>13,803</u>
Cash and Cash Equivalents, September 1, 2014	5,733,818	2,077,485	211,360	1,457,025	9,479,688	21,031
Restatements	(532)			(3)	(535)	
Cash and Cash Equivalents, September 1, 2014, as Restated	<u>5,733,286</u>	<u>2,077,485</u>	<u>211,360</u>	<u>1,457,022</u>	<u>9,479,153</u>	<u>21,031</u>
Cash and Cash Equivalents, August 31, 2015	<u>\$ 5,765,696</u>	<u>\$ 2,022,246</u>	<u>\$ 219,006</u>	<u>\$ 1,488,255</u>	<u>\$ 9,495,203</u>	<u>\$ 34,834</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (7,398,874)	\$ 188,184	\$ 1,234,696	\$ 175,612	\$ (5,800,382)	\$ 53,647
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	1,922,711		172	58,526	1,981,409	
Bad Debt Expense	333,857		373	590	334,820	
Pension Expense	302,103				302,103	
Operating Income (Loss) and Cash Flow Categories Classification Differences	47,903			(68,154)	(20,251)	1,210
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(465,801)	(4,668)	(5,748)	16,597	(459,620)	(11,930)
(Increase) Decrease in Due From Other Funds	(8,407)			(1,051)	(9,458)	(147,158)
(Increase) Decrease in Inventories	(9,220)		2,007	(1,112)	(8,325)	
(Increase) Decrease in Notes Receivable	(875)				(875)	
(Increase) Decrease in Loans and Contracts	(13,719)			(144,668)	(158,387)	
(Increase) Decrease in Other Assets	(4,355)			(6,137)	(10,492)	
(Increase) Decrease in Prepaid Expenses	(29,124)		197	253	(28,674)	
Increase (Decrease) in Payables	82,806	2,852	14,763	(29,575)	70,846	5,450
Increase (Decrease) in Deposits	5,523				5,523	
Increase (Decrease) in Due To Other Funds	(116)			464	348	(763)
Increase (Decrease) in Unearned Revenue	124,867	12,504		474	137,845	12,973
Increase (Decrease) in Employees' Compensable Leave	39,560			11	39,571	
Increase (Decrease) in Benefits Payable	432,014				432,014	
Increase (Decrease) in Other Liabilities	134,122			(18,178)	115,944	
Total Adjustments	<u>2,893,849</u>	<u>10,688</u>	<u>11,764</u>	<u>(191,960)</u>	<u>2,724,341</u>	<u>(140,218)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,505,025)</u>	<u>\$ 198,872</u>	<u>\$ 1,246,460</u>	<u>\$ (16,348)</u>	<u>\$ (3,076,041)</u>	<u>\$ (86,571)</u>
NONCASH TRANSACTIONS						
Donation of Capital Assets	\$ 61,587	\$	\$	\$ 581	\$ 62,168	\$
Net Change in Fair Value of Investments	\$ (2,782,282)	\$	\$ (3,693)	\$ (55,862)	\$ (2,841,837)	\$ (3,195)
Borrowing Under Capital Lease Purchase	\$ 9,787	\$	\$	\$	\$ 9,787	\$
Other	\$ 841,104	\$	\$	\$ 92	\$ 841,196	\$

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, 2015 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,316,768	\$ 152	\$ 777,093	\$ 1,312,797
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	19,968,902			
Investments:				
U.S. Government	25,494,318	9,553,189	20,203	566,829
Corporate Equity	27,081,195		42,302	416,802
Corporate Obligations	228,977	619,139	3,731	147
Repurchase Agreements		2,341,165		31,257
Foreign Securities	33,625,473		50,592	
Externally Managed Investments	54,383,597			
Other	11,790,911	352,676	2,736,834	152,711
Receivables:				
Federal	149,201			
Interest and Dividends	278,020	9,511	222	511
Accounts	356,124		129	14,821
Taxes				12
Investment Trades	1,430,619	25,005		
Other	138,915		4,329	
Due From Other Funds (Note 12)	174,046			569
Prepaid Items	317			
Properties, at Cost, Net of Accumulated Depreciation or Amortization	62,686		727	
Other Assets			81,976	1,478,789
Total Assets	177,480,069	12,900,837	3,718,152	3,975,245
LIABILITIES				
Payables:				
Accounts	\$ 391,988	\$ 954	\$ 21,344	\$ 941
Investment Trades	997,223	25,000	217	
Payroll	5,256			
Other Intergovernmental				941,922
Interest			11	
Annuities	760,272			
Due To Other Funds (Note 12)	329,758			1,017
Unearned Revenue	1,594		604	
Employees' Compensable Leave	10,876			
Obligations/Securities Lending	19,975,623			
Funds Held for Others			82,033	3,031,353
Other Liabilities	187,881	427	429	12
Total Liabilities	22,660,471	26,381	104,638	3,975,245
NET POSITION				
Restricted for Pensions	153,834,671			
Held in Trust for:				
OPEB Benefits and Other Purposes**	984,927			
Individuals, Organizations and Other Governments			3,613,514	
Pool Participants		12,874,456		
Total Net Position	\$ 154,819,598	\$ 12,874,456	\$ 3,613,514	\$ 0

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

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

** Other Post Employment Benefits (OPEB)

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	\$ 3,361,630	\$	\$
State Contributions	3,888,376		
Premium Contributions	533,550		
Federal Contributions	212,861		6,226
Other Contributions	1,749,319		184,614
Total Contributions	<u>9,745,736</u>	<u>0</u>	<u>190,840</u>
Investment Income:			
From Investing Activities:			
Net Decrease in Fair Value of Investments	(7,607,786)		(67,030)
Interest, Dividend and Other	7,455,245	14,815	50,084
Total Investing Income (Loss)	<u>(152,541)</u>	<u>14,815</u>	<u>(16,946)</u>
Less Investing Activities Expense	293,917	7,238	3,709
Net Income (Loss) from Investing Activities	<u>(446,458)</u>	<u>7,577</u>	<u>(20,655)</u>
From Securities Lending Activities:			
Securities Lending Income	121,770		
Less Securities Lending Expense:			
Borrower Rebates	24,799		
Management Fees	9,569		
Net Income from Securities Lending	<u>87,402</u>	<u>0</u>	<u>0</u>
Total Net Investment Income (Loss)	<u>(359,056)</u>	<u>7,577</u>	<u>(20,655)</u>
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	0	144,664	0
Other Additions:			
Settlement of Claims	8,425		4,003
Other Revenue	5,094		446,805
Transfer In (Note 12)	131,581		15,000
Total Other Additions	<u>145,100</u>	<u>0</u>	<u>465,808</u>
Total Additions	<u>9,531,780</u>	<u>152,241</u>	<u>635,993</u>
DEDUCTIONS			
Benefits	13,671,734		163,196
Refunds of Contributions	480,692		
Transfer Out (Note 12)	103,516		50
Intergovernmental Payments			62,669
Administrative Expenses	64,680		6,399
Depreciation and Amortization Expense	3,656		39
Settlement of Claims			44,989
Interest Expense			4
Loss on Sale of Properties	3		
Other Expenses	11,967		154,605
Total Deductions	<u>14,336,248</u>	<u>0</u>	<u>431,951</u>
INCREASE (DECREASE) IN NET POSITION	<u>(4,804,468)</u>	<u>152,241</u>	<u>204,042</u>
NET POSITION			
Net Position, September 1, 2014	<u>159,624,066</u>	<u>12,722,215</u>	<u>3,409,472</u>
Net Position, August 31, 2015	<u>\$ 154,819,598</u>	<u>\$ 12,874,456</u>	<u>\$ 3,613,514</u>

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

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



State of Texas Notes to Financial Statements

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Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the state of Texas were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented two GASB statements in fiscal 2015.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

The requirements of GASB Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of GASB Statement No. 68.

This GASB statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to pensions for employers participating in single employer, agent multiple-employer and cost-sharing multiple-employer pension plans. GASB Statement No. 68 also sets forth requirements for note disclosure and required supplementary information for each type of the employers. In addition, the statement establishes accounting and reporting standards for governments that are legally responsible for making contributions directly to a pension plan that provides pension benefits to the employees of another entity or entities.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date -*

an amendment of GASB Statement No. 68, addresses an issue regarding application of the transition provisions of GASB Statement No. 68. This GASB statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

Financial Reporting Entity

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

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

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

activities of the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the state's financial reporting entity. These entities are legally separate and fiscally independent from the state. The state is not financially accountable for these entities and it will not make the state's financial statements misleading to exclude them.

Financial Reporting Structure

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

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole – its financial position at the end of the fiscal year and the change in financial position resulting from the activities of the fiscal year, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), and its discretely presented component units. These statements also report all current and noncurrent assets and liabilities, revenues, expenses, and gains and losses of the state using an economic resources measurement focus and an accrual basis of accounting.

The statement of net position is presented in a net position format. The net position is displayed in three components: net investment in capital assets; restricted (presented with major categories of restrictions); and

unrestricted. This statement reports deferred outflows of resources and deferred inflows of resources in separate categories from assets and liabilities and distinguishes between restricted and unrestricted current and non-current assets.

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

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

Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Charges for services arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants from other governments, organizations or individuals. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

Certain general government administrative overhead expenses are charged to the various functions of the state. These charges are paid from applicable fund-

ing sources and are reflected as direct expenses. Other expenses reported for each function are clearly identifiable to that particular function and are direct expenses.

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

Fund Financial Statements

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

The governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources, and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental

activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements to the reporting entity-based financial statements.

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

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Debt service funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest payments. Capital projects funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other 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. Proprietary funds are reported using economic resources measurement focus and full accrual basis of accounting. Generally accepted accounting principles similar to those used by private-sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

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

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity.

- Laws or regulations require the activity's costs of providing services, including capital costs (such as depreciation, amortization or debt service), to be recovered with fees and charges.
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

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

The major enterprise funds for the state are listed below.

The **Colleges and Universities** include:

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

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

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

The **Lottery Fund** receives fees from external users and uses the fees to operate the state lottery, finance

debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or as an agent for individuals, private organizations, other governmental units 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 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 nonexchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which partially amended GASB Statement No. 33.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in 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 revenues (i.e., operating grants and contributions and taxes) reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

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

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

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

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

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and the other nonmajor special revenue funds listed in other supplementary information.

Cash and Cash Equivalents

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

The statement of cash flows for proprietary funds presents the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near maturity they present insignificant risk of a decrease in

value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statements of net financial position. 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 revenue and taxes receivables. The major receivables for business-type activities are gifts, pledges, donations and patient receivables. Receivables represent amounts due to the state as of Aug. 31, 2015, 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 2015 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is

recorded as unearned revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 23 for details on taxes receivable and tax refunds payable.

Other receivables in the general fund consist primarily of program receivables for health care assistance and supplemental nutrition assistance. Other receivables in the colleges and universities fund consist primarily of receivables from investments and from external parties and other companies. Other receivables in proprietary funds other than the colleges and universities fund consist of receivables related to unemployment tax assessments. Other receivables in the pension trust fund consist primarily of receivables from members and participating employers under a retiree group health insurance program and federal receivables. 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 has adopted the depreciation method for reporting its highway system. The Texas Department of Transportation, the state agency responsible for construction and maintenance of the state's road and highway systems adopted the composite approach for reporting infrastructure and bridges. The composite approach is a method for calculating depreciation of a group of similar and dissimilar assets of the same class (all the roads and bridges of the state) using the same depreciation rate. The composite depreciation rate for

2015 is 2.5 percent based on a 40-year weighted average life expectancy of the assets in service.

Long-Term Liabilities

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

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

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

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

proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

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

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

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

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

Capital Lease Obligations

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

Conduit Debt Obligations

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

pretation 2, which was effective for Texas beginning Sept. 1, 1996, requires only note disclosure for issuance of all other conduit debt. Note 6 provides details on conduit debt obligations.

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

Net Position and Fund Balances

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

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

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

Net investment in capital assets, consists of capital assets – including restricted capital assets – net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of net investment in capital assets. The unspent portion of the debt is included in the “Restricted for Capital Projects” category of net position.

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances include amounts that cannot be spent because they are either

not in a spendable form or they are legally or contractually required to be maintained intact. Fund balances are reported as restricted when constraints placed upon the use of resources are either:

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

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed through legislation passed into law by formal action of the Texas Legislature, the state's highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Fund balances are reported as assigned when the state intends for resources to be used for specific purposes, yet the constraints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balances represent amounts that have not been restricted, committed or assigned to specific purposes. The Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts shall determine the procedures and policies for determining assigned fund balances. The general fund is the only fund that can report a positive unassigned fund balance. Note 13 presents disaggregated fund balances.

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

resources first, then assigned resources, and lastly unassigned resources.

Interfund Activity and Transactions – Government-wide Financial Statements

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

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 2015. 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 is reported using the depreciation approach.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. For proprietary fund types and fiduciary funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized. In proprietary fund types, \$323 million of interest was charged to expense and \$36 million of interest was capitalized, for a net \$359 million of interest cost incurred.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/15
	Balance 9/1/14	Adjustments	Reclassifications	Additions	Deletions	
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 10,844,164	\$ 1	\$ 693	\$ 765,163	\$ (8,815)	\$ 11,601,206
Infrastructure	548					548
Construction in Progress	9,035,700	(8,257)	(1,421,934)	4,838,308		12,443,817
Other Capital Assets	28,721	(16)		15,738		44,443
Land Use Rights – Permanent	81,392			12,821	(17)	94,196
Total Non-Depreciable & Non-Amortizable Assets	<u>19,990,525</u>	<u>(8,272)</u>	<u>(1,421,241)</u>	<u>5,632,030</u>	<u>(8,832)</u>	<u>24,184,210</u>
Depreciable Assets						
Buildings and Building Improvements	5,966,025	(1,037)	118,449	6,017	(8,784)	6,080,670
Infrastructure	76,488,174	(18,174)	1,241,819	1,469,624	(15,892)	79,165,551
Facilities and Other Improvements	221,654	745	3,437	690		226,526
Furniture and Equipment	1,097,811	20,870	1,307	60,387	(37,836)	1,142,539
Vehicles, Boats and Aircraft	1,124,644	75	(618)	80,918	(38,062)	1,166,957
Other Capital Assets	145,835			917	(389)	146,363
Total Depreciable Assets at Historical Cost	<u>85,044,143</u>	<u>2,479</u>	<u>1,364,394</u>	<u>1,618,553</u>	<u>(100,963)</u>	<u>87,928,606</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(3,791,678)	228		(183,736)	6,824	(3,968,362)
Infrastructure	(13,991,787)	7,259		(1,509,698)	2,471	(15,491,755)
Facilities and Other Improvements	(160,057)	(3)		(6,577)		(166,637)
Furniture and Equipment	(791,174)	(20,125)	(37)	(77,175)	35,678	(852,833)
Vehicles, Boats and Aircraft	(701,873)	(35)	584	(72,124)	34,321	(739,127)
Other Capital Assets	(77,787)			(5,899)	153	(83,533)
Total Accumulated Depreciation*	<u>(19,514,356)</u>	<u>(12,676)</u>	<u>547</u>	<u>(1,855,209)</u>	<u>79,447</u>	<u>(21,302,247)</u>
Depreciable Assets, Net	<u>65,529,787</u>	<u>(10,197)</u>	<u>1,364,941</u>	<u>(236,656)</u>	<u>(21,516)</u>	<u>66,626,359</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	20,798			322	(219)	20,901
Computer Software	429,214	(5,648)	56,784	15,500	(5,527)	490,323
Other Intangible Capital Assets – Term	79,373			300		79,673
Total Intangible Assets at Historical Cost	<u>529,385</u>	<u>(5,648)</u>	<u>56,784</u>	<u>16,122</u>	<u>(5,746)</u>	<u>590,897</u>
Less Accumulated Amortization for:						
Land Use Rights – Term	(11,649)			(2,732)	218	(14,163)
Computer Software	(327,966)	4,106		(37,702)	5,310	(356,252)
Other Intangible Capital Assets – Term	(16,746)			(7,940)		(24,686)
Total Accumulated Amortization*	<u>(356,361)</u>	<u>4,106</u>	<u>0</u>	<u>(48,374)</u>	<u>5,528</u>	<u>(395,101)</u>
Amortizable Assets, Net	<u>173,024</u>	<u>(1,542)</u>	<u>56,784</u>	<u>(32,252)</u>	<u>(218)</u>	<u>195,796</u>
Governmental Activities Capital Assets, Net	<u>\$ 85,693,336</u>	<u>\$ (20,011)</u>	<u>\$ 484</u>	<u>\$ 5,363,122</u>	<u>\$ (30,566)</u>	<u>\$ 91,006,365</u>

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

General Government	\$ 50,974
Education	14,754
Employee Benefits	1
Health and Human Services	51,139
Public Safety and Corrections	177,206
Transportation	1,573,020
Natural Resources and Recreation	34,225
Regulatory Services	2,264
Total	<u>\$ 1,903,583</u>

Continued on the following page

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/15
	Balance 9/1/14	Adjustments	Reclassifications	Additions	Deletions	
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 1,737,988	\$ 48	\$ 443	\$ 34,001	\$ (7,790)	\$ 1,764,690
Construction in Progress	3,153,661	(1,541)	(2,420,102)	2,485,085	(3,690)	3,213,413
Other Capital Assets	670,476	(15)	1,607	21,025	(418)	692,675
Land Use Rights – Permanent	22,799					22,799
Other Intangible Capital Assets – Permanent	6,002					6,002
Total Non-Depreciable & Non-Amortizable Assets	<u>5,590,926</u>	<u>(1,508)</u>	<u>(2,418,052)</u>	<u>2,540,111</u>	<u>(11,898)</u>	<u>5,699,579</u>
Depreciable Assets						
Buildings and Building Improvements	27,204,920	8,664	1,790,567	228,128	(48,925)	29,183,354
Infrastructure	3,562,501	127	72,896	15,145	(1,985)	3,648,684
Facilities and Other Improvements	1,918,362	(411)	378,030	37,655	(1,002)	2,332,634
Furniture and Equipment	4,953,566	(76)	64,843	512,831	(248,959)	5,282,205
Vehicles, Boats and Aircraft	278,944	(49)	505	28,320	(14,770)	292,950
Other Capital Assets	1,533,989	(1,749)	8,790	65,922	(20,782)	1,586,170
Total Depreciable Assets at Historical Cost	<u>39,452,282</u>	<u>6,506</u>	<u>2,315,631</u>	<u>888,001</u>	<u>(336,423)</u>	<u>42,325,997</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(12,059,584)	(1,442)		(1,129,510)	30,338	(13,160,198)
Infrastructure	(776,701)	(127)		(100,121)		(876,949)
Facilities and Other Improvements	(840,309)			(83,203)	426	(923,086)
Furniture and Equipment	(3,336,029)	96	(179)	(432,886)	196,905	(3,572,093)
Vehicles, Boats and Aircraft	(199,083)	50	(418)	(22,501)	11,983	(209,969)
Other Capital Assets	(997,168)	54		(70,173)	17,265	(1,050,022)
Total Accumulated Depreciation**	<u>(18,208,874)</u>	<u>(1,369)</u>	<u>(597)</u>	<u>(1,838,394)</u>	<u>256,917</u>	<u>(19,792,317)</u>
Depreciable Assets, Net	<u>21,243,408</u>	<u>5,137</u>	<u>2,315,034</u>	<u>(950,393)</u>	<u>(79,506)</u>	<u>22,533,680</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255					255
Computer Software	1,397,226	(5)	103,279	28,022	(201,683)	1,326,839
Other Intangible Capital Assets – Term	9,577	313				9,890
Total Intangible Assets at Historical Cost	<u>1,407,058</u>	<u>308</u>	<u>103,279</u>	<u>28,022</u>	<u>(201,683)</u>	<u>1,336,984</u>
Less Accumulated Amortization for:						
Land Use Rights – Term	(115)			(26)		(141)
Computer Software	(1,079,559)	15	8	(142,034)	201,568	(1,020,002)
Other Intangible Capital Assets – Term	(3,094)	(2)		(955)		(4,051)
Total Accumulated Amortization**	<u>(1,082,768)</u>	<u>13</u>	<u>8</u>	<u>(143,015)</u>	<u>201,568</u>	<u>(1,024,194)</u>
Amortizable Assets, Net	<u>324,290</u>	<u>321</u>	<u>103,287</u>	<u>(114,993)</u>	<u>(115)</u>	<u>312,790</u>
Business-Type Activities Capital Assets, Net	<u>\$ 27,158,624</u>	<u>\$ 3,950</u>	<u>\$ 269</u>	<u>\$ 1,474,725</u>	<u>\$ (91,519)</u>	<u>\$ 28,546,049</u>

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

Education	\$ 1,922,711
Transportation	53,857
Lottery	172
Other Business-Type Activities	4,669
Total	<u>\$ 1,981,409</u>

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

COMPONENT UNITS	PRIMARY GOVERNMENT					Balance 8/31/15
	Balance 9/1/14	Adjustments	Reclassifications	Additions	Deletions	
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 386	\$	\$	\$	\$	\$ 386
Construction in Progress	124		(124)	160		160
Total Non-Depreciable & Non-Amortizable Assets	<u>510</u>	<u>0</u>	<u>(124)</u>	<u>160</u>	<u>0</u>	<u>546</u>
Depreciable Assets						
Buildings and Building Improvements	7,572		10	205		7,787
Facilities and Other Improvements	432				(31)	401
Furniture and Equipment	41,336		114	495	(2,323)	39,622
Vehicles, Boats and Aircraft	7,415			2,310	(4,588)	5,137
Other Capital Assets	2,239			5		2,244
Total Depreciable Assets at Historical Cost	<u>58,994</u>	<u>0</u>	<u>124</u>	<u>3,015</u>	<u>(6,942)</u>	<u>55,191</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,854)			(43)		(5,897)
Facilities and Other Improvements	(425)			(3)	31	(397)
Furniture and Equipment	(21,102)			(2,480)	2,103	(21,479)
Vehicles, Boats and Aircraft	(4,455)			(1,106)	3,502	(2,059)
Other Capital Assets	(493)			(228)		(721)
Total Accumulated Depreciation	<u>(32,329)</u>	<u>0</u>	<u>0</u>	<u>(3,860)</u>	<u>5,636</u>	<u>(30,553)</u>
Depreciable Assets, Net	<u>26,665</u>	<u>0</u>	<u>124</u>	<u>(845)</u>	<u>(1,306)</u>	<u>24,638</u>
Intangible Capital Assets – Amortizable						
Computer Software	424					424
Total Intangible Assets at Historical Cost	<u>424</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>424</u>
Less Accumulated Amortization for:						
Computer Software	(250)			(12)		(262)
Total Accumulated Amortization	<u>(250)</u>	<u>0</u>	<u>0</u>	<u>(12)</u>	<u>0</u>	<u>(262)</u>
Amortizable Assets, Net	<u>174</u>	<u>0</u>	<u>0</u>	<u>(12)</u>	<u>0</u>	<u>162</u>
Component Units Capital Assets, Net	<u>\$ 27,349</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (697)</u>	<u>\$ (1,306)</u>	<u>\$ 25,346</u>

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

- held for public exhibition, education or research in furtherance of public service, rather than for financial gain;
- protected, kept unencumbered, cared for and preserved; and/or

- subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 36 million records dating back to 1720, including approximately 45 thousand maps, sketches and plat maps.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

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

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2015. 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, 2015, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported more than 85 percent of the total investment fair value; this does not include the investments held by

the Texas Comptroller's Treasury Pool. TRS, PSF, ERS, UT and Texas Prepaid Higher Education Tuition Board (TPHETB) make investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2015 no depository holding state funds failed.

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

External Investment Pool

The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Separate audited financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th floor, Austin, Texas 78701.

Deposits

As of Aug. 31, 2015, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were \$1.1 billion, \$525.8 million and \$259.7 million, respectively. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net position as part of the “Cash and Cash Equivalents” and investment related line items. As of Aug. 31, 2015, the total bank balances for governmental and business-type activities, fiduciary funds and discretely

presented component units were \$1.2 billion, \$521.4 million and \$242 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state’s securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. The bank balances exposed to custodial credit risk as of Aug. 31, 2015, are presented in the table below.

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	\$ 2,714	\$ 0
Total Governmental Activities	<u>2,714</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	592	71,771
Total Business-Type Activities	<u>592</u>	<u>71,771</u>
Total Governmental and Business-Type Activities	<u>\$ 3,306</u>	<u>\$ 71,771</u>
FIDUCIARY FUNDS	<u>\$ 399,051</u>	<u>\$ 0</u>
COMPONENT UNITS	<u>\$ 744,266</u>	<u>\$ 0</u>

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal

deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. The table at the left presents the bank balances exposed to foreign currency risk as of Aug. 31, 2015.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2015 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	\$ 216	\$ 7,434
Bangladeshi Taka		118
Botswana Pula		86
Brazilian Real		1,721
British Pound	94	12,097
Canadian Dollar		4,358
Chilean Peso	1	52
Colombian Peso		97
Croatian Kuna		29
Czech Koruna	313	
Danish Krone		65
Egyptian Pound		581
Euro	110	214,841
Ghanaian Cedi		87
Hong Kong Dollar		12,715
Hungarian Forint		110
Indian Rupee		4,220
Indonesian Rupiah		88
Japanese Yen		71,798
Jordanian Dinar		48
Kenyan Shilling		51
Kuwaiti Dinar		206
Malaysian Ringgit	12	1,073
Mauritius Rupee		116
Mexican Peso	13	1,044
Moroccan Dirham		160
New Israeli Shekel	1	272
New Zealand Dollar		32
Nigerian Naira		77
Norwegian Krone		4,311
Omani Rial		31
Pakistani Rupee		91
Peruvian Nuevo Sol		107
Philippine Peso		31
Polish Zloty		1,380
Qatar Riyal	524	38
Romanian New Lei		20
Singapore Dollar	1	472
South African Rand		1,797
South Korean Won	24	618
Sri Lankan Rupee		82
Swedish Krona		360
Swiss Franc	212	10,408
Taiwan Dollar	1,785	8,907
Thai Baht		124
Tunisian Dinar		100
Turkish Lira		134
United Arab Emirates Dirham		27
Vietnamese Dong		892
Total	<u>\$ 3,306</u>	<u>\$ 363,506</u>

Investments

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

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

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

The fair values of investments as of Aug. 31, 2015, are presented in the table below.

Investments Fair Values			
August 31, 2015 (Amounts in Thousands)			
	Governmental and Business-Type Activities	Fiduciary Funds	Component Units
U.S. Treasury	\$ 5,121,696	\$ 19,732,423	\$ 231,123
U.S. Treasury STRIPS	296,550	242,604	
U.S. Treasury TIPS	1,031,553	6,004,021	
U.S. Government Agency	16,910,857	11,582,314	330,403
Corporate Obligations	5,435,181	1,247,924	134,489
Corporate Asset and Mortgage Backed	3,337,082	641,790	136,995
Corporate Equity	10,740,492	27,281,162	36,528
International Obligations	3,469,501	670,676	14,068
International Equity	3,297,289	32,360,912	
International Other Commingled Funds	3,584,771	3,545,394	4,737
Repurchase Agreements	2,717,547	3,405,570	537,474
Fixed Income and Bond Mutual Fund	4,095,161	699,229	64,445
Other Mutual Funds	1,097,751	816,007	140,999
Other Commingled Funds	14,454,374	6,325,901	26,315
Commercial Paper	7,273,550	1,362,226	90,755
Invested Collateral	1,294,242	19,968,902	
Securities Lending Collateral Investment Pool	35,230		
Real Estate	2,595,701		37,101
Derivatives	(67,660)	69,016	(994)
Externally Managed Investments	28,424,962	56,692,131	95,498
Other Investments	3,815,181	743,228	729,687
Total Investments	\$ 118,961,011	\$ 193,391,430	\$ 2,609,623

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, 2015, 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, 2015 (Amounts in Thousands)		
	Governmental and Business-Type Activities	Fiduciary Funds
U.S. Treasury Securities	\$ 50,511	\$
Corporate Obligations	100,794	
Corporate Asset and Mortgage Backed	107,565	
Equity	14,854	
International Obligations	180,905	
Repurchase Agreements	680,477	596,482
Other Commingled Funds		19,372,420
Commercial Paper	75,849	
Other Investments	83,287	
Total Investments	\$ 1,294,242	\$ 19,968,902

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, 2015, the investments exposed to custodial credit risk are presented in the table below.

Investments Exposed to Custodial Credit Risk		
August 31, 2015 (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 Obligations	\$	\$ 40,058
Corporate Asset and Mortgage Backed		107,565
Repurchase Agreements		269,340
Commercial Paper		24,199
Miscellaneous		83,291
Other Governmental Funds		
Repurchase Agreement	<u>2,557</u>	
Total Governmental Activities	<u>2,557</u>	<u>524,453</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury	4,670	
U.S. Government Agency	4,082	
Corporate Obligations	4,829	
Corporate Equity	31,202	
International Equity	2,988	
Fixed Income and Bond Mutual Fund	13,462	
Other Proprietary Funds		
Repurchase Agreement	<u>11,949</u>	
Total Business-Type Activities	<u>73,182</u>	<u>0</u>
Total Governmental and Business-Type Activities	<u>\$ 75,739</u>	<u>\$ 524,453</u>

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT are exposed to investment foreign currency risk. 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, 2015, are presented on the following pages.

Investments Exposed to Foreign Currency Risk

August 31, 2015 (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	\$	\$	\$	\$	\$	\$	\$	\$
Australian Dollar	198,606	34,027	8,994	238,957	46,383	519,639	550	
Bangladeshi Taka						10,609		
Bermudan Dollar			92					
Botswana Pula						5,425		
Brazilian Real	123,779	174,401	37,955	61,633		600,857	87	
British Pound	113,491	224,443	14,809	749,108	121,700	3,870,281		538,530
Canadian Dollar	36,184	57,079	1,590	481,987		1,084,029	693	
Chilean Peso	249	1,076	(4,101)	12,624		77,304		
Chinese Yuan Renminbi		158,537	106,365			343	141	
Colombian Peso	13,394	450	1,930	5,176		32,267		
Croatian Kuna						6,822		
Czech Koruna		3,634	502	1,984		50,604		
Danish Krone	8,369	10,330	53	59,958		486,998	567	
Egyptian Pound		5,657	689	2,051		27,229		
Euro	424,428	146,816	121,596	1,335,595	79,765	5,879,468	594,866	2,743,064
Ghanaian Cedi						2,439		
Hong Kong Dollar		298,452	2,054	313,216		2,753,591	53	
Hungarian Forint	33,706	273	20	2,440		40,820		
Indian Rupee	255	84,961	4,050	388	862	1,021,190	299	
Indonesian Rupiah	34,518	22,463	736	22,470		325,781		
Japanese Yen	185,399	483,696	32,252	771,869	879	4,456,724	1,153	
Jordanian Dinar						6,759		
Kazakhstani Tenge			62					
Kenyan Shilling						8,717		
Kuwaiti Dinar						15,747		
Latvian Lats			15					
Malaysian Ringgit	58,594	19,770	1,184	29,384		195,997		
Mauritius Rupee						6,437		
Mexican Peso	197,190	101,047	2,371	44,577	5,742	438,705	167	
Moroccan Dirham						6,227		
New Israeli Shekel			(6)	12,053		21,252		
New Zealand Dollar	121,201		7,163	4,638	7,282	2,452		
Nigerian Naira						6,356		
Norwegian Krone	38,255	611	(540)	19,714		267,195		
Omani Rial						6,104		
Pakistan Rupee						40,302		
Peruvian Nuevo Sol	105		107			3,977		
Philippine Peso		19,134	670	13,015		153,633		
Polish Zloty	40,047	7,360	399	14,634		130,693		
Qatar Riyal		6,408	497	9,347		34,792		
Romanian New Lei						9,828		
Russian Ruble			194	20,433		40,786		
Singapore Dollar	13,301	34,049	1,802	43,132		160,543		
South African Rand	61,792	35,983	4,807	74,668	4,105	787,723	152	
South Korean Won	19,776	327,474	9,689	134,910		1,466,355		
Sri Lankan Rupee						5,801		
Swedish Krona	3,509	8,192	1,105	98,012		459,071	481	
Swiss Franc		45,699	11,828	323,106		1,397,605	2,267	
Taiwan Dollar		73,671	2,102	115,321		1,010,938		
Thai Baht		38,046	1,547	21,686		306,475	232	
Tunisian Dinar						2,470		
Turkish Lira		22,011	1,419	13,517		194,000		
United Arab Emirates Dirham		4,214	783	6,088		35,338		
Uruguayan Peso						4		
Vietnamese Dong		14,955	231			5,891		
Total	\$ 1,726,148	\$ 2,464,919	\$ 377,421	\$ 5,057,691	\$ 266,718	\$ 28,480,618	\$ 601,708	\$ 3,281,594

Concluded on the following page

Investments Exposed to Foreign Currency Risk (concluded)

August 31, 2015 (Amounts in Thousands)

	Component Unit		
	International		
	International Obligations	Other Commingled Funds	Other Investments
Argentine Peso	\$	\$ 25	\$
Australian Dollar		68	
Bangladeshi Taka			
Bermudan Dollar			
Botswana Pula			
Brazilian Real	9	232	
British Pound		770	14
Canadian Dollar			
Chilean Peso	11		
Chinese Yuan Renminbi		324	
Colombian Peso			
Czech Koruna		29	
Danish Krone		29	
Egyptian Pound		41	
Euro	1	376	54
Ghanaian Cedi			
Hong Kong Dollar		128	
Hungarian Forint		3	
Indian Rupee	11	316	52
Indonesian Rupiah		37	
Japanese Yen		541	
Jordanian Dinar			
Kazakhstani Tenge			
Kenyan Shilling			
Kuwaiti Dinar			
Latvian Lats			
Malaysian Ringgit		48	
Mauritius Rupee			
Mexican Peso	11	136	
Moroccan Dirham			
New Israeli Shekel			
New Zealand Dollar			
Nigerian Naira			
Norwegian Krone		6	
Omani Rial			
Pakistan Rupee			
Peruvian Nuevo Sol	5		
Philippine Peso		32	
Polish Zloty		25	
Qatar Riyal		37	
Romanian New Lei			
Russian Ruble		9	
Singapore Dollar		59	
South African Rand	10	167	
South Korean Won		443	
Sri Lankan Rupee			
Swedish Krona		6	
Swiss Franc		215	
Taiwan Dollar		319	
Thai Baht		162	
Tunisian Dinar			
Turkish Lira		117	
United Arab Emirates Dirham		37	
Uruguayan Peso			
Vietnamese Dong			
Total	\$ 58	\$ 4,737	\$ 120

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, 2015, the credit quality distribution for securities with credit risk exposure is presented on the following page.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. UT's investment policy states that no more than 5 percent of its cumulative market value of fixed income securities may be invested in a single issuer. PSF's policy precludes exceed-

Investments Exposed to Credit Risk*

August 31, 2015 (Amounts in Thousands)

	Governmental and Business-Type Activities								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 1,487,755	\$ 191,088	\$ 2,009,130	\$ 1,248,472	\$ 80,909	\$	\$	\$ 556,869	\$ 5,574,223
AA	17,761,716	1,768,499	90,144	356,696	2,364,327			137,184	22,478,566
A	39,179	925,271	50,960	494,014	114,999			45,823	1,670,246
BBB	2,205	1,128,900	157,377	416,927				584	1,705,993
BB		134,714	1,456	54,210				199	190,579
B		129,756	1,920	28,915					160,591
CCC		11,828	22,946	3,257				1,292	39,323
CC			466						466
D			1,070						1,070
AAAf						4,424,179			4,424,179
AAA m						479,823			479,823
A-1							7,185,537		7,185,537
A-2							3,132		3,132
A-3							91,368		91,368
Not Rated	206,648	1,196,342	1,101,958	964,750	424,899	1,550,225	197,173	2,229,522	7,871,517
Total	<u>\$ 19,497,503</u>	<u>\$ 5,486,398</u>	<u>\$ 3,437,427</u>	<u>\$ 3,567,241</u>	<u>\$ 2,985,134</u>	<u>\$ 6,454,227</u>	<u>\$ 7,477,210</u>	<u>\$ 2,971,473</u>	<u>\$ 51,876,613</u>
	Fiduciary Funds								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 8,946,275	\$	\$ 226,934	\$ 109,729	\$ 3,046,979	\$	\$	\$ 477,484	\$ 12,807,401
AA	5,863,949	173,565	19,407	30,734	206,356			155	6,294,166
A		114,060	19,335	59,465				28	192,888
BBB		111,468	12,417	28,532				20	152,437
BB		461,853	37,061	106,899					605,813
B		234,463	38,060	52,883				10	325,416
CCC		18,384	47,700	12,991					79,075
CC			1,351						1,351
D		690	9,556						10,246
AAAf						86,191			86,191
AAA m						37,218			37,218
Aaf						2,394			2,394
Af						3,089			3,089
BBBf						4,120			4,120
BBf						369			369
Bf						554			554
CCCf						759			759
A-1							1,331,751		1,331,751
Not Rated	41,822	129,709	229,968	430,626	31,257	105,163		45	968,590
Total	<u>\$ 14,852,046</u>	<u>\$ 1,244,192</u>	<u>\$ 641,789</u>	<u>\$ 831,859</u>	<u>\$ 3,284,592</u>	<u>\$ 239,857</u>	<u>\$ 1,331,751</u>	<u>\$ 477,742</u>	<u>\$ 22,903,828</u>
	Component Units								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 339,426	\$	\$ 124,745	\$ 13,450	\$ 503,773	\$	\$	\$ 663,446	\$ 1,644,840
AA	175,364	37,396	316	1	33,009			41,964	288,050
A		61,935		571				9,113	71,619
BBB		20,812		33				101	20,946
BB				5					5
AAAf						9,223			9,223
A-1							90,755		90,755
Not Rated	388	14,345	11,933	9	22	64,013	17,986	210,866	319,562
Total	<u>\$ 515,178</u>	<u>\$ 134,488</u>	<u>\$ 136,994</u>	<u>\$ 14,069</u>	<u>\$ 536,804</u>	<u>\$ 73,236</u>	<u>\$ 108,741</u>	<u>\$ 925,490</u>	<u>\$ 2,445,000</u>

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

ing 2.5 percent, ERS employs a limit of 3 percent, TRS sets the limit at 20 percent and the Texas Comptroller does not place a limit on the amount the Treasury Pool may invest in any one issuer. As of Aug. 31, 2015, governmental and business-type activities held more than 5 percent of investments in the Federal Home Loan Bank. UT holds \$39 million and the Texas Comptroller's Treasury Pool holds the remaining \$6 billion of these investments.

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, 2015, the Barclay's Aggregate Bond Index duration was 5.62 years and the Barclay's TIPS Index was 8.05 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, 2015, 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, 2015		
PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	\$ 38,145	1.88
Collateralized Loan Obligations	148,507	0.13
Commercial Mortgage Backed Securities	62,785	4.86
Corporate Obligations	942,204	7.23
Yankee – Corporate Obligations	44,062	6.92
Non U.S. Government Agency Obligations	50,217	3.69
Non Agency Mortgage Backed Securities	72,994	4.11
Sovereign Government Debt	89,533	6.52
U.S. Government Agency Commercial Mortgage Backed Securities	55,047	3.54
U.S. Government Agency Mortgage Backed Securities	989,944	4.14
U.S. Government Agency Obligations	51,760	4.89
U.S. Taxable Municipal Bonds	98,405	9.82
U.S. Treasury Securities	1,444,565	6.18
U.S. Treasury TIPS	68,559	8.76
Total	\$ 4,156,727	5.68
U.S. Treasury TIPS	\$ 887,104	8.27
Emerging Market Debt	1,749,250	4.75
Total Real Return	\$ 6,793,081	

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, 2015.

Invested Securities Lending Collateral Exposed to Interest Rate Risk			
August 31, 2015 (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	\$ 107,565	\$ 21,566	\$ 85,999
Certificates of Deposit	34,601	34,601	
Commercial Paper	24,199	24,199	
Floating Rate Notes	40,058	15,062	24,996
Repurchase Agreements	269,340	269,340	
Time Deposits	48,690	48,690	
Total	\$ 524,453	\$ 413,458	\$ 110,995

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2015.

Investments Exposed to Interest Rate Risk		
August 31, 2015		
TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	\$ 14,784,523	17.62
U.S. Government STRIPS and TIPS	6,246,624	5.87
U.S. Government Agency Obligations	36,178	4.45
Asset and Mortgage Backed Obligations	185,706	1.14
Corporate Obligations	43,272	4.29
International Government Obligations	263,705	8.18
International Corporate Obligations	3,250	5.66
Total	\$ 21,563,258	13.91

As of Aug. 31, 2015, 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, 2015				
ERS Investment Type	Fair Value (In Thousands)		Modified Duration Rate	
	Fiduciary	Proprietary	Fiduciary	Proprietary
	Funds	Fund	Funds	Fund
U.S. Treasury Securities	\$ 3,697,081	\$ 215,097	3.39	3.78
U.S. Government Agency Obligations	734,958	48,262	4.46	4.46
Corporate Obligations	896,808	40,682	4.32	4.03
Corporate Asset and Mortgage Backed Securities	180,179	11,832	3.50	3.50
International Obligations	289,422	14,396	3.29	2.92
Money Market and Bond Fund	493,299	171,164	0.08	0.08
Total	<u>\$ 6,291,747</u>	<u>\$ 501,433</u>	3.39	2.57

As of Aug. 31, 2015, 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, 2015		
UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 433,815	12.15
U.S. Treasury Inflation Protected	46,893	8.25
U.S. Agency Asset Backed	23,580	3.92
Total U.S. Government Guaranteed	<u>504,288</u>	11.40
U.S. Government Non-Guaranteed:		
U.S. Agency	53,221	0.44
U.S. Agency Asset Backed	67,803	2.67
Total U.S. Government Non-Guaranteed	<u>121,024</u>	1.69
Total U.S. Government	<u>625,312</u>	9.52
Corporate Obligations:		
Domestic	560,611	5.77
Foreign	464,055	4.43
Total Corporate Obligations	<u>1,024,666</u>	5.16
Foreign Government and Provincial Obligations	1,581,577	6.94
Other Debt Securities	15,530	10.66
Total Debt Securities	<u>3,247,085</u>	6.89
Other Investment Funds – Debt	26,067	7.00
Fixed Income Money Market Funds	<u>2,159,916</u>	0.23
Total	<u>\$ 5,433,068</u>	4.25

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, 2015, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$2.2 billion.

Reverse Repurchase Agreements

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

To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

As of Aug. 31, 2015, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$47.1 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$46.9 million. There was no credit exposure during fiscal 2015.

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, 2015, is summarized in the table below.

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, 2015, TRS, PSF, UT, Texas A&M University System (A&M), Texas Tech University System (TTU) and VLB held investment derivatives (swaps, options, futures and forwards).

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

Futures contracts are standardized, exchange-traded contracts to purchase

Securities Lending Activity Summary					
August 31, 2015 (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	\$ 19,336,808	\$ 477,599	\$ 19,379,484	\$ 19,372,422	\$ (7,062)
ERS	595,269		610,461	610,522	62
PSF	2,557,596	2,064,805	575,807	524,452	(51,355)
UT* **	853,955	195,000	687,047	687,047	
VLB**	34,345		35,230	35,230	
TPHETB**	67,028		68,701	68,701	
Total	\$ 23,445,001	\$ 2,737,404	\$ 21,356,730	\$ 21,298,374	\$ (58,355)

* 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, 2015.

Investment Derivative Instruments

Derivatives are financial instruments (securities or contracts) whose value is linked to or “derived” from

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 non-performance 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, 2015, swap investments were interest rate, credit default, commodity, equity and total return swaps.

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

Foreign Currency Risk: TRS, UT and A&M have exposure to investment foreign currency risk in swaps, options, futures and forwards derivative investments. As of Aug. 31, 2015, derivative investments exposed to foreign currency risk are presented in the table below.

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2015 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds	
	Swaps	Options	Futures	Forwards	Swaps	Options
Australian Dollar	\$	\$	\$	\$ 7,967	\$	\$
Brazilian Real	(169)	(60)		6,427		6
British Pound	(143)	(1)	(2)	(315)	(6)	
Canadian Dollar			7	708	(85)	
Chilean Peso				(4,228)		
Chinese Yuan Renminbi		(39)		(263)		
Columbian Peso				851		
Czech Koruna				5		
Danish Krone				(162)		
Euro	95,730	(541)	(140)	(1,613)	137	24
Hong Kong Dollar						4
Indian Rupee				(338)		
Indonesian Rupiah				(1)		
Japanese Yen	(586)	(83)		10,061	801	
Malaysian Ringgit				295		103
Mexican Peso	54	(6)		(1,154)	201	
New Israel Shekel				(36)		
New Zealand Dollar				8,119		
Norwegian Krone				(748)		
Philippine Peso				(1)		
Polish Zloty				174		
Russian Ruble				(8)		
Singapore Dollar				729		
South African Rand				173		
South Korean Won				19	(863)	
Swedish Krona	(57)			233		
Swiss Franc	6,940			78	(1,165)	
Taiwan Dollar				(4,059)	(172)	
Thai Baht				22		39
Turkish Lira				(59)		
Total	<u>\$ 101,769</u>	<u>\$ (730)</u>	<u>\$ (135)</u>	<u>\$ 22,876</u>	<u>\$ (1,152)</u>	<u>\$ 176</u>

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

TRS' investment policy limits the net market value of all over-the-counter derivative positions, less 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, 2015, was \$329.5 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than BBB+ using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2015, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$61.6 million of collateral held and by \$285.5 million in liabilities included in netting arrangements with those counterparties, resulting in a negative \$17.6 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, UT and VLB are exposed to interest rate risk on swap transactions. Investments in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 131.25 percent of Securities Industry and Financial Markets Association (SIFMA) and receipt of 82.04 to 103 percent of one month to three month London Interbank Offered Rate (LIBOR). Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign cur-

rency rates (Euro Interbank Offered Rate (EURIBOR), LIBOR or Brazil Cetip Interbank Deposit) and receipt of 0.25 to 12.23 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR, LIBOR, Mexican Interbank Rate or Stockholm Interbank Offered Rate) and payment of 0.15 to 6 percent. As of Aug. 31, 2015, 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, 2015 (Amounts in Thousands)

Investment Type	Investment Maturities (in years)					
	Fair Value	Less Than 1	1-5	6-10	11-15	More than 15
Interest Rate Swaps	\$15,568	\$(9,221)	\$(1,126)	\$(1,381)	\$4,581	\$22,715

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, 2015, the fair value of various investment funds was \$85 billion.

Note 4

Short-Term Debt

On Aug. 26, 2014, the Comptroller's office sold approximately \$5.4 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2014, with an issue date of Sept. 03, 2014, and a maturity date of Aug. 31, 2015. The notes bore interest at 1.5 percent and were priced to yield 0.1326 percent. They were repaid during fiscal 2015. These notes were sold to coordinate the cash flow of the state for fiscal 2015. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund.

For fiscal 2016, the state Comptroller has announced that the state will not issue state of Texas Tax and Revenue Anticipation Notes.

In addition, during fiscal 2015, the Texas Department of Transportation issued Flexible Rate Revolving Notes under its short-term borrowing program for \$725 million to cover cash management operations in the State Highway Fund, and \$525 million matured.

Texas Workforce Commission received temporary transfers (loans) for \$158.7 million from the Comptroller's office to avoid interest liabilities related to the Cash Management Improvement Act (CMIA). The loans were repaid in full during fiscal 2015.

Texas Tech University System issued Commercial Paper Notes for \$26.3 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds, and \$118.7 million matured.

The University of Houston System issued Commercial Paper Notes for \$75 million to finance various capital projects, and \$55 million matured.

The University of Texas System issued Commercial Paper Notes for \$744 million to provide interim financing for capital improvements and to finance equipment purchases, and \$359.5 million matured. Short-term debt activity for the fiscal year ended Aug. 31, 2015, is presented below.

Short-Term Debt					
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)					
	Beginning Balance 9/1/14	Issued	Reclassified *	Redeemed	Ending Balance 8/31/15
Tax and Revenue Anticipation Notes	\$	\$ 5,400,000	\$	\$ 5,400,000	\$
Commercial Paper	1,360,396	845,266	(74,260)	533,159	1,598,243
Flexible Rate Revolving Notes	150,000	725,000		525,000	350,000
General Revenue Advances		158,704		158,704	
	<u>\$ 1,510,396</u>	<u>\$ 7,128,970</u>	<u>\$ (74,260)</u>	<u>\$ 6,616,863</u>	<u>\$ 1,948,243</u>

* Reclassified from Short-Term Liabilities in fiscal 2014 to Long-Term Liabilities in fiscal 2015.

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2015, is presented in the table below.

Long-Term Liabilities Activity							
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)							
	Balance 9/1/14	Restatements /Adjustments*	Additions**	Reductions	Balance 8/31/15	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	\$ 131,828	\$	\$ 41,883	\$ 57,451	\$ 116,260	\$ 40,647	\$ 75,613
Capital Lease Obligations	33,679	72		3,994	29,757	3,696	26,061
Employees' Compensable Leave	782,234	(44)	941,871	886,031	838,030	580,447	257,583
Notes and Loans Payable	1,294,766		383,986	131,249	1,547,503	190,008	1,357,495
General Obligation Bonds Payable	12,052,116	412,626	3,354,351	1,641,675	14,177,418	524,972	13,652,446
Revenue Bonds Payable	4,661,544	63,741	860,145	1,095,215	4,490,215	199,831	4,290,384
Pollution Remediation Obligation	250,827	326	111,584	52,435	310,302	50,703	259,599
Governmental Activities Long-Term Liabilities	<u>\$ 19,206,994</u>	<u>\$ 476,721</u>	<u>\$ 5,693,820</u>	<u>\$ 3,868,050</u>	<u>\$ 21,509,485</u>	<u>\$ 1,590,304</u>	<u>\$ 19,919,181</u>
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	\$ 60,195	\$ 73,417	\$ 1,070,657	\$ 1,065,357	\$ 138,912	\$ 107,344	\$ 31,568
Capital Lease Obligations	16,908		50,047	6,182	60,773	8,644	52,129
Employees' Compensable Leave	774,095		359,300	315,970	817,425	427,796	389,629
Notes and Loans Payable	2,140,486	62,160	377,324	1,336,493	1,243,477	48,808	1,194,669
General Obligation Bonds Payable	3,765,126	893	502,308	313,764	3,954,563	195,378	3,759,185
Revenue Bonds Payable	20,403,923	265,728	3,961,814	3,165,236	21,466,229	2,223,497	19,242,732
Pollution Remediation Obligation			1,650		1,650	1,650	
Liabilities Payable From Restricted Assets	3,092,862	65,948	256,780	351,861	3,063,729	553,014	2,510,715
Business-Type Activities Long-Term Liabilities	<u>\$ 30,253,595</u>	<u>\$ 468,146</u>	<u>\$ 6,579,880</u>	<u>\$ 6,554,863</u>	<u>\$ 30,746,758</u>	<u>\$ 3,566,131</u>	<u>\$ 27,180,627</u>
COMPONENT UNITS							
Capital Lease Obligations	\$ 19	\$	\$ 50	\$ 24	\$ 45	\$ 11	\$ 34
Employees' Compensable Leave	2,774		1,007	952	2,829	1,653	1,176
Notes and Loans Payable	30,935		4,230	11,251	23,914	9,841	14,073
Revenue Bonds Payable	149,904	(282)		34,956	114,666	13,322	101,344
Component Units Long-Term Liabilities	<u>\$ 183,632</u>	<u>\$ (282)</u>	<u>\$ 5,287</u>	<u>\$ 47,183</u>	<u>\$ 141,454</u>	<u>\$ 24,827</u>	<u>\$ 116,627</u>

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

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings, self-insurance and workers' compensation claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$50 thousand or numer-

ous 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.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2016	\$ 190,008	\$ 20,348	\$ 210,356
2017	210,935	19,045	229,980
2018	203,721	21,733	225,454
2019	203,427	20,282	223,709
2020	195,278	18,886	214,164
2021 - 2025	601,969	74,062	676,031
2026 - 2030	92,811	44,569	137,380
2031 - 2035	80,365	15,861	96,226
2036 - 2040	10,660	64	10,724
Total Requirements	<u>1,789,174</u>	<u>234,850</u>	<u>2,024,024</u>
Unamortized Accretion	<u>(241,671)</u>		<u>(241,671)</u>
Total Requirements	<u>\$ 1,547,503</u>	<u>\$ 234,850</u>	<u>\$ 1,782,353</u>

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2016	\$ 48,808	\$ 29,993	\$ 78,801
2017	967,946	21,423	989,369
2018	33,246	5,069	38,315
2019	32,927	4,443	37,370
2020	8,036	3,821	11,857
2021 - 2025	39,613	15,858	55,471
2026 - 2030	69,607	10,067	79,674
2031 - 2035	43,294	3,512	46,806
Total Requirements	<u>\$ 1,243,477</u>	<u>\$ 94,186</u>	<u>\$ 1,337,663</u>

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2016	\$ 9,841	\$ 107	\$ 9,948
2017	3,868	85	3,953
2018	3,865	82	3,947
2019	1,053	80	1,133
2020	2,056	73	2,129
2021 - 2025	2,688	226	2,914
2026 - 2030	543	18	561
Total Requirements	<u>\$ 23,914</u>	<u>\$ 671</u>	<u>\$ 24,585</u>

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 2015, TxDOT recognized \$82.9 million as a long-term liability for pass-through toll payables related to highway projects constructed under pass-through financing agreements. See Note 15 for additional details. Debt service requirements for notes and loans payable in the long-term liabilities are presented in the tables to the left.

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

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.

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

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

Federal reimbursements are expected to offset a portion of these expected costs. The potential for

changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

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

Major Remediation Activity: TCEQ oversees the cleanup of leaking petroleum storage tanks (LPST). Cleanup costs are paid by the owners' environmental liability insurance or other financial assurance mechanisms or from their own funds. If the responsible party is unknown or is unwilling or financially unable to do the work, state and federal funds are used to pay for the corrective actions. Revenue is generated from a fee on the delivery of petroleum products removed from bulk storage facilities. State statutes allow cost recovery from the current owner or any previous responsible owner; however, to date this has not been necessary. At Aug. 31, 2015, there were 364 active State Lead sites, with a total estimated pollution remediation obligation of \$82.6 million. The amount of the estimated pollution remediation assumes that there will be no major increases in the cost of providing these cleanup services.

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

Enforcement, TCEQ Regional Offices, TCEQ Water Supply Division, public complaints and the United States Environmental Protection Agency (EPA).

Site estimates may change drastically from one year to another as the investigations progress and a better understanding of site conditions is obtained. The estimate of liabilities is limited to sites that have been, or are, being assessed and ranked for the Superfund program. Cost recovery activities during fiscal 2015 resulted in collections of \$407 thousand.

At the end of fiscal 2015, Texas had 65 sites with Pollution Remediation Obligations in the State and Federal Superfund programs and four sites that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2015, is \$166.3 million.

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

The Railroad Commission of Texas (Commission) currently has two areas of remediation: abandoned oil and gas wells and mines. Under Texas Natural Resource Code, Section 89.043, the Commission may plug aban-

doned wells if the wells will cause or are likely to cause a serious threat of pollution or injury to the public health. The Commission has 66 active well plugging projects as of Aug. 31, 2015, with an estimated cost of \$12.4 million. Under Texas Natural Resource Code, Section 91.113, the Commission may clean up abandoned oil and gas sites that are causing or are likely to cause the pollution of surface or subsurface water. The Commission has 10 active site remediation projects as of Aug. 31, 2015, with an estimated cost of \$687 thousand. Funding for these programs come from regulatory and permit fees paid by the oil and gas industry.

Under the Texas Surface Coal Mining and Reclamation Act, the Commission administers funds from the U.S. Department of the Interior for the Abandoned Mine Land Reclamation Program. The Commission has one grading project as of Aug. 31, 2015, with an estimated cost of \$1.1 million.

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

TxDOT is responsible for the cleanup and remediation of several polluted sites. Regulatory requirements established by federal and state law obligate TxDOT to perform these pollution remediation activities. The areas of remediation include compliance with asbestos regulations, compliance with Federal Safe Drinking Water Act, and compliance with state LPST cleanup at an estimated cost of \$5.6 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 428 bond issues outstanding as of Aug. 31, 2015. Scheduled debt service payments from the general revenue fund for fiscal 2015 totaled \$544.8 million.

Information on Bond Issuances

August 31, 2015

Description of Issue	Bond Issues Outstanding		Range of Interest Rates		Maturities		First Call Date
	Number	Amount Issued (in Thousands)	Lowest	Highest	First Year	Last Year	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	69	\$ 16,287,440	0.1800	6.0700	2005	2045	05/18/2005
Revenue Bonds	16	6,799,570	1.0000	5.3300	2007	2034	04/01/2016
Governmental Activities Total	<u>85</u>	<u>23,087,010</u>					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	74	4,885,846	0.2250	5.7500	1995	2047	02/24/1994
Revenue Bonds	257	26,900,571	0.1200	15.0000	1999	2054	05/04/1994
Business-Type Activities Total	<u>331</u>	<u>31,786,417</u>					
COMPONENT UNITS							
Revenue Bonds	12	457,247	2.7000	6.1000	2006	2041	03/01/2007
Total	<u>428</u>	<u>\$ 55,330,674</u>					

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Bonds Outstanding 9/1/14	Adjustments *	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/15	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	\$ 12,052,116	\$ 412,626	\$ 3,354,351	\$ 460,000	\$ 1,181,675	\$ 14,177,418	\$ 524,972
Revenue Bonds	4,661,544	63,741	860,145	162,130	933,085	4,490,215	199,831
Governmental Activities Total	<u>16,713,660</u>	<u>476,367</u>	<u>4,214,496</u>	<u>622,130</u>	<u>2,114,760</u>	<u>18,667,633</u>	<u>724,803</u>
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,765,126	893	502,308	168,744	145,020	3,954,563	195,378
Revenue Bonds	20,403,923	265,729	3,961,814	837,544	2,327,693	21,466,229	2,223,497
Business-Type Activities Total	<u>24,169,049</u>	<u>266,622</u>	<u>4,464,122</u>	<u>1,006,288</u>	<u>2,472,713</u>	<u>25,420,792</u>	<u>2,418,875</u>
COMPONENT UNITS							
Revenue Bonds	149,904	(282)		34,956		114,666	13,322
	<u>149,904</u>	<u>(282)</u>	<u>0</u>	<u>34,956</u>	<u>0</u>	<u>114,666</u>	<u>13,322</u>
Total	<u>\$ 41,032,613</u>	<u>\$ 742,707</u>	<u>\$ 8,678,618</u>	<u>\$ 1,663,374</u>	<u>\$ 4,587,473</u>	<u>\$ 44,203,091</u>	<u>\$ 3,157,000</u>

* Includes current year amortization of premiums and discounts.

** Includes current year amortization of accretion.

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES						
Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 446,060	\$ 604,972	\$ 1,051,032	\$ 164,585	\$ 178,495	\$ 343,080
2017	418,250	586,844	1,005,094	166,300	182,663	348,963
2018	425,805	568,145	993,950	168,695	173,770	342,465
2019	450,080	548,972	999,052	166,360	166,300	332,660
2020	416,040	528,855	944,895	169,710	158,376	328,086
2021 – 2025	2,284,250	2,328,651	4,612,901	1,164,430	645,836	1,810,266
2026 – 2030	2,523,385	1,748,560	4,271,945	1,540,365	339,867	1,880,232
2031 – 2035	2,469,715	1,157,213	3,626,928	658,625	61,656	720,281
2036 – 2040	2,573,145	568,400	3,141,545			
2041 – 2045	1,090,285	113,925	1,204,210			
	13,097,015 *	8,754,537	21,851,552	4,199,070 *	1,906,963	6,106,033
Premium	1,080,808		1,080,808	291,145		291,145
Discount	(405)		(405)			
Total	\$ 14,177,418	\$ 8,754,537	\$ 22,931,955	\$ 4,490,215	\$ 1,906,963	\$ 6,397,178
BUSINESS-TYPE ACTIVITIES						
Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 190,562	\$ 67,215	\$ 257,777	\$ 2,109,973	\$ 839,747	\$ 2,949,720
2017	207,930	64,593	272,523	1,068,900	804,511	1,873,411
2018	206,885	61,712	268,597	913,230	765,132	1,678,362
2019	219,380	58,535	277,915	674,801	730,115	1,404,916
2020	220,240	55,186	275,426	688,920	701,615	1,390,535
2021 – 2025	1,021,835	221,194	1,243,029	3,412,869	3,100,271	6,513,140
2026 – 2030	791,390	133,832	925,222	3,183,024	2,492,074	5,675,098
2031 – 2035	559,280	76,025	635,305	2,858,820	1,849,732	4,708,552
2036 – 2040	339,540	33,278	372,818	3,080,117	1,199,502	4,279,619
2041 – 2045	124,985	3,141	128,126	1,566,386	564,419	2,130,805
2046 – 2050	3,960	212	4,172	483,062	349,085	832,147
2051 – 2055				1,112,671	98,383	1,211,054
	3,885,987 *	774,923	4,660,910	21,152,773 *	13,494,586	34,647,359
Accretion	(27)		(27)	(660,783)		(660,783)
Premium	68,603		68,603	993,071		993,071
Discount				(18,832)		(18,832)
Total	\$ 3,954,563	\$ 774,923	\$ 4,729,486	\$ 21,466,229	\$ 13,494,586	\$ 34,960,815
COMPONENT UNITS						
Year	Revenue Bonds					
	Principal	Interest	Total			
2016	\$ 13,322	\$ 3,167	\$ 16,489			
2017	2,101	4,064	6,165			
2018	2,236	3,966	6,202			
2019	2,339	3,860	6,199			
2020	2,451	3,745	6,196			
2021 – 2025	14,539	16,693	31,232			
2026 – 2030	19,148	12,417	31,565			
2031 – 2035	25,545	7,422	32,967			
2036 – 2040	21,346	2,115	23,461			
2041 – 2045	4,295	113	4,408			
	107,322	57,562	164,884			
Premium	7,344		7,344			
Total	\$ 114,666	\$ 57,562	\$ 172,228			

* Includes accretion adjustments on deep discount bonds.

General Obligation Bonds – General Comments

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

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

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

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

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

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

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

The **Texas Department of Transportation** (TxDOT), prior to Jan 1, 2015, through the Texas mobility fund, issued general obligation bonds to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways. In addition, the bond proceeds provided funds for participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. After Jan. 1, 2015, TxDOT may only issue debt to refund existing debt in certain circumstances. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees. Debt service for highway improvement bonds is provided by the state's general revenue.

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

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

Tourism Office, primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2015, 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	\$ 48,250
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,317,891
Water Development Bonds	6,319,898
College Student Loan Bonds	1,308,525
Texas Military Value Revolving Loan Fund	200,405
Total	9,669,969
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	2,370,637
Transportation Commission Transportation Bonds	1,442,008
Water Development Bonds - Economically Distressed Areas Program	101,748
Total	4,079,233
Total General Obligation Bonds	\$ 13,749,202

Revenue Bonds – General Comments

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

Self-Supporting

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

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

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

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

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets as of Aug. 31, 2015, excluding real estate, was \$14.8 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	\$ 2,954,620	\$ 1,784,085	\$ 1,170,535
Texas A&M University System	1,477,310	953,145	524,165
Total	\$ 4,431,930	\$ 2,737,230	\$ 1,694,700

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. Remaining bonds were redeemed in Jan. 2014.

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

The **Texas Transportation Commission** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater city of Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate.

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

Not Self-Supporting

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

The **Texas Military Department**, previously named the Adjutant General's Department, assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Texas Military Department upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Texas Military Department. As of Aug. 31, 2015, 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	\$ 11,594,220	\$ 6,106,033	\$ 34,647,359	\$ 164,885
Current Year Pledged Revenue	391,115	7,542,035	17,008,284	67,252
Current Year Principal and Interest Paid	320,545	364,445	1,715,190	40,997
Term of Commitment Fiscal Year Ending August 31,	2045	2034	2054	2041
Percentage of Revenue Pledged	100%	100%	99%	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, \$1.4 billion, \$181.8 million and \$80 million of Direct Payment BABs outstanding, respectively, as of Aug. 31, 2015.

Under the Budget Control Act of 2011, across-the-board sequestration took effect on March 1, 2013. This resulted in the 35 percent federal subsidy for BABs interest payments being reduced to 32.34 percent and then effective Oct. 1, 2014, to 32.4 percent.

Variable Rate Bonds

Seven state agencies had a total of 90 variable rate bond issues with outstanding balances as of Aug. 31, 2015. 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, 2015.

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, 2015, 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.

	Number of				Principal Balance Outstanding (In Thousands)
	Demand Bond Issues	Standby Purchase Agreements	Letters of Credit	Other	
Demand Bonds					
August 31, 2015					
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Department of Transportation	1	2 (a)			\$ 150,000
Office of the Governor	2		2 (c)		45,000
Total	<u>3</u>	<u>2</u>	<u>2</u>	<u>0</u>	<u>195,000</u>
Revenue Bonds					
Texas Department of Transportation	1	1 (a)			100,000
Total	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>100,000</u>
Governmental Activities Total	<u>4</u>	<u>3</u>	<u>2</u>	<u>0</u>	<u>\$ 295,000</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	26	26 (a)			\$ 1,511,550
Total	<u>26</u>	<u>26</u>	<u>0</u>	<u>0</u>	<u>1,511,550</u>
Revenue Bonds					
University of Texas System	3			3 (b)	1,242,770
Texas Department of Housing and Community Affairs	7	7 (a)			202,095
University of Houston System	1			1 (b)	3,405
Total	<u>11</u>	<u>7</u>	<u>0</u>	<u>4</u>	<u>1,448,270</u>
Business-Type Activities Total	<u>37</u>	<u>33</u>	<u>0</u>	<u>4</u>	<u>\$ 2,959,820</u>
(a) – See Demand Bonds - Standby Purchase Agreements table.					
(b) – In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.					
(c) – In the event redeemed bonds are not remarketed, a standby letter of credit with National Australia Bank will be used until remarketed.					

Demand Bond – Standby Purchase Agreements

August 31, 2015

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0900%	11/07/16
Bank of America, NA	1	0.3200%	02/24/17
Bank of New York Mellon	1	0.3000%	08/18/16
Bank of Tokyo-Mitsubishi UFJ	1	0.3500%	08/24/18
Bank of Tokyo-Mitsubishi UFJ	2	0.3500%	09/04/18
California Public Employees Retirement System	1	0.1500%	12/13/16
J.P. Morgan Chase Bank	1	0.3800%	03/07/17
J.P. Morgan Chase Bank	2	0.3800%	06/30/17
Landesbank Hessen-Thuringen Girozentrale	1	0.3000%	02/09/18
Landesbank Hessen-Thuringen Girozentrale	3	0.3200%	12/31/15
Landesbank Hessen-Thuringen Girozentrale	2	0.3200%	12/31/19
Mizuho Bank, LTD.	1	0.3400%	07/19/19
State Street Bank and Trust Company	1	0.1500%	12/13/16
State Street Bank and Trust Company	6	0.2800%	12/31/15
State Street Bank and Trust Company	1	0.3500%	09/07/18
Sumitomo Mitsui Banking Corp	2	0.3500%	08/12/19
Sumitomo Mitsui Banking Corp	1	0.5000%	03/20/16
Sumitomo Mitsui Banking Corp	1	0.5000%	11/01/19
Texas Comptroller of Public Accounts*	7	0.1200%	12/31/15
Total	<u>36</u>		

* 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, 2015

	Estimated Debt Service (In Thousands)	Rate	Basis
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2006B	\$ 170,098 (a)	8.50%	1% + the greater of: 3.0% + Daily Fed Fds Rate or Bank prime rate + 2% or 7.5%
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	<u>109,191 (b)</u>	5.25%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	<u>\$ 279,289</u>		

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

(b) – Replacement debt is subject to semiannual 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 2015. The source of funds used for the extinguishments included loan repayments and other available funds.

Refunding

The table below summarizes bonds refunded during fiscal 2015 to lower interest rates or to restructure debt service requirements for cash management purposes.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds	
Texas Water Development Board	\$ 41,890
Revenue Bonds	
Texas Department of Housing and Community Affairs	141,992
Texas Workforce Commission	119,005
Texas Water Development Board	48,683
University of Houston System	215
Business-Type Activities Total	<u>\$ 351,785</u>

Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Department of Transportation	Advanced Refunding	\$ 872,100	\$ 945,240	\$ 160,618	\$ 109,672
Texas Department of Transportation	Current Refunding	58,060	70,740	8,784	6,499
Texas Public Finance Authority	Advanced Refunding	129,845	142,450	18,314	16,279
Texas Public Finance Authority	Current Refunding	5,260	5,515	305	292
Texas Water Development Board	Current Refunding	16,915	17,730	3,919	3,030
Revenue Bonds					
Texas Department of Transportation	Advanced Refunding	781,080	848,300	123,981	96,747
Texas Public Finance Authority	Current Refunding	70,425	75,425	7,312	7,005
Texas Military Department	Current Refunding	8,640	9,360	1,101	1,016
Governmental Activities Total		<u>1,942,325</u>	<u>2,114,760</u>	<u>324,334</u>	<u>240,540</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	103,030	103,130	25,161	18,001
Revenue Bonds					
Texas Department of Transportation	Advanced Refunding	422,778	441,158	278,645	124,602
Texas Department of Transportation	Current Refunding	193,700	225,000	72,477	35,534
Texas Tech University System	Advanced Refunding	165,040	157,035	20,499	15,027
Texas Tech University System	Current Refunding	240	245	47	37
University of Texas System	Advanced Refunding	335,550	349,325	56,938	42,520
University of Texas System	Current Refunding	113,120	123,110	32,745	19,732
Texas A&M University System	Advanced Refunding	104,865	112,055	24,910	17,559
Texas A&M University System	Current Refunding	217,305	220,635	28,537	24,267
University of Houston System	Advanced Refunding	47,915	51,100	9,051	7,401
University of North Texas System	Current Refunding	38,265	37,885	4,794	4,388
Stephen F. Austin State University	Advanced Refunding	48,410	47,250	6,629	5,911
Texas State University System	Advanced Refunding	188,360	203,455	25,405	19,437
Texas State University System	Current Refunding	24,355	31,350	3,614	3,363
Midwestern State University	Advanced Refunding	16,975	17,595	(514)	750
Midwestern State University	Current Refunding	605	600		3
Business-Type Activities Total		<u>2,020,513</u>	<u>2,120,928</u>	<u>588,938</u>	<u>338,532</u>
Total		<u>\$ 3,962,838</u>	<u>\$ 4,235,688</u>	<u>\$ 913,272</u>	<u>\$ 579,072</u>

Defeased Bonds

Texas defeases various bond issues by placing funds in irrevocable trusts with external financial institutions to provide for all future debt service payments on the old bonds. As of Aug. 31, 2015, the amounts of defeased bonds, at par, that remain outstanding for all bond issuers are presented in the table below. Also included are various bond issues defeased by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company). Funds placed in the Trust Company to defease \$142.4 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements.

Defeased Bonds Outstanding	
(Amounts in Thousands)	
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Department of Transportation	\$ 1,439,495
Texas Public Finance Authority	142,450
Revenue Bonds	
Texas Department of Transportation	1,713,355
Governmental Activities Total	<u>3,295,300</u>
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	39,225
Veterans Land Board	15,500
Revenue Bonds	
Texas Workforce Commission	345,270
University of Texas System	766,353
Texas Department of Transportation	114,958
Texas State University System	203,455
Texas Tech University System	157,035
Texas A&M University System	112,055
Midwestern State University	27,255
Stephen F. Austin State University	3,770
Business-Type Activities Total	<u>1,784,876</u>
Total	<u>\$ 5,080,176</u>

Conduit Debt

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

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

As of Aug. 31, 2015, there were 13 series of multifamily housing revenue bonds outstanding with an aggregate \$173 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued three series of bonds in the aggregate amount of \$1.3 billion that remains outstanding as of Aug. 31, 2015. The proceeds were loaned to LBJ Infrastructure Group LLC, NTE Mobility Partners LLC and NTE Mobility Partners Segments 3 LLC to finance the development and expansion of public transportation projects. Debt service is funded from loan and interest repayments from the borrowers. The bonds do not constitute a debt or pledge of the faith and credit of

TxPABST, Texas Department of Transportation, or the state of Texas.

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, 2015, the debt service requirements of the state's variable-rate and fixed-rate bonds and associated net swap payments were estimated and are presented in the tables to the right and on the following page.

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

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2016	\$ 157,190	\$ 5,024	\$ 118,958	\$ 281,172
2017	164,775	4,684	113,274	282,733
2018	162,280	4,337	107,597	274,214
2019	164,140	3,966	101,959	270,065
2020	159,170	3,576	96,238	258,984
2021 – 2025	811,015	12,658	399,360	1,223,033
2026 – 2030	762,100	5,639	262,336	1,030,075
2031 – 2035	665,530	1,668	140,098	807,296
2036 – 2040	519,760	428	40,598	560,786
2041 – 2045	88,265	33	3,069	91,367
2046 – 2050	1,230		11	1,241
Total	<u>\$ 3,655,455</u>	<u>\$ 42,013</u>	<u>\$ 1,383,498</u>	<u>\$ 5,080,966</u>

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

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net *	
2016	\$ 1,070	\$ 207	\$ (1,387)	\$ (110)
2017	1,135	200	(1,380)	(45)
2018	1,205	192	(1,371)	26
2019	1,280	183	(1,362)	101
2020	1,365	174	(1,354)	185
2021 – 2025	8,195	713	(6,615)	2,293
2026 – 2030	11,085	383	(5,909)	5,559
2031 – 2035	5,315	46	(3,985)	1,376
2036 – 2040			(1,143)	(1,143)
Total	<u>\$ 30,650</u>	<u>\$ 2,098</u>	<u>\$ (24,506)</u>	<u>\$ 8,242</u>

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

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

(Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2016	\$	\$ 16,612	\$ (497)	\$ 16,115
2017		16,612	(497)	16,115
2018		16,613	(497)	16,116
2019		16,612	(496)	16,116
2020	24,740	16,613	(497)	40,856
2021 – 2025	110,605	61,840	(1,831)	170,614
2026 – 2030	133,790	35,819	(972)	168,637
2031 – 2035	46,560	11,031	(299)	57,292
Total	<u>\$ 315,695</u>	<u>\$ 191,752</u>	<u>\$ (5,586)</u>	<u>\$ 501,861</u>

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

Note 7

Derivative Instruments

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

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

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

Summary of Derivative Activity

The fair value of effective hedging derivatives is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred outflows of resources and deferred inflows of resources. The state's cumulative derivative activity as of Aug. 31, 2015, is summarized in the table on the following page. The notional amounts are presented in U.S. dollar equivalents.

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
<i>Investment Derivatives</i>			
Futures	\$ 1,297	\$	\$ 26,279
BUSINESS-TYPE ACTIVITIES			
<i>Cash Flow Hedges</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (61,998)	\$ (544,280) *	\$ 3,649,095
<i>Investment Derivatives</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (83)	\$ (27)	\$ 151,137
Pay-Variable Receive-Fixed Interest Rate Swaps	(3,928)	(3,929)	617,778
Basis Swaps	11,664	28,320	833,725
Commodity Swaps	(851)	(851)	29,232
Credit Default Swaps	2,277	2,061	232,868
Currency Swaps	2,168	2,168	196,159
Equity Swaps	(4,808)	(4,808)	40,183
Foreign Currency Forward	22,704	22,877	2,456,258
Futures	(45,466)		1,624,228
Inflation Swaps	85	85	5,229
Options	(2,614)	10,907	11,578,634
Total Return Swaps	(1,554)	(1,867)	24,637
Volatility Swaps	(3)	(3)	81
FIDUCIARY ACTIVITIES			
<i>Investment Derivatives</i>			
Credit Default Swaps	\$ 98	\$ (4,323)	\$ 238,872
Forwards Contracts	478,858	6,960	15,804,273
Futures	(750,353)		3,519,525
Options	(13,114)	(2,571)	2,674
Pay-Fixed Receive-Variable Interest Rate Swaps	(11,662)	388	270,668
Pay-Variable Receive-Fixed Interest Rate Swaps	1,553	(29)	37,447
Total Return Swaps	(100,032)	(10,902)	268,724
Warrants	(18,782)	75,817	30,632
DISCRETE COMPONENT UNITS			
<i>Investment Derivatives</i>			
Futures	\$ (214)	\$	\$ 8,413
Options	(943)	(746)	418
Total Return Swaps	(207)	(249)	3,284

* Of the net \$544,280 fair value for cash flow hedges, \$1,828 is reported as a hedging derivative asset and \$546,108 is reported as a hedging derivative liability.

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments

Veterans Land Board (VLB)

Hedging and investment derivatives

Texas Department of Housing and Community Affairs (TDHCA)

Hedging derivatives

University of Texas System (UT)

Hedging and investment derivatives

Texas A&M University System (A&M)

Investment derivatives

Permanent School Fund (PSF) *

Investment derivatives

Employees Retirement System of Texas (ERS)

Investment derivatives

Teacher Retirement System of Texas (TRS)

Investment derivatives

Texas Tech University System (TTU)

Investment derivatives

Midwestern State University (MSU) **

Investment derivatives

Stephen F. Austin State University (SFA) **

Investment derivatives

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

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

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 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding), the knock-out is permanent once the option is taken at the discretion of the counterparty. In the remainder of the

swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

Texas Department of Housing and Community Affairs (TDHCA) based the fair value of its swaps on market conditions as of Aug. 31, 2015. Fair values were directly obtained by the counterparties to the transactions and separately verified by an independent third party. Valuations are based on mid-market levels and may not reflect the amount a counterparty would have required in the event of an early termination of the swap transaction on that date. For swaps with no pre-defined notional amortization schedule, a valuation was performed based on an assumed notional amortization.

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

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

Hedging Derivatives

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

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2015, are presented in the tables on the following pages. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap index rates as noted. Standard & Poor's and Moody's Investor service credit ratings are disclosed for each swap.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Ref Bds Ser '95	\$ 17,115,000	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	13,285,000	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000,000	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	24,995,000	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	14,955,000	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,650,000	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	26,590,000	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	27,855,000	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	30,520,000	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	30,100,000	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	32,085,000	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	33,815,000	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	33,875,000	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	35,880,000	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	35,700,000	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	36,885,000	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	63,945,000	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Bds Ser 2011A	64,000,000	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	65,365,000	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Bds Ser 2011C	66,615,000	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	67,120,000	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	91,020,000	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	94,980,000	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	142,850,000	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	38,420,000	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	28,520,000	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	11,655,000	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	59,175,000	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	146,215,000	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	35,675,000	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	16,535,000	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	29,560,000	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	12,000,000	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	20,980,000	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	27,075,000	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	17,340,000	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	16,190,000	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	20,365,000	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	37,445,000	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	16,775,000	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	59,270,000	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR

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

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	\$	A- / Baa1
Vet Land Ref Bds Ser '99A	N/A		A- / Baa1
Vet Hsg Fund II Bds Ser 2001A-2	N/A		A- / Baa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AAA / Aa2
Vet Land Bds Ser 2002	N/A		A- / A3
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A		AAA / Aa2
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A		AAA / Aa2
Vet Hsg Fund II Bds Ser 2006A	N/A		A+/Aa3
Vet Hsg Fund II Bds Ser 2006D	N/A		A / A2
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 Bds Ser 2010C	N/A		A- / A3
Vet Bds Ser 2011A	N/A		BBB+/A3
Vet Bds Ser 2011B	N/A		BBB+/A3
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 Bds Ser 2013A	N/A		AAA / Aa2
Vet Bds Ser 2013B	N/A		AAA / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% <u>and</u> SIFMA/LIBOR Ratio > 74%	2,652 1,018	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS > 71%	935 1,020	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	612	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	2,740	A+ / Aa3
Vet Bds Ser 2014A	N/A	N/A	AA-/Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR > 7.00%	4,470	AAA / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR >= 7.00%	1,442	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	1M LIBOR >= 7.00%	2,594	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% <u>and</u> SIFMA/LIBOR Ratio > 74%	484 267	A+ / Aa3
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% <u>and</u> SIFMA/LIBOR Ratio > 74%	1,367 567	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014B-3	1M LIBOR >= 7.00%	2,700	AAA / Aa2
Vet Land Tax Ref Bds Ser 2014B-3	6M LIBOR >= 7.00%	1,542	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	6M LIBOR > 7.00%	2,165	AAA / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	1M LIBOR >= 7.00%	579	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%	1,992	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	6M LIBOR >= 7.00%	1,493	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% <u>and</u> SIFMA/LIBOR Ratio > 74%	2,355 1,427	A+ / Aa3

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

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS (concluded)				
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	\$ 37,860,000	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	23,130,000	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	14,485,000	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	22,485,000	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	17,065,000	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	19,085,000	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	18,905,000	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	30,310,000	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Bds Ser 2014D	99,040,000	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% of 1M LIBOR
Vet Bds Ser 2015A	123,775,000	02/11/2015	06/01/2045	Pay 1.510%; receive 68% of 1M LIBOR
VetBds Ser 2015B	125,000,000	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of 1M LIBOR
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	40,000	03/01/2014	09/01/2034	Pay 3.67%; receive 65.5% of LIBOR + .20%
2004D Single Family	27,485	01/01/2005	03/01/2035	Pay 3.08%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45% and LIBOR
2005A Single Family	37,115	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45% and LIBOR
2006H Single Family	36,000	03/01/2014	09/01/2025	Pay 3.86%; receive 63% of LIBOR +.30%
2007A Single Family	48,190	06/05/2007	09/01/2038	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45% and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS*				
RFS Bonds 2007B	165,115	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	165,115	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	187,875	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	187,875	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	128,810	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	128,810	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	279,170	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA

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

Concluded on the following page

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted

collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2015, 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

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

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS (concluded)			
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	N/A	N/A	AAA / Aa2
Vet Land Tax Ref Bds Ser 2014C-3	6M LIBOR >= 7.00%	\$ 1,931	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-3	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% <u>and</u> SIFMA/LIBOR Ratio > 74%	465 208	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,785	A- / A3
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	1,896	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,075	A- / A3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	886	AAA / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	2,725	A+ / Aa3
Vet Bds Ser 2014D	N/A	N/A	AA-/Aa2
Vet Bds Ser 2015A	N/A	N/A	BBB+/A3
VetBds Ser 2015B	N/A	N/A	AA-/Aa2
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A		AA- (Stable)/Aa2 (Stable)
2004D Single Family	N/A		A (Stable)/A1 (Stable)
2005A Single Family	N/A		A+ (Stable)/ Aa3 (Stable)
2006H Single Family	N/A		AA- (Stable)/Aa2 (Stable)
2007A Single Family	N/A		A+ (Stable)/ Aa3 (Stable)
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
RFS Bonds 2007B	N/A		Aa2/AA-
RFS Bonds 2007B	N/A		Aa3/A+
PUF Bonds 2008A	N/A		A3/A-
PUF Bonds 2008A	N/A		Aa3/AA-
RFS Bonds 2008B	N/A		Aa3/A+
RFS Bonds 2008B	N/A		A3/A-
RFS Bonds 2008B	N/A		Aa3/A+

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

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

Basis Risk: The state is exposed to basis risk to the extent that the interest payments on its variable-rate

bonds do not match the variable-rate payments received on the associated swaps. The state mitigates this risk by matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and by selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue. Additionally, tax-

exempt interest rates can change without a corresponding change in taxable interest rates due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) provides the counterparty with the option to terminate the swap under certain conditions.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed-rate and the state would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets. 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 (now a part of State of Texas Veterans Bonds, Tax-

able Refunding Series 2014B-3 attributable to bond refunding) the state will be subject to rollover risk if the counterparty exercises the option to terminate the swap contract.

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

Swap Payments and Associated Debt

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

Contingent Features

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

Investment Derivatives

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

Note 8

Leases

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

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for the year ended Aug. 31, 2015, are \$395.3 million for the primary government, \$3.1 million for discrete component units and \$1.4 million for fiduciary funds. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2015.

Noncancelable Operating Lease Obligations			
August 31, 2015 (Amounts in Thousands)			
Year	Minimum Future Lease Payments		
	Primary Government	Component Units	Fiduciary Funds
2016	\$ 305,514	\$ 2,645	\$ 1,095
2017	244,462	2,313	1,125
2018	188,277	2,416	1,162
2019	144,345	2,178	1,197
2020	111,721	2,169	1,233
2021-2025	267,276	7,763	731
2026-2030	22,402	222	
2031-2035	10,467		
2036-2040	9,399		
2041-2045	12,052		
Total	<u>\$ 1,315,915</u>	<u>\$ 19,706</u>	<u>\$ 6,543</u>

Additionally, the permanent school fund (PSF), the University of Texas System (UT), the Texas A&M University System (A&M) and the Texas Tech University System (Tech) have leased buildings, equipment and land to outside parties under various operating leases. The following table presents estimated future lease rental income on noncancelable operating leases as of Aug. 31, 2015.

Noncancelable Operating Lease Rental Income		
August 31, 2015 (Amounts in Thousands)		
Year	Minimum Future Lease Rental Income	
	Primary Government	Fiduciary Funds
2016	\$ 33,786	\$ 41
2017	28,326	41
2018	23,794	41
2019	19,308	41
2020	17,096	42
2021 and beyond	323,584	487
Total	<u>\$ 445,894</u>	<u>\$ 693</u>

The historical cost of the PSF leased assets is \$277.7 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 2015, PSF reported contingent rental revenues in the amount of \$2.2 million.

As of Aug. 31, 2015, the carrying value of UT's leased assets is \$105.8 million. The historical cost of UT's leased buildings is \$135.6 million and related accumulated depreciation is \$41.9 million. The historical cost of UT's leased equipment is \$3 million and related accumulated depreciation is \$2.5 million. The historical cost of UT's leased land is \$11.6 million. UT reported contingent rental revenues of \$250 thousand.

As of Aug. 31, 2015, the carrying value of A&M's leased assets is \$97.7 million. The historical cost of A&M's leased buildings is \$149.6 million and related accumulated depreciation is \$53.1 million. The historical cost of A&M's leased land is \$1.2 million. A&M did not report any contingent rental revenues.

As of Aug. 31, 2015, the carrying value of Tech's leased building space is \$32.8 million. The historical cost of Tech's leased building space is \$45.1 million and the related accumulated depreciation is \$12.3 million. 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, 2015 (Amounts in Thousands)									
Year	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities			Principal	Interest	Total Future Minimum Lease Payments
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments			
2016	\$ 3,696	\$ 4	\$ 3,700	\$ 8,644	\$ 2,377	\$ 11,021	\$ 11	\$ 2	\$ 13
2017	3,643	1	3,644	6,695	2,105	8,800	12	2	14
2018	3,619		3,619	5,677	1,879	7,556	12	1	13
2019	3,617		3,617	5,065	1,700	6,765	10	1	11
2020	3,609		3,609	1,913	1,503	3,416			
2021-2025	11,573		11,573	9,435	6,325	15,760			
2026-2030				11,594	4,018	15,612			
2031-2035				11,750	1,214	12,964			
Total	<u>\$ 29,757</u>	<u>\$ 5</u>	<u>\$ 29,762</u>	<u>\$ 60,773</u>	<u>\$ 21,121</u>	<u>\$ 81,894</u>	<u>\$ 45</u>	<u>\$ 6</u>	<u>\$ 51</u>

The following table presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2015.

Assets Under Capital Leases						
August 31, 2015 (Amounts in Thousands)						
Type	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities		Assets under Capital Lease	Accumulated Depreciation
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation		
Land	\$	\$	\$ 11	\$	\$	\$
Buildings			50,420	(5,582)		
Furniture and Equipment	52,383	(17,278)	22,655	(6,938)	92	(24)
Vehicles, Boats, Aircraft			550	(156)		
Computer Software			423	(302)		
Other Assets			3,613			
Total	<u>\$ 52,383</u>	<u>\$ (17,278)</u>	<u>\$ 77,672</u>	<u>\$ (12,978)</u>	<u>\$ 92</u>	<u>\$ (24)</u>

Note 9

Retirement Plans

Defined Benefit Pension Plans

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

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

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

The state implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, in fiscal 2015. As ERS, LECOS, JRS2, TRS and TESRS Plans are administered through trust, these plans are accounted for and reported in accordance with GASB Statement No. 68 requirements. JRS1 Plan is operated on a pay-as-you-go basis with no plan assets and is not set up under trust or equivalent arrangements; therefore, it is still reported under GASB Statement No. 27.

Employees Retirement System of Texas (ERS)

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

Employees Retirement System of Texas Plan (ERS Plan)

In addition to the state of Texas, the employers of the ERS Plan include various component units of the state. ERS and the Texas Treasury Safekeeping Trust company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS Plan.

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

The monthly benefit may vary by membership class:

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

before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

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

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

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

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

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

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

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

Total monthly standard annuity of the LECOS Plan members equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly

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

Judicial Retirement System of Texas Plan Two (JRS2 Plan)

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

The monthly benefit for members of the JRS2 Plan is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement. Information on vesting and tier requirements may be obtained from ERS' CAFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2014 is presented in the table below:

Employees Retirement System's Membership			
	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries			
Currently Receiving Benefits	95,840	10,024	267
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	96,507	11,311	139
Current Employees			
Vested and Non-Vested	134,162	37,084	554
Total Members	326,509	58,419	960

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2014 are presented in the table below:

Required Contribution Rates						
Plan	Employer			Members		
	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	8.0%	8.0%	8.0%	6.6%	8.0%	6.6%
LECOS*	1.7%**	N/A	N/A	0.5%	N/A	N/A
JRS2	15.7%	N/A	N/A	6.6%	N/A	N/A

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

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

The amounts of state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2014 measurement period were \$482.2 million, \$27.8 million and \$12.2 million respectively.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year

period from Sept. 1, 2006 through Aug. 31, 2011. Additionally, the actuarial valuation as of Aug. 31, 2014, also incorporates the across-the-board pay increases budgeted by the state Legislature for the fiscal 2014-2015 biennium. The table below presents the actuarial methods and assumptions used to measure the total pension liability for the ERS, LECOS and JRS2 Plans as of the Aug. 31, 2014, measurement date:

Actuarial Methods and Assumptions			
	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	August 31, 2014	August 31, 2014	August 31, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Actuarial Assumptions:			
Discount Rate	6.07%	5.66%	8.00%
Investment Rate of Return	8.0%	8.0%	8.0%
Inflation	3.5%	3.5%	3.5%
Salary Increase	0% to 11.5%	5% to 11.5%	3.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected	None	None

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

Assumptions for Single Discount Rate			
	ERS Plan	LECOS Plan	JRS2 Plan
Single discount rate	6.07%	5.66%	8.00%
Investment rate of return	8.00%	8.00%	8.00%
Municipal bond rate	4.17% *	4.17% *	N/A
Year fiduciary net position depleted	2042	2040	N/A

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

The fiduciary net position for the ERS and LECOS Plans is projected to be depleted in fiscal 2042 and 2040 respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal 2041 for the ERS Plan and fiscal 2039 for the LECOS Plan. The municipal bond rate was applied to all remaining projected benefit payments after fiscal 2041 for the ERS Plan and fiscal 2039 for the LECOS Plan. For the JRS2 Plan, the single discount rate equaled the long-term expected investment rate of return. Therefore, the long-term expected investment rate of return was applied to all periods of projected benefit payments and no municipal bond rate was applied.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of Legislature's commitment to increase funding for the pension funds, such as changes in the statute in the last and cur-

rent legislative sessions. Considering these above events, the projected employer contributions are based on fiscal 2015 funding level.

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

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

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

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

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

	1% Decrease	Current Discount Rate	1% Increase
ERS Plan			
Discount Rate	5.07%	6.07%	7.07%
NPL	\$ 19,463,930	\$ 14,460,800	\$ 10,296,506
LECOS Plan			
Discount Rate	4.66%	5.66%	6.66%
NPL	\$ 897,111	\$ 673,101	\$ 489,966
JRS2 Plan			
Discount Rate	7.00%	8.00%	9.00%
NPL	\$ 58,317	\$ 20,996	\$ (11,269)

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

securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2014 CAFR.

State's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2014. For fiscal 2015 reporting, the measurement date of state's net pension liability is Aug. 31, 2014. The schedule of changes in the state's net pension liability for the fiscal year ending Aug. 31, 2015 is presented on the following page:

Schedule of Changes in Net Pension Liability

As of Measurement Date of August 31, 2014 (Amounts in Thousands)

	ERS Plan	LECOS Plan	JRS2 Plan
Total Pension Liability			
Service Cost	\$ 1,139,451	\$ 54,528	\$ 17,805
Interest on the Total Pension Liability	2,324,180	88,025	28,004
Difference between Expected and Actual Experience of the Total Pension Liability	(252,967)	(76,585)	(640)
Assumption Changes	1,199,067 *	68,228 *	(25,924) *
Benefit Payments and Refunds	(1,963,481)	(57,147)	(16,420)
Net Change in Total Pension Liability	<u>2,446,250</u>	<u>77,049</u>	<u>2,825</u>
Total Pension Liability – Beginning	<u>37,064,667</u>	<u>1,465,929</u>	<u>383,461</u>
Total Pension Liability – Ending	<u>\$ 39,510,917</u>	<u>\$ 1,542,978</u>	<u>\$ 386,286</u>
Plan Fiduciary Net Position			
Contributions – Employer	482,239	27,758	12,211
Contributions – Member	430,595	8,180	5,195
Pension Plan Net Investment Income	3,252,417	111,741	46,186
Benefit Payments and Refunds	(1,963,481)	(57,147)	(16,420)
Pension Plan Administrative Expense	(20,195)	(1,324)	(267)
Net Change in Plan Fiduciary Net Position	<u>2,181,575</u>	<u>89,208</u>	<u>46,905</u>
Plan Fiduciary Net Position – Beginning	<u>22,868,542</u>	<u>780,669</u>	<u>318,385</u>
Plan Fiduciary Net Position – Ending	<u>\$ 25,050,117</u>	<u>\$ 869,877</u>	<u>\$ 365,290</u>
Net Pension Liability – Beginning	<u>14,196,125</u>	<u>685,260</u>	<u>65,076</u>
Net Pension Liability – Ending	<u>\$ 14,460,800</u>	<u>\$ 673,101</u>	<u>\$ 20,996</u>

* The change in the total pension liability due to the change in the single discount is included as an assumption change.

The change of discount rate which resulted in an increase in the total pension liability is the only assumption change during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date.

For the fiscal year ending Aug. 31, 2015, the state recognized pension expense of \$1.3 billion, \$62.5 million and \$4.5 million respectively for the ERS, LECOS and JRS2 Plans. At Aug. 31, 2015, the state reported deferred outflows of resources and deferred inflows of resources from the following sources for these plans:

Deferred Outflows of Resources and Deferred Inflows of Resources

(Amounts in Thousands)

	ERS Plan		LECOS Plan		JRS2 Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$	\$ 175,131	\$	\$ 61,970	\$	\$ 477
Changes of assumptions	830,124		55,208	40,151		19,311
Net difference between projected and actual investment return		1,172,614				16,549
Contributions subsequent to the measurement date	500,395		26,728		12,457	
Total	<u>\$ 1,330,519</u>	<u>\$ 1,347,745</u>	<u>\$ 81,936</u>	<u>\$ 102,121</u>	<u>\$ 12,457</u>	<u>\$ 36,337</u>

The \$500.4 million, \$26.7 million and \$12.5 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the ERS, LECOS and JRS2 Plans respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2016.

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

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

(Amounts in Thousands)
Year ended August 31:

	ERS Plan	LECOS Plan	JRS2 Plan
2016	\$ (2,046)	\$ (11,632)	\$ (10,914)
2017	(2,046)	(11,632)	(10,914)
2018	(220,376)	(11,633)	(10,372)
2019	(293,153)	(11,633)	(4,137)
2020		(383)	
Thereafter			

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

Judicial Retirement System of Texas Plan One (JRS1 Plan)

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

As a result of new judicial officers participating in the JRS2 Plan, the JRS1 Plan membership continues to decrease. The table below presents the membership for the JRS1 Plan as of Aug. 31, 2015:

Employees Retirement System's Membership

	JRS1 Plan
Retirees and Beneficiaries	
Currently Receiving Benefits	391
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	3
Current Employees	
Vested and Non-Vested	10
Total Members*	404

* Totals are from actuarial valuation as of Aug. 31, 2015.

Members are required to contribute a percentage of their monthly gross compensation to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are statutorily established like the other ERS Plans. The contribution requirements for the state and the members are presented in the table below:

Required Contribution Rates

JRS1 Plan	
Employer	Members
1504.7%	6.9%

The state's annual pension cost and net pension obligation for fiscal 2015 for the JRS1 Plan is presented in the table below:

Annual Pension Cost and Net Pension Obligation	
(Amounts in Thousands)	
	<u>JRS1 Plan</u>
Annual Required Contribution (ARC)	\$ 20,051
Interest on Net Pension Obligation (NPO)	2,265
Adjustment to ARC	(3,142)
Annual Pension Cost	<u>19,174</u>
Employer Contributions Made	<u>(26,543)</u>
Increase (Decrease) in Net Pension Obligation	<u>(7,369)</u>
Net Pension Obligation, September 1, 2014	<u>54,328</u>
Net Pension Obligation, August 31, 2015*	<u>\$ 46,959</u>

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

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

Three-Year Trend Information			
(Amounts in Thousands)			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>JRS1 Plan</u>			
8/31/15	\$ 19,174	138.4%	\$ 46,959
8/31/14	21,670	127.9%	54,328
8/31/13	19,974	128.1%	60,373

Information on the state's funded status as of Aug. 31, 2015 for the JRS1 Plan is presented in the table below:

Funded Status						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>JRS1 Plan</u>						
8/31/15	\$ 0	\$ 309,710	\$ 309,710	0.0%	\$ 1,470	21,068.7%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. There are no plan assets for the JRS1 Plan. The plan membership continues to decrease while the annuity payroll increases as members retire; therefore, the actuarial accrued liability decreased in fiscal 2015 compared with the fiscal 2014 amount.

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

Actuarial Methods and Assumptions	
	<u>JRS1 Plan</u>
Actuarial Valuation Date	Aug. 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar Open
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Actuarial Assumptions	
Investment Rate of Return	4.17%
Projected Salary Increases	3.50%
Includes Inflation at	3.50%
Cost-of-Living Adjustments	3.50%

Teacher Retirement System of Texas (TRS)

Teacher Retirement System of Texas Plan (TRS Plan)

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

The employers of the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, community and junior colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard work load and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan.

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

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

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

The state is both an employer and a non-employer contributing entity under the TRS Plan. The state makes contributions to the plan for its employees as well as the employees of the Texas public school districts. During the measurement period of 2014 for fiscal 2015 reporting, the amount of the state's contributions recognized by the plan was \$430.3 million for the state as an employer and \$1.5 billion for the state as a non-employer contributing entity. Similar to the ERS, LECOS and JRS2 Plans, the contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period of fiscal 2014 are presented in the table below:

Required Contribution Rates	
	<u>TRS Plan</u>
Contribution Rates	
Employer	6.8%
Non-Employer Contributing Entity (State)	6.8%
Employees	6.4%

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

Actuarial Methods and Assumptions	
	<u>TRS Plan</u>
Actuarial Valuation Date	August 31, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Open
Actuarial Assumptions:	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	3.00%
Salary Increase	4.25% to 7.25% including inflation
Mortality	
Active	1994 Group Annuity Mortality Table set back 6 years for males and females
Post-Retirement	Client specific tables multiplied by 80%
Ad Hoc Post-Employment	
Benefit Changes	None

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the four-year period ending Aug. 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the summer of 2014, the methods and assumptions are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011, they contained significant margin for possible future mortality improvements. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees have decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards practice No. 35.

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

The discount rate of 8 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. The projected cash flows into and out of the pension plan assumed that members, employers, and non-employer contributing entity make their contributions at the statutorily required rates. Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8 percent long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

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

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

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

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

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

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

TRS Plan		
State as Employer		
Current		
1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
\$ 8,102,568	\$ 4,534,735	\$ 1,866,660
State as Non-Employer Contributing Entity		
Current		
1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
\$ 28,820,313	\$ 16,129,760	\$ 6,639,589

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

fiduciary net position, may be obtained from TRS' fiscal 2014 CAFR.

At Aug. 31, 2015, the state reported a liability of \$4.5 billion for its proportionate share of the collective net pension liability as an employer and a liability of \$16.1 billion for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The state's proportions at Aug. 31, 2014 were 16.97 percent as an employer and 60.37 percent as a non-employer contributing entity. The state's proportions of the collective net pension liability were based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period Sept. 1, 2013 through Aug. 31, 2014.

The state recognized pension expense for its employees' pension and grant expense for the pension of Texas public school district and junior college employees. For the year ending Aug. 31, 2015, the state recognized pension expense of \$419.2 million and grant expense of \$1.5 billion. At Aug. 31, 2015, the state reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows and Deferred Inflows of Resources

(Amounts in Thousands)

TRS Plan	State as Employer		State as Non-Employer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 70,117	\$	\$ 249,401	\$
Changes of assumptions	294,702		1,048,238	
Net difference between projected and actual investment return		1,385,717		4,928,907
Change in proportion and contribution difference		397		1,411
Contributions subsequent to the measurement date	417,698		1,591,483	
Total	<u>\$ 782,517</u>	<u>\$ 1,386,114</u>	<u>\$ 2,889,122</u>	<u>\$ 4,930,318</u>

The \$417.7 million and \$1.6 billion reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as an employer and non-employer contributing entity respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2016.

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

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

(Amounts in Thousands)
Year Ended August 31:

	TRS Plan	
	State as Employer	State as Non-Employer Contributing Entity
	Pension Expense*	Grant Expense*
2016	\$ (285,085)	\$ (1,014,029)
2017	(285,085)	(1,014,029)
2018	(285,085)	(1,014,028)
2019	(285,085)	(1,014,028)
2020	61,344	218,198
Thereafter	57,701	205,237

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

Texas Emergency Services Retirement System (TESRS)

Texas Emergency Services Retirement System plan (TESRS Plan)

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

The TESRS Plan provides pension benefits for emergency services personnel who serve without significant monetary remuneration through participating fire or emergency services departments within the state. The TESRS Plan provides pension benefits to mem-

bers with vested service and their beneficiaries as well as death and disability benefits to active volunteer fire fighters and first responders. The benefit and contribution provisions of the TESRS Plan are set by the TESRS board authorized by state law and may be amended by the board. Members are 50 percent vested after the tenth year of service, with the vesting percent increasing 10 percent for each of the next five years of service. For a vested member, the monthly pension benefit equals the member's vested percent multiplied by six times the average monthly contribution of the governing body (of the participating department) over the member's years of qualified service. For years of service in excess of 15 years, the monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic postretirement benefit changes.

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

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

Part Two contributions: In case the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most

recent actuarial valuation, an actuarially determined contribution not to exceed 15 percent of the Part One contributions is to be actuarially adjusted for participating governing bodies near the end of each even-numbered calendar year based on the most recent actuarial valuation. According to the actuarial valuation as of Aug. 31, 2014, the Part Two contribution rate was 0 percent.

The state of Texas is not an employer of the members under the TESRS Plan. However, the state makes contributions directly to the TESRS Plan for members of the participating fire or emergency services departments in the state. During the measurement period of 2014 for fiscal 2015 reporting, the amount of the state's contributions recognized by the plan was \$1.5 million.

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

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

The discount rate of 7.75 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. The plan's actuary used an alternative method to determine the discount rate. In the actuarial valuation as of Aug. 31, 2014, the actuary used an actuarial value

of assets which was \$7.9 million less than the TESRS Plan's fiduciary net position as of Aug. 31, 2014 together with the conservative level dollar amortization method and determined that the TESRS Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on the TESRS Plan investments was applied to all periods of projected benefit payments without incorporating the municipal bond rate.

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

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

Target Allocation

TESRS Plan

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

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

Sensitivity of Net Pension Liability to Changes in Discount Rate

(Amounts in Thousands)

TESRS Plan

	Current Discount Rate	
1% Decrease (6.75%)		1% Increase (8.75%)
\$ 12,654	\$ 6,141	\$ 2,340

The TESRS Plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TESRS. Contributions are recognized immediately upon billing, reflecting actual participation in the member fire department during the prior quarter. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the TESRS Plan are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian. For investments where no readily ascertainable market value exists, management, in con-

sultation with their investment advisors, determines the fair values for the individual investments. More detailed information on the plan's investment policy, assets, and fiduciary net position may be obtained from the fiscal 2014 audited Annual Financial Report for TESRS:

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

At Aug. 31, 2015, the state reported a liability of \$6.1 million for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The state's proportion at Aug. 31, 2014 was 33.79 percent as a non-employer contributing entity. The state's proportion of the collective net pension liability was based on a fiscal 2014 schedule of contributions consisting of Part One contributions by the contributing fire and emergency services department members and the appropriated "maximum state contributions" as defined in the Texas Emergency Services Retirement System Act.

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

The state recognized grant expense as a non-employer contributing entity for the pension of the volunteer emergency services personnel in the state. For the year ending Aug. 31, 2015, the state recognized grant expense of \$0.8 million. At Aug. 31, 2015, the state reported deferred outflows of resources and deferred inflows of resources related to the emergency services personnel's pension from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources

(Amounts in Thousands)

	TESRS Plan	
	State as Non-Employer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment return	\$	\$ 1,548
Change in proportion and contribution difference		285
Contributions subsequent to the measurement date		1,637
Total	\$	\$ 1,833

The \$1.6 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as a non-employer contributing entity will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2016.

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

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

(Amounts in Thousands)

Year ended August 31:

	TESRS Plan
	State as Non-Employer Contributing Entity
	Grant Expense*
2016	\$ (500)
2017	(500)
2018	(446)
2019	(387)
2020	—
Thereafter	—

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

Defined Contribution Pension Plan

Optional Retirement Program

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

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

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent and 6.6 percent, respectively, for fiscal 2015. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 1.9 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 2015 resulted in participant contributions of \$248.7 million and employer contributions of \$303.8 million.

As of Aug. 31, 2015, ORP had 37,702 participants. The total participant contributions were \$279.8 million and total employer contributions were \$338.5 million. Additional information for ORP is included in the fiscal 2015 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board. The report can be obtained from:

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

Note 10

Deferred Compensation

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

The University of Texas System (UT) offers two deferred compensation plans. The first one, for UT employees, was created in accordance with Internal Revenue Code, Section 457(b), where all UT employees are eligible to participate in UT's plan and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the

deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. UT has no liability under the plan. The second one, Physician Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP), was created for physicians of University of Texas M.D. Anderson Cancer Center. It was established in accordance with Internal Revenue Code, Section 457(f). Only physicians hired before July 1, 1986, participate in the SRP. The remainder of eligible employees participates in the RBP. Assets of the SRP/RBP remain subject to the claims of the general creditors of M.D. Anderson.

Note 11

Postemployment Health Care and Life Insurance Benefits

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

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

University of Texas and Texas A&M University Systems

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

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

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

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

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

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these 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				
8/31/15	\$ 185,328	\$ 810,956	22.9%	\$ 3,984,976
8/31/14	166,517	726,387	22.9%	3,359,348
8/31/13	146,454	682,065	21.5%	2,799,478
A&M Plan				
8/31/15	\$ 62,620	\$ 186,728	33.5%	\$ 983,874
8/31/14	50,099	190,640	26.3%	859,766
8/31/13	61,529	176,876	34.8%	719,225

For the fiscal year ended Aug. 31, 2015, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates for the state and retirees are presented in the table below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Required Contribution Rates – Retiree Health Care and Life Insurance Premium				
For the Fiscal Year Ended August 31, 2015				
Level of Coverage	UT Plan		A&M Plan	
	Employer	Plan Member	Employer	Plan Member*
Retiree Only	\$ 527	\$	\$ 507	\$ 10
Retiree/Spouse	804	227	759	261
Retiree/Children	704	237	683	186
Retiree/Family	982	447	859	362

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

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the employer annual required contributions (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The table below presents the components of the annual OPEB cost for the UT and A&M plans for fiscal 2015 and the net OPEB obligation for these two plans as of Aug. 31, 2015.

Annual OPEB Cost and Net OPEB Obligation		
(Amounts in Thousands)		
	UT Plan	A&M Plan
Annual Required Contribution, ARC	\$ 749,869	\$ 169,680
Interest on Net OPEB Obligation	235,154	63,623
Adjustment to ARC	(174,067)	(46,575)
Annual OPEB Cost	<u>810,956</u>	<u>186,728</u>
Employer Contributions Made	(185,328)	(62,620)
Increase in Net OPEB Obligation	<u>625,628</u>	<u>124,108</u>
Net OPEB Obligation, September 1, 2014	<u>3,359,348</u>	<u>859,766</u>
Net OPEB Obligation, August 31, 2015	<u>\$ 3,984,976</u>	<u>\$ 983,874</u>

Funded Status and Funding Progress

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

Funded Status

(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2014	Sept. 1, 2014
Actuarial Value of Plan Assets	\$	\$
Actuarial Accrued Liability (AAL)	<u>8,274,414</u>	<u>2,002,649</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 8,274,414</u>	<u>\$ 2,002,649</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	\$ 5,842,410	\$ 1,440,510
UAAL as a Percentage of Covered Payroll	141.6%	139.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. 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 tech-

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

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2014	Sept. 1, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay	Level Percent of Pay
Amortization Period	30 years, Open	30 years, Open
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Projected Salary Increases	4.75% to 7.75%	4.75% to 7.75%
Investment Rate of Return	7.00%	7.40%
Includes Inflation at	3.50%	3.50%
Health Care Trend Rates	8% in Fiscal 2016 declining to 5.5% in Fiscal 2022	8% in Fiscal 2016 declining to 5.5% in Fiscal 2022
Mortality Tables	TRS and PBGC tables*	TRS and PBGC tables*

* For service retirees, the mortality tables used by Teacher Retirement System (TRS) retirement plan that reflect TRS specific experience was adopted as most of the UT and A&M group insurance program OPEB plan members participate in the TRS retirement plan. For disability retirees, the Pension Benefit Guaranty Corporation (PBGC) male and female disability mortality tables were used.

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 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 publicly available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at:

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

Plan Description

Retirees of state agencies, institutions of higher education including the University of Texas Medical Branch Correctional Managed Care program and the University of Texas Mental Sciences Institute of the University of Texas Health Science Center at Houston (other parts of UT and A&M are under the UT Plan and A&M Plan, respectively) and other non-state entities selected by the Legislature are eligible to receive OPEB through SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and

contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

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

Required Contribution Rates – Retiree Health Care and Life Insurance Premium		
For the Fiscal Year Ended August 31, 2015		
Level of Coverage	ERS SRHP	
	Employer	Plan Member
Retiree Only	\$ 538	\$
Retiree/Spouse	846	308
Retiree/Children	744	206
Retiree/Family	1,052	514

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2015 the state contributed \$549 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2014 and fiscal 2013, the state contributed \$535 million and \$471 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 1,239 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 2015 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, 2015 (Amounts in Thousands)	
	TRS-Care
From Reporting Entities	\$ 179,157
On Behalf From State	281,098
On Behalf From Federal Government	23,819
	<u>\$ 484,074</u>

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

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

Plan Description

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

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

Funding Policy

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

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 2015 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 2015.

Medicare Part D Receipts	
For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)	
UT Plan	\$ 10,736
A&M Plan	4,566
ERS SRHP	2,869
TRS-Care	14,014
	<u>\$ 32,185</u>

Note 12

Interfund Activity and Transactions

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

Reciprocal Interfund Activity

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

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

Nonreciprocal Interfund Activity

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

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

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

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

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The interfund receivables/payables include loans for energy efficiency programs of approximately \$37.3 million. There is also a \$1 billion receivable for Texas A&M University System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a \$2.7 billion transfer from the property tax relief fund and a \$1.2 billion transfer from the lottery fund to the foundation school fund for educational programs. There is also an \$838.7 million transfer from the permanent school fund to the available school fund. The due from amount for the state highway fund includes a \$1.1 billion due from the Comptroller's office related to a November 2014

amendment to Article 3 of the Texas Constitution. Under the amendment, a portion of the funds collected and deposited in the general revenue fund are transferred equally to the economic stabilization fund and the state highway fund.

The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2015, is presented in the tables below and on the following page.

Interfund Receivables/Payables						
(Amounts in Thousands)						
Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
GOVERNMENTAL FUNDS						
General Fund	\$ 8,179	\$ 789	\$ 30,009	\$ 113	\$ 38,188	\$ 902
Nonmajor Governmental Funds		1,262		2,504		3,766
	<u>8,179</u>	<u>2,051</u>	<u>30,009</u>	<u>2,617</u>	<u>38,188</u>	<u>4,668</u>
PROPRIETARY FUNDS						
Colleges and Universities	37,770	44,745	974,653	1,004,335	1,012,423	1,049,080
Nonmajor Enterprise Funds	872	25	2,290		3,162	25
	<u>38,642</u>	<u>44,770</u>	<u>976,943</u>	<u>1,004,335</u>	<u>1,015,585</u>	<u>1,049,105</u>
Total	<u>\$ 46,821</u>	<u>\$ 46,821</u>	<u>\$ 1,006,952</u>	<u>\$ 1,006,952</u>	<u>\$ 1,053,773</u>	<u>\$ 1,053,773</u>

Due From/Due To						
(Amounts in Thousands)						
Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
GOVERNMENTAL FUNDS						
General Fund	\$ 138,218	\$	\$	\$ 2,514,623	\$	\$ 1,500
State Highway Fund	1,511,336			54,456		
Permanent School Fund				103		
Nonmajor Governmental Funds	174,037			156,840		
	<u>1,823,591</u>	<u>0</u>	<u>0</u>	<u>2,726,022</u>	<u>0</u>	<u>1,500</u>
PROPRIETARY FUNDS						
Colleges and Universities	841,118			26,999		
Unemployment Trust Fund	3,912					
Lottery Fund				127,576		
Nonmajor Enterprise Funds	84,429			34,131		
Internal Service Fund	320,287			2,449		
	<u>1,249,746</u>	<u>0</u>	<u>0</u>	<u>191,155</u>	<u>0</u>	<u>0</u>
FIDUCIARY FUNDS						
Agency Funds	569			1,017		
Pension and Other Employee Benefit Trust Funds	174,046			329,758		
	<u>174,615</u>	<u>0</u>	<u>0</u>	<u>330,775</u>	<u>0</u>	<u>0</u>
DISCRETELY PRESENTED COMPONENT UNITS						
	0	1,500	0	0	0	0
Total	<u>\$ 3,247,952</u>	<u>\$ 1,500</u>	<u>\$ 0</u>	<u>\$ 3,247,952</u>	<u>\$ 0</u>	<u>\$ 1,500</u>

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In	Transfers Out
	Other Funds	Other Funds
GOVERNMENTAL FUNDS		
General Fund	\$ 4,779,123	\$ 8,989,547
State Highway Fund	3,016,315	439,063
Permanent School Fund		838,672
Nonmajor Governmental Funds	1,913,377	3,674,352
	<u>9,708,815</u>	<u>13,941,634</u>
PROPRIETARY FUNDS		
Colleges and Universities	6,004,452	661,839
Unemployment Trust Fund	42,815	
Lottery Fund		1,242,702
Nonmajor Enterprise Funds	102,692	55,614
	<u>6,149,959</u>	<u>1,960,155</u>
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	131,581	103,516
Private-Purpose Trust Funds	15,000	50
	<u>146,581</u>	<u>103,566</u>
Total	<u>\$ 16,005,355</u>	<u>\$ 16,005,355</u>

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances	\$ 27,392	\$ (27,392)	\$ 0
CURRENT LIABILITIES			
Internal Balances	\$ 734,625	\$ (734,625)	\$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (4,189,320)
Business-Type Activities	\$ 4,189,320

Note 13

Classification of Fund Balances/Net Position

The table on the following pages presents a summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2015.

The classifications of nonspendable, restricted, committed, assigned and unassigned are the fund balance classifications according to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. With the exception of nonspendable fund balances, fund balances are presented based on each fund's specific purpose. For the general fund, special revenue funds, capital projects funds and nonmajor permanent funds, the specific purpose of the fund is determined by the Texas Legislature. The revenues received to fund the programs within the fund and the applicable expenditures allowed from the fund are derived through statute. The fund may support multiple programs within multiple agencies. The remaining unspent fund balances are determined to be restricted, committed, assigned or unassigned at fiscal year-end. Unassigned fund balances are then reported by the governmental function assigned to the agency.

Of the \$11.4 billion governmental funds total unassigned fund balance, \$9.6 billion is for the economic stabilization fund (ESF). The ESF was authorized by the Texas Constitution, Article III, Section 49g. This authorized a transfer to the ESF within 90 days after the end of the fiscal year. In November of each year a transfer is made from the general revenue fund equal to 75 percent of the excess of the prior fiscal year collections for oil and natural gas production taxes over 1987 collections. An amendment to the Texas Constitution, passed in November 2014, amended the transfer to include the state highway fund. Beginning in fiscal year 2015, the ESF will receive at least one-half of the 75

percent transferred and the remainder will be transferred to the state highway fund.

The ESF shall also receive a transfer from the general revenue fund, by the 90th day of each biennium, for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The Legislature may appropriate, by a three-fifths vote of the members present in each house, amounts in the ESF for spending that does not exceed the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature

may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB Statement No. 54, balances reported as restricted in the fund financial statements plus the nonspendable permanent fund corpus balances are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

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

(Amounts in Thousands)

	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	\$ 227,798	\$ 184,345	\$	\$ 230	\$ 412,373
Long-term Receivables	613,004				613,004
Permanent Principal			13,496,148	802,359	14,298,507
Prepaid Items	1,739				1,739
Total Nonspendable	<u>842,541</u>	<u>184,345</u>	<u>13,496,148</u>	<u>802,589</u>	<u>15,325,623</u>
Restricted:					
Capital Purposes				400,964	400,964
Debt Service				252,866	252,866
Economic and Consumer Affairs	512,131			48,575	560,706
Education – Public Schools	1,380		20,337,395	584,243	20,923,018
Education – Loan Programs				942,874	942,874
Environment and Natural Resources – Other	23			2,844,894	2,844,917
General Government*	95,326			14,876	110,202
Parks and Recreation	89,009			16,549	105,558
Public Health and Welfare – Federal Programs	42,844				42,844
Public Health and Welfare – Public Programs	99,199			9,511	108,710
Public Safety and Criminal Justice	47,394			76	47,470
Public Safety and Criminal Justice – Corrections				11,454	11,454
Public Safety and Criminal Justice – Law Enforcement	8,984	1,331		6,077	16,392
Transportation – Construction		1,986,698			1,986,698
Transportation – Licensing and Regulation		121,400			121,400
Transportation – Maintenance		269,031			269,031
Transportation – Other	3,211	1,274,560		1,190,587	2,468,358
Total Restricted	<u>899,501</u>	<u>3,653,020</u>	<u>20,337,395</u>	<u>6,323,546</u>	<u>31,213,462</u>

Concluded on the following page

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

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

(Amounts in Thousands)

	General Fund	State Highway Fund	Permament School Fund	Other Funds	TOTAL
Committed:					
Capital Purposes	\$ 7,849	\$	\$	\$	\$ 7,849
Economic and Consumer Affairs	856,031			326,718	1,182,749
Education – Public Schools	318,952			10,550	329,502
Education – Loan Programs	321,636				321,636
Environment and Natural Resources – Other	1,915,841			186	1,916,027
General Government*	364,029			43,249	407,278
Parks and Recreation	94,950				94,950
Public Health and Welfare – Federal Programs	255				255
Public Health and Welfare – Public Programs	652,362				652,362
Public Safety and Criminal Justice	206,575			9,552	216,127
Public Safety and Criminal Justice – Corrections				5,706	5,706
Public Safety and Criminal Justice – Law Enforcement	27,010				27,010
Transportation – Construction		795,733			795,733
Transportation – Maintenance		107,755			107,755
Transportation – Other		507,423		153,704	661,127
Total Committed	<u>4,765,490</u>	<u>1,410,911</u>	<u>0</u>	<u>549,665</u>	<u>6,726,066</u>
Assigned:					
Economic and Consumer Affairs	573				573
Environment and Natural Resources – Other	10,883				10,883
General Government*	12,004			1,880	13,884
Public Safety and Criminal Justice – Law Enforcement	22				22
Transportation – Construction		21,723			21,723
Transportation – Maintenance		2,942			2,942
Transportation – Other		13,853		94	13,947
Total Assigned	<u>23,482</u>	<u>38,518</u>	<u>0</u>	<u>1,974</u>	<u>63,974</u>
Unassigned:					
Economic and Consumer Affairs	14,735				14,735
Education	16,157				16,157
Environment and Natural Resources	137,232				137,232
General Government*	10,628,724				10,628,724
Public Health and Welfare	352,017				352,017
Public Safety and Corrections	163,966				163,966
Transportation	38,164				38,164
Total Unassigned	<u>11,350,995</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,350,995</u>
Total Fund Balances – Governmental Funds	<u>\$ 17,882,009</u>	<u>\$ 5,286,794</u>	<u>\$ 33,833,543</u>	<u>\$ 7,677,774</u>	<u>\$ 64,680,120</u>

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

Note 14

Restatement of Beginning Balances

During fiscal 2015, certain accounting changes and adjustments were made that required the restatement of

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

Restatements to Net Position/Fund Balances

(Amounts in Thousands)

	September 1, 2014, As Previously Reported	GASB Statements No. 68/71 Pension-Related Items	Change in Reporting Entity	Correction of Prior Year Errors	September 1, 2014, As Restated
GOVERNMENT-WIDE ACTIVITIES:					
PRIMARY GOVERNMENT:					
Governmental Activities	\$ 119,405,256	\$ (28,771,477)	\$ 114	\$ 3,683	\$ 90,637,576
Business-type Activities	56,177,318	(3,701,892)	18,010	(10,724)	52,482,712
Total Primary Government	<u>\$ 175,582,574</u>	<u>\$ (32,473,369)</u>	<u>\$ 18,124</u>	<u>\$ (7,041)</u>	<u>\$ 143,120,288</u>
Discrete Component Units	<u>\$ 525,511</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 525,511</u>
FUND FINANCIAL STATEMENTS:					
GOVERNMENTAL FUNDS					
Major Governmental Funds:					
General Fund	\$ 17,759,170	\$	\$	\$ 9,016	\$ 17,768,186
State Highway Fund	3,690,716			(677)	3,690,039
Permanent School Fund	34,951,220			(3,354)	34,947,866
Nonmajor Governmental Funds:					
Special Revenue Funds	4,956,548		114	2,841	4,959,503
Debt Service Funds	628,299				628,299
Capital Project Funds	(436,633)			16,266	(420,367)
Permanent Funds	1,113,597				1,113,597
Total Governmental Funds	<u>\$ 62,662,917</u>	<u>\$</u>	<u>\$ 114</u>	<u>\$ 24,092</u>	<u>\$ 62,687,123</u>
PROPRIETARY FUNDS					
Major Enterprise Funds:					
Colleges and Universities	\$ 50,245,002	\$ (3,701,892)	\$ 18,010	\$ 3,298	\$ 46,564,418
Unemployment Trust Fund	1,213,740				1,213,740
Lottery Fund	61,062				61,062
Nonmajor Enterprise Funds	4,657,514			(14,022)	4,643,492
Total Proprietary Funds	<u>\$ 56,177,318</u>	<u>\$ (3,701,892)</u>	<u>\$ 18,010</u>	<u>\$ (10,724)</u>	<u>\$ 52,482,712</u>
Internal Service	\$ 379,310	\$	\$	\$	\$ 379,310
FIDUCIARY FUNDS					
Pension and Other Employee Benefit					
Trust Funds	\$ 159,624,066	\$	\$	\$	\$ 159,624,066
External Investment Trust Funds	12,722,215				12,722,215
Private-Purpose Trust Funds	3,409,472				3,409,472
Total Fiduciary Funds	<u>\$ 175,755,753</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 175,755,753</u>
Total Reporting Entity *	<u>\$ 351,863,838</u>	<u>\$ (32,473,369)</u>	<u>\$ 18,124</u>	<u>\$ (7,041)</u>	<u>\$ 319,401,552</u>

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

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

GASB Pronouncements and Related Items

These restatements are to record the effect of the implementation of GASB Statements No. 68, Accounting and Financial Reporting for Pensions and 71, Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68. The objectives of these statements are to improve accounting and financial reporting for pensions. They also improve information reporting provided by state and local governmental employers about financial support for pensions that are provided by non-state entities. The restatement amount includes three separate transactions: the closing of the liability balance belonging to the prior methodology, the initial balance of the new methodology and the inclusion of the matching deferred inflows of resources and the deferred outflows of resources. Additional details concerning the change in methodology can be found in Note 9 Retirement Plans.

Changes in the Reporting Entity

These restatements are to add blended component units to the state of Texas reporting entity. The ASU Foundation, Inc. is now included with the Texas Tech University System. The Alamo Endowment, a Texas 501(c)(3) non-profit corporation is a blended component unit of the General Land Office and Texas Veterans' Land Board.

Correction of Prior Year Errors

Government-wide activities

These restatements include decreases of \$20 million in governmental activities and increases of \$5.8 million in business-type activities for adjustments to capital assets and accumulated depreciation or amortization.

The remaining restatements include increases of \$23.7 million in governmental activities and decreases of \$16.6 million in business-type activities to correct accounting errors in the prior period related to overstated payables (discussed below), inconsistencies within the financial reporting entity and reclassifications to different fund types.

Fund Financial Statements-Governmental

The restatements for governmental funds were primarily in the general fund and the capital projects funds. The restatements in the general fund primarily include \$11 million in corrections for an overstatement of payables as well as other miscellaneous error corrections. The restatements in the capital projects funds consist of \$16.3 million in corrections of overstated payables.

Fund Financial Statements-Proprietary

The restatements in the colleges and universities fund include \$5.8 million in corrections for prior year errors in capital asset reporting as well as other miscellaneous error corrections. The other non-major funds primarily include restatements to correct \$14 million in the overstatement of payables.

Note 15

Commitments and Contingencies

Commitments

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns.

The Texas Water Development Board had loan commitments of \$4.4 billion as of Aug. 31, 2015. The Texas Department of Transportation (TxDOT) has equity loan commitments of \$15.4 billion. Of this amount, \$5.9 billion is related to North Texas Tollway Authority for State Highway 161 Project in Dallas. The remaining \$9.5 billion is used by the Grand Parkway Transportation Corporation to pay for certain costs related to development, construction, operation, maintenance and financing of projects in Harris County and possible extensions or expansions of the Grand Parkway in the Houston area.

Investment Funds

As of Aug. 31, 2015, state agencies, public employee retirement systems and institutions of higher education have entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2015, the remaining commitment was \$41.7 billion.

Construction and Other Commitments

As of Aug. 31, 2015, TxDOT had contractual commitments of approximately \$11.5 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, 2015, the amount of unrealized payables for uncompleted pass-through toll agreements was \$204.2 million. In addition, TxDOT has equity grant commitments of \$244.2 million to various local toll project entities.

Contingencies

Protested Tax Payments

As of Aug. 31, 2015, pending litigation filed by taxpayers seeking refunds of state taxes totaled \$241.2 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2015. These claims totaled \$121.6 million and include a number of lawsuits and claims that may be significant to individual state agencies. Although the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed 553 cases exercising eminent domain for \$463.2 million.

Federal Assistance

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

The Texas Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments – about 55 to 60 percent of that total.

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

Guaranteed Debt

In 1983, Texas voters approved a constitutional amendment that establishes the guarantee of the permanent school fund for a defined capacity of up to \$87.3 billion in school district bonds as of Aug. 31, 2015. 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, 2015, \$63.2 billion debt in outstanding bond issues was guaranteed by the permanent school fund for 833 school districts and \$757.9 million for 13 charter districts within the state. Under statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. These dollar amounts represent the principal amount and do not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities), nor do they include interest

on current interest bonds or variable rate notes. These amounts also exclude bonds that were refunded and released from the bond guarantee program. From the inception of the program through Aug. 31, 2015, none of the school districts or charter districts with guaranteed debt have defaulted on the debt.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Derivatives with Contingent Features

All of the Department of Housing and Community Affairs' (TDHCA) investment 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 investment derivative instrument may be terminated by the counterparty. As of Aug. 31, 2015, the aggregate fair value of all investment derivative instruments with collateral provisions was \$16.9 million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the investment derivative instruments. TDHCA posted no collateral as of Aug. 31, 2015.

The Teacher Retirement System of Texas (TRS) investment derivative instruments include provisions

that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. If the collateral posting thresholds of all these investment derivative instruments did not exist at Aug. 31, 2015, TRS would be required to post the aggregate amount of \$43.8 million in collateral to its counterparties. Where none of the contractual thresholds were surpassed, TRS has posted no collateral as of Aug. 31, 2015.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued \$2.3 billion in new bonds and commercial paper

and \$2 billion in refunding bonds since Aug. 31, 2015, 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

A new university and medical school named University of Texas Rio Grande Valley became operational Sept. 1, 2015. It is a merger that combines enrollment from University of Texas Brownsville and University of Texas Pan American.

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

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2015

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS AFFORDABLE HOUSING CORPORATION			
Multifamily Housing Revenue Bonds Series 2015	\$ 5,750	12/11/15	To finance multifamily housing projects.
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Single Family Revenue Refunding Bonds Series 2015A	33,825	10/29/15	To refund Series 2006H bonds.
Single Family Mortgage Revenue Bonds Series 2015B	19,870	10/29/15	To purchase loans from Single Family Taxable Mortgage Program.
Multifamily Revenue Bonds Series 2015	5,620	09/03/15	To finance acquisition and construction of multifamily housing.
TEXAS DEPARTMENT OF TRANSPORTATION			
State of Texas General Obligation Mobility and Refunding Bonds, Series 2015A	911,360	09/30/15	To refund parity debt.
State of Texas General Obligation Mobility and Refunding Bonds, Series 2015B	254,105	10/07/15	To refund parity debt.
TEXAS HIGHER EDUCATION COORDINATING BOARD			
State of Texas General Obligation College Student Loan Bonds, Series 2015	150,000	12/15/15	To fund ongoing student loan program.
TEXAS PUBLIC FINANCE AUTHORITY			
General Obligation Commercial Paper Notes, Series 2008	5,650	09/16/15	To fund projects for various state agencies.
General Obligation Commercial Paper Notes, Series 2008	4,500	10/07/15	To fund projects for the Texas Parks and Wildlife Department.
General Obligation Commercial Paper Notes, Series 2008	5,000	10/29/15	To fund projects for the Texas Facilities Commission.

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2015 (concluded)

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS PUBLIC FINANCE AUTHORITY (concluded)			
Master Lease Purchase Program 2003	\$ 420	10/06/15	To fund projects for Texas Southern University.
General Obligation Commercial Paper Notes, CPRIT Taxable Series A	55,400	09/22/15	To finance cancer research projects.
General Obligation and Refunding Bonds, Series 2015C	369,800	10/29/15	To refund variable rate debt and fund grant awards.
General Obligation Commercial Paper Notes, Series 2008	1,600	12/03/15	To fund projects for the Department of Aging and Disability Services.
General Obligation Commercial Paper Notes, Series 2008	2,000	01/06/16	To fund projects for the Department of Aging and Disability Services.
Master Lease Purchase Program, Series 2003	205	01/06/16	To fund projects for the Texas School for the Deaf.
TEXAS TECH UNIVERSITY SYSTEM			
Revenue Financing System Commercial Paper Notes Tax-Exempt, Series A	3,750	10/06/15	To finance a variety of capital projects at various institutions.
TEXAS WATER DEVELOPMENT BOARD			
Water Implementation Revenue Bonds, Series 2015A	798,450	11/04/15	To provide financial assistance for political subdivision obligations.
Water Implementation Revenue Bonds, Series 2015B	11,960	11/04/15	To provide financial assistance for political subdivision obligations.
Water Financial Assistance Bonds, Series 2015D	234,795	11/24/15	To provide financial assistance for water projects.
UNIVERSITY OF NORTH TEXAS SYSTEM			
Revenue Financing Refunding and Improvement Bonds, Series 2015A	105,130	09/30/15	To refund Series 2014 bonds, commercial paper and fund construction projects.
Revenue Financing Refunding and Improvement Bonds, Taxable Series 2015B	73,035	09/30/15	To refund Series 2014 bonds, commercial paper and fund construction projects.
UNIVERSITY OF TEXAS SYSTEM			
Permanent University Fund (PUF) Taxable Commercial Paper Notes, Series B	75,000	10/22/15	To finance a variety of construction projects and equipment purchases.
Permanent University Fund Commercial Paper Notes, Series A	225,000	01/05/16	To finance a variety of construction projects and equipment purchases.
Permanent University Fund Bonds, Series 2016A	117,270	01/05/16	To refund Permanent University Fund Taxable Commercial Paper Notes, Series B.
Revenue Financing Bonds, Taxable Series 2016A	255,825	01/14/16	To refund Commercial Paper debt and finance a variety of capital projects.
Revenue Financing Bonds, Taxable Series 2016B	206,040	01/22/16	To refund Commercial Paper debt and finance a variety of capital projects.
Revenue Financing System Commercial Paper Notes, Series A	200,000	01/22/16	To finance a variety of construction projects and equipment purchases.
VETERANS LAND BOARD			
General Obligation State of Texas Veterans Bonds, Series 2016	250,000	01/21/16	To augment the Veterans Housing Assistance Fund.
Total Bond and Commercial Paper Issued/Refunded	<u>\$ 4,381,360</u>		

Note 17

Risk Management

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

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

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

Property and Liability

The Texas Labor Code, Chapter 412, states that the State Office of Risk Management (SORM) shall operate as a full-service risk and insurance manager for state agencies and shall administer programs to reduce property and liability losses, including workers' compensation losses.

SORM administers the statewide workers' compensation program. The state does not carry commercial insurance for workers' compensation, but instead, uses

the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT), Texas A&M University System (A&M) and Texas Department of Transportation administer separate self-insured workers' compensation programs.

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

Health, Life and Dental

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

Texas Employees Group Benefits Program

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

University of Texas System and Texas A&M University System

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

Teacher Retirement System

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

TRS-ActiveCare offers employees of participating entities the option of three preferred provider organization plans and also offers employees of certain areas the option of choosing coverage under an HMO plan. In fiscal 2015, 1,110 entities participated in the program. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The table below presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ended Aug. 31, 2014 and Aug. 31, 2015. Claims and judgment amounts presented in Note 5 are also included in the table below.

	Beginning Balance	Increases	Decreases	Ending Balance
2015	\$ 825,181	\$ 3,504,388	\$ 3,509,375	\$ 820,194
2014	\$ 804,798	\$ 3,237,461	\$ 3,217,078	\$ 825,181

Of the fiscal 2015 claims liability ending balance, \$255.2 million relates to long-term claims liabilities, which are reported in Note 5. \$650.9 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, 2015, there was an estimated \$1.2 billion of assessments filed that are currently in the redetermination hearings process. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements.

Note 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of

a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Other component units are discretely presented. None of the discrete component units for the state of Texas meet the criteria for major component unit presentation and those presented are for informational purposes of interested parties. The component units are reported for the fiscal year ended Aug. 31, 2015 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. The TGMRF was dissolved as of November 2014.

The Alamo Endowment is a legally separate entity established to provide resources and support for the preservation and maintenance of the Alamo Complex. The Texas General Land Office appoints the voting majority of The Alamo Endowment and can impose its will through its ability to remove board members at will. The Texas General Land office can also impose its will through its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of The Alamo Endowment. The Alamo Endowment is reported for the fiscal year ended June 30, 2015. Separate financial statements may be obtained by contacting the Alamo Endowment at 8610 N. New Braunfels, Suite 101, San Antonio, TX 78217.

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

financial statements may be obtained by contacting the GPA at 4544 Post Oak Place, Suite 222, Houston, Texas 77027.

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

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.

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

The Angelo State University Foundation (ASUF) is a legally separate nonprofit organization created exclusively to provide financial assistance to Angelo State University (ASU) primarily from gifts and earnings on endowed funds. There is no appointment of

board members. The Texas Tech University System Chancellor, Angelo Faculty Senate president and ASU Chief Financial officer compose a majority of the board. ASUF is closely related to ASU. Failure to include the financial information of the Angelo State University would result in misleading financial statement. Separate financial statements may be obtained by contacting ASUF at 2601 W. Ave N, San Angelo, TX 76909.

Texas State University Research Foundation (TSURF) is a legally separate entity established to support the mission of Texas State University and its objectives of promoting higher education, conducting research, providing public service and assisting in economic development in Texas. The key business officers of Texas State University compose the entirety of TSURF's officers and directors. Texas State University is able to impose its will on TSURF through its ability to remove board members at will, its ability to modify or approve the budget of TSURF, its ability to modify or approve the rates or fees affecting revenues of TSURF and its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of TSURF. TSURF is reported for the fiscal year ended Feb. 28, 2015. Separate financial statements may be obtained by contacting Texas State University, Office of the President for Finance and Support Services, 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. The Freeman Ranch is used and operated solely for farm, ranch and game management, education, and research purposes in connection with the educational activities of Texas State University. There is no formal governing board for the Freeman Foundation. Texas State University acts as an active co-trustee to operate the ranch. Frost Bank operates as an inactive trustee to ensure the provisions of the trust are followed. Based on

the Freeman Foundation being closely related to Texas State University, the Freeman Foundation is included as a blended component unit. Separate financial statements are not issued by the Freeman Foundation. Information about the Freeman Foundation may be obtained by contacting Texas State University, Office of the President for Finance and Support Services, 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 A&M board of regents appoints the voting majority of TAMRF, and can impose its will through its ability to remove appointed board members at will. A&M can also impose its will through its ability to modify or approve the budget of TAMRF. Separate financial statements may be obtained by contacting TAMRF at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas 77845.

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

Southwestern Moncrief Cancer Center (SW Moncrief) is a legally separate entity established to support the UTSWMC. Its four-member governing board is appointed by the president of UTSWMC. UTSWMC has the ability to impose its will on SW Moncrief through its ability to remove appointed board members at will, its ability to modify or approve the budget of SW Moncrief and its ability to modify or approve rates

or fees affecting revenues of SW Moncrief. Separate financial statements may be obtained by contacting SW Moncrief at 400 West Magnolia Avenue, Fort Worth, Texas 76104.

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

St. Paul Medical Foundation (SPMF) is a legally separate nonprofit organization created exclusively to support the advancement of patient care and research activities of the programs and facilities at St. Paul Hospital. There is no appointment of board members. The president of the St. Paul Hospital and the president of UTSWMC compose a majority of the board. SPMF is closely related to the University of Texas System. Failure to include the financial information of the SPMF would result in misleading financial statements. The SPMF is reported for the fiscal year ended Dec. 31, 2014. Separate financial statements may be obtained by contacting the SPMF at 5909 Harry Hines Boulevard, Dallas, Texas 75390.

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

ern Accountable Care Network 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, 2015. 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 6431 Fannin Street, Suite JLL 475, Houston, Texas 77030.

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

ing MDAPN at 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

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

East Texas Quality Care Network (ETQCN) is a legally separate entity established to provide agency nursing services to the University of Texas Health Science Center at Tyler (UTHSCT). Its four-member governing board is appointed by UTHSCT. UTHSCT has the ability to remove board members at will, the ability to modify or approve the budget of ETQCN, the ability to modify or approve rates or fees affecting revenues of ETQCN, the ability to veto, overrule or modify the decisions of ETQCN's board, the ability to appoint, hire, reassign or dismiss those responsible for ETQCN's day-to-day operations and the ability to unilaterally abolish ETQCN. Separate financial statements may be obtained by contacting ETQCN at 11937 US Highway 271, Tyler, Texas 75708.

University of Texas Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to UT. UTIMCO's nine-member board consists of three members of the UT board of regents, the chancellor of UT, three members appointed by the UT board of regents and two members appointed by the A&M board of regents. UT has the ability to impose its will through its ability to modify or approve UTIMCO's budget, its ability to modify or approve rates or fees affecting UTIMCO's revenues, its ability to veto, overrule or modify the decisions of UTIMCO's board, its ability to appoint, hire, reassign or dismiss those responsible

for UTIMCO's day-to-day operations and its ability to unilaterally abolish UTIMCO. Separate financial statements may be obtained by contacting UTIMCO at 401 Congress Avenue, Suite 2800, Austin, Texas 78701.

University of Texas Fine Arts Foundation (Fine Arts) is a legally separate entity established to acquire the Suida-Manning Art Collection for the University of Texas at Austin (UT-Austin) Blanton Museum of Art. Fine Arts' three-member governing board is appointed by UT-Austin. UT-Austin has the ability to impose its will on Fine Arts through its ability to remove appointed board members at will, its ability to modify or approve Fine Arts' budget, its ability to veto, overrule or modify the decisions of Fine Arts and unilaterally abolish Fine Arts. Fine Arts is reported for the fiscal year ended Dec. 31, 2014. 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 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. Based on an analysis performed at year end, none of the discretely presented component units met the materiality threshold for presentation; however, omission of the following discretely presented component units would result in misleading financial statements.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. TRS is subject to the budget approval powers of the Texas Legislature, and therefore is fiscally dependent on the state of Texas. The active employees insurance program and 403(b) administrative program are reported in the component unit column of the government-wide financial statements; whereas the employee benefit trust fund and retired employees insurance are reported in the pension and other employee benefit trust funds financial statements. Separate financial statements may be obtained by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas (State Bar) is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The annual budget for the State Bar must be reviewed and approved by the Supreme Court, thus making the State Bar fiscally dependent on the state of Texas. The State Bar is reported for the fiscal year ended May 31, 2015. 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. OneStar performs all administrative duties of the OneStar National Service Commission Inc., as well as provides technical assistance, education, information and other support to the volunteer community. OneStar is reported for the fiscal year ended Dec. 31, 2014. 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 Radio-

active 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 Texas Guaranteed Tuition Plan and is authorized by the Texas Education Code. 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 con-

tacting the Texas Comptroller of Public Accounts, Educational Opportunities and Investment Division at 111 E. 17th Street, Austin, Texas 78774.

Texas Match the Promise Foundation (TMPF) is a legally separate entity established to implement the Texas Save and Match Program, which helps families save for college by offering competitive matching scholarships and tuition grants to Texas students who participate in the Texas Tuition Promise Fund. The Comptroller appoints TMPF's governing board, and can remove appointed board members at will. The Comptroller also assigns and supervises employees responsible for the day-to-day operations of TMPF. Separate financial statements may be obtained by contacting the Texas Comptroller of Public Accounts, Educational Opportunities and Investment Division 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, 2014. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building A, Austin, Texas 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit corporation created by the Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order

of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the fiscal year ended Dec. 31, 2014. Separate financial statements may be obtained by contacting the Stamping Office at 805 Las Cimas Parkway, Suite 150, Austin, Texas 78746-6526.

Texas Health Reinsurance System is a legally separate entity that reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements are presented on statutory accounting principles established by TDI, and are reported for the fiscal year ended Dec. 31, 2014. Financial statements may be obtained by contacting the Texas Health Reinsurance System at 11828 Jollyville Road, Suite 100, Austin, Texas 78759.

Texas Health Insurance Pool (THIP) is a legally separate entity that provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The nine-member board of directors is appointed by TDI's commissioner. TDI approves all rates and rate schedules before they are used. THIP is reported for the fiscal year ended Dec. 31, 2014. Financial statements may be obtained by contacting the THIP at P.O. Box 17463, San Antonio, Texas 78217. THIP was dissolved on August 31, 2015.

Texas Title Insurance Guaranty Association (TTIGA) is a legally separate nonprofit organization created for the purpose of providing funds for the protection of holders of covered claims as defined in the

Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner. 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, 2014. Separate financial statements may be obtained by contacting TTIGA at 500 W. 5th Street, Suite 1150, Austin, Texas 78701.

Texas Life and Health Insurance Guaranty Association (TLHIGA) is a legally separate entity created to protect persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts due to the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints TLHIGA's nine-member board of directors. 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, 2014. 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, 2014. 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, 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, 2014. Separate financial statements may be obtained by contacting FAIRPA at 5700 South Mopac, Building A, Austin, Texas 78749-1461.

Texas Boll Weevil Eradication Foundation Inc. (TBWEF) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is governed by 21 board members. The Texas Department of Agriculture's (TDA) commissioner appoints five of the board members. Although TDA must approve the TBWEF's budget, assessment fees and debt, a financial benefit or financial burden does not exist between the TBWEF and the primary government. Therefore, the primary government is not financially accountable for the TBWEF. However, based on the TBWEF's financial relationship with the TDA, omitting the TBWEF would result in incomplete financial statements. The TBWEF is reported for the fiscal year ended Dec. 31, 2014. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses, and primarily benefits the citizens of Texas. TAFA is governed by a board of directors composed of the Commissioner of Agriculture, Deputy Commissioner of Agriculture-Designee, the Director of the Institute for International Agribusiness studies

at Prairie View A&M University, and nine members appointed by the Commissioner of Agriculture. The commissioner of TDA administers TAFE with the assistance of the board of directors. If there are insufficient funds to pay TAFE's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFE in an amount sufficient to pay those obligations. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority

(TWRFA) is a legally separate entity created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects, and primarily benefits the citizens of Texas. A board of directors, composed of the three members of the Texas Water Development Board (TWDB), governs TWRFA. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the TWRFA operations. Prior to any bonds being issued by the TWRFA, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Appraiser Licensing and Certification

Board (TALCB) is a legally separate entity statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) to serve the real estate community in Texas. The governor appoints the members of the governing board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in the presentation of incomplete financial statements. Financial statements can be obtained

by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Economic Development Corporation

(TED Corp.), a legally separate nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. TED Corp.'s services primarily benefit the Texas citizenry. The board of directors is appointed by the governor. The Office of the Governor is the oversight agency for TED Corp., and has the ability to remove board members at will. The TED Corp. is reported for the fiscal year ended Dec. 31, 2014. 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 is reported for the fiscal year ended Dec. 31, 2014. TDRF's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created for the improvement of the Texas health care system. THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor declares the purposes of THSA are fulfilled or that THSA is inoperative or abandoned. THSA is reported for the fiscal year ended Sept. 30, 2014. THSA's financial statements may be obtained by contacting THSA at 221 E. 9th St., Suite 201, Austin, Texas 78701.

Beacon State Fund (BSF) is a legally separate organization established to assist the Governor's Commission for Women (GCW) to promote issues affecting the women of Texas. BSF increases public awareness through the distribution of information, media events and community outreach programs. Members of the board of trustees are appointed by the Office of the Governor or someone designated by the Office of the Governor. The Office of the Governor has fiscal oversight over BSF to ensure funds are expended properly and the public purpose is being accomplished. BSF is reported for the fiscal year ended Dec. 31, 2014. Financial statements may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

State Agency Council is a legally separate organization established to assist the GCW by honoring women who have made significant contributions to Texas through their work in state government. The board of directors is appointed by the director of the GCW. The director of the GCW is required to sign all contracts and has check signing privileges. Expenses exceeding \$500 require the GCW director's signature. Finan-

cial statements for the State Agency Council may be obtained by contacting the GCW 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 (OGTFC). However, the OGTFC 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 OGTFC, omitting the Film Texas Fund would result in misleading financial statements. The Film Texas Fund is reported for the fiscal year ended Dec. 31, 2014. 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 nonprofit organization established to support the financial administration of catering and facility expenses associated with the use of the official residence of the governor of the state of Texas for non-political events. TGMA is closely related to the state of Texas because the Office of the Governor provides administrative services, including accounting services, to TGMA. TGMA is reported for the fiscal year ended Dec. 31, 2014. Separate financial statements for TGMA may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Robert G. Carr and Nona K. Carr Scholarship Foundation (Carr Foundation) is a legally separate entity established for the sole purpose of providing scholarships to students of ASU, a campus within the Texas Tech University System. 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 (UNTF) is a legally separate entity established to raise funding for scholarships for students of the University of North Texas, as well as provide funding for the benefit of the University of North Texas. The majority of endowments supporting the University of North Texas scholarships and other University programs are owned by the UNTF. Therefore, the UNTF is closely related to the University of North Texas, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting the UNTF at 1155 Union Circle #311250, Denton, Texas 76203-5017.

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.

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

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

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

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 \$484.6 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.

Discretely Presented Component Units

The Texas Property and Casualty Insurance Guaranty Association reported a deficit of \$56 million. The deficit is a result of a large increase of claims due to increased insolvency activity during this reporting period and unrealized losses on securities due to changes in market value.

The Texas Health Insurance Pool (THIP) reported a deficit of \$375 thousand. The deficit is a result of accrued expenses expected to be incurred in dissolution and THIP was abolished effective Aug. 31, 2015 per Senate Bill 1367 of the 83th Legislature. The final reporting for THIP will be at the end of fiscal year 2016.

Note 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.1 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other court-ordered factors. A revenue accrual of \$307.5 million is based on the payments received in December 2015. Tobacco settlement revenues were \$496.2 million in fiscal 2014 and \$485.5 million in fiscal 2015. Cumulative actual tobacco settlement revenues as of fiscal 2015 were \$9.1 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$2.6 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	\$ 2,553,393	Expendable
Term Endowments	42,039	Expendable
	<u>\$ 2,595,432</u>	

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

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

Note 23

Taxes Receivable and Tax Refunds Payable

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

Texas franchise tax receivables represent balances due as of Aug. 31, 2015, for business activity that occurred in calendar year 2014. The franchise tax payments were due May 15, 2015; however, taxpayers were allowed to extend the filing date to November 2015.

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 2015 is not due until May

2016. 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, 2015 (Amounts in Thousands)	
Tax Type	Taxes Receivable
Sales and Use Tax	\$ 1,861,487
Motor Vehicle and Manufactured Housing	172,123
Motor Fuels	6,975
Oil and Natural Gas Production	509,239
Franchise	297,204
Insurance Occupation	244,861
Cigarette and Tobacco	21,727
Other	184,066
Total Taxes Receivable*	\$ 3,297,682
Liquidity Characteristics:	
Current Taxes Receivable	\$ 3,221,170
Noncurrent Taxes Receivable	76,512
Total Taxes Receivable	\$ 3,297,682
* Total Taxes Receivable General Fund	\$ 3,297,682
Motor Fuel Taxes Receivable in Other Governmental Funds:	
Current Taxes Receivable:	
State Highway Fund	255,658
Nonmajor Governmental Funds	85,465
Noncurrent Taxes Receivable:	
State Highway Fund	2,527
Nonmajor Governmental Funds	845
Total Taxes Receivable – Balance Sheet – Governmental Funds	\$ 3,642,177

Tax Refunds Payable by Tax Type	
August 31, 2015 (Amounts in Thousands)	
Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	\$ 201,746
Franchise	539,957
Total Tax Refunds Payable	\$ 741,703

Note 24

Termination Benefits

Health Care Related Termination Benefits

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

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2015, the cost to the state was approximately \$32.7 million for 3,599 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.

Note 25

Segment Information

Primary Government

A segment is a separately identifiable activity reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments

are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. Segment disclosure is not required for an activity whose only outstanding debt is conduit debt or if an individual fund is both a segment and reported as a major fund. Therefore, the following programs have met the requirements for disclosure. These programs were funded by the issuance of revenue bonds, which require revenues, expenses, gains, losses, assets and liabilities to be separately accounted for:

- The Single Family Bond Program was created to originate below-market rate loans for eligible low- and moderate-income residents who are purchasing a residence.
- The Residential Mortgage Revenue Bond Program (RMRB) was created to purchase single-family loans, while proceeds from the remaining RMRB bond issues are used to purchase pass-through certificates created through the origination of single-family loans.
- The Collateralized Home Mortgage Revenue Bond Program was created to purchase pass-through certificates created through the funding of loans made to finance the purchase by eligible borrowers of new and existing single-family residences in the state.

Condensed Statement of Net Position

August 31, 2015 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
ASSETS			
Current Restricted Assets	\$ 36,606	\$ 21,698	\$ 93
Noncurrent Restricted Assets	417,964	301,020	4,294
Total Assets	<u>454,570</u>	<u>322,718</u>	<u>4,387</u>
Deferred Outflows of Resources	16,910		
LIABILITIES			
Current Liabilities	11,345	6,468	16
Noncurrent Liabilities	361,147	214,132	2,627
Total Liabilities	<u>372,492</u>	<u>220,600</u>	<u>2,643</u>
NET POSITION			
Restricted	98,988	102,118	1,744
Total Net Position	<u>\$ 98,988</u>	<u>\$ 102,118</u>	<u>\$ 1,744</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
OPERATING REVENUES (EXPENSES)			
Interest and Investment Income	\$ 21,688	\$ 11,383	\$ 311
Net Decrease in Fair Value	(7,779)	(836)	(115)
Other Operating Revenues	114	17	
Operating Expenses	(15,041)	(8,697)	(205)
Operating Income (Loss)	<u>(1,018)</u>	<u>1,867</u>	<u>(9)</u>
NONOPERATING REVENUES (EXPENSES)			
Transfer In (Out)	(4)	8,583	
Changes in Net Position	<u>(1,022)</u>	<u>10,450</u>	<u>(9)</u>
Net Position, September 1, 2014	<u>100,010</u>	<u>91,668</u>	<u>1,753</u>
Net Position, August 31, 2015	<u>\$ 98,988</u>	<u>\$ 102,118</u>	<u>\$ 1,744</u>

Condensed Statement of Cash Flows

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
NET CASH PROVIDED (USED) BY:			
Operating Activities	\$ 813	\$ (7,880)	
Noncapital Financing Activities	(98,810)	(43,383)	(1,318)
Investing Activities	92,291	56,820	1,251
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,706)	5,557	(67)
Cash and Cash Equivalents, September 1, 2014	39,746	14,985	138
Cash and Cash Equivalents, August 31, 2015	\$ 34,040	\$ 20,542	\$ 71

Note 26

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 to the right.

Service Concession Arrangements

August 31, 2015

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

* Estimated. Concession period extends until Harris County/Grand Parkway Transportation Corporation is fully reimbursed for cost 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, 2015, are presented in the table below.

Grand Parkway (State Highway 99) for a period until the bonds or other debt secured is fully repaid. GPTC will be entitled to all toll revenues during the operations period. At the end of the arrangement, operation of the roadway will be transferred to TxDOT.

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

As of Aug. 31, 2015, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling \$244.2 million and \$15.4 billion, respectively. Payments of these amounts are made subject to executed financial assistance agreements between TxDOT and the applicable public or private entity. Of the outstanding toll equity loan commitment, \$5.9 billion is related to a toll equity loan agreement (TELA) with the North Texas Tollway Authority and \$9.5 billion is related to a TELA with the GPTC. Under the TELA, TxDOT has agreed to lend a negotiated amount each year should revenues of the projects be insufficient to cover operations and maintenance, including debt service. The GPTC funds are to be used to pay for

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

August 31, 2015 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	\$	\$	\$ 217,391
SH 130 Segments 5 and 6	131,219	1,437,424	1,437,413
SH 121 Concession	1,189,513	1,336,604	3,333,954
North Tarrant Exp Seg 1 and 2-West		2,392,034	1,684,975
North Tarrant Exp Seg 3A and 3B		248,865	
LBJ/IH-635 Managed Lanes		558,881	
Grand Parkway Seg D, E, F1, F2, G		44,210	
	<u>\$ 1,320,732</u>	<u>\$ 6,018,018</u>	<u>\$ 6,673,733</u>

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

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

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

The Grand Parkway Transportation Corporation (GPTC) is a blended component unit of TxDOT. In fiscal 2013, GPTC and TxDOT entered into an arrangement that fits the criteria of an SCA. Pursuant to this arrangement, GPTC is responsible for the design, construction, financing and operation of Segments D (Harris County), E, F1, F2 and G of the

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, 2015, no draw-downs of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of \$2.1 billion for its costs of design, construction and right-of-way acquisition for the year ended Aug. 31, 2015. This amount is reported as business-type activities.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2015, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements, bond refunding, pensions, the acquisition of Texas Wesleyan University Law School by Texas A&M University, and various types of revenues earned but not available at the fiscal year end.

The table below presents the balances of deferred outflows of resources and deferred inflows of resources as of Aug. 31, 2015 for governmental activities, business-type activities and governmental funds.

Deferred outflows of resources in business-type activities of \$546.1 million were related to hedging derivatives in a liability position and \$1.8 million of deferred inflows of resources were related to hedging derivatives in an asset position. The net hedging derivative liability of \$544.3 million is disclosed in Note 7.

Deferred outflows of resources in business-type activities of \$31.2 million represent the unamortized balance of the excess consideration provided by Texas A&M University over the net position acquired in the acquisition of Texas Wesleyan University Law School. Texas A&M University and Texas Wesleyan University Law School are not in the same financial reporting entity. The objective of the acquisition of Texas Wesleyan University Law School is to enhance the academic ranking of Texas A&M University by having a law school. The acquisition was finalized on Aug. 13, 2013, with no contingent consideration arrangements. The total consideration provided was \$53.9 million, net position acquired was \$14.7 million, and amortization for fiscal 2015 was \$3.9 million.

Deferred inflows of resources in governmental activities of \$6.7 billion were related to service concession arrangements (SCA) entered into by the Texas Department of Transportation (TxDOT) with non-state entities. This amount reflects the unamortized balance of up-front concession payments received and capital improvements acquired from these entities. Details of the state's service concession arrangements are disclosed in Note 26.

Deferred outflows of resources of \$154.8 million in governmental activities were related to losses TxDOT incurred in bond refunding transactions. TxDOT and several universities also had bond refunding transactions in fiscal 2015 in business-type activities for \$8.5 million in deferred inflows of resources related to gains and \$95.3 million in deferred outflows of resources related to losses, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources

August 31, 2015 (Amounts in Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Government-wide Financial Statements		
<i>Governmental Activities</i>		
Bond/Debt refunding	\$ 154,832	\$
SCAs (Note 26)		6,673,733
Pensions (Note 9)	4,510,660	6,805,554
Total	<u>\$ 4,665,492</u>	<u>\$ 13,479,287</u>
<i>Business-Type Activities</i>		
Bond/Debt refunding	\$ 95,263	\$ 8,464
Derivatives (Note 7)	546,108	1,828
Pensions (Note 9)	587,528	998,914
Government Acquisitions	31,220	
Total	<u>\$ 1,260,119</u>	<u>\$ 1,009,206</u>
Fund Financial Statements		
<i>Governmental Funds</i>		
Revenue Earned But Not Available	\$	1,033,037
Total	<u>\$ 0</u>	<u>\$ 1,033,037</u>

Deferred inflows of resources of \$1 billion in governmental funds were related to various types of revenues earned but not available within 60 days of fiscal year end.

The State implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* in fiscal 2015. As a result, the state reported \$4.5 billion of deferred outflows of resources and \$6.8 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported \$587.5 million of deferred outflows of resources and \$998.9 million of deferred inflows of resources related to pensions in business-type activities. Details of the state's pensions are disclosed in Note 9.

Note 28

Nonexchange Financial Guarantees

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

The Texas Education Code, Title 2, Subtitle I, Chapter 45 provides for the guarantee of school district bonds by the permanent school fund (PSF). The PSF is also authorized for use to guarantee revenue bonds issued for certain open-enrollment charter schools designated by the Commissioner of Education. In the event of default by a school district or charter school funds may be withheld from state money payable to the

district or school in an amount necessary for payment of principal and/or interest. Guarantees extend through maturity dates of the bonds. At this date no school districts or charter schools have defaulted on their guaranteed bond indebtedness. As of Aug. 31, 2015, the total principal debt guaranteed on bond issues is \$64 billion.

The Texas Credit Enhancement Program (TCEP) was established to provide a guarantee fund for issuing tax exempt revenue bonds to provide financing for the acquisition, construction, repair or renovation of Texas charter school facilities within federal program guidelines. A consortium consisting of the Texas Public Finance Authority Charter School Finance Corporation (CSFC), the Texas Charter Schools Association and Texas Education Agency was awarded a federal grant to create the guarantee fund. The CSFC is a nonprofit corporation created by the Board of Directors of the Texas Public Finance Authority (TPFA) pursuant to section 53.351 of the Texas Education Code. TPFA provides administrative and staff support for CSFC. Reimbursement periods commence on the date of a guarantee payment and end twelve months following such payment. Borrowers will reimburse the Corporation within the guarantee period by making level monthly principal repayments for each guaranty period during the reimbursement period. Guarantees extend through maturity dates of the bonds. At this date no charter schools have defaulted on their guaranteed bond indebtedness. As of Aug. 31, 2015, \$6.2 million of available grant funds have been committed.