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

Management's Discussion and Analysis, pages 17-30
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/analysis.xlsx**

Basic Financial Statements, pages 31-184
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/basic.xlsx**

Required Supplementary Information other than MD&A, pages 185-204
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/supplemental.xlsx**

Governmental Funds, pages 205-230
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/governmental.xlsx**

Enterprise Funds, pages 231-260
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/enterprise.xlsx**

Fiduciary Funds, pages 261-278
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/fiduciary.xlsx**

Discretely Presented Component Units, pages 279-294
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/discretely.xlsx**

Statistical Section, pages 295-321
**comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/2018/statistical.xlsx**

# Acknowledgments

The Comprehensive Annual Financial Report was prepared by the Financial Reporting section of the Texas Comptroller of Public Accounts with assistance from other sections within the Fiscal Management, Revenue Estimating and Communications and Information Services divisions.

Shelly Arnold, CPA, Financial Reporting Supervisor
Lori Williams, CPA, Assistant Financial Reporting Supervisor

John Barnes, Team Lead
Maricela Cayetano, Team Lead

David Haecker, Team Lead
Ela Jochacy, CPA, Team Lead

Kip Anderson
Meagan Bunker
Diana Dunnahoo
Chantell Franks
Michael Hensley
Gabriela Needham

Wyeth Osborne, CPA
Jacqueline Pree
James "Wiley" Thedford
David Tropea, CPA
John Walker

Other Sections:
Statewide Fiscal Oversight, Appropriation Control
Statewide Fiscal Oversight, Statewide Fiscal Programs
Statewide Fiscal Systems, Fiscal Documentation
Statewide Fiscal Systems, Fiscal Systems Support
Communications and Information Services, Graphics
Communications and Information Services, Editorial
Revenue Estimating, Revenue Analysis

Rob Coleman, Director of Fiscal Management
Sandra Woodruff, Assistant Director of Fiscal Management
Michael Apperley, CPA, Manager of Statewide Fiscal Oversight
Clarisse Roquemore, CPA, Manager of Fiscal Operations Area
Shantel Geeslin, Fiscal Management Administration

Special Appreciation To:
All accounting and budget personnel of state agencies and institutions of higher education whose extra time and effort made this report possible.
The State Auditor's Office auditing staff

State of Texas

# Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2018

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Section One

# Introductory Section

February 28, 2019

To the Citizens of Texas, Governor Abbott
and Members of the 86th Texas Legislature:

The state of Texas Comprehensive Annual Financial Report (CAFR) for the fiscal year ended Aug. 31, 2018, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

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

The State Auditor's Office contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2018, with the opinion expressed by KPMG, will be issued separately.

## Profile of the Government

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

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

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

## Accounting System and Budgetary Controls

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

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

## Financial Policies

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

The economic stabilization fund (ESF), commonly called the "rainy day fund," authorized in 1988 by the Texas Constitution, Article III, Section 49g, is yet another example of prudent governance. The Comptroller may transfer ESF amounts to the general revenue fund to prevent or eliminate temporary cash deficiencies. Any amounts transferred to general revenue shall be returned to the ESF with interest as soon as practicable, but no later than Aug. 31 of each odd-numbered year. Generally, the Legislature may appropriate within the constitutional guidelines, by a three-fifths vote of the members present in each house, amounts in the ESF that do not exceed the amount of any unanticipated deficit in a current biennium or anticipated revenue decline during the next biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house. The ESF shall receive a transfer, not later than the 90th day of each biennium, from the general revenue fund for one-half of any unencumbered positive balance remaining in the general revenue fund on the last day of the preceding biennium. The ESF also receives transfers, not later than the 90th day of each fiscal year, from the general

revenue fund for at least 50 percent of the 75 percent of the prior fiscal year oil or natural gas production net collections that exceeded the amount of collections in fiscal 1987. The transfer amount of each production tax is calculated separately and must be in excess of the 1987 threshold. The remaining amount is transferred to the state highway fund as directed by the Texas Constitution, Article III, Section 49-g (c-1) and (c-2).

The balance in the fund on Aug. 31, 2018, was $12.5 billion. The ESF is also discussed in Note 13.

## Economic Outlook

Texas has advantages such as relatively low living costs, an attractive business climate, a central Sunbelt location and a balanced mix of industries that have enabled it to grow faster than the nation in most years. These advantages remain and should allow the state's economy to continue to grow over the next biennium and beyond. Texas real Gross State Product (GSP) grew at an estimated rate of 3.5 percent in 2018, after growth of 0.3 and 1.3 percent in 2016 and 2017, respectively. Real GSP is expected to grow by a further 3.8 percent in 2019.

After increasing by 4.1 percent in 2017, Texas personal income is estimated to have grown by 5.6 percent in 2018 and is projected to grow by a further 5.2 percent in 2019. Underlying this income growth is growth in the Texas population. Recent estimates by the U.S. Census Bureau show that seven of the nation's 15 most rapidly growing large incorporated cities are in Texas where total state population is estimated to grow by 1.5 percent in 2019 to reach 29.2 million.

The Texas unemployment rate has decreased slightly over the year, from an average of 3.9 percent in 2017 to 3.7 percent in 2018. The rate has been dropping in recent months and is projected to average 3.4 percent in 2019.

Total Texas nonfarm employment grew by an estimated 2.8 percent in 2018 and is projected to grow by 2.3 percent in 2019.

## Texas Industry Performance

Employment in goods-producing industries increased by 6.6 percent over the past 12 months, while employment in service-producing industries grew by 2.3 percent. Employment increased in all three of the goods-producing industries (mining and logging, manufacturing, and construction), led by a 47,100 increase in construction employment. Employment growth in the service-providing industries was led by professional and business services (up 78,600) and trade, transportation and utilities (up 77,700). Mining and logging employment increased by 16.2 percent over the year. The service-providing industries that saw the largest percentage increases in employment were professional and business services (4.7 percent) and trade, transportation and utilities (3.1 percent). The information industry was the only industry to experience an employment decline (1.4 percent) over the year.

## Manufacturing

According to the U.S. Census Bureau, the value of Texas exports in 2016 was $233 billion, a decrease of 7.4 percent from 2015. Year-over-year Texas exports increased for the first time in two years in November 2016 and have increased in every month since. Through October, the value of 2018 exports was 21.4 percent higher than that of the corresponding period of 2017. Texas is the nation's leading exporting state, as it has been for more than a decade. Texas exports comprised 17 percent of total U.S. exports in 2017, and that percentage is expected to increase in fiscal 2019.

## Construction

Total housing construction activity was up over the year. Total single-family building permits issued in the year ending October 2018 were up by 10 percent compared to the prior year. Building permits for multifamily units rose by 5.7 percent.

According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sales price for an existing Texas single-family home rose 4.1 percent over the last year, from $221,000 in November 2017 to $230,000 in November 2018. The inventory of existing homes for sale in November 2018 was 3.7 months, up from 3.5 months a year ago, and a substantial improvement from the post-recession high of 8.6 months in mid-2011.

### Mining and Logging

Texas oil production peaked more than 40 years ago in 1972, when calendar year production reached 1,263 million barrels. Production volumes reached a low of 343 million barrels in calendar 2007.

From that low point, oil production has increased steadily, in large part due to the development and widespread use of enhanced fracturing techniques. Calendar 2018 production is expected to have increased by more than 20 percent from 2017 levels, to reach a new record of 1,399 million barrels. Production is expected to increase further in 2019, notwithstanding current infrastructure bottlenecks and price volatility.

## Awards and Acknowledgments

### Certificate of Achievement

The GFOA of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its CAFR for the fiscal year ended Aug. 31, 2017. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 28 years (fiscal years ended August 1990 through 2017). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

### Acknowledgments

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

Sincerely,

Glenn Hegar

State of Texas
# Comprehensive Annual Financial Report

## Elected State Officials

### Executive

Greg Abbott
Governor

Glenn Hegar
Comptroller of Public Accounts

George P. Bush
Land Commissioner

Sid Miller
Commissioner of Agriculture

Dan Patrick
Lieutenant Governor

Ken Paxton
Attorney General

Wayne Christian
Christi Craddick
Ryan Sitton
Railroad Commissioners

### Legislative

Lieutenant Governor Dan Patrick
President of the Senate

Dennis Bonnen
Speaker of the House of Representatives

### Judicial

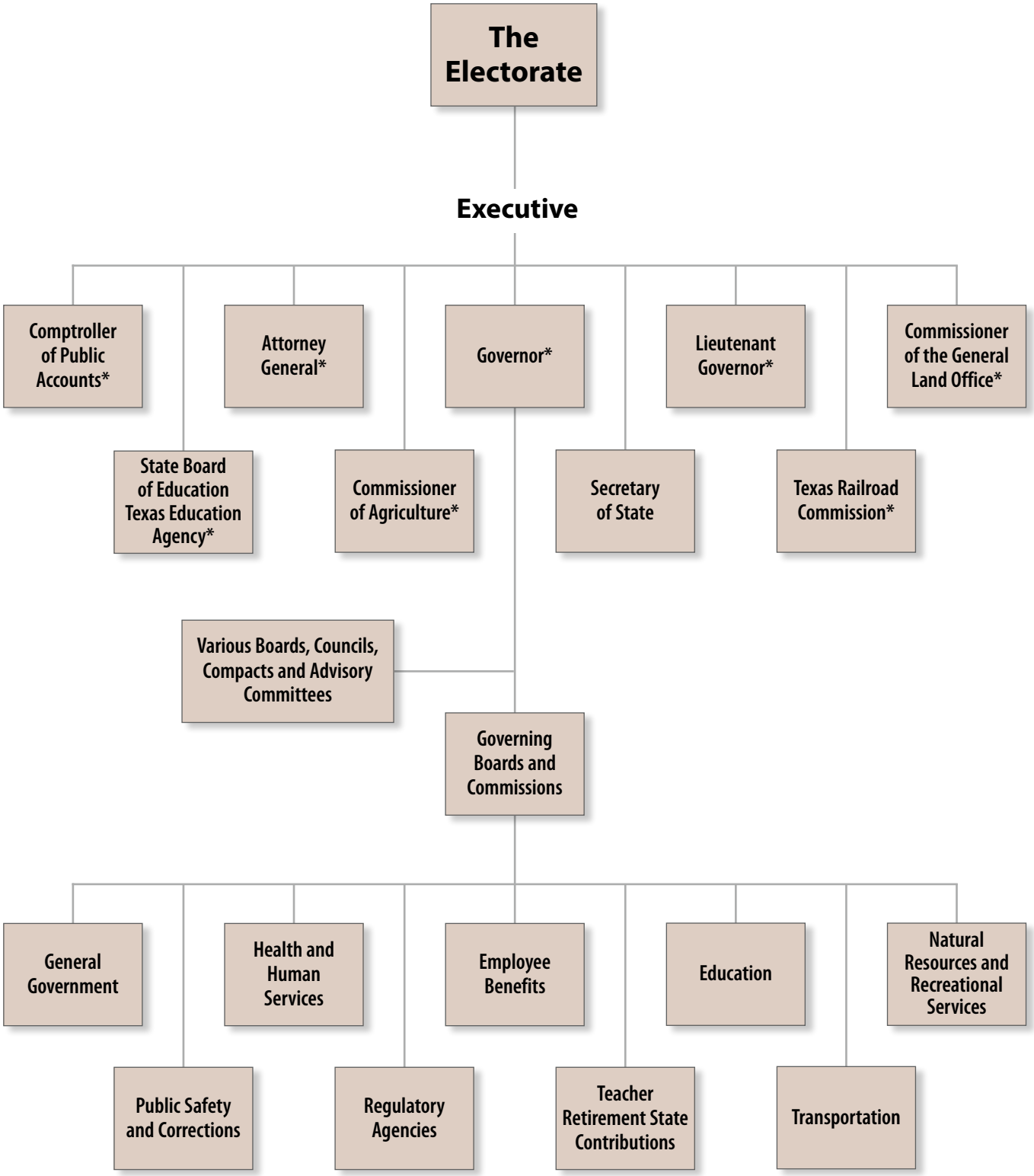
**Supreme Court of Texas**

Nathan L. Hecht, Chief Justice
Jeff Brown, Justice
Jeffrey S. Boyd, Justice
John Devine, Justice
Paul Green, Justice
Eva M. Guzman, Justice
Debra, Lehrmann, Justice
Jimmy Blacklock, Justice

**Court of Criminal Appeals**

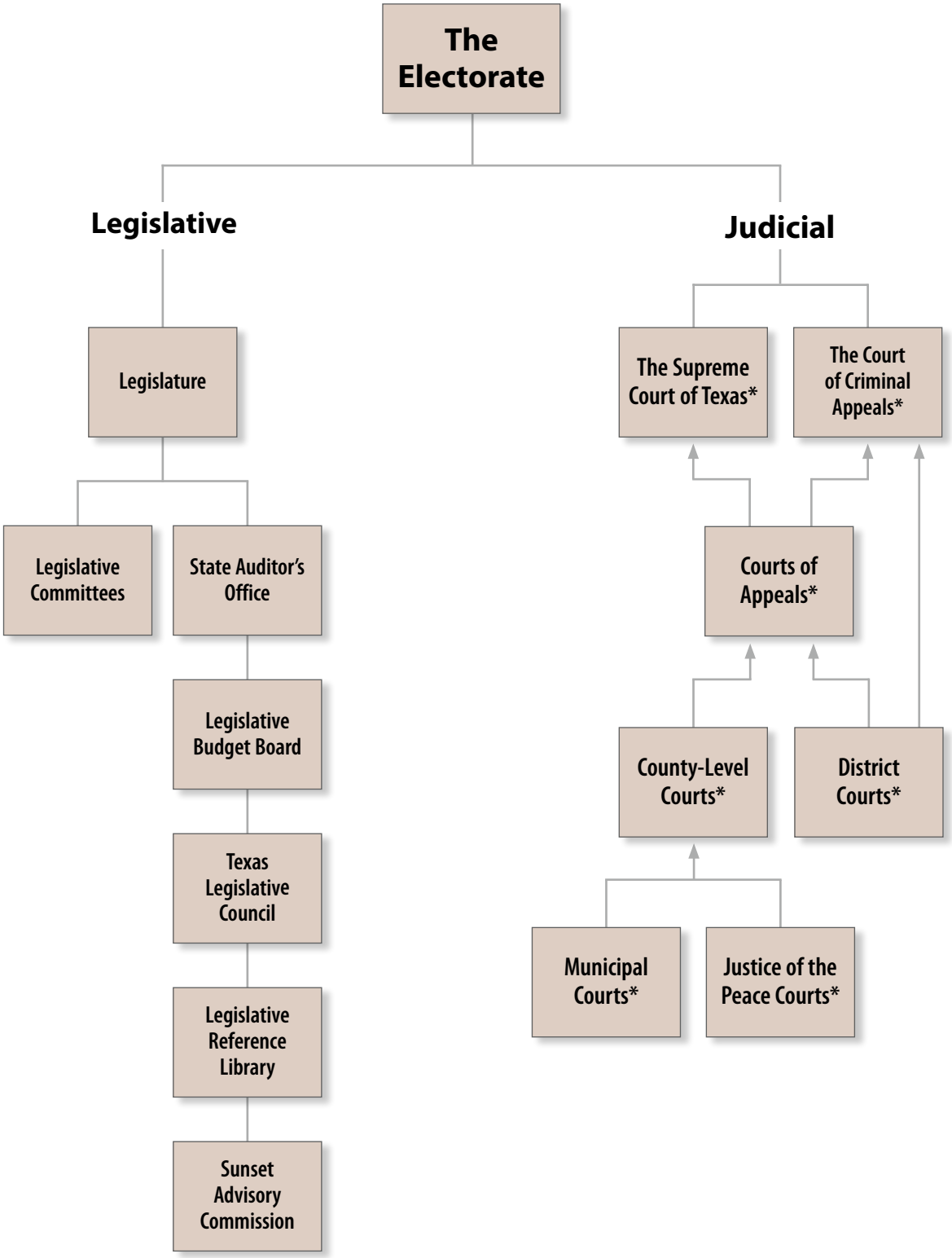
Sharon Keller, Presiding Judge
Michelle Slaughter, Judge
Barbara Parker Hervey, Judge
Scott Walker, Judge
Michael E. Keasler, Judge
Mary Lou Keel, Judge
David Newell, Judge
Bert Richardson, Judge
Kevin Yeary, Judge

# Government Structure of Texas




* Elected Offices

# Government Structure of Texas (continued)




* Elected Offices

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

**August 31, 2017**

Christopher P. Morrill

Executive Director/CEO