

The spreadsheets in this publication are available
in accessible data form (Excel) for the sections below.

Management's Discussion and Analysis, pages 19-32

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Basic Financial Statements, pages 33-170

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Required Supplementary Information other than MD&A, pages 171-184

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Governmental Funds, pages 185-210

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Enterprise Funds, pages 211-240

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Fiduciary Funds, pages 241-258

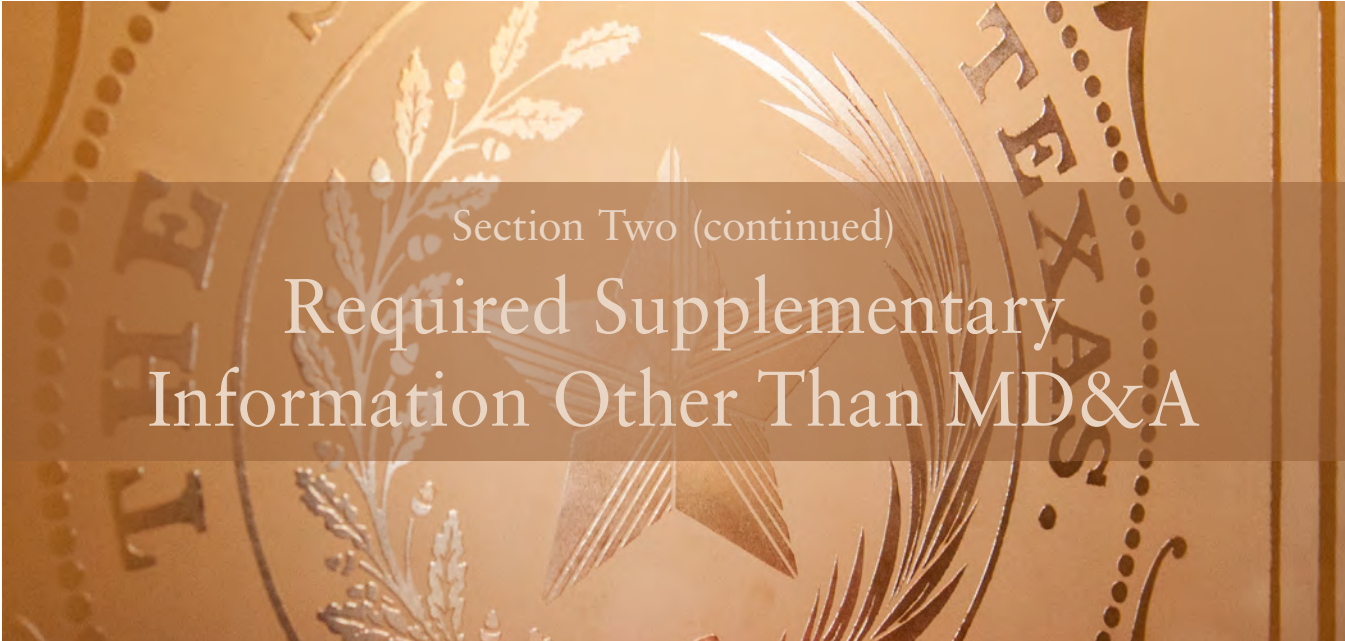
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Discretely Presented Component Units, pages 259-274

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Section Two (continued)

Required Supplementary Information Other Than MD&A

STATE OF TEXAS

Budgetary Comparison Schedule General Fund

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

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 46,744,576	\$ 44,649,400	\$ 42,998,843	\$ (1,650,557)
Federal	33,072,253	41,185,513	39,097,659	(2,087,854)
Licenses, Fees and Permits	2,946,288	2,866,842	2,957,348	90,506
Interest and Other Investment Income	149,862	152,492	109,405	(43,087)
Land Income	39,495	32,130	18,519	(13,611)
Settlement of Claims	539,247	540,959	642,862	101,903
Sales of Goods and Services	2,982,887	4,178,363	3,556,287	(622,076)
Other	4,515,737	5,317,661	4,702,491	(615,170)
Total Revenues	<u>90,990,345</u>	<u>98,923,360</u>	<u>94,083,414</u>	<u>(4,839,946)</u>
EXPENDITURES				
General Government	5,648,330	4,607,272	2,536,760	2,070,512
Education	28,425,306	29,155,740	27,920,337	1,235,403
Employee Benefits	1,983,574	36,817	27,236	9,581
Teacher Retirement Benefits	2,125,502	2,125,502	2,080,935	44,567
Health and Human Services	40,630,960	51,649,277	53,534,705	(1,885,428)
Public Safety and Corrections	5,117,330	6,636,822	5,984,112	652,710
Transportation	412,972	433,302	116,676	316,626
Natural Resources and Recreation	2,145,063	2,518,633	2,141,649	376,984
Regulatory Services	278,806	370,212	336,693	33,519
Total Expenditures	<u>86,767,843</u>	<u>97,533,577</u>	<u>94,679,103</u>	<u>2,854,474</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,222,502</u>	<u>1,389,783</u>	<u>(595,689)</u>	<u>(1,985,472)</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,367,480	2,283,451	4,436,781	2,153,330
Transfer Out	(5,528,078)	(5,970,879)	(7,197,668)	(1,226,789)
Sale of Capital Assets	7,292	7,613	5,720	(1,893)
Insurance Recoveries	814	893	3,494	2,601
Available Beginning Balances	10,147,884	10,147,884	10,147,884	
Total Other Financing Sources (Uses)	<u>5,995,392</u>	<u>6,468,962</u>	<u>7,396,211</u>	<u>927,249</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ 10,217,894</u>	<u>\$ 7,858,745</u>	<u>\$ 6,800,522</u>	<u>\$ (1,058,223)</u>

STATE OF TEXAS

Budgetary Comparison Schedule

Major Special Revenue Fund – State Highway Fund

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

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 2,586,498	\$ 2,602,720	\$ 2,625,184	\$ 22,464
Federal	3,936,469	5,227,988	3,905,930	(1,322,058)
Licenses, Fees and Permits	1,553,296	1,540,598	1,524,795	(15,803)
Interest and Other Investment Income	892	21,966	40,541	18,575
Land Income	12,632	10,766	12,104	1,338
Settlement of Claims	1,000	1,000	47,519	46,519
Sales of Goods and Services	191,126	195,671	9,652	(186,019)
Other	138,092	138,234	67,750	(70,484)
Total Revenues	<u>8,420,005</u>	<u>9,738,943</u>	<u>8,233,475</u>	<u>(1,505,468)</u>
EXPENDITURES				
General Government	3,486	3,682	2,408	1,274
Employee Benefits	86,226			
Public Safety and Corrections			45,812	(45,812)
Transportation	9,835,239	11,258,857	8,660,769	2,598,088
Regulatory Services			2,399	(2,399)
Total Expenditures	<u>9,924,951</u>	<u>11,262,539</u>	<u>8,711,388</u>	<u>2,551,151</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(1,504,946)</u>	<u>(1,523,596)</u>	<u>(477,913)</u>	<u>1,045,683</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,216,274	1,134,668	571,871	(562,797)
Transfer Out			(448,683)	(448,683)
Sale of Capital Assets	5,085	5,085	67,107	62,022
Insurance Recoveries	275	275		(275)
Available Beginning Balances	4,322,650	4,322,650	4,322,650	
Total Other Financing Sources (Uses)	<u>5,544,284</u>	<u>5,462,678</u>	<u>4,512,945</u>	<u>(949,733)</u>
Excess of Revenues and Other Financing Sources				
Over Expenditures and Other Financing Uses	<u>\$ 4,039,338</u>	<u>\$ 3,939,082</u>	<u>\$ 4,035,032</u>	<u>\$ 95,950</u>

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is presented in the table below.

- **Perspective Differences:** Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.
- The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances

are not included as financing sources on the GAAP financial statements.

- **Entity Differences:** Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Reconciliation of Budgetary Basis to GAAP Basis		
August 31, 2016 (Amounts in Thousands)		
	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 6,800,522	\$ 4,035,032
Basis of Accounting Differences:		
Receivables and Unearned Revenues	(606,130)	22,554
Payables	695,307	136,226
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(10,147,884)	(4,322,650)
Revenues and Other Financing Sources Not Budgeted	739,574	25,479
Expenditures and Other Financing Uses Not Budgeted	(687,290)	(122,040)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	1,280	
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	<u>\$ (3,204,621)</u>	<u>\$ (225,399)</u>

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The \$1.9 billion variance in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates by agencies in this particular function.

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are:

- **Basis of Accounting Differences:** Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, unearned revenues, receivables and payables are included as reconciling items.

Major special revenue fund – state highway fund - The \$45.8 million variance in public safety and corrections and the \$2.4 million variance in regulatory services are the result of expenditures made from available beginning cash balance in the fund.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce an item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anti-

pated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over-expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 20 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2016, \$150,000 was transferred to the Historical Commission to assist in the preservation of a historical structure and maintain its authenticity. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Schedules of Changes in Net Pension Liability and Related Ratios

For each of the fiscal years presented, the measurement date for the information on the schedules of changes in net pension liability and related ratios was the prior fiscal year-end.

The schedules of changes in net pension liability and related ratios for the state's Employees Retirement System of Texas Plan (ERS Plan), Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan) and Judicial Retirement System of Texas Plan Two (JRS2 Plan) are presented below:

Schedule of Changes in Net Pension Liability and Related Ratios****		
Employees Retirement System of Texas Plan		
(Amounts in Thousands)		
	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service Cost	\$ 1,231,203	\$ 1,139,451
Interest on the Total Pension Liability	2,373,850	2,324,180
Benefit Changes***	(87,835)	
Difference between Expected and Actual Experience of the Total Pension Liability	(284,751)	(252,967)
Assumption Changes	(3,429,167) *	1,199,067 *
Benefit Payments and Refunds	(2,049,291)	(1,963,481)
Net Change in Total Pension Liability	<u>(2,245,991)</u>	<u>2,446,250</u>
Total Pension Liability – Beginning	<u>39,510,917</u>	<u>37,064,667</u>
Total Pension Liability – Ending	<u>\$ 37,264,926</u>	<u>\$ 39,510,917</u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 500,395	\$ 482,239
Contributions – Member	462,160	430,595
Pension Plan Net Investment Income	56,941	3,252,417
Benefit Payments and Refunds	(2,049,291)	(1,963,481)
Pension Plan Administrative Expense	(21,840)	(20,195)
Net Change in Plan Fiduciary Net Position	<u>(1,051,635)</u>	<u>2,181,575</u>
Plan Fiduciary Net Position – Beginning	<u>25,050,117</u>	<u>22,868,542</u>
Plan Fiduciary Net Position – Ending	<u>\$ 23,998,482</u>	<u>\$ 25,050,117</u>
Net Pension Liability – Beginning	<u>14,460,800</u>	<u>14,196,125</u>
Net Pension Liability – Ending	<u>\$ 13,266,444</u>	<u>\$ 14,460,800</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.40%	63.40%
Covered Employee Payroll**	\$ 6,150,195	\$ 5,955,461
Net Pension Liability as a Percentage of Covered Employee Payroll	215.71%	242.82%
Notes to Schedule:		
* The change in the total pension liability due to the change in the single discount rate is included as an assumption change.		
** The covered employee payroll is the actual annual payroll for the measurement period.		
*** The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.		
**** This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.		

Schedule of Changes in Net Pension Liability and Related Ratios^{****}

Law Enforcement and Custodial Officer Supplemental Retirement Plan

(Amounts in Thousands)

	2016 ^{***}	2015
Total Pension Liability		
Service Cost	\$ 57,459	\$ 54,528
Interest on the Total Pension Liability	87,222	88,025
Difference between Expected and Actual Experience of the Total Pension Liability	(9,640)	(76,585)
Assumption Changes*	148,114	68,228
Benefit Payments and Refunds	(61,344)	(57,147)
Net Change in Total Pension Liability	<u>221,811</u>	<u>77,049</u>
Total Pension Liability – Beginning	<u>1,542,978</u>	<u>1,465,929</u>
Total Pension Liability – Ending	<u>\$ 1,764,789</u>	<u>\$ 1,542,978</u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 26,728	\$ 27,758
Contributions – Member	8,376	8,180
Pension Plan Net Investment Income	1,918	111,741
Benefit Payments and Refunds	(61,344)	(57,147)
Pension Plan Administrative Expense	(1,412)	(1,324)
Net Change in Plan Fiduciary Net Position	<u>(25,734)</u>	<u>89,208</u>
Plan Fiduciary Net Position – Beginning	<u>869,877</u>	<u>780,669</u>
Plan Fiduciary Net Position – Ending	<u>\$ 844,143</u>	<u>\$ 869,877</u>
Net Pension Liability – Beginning	<u>673,101</u>	<u>685,260</u>
Net Pension Liability – Ending	<u>\$ 920,646</u>	<u>\$ 673,101</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	47.83%	56.38%
Covered Employee Payroll**	\$ 1,506,028	\$ 1,496,013
Net Pension Liability as a Percentage of Covered Employee Payroll	61.13%	44.99%

Notes to Schedule:

- * The change in the total pension liability due to the change in the single discount rate is included as an assumption change.
- ** The covered employee payroll is the actual annual payroll for the measurement period.
- *** The actuarial valuation as of August 31, 2015 incorporated the impact of eliminating the 90-day waiting period for LECOS members but there was no immediate impact on the net pension liability.
- **** This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

Schedule of Changes in Net Pension Liability and Related Ratios^{***}

Judicial Retirement System of Texas, Plan Two

(Amounts in Thousands)

	2016	2015
Total Pension Liability		
Service Cost	\$ 16,244	\$ 17,805
Interest on the Total Pension Liability	30,786	28,004
Difference between Expected and Actual Experience of the Total Pension Liability	(10,067)	(640)
Assumption Changes*	35,653	(25,924)
Benefit Payments and Refunds	(19,238)	(16,420)
Net Change in Total Pension Liability	<u>53,378</u>	<u>2,825</u>
Total Pension Liability – Beginning	<u>386,286</u>	<u>383,461</u>
Total Pension Liability – Ending	<u>\$ 439,664</u>	<u>\$ 386,286</u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 12,457	\$ 12,211
Contributions – Member	5,465	5,195
Pension Plan Net Investment Income	820	46,186
Benefit Payments and Refunds	(19,238)	(16,420)
Pension Plan Administrative Expense	(284)	(267)
Net Change in Plan Fiduciary Net Position	<u>(780)</u>	<u>46,905</u>
Plan Fiduciary Net Position – Beginning	<u>365,290</u>	<u>318,385</u>
Plan Fiduciary Net Position – Ending	<u>\$ 364,510</u>	<u>\$ 365,290</u>
Net Pension Liability – Beginning	<u>20,996</u>	<u>65,076</u>
Net Pension Liability – Ending	<u>\$ 75,154</u>	<u>\$ 20,996</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.91%	94.56%
Covered Employee Payroll**	\$ 77,501	\$ 77,441
Net Pension Liability as a Percentage of Covered Employee Payroll	96.97%	27.11%

Notes to Schedule:

- * The change in the total pension liability due to the change in the single discount rate is included as an assumption change.
- ** The covered employee payroll is the actual annual payroll for the measurement period.
- *** This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

Schedules of Proportionate Share of Net Pension Liability

For each of the fiscal years presented, the measurement date for the information on the schedules of proportionate share of net pension liability was the prior fiscal year-end.

The schedules of proportionate share of the net pension liability for the state's Teacher Retirement System of Texas Plan (TRS Plan) for the state as an employer and as a non-employer contributing entity are presented below.

Schedule of Proportionate Share of Net Pension Liability*		
Teacher Retirement System of Texas Plan		
State as Employer		
(Amounts in Thousands)		
	2016	2015
State's proportion of the net pension liability	14.11%	16.97%
State's proportionate share of the net pension liability**	\$ 4,989,195	\$ 4,534,735
State's covered payroll	\$ 5,426,660	\$ 6,221,452
State's proportionate share of the net pension liability as a percentage of its covered payroll	91.94%	72.89%
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

** The state's proportionate share of the net pension liability for the state as an employer consists of \$1,111,169 reported in governmental activity and \$3,878,026 reported in business-type activity.

Schedule of Proportionate Share of Net Pension Liability*

Teacher Retirement System of Texas Plan

State as Non-Employer Contributing Entity

(Amounts in Thousands)

	2016	2015
State's proportion of the net pension liability	53.75%	60.37%
State's proportionate share of the net pension liability	\$ 18,998,983	\$ 16,129,760
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

The schedule of proportionate share of the net pension liability for the Texas Emergency Services Retirement System Plan (TESRS Plan) for the state as a non-employer contributing entity is presented below.

Schedule of Proportionate Share of Net Pension Liability*

Texas Emergency Services Retirement System Plan

State as Non-Employer Contributing Entity

(Amounts in Thousands)

	2016	2015
State's proportion of the net pension liability	34.66%	33.79%
State's proportionate share of the net pension liability	\$ 9,252	\$ 6,140
Plan fiduciary net position as a percentage of the total pension liability	76.9%	83.5%

* This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available.

Schedules of Employer Contributions

The information on the schedules of employer contributions was determined as of the end of the fiscal years presented.

The schedules of employer contributions comparing the actuarially determined contributions and the contributions recognized by the pension plan in relation to the actuarially determined contributions for the state's ERS, LECOS and JRS2 Plans are presented below and on the following page.

Schedule of Employer Contributions⁴ Employees Retirement System of Texas Plan

(Amounts in Thousands)

	2016	2015	2014
Actuarially determined contributions	\$ 679,806	\$ 737,111	\$ 727,892
Contributions in relation to the actuarially determined contributions	686,763	500,395	482,239
Contribution deficiency (excess)	(6,957)	236,716	245,653
Covered-employee payroll	6,742,143	6,150,195	5,955,461
Contributions as a percentage of covered-employee payroll	10.19%	8.14%	8.10%

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated based on the actuarial valuation as of Aug. 31 of the fiscal year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	0% to 11.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based table of rates that are specific to the class of employee. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011.
Mortality	1994 Group Annuity Mortality 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.

Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. The covered-employee payroll is the actual annual payroll for the fiscal year being reported.
4. This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedule of Employer Contributions⁴ Law Enforcement and Custodial Officer Supplemental Retirement Plan

(Amounts in Thousands)

	2016	2015	2014
Actuarially determined contributions	\$ 43,167	\$ 38,131	\$ 40,205
Contributions in relation to the actuarially determined contributions	27,497	26,728	27,758
Contribution deficiency	15,670	11,403	12,447
Covered-employee payroll	1,725,880	1,506,028	1,496,013
Contributions as a percentage of covered-employee payroll	1.59%	1.77%	1.86%

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated based on the actuarial valuation at the beginning of the fiscal year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	5% to 11.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011.
Mortality	1994 Group Annuity Mortality 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.

Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. The covered-employee payroll is the actual annual payroll for the fiscal year being reported.
4. This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedule of Employer Contributions⁴ Judicial Retirement System of Texas Plan Two

(Amounts in Thousands)

	2016	2015	2014
Actuarially determined contributions	\$ 12,896	\$ 13,107	\$ 13,449
Contributions in relation to the actuarially determined contributions	12,374	12,457	12,211
Contribution deficiency	522	650	1,238
Covered-employee payroll	78,261	77,501	77,441
Contributions as a percentage of covered-employee payroll	15.81%	16.07%	15.77%

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated based on the actuarial valuation at the beginning of the fiscal year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	31 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value
Inflation	3.5%
Salary Increases	3.5%
Investment Rate of Return	8.0%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011.
Mortality	1994 Group Annuity Mortality 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.

Other Information:

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. The covered-employee payroll is the actual annual payroll for the fiscal year being reported.
4. This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

The schedules of employer contributions comparing the statutorily required contributions and the contributions recognized by the pension plan in relation to the statutorily required contributions for the state's TRS Plan for the state as an employer and as a non-employer contributing entity are presented below.

The schedule of contributions comparing the statutorily required contributions and the contributions recognized by the pension plan in relation to the statutorily required contributions for TESRS plan for the state as a non-employer contributing entity is presented below.

Schedule of Employer Contributions*
Teacher Retirement System of Texas Plan

State as Employer
(Amounts in Thousands)

	2016	2015	2014
Statutorily required contributions	\$ 466,216	\$ 417,698	\$ 430,321
Contributions in relation to the statutorily required contributions	466,216	417,698	430,321
Contribution deficiency (excess)	0	0	0
Covered-employee payroll	5,750,539	5,408,293	6,221,452
Contributions as a percentage of covered-employee payroll	8.11%	7.72%	6.92%

* This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedule of Employer Contributions*
Texas Emergency Services Retirement System Plan

State as Non-Employer Contributing Entity
(Amounts in Thousands)

	2016	2015	2014
Statutorily required contributions	\$ 1,584	\$ 1,637	\$ 1,530
Contributions in relation to the statutorily required contributions	1,584	1,637	1,530
Contribution deficiency (excess)	0	0	0

* This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedule of Employer Contributions*
Teacher Retirement System of Texas Plan

State as Non-Employer Contributing Entity
(Amounts in Thousands)

	2016	2015	2014
Statutorily required contributions	\$ 1,675,631	\$ 1,591,483	\$ 1,530,624
Contributions in relation to the statutorily required contributions	1,675,631	1,591,483	1,530,624
Contribution deficiency (excess)	0	0	0

* This schedule is intended to present 10 years of information. Currently only three years of information is available. Information for future years will be added when it becomes available.

Schedules of Funding Progress

The schedule of funding progress for the state's Judicial Retirement System Plan One (JRS1 Plan) for the three most recent actuarial valuations is presented in the table below.

Schedule of Funding Progress – Pension						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)** (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Judicial Retirement System Plan One (JRS1 Plan)*						
08/31/16	\$ 0	\$ 328,044	\$ 328,044	0.0%	\$ 577	56,853.4%
08/31/15	0	309,710	309,710	0.0%	1,470	21,068.7%
08/31/14	0	332,238	332,238	0.0%	1,764	18,834.4%

* Address for obtaining the financial report for the JRS1 pension plan is provided in Note 9.

** AAL for JRS1 is determined based on a 2.84 percent discount rate as of Aug. 31, 2016, a 3.79 percent as of Aug. 31, 2015 and 4.17 percent as of Aug. 31, 2014.

The schedule of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

Schedule of Funding Progress – OPEB*						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/15	\$ 0	\$ 8,584,045	\$ 8,584,045	0.0%	\$ 5,948,245	144.3%
12/31/14	0	8,274,414	8,274,414	0.0%	5,842,410	141.6%
12/31/12	0	6,939,197	6,939,197	0.0%	5,674,298	122.3%
A&M Care Health and Life Plan (A&M Plan)						
09/01/14	\$ 0	\$ 2,002,649	\$ 2,002,649	0.0%	\$ 1,440,510	139.0%
09/01/12	0	1,924,980	1,924,980	0.0%	1,149,300	167.5%
09/01/10	0	1,854,690	1,854,690	0.0%	1,313,538	141.2%

* Addresses for obtaining the financial reports of the OPEB plans are provided in Note 11.

Significant Factors Affecting the Comparability of Amounts Reported

Pension Plans

The state implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, in fiscal 2015. All pension schedules present information in accordance with the GASB Statement No. 68 standards except the Schedule of Funding Progress for JRS1 Plan which present information in accordance with the GASB Statement No. 27 standards.

There is no change in the actuarial methods and assumptions used to develop the required contributions in the schedules of employer contributions for the ERS, LECOS and JRS2 Plans since fiscal 2015.

For the JRS1 Plan, membership continues to decrease as a result of new judicial officers participating in JRS2 Plan. Beginning Aug. 31, 2015, the actuarial accrued liability is determined based on a discount rate derived from a current municipal bond rate.

For the TRS Plan, changes in actuarial assumptions such as inflation, salary increase and mortality assumptions from measurement period 2014 to 2015 had some impact on the measurement of the total pension liability that the net pension liability was derived from for the current measurement period.

OPEB Plans

The University of Texas System (UT) and the Texas A&M University System (A&M) opted to perform actuarial valuations of their respective OPEB plans on a biennial basis rather than on an annual basis starting with fiscal 2012. A new valuation was performed on Dec. 31, 2014 and Sept. 1, 2014 for UT and A&M respectively. However, some significant changes occurred after UT's Dec. 31, 2014 valuation that will affect the results of the 2014 valuation; therefore, a full valuation was performed as of Dec. 31, 2015 again for UT Plan.

The following methods and assumptions were modified since the prior valuation of the UT Plan:

- The assumed salary increase, mortality rate, termination, disability and retirement assumptions were updated to be consistent with the assumptions used by the TRS retirement plan actuary. These assumptions were updated by the TRS actuary in fiscal 2015 to reflect the results of a recent experience study.
- The discount rate was updated to reflect a change in the investment policies of the assets of the employer and to reflect changes in expected returns of the various asset classes that comprise the assets of the employer.
- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents has been updated to reflect claims and expense experience in the 12 months following the date as of which the prior valuation assumptions were determined.
- The Assumed Per Capita Health Benefit Costs reflect the impact of benefit changes that occurred on Sept. 1, 2016 and will occur on Jan. 1, 2017.
- The Assumed Per Capita Health Benefit Costs reflect the implementation of Employer Group Waiver Plan (EGWP) plus Wrap prescription drug coverage for Medicare primary participants effective Jan. 1, 2017.
- The Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs.

The following methods and assumptions were modified since the prior valuation of the A&M Plan:

- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect claims and expense experience in the 24 months following the date as of which the prior valuation's assumptions were determined.
- The Health Benefit Cost Trend has been updated to reflect changes in short-term expectations of the annual rate of increase of the Assumed Per Capita Health Benefit Costs.