



Glenn Hegar Texas Comptroller of Public Accounts

Comprehensive Annual Financial Report 2014

For the State of Texas for the Fiscal Year Ended August 31, 2014



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Acknowledgments

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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, John Keel, CPA, and his auditing staff.

State of Texas Comprehensive Annual Financial Report

For the Fiscal Year Ended August 31, 2014

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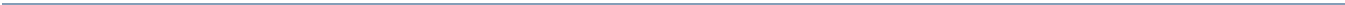
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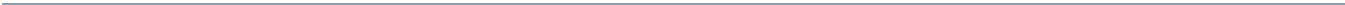
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Section One

Introductory Section







February 27, 2015

To the Citizens of Texas, Governor Abbott
and Members of the 84th Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2014, 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 performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor contracted with KPMG to perform portions of the federal audit procedures necessary

to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the fiscal year ended Aug. 31, 2014, 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 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 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 becomes law. The General Appropriations Act 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. 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. 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 received transfers, not later than the 90th day of fiscal 2014, from the general revenue fund for 75 percent of the prior fiscal year oil or natural gas production tax revenue that exceeded the amount of collections in fiscal 1987. The balance in the fund on Aug. 31, 2014, was \$6.7 billion. The ESF is also discussed in Note 13.

On Nov. 4, 2014, Texas voters approved the ballot measure known as Proposition 1, which created a constitutional amendment for transportation funding. Under the amendment, a portion of oil and gas tax revenues that typically go into the ESF will be deposited to

the state highway fund. The amendment did not create any new taxes or fees.

Economic Outlook

Texas possesses advantages—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 for many years. These advantages remain and will allow the state's economy to continue to grow. Despite the headwinds presented by falling oil prices and by international economic and political challenges, the Texas economy, as measured by real gross state product is projected to grow by 3.1 percent in calendar 2015 and by a further 3.6 percent in 2016.

Texas personal income is expected to increase by 5.5 percent in calendar 2014 and is projected to continue to increase over the next two years, by 3.9 percent in 2015, and by 5.9 percent in 2016. Underlying this income growth is the growth in Texas population. Recent estimates by the U.S. Census Bureau show that eight of the nation's 15 most rapidly growing large incorporated cities are in Texas. Texas' population will grow by roughly 409,000 per year over the next two years, to average 27.7 million in 2016.

The Texas unemployment rate is expected to improve marginally over the next two years. Job growth will outpace growth in the labor force, allowing the projected unemployment rate to decline from an estimated average of 5.2 percent in calendar 2014 to 5.0 percent in 2015 and 2016.

Total Texas nonfarm employment is expected to grow at an annual rate of 3.2 percent in calendar 2014. In 2015, employment growth is projected to slow to 1.5 percent. In 2016 employment growth is expected to recover somewhat, to 2.4 percent.

Texas Industry Performance

All of the 11 major industries of the Texas economy had net employment growth during the 12 month

period ending November 2014. Employment in goods-producing industries (manufacturing, mining/logging and construction) expanded by 5.3 percent, while employment in service-providing industries grew by 3.6 percent. Growth in the goods-producing industries was led by construction (up 47,300 jobs) and mining and logging (30,100), while service-providing employment growth was led by the trade, transportation and utilities industry (89,600).

Professional and business services (66,900), education and health services (65,500) and leisure and hospitality (46,100) also had large increases in employment. The industry that saw the largest percentage gain in employment was mining and logging (10.2 percent), while the other services industry had the smallest (1.6 percent).

Manufacturing

According to the U.S. Census Bureau, the value of Texas exports in 2013 was a record \$280 billion, an increase of 5.4 percent from 2012. In calendar 2014, through November, Texas exports increased by an additional 4.3 percent over the corresponding period in 2013. Texas is the nation's leading exporting state, a position it has held since 2002. Those exports are a major boost to Texas manufacturing, notably for companies producing chemicals, computers and electronics, petroleum products, industrial machinery and transportation equipment. Total Texas manufacturing employment was 891,900 in November 2014.

Construction

Housing activity also increased substantially. Total single-family building permits issued in the year ending November 2014 were up 9.3 percent from the year ending November 2013, while multi-family permits were up 16.5 percent. According to Multiple Listing Service data from the Texas A&M Real Estate Center, the median sale price for an existing single-family home in Texas over the 12 months ending November 2014 was

7.4 percent higher than the corresponding value over the 12 months ending November 2013. In November 2014, existing homes for sale spent only 3.3 months on the market, a substantial improvement from the recent high of 8.2 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. After a decades-long decline in production volumes, reaching a low of 343 million barrels in calendar 2007, the trend reversed its course. Production reached 895 million barrels in 2014, largely due to the development of the Eagle Ford Shale in South Texas. In addition to the substantial exploration activities within the state and in the Gulf of Mexico, many of the nation's largest oil and natural gas refining and distribution companies are headquartered in Texas, and there are a large number of energy-related jobs in other industries associated with those activities.

Major Legislative Initiatives

The 2013 session of the Texas Legislature enacted a variety of new laws affecting state revenues and finances. Legislation in the following areas is expected to have significant revenue implications.

Alternative Fuels

First sellers who are licensed suppliers, permissive suppliers, distributors, blenders or importers have the option to collect and remit the 20-cent-per-gallon diesel fuel tax on biodiesel and renewable diesel, and on the volume of water, fuel ethanol, biodiesel and renewable diesel blended with petroleum diesel. In addition, the reporting requirements for the first seller, blender or importer who uses this option have been reduced. Diesel fuel tax exemptions on a subsequent sale are prohibited. License holders or other purchasers are not entitled to a refund or credit on a subsequent sale.

Franchise Tax

Taxable entities with total revenue of no more than \$1 million for a reporting period would continue to have no franchise tax liability for that period. Taxable entities can determine "margin" as total revenue less \$1 million.

Expansion of the definition of "retail trade" for purposes of the franchise tax allows auto repair shop services and certain rental activities to calculate franchise tax liability using a tax rate of less than .05 percent for 2014 and 2015 tax years. The expansion also allows Non-EZ filers to receive a temporary franchise tax rate reduction of 2.5 percent off the 1 percent base tax rate in fiscal 2014 and a certification estimate-contingent 5 percent reduction in fiscal 2015.

Taxable entities that engage in internet hosting or broadcasting may reduce their taxable margin for the revenue received from Texas customers to whom the service is provided. Taxable entities that relocate to Texas may receive a deduction from the apportioned margin for certain moving expenses.

Effective calendar year 2015 entities that perform certified rehabilitation of historic structures may receive transferable franchise tax credits for eligible costs and expenses incurred.

Insurance

The Comptroller's office is required to assess and collect, from property and casualty insurers, the lesser of the amount appropriated from the volunteer fire department assistance fund or \$30 million.

In addition, other legislation outlines the licensing of captive insurance companies, authorizing fees and authorizing and imposing taxes. For example, it allows captive insurers to obtain a certificate of authority from the Texas Department of Insurance and establishes 0.5 percent as the licensed captive premium tax rate with a minimum premium tab of \$7,500 and a maximum of \$200,000.

Research

The Tax Code was amended to provide for a sales tax exemption and franchise tax credit for certain research and development activities until December 31, 2026. In addition, there is an increased franchise tax credit for taxable entities that contract with public or private institutions of higher education for the performance of qualified research.

Telecommunications

Cable, Internet and telecommunications providers are able to claim a refund for state sales and use taxes paid on the purchase, lease or rental of tangible personal property directly used in the distribution of cable television service, Internet access or telecommunications services.

Certain items used to operate a qualifying data center are exempt from state sales and use tax for 10 to 15 years, depending on the capital investment in the center made by the owner, operator or occupant. The exemptions require a capital investment of \$200 million or more over five years and the creation of at least 20 permanent, full-time qualifying jobs. The new law does not apply to data centers with agreements to limit property tax appraised values.

Transportation

A portion of tax collections from the state's production of oil and gas will be annually disbursed to the state highway fund after certain statutory balance requirements are met. Revenue effects will occur in 2015 and beyond, yielding an additional \$1.7 billion for the state highway fund in fiscal 2015 alone.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its Comprehensive

Annual Financial Report for the fiscal year ended Aug. 31, 2013. 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 Comprehensive Annual Financial Report 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 24 years (fiscal years ended August 1990 through 2013). 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 literally 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



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, 2013

Executive Director/CEO



State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive Greg Abbott
Governor

Dan Patrick
Lieutenant Governor

Glenn Hegar
Comptroller of Public Accounts

Ken Paxton
Attorney General

George P. Bush
Land Commissioner

Sid Miller
Commissioner of Agriculture

Christi Craddick
David J. Porter
Ryan Sitton
Railroad Commissioners

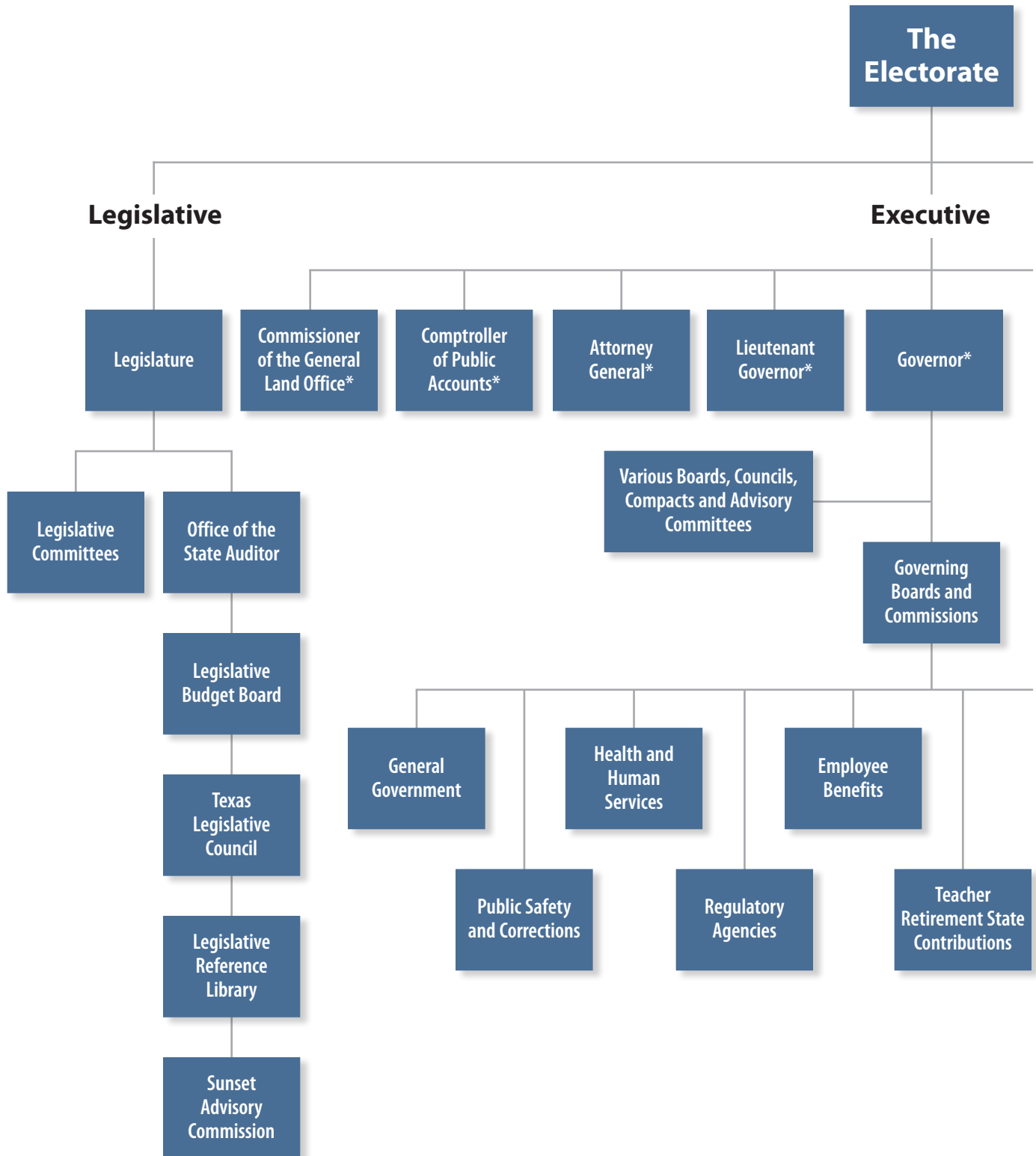
Legislative Lieutenant Governor Dan Patrick
President of the Senate

Joseph R. Straus, III
Speaker of the House of Representatives

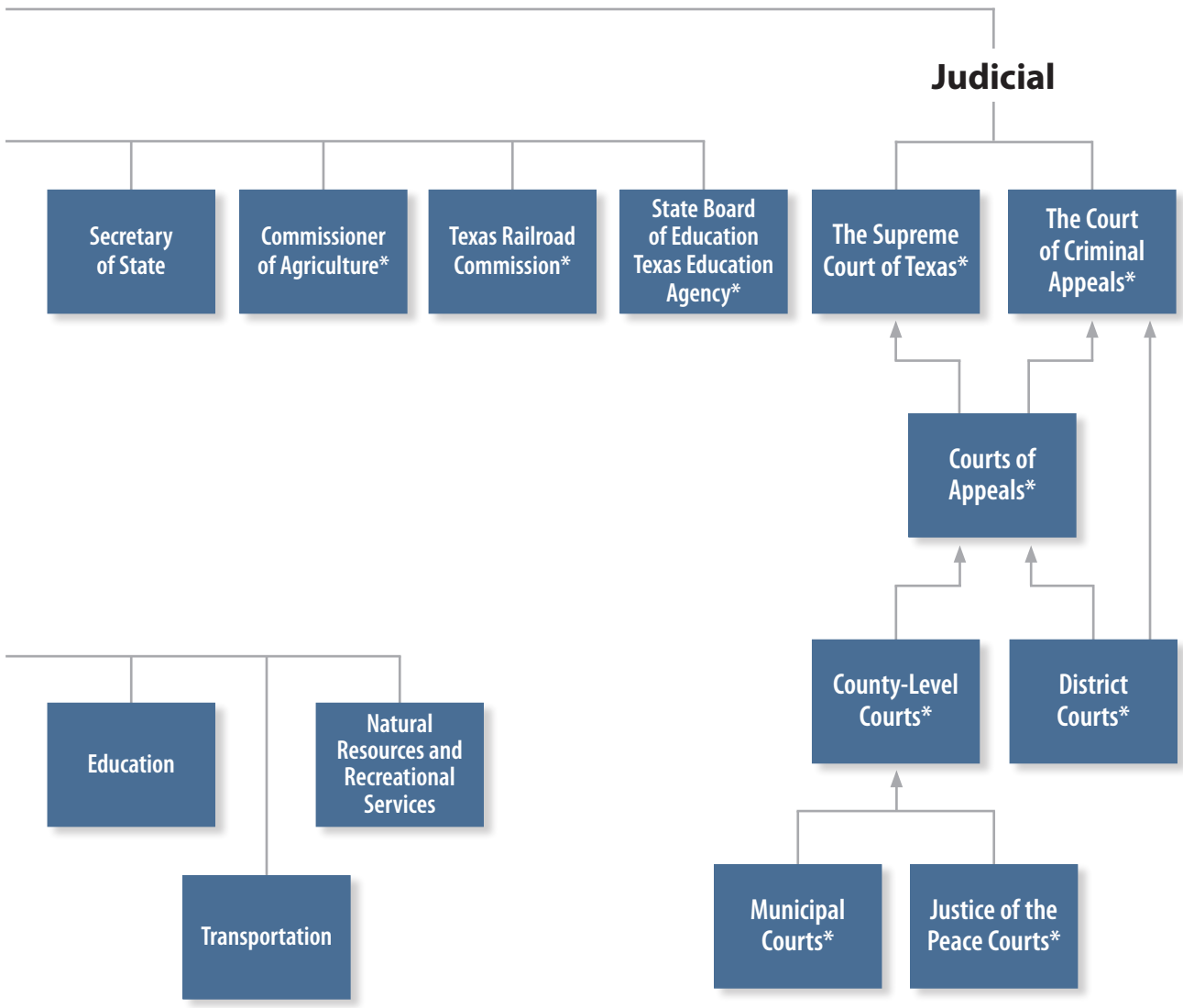
Judicial Nathan L. Hecht
Chief Justice of the Supreme Court

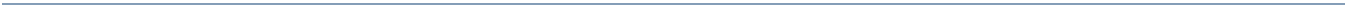
Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices

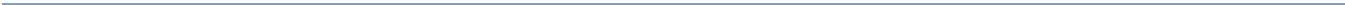




Section Two

Financial Section







Independent Auditor's Report

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Joe Straus III, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We did not audit the financial statements of the following entities:

- The Texas Department of Transportation, a component of the State of Texas, which is included in the governmental and proprietary funds. The Texas Department of Transportation constitutes 93 percent of the expenditures for the State Highway Fund, a major governmental fund. The Texas Department of Transportation also constitutes 55 percent of the assets of governmental activities.
- The University of Texas System, a component of the State of Texas, which constitutes 70 percent of the assets of Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 54 percent of the assets of the business-type activities.
- The Texas Lottery Commission, a component of the State of Texas, whose Lottery Fund is a major enterprise fund that constitutes 17 percent of the operating revenues of the business-type activities.

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SAO Report No. 15-321

The statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas, as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Economic Stabilization Fund

As discussed in Note 13, the economic stabilization fund balance was \$6.7 billion as reported in the governmental fund financial statements as unassigned fund balance as of August 31, 2014. That amount consisted of cash and cash equivalents.

As discussed in Note 16, on November 4, 2014, Texas voters approved a ballot measure that created a constitutional amendment related to the economic stabilization fund. Under the amendment, a portion of oil and gas tax revenues that typically goes into the economic

stabilization fund will be deposited to the state highway fund. That amendment is effective for fiscal year 2015.

Investments with Values that Are Not Readily Determined

As discussed in Note 3, the financial statements include certain investments valued at approximately \$79 billion as of August 31, 2014, whose fair values have been estimated by management in the absence of readily determinable fair values.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, and the schedules of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the State's financial statements. The combining financial statements and schedules, introductory section, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and schedules are fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



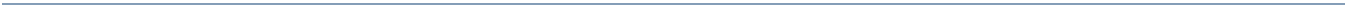
John Keel, CPA
State Auditor

February 20, 2015

Section Two (continued)

Management's Discussion and Analysis





Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2014. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2014 report.

Highlights Government-wide

Net Position

The assets and deferred outflows of resources of the state of Texas exceeded its liabilities and deferred inflows of resources by \$175.6 billion as of Aug. 31, 2014, an increase of \$17 billion or 10.7 percent from fiscal 2013. The majority of the increase is primarily due to an increase of \$16.2 billion in restricted net position. The net position is comprised of \$79.8 billion in net investment in capital assets, \$81.7 billion in restricted, and \$14.1 billion in unrestricted.

Fund Level

Governmental Funds

As of Aug. 31, 2014, the state's governmental funds reported a combined ending fund balance of \$62.7 billion, an increase of \$11.2 billion or 21.7 percent from fiscal 2013, primarily due to an increase in tax revenues. The state reported a positive unassigned fund balance of \$10.3 billion in fiscal 2014.

Proprietary Funds

The proprietary funds reported a net position of \$56.2 billion as of Aug. 31, 2014, an increase of \$7.3 billion or 14.9 percent from fiscal 2013, primarily due to a decrease in interest and investment income.

Long-Term Debt

The state's total bonds outstanding increased by \$60.7 million or .15 percent during fiscal 2014. This

amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2014, the state issued bonds totaling \$6.8 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial position and activities in four parts:

- MD&A (this part)
- The basic financial statements
- Required supplementary information other than MD&A
- Other supplementary information presenting combining statements and schedules

The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements, which provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of account-

ing. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

The statement of net position combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources.

Net position represents one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-type and component units). These costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net position and the statement of activities divide the state's activities into the following three types.

Governmental Activities

The state's basic services are reported here, including 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. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's institutions of higher education are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state has 29 discretely presented component units. Financial information for these entities is presented separately in the supplemental statements and in the notes.

Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide financial statements due to the perspective and basis of accounting used. Funds are presented on the fund-level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on the flow of money into and out of the funds and amounts remaining at fiscal year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures

cash and other assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the governmental activities column reported on the government-wide statement of net position and the government-wide statement of activities, and the governmental funds reported on the fund financial statements. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

The employees life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, the unemployment trust fund and the lottery fund are reported as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only

for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance its operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Position

Total assets of the state as of Aug. 31, 2014, were \$260.3 billion, an increase of \$21.8 billion or 9.1 percent. Total liabilities as of Aug. 31, 2014, were \$80 billion, an increase of \$5 billion or 6.8 percent. Net position was affected by a number of factors. All cash and cash equivalents on the Statement of Net Position increased by \$2.7 billion from fiscal 2013. Unrestricted noncurrent investments increased by \$7.6 billion. The state's bonded indebtedness was \$40.9 billion, which included new issuances of \$6.8 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$7.1 billion in bonded debt was retired or refunded. Net position was \$175.6 billion in fiscal 2014, an increase of \$17 billion or 10.7 percent. Of the state's net position, \$79.8 billion was net investment in capital assets, while \$81.7 billion was restricted by the state constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was \$14.1 billion. The majority of the net position increase is primarily due to an increase of \$16.2 billion in restricted net position.

Statement of Net Position

August 31, 2014 and 2013 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
ASSETS						
Assets Other Than Capital Assets	\$ 74,110,983	\$ 65,054,470	\$ 73,306,854	\$ 65,626,393	\$ 147,417,837	\$ 130,680,863
Capital Assets	85,693,336	82,159,770	27,158,624	25,648,266	112,851,960	107,808,036
Total Assets	<u>159,804,319</u>	<u>147,214,240</u>	<u>100,465,478</u>	<u>91,274,659</u>	<u>260,269,797</u>	<u>238,488,899</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>76,655</u>	<u>0</u>	<u>576,569</u>	<u>432,091</u>	<u>653,224</u>	<u>432,091</u>
LIABILITIES						
Current Liabilities	12,146,740	10,497,004	12,107,507	11,015,563	24,254,247	21,512,567
Noncurrent Liabilities	23,102,244	21,721,743	32,741,159	31,784,828	55,843,403	53,506,571
Total Liabilities	<u>35,248,984</u>	<u>32,218,747</u>	<u>44,848,666</u>	<u>42,800,391</u>	<u>80,097,650</u>	<u>75,019,138</u>
DEFERRED INFLOWS OF RESOURCES	<u>5,226,734</u>	<u>5,254,633</u>	<u>16,063</u>	<u>17,499</u>	<u>5,242,797</u>	<u>5,272,132</u>
NET POSITION						
Net Investment in Capital Assets	68,739,464	64,095,431	11,055,379	10,329,909	79,794,843	74,425,340
Restricted	41,659,436	34,406,773	40,020,583	31,092,846	81,680,019	65,499,619
Unrestricted	9,006,356	11,238,656	5,101,356	7,466,105	14,107,712	18,704,761
Total Net Position	<u>\$ 119,405,256</u>	<u>\$ 109,740,860</u>	<u>\$ 56,177,318</u>	<u>\$ 48,888,860</u>	<u>\$ 175,582,574</u>	<u>\$ 158,629,720</u>

Changes in Net Position

The state's net position as of Aug. 31, 2014 increased by \$17 billion. The state earned program revenues of \$90.2 billion and general revenues of \$53.9 billion, for total revenues of \$144.1 billion, an increase of \$12.5 billion or 9.5 percent from fiscal 2013. The major components of this increase were tax revenues, which had an increase of \$2.8 billion and operating grants and contributions, with an increase of \$7.8 billion. Federal revenues increased \$771 million and interest and investment income increased \$6.1 billion.

The expenses of the state were \$127.1 billion, an increase of \$5.7 billion or 4.7 percent. The expense fluctuations in governmental activities are largely attributable to a \$3.1 billion increase in health and human services and a \$1.8 billion increase in education services. In business-type activities there was a \$1.1 billion increase in education services which was offset by a decrease in health and human services of \$1.1 billion.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds.

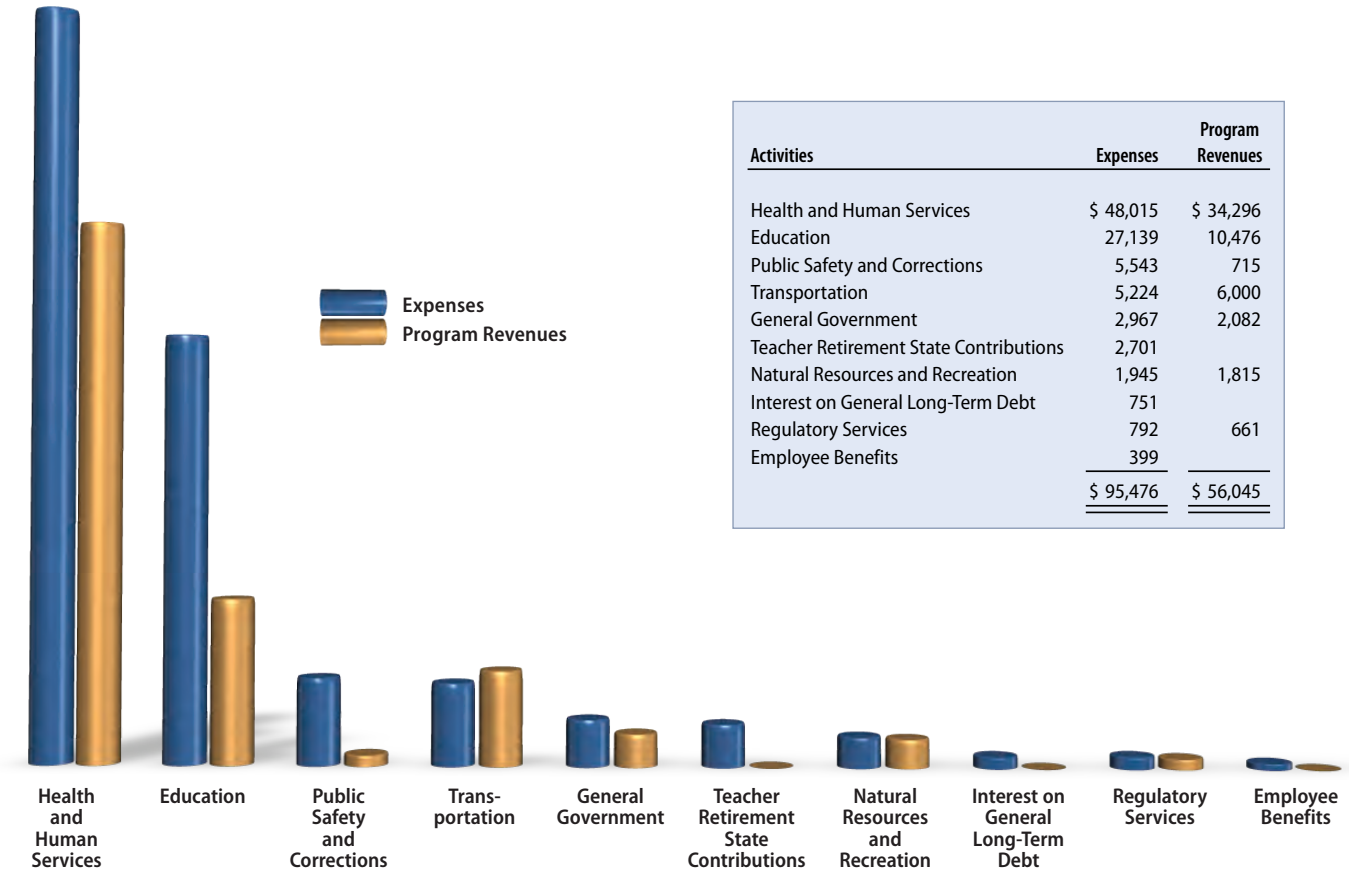
Changes in Net Position

For the Fiscal Years Ended August 31, 2014 and 2013 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
REVENUES						
Program Revenues:						
Charges for Services	\$ 9,042,614	\$ 8,051,224	\$ 20,503,577	\$ 19,844,127	\$ 29,546,191	\$ 27,895,351
Operating Grants and Contributions	46,903,926	42,868,081	13,120,148	9,320,966	60,024,074	52,189,047
Capital Grants and Contributions	96,802	31,248	522,211	350,922	619,013	382,170
Total Program Revenues	<u>56,043,342</u>	<u>50,950,553</u>	<u>34,145,936</u>	<u>29,516,015</u>	<u>90,189,278</u>	<u>80,466,568</u>
General Revenues:						
Taxes	50,916,366	48,118,538			50,916,366	48,118,538
Unrestricted Investment Earnings	300,423	142,724	165,597	11,566	466,020	154,290
Settlement of Claims	574,082	640,565	99	3,187	574,181	643,752
Gain on Sale of Capital Assets	1,865	376	11,469		13,334	376
Gain on Other Financial Activity	6,708				6,708	
Other General Revenues	1,755,856	2,045,961	195,964	164,538	1,951,820	2,210,499
Total General Revenues	<u>53,555,300</u>	<u>50,948,164</u>	<u>373,129</u>	<u>179,291</u>	<u>53,928,429</u>	<u>51,127,455</u>
Total Revenues	<u>109,598,642</u>	<u>101,898,717</u>	<u>34,519,065</u>	<u>29,695,306</u>	<u>144,117,707</u>	<u>131,594,023</u>
EXPENSES						
General Government	2,967,443	2,873,598	122,356	149,735	3,089,799	3,023,333
Education	27,138,847	25,321,607	24,896,493	23,828,365	52,035,340	49,149,972
Employee Benefits	399,454	437,939			399,454	437,939
Teacher Retirement State Contributions	2,700,533	2,492,310			2,700,533	2,492,310
Health and Human Services	48,015,340	44,888,201	2,759,024	3,854,869	50,774,364	48,743,070
Public Safety and Corrections	5,542,840	5,316,819	95,749	91,331	5,638,589	5,408,150
Transportation	5,223,720	5,384,628	248,827	228,769	5,472,547	5,613,397
Natural Resources and Recreation	1,944,520	1,850,253	315,963	319,094	2,260,483	2,169,347
Regulatory Services	792,267	461,418			792,267	461,418
Interest on General Long-Term Debt	750,946	741,397			750,946	741,397
Lottery			3,164,120	3,185,869	3,164,120	3,185,869
Total Expenses	<u>95,475,910</u>	<u>89,768,170</u>	<u>31,602,532</u>	<u>31,658,032</u>	<u>127,078,442</u>	<u>121,426,202</u>
Excess (Deficiency) Before Contributions and Transfers	<u>14,122,732</u>	<u>12,130,547</u>	<u>2,916,533</u>	<u>(1,962,726)</u>	<u>17,039,265</u>	<u>10,167,821</u>
Capital Contributions	(152,616)	475			(152,616)	475
Contributions to Permanent and Term Endowments			238,951	184,108	238,951	184,108
Transfers	(4,130,757)	(4,028,026)	4,130,757	4,028,026		
Change in Net Position	<u>9,839,359</u>	<u>8,102,996</u>	<u>7,286,241</u>	<u>2,249,408</u>	<u>17,125,600</u>	<u>10,352,404</u>
Net Position, Beginning Balance	109,740,860	101,772,176	48,888,860	46,804,735	158,629,720	148,576,911
Restatements	(174,963)	(134,312)	2,217	(165,283)	(172,746)	(299,595)
Net Position, Beginning Balance, as Restated	<u>109,565,897</u>	<u>101,637,864</u>	<u>48,891,077</u>	<u>46,639,452</u>	<u>158,456,974</u>	<u>148,277,316</u>
Net Position, Ending Balance	<u>\$ 119,405,256</u>	<u>\$ 109,740,860</u>	<u>\$ 56,177,318</u>	<u>\$ 48,888,860</u>	<u>\$ 175,582,574</u>	<u>\$ 158,629,720</u>

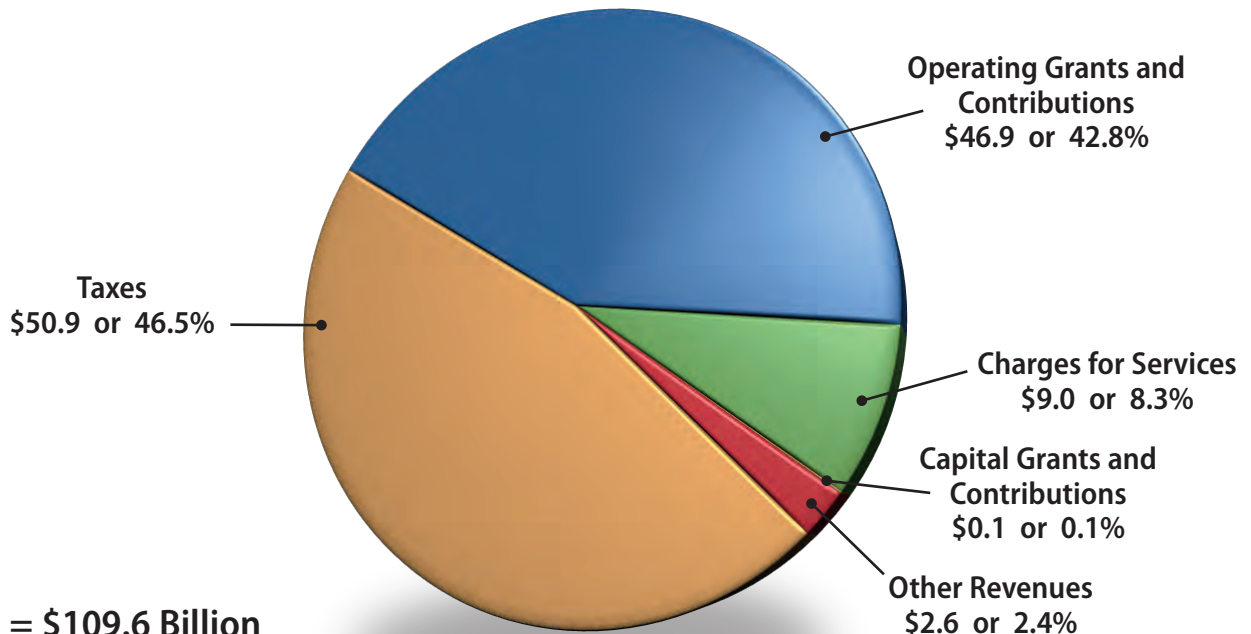
Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2014 (In Millions)



Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2014 (In Billions)*

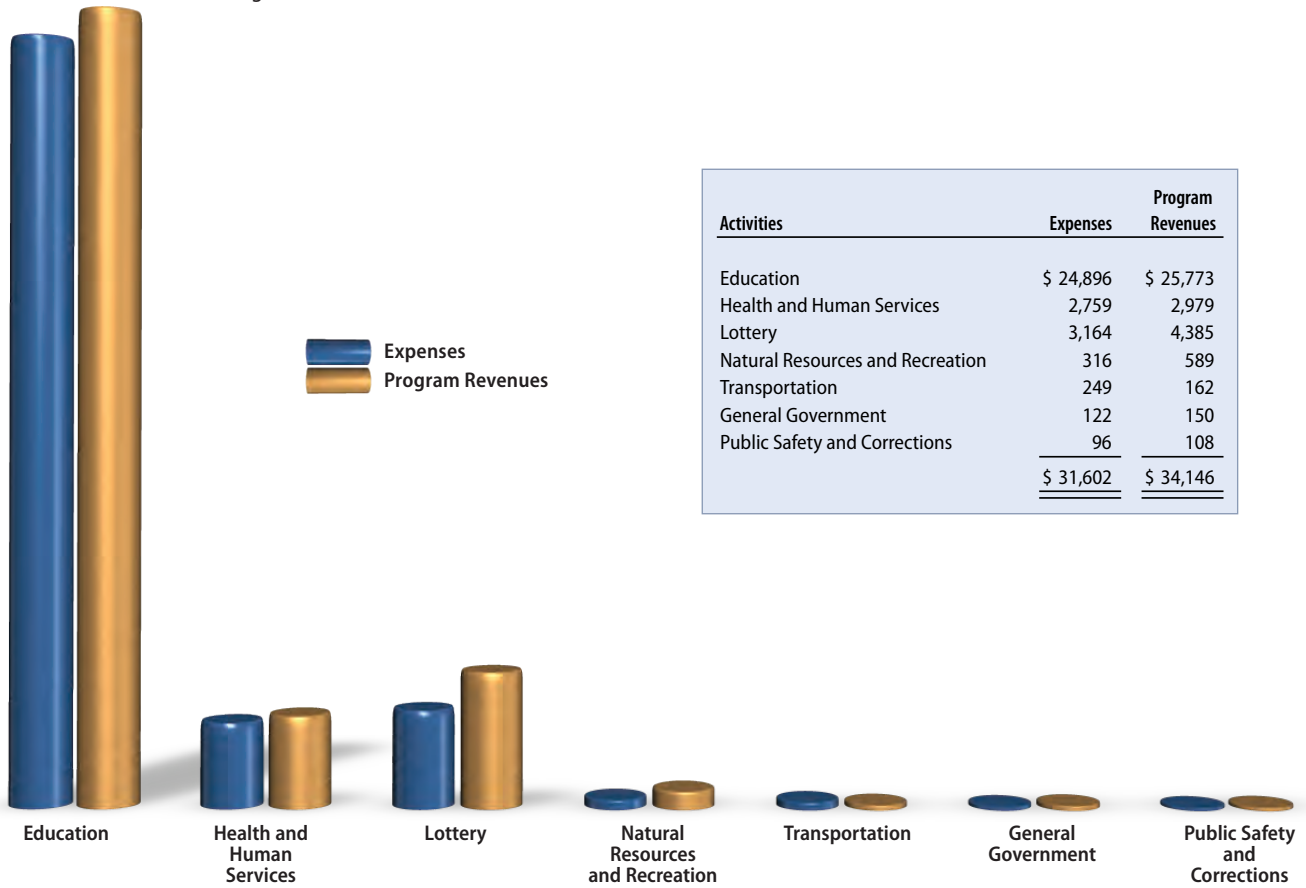


Total = \$109.6 Billion

* Totals may not add due to rounding

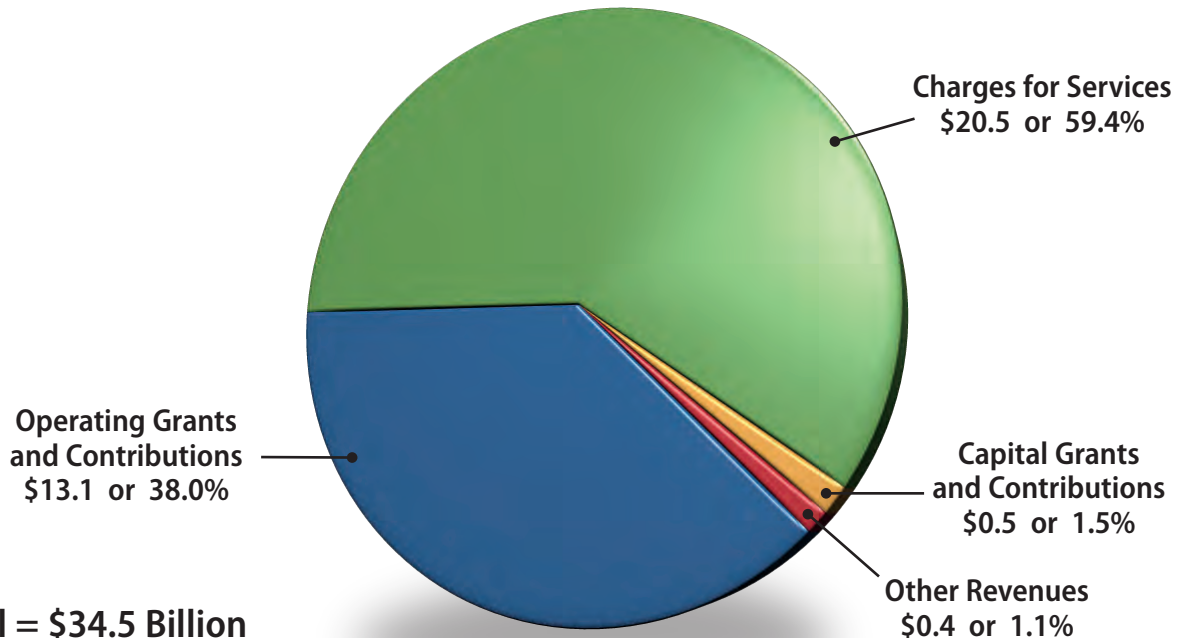
Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2014 (In Millions)



Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2014 (In Billions)*



Total = \$34.5 Billion

* Totals may not add due to rounding

Governmental Activities

The governmental activities program revenue was \$56 billion, including charges for services of \$9 billion, operating grants and contributions of \$47 billion and capital grants and contributions of \$96.8 million. The largest change, a \$4 billion increase, was for operating grants and contributions. Taxes had increases of \$2.8 billion from general revenue sources, with the largest increase in sales tax revenue.

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 2,967,443	\$ 885,796
Education	27,138,847	16,663,216
Employee Benefits	399,454	399,384
Teacher Retirement State Contributions	2,700,533	2,700,533
Health and Human Services	48,015,340	13,719,261
Public Safety and Corrections	5,542,840	4,828,189
Transportation	5,223,720	(776,032)
Natural Resources and Recreation	1,944,520	130,012
Regulatory Services	792,267	131,263
Interest on General Long-Term Debt	750,946	750,946
Total	<u>\$ 95,475,910</u>	<u>\$ 39,432,568</u>

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 122,356	\$ (27,651)
Education	24,896,493	(876,043)
Health and Human Services	2,759,024	(219,834)
Public Safety and Corrections	95,749	(11,795)
Transportation	248,827	86,546
Natural Resources and Recreation	315,963	(273,416)
Lottery	3,164,120	(1,221,211)
Total	<u>\$ 31,602,532</u>	<u>\$ (2,543,404)</u>

Governmental activities expenses were \$95.5 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation function which reported a slight surplus. The education function and the health and human services function account for 78.7 percent of governmental activities expenses and 77 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

Business-Type Activities

Business-type activities generated program revenue of \$34.1 billion, including charges for services of \$20.5 billion, operating grants and contributions of \$13 billion and capital grants and contributions of \$522 million. The total expenses for business-type activities were \$31.6 billion. The largest changes occurred in education, with a \$1.1 billion increase for colleges and universities, and in the health and human services function, where there was a decrease of \$1.1 billion in health and human services. There was an increase in Net Position in the government's business-type activities of \$7.3 billion in comparison to the prior year's increase of \$2.1 billion.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2014, governmental funds reported fund balances of \$62.7 billion. The general fund reported a positive \$17.8 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2014, was \$17.8 billion, an increase of \$2.7 billion from fiscal 2013, mostly due to an increase in tax revenues.

The state constitution, state statute, and federal rule or bond covenants constrains \$6.3 billion. The unassigned fund balance was \$10.9 billion, which includes \$6.7 billion in the economic stabilization fund, commonly called “the rainy day fund”. Contributing to the higher balance was an increase of \$3.7 billion in tax revenues.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2014, was \$3.7 billion, an increase of \$3.6 billion from \$100.2 million as of Aug. 31, 2013. Cash and cash equivalents decreased \$261.2 million as natural resource costs increased by \$3 billion.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2014, totaled \$35 billion, an increase of \$4.3 billion since Aug. 31, 2013. This increase was primarily attributable to an increase in valuation of investments of \$3.7 billion. Value in the fund provided \$838 million in transfers to provide funding for public education. The PSF also supports the state’s public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2014, a total of \$58.4 billion in school district bond issues were guaranteed.

Proprietary Funds

Proprietary funds reported net position of \$56.2 billion as of Aug. 31, 2014, an increase of \$7.3 billion from fiscal 2013. The state’s public colleges and universities hold 89.4 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities’ net position as of Aug. 31, 2014, totaled \$50.2 billion, an increase of \$6.4 billion from Aug. 31, 2013. There was an increase of

\$4.4 billion in net income before capital contributions, endowments and transfers and \$545 million in capital contributions and transfers from fiscal 2013. There was an increase in interest and investment income of \$4.2 billion due to favorable market performance. There also was \$1.2 billion collected from land mineral income, such as oil royalties, deposited to the Permanent University Fund (PUF) for the benefit of the University of Texas and Texas A&M University Systems. The PUF’s net position after distributions increased by \$2.5 billion from \$14.9 billion in fiscal 2013 to \$17.4 billion in fiscal 2014. This endowment fund contributes to the support of 24 institutions in the University of Texas System and 23 in the Texas A&M University System.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$1.2 billion as of Aug. 31, 2014, an increase of \$536.5 million from \$677.3 million as of Aug. 31, 2013. During fiscal 2014, unemployment taxes collected decreased \$216.9 million from \$2.7 billion 2013 while federal contributions decreased \$1 billion in 2014. Benefits payments dropped \$1.1 billion as the unemployment rate continued to drop and the federally funded emergency unemployment compensation program expired.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state’s foundation school fund. The lottery fund had a net position of \$61.1 million on Aug. 31, 2014, a slight increase above the \$58.5 million at the end of fiscal 2013. The Commission recorded its highest level of total sales in its 20-plus history during fiscal 2014, with collections of \$4.4 billion. Payments to state agencies totaled \$1.2 billion, the highest level of revenue transfers in the Commission’s history.

Fiduciary Funds

Fiduciary funds reported \$175.8 billion in net position as of Aug. 31, 2014, an increase of \$16.2 billion from \$159.6 billion in fiscal 2013, a 10.2 percent increase.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$159.6 billion, an increase of \$17.6 billion from the \$142 billion reported in fiscal 2013. The majority of plan assets are held as investments for the pension funds. Additions from all sources increased \$11.6 billion from fiscal 2013, while benefit payments increased \$801.3 million. Increases in additions are due primarily to more favorable conditions in the financial markets and legislative increases to state contributions. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was 16.9 percent and 14.7 percent, respectively, compared to the previous year's returns of 9 and 10.1 percent.

External Investment Trust Fund

The Treasury Safekeeping Trust is the only external investment trust fund. It administers and invests funds belonging to state and local entities as well as providing direct access to services of the Federal Reserve System. The Trust reported a total net position of \$12.7 billion in fiscal 2014, a decrease of \$1.8 billion from fiscal 2013. The decrease in net position is due to a decrease in both TexPool and TexPool Prime revenue.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$3.4 billion in fiscal 2014, an increase of \$278.5 million from fiscal 2013. Additions from all sources of \$687.8 million exceeded total deductions of \$409.3 million. The net increase of \$278.5 million is an increase of 37.9 percent from the net increase of \$201.9 million in fiscal 2013.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons.

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$1.8 billion.

There was a negative \$1.6 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with taxes, sales of goods and services revenues, which reported a \$1 billion and \$636 million difference, respectively.

The largest negative expenditure variances related to the education function and the health and human services function.

Capital Assets – Net of Depreciation and Amortization

August 31, 2014 and 2013 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land and Land Improvements	\$ 10,844,164	\$ 10,246,645	\$ 1,737,988	\$ 1,683,668	\$ 12,582,152	\$ 11,930,313
Infrastructure	62,496,935	62,591,370	2,785,800	2,775,670	65,282,735	65,367,040
Construction in Progress	9,035,700	5,914,487	3,153,661	2,257,927	12,189,361	8,172,414
Buildings and Building Improvements	2,174,347	2,332,550	15,145,336	14,930,337	17,319,683	17,262,887
Facilities and Other Improvements	61,597	67,170	1,078,053	1,001,063	1,139,650	1,068,233
Furniture and Equipment	306,637	250,877	1,617,537	1,579,924	1,924,174	1,830,801
Vehicles, Boats and Aircraft	422,771	425,643	79,861	76,602	502,632	502,245
Other Capital Assets	178,161	168,551	1,236,098	985,264	1,414,259	1,153,815
Intangible Capital Assets, Net	173,024	162,477	324,290	357,811	497,314	520,288
Total Capital Assets	<u>\$ 85,693,336</u>	<u>\$ 82,159,770</u>	<u>\$ 27,158,624</u>	<u>\$ 25,648,266</u>	<u>\$ 112,851,960</u>	<u>\$ 107,808,036</u>

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2014, the state had \$112.9 billion in net capital assets. This total represents an increase of \$5 billion in total capital assets or 4.7 percent from fiscal 2013. Included in this amount is an increase to construction in progress of \$3.1 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$220.1 million to buildings and building improvements.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$27.1 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state.

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the

government-wide statement of net position. Additional detail is also found in Note 2 for capital assets.

The state accounts for its system of roads and highways using the depreciation method. Prior use of the modified approach was discontinued and replaced with the depreciation method.

Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's and AAA by Fitch Ratings as of August 2014. During fiscal 2014, Texas' state agencies and institutions of higher education issued \$6.8 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$2.8 billion of state bonds issued in fiscal 2014. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$4 billion is due to new issuances of revenue bonds,

Outstanding Bonded Debt

August 31, 2014 and 2013 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
General Obligation Bonds Payable	\$ 12,052,116	\$ 12,089,019	\$ 3,765,126	\$ 3,669,914	\$ 15,817,242	\$ 15,758,933
Revenue Bonds Payable	4,661,544	4,099,579	20,403,923	20,963,515	25,065,467	25,063,094
Total Bonds Payable	<u>\$ 16,713,660</u>	<u>\$ 16,188,598</u>	<u>\$ 24,169,049</u>	<u>\$ 24,633,429</u>	<u>\$ 40,882,709</u>	<u>\$ 40,822,027</u>

which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$539.3 million in general obligation bonds and \$936.5 million in revenue bonds. Also, \$2.4 billion in general obligation bonds and \$3.3 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2014, was \$15.8 billion. This represents an increase of \$58 million or .37 percent from fiscal 2013. An additional \$15.8 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$25.1 billion, which is an increase of \$2.4 million or .01 percent from fiscal 2013. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

Economic Condition

In 2014 the Texas economy continued its post-recession expansion, adding 441,200 nonfarm jobs over the 12 month period ending November 2014, an increase of 3.9 percent. Private sector employment grew by 4.3 percent, while government employment (federal, state and local combined) grew by 1.7 percent. In addition to adding more jobs than any state over the 12 month period, Texas had the lowest unemployment rate among the 10 most populous states as of November 2014. The comparatively vibrant economic conditions

during a slow national recovery have resulted in an influx of new residents into Texas, adding an estimated 179,000 net new residents (inbound arrivals less out-bound residents) during the year. Even with the growing labor force, the Texas economy produced sufficient jobs to allow the unemployment rate to fall from 6.1 percent in November 2013 to 4.9 percent in November 2014. The Texas unemployment rate has remained below the national rate since January 2007.

Personal income in Texas grew by 5.6 percent from the third quarter of 2013 to the third quarter of 2014, according to the U.S. Bureau of Economic Analysis. This was the second highest rate of growth among all the states, exceeded only by the considerably less-populated state of Alaska. Personal income growth for the nation as a whole was 3.9 percent over this period.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.

Section Two (continued)

Basic Financial Statements



STATE OF TEXAS

Statement of Net Position

August 31, 2014 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 24,416,055	\$ 5,270,731	\$ 29,686,786	\$ 977,360
Short-Term Investments	563,726	1,104,766	1,668,492	122,089
Securities Lending Collateral	1,215,057	1,159,262	2,374,319	
Receivables:				
Taxes	3,602,621		3,602,621	
Federal	2,357,841	852,441	3,210,282	1,031
Other Intergovernmental	633,056	107,274	740,330	6,705
Accounts	849,606	2,029,369	2,878,975	23,176
Interest and Dividends	88,529	153,836	242,365	2,585
Gifts		282,747	282,747	
Investment Trades	6,999	258,385	265,384	
Other	84,512	449,430	533,942	456
From Fiduciary Funds	174,260		174,260	
Due From Component Units (Note 12)	309		309	
Inventories	358,572	168,054	526,626	3,505
Prepaid Items	1,928	139,600	141,528	51,154
Loans and Contracts	66,465	498,394	564,859	621
Other Current Assets		377,315	377,315	58,186
Restricted:				
Cash and Cash Equivalents	21,916	4,105,565	4,127,481	5,848
Short-Term Investments		625,065	625,065	
Loans and Contracts	106,839	77,651	184,490	2,091
Total Current Assets	<u>34,548,291</u>	<u>17,659,885</u>	<u>52,208,176</u>	<u>1,254,807</u>
Noncurrent Assets:				
Internal Balances (Note 12)	31,441	(31,441)		
Loans and Contracts	1,480,642	4,650,391	6,131,033	6,955
Investments	36,207,568	10,484,512	46,692,080	416,021
Receivables:				
Taxes	27,214		27,214	
Gifts		831,755	831,755	17,249
Other	280,305	50	280,355	1,489
Restricted:				
Cash and Cash Equivalents		103,392	103,392	12,721
Short-Term Investments		425	425	
Investments		34,729,071	34,729,071	562,106
Receivables		175,889	175,889	
Loans and Contracts	1,303,744	3,207,657	4,511,401	8,647
Other	88,268	12,144	100,412	
Assets Held in Trust		4,628	4,628	7,200
Hedging Derivative Asset (Note 7)		5,934	5,934	
Intangible Assets – Service Concession				
Arrangements (Note 27)		1,431,210	1,431,210	
Other Noncurrent Assets	143,510	41,352	184,862	15,392
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	19,990,525	5,590,926	25,581,451	510
Depreciable or Amortizable, Net	65,702,811	21,567,698	87,270,509	26,839
Total Noncurrent Assets	<u>125,256,028</u>	<u>82,805,593</u>	<u>208,061,621</u>	<u>1,075,129</u>
Total Assets	<u>159,804,319</u>	<u>100,465,478</u>	<u>260,269,797</u>	<u>2,329,936</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 28)	<u>76,655</u>	<u>576,569</u>	<u>653,224</u>	<u>0</u>
Total Deferred Outflows of Resources	<u>76,655</u>	<u>576,569</u>	<u>653,224</u>	<u>0</u>

Concluded on the following page

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

STATE OF TEXAS

Statement of Net Position (concluded)

August 31, 2014 (Amounts in Thousands)

LIABILITIES	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Current Liabilities:				
Payables:				
Accounts	\$ 5,260,946	\$ 1,714,504	\$ 6,975,450	\$ 283,154
Payroll	687,160	810,660	1,497,820	778
Other Intergovernmental	331,435	25,078	356,513	
Federal	193	1,905	2,098	
Investment Trades	35,965	541,375	577,340	
Interest	374,380	106,917	481,297	4,475
Tax Refunds (Note 24)	881,088		881,088	
Annuities		8,036	8,036	
To Fiduciary Funds	133,829		133,829	
Internal Balances (Note 12)	654,811	(654,811)		
Due To Primary Government (Note 12)				309
Unearned Revenue	507,675	3,196,949	3,704,624	379,459
Obligations/Reverse Repurchase Agreement	48,078		48,078	
Obligations/Securities Lending	1,274,042	1,159,262	2,433,304	
Claims and Judgments (Note 5)	45,955	22,009	67,964	
Capital Lease Obligations (Note 5, 8)	4,141	5,114	9,255	13
Employees' Compensable Leave (Note 5)	542,640	407,737	950,377	1,703
Notes and Loans Payable (Note 5)	165,231	39,699	204,930	11,999
General Obligation Bonds Payable (Note 5, 6)	534,751	170,773	705,524	
Revenue Bonds Payable (Note 5, 6)	186,141	2,175,858	2,361,999	1,985
Pollution Remediation Obligation (Note 5)	46,439		46,439	
Liabilities Payable From Restricted Assets (Note 5)		509,155	509,155	
Short Term Debt (Note 4)	150,000	1,360,396	1,510,396	
Funds Held for Others		160,548	160,548	188,296
Other Current Liabilities	281,840	346,343	628,183	754,647
Total Current Liabilities	<u>12,146,740</u>	<u>12,107,507</u>	<u>24,254,247</u>	<u>1,626,818</u>
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	85,873	38,186	124,059	
Capital Lease Obligations (Note 5, 8)	29,538	11,794	41,332	6
Employees' Compensable Leave (Note 5)	239,594	366,358	605,952	1,071
Notes and Loans Payable (Note 5)	1,129,535	2,100,787	3,230,322	18,936
General Obligation Bonds Payable (Note 5, 6)	11,517,365	3,594,353	15,111,718	
Revenue Bonds Payable (Note 5, 6)	4,475,403	18,228,065	22,703,468	147,919
Pollution Remediation Obligation (Note 5)	204,388		204,388	
Liabilities Payable From Restricted Assets (Note 5)		2,583,707	2,583,707	
Assets Held for Others		871,410	871,410	
Net Pension Obligation (Note 9)	5,420,548		5,420,548	
Net OPEB Obligation (Note 11)		4,219,114	4,219,114	
Hedging Derivative Liability (Note 7)		488,215	488,215	
Other Noncurrent Liabilities		239,170	239,170	9,675
Total Noncurrent Liabilities	<u>23,102,244</u>	<u>32,741,159</u>	<u>55,843,403</u>	<u>177,607</u>
Total Liabilities	<u>35,248,984</u>	<u>44,848,666</u>	<u>80,097,650</u>	<u>1,804,425</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 28)	5,226,734	16,063	5,242,797	
Total Deferred Inflows of Resources	<u>5,226,734</u>	<u>16,063</u>	<u>5,242,797</u>	<u>0</u>
NET POSITION				
Net Investment in Capital Assets	68,739,464	11,055,379	79,794,843	27,241
Restricted for:				
Education	449,143	2,950,147	3,399,290	
Highways	971,825		971,825	
Debt Service	409,168	391,307	800,475	
Capital Projects	418,390	877,673	1,296,063	
Veterans Land Board Housing Programs		789,370	789,370	
Water Assistance Programs	970,993		970,993	
Unemployment Trust Fund		2,079,503	2,079,503	
Funds Held as Permanent Investments:				
Nonexpendable	13,693,513	23,367,763	37,061,276	199,850
Expendable	22,358,752	6,040,659	28,399,411	59,427
Other	2,387,652	3,524,161	5,911,813	60,883
Unrestricted	9,006,356	5,101,356	14,107,712	178,110
Total Net Position	<u>\$ 119,405,256</u>	<u>\$ 56,177,318</u>	<u>\$ 175,582,574</u>	<u>\$ 525,511</u>

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2014 (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	\$ 2,967,443	\$ 1,142,351	\$ 939,296	\$
Education	27,138,847	801,358	9,674,273	
Employee Benefits	399,454	70		
Teacher Retirement State Contributions	2,700,533			
Health and Human Services	48,015,340	2,894,301	31,396,937	4,841
Public Safety and Corrections	5,542,840	338,239	375,971	441
Transportation	5,223,720	2,492,591	3,417,651	89,510
Natural Resources and Recreation	1,944,520	716,696	1,095,802	2,010
Regulatory Services	792,267	657,008	3,996	
Interest on General Long-Term Debt	750,946			
Total Governmental Activities	<u>95,475,910</u>	<u>9,042,614</u>	<u>46,903,926</u>	<u>96,802</u>
Business-Type Activities:				
General Government	122,356	59,977	90,029	1
Education	24,896,493	13,214,728	12,035,588	522,220
Health and Human Services	2,759,024	2,532,273	446,585	
Public Safety and Corrections	95,749	107,544		
Transportation	248,827	155,019	7,272	(10)
Natural Resources and Recreation	315,963	48,705	540,674	
Lottery	3,164,120	4,385,331		
Total Business-Type Activities	<u>31,602,532</u>	<u>20,503,577</u>	<u>13,120,148</u>	<u>522,211</u>
Total Primary Government	<u>\$ 127,078,442</u>	<u>\$ 29,546,191</u>	<u>\$ 60,024,074</u>	<u>\$ 619,013</u>
COMPONENT UNITS				
Component Units	<u>\$ 2,575,727</u>	<u>\$ 2,729,408</u>	<u>\$ 99,568</u>	<u>\$</u>
Total Component Units	<u>\$ 2,575,727</u>	<u>\$ 2,729,408</u>	<u>\$ 99,568</u>	<u>\$ 0</u>

General Revenues
Taxes:
Sales and Use
Motor Vehicle and Manufactured Housing
Motor Fuels
Franchise
Oil and Natural Gas Production
Insurance Occupation
Cigarette and Tobacco
Other
Unrestricted Investment Earnings
Settlement of Claims
Gain on Sale of Capital Assets
Gain on Other Financial Activity
Other General Revenues
Capital Contributions (Distributions)
Contributions to Permanent and Term Endowments
Transfers - Internal Activities (Note 12)
Total General Revenues, Contributions, Special Items and Transfers
Change in Net Position
Net Position, September 1, 2013
Restatements (Note 14)
Net Position, September 1, 2013, as Restated
Net Position, August 31, 2014

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

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (885,796)	\$	\$ (885,796)	\$
(16,663,216)		(16,663,216)	
(399,384)		(399,384)	
(2,700,533)		(2,700,533)	
(13,719,261)		(13,719,261)	
(4,828,189)		(4,828,189)	
776,032		776,032	
(130,012)		(130,012)	
(131,263)		(131,263)	
(750,946)		(750,946)	
<u>(39,432,568)</u>	<u>0</u>	<u>(39,432,568)</u>	<u>0</u>
	27,651	27,651	
	876,043	876,043	
	219,834	219,834	
	11,795	11,795	
	(86,546)	(86,546)	
	273,416	273,416	
	1,221,211	1,221,211	
<u>0</u>	<u>2,543,404</u>	<u>2,543,404</u>	<u>0</u>
<u>(39,432,568)</u>	<u>2,543,404</u>	<u>(36,889,164)</u>	<u>0</u>
			253,249
<u>0</u>	<u>0</u>	<u>0</u>	<u>253,249</u>
27,372,895		27,372,895	
4,213,273		4,213,273	
3,327,707		3,327,707	
4,645,756		4,645,756	
5,884,749		5,884,749	
1,967,613		1,967,613	
1,348,923		1,348,923	
2,155,450		2,155,450	
300,423	165,597	466,020	1,279
574,082	99	574,181	
1,865	11,469	13,334	1,538
6,708		6,708	
1,755,856	195,964	1,951,820	1,896
(152,616)		(152,616)	
	238,951	238,951	
<u>(4,130,757)</u>	<u>4,130,757</u>		
<u>49,271,927</u>	<u>4,742,837</u>	<u>54,014,764</u>	<u>4,713</u>
9,839,359	7,286,241	17,125,600	257,962
109,740,860	48,888,860	158,629,720	589,652
(174,963)	2,217	(172,746)	(322,103)
<u>109,565,897</u>	<u>48,891,077</u>	<u>158,456,974</u>	<u>267,549</u>
<u>\$ 119,405,256</u>	<u>\$ 56,177,318</u>	<u>\$ 175,582,574</u>	<u>\$ 525,511</u>

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2014 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 16,789,929	\$ 2,905,637	\$ 1,989,714	\$ 2,709,745	\$ 24,395,025
Short-Term Investments	57,879		46,936	196,803	301,618
Securities Lending Collateral			1,183,251		1,183,251
Receivables:					
Accounts	426,720	164,435	113,488	3,258	707,901
Taxes (Note 24)	3,333,645	221,977		74,214	3,629,836
Federal	1,962,866	373,605		21,370	2,357,841
Investment Trades			6,885	94	6,979
Other Intergovernmental	560,127	72,929			633,056
Interest and Dividends	3,234	6,025	64,903	12,427	86,589
Other	364,817				364,817
Due From Other Funds (Note 12)	132,205	712,592	6	137,372	982,175
Due From Component Units (Note 12)	309				309
Interfund Receivable (Note 12)	43,279			440	43,719
Inventories	215,088	143,262		222	358,572
Prepaid Items	1,885		6	37	1,928
Investments	270,501		32,917,161	2,665,182	35,852,844
Loans and Contracts	302,130	374,765	2,942	867,269	1,547,106
Other Assets	143,510				143,510
Restricted:					
Cash and Cash Equivalents	17,191			4,725	21,916
Loans and Contracts	557,987			852,596	1,410,583
Other Assets				88,268	88,268
Total Assets	\$ 25,183,302	\$ 4,975,227	\$ 36,325,292	\$ 7,634,022	\$ 74,117,843
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 3,347,239	\$ 971,716	\$ 8,838	\$ 361,956	\$ 4,689,749
Investment Trades	3		35,339	483	35,825
Other Intergovernmental	331,435				331,435
Tax Refunds (Note 24)	881,088				881,088
Payroll	578,101	102,930	2,001	4,128	687,160
Federal	193				193
Interest	18,692				18,692
Due To Other Funds (Note 12)	1,232,322	31,185	406	509,740	1,773,653
Interfund Payable (Note 12)	2,008			3,127	5,135
Unearned Revenues	396,969	1,968	59,500	490,793	949,230
Obligations/Reverse Repurchase Agreements	48,078				48,078
Obligations/Securities Lending			1,241,999		1,241,999
Short Term Debt (Note 4)		150,000			150,000
Other Liabilities	277,863	1,998		1,980	281,841
Total Liabilities	7,113,991	1,259,797	1,348,083	1,372,207	11,094,078
Deferred Inflows of Resources:					
Deferred Inflows of Resources	310,141	24,714	25,989	4	360,848
Total Deferred Inflows of Resources	310,141	24,714	25,989	4	360,848
Fund Balances/(Deficits):					
Nonspendable (Note 13)	595,998	143,262	12,860,783	832,995	14,433,038
Restricted (Note 13)	1,090,843	981,694	22,090,437	5,271,738	29,434,712
Committed (Note 13)	5,138,109	1,842,822		709,559	7,690,490
Assigned (Note 13)	70,234	722,938		2,576	795,748
Unassigned (Note 13)	10,863,986			(555,057)	10,308,929
Total Fund Balances	17,759,170	3,690,716	34,951,220	6,261,811	62,662,917
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 25,183,302	\$ 4,975,227	\$ 36,325,292	\$ 7,634,022	\$ 74,117,843

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, 2014 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 62,662,917

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	\$ 19,990,525	
Capital Assets – Depreciable or Amortizable, Net	<u>65,702,811</u>	85,693,336

Reversal of prior year unearned revenues are recorded in governmental funds but not in the Statement of Net Position 442,155

Receivables recorded but the related revenues not available soon enough after year-end were reported as deferred inflows of resources in the governmental funds in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Note 28) 275,195

Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized upfront payments received and capital improvements acquired in connection with the Service Concession Arrangements (Note 27). (5,141,081)

Deferred outflows of resources were reported in the Statement of Net Position to reflect the losses incurred in bond refunding transactions (Note 28). 76,655

Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (Note 5 and Note 9)

Claims and Judgments	(131,828)	
Capital Lease Obligations	(33,679)	
Employees' Compensable Leave	(782,234)	
Notes and Loans Payable	(1,294,766)	
General Obligation Bonds Payable	(12,052,116)	
Revenue Bonds Payable	(4,661,544)	
Pollution Remediation Obligation	(250,827)	
Net Pension Obligation	<u>(5,420,548)</u>	(24,627,542) *

* current portion = \$1,525,298 and noncurrent portion = \$23,102,244

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. (355,689)

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. 379,310

Net Position of Governmental Activities \$ 119,405,256

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 45,441,780	\$ 2,488,136	\$	\$ 3,482,618	\$ 51,412,534
Federal	36,328,337	3,394,533		52,895	39,775,765
Licenses, Fees and Permits	3,102,997	1,497,610		649,927	5,250,534
Interest and Other Investment Income	237,871	30,420	4,520,251	209,981	4,998,523
Land Income	56,001	13,649	682,748	53	752,451
Settlement of Claims	557,852	17,635	1,856		577,343
Sales of Goods and Services	2,596,253	41,012	76,655	197,491	2,911,411
Other	3,887,064	21,547	2,200	271,288	4,182,099
Total Revenues	<u>92,208,155</u>	<u>7,504,542</u>	<u>5,283,710</u>	<u>4,864,253</u>	<u>109,860,660</u>
EXPENDITURES					
Current:					
General Government	2,627,760	20,953		246,926	2,895,639
Education	25,779,344		93,659	1,253,569	27,126,572
Employee Benefits	1,878			16,365	18,243
Teacher Retirement State Contributions	1,956,589				1,956,589
Health and Human Services	47,925,107			22,015	47,947,122
Public Safety and Corrections	4,804,390	454,195		86,380	5,344,965
Transportation	106,330	3,011,155		506,895	3,624,380
Natural Resources and Recreation	1,861,328			24,615	1,885,943
Regulatory Services	378,703	2,504		409,488	790,695
Capital Outlay	205,915	4,293,340	239	1,029,172	5,528,666
Debt Service:					
Principal	51,899	104,889		679,660	836,448
Interest	83,298	150		686,039	769,487
Other Financing Fees	196	7,157	1,411	7,594	16,358
Total Expenditures	<u>85,782,737</u>	<u>7,894,343</u>	<u>95,309</u>	<u>4,968,718</u>	<u>98,741,107</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>6,425,418</u>	<u>(389,801)</u>	<u>5,188,401</u>	<u>(104,465)</u>	<u>11,119,553</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,707,806	413,600		4,064,232	9,185,638
Transfer Out (Note 12)	(8,544,769)	(392,616)	(838,672)	(3,538,602)	(13,314,659)
Bonds and Notes Issued	162,500	644,533		244,784	1,051,817
Bonds Issued for Refunding		813,262		1,520,530	2,333,792
Premiums on Bonds Issued		193,586		214,134	407,720
Payment to Escrow for Refunding		(945,414)		(1,726,010)	(2,671,424)
Sale of Capital Assets	15,477	7,754		1	23,232
Increase in Obligations Under Capital Leases	33,354				33,354
Gain on Other Financial Activity	6,709				6,709
Insurance Recoveries	8,351	248			8,599
Total Other Financing Sources (Uses)	<u>(3,610,572)</u>	<u>734,953</u>	<u>(838,672)</u>	<u>779,069</u>	<u>(2,935,222)</u>
Net Change in Fund Balances	<u>2,814,846</u>	<u>345,152</u>	<u>4,349,729</u>	<u>674,604</u>	<u>8,184,331</u>
Fund Balances, September 1, 2013	15,041,488	100,152	30,601,491	5,749,642	51,492,773
Restatements (Note 14)	(97,164)	3,245,412		(162,435)	2,985,813
Fund Balances, September 1, 2013, as Restated	<u>14,944,324</u>	<u>3,345,564</u>	<u>30,601,491</u>	<u>5,587,207</u>	<u>54,478,586</u>
Fund Balances, August 31, 2014	<u>\$ 17,759,170</u>	<u>\$ 3,690,716</u>	<u>\$ 34,951,220</u>	<u>\$ 6,261,811</u>	<u>\$ 62,662,917</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, 2014 (Amounts in Thousands)

Net Change in Fund Balances \$ 8,184,331

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	\$ 5,528,666	
Depreciation Expense (Note 2)	(1,891,011)	
Amortization Expense (Note 2)	(51,460)	
	3,586,195	3,586,195

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position. (21,367)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (2,558,765)

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. 53,898

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	(3,385,609)	
Premiums on Bond Proceeds	(407,720)	
Increase in Obligations Under Capital Leases	(33,354)	
Repayment of Bond and Capital Lease Principal	3,507,871	
	(318,812)	(318,812)

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. 944,043

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	(30,164)	
Increase in Revenues	817	
Increase in Expenses	(29,246)	
Net Change in Transfers	28,429	
	(30,164)	(30,164)

Change in Net Position of Governmental Activities \$ 9,839,359

Statement of Net Position – Proprietary Funds

August 31, 2014 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 4,687,724	\$ 512	\$ 211,360	\$ 371,135	\$ 5,270,731	\$ 21,031
Short-Term Investments	197,238			907,528	1,104,766	262,108
Securities Lending Collateral	997,970			161,292	1,159,262	31,806
Restricted:						
Cash and Cash Equivalents	976,867	2,076,973		1,051,725	4,105,565	
Short-Term Investments	69,419		119,578	436,068	625,065	
Loans and Contracts	10			77,641	77,651	
Receivables:						
Federal	836,410	5,815		10,216	852,441	
Other Intergovernmental	107,074			200	107,274	
Accounts	1,688,950	281,688	36,930	21,801	2,029,369	141,705
Interest and Dividends	72,430	8,199		73,207	153,836	1,940
Gifts	282,747				282,747	
Investment Trades	114,132			144,253	258,385	21
Other	445,480			3,950	449,430	
Due From Other Funds (Note 12)	763,983	3,927		67,094	835,004	173,127
Interfund Receivable (Note 12)	25,796			141	25,937	
Inventories	142,199		14,771	11,084	168,054	
Prepaid Items	137,624		1,183	793	139,600	
Loans and Contracts	123,527			374,867	498,394	
Other Current Assets	377,118			197	377,315	
Total Current Assets	<u>12,046,698</u>	<u>2,377,114</u>	<u>383,822</u>	<u>3,713,192</u>	<u>18,520,826</u>	<u>631,738</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	69,227			34,165	103,392	
Short-Term Investments	425				425	
Investments	30,428,334		676,440	3,624,297	34,729,071	
Receivables	48,344			127,545	175,889	
Loans and Contracts	99,658			3,107,999	3,207,657	
Other	8,748			3,396	12,144	
Loans and Contracts	19,285			4,631,106	4,650,391	
Investments	10,461,648			22,864	10,484,512	354,724
Interfund Receivable (Note 12)	810,964			2,435	813,399	
Gifts Receivable	831,755				831,755	
Other Receivables				50	50	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	4,854,937			735,989	5,590,926	
Depreciable or Amortizable, Net	19,430,506		376	2,136,816	21,567,698	
Assets Held in Trust	362			4,266	4,628	
Hedging Derivative Asset (Note 7)				5,934	5,934	
Intangible Assets – Service Concession						
Arrangements (Note 27)				1,431,210	1,431,210	
Other Noncurrent Assets	41,124			228	41,352	
Total Noncurrent Assets	<u>67,105,317</u>	<u>0</u>	<u>676,816</u>	<u>15,868,300</u>	<u>83,650,433</u>	<u>354,724</u>
Total Assets	<u>79,152,015</u>	<u>2,377,114</u>	<u>1,060,638</u>	<u>19,581,492</u>	<u>102,171,259</u>	<u>986,462</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 28)	289,181			287,388	576,569	
Total Deferred Outflows of Resources	<u>289,181</u>	<u>0</u>	<u>0</u>	<u>287,388</u>	<u>576,569</u>	<u>0</u>
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,515,816	82,148	24,959	91,581	1,714,504	571,197
Payroll	805,125		1,843	3,692	810,660	
Other Intergovernmental	25,078				25,078	
Federal	1,905				1,905	
Investment Trades	387,061			154,314	541,375	140
Interest	10,043	10,333		86,541	106,917	
Annuities			8,036		8,036	

Concluded on the following page

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2014 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	\$ 24,231	\$	\$ 122,643	\$ 26,176	\$ 173,050	\$ 3,173
Interfund Payable (Note 12)	32,819			262	33,081	
Unearned Revenue	3,095,262	93,468		8,219	3,196,949	599
Obligations/Securities Lending	997,970			161,292	1,159,262	32,043
Short-Term Debt (Note 4)	1,360,396				1,360,396	
Claims and Judgments (Note 5)	22,009				22,009	
Capital Lease Obligations (Note 5, 8)	5,114				5,114	
Employees' Compensable Leave (Note 5)	403,862		1,337	2,538	407,737	
Notes and Loans Payable (Note 5)	27,599			12,100	39,699	
General Obligation Bonds Payable (Note 5, 6)	6,885			163,888	170,773	
Revenue Bonds Payable (Note 5, 6)	1,872,944	207,509		95,405	2,175,858	
Liabilities Payable From Restricted Assets (Note 5)			222,150	287,005	509,155	
Funds Held for Others	160,548				160,548	
Other Current Liabilities	343,406		2,139	798	346,343	
Total Current Liabilities	<u>11,098,073</u>	<u>393,458</u>	<u>383,107</u>	<u>1,093,811</u>	<u>12,968,449</u>	<u>607,152</u>
Noncurrent Liabilities:						
Interfund Payable (Note 12)	844,839				844,839	
Claims and Judgments (Note 5)	38,186				38,186	
Capital Lease Obligations (Note 5, 8)	11,794				11,794	
Employees' Compensable Leave (Note 5)	364,375		1,006	977	366,358	
Notes and Loans Payable (Note 5)	215,751			1,885,036	2,100,787	
General Obligation Bonds Payable (Note 5, 6)	4,515			3,589,838	3,594,353	
Revenue Bonds Payable (Note 5, 6)	11,182,942	769,916		6,275,207	18,228,065	
Liabilities Payable From Restricted Assets (Note 5)			615,463	1,968,244	2,583,707	
Assets Held for Others	867,144			4,266	871,410	
Net OPEB Obligation (Note 11)	4,219,114				4,219,114	
Hedging Derivative Liability (Note 7)	207,898			280,317	488,215	
Other Noncurrent Liabilities	134,423			104,747	239,170	
Total Noncurrent Liabilities	<u>18,090,981</u>	<u>769,916</u>	<u>616,469</u>	<u>14,108,632</u>	<u>33,585,998</u>	<u>0</u>
Total Liabilities	<u>29,189,054</u>	<u>1,163,374</u>	<u>999,576</u>	<u>15,202,443</u>	<u>46,554,447</u>	<u>607,152</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 28)	7,140			8,923	16,063	
Total Deferred Inflows of Resources	<u>7,140</u>	<u>0</u>	<u>0</u>	<u>8,923</u>	<u>16,063</u>	<u>0</u>
NET POSITION						
Net Investment in Capital Assets	10,347,922		376	707,081	11,055,379	
Restricted for:						
Education	2,950,147				2,950,147	
Debt Service	41,963	111,661		237,683	391,307	
Capital Projects	877,673				877,673	
Veterans Land Board Housing Programs				789,370	789,370	
Unemployment Trust Funds		2,079,503			2,079,503	
Funds Held as Permanent Investments:						
Nonexpendable	23,367,763				23,367,763	
Expendable	6,040,659				6,040,659	
Other			5,000	3,519,161	3,524,161	379,310
Unrestricted	<u>6,618,875</u>	<u>(977,424)</u>	<u>55,686</u>	<u>(595,781)</u>	<u>5,101,356</u>	
Total Net Position	<u>\$ 50,245,002</u>	<u>\$ 1,213,740</u>	<u>\$ 61,062</u>	<u>\$ 4,657,514</u>	<u>\$ 56,177,318</u>	<u>\$ 379,310</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, 2014 (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	\$	\$	\$ 4,384,933	\$	\$ 4,384,933	\$
Tuition Revenue	73,871				73,871	
Tuition Revenue – Pledged	5,464,999				5,464,999	
Discounts and Allowances	(1,361,712)				(1,361,712)	
Hospital Revenue – Pledged	10,753,716				10,753,716	
Discounts and Allowances	(5,995,654)				(5,995,654)	
Professional Fees	5,104,568				5,104,568	
Professional Fees – Pledged	6,547				6,547	
Discounts and Allowances	(3,399,632)				(3,399,632)	
Auxiliary Enterprises	2,602				2,602	
Auxiliary Enterprises – Pledged	1,311,662			107,304	1,418,966	
Discounts and Allowances	(79,323)				(79,323)	
Unemployment Taxes		2,532,273			2,532,273	
Other Sales of Goods and Services	20,380			60,082	80,462	
Other Sales of Goods and Services – Pledged	859,106			173,554	1,032,660	
Discounts and Allowances	(476)				(476)	
Interest and Investment Income	2,959			332,532	335,491	
Interest and Investment Income – Pledged	63				63	
Federal Revenue	1,915,940	446,585		48,824	2,411,349	
State Grant Revenue	23,722				23,722	
Premium Revenue						2,114,482
Other Operating Grant Revenue	791,030				791,030	
Other Operating Grant Revenue – Pledged	838,870				838,870	
Other	62,540	181,662	949	72,832	317,983	604
Other – Pledged	341,765			3,000	344,765	
Total Operating Revenues	<u>16,737,543</u>	<u>3,160,520</u>	<u>4,385,882</u>	<u>798,128</u>	<u>25,082,073</u>	<u>2,115,086</u>
OPERATING EXPENSES						
Cost of Goods Sold	162,775			76,980	239,755	
Salaries and Wages	11,173,040		17,247	42,624	11,232,911	5,388
Payroll Related Costs	2,603,684		5,032	11,204	2,619,920	1,577
Professional Fees and Services	983,685		5,918	93,781	1,083,384	1,609
Travel	301,376		351	643	302,370	72
Materials and Supplies	2,039,485		1,570	9,233	2,050,288	479
Communication and Utilities	721,705		399	1,876	723,980	333
Repairs and Maintenance	526,664		519	11,795	538,978	282
Rentals and Leases	281,610		4,169	1,847	287,626	202
Printing and Reproduction	65,032		18,486	220	83,738	25
Depreciation and Amortization	1,820,789		181	58,406	1,879,376	
Unemployment Benefit Payments		2,728,805			2,728,805	
Bad Debt Expense	7,992		283	473	8,748	
Interest Expense	1,635			258,503	260,138	
Scholarships	1,047,970				1,047,970	
Lottery Fees and Other Costs			332,507		332,507	
Lottery Prize Payments			2,741,185		2,741,185	
Employee/Participant Benefit Payments				77,396	77,396	2,047,749
Claims and Judgments	35,171				35,171	
Net Change in Pension/OPEB Obligations (Note 11)	700,411				700,411	
Other Expenses	1,541,719		36,273	73,117	1,651,109	14,568
Total Operating Expenses	<u>24,014,743</u>	<u>2,728,805</u>	<u>3,164,120</u>	<u>718,098</u>	<u>30,625,766</u>	<u>2,072,284</u>
Operating Income (Loss)	<u>(7,277,200)</u>	<u>431,715</u>	<u>1,221,762</u>	<u>80,030</u>	<u>(5,543,693)</u>	<u>42,802</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, 2014 (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	\$ 939,203	\$	\$	\$ 247,597	\$ 1,186,800	\$
Gifts	734,728			1,745	736,473	
Gifts – Pledged	533,585				533,585	
Land Income	15,660			13	15,673	
Interest and Investment Income	5,451,977	39,310	1,571	198,930	5,691,788	10,842
Interest and Investment Income – Pledged	666,966				666,966	
Loan Premium and Fees on Securities Lending				286	286	28
Investing Activities Expense	(101,363)			(1,223)	(102,586)	(5)
Interest Expense	(503,562)	(23,366)		(136,138)	(663,066)	
Borrower Rebates and Agent Fees	(3,996)			(129)	(4,125)	35
Gain (Loss) on Sale of Capital Assets	(27,766)			1	(27,765)	
Settlement of Claims	2,402			1	2,403	196
Claims and Judgments	(662)			(2)	(664)	
Other Revenues	28,583			189	28,772	
Other Revenues – Pledged	40,570				40,570	
Other Expenses	(129,789)	(6,852)		(30,453)	(167,094)	
Total Nonoperating Revenues (Expenses)	<u>7,646,536</u>	<u>9,092</u>	<u>1,571</u>	<u>280,817</u>	<u>7,938,016</u>	<u>11,096</u>
Income Before Capital Contributions, Endowments and Transfers	<u>369,336</u>	<u>440,807</u>	<u>1,223,333</u>	<u>360,847</u>	<u>2,394,323</u>	<u>53,898</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	6,430				6,430	
Capital Contributions – Other	515,806			30,815	546,621	
Contributions to Permanent and Term Endowments	238,951				238,951	
Transfer In (Note 12)	5,910,196	95,657		15,651	6,021,504	
Transfer Out (Note 12)	(637,590)		(1,220,723)	(63,275)	(1,921,588)	
Total Capital Contributions, Endowments and Transfers	<u>6,033,793</u>	<u>95,657</u>	<u>(1,220,723)</u>	<u>(16,809)</u>	<u>4,891,918</u>	<u>0</u>
Change in Net Position	<u>6,403,129</u>	<u>536,464</u>	<u>2,610</u>	<u>344,038</u>	<u>7,286,241</u>	<u>53,898</u>
Net Position, September 1, 2013	43,895,886	677,276	58,452	4,257,246	48,888,860	325,412
Restatements (Note 14)	(54,013)			56,230	2,217	
Net Position, September 1, 2013, as Restated	<u>43,841,873</u>	<u>677,276</u>	<u>58,452</u>	<u>4,313,476</u>	<u>48,891,077</u>	<u>325,412</u>
Net Position, August 31, 2014	<u>\$ 50,245,002</u>	<u>\$ 1,213,740</u>	<u>\$ 61,062</u>	<u>\$ 4,657,514</u>	<u>\$ 56,177,318</u>	<u>\$ 379,310</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, 2014 (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	\$ 6,977,711	\$ 2,572,947	\$ 4,385,333	\$ 348,920	\$ 14,284,911	\$ 480,549
Proceeds from Tuition and Fees	4,156,183				4,156,183	
Proceeds from Research Grants and Contracts	3,673,006	469,186			4,142,192	
Proceeds from Gifts				1,069	1,069	
Proceeds from Loan Programs	265,973			512,223	778,196	
Proceeds from Auxiliaries	1,222,179				1,222,179	
Proceeds from Other Operating Revenues	912,539	182,012		167,791	1,262,342	1,558,370
Payments to Suppliers for Goods and Services	(6,839,725)		(398,826)	(250,462)	(7,489,013)	(2,703)
Payments to Employees	(13,763,180)		(22,100)	(53,065)	(13,838,345)	(6,692)
Payments for Loans Provided	(323,815)			(591,152)	(914,967)	
Payments for Lottery Prizes			(2,763,314)		(2,763,314)	
Payments for Unemployment Benefits		(2,761,591)			(2,761,591)	
Payments for Other Operating Expenses	(970,855)			(208,340)	(1,179,195)	(2,076,341)
Net Cash Provided (Used) by Operating Activities	(4,689,984)	462,554	1,201,093	(73,016)	(3,099,353)	(46,817)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance		762,912		2,081,037	2,843,949	
Proceeds from Gifts	706,603				706,603	
Proceeds from Endowments	137,310				137,310	
Proceeds from Transfers from Other Funds	5,915,216	517,204		463,323	6,895,743	
Proceeds from Loan Programs	20,248				20,248	
Proceeds from Grant Receipts	953,579			243,987	1,197,566	
Proceeds from Interfund Payables				17,029	17,029	
Proceeds from Other Noncapital Financing Activities	432,282		15,618	1,725	449,625	
Payments of Principal on Debt Issuance		(1,024,949)		(2,332,320)	(3,357,269)	
Payments of Interest	(480)	(51,671)		(334,234)	(386,385)	
Payments of Other Costs on Debt Issuance		(2,614)		(72,070)	(74,684)	
Payments for Transfers to Other Funds	(1,503,131)	(425,474)	(1,235,981)	(451,890)	(3,616,476)	
Payments for Grant Disbursements				(31,805)	(31,805)	
Payments for Interfund Receivables				(767,259)	(767,259)	
Payments for Other Noncapital Financing Uses	(382,577)		(138,724)	(9)	(521,310)	
Net Cash Provided (Used) by Noncapital Financing Activities	6,279,050	(224,592)	(1,359,087)	(1,182,486)	3,512,885	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	41,705				41,705	
Proceeds from Debt Issuance	2,685,505				2,685,505	
Proceeds from State Grants and Contracts	38,790				38,790	
Proceeds from Federal Grants and Contracts	43			3,647	3,690	
Proceeds from Gifts	29,695				29,695	
Proceeds from Other Capital and Related Financing Activities	47,120			10	47,130	
Proceeds from Capital Contributions	490,850			200	491,050	
Proceeds from Interfund Payables	1,136				1,136	
Payments for Additions to Capital Assets	(3,018,048)		(33)	(8,018)	(3,026,099)	
Payments of Principal on Debt Issuance	(1,652,072)			(10,155)	(1,662,227)	
Payments for Capital Leases	(1,166)				(1,166)	
Payments of Interest on Debt Issuance	(531,879)			(65,869)	(597,748)	
Payments of Other Costs on Debt Issuance	(48,613)			(13)	(48,626)	
Payments for Interfund Receivables	(4,554)				(4,554)	
Net Cash (Used) by Capital and Related Financing Activities	(1,921,488)	0	(33)	(80,198)	(2,001,719)	0

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Business Type Activities-Enterprise Funds					Governmental Activities- Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	\$ 19,722,027	\$ 38,655	\$ 138,699	\$ 4,410,099	\$ 24,270,825	\$ 21,638
Proceeds from Interest and Investment Income	2,021,500	38,655	252	272,940	2,333,347	136
Proceeds from Principal Payments on Loans				241,512	241,512	
Payments to Acquire Investments	(20,943,139)		(18,088)	(4,094,983)	(25,056,210)	
Payments for Nonprogram Loans Provided				(363,204)	(363,204)	
Net Cash Provided by Investing Activities	<u>800,388</u>	<u>38,655</u>	<u>120,863</u>	<u>466,364</u>	<u>1,426,270</u>	<u>21,774</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>467,966</u>	<u>276,617</u>	<u>(37,164)</u>	<u>(869,336)</u>	<u>(161,917)</u>	<u>(25,043)</u>
Cash and Cash Equivalents, September 1, 2013	5,283,638	1,800,868	248,524	2,284,671	9,617,701	46,074
Restatements	(17,786)			41,690	23,904	
Cash and Cash Equivalents, September 1, 2013, as Restated	<u>5,265,852</u>	<u>1,800,868</u>	<u>248,524</u>	<u>2,326,361</u>	<u>9,641,605</u>	<u>46,074</u>
Cash and Cash Equivalents, August 31, 2014	<u>\$ 5,733,818</u>	<u>\$ 2,077,485</u>	<u>\$ 211,360</u>	<u>\$ 1,457,025</u>	<u>\$ 9,479,688</u>	<u>\$ 21,031</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (7,277,200)	\$ 431,715	\$ 1,221,762	\$ 80,030	\$ (5,543,693)	\$ 42,802
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	1,820,789		181	58,406	1,879,376	
Bad Debt Expense	341,821		283	473	342,577	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(41,803)			49,860	8,057	184
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(543,344)	42,915	(549)	(1,901)	(502,879)	187
(Increase) Decrease in Due From Other Funds	1,210			339	1,549	(76,954)
(Increase) Decrease in Inventories	(8,575)		(2,524)	120	(10,979)	
(Increase) Decrease in Notes Receivable	(1,495)				(1,495)	
(Increase) Decrease in Loans and Contracts	(4,630)			(206,264)	(210,894)	
(Increase) Decrease in Other Assets	(16,700)			6,607	(10,093)	
(Increase) Decrease in Prepaid Expenses	(18,570)		198	(681)	(19,053)	
Increase (Decrease) in Payables	96,490	(41,727)	(18,258)	(3,266)	33,239	(14,961)
Increase (Decrease) in Deposits	(776)				(776)	
Increase (Decrease) in Due To Other Funds	(8,194)			(601)	(8,795)	1,979
Increase (Decrease) in Unearned Revenue	225,036	29,651		(10,028)	244,659	(54)
Increase (Decrease) in Employees' Compensable Leave	41,522			(157)	41,365	
Increase (Decrease) in Benefits Payable	708,115				708,115	
Increase (Decrease) in Other Liabilities	(3,680)			(45,953)	(49,633)	
Total Adjustments	<u>2,587,216</u>	<u>30,839</u>	<u>(20,669)</u>	<u>(153,046)</u>	<u>2,444,340</u>	<u>(89,619)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,689,984)</u>	<u>\$ 462,554</u>	<u>\$ 1,201,093</u>	<u>\$ (73,016)</u>	<u>\$ (3,099,353)</u>	<u>\$ (46,817)</u>
NONCASH TRANSACTIONS						
Donation of Capital Assets	\$ 308,313	\$	\$	\$ 14,854	\$ 323,167	\$
Net Change in Fair Value of Investments	\$ 2,505,650	\$	\$ 1,571	\$ 150,613	\$ 2,657,834	\$ 1,284
Borrowing Under Capital Lease Purchase	\$ 1,876	\$	\$	\$	\$ 1,876	\$
Other	\$ 87,043	\$	\$	\$ (187)	\$ 86,856	\$

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, 2014 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,721,958	\$	\$ 515,983	\$ 1,243,747
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	24,299,182			
Investments:				
U.S. Government	27,972,561	9,501,086	20,216	639,041
Corporate Equity	29,557,226		53,191	393,298
Corporate Obligations	214,688	555,714	2,247	108
Repurchase Agreements		1,618,317		29,984
Foreign Securities	37,590,160			
Externally Managed Investments	49,655,371			
Other	12,802,149		2,836,579	121,134
Receivables:				
Federal	74,081			
Interest and Dividends	284,903	14,118	73	239
Accounts	343,042		138	6,765
Taxes				13
Other Intergovernmental				2
Investment Trades	1,297,047	1,050,000	256	
Other	122,458		4,368	
Due From Other Funds (Note 12)	143,938			1,215
Prepaid Items	250			
Properties, at Cost, Net of Accumulated Depreciation or Amortization	47,967		765	
Other Assets			84,727	1,588,922
Total Assets	186,126,981	12,739,235	3,518,557	4,024,468
LIABILITIES				
Payables:				
Accounts	\$ 383,445	\$ 16,548	\$ 23,568	\$ 894
Investment Trades	737,077		274	
Payroll	4,610			
Other Intergovernmental				894,220
Interest			10	
Annuities	747,291			
Due To Other Funds (Note 12)	184,363		7	1,213
Unearned Revenue	1,639		466	
Employees' Compensable Leave	10,087			
Obligations/Securities Lending	24,282,007			
Funds Held for Others			84,760	3,128,130
Other Liabilities	152,396	472		11
Total Liabilities	26,502,915	17,020	109,085	4,024,468
NET POSITION				
Held in Trust for:				
Pension Benefits and Other Purposes	159,624,066			
Individuals, Organizations and Other Governments			3,409,472	
Pool Participants		12,722,215		
Total Net Position	\$ 159,624,066	\$ 12,722,215	\$ 3,409,472	\$ 0

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

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

STATE OF TEXAS

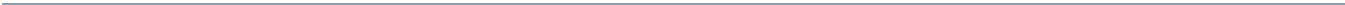
Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	\$ 3,146,852	\$	\$
State Contributions	3,084,538		
Premium Contributions	514,387		
Federal Contributions	141,951		8,807
Other Contributions	1,337,584		166,402
Total Contributions	<u>8,225,312</u>	<u>0</u>	<u>175,209</u>
Investment Income:			
From Investing Activities:			
Net Increase in Fair Value of Investments	19,239,732		298,256
Interest, Dividend and Other	3,774,995	13,821	27,105
Total Investing Income	23,014,727	13,821	325,361
Less Investing Activities Expense	237,266	8,046	1,868
Net Income from Investing Activities	<u>22,777,461</u>	<u>5,775</u>	<u>323,493</u>
From Securities Lending Activities:			
Securities Lending Income	123,260		
Less Securities Lending Expense:			
Borrower Rebates	8,661		
Management Fees	33,120		
Net Income from Securities Lending	<u>81,479</u>	<u>0</u>	<u>0</u>
Total Net Investment Income	<u>22,858,940</u>	<u>5,775</u>	<u>323,493</u>
Capital Share and Individual Account Transactions:			
Net Decrease in Participant Investments	0	(1,769,647)	0
Other Additions:			
Settlement of Claims			3,858
Other Revenue	5,324		185,093
Transfer In (Note 12)	128,515		134
Total Other Additions	<u>133,839</u>	<u>0</u>	<u>189,085</u>
Total Additions	<u>31,218,091</u>	<u>(1,763,872)</u>	<u>687,787</u>
DEDUCTIONS			
Benefits	12,883,114		145,658
Refunds of Contributions	519,583		
Transfer Out (Note 12)	99,360		184
Intergovernmental Payments			60,202
Administrative Expenses	67,543		6,921
Depreciation and Amortization Expense	3,771		39
Settlement of Claims			47,166
Interest Expense			4
Loss on Sale of Properties	4		
Loss on Impairment of Capital Assets	24		
Other Expenses	13,607		149,155
Total Deductions	<u>13,587,006</u>	<u>0</u>	<u>409,329</u>
INCREASE (DECREASE) IN NET POSITION	<u>17,631,085</u>	<u>(1,763,872)</u>	<u>278,458</u>
NET POSITION			
Net Position, September 1, 2013	<u>141,992,981</u>	<u>14,486,087</u>	<u>3,131,014</u>
Net Position, August 31, 2014	<u>\$ 159,624,066</u>	<u>\$ 12,722,215</u>	<u>\$ 3,409,472</u>

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

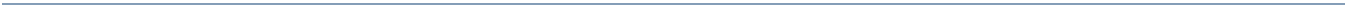
* The activities of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) are reported as an external investment trust fund. Combining statements are not presented.



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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 four GASB statements in fiscal 2014.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources.

GASB Statement No. 66, *Technical Corrections-2012*, amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement amends GASB 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends GASB 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This statement replaces

the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of GASB 25 and GASB 50 remain applicable to pension plans that are not administered through trusts or equivalent arrangements. The state's pension plans implemented GASB 67 this year. However, the state, as an employer, continues to follow GASB 25 and GASB 50 until the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. The statement provides guidance for situations where a state or local government extends or receives a nonexchange financial guarantee.

Financial Reporting Entity

For financial reporting purposes, the state of Texas includes all funds, agencies, boards, commissions, authorities, institutions of higher education and other organizations that 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 or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of:

- General government
- Education
- Employee benefits

- Teacher retirement state contributions
- Health and human services
- Public safety and corrections
- Transportation
- Natural resources and recreation
- Regulatory services

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

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

Financial Reporting Structure

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

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), and its dis-

cretely presented component units. In the statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column using an economic resources measurement focus and an accrual basis of accounting, which incorporates noncurrent investments, capital assets, and long-term debt and obligations.

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

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

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust

and agency). The assets of fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are therefore not incorporated into the government-wide financial statements.

Fund Financial Statements

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

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

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

Governmental Fund Types

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

The state's major governmental funds are listed below.

The **General Fund** is the primary operating fund for the state and includes transactions for general gov-

ernment, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services.

The **State Highway Fund**, a special revenue fund, receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

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

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

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

The major enterprise funds for the state are listed below.

The **Colleges and Universities** include:

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

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

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

The **Lottery Fund** receives fees from external users that are used to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other

funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

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

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

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

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

Component Units

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

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

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

In the governmental fund financial statements, revenues that are earned but not expected to be collected within 60 days are not available to liquidate the liabili-

ties 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. Proceeds of long-term debt are recorded as liabilities rather than other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than expenditures.

Proprietary funds distinguish operating from 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 agency funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

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

Investments

Investments are reported at fair value in the balance sheet or other statements of net financial position. Fair value is the amount at which an investment could be

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

Receivables and Payables

The major receivables for governmental activities are federal revenue and taxes receivables. The major receivables for business-type activities are federal; gifts, pledges, donations; and patient receivables. Receivables represent amounts due to the state as of Aug. 31, 2014, 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 2014 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 24 for details on taxes receivable and tax refunds payable.

Other receivables in the general fund consist primarily of program receivables for health care assistance and supplemental nutrition assistance. Other receivables in the colleges and universities fund consist primarily of receivables from investments and from external parties and other companies. Other receivables in the pension trust fund consist primarily of service credit

purchases and pharmacy and prescription rebates. 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 dissimilar assets of the same class (all the roads and bridges of the state) using the same depreciation rate. The composite depreciation rate for 2014 is 2.5 percent based on a 40 year weighted average life expectancy of the assets in service. There is no impact to the fund balance in the governmental funds due to offsetting increases and decreases in the expenditures. On the government-wide financial statements, the change in net position includes an increase of \$311.9 million as a result of the conversion. This is primarily due to the decrease in repairs and maintenance expense, which is greater than the increase in depreciation expense recorded under the depreciation approach.

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 amortized over the life of the bonds using the straight-line, bonds outstanding or effective interest method. Bonds payable are reported net of the applicable bond accretion, premium or discount. 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 is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees

accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

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

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

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

The probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

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

Conduit Debt Obligations

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

- The excess consideration given over the net position acquired in the acquisition of the Texas Wesleyan University Law School is reported as deferred outflows of resources.
- The difference between the fair value of the capital assets constructed or improved and the present value of contractual liabilities in service concession arrangements (SCAs) is reported as deferred inflows of resources. Note 27 provides details on SCAs.
- The changes in the fair value of hedging derivative instruments is reported as either deferred outflows of resources or deferred inflows of resources. Note 7 presents additional information about derivative instruments.
- Gains and losses on bond refunding transactions.
- Various types of revenues earned but not available within 60 days of fiscal year end.
- Tax prepayments allocated for use in fiscal 2015.

Note 28 provides details on deferred outflows of resources and deferred inflows of resources.

Net Position and Fund Balances

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

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

Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general

purpose subject to externally imposed stipulations. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

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 “Restricted for Capital Projects”.

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

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

Committed fund balances are amounts that can only be used for specific purposes pursuant to constraints imposed through legislation passed into law by formal action of the Texas Legislature, the state's highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the Legislature removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Fund balances are reported as assigned when the state intends for resources to be used for specific purposes, yet the con-

straints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balances represent amounts that have not been restricted, committed or assigned to specific purposes. The Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts shall determine the procedures and policies for determining assigned fund balances. The general fund is the only fund that can report a positive unassigned fund balance. Note 13 presents disaggregated fund balances.

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

Interfund Activity and Transactions – Government-wide Financial Statements

Interfund activity is eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-

type activities. Interfund activity with fiduciary funds is reclassified and reported as external activity.

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

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

Risk Financing

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

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

Note 2

Capital Assets

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

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	\$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Library Books, Leasehold Improvements and Livestock)		
Depreciable	Various	3-22 years
Non-Depreciable	0	Not applicable
Internally Generated		
Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Permanent	0	Not applicable
Land Use Rights – Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

The tables on the following pages present the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2014. The adjustments column includes assets not previously reported, accounting errors and other changes. The reclassifications column includes amounts for transfers of capital assets between agencies and reclassifies amounts for completed construction projects previously reported as construction in progress. The additions column includes current year purchases, depreciation and amortization. The deletions column includes assets removed during the current fiscal year.

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Depreciation or amortization is reported on all "exhaustible" assets. "Inexhaustible assets," such as works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered "exhaustible" assets and are depreciated. Intangible assets with determinable useful lives are amortized. Donated assets are reported at fair value on the acquisition date. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the depreciation approach. Prior to this fiscal year, the state used the modified approach. The changes in methodology are reflected in the adjustments column for infrastructure.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. For proprietary fund types and fiduciary funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized. In proprietary fund types, \$395 million of interest was

Capital Asset Activity

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/14
	Balance 9/1/13	Adjustments	Reclassifications	Additions	Deletions	
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 10,246,645	\$ (781)	\$ 50	\$ 638,429	\$ (40,179)	\$ 10,844,164
Infrastructure	53,715,082	(53,714,534)				548
Construction in Progress	5,914,487	(10,980)	(1,670,309)	4,802,502		9,035,700
Other Capital Assets	28,672		27	22		28,721
Land Use Rights – Permanent	67,629			13,775	(12)	81,392
Total Non-Depreciable & Non-Amortizable Assets	<u>69,972,515</u>	<u>(53,726,295)</u>	<u>(1,670,232)</u>	<u>5,454,728</u>	<u>(40,191)</u>	<u>19,990,525</u>
Depreciable Assets						
Buildings and Building Improvements	5,969,803	8,752	41,316	5,764	(59,610)	5,966,025
Infrastructure	21,332,144	53,715,063	1,569,174		(128,207)	76,488,174
Facilities and Other Improvements	222,169	1,074	1,497	864	(3,950)	221,654
Furniture and Equipment	1,020,246	348	5,337	128,107	(56,227)	1,097,811
Vehicles, Boats and Aircraft	1,129,410	22	1,326	81,434	(87,548)	1,124,644
Other Capital Assets	144,208	(15)	166	1,841	(365)	145,835
Total Depreciable Assets at Historical Cost	<u>29,817,980</u>	<u>53,725,244</u>	<u>1,618,816</u>	<u>218,010</u>	<u>(335,907)</u>	<u>85,044,143</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(3,637,253)	(7,529)		(186,995)	40,099	(3,791,678)
Infrastructure	(12,455,856)	(2)		(1,545,283)	9,354	(13,991,787)
Facilities and Other Improvements	(154,999)	(4)		(6,921)	1,867	(160,057)
Furniture and Equipment	(769,369)	(48)	179	(74,848)	52,912	(791,174)
Vehicles, Boats and Aircraft	(703,767)	(187)	(761)	(70,780)	73,622	(701,873)
Other Capital Assets	(71,958)	2		(6,184)	353	(77,787)
Total Accumulated Depreciation*	<u>(17,793,202)</u>	<u>(7,768)</u>	<u>(582)</u>	<u>(1,891,011)</u>	<u>178,207</u>	<u>(19,514,356)</u>
Depreciable Assets, Net	<u>12,024,778</u>	<u>53,717,476</u>	<u>1,618,234</u>	<u>(1,673,001)</u>	<u>(157,700)</u>	<u>65,529,787</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	23,352				(2,554)	20,798
Computer Software	388,119	2,453	21,833	25,548	(8,739)	429,214
Other Intangible Capital Assets – Term	64,770			14,603		79,373
Total Intangible Assets at Historical Cost	<u>476,241</u>	<u>2,453</u>	<u>21,833</u>	<u>40,151</u>	<u>(11,293)</u>	<u>529,385</u>
Less Accumulated Amortization for:						
Land Use Rights – Term	(11,188)			(3,015)	2,554	(11,649)
Computer Software	(292,428)	(2,272)		(41,847)	8,581	(327,966)
Other Intangible Capital Assets – Term	(10,148)			(6,598)		(16,746)
Total Accumulated Amortization*	<u>(313,764)</u>	<u>(2,272)</u>	<u>0</u>	<u>(51,460)</u>	<u>11,135</u>	<u>(356,361)</u>
Amortizable Assets, Net	<u>162,477</u>	<u>181</u>	<u>21,833</u>	<u>(11,309)</u>	<u>(158)</u>	<u>173,024</u>
Governmental Activities Capital Assets, Net	<u>\$ 82,159,770</u>	<u>\$ (8,638)</u>	<u>\$ (30,165)</u>	<u>\$ 3,770,418</u>	<u>\$ (198,049)</u>	<u>\$ 85,693,336</u>

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

General Government	\$ 52,334
Education	12,838
Employee Benefits	1
Health and Human Services	55,337
Public Safety and Corrections	179,202
Transportation	1,607,183
Natural Resources and Recreation	33,718
Regulatory Services	1,858
Total	<u>\$ 1,942,471</u>

Continued on the following page

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/14
	Balance 9/1/13	Adjustments	Reclassifications	Additions	Deletions	
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 1,683,668	\$ 963	\$ 3,812	\$ 52,457	\$ (2,912)	\$ 1,737,988
Infrastructure	1,764,586	(1,764,586)				0
Construction in Progress	2,257,927	7,974	(1,519,721)	2,408,918	(1,437)	3,153,661
Other Capital Assets	439,396	38	151	235,611	(4,720)	670,476
Land Use Rights – Permanent	22,799					22,799
Other Intangible Capital Assets – Permanent	6,002					6,002
Total Non-Depreciable & Non-Amortizable Assets	<u>6,174,378</u>	<u>(1,755,611)</u>	<u>(1,515,758)</u>	<u>2,696,986</u>	<u>(9,069)</u>	<u>5,590,926</u>
Depreciable Assets						
Buildings and Building Improvements	25,965,006	9,558	1,165,977	144,888	(80,509)	27,204,920
Infrastructure	1,690,440	1,766,039	103,552	3,633	(1,163)	3,562,501
Facilities and Other Improvements	1,776,079	(3,020)	118,043	33,680	(6,420)	1,918,362
Furniture and Equipment	4,727,292	(7,971)	32,448	457,018	(255,221)	4,953,566
Vehicles, Boats and Aircraft	265,405	27	86	25,591	(12,165)	278,944
Other Capital Assets	1,470,279	(28,521)	42,994	60,421	(11,184)	1,533,989
Total Depreciable Assets at Historical Cost	<u>35,894,501</u>	<u>1,736,112</u>	<u>1,463,100</u>	<u>725,231</u>	<u>(366,662)</u>	<u>39,452,282</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(11,034,669)	(1,429)		(1,071,897)	48,411	(12,059,584)
Infrastructure	(679,356)	(101)		(97,244)		(776,701)
Facilities and Other Improvements	(775,016)	279		(69,889)	4,317	(840,309)
Furniture and Equipment	(3,147,368)	(394)	420	(397,871)	209,184	(3,336,029)
Vehicles, Boats and Aircraft	(188,803)	(53)	(28)	(21,599)	11,400	(199,083)
Other Capital Assets	(953,212)	11,448		(65,445)	10,041	(997,168)
Total Accumulated Depreciation**	<u>(16,778,424)</u>	<u>9,750</u>	<u>392</u>	<u>(1,723,945)</u>	<u>283,353</u>	<u>(18,208,874)</u>
Depreciable Assets, Net	<u>19,116,077</u>	<u>1,745,862</u>	<u>1,463,492</u>	<u>(998,714)</u>	<u>(83,309)</u>	<u>21,243,408</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255					255
Computer Software	1,320,676		83,108	42,355	(48,913)	1,397,226
Other Intangible Capital Assets – Term	9,577					9,577
Total Intangible Assets at Historical Cost	<u>1,330,508</u>	<u>0</u>	<u>83,108</u>	<u>42,355</u>	<u>(48,913)</u>	<u>1,407,058</u>
Less Accumulated Amortization for:						
Land Use Rights – Term	(90)			(25)		(115)
Computer Software	(970,449)			(154,471)	45,361	(1,079,559)
Other Intangible Capital Assets – Term	(2,158)			(936)		(3,094)
Total Accumulated Amortization**	<u>(972,697)</u>	<u>0</u>	<u>0</u>	<u>(155,432)</u>	<u>45,361</u>	<u>(1,082,768)</u>
Amortizable Assets, Net	<u>357,811</u>	<u>0</u>	<u>83,108</u>	<u>(113,077)</u>	<u>(3,552)</u>	<u>324,290</u>
Business-Type Activities Capital Assets, Net	<u>\$ 25,648,266</u>	<u>\$ (9,749)</u>	<u>\$ 30,842</u>	<u>\$ 1,585,195</u>	<u>\$ (95,930)</u>	<u>\$ 27,158,624</u>

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

Education	\$ 1,820,789
Transportation	53,652
Lottery	181
Other Business-Type Activities	4,754
Total	<u>\$ 1,879,376</u>

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/14
	Balance 9/1/13	Adjustments	Reclassifications	Additions	Deletions	
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 3,705	\$ (3,315)	\$	\$	\$ (4)	\$ 386
Construction in Progress	1,706	(1,655)		73		124
Total Non-Depreciable & Non-Amortizable Assets	<u>5,411</u>	<u>(4,970)</u>	<u>0</u>	<u>73</u>	<u>(4)</u>	<u>510</u>
Depreciable Assets						
Buildings and Building Improvements	42,524	(34,467)			(485)	7,572
Infrastructure	27				(27)	0
Facilities and Other Improvements	440				(8)	432
Furniture and Equipment	55,836	(15,255)		1,620	(865)	41,336
Vehicles, Boats and Aircraft	10,942	(74)		1,208	(4,661)	7,415
Other Capital Assets	2,239					2,239
Total Depreciable Assets at Historical Cost	<u>112,008</u>	<u>(49,796)</u>	<u>0</u>	<u>2,828</u>	<u>(6,046)</u>	<u>58,994</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(13,890)	8,052		(38)	22	(5,854)
Infrastructure	(2)				2	0
Facilities and Other Improvements	(425)			(7)	7	(425)
Furniture and Equipment	(32,012)	12,918		(2,671)	663	(21,102)
Vehicles, Boats and Aircraft	(7,307)	74		(1,072)	3,850	(4,455)
Other Capital Assets	(316)			(177)		(493)
Total Accumulated Depreciation	<u>(53,952)</u>	<u>21,044</u>	<u>0</u>	<u>(3,965)</u>	<u>4,544</u>	<u>(32,329)</u>
Depreciable Assets, Net	<u>58,056</u>	<u>(28,752)</u>	<u>0</u>	<u>(1,137)</u>	<u>(1,502)</u>	<u>26,665</u>
Intangible Capital Assets – Amortizable						
Computer Software	26,103	(25,679)				424
Total Intangible Assets at Historical Cost	<u>26,103</u>	<u>(25,679)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>424</u>
Less Accumulated Amortization for:						
Computer Software	(16,056)	15,819		(13)		(250)
Total Accumulated Amortization	<u>(16,056)</u>	<u>15,819</u>	<u>0</u>	<u>(13)</u>	<u>0</u>	<u>(250)</u>
Amortizable Assets, Net	<u>10,047</u>	<u>(9,860)</u>	<u>0</u>	<u>(13)</u>	<u>0</u>	<u>174</u>
Component Units Capital Assets, Net	<u>\$ 73,514</u>	<u>\$ (43,582)</u>	<u>\$ 0</u>	<u>\$ (1,077)</u>	<u>\$ (1,506)</u>	<u>\$ 27,349</u>

charged to expense and \$51 million of interest was capitalized, for a net \$446 million of interest cost incurred.

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

- Held for public exhibition, education or research in furtherance of public service, rather than for financial gain
- Protected, kept unencumbered, cared for and preserved

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

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 35.5 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 2014. 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, 2014, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported over 86 percent of the total investment fair value. TRS, PSF, ERS, UT and Texas Prepaid Higher Education Tuition Board (TPHETB) make invest-

ments 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 2014 no depository holding state funds failed.

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

External Investment Pool

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

Deposits

As of Aug. 31, 2014, the carrying amount of deposits for governmental and business-type activities, fidu-

ciary funds and discretely presented component units was \$2.3 billion, \$549.6 million and \$257.7 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, 2014, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was \$2.2 billion, \$532.2 million and \$238.6 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state’s securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. As of Aug. 31, 2014, the bank balances exposed to custodial credit risk are presented in the table below.

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
Bank Balances Exposed to Custodial Credit Risk		
August 31, 2014 (Amounts in Thousands)		
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	\$ 4,993	\$
Other Governmental Funds	36	
Total Governmental Activities	<u>5,029</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	1,560	90,513
Other Nonmajor Funds	155	
Total Business-Type Activities	<u>1,715</u>	<u>90,513</u>
Total Governmental and Business-Type Activities	<u>\$ 6,744</u>	<u>\$ 90,513</u>
FIDUCIARY FUNDS	<u>\$ 300,480</u>	<u>\$ 0</u>
COMPONENT UNITS	<u>\$ 10,477</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. For-

eign 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, 2014.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2014 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	\$ 705	\$ 5,918
Bangladeshi Taka		123
Botswana Pula		69
Brazilian Real	153	6,753
British Pound	159	20,463
Canadian Dollar	14	2,692
Chilean Peso		444
Colombian Peso		473
Croatian Kuna		54
Czech Koruna		139
Danish Krone		86
Egyptian Pound	88	384
Euro	36	119,546
Ghanaian Cedi		122
Hong Kong Dollar		26,256
Hungarian Forint		59
Indian Rupee		3,996
Indonesian Rupiah		1,962
Japanese Yen		88,111
Jordanian Dinar		70
Kenyan Shilling		111
Kuwaiti Dinar		82
Malaysian Ringgit	9	1,559
Mauritius Rupee		200
Mexican Peso		788
Moroccan Dirham		332
New Israeli Shekel		10
New Zealand Dollar		83
Nigerian Naira		84
Norwegian Krone		245
Omani Rial		62
Pakistani Rupee		18
Peruvian Nuevo Sol	1	54
Philippine Peso		1,363
Polish Zloty		465
Qatar Riyal	803	439
Romanian New Lei		47
Singapore Dollar		333
South African Rand		272
South Korean Won	470	4,076
Swedish Krona		629
Swiss Franc		170
Taiwan Dollar	2,290	5,730
Thai Baht		2,615
Tunisian Dinar		5
Turkish Lira		397
Vietnamese Dong		66
Total	<u>\$ 4,728</u>	<u>\$ 297,955</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, 2014, are presented in the table below.

Investments Fair Values			
August 31, 2014 (Amounts in Thousands)			
	Governmental and Business-Type Activities	Fiduciary Funds	Component Units
U.S. Treasury	\$ 8,295,132	\$ 21,717,037	\$ 113,245
U.S. Treasury Strips	150,943	238,733	
U.S. Treasury TIPS	1,082,978	6,286,324	
U.S. Government Agency	9,315,449	11,142,245	434,517
Corporate Obligations	5,128,829	1,071,944	25,289
Corporate Asset and Mortgage Backed	3,130,186	641,774	177,144
Corporate Equity	12,338,047	29,786,647	152,842
International Obligations	4,317,860	697,912	18,296
International Equity	3,781,020	37,131,642	
International Other Commingled Funds	3,664,329	4,220,456	13,626
Repurchase Agreements	1,372,990	2,277,184	21,898
Fixed Income and Bond Mutual Fund	4,423,225	526,984	90,057
Other Mutual Funds	1,582,470	552,820	9
Other Commingled Funds	14,485,678	6,767,450	22,674
Commercial Paper	7,359,934	1,299,625	73,052
Invested Collateral	2,213,027	24,299,181	
Securities Lending Collateral Investment Pool	161,293		
Real Estate	2,054,726		10,777
Derivatives	(16,625)	93,619	210
Externally Managed Investments	27,279,194	51,637,452	140,673
Other Investments	3,768,209	451,871	549,248
Total Investments	\$ 115,888,894	\$ 200,840,900	\$ 1,843,557

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, 2014, 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, 2014 (Amounts in Thousands)		
	Governmental and Business-Type Activities	Fiduciary Funds
U.S. Government Agency	\$ 48,090	\$
Corporate Obligations	197,012	
Corporate Asset and Mortgage Backed Equity	1,143	
	24,278	
International Obligations	173,732	
Repurchase Agreements	688,106	1,422,603
Other Commingled Funds		22,876,578
Commercial Paper	725,133	
Other Investments	433,771	
Total Investments	\$ 2,291,265	\$ 24,299,181

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, 2014, the investments exposed to custodial credit risk are presented in the table below.

	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		\$ 138,661
Corporate Asset and Mortgage Backed Repurchase Agreements		1,143
Commercial Paper		407,085
Miscellaneous		236,363
Other Governmental Funds		400,000
Repurchase Agreement	2,334	
Total Governmental Activities	<u>2,334</u>	<u>1,183,252</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury	4,394	
U.S. Government Agency	5,531	
Corporate Obligations	4,627	
Corporate Equity	32,408	
International Obligations	135	
International Equity	2,929	
Repurchase Agreements	10,980	
Fixed Income and Bond Mutual Fund	11,387	
Other Proprietary Funds		
U.S. Treasury		
Total Business-Type Activities	<u>72,391</u>	<u>0</u>
Total Governmental and Business-Type Activities	<u>\$ 74,725</u>	<u>\$ 1,183,252</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, 2014, are presented on the following pages.

Investments Exposed to Foreign Currency Risk

August 31, 2014 (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	\$ 17		\$ 966	\$	\$	\$ 24	\$	\$
Australian Dollar	233,464	38,104	1,819	334,657		627,650	735	
Bangladeshi Taka						3,763		
Bermudan Dollar	262							
Botswana Pula						5,668		
Brazilian Real	174,714	250,405	42,713	144,081		1,184,677	128	
British Pound	118,077	264,493	134,780	883,003	23,173	3,876,122		510,617
Canadian Dollar	12,089	92,481	1,935	618,859		1,499,829	363	
Cayman Island Dollar	410							
Chilean Peso	171	2,941	(2,685)	16,689		82,733		
Chinese Yuan Renminbi	37	171,405	28,287			642	95	
Colombian Peso	12,700	1,405	188	12,151		70,454		
Croatian Kuna						7,889		
Czech Koruna	56	1,879	1,469	2,685		62,147		
Danish Krone	569	14,798	370	58,035		266,990	364	
Egyptian Pound		4,375	1,058	2,877		21,058		
Euro	581,700	218,303	73,171	1,537,926	41,829	6,647,990	814,944	3,435,491
Ghanaian Cedi						2,687		
Hong Kong Dollar	99	330,580	11,639	348,033		3,203,197		
Hungarian Forint	34,127	514	148	2,335		37,110		
Indian Rupee	849	71,082	7,955	403		967,372	214	
Indonesian Rupiah	29,078	36,328	1,511	31,246		423,370		
Japanese Yen	43,137	552,068	29,491	782,304	1,113	4,517,658	899	
Jordanian Dinar						8,927		
Kazakhstani Tenge			136					
Kenyan Shilling						9,344		
Kuwaiti Dinar						19,800		
Malaysian Ringgit	55,541	27,847	2,474	45,820		342,009		
Mauritius Rupee						8,765		
Mexican Peso	226,807	97,970	12,921	64,112	1,568	600,998	196	
Moroccan Dirham						9,154		
New Israeli Shekel	10,050		133	11,768		18,691		
New Zealand Dollar	135,856		2,903	5,113	7,151	1,766		
Nigerian Naira	368					10,285		
Norwegian Krone	47,575		264	33,137		261,346		
Omani Rial						10,248		
Pakistan Rupee						38,308		
Panamanian Balboa	6							
Peruvian Nuevo Sol	513		194			7,467		
Philippine Peso	4	31,146	546	13,010		156,489		
Polish Zloty	83,606	8,145	2,161	18,752		161,053		
Qatar Riyal		475	708	6,167		47,941		
Romanian New Lei	26					10,070		
Russian Ruble	289		1,446	42,476		8,701		
Singapore Dollar	6,001	43,220	1,370	56,310		187,183		
South African Rand	64,309	41,743	5,578	91,239	2,309	925,708		
South Korean Won	55,511	280,392	17,783	184,646		1,959,475		
Sri Lankan Rupee						3,490		
Swedish Krona	31,653	26,261	3,315	115,461		462,751	538	
Swiss Franc	328	45,730	7,553	347,291		1,785,360	2,514	
Taiwan Dollar		76,552	11,982	144,926		1,190,363		
Thai Baht	11,877	27,199	1,453	27,756		411,104	235	
Tunisian Dinar						2,415		
Turkish Lira	545	15,209	2,508	20,039		288,110		
United Arab Emirates Dirham	73	2,495	1,491	5,339		34,529		
Vietnamese Dong		8,009	166			9,700		
Total	\$ 1,972,583	\$ 2,783,554	\$ 411,900	\$ 6,008,646	\$ 77,143	\$ 32,500,580	\$ 821,225	\$ 3,946,108

Concluded on the following page

Investments Exposed to Foreign Currency Risk (concluded)

August 31, 2014 (Amounts in Thousands)

	Component Unit		
	International Obligations	International Other Commingled Funds	Other Investments
Argentine Peso	\$ 2	\$ 83	\$
Australian Dollar			
Bangladeshi Taka			
Bermudan Dollar	36		
Botswana Pula			
Brazilian Real	129	979	
British Pound	40	1,130	43
Canadian Dollar	6	46	
Cayman Island Dollar	56		
Chilean Peso	19		
Chinese Yuan Renminbi	5	1,470	
Colombian Peso	95		
Croatian Kuna			
Czech Koruna	8	62	
Danish Krone		52	
Egyptian Pound		85	
Euro	92	1,261	198
Ghanaian Cedi			
Hong Kong Dollar	14	522	
Hungarian Forint		4	
Indian Rupee	81	719	55
Indonesian Rupiah	5	145	
Japanese Yen		1,640	
Jordanian Dinar			
Kazakhstani Tenge	12		
Kenyan Shilling			
Kuwaiti Dinar			
Malaysian Ringgit	35	167	
Mauritius Rupee			
Mexican Peso	177	432	4
Moroccan Dirham			
New Israeli Shekel	1		
New Zealand Dollar			
Nigerian Naira	30		
Norwegian Krone		35	4
Omani Rial			
Pakistan Rupee			
Panamanian Balboa	1		
Peruvian Nuevo Sol	53		
Philippine Peso	1	28	
Polish Zloty		102	
Qatar Riyal		89	
Romanian New Lei	4		
Russian Ruble	42	144	
Singapore Dollar	6	186	
South African Rand	55	539	
South Korean Won	2	1,386	
Sri Lankan Rupee			
Swedish Krona	17	47	
Swiss Franc		675	11
Taiwan Dollar		1,074	
Thai Baht		152	
Tunisian Dinar			
Turkish Lira	51	235	
United Arab Emirates Dirham	10	137	
Vietnamese Dong			
Total	<u>\$ 1,085</u>	<u>\$ 13,626</u>	<u>\$ 315</u>

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, 2014, the credit quality distribution for securities with credit risk exposure is presented on the following page.

Investments Exposed to Credit Risk

August 31, 2014 (Amounts in Thousands)

Governmental and Business-Type Activities									
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 1,355,606	\$ 135,903	\$ 1,959,919	\$ 1,937,079	\$ 57,217	\$	\$	\$ 754,500	\$ 6,200,224
AA	10,478,951	1,524,532	109,438	382,190	1,049,624			104,439	13,649,174
A	20,449	865,628	76,873	559,810	158,115			42,392	1,723,267
BBB	1,365	1,195,798	101,774	495,042				5,028	1,799,007
BB		128,879	1,649	56,029				219	186,776
B		125,213	2,428	19,156					146,797
CCC		6,123	30,143	5					36,271
D			1,124						1,124
AAAf						2,934,682			2,934,682
AAAf						532,201			532,201
Aaf						96,132			96,132
BBBf						352			352
A-1							7,996,808		7,996,808
A-2							3,105		3,105
Not Rated	149,391	1,220,078	839,525	957,218	504,974	1,425,234	322,278	2,575,479	7,994,177
Total	\$ 12,005,762	\$ 5,202,154	\$ 3,122,873	\$ 4,406,529	\$ 1,769,930	\$ 4,988,601	\$ 8,322,191	\$ 3,482,057	\$ 43,300,097
Fiduciary Funds									
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 9,523,205	\$ 1,398	\$ 274,819	\$ 262,098	\$ 1,625,206	\$	\$	\$ 89,481	\$ 11,776,207
AA	5,184,146	152,839	32,749	27,796	63,308			182	5,461,020
A	9	133,832	23,588	51,352					208,781
BBB		67,232	9,435	47,576				16	124,259
BB		289,367	26,140	79,769					395,276
B	4	253,791	15,901	48,541				15	318,252
CCC		17,770	24,462	242					42,474
CC			1,748						1,748
D			7,520						7,520
AAAf						76,580			76,580
AAAf						66,288			66,288
Aaf						3,965			3,965
Af						8,200			8,200
BBBf						1,432			1,432
BBf						933			933
Bf						373			373
CCCf						916			916
A-1							1,264,695		1,264,695
Not Rated	118,256	153,469	225,415	374,048	29,984	322,326		6,568	1,230,066
Total	\$ 14,825,620	\$ 1,069,698	\$ 641,777	\$ 891,422	\$ 1,718,498	\$ 481,013	\$ 1,264,695	\$ 96,262	\$ 20,988,985
Component Units									
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	\$ 888,487	\$	\$ 169,630	\$ 16,874	\$	\$	\$	\$ 19,014	\$ 1,094,005
AA	45,533	12,109	253	18	20,987			42,046	120,946
A		1,999	327	539				5,155	8,020
BBB				562					562
BB				91					91
AAAf						10,303			10,303
AAAf						2,598			2,598
A-1							73,052		73,052
Not Rated	5,450	11,181	6,935	212	18	83,867	2,211	63,723	173,597
Total	\$ 939,470	\$ 25,289	\$ 177,145	\$ 18,296	\$ 21,005	\$ 96,768	\$ 75,263	\$ 129,938	\$ 1,483,174

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. As of Aug. 31, 2014, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and UT use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option-adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio to be consistent with the Barclay Aggregate Bond

Index's duration and the duration of the real return portfolio to be consistent with the Barclay's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2014, the Barclay Aggregate Bond Index duration was 5.39 years and the Barclay's TIPS Index was 6.87 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, 2014, 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, 2014		
PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	\$ 45,762	2.05
Collateralized Loan Obligations	96,169	0.10
Commercial Mortgage Backed Securities	134,978	2.90
Corporate Obligations	1,116,394	7.58
Yankee – Corporate Obligations	46,561	9.84
Non U.S. Government Agency Obligations	65,880	2.37
Non Agency Mortgage Backed Securities	59,544	5.68
Sovereign Government Debt	102,039	6.91
Preferred Stock	915	N/A
U.S. Government Agency Commercial Mortgage Backed Securities	105,566	4.00
U.S. Government Agency Mortgage Backed Securities	1,014,404	4.44
U.S. Government Agency Obligations	186,953	5.09
U.S. Taxable Municipal Bonds	56,081	11.12
U.S. Treasury Securities	1,390,313	5.58
U.S. Treasury TIPS	159,612	5.29
Total	\$ 4,581,171	5.61
U.S. Treasury TIPS	\$ 892,939	7.81
Total Real Return	\$ 5,474,110	6.80

The following table provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2014.

Invested Securities Lending Collateral Exposed to Interest Rate Risk			
August 31, 2014 (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	\$ 1,143	\$ 1,143	\$
Certificates of Deposit	382,000	382,000	
Commercial Paper	236,362	236,362	
Floating Rate Notes	114,308	114,308	
Interest Bearing Notes	24,353	24,353	
Repurchase Agreements	407,085	407,085	
Time Deposits	18,000	18,000	
Total	\$ 1,183,251	\$ 1,183,251	\$ 0

The following table presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2014.

Investments Exposed to Interest Rate Risk		
August 31, 2014		
TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	\$ 16,356,728	17.22
U.S. Government STRIPS and TIPS	6,525,057	7.12
U.S. Government Agency Obligations	192,946	10.17
Asset and Mortgage Backed Obligations	163,359	1.81
Corporate Obligations	51,328	3.27
International Government Obligations	74,597	9.02
International Corporate Obligations	111,141	0.01
Total	\$ 23,475,156	14.11

As of Aug. 31, 2014, 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, 2014				
ERS Investment Type	Fair Value (In Thousands)		Modified Duration Rate	
	Fiduciary Funds	Proprietary Fund	Fiduciary Funds	Proprietary Fund
U.S. Treasury Securities	\$ 3,791,121	\$ 216,440	3.53	3.01
U.S. Government Agency Obligations	844,729	44,128	4.32	4.31
Corporate Obligations	756,587	52,814	4.43	2.28
Corporate Asset and Mortgage Backed Securities	229,489	53,951	3.17	3.17
International Obligations	334,163	30,513	3.07	2.14
Money Market and Bond Fund	322,170	211,460	0.08	0.08
Total	<u>\$ 6,278,259</u>	<u>\$ 609,306</u>	3.53	1.99

As of Aug. 31, 2014, 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, 2014		
UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 513,834	8.08
U.S. Treasury Strips	300	0.38
U.S. Treasury Bills	778	0.04
U.S. Treasury Inflation Protected	8,074	10.20
U.S. Agency Asset Backed	4,841	3.10
Total U.S. Government Guaranteed	<u>527,827</u>	8.05
U.S. Government Non-Guaranteed:		
U.S. Agency	14,863	0.88
U.S. Agency Asset Backed	89,671	3.02
Total U.S. Government Non-Guaranteed	<u>104,534</u>	2.72
Total U.S. Government	<u>632,361</u>	7.17
Corporate Obligations:		
Domestic	390,608	5.68
Foreign	337,429	4.37
Total Corporate Obligations	<u>728,037</u>	5.07
Foreign Government and Provincial Obligations	1,802,690	6.61
Other Debt Securities	18,439	9.68
Total Debt Securities	<u>3,181,527</u>	6.39
Other Investment Funds – Debt	27,802	7.70
Fixed Income Money Market Funds	<u>2,368,385</u>	0.28
Total	<u>\$ 5,577,714</u>	3.80

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, 2014, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$2.3 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, 2014, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$48.1 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$48.1 million. There was no credit exposure during fiscal 2014.

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, 2014, is summarized in the table below.

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, 2014, TRS, PSF, UT, Texas A&M University System (A&M), Texas Tech University System (TTU) and VLB held investment derivatives (swaps, options, futures and forwards).

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

movements in currency exchange rates.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price and date. Futures

Securities Lending Activity Summary

August 31, 2014 (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	\$ 22,722,703	\$ 386,911	\$ 22,866,776	\$ 22,876,579	\$ 9,803
ERS	1,412,019		1,444,175	1,454,409	10,234
PSF	2,599,087	1,424,414	1,241,999	1,183,251	(58,748)
UT**,**	1,049,551		997,970	997,970	
VLB**	81,371		83,055	83,055	
TPHETB**	76,669		78,237	78,237	
Total	<u>\$ 27,941,400</u>	<u>\$ 1,811,325</u>	<u>\$ 26,712,212</u>	<u>\$ 26,673,501</u>	<u>\$ (38,711)</u>

* 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, 2014.

Investment Derivative Instruments

Derivatives are financial instruments (securities or contracts) whose value is linked to or “derived” from changes in interest rates, currency rates and stock and

contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase or decrease of market exposure to various asset classes. Upon entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price

or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. As of Aug. 31, 2014, 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, 2014, derivative investments exposed to foreign currency risk are presented in the table below.

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2014 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds	
	Swaps	Options	Futures	Forwards	Swaps	Options
Australian Dollar	\$	\$ (25)	\$ (9)	\$ (1,300)	\$	\$
Brazilian Real	230	(403)		(2,435)		
British Pound	(363)		(8)	(207)	(70)	
Canadian Dollar			(30)	421		
Chilean Peso				(2,960)		
Chinese Yuan Renminbi				(202)		
Columbian Peso				4		
Czech Koruna				744		
Danish Krone				(15)		
Euro	36,110	7	(195)	4,099	(425)	764
Hong Kong Dollar					29	30
Hungarian Forint				117		
Indian Rupee				386		
Japanese Yen	1,481	(539)		2,861	791	
Malaysian Ringgit				212		487
Mexican Peso	282	(1)		1,047		
New Israel Shekel				131		
New Zealand Dollar				2,905		
Norwegian Krone				7		
Polish Zloty				1,257		
Russian Ruble				16		
Singapore Dollar				3		
South African Rand				(109)		
South Korean Won				4,006	202	
Swedish Krona				324	(36)	
Swiss Franc				874		
Taiwan Dollar				278	908	
Thai Baht				7		
Turkish Lira				(12)		
Total	<u>\$ 37,740</u>	<u>\$ (961)</u>	<u>\$ (242)</u>	<u>\$ 12,459</u>	<u>\$ 1,399</u>	<u>\$ 1,281</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, 2014, was \$102 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2014, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$33.8 million of collateral held and by \$54.9 million in liabilities included in netting arrangements with those counterparties, resulting in a \$13.3 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 SIFMA or one month to three month London Interbank Offered Rate (LIBOR). Investments in pay-variable, receive-fixed inter-

est rate swaps ranged from payment of various foreign currency rates (Euro Interbank Offered Rate (EURIBOR), LIBOR, Mexican Interbank Rate or Brazil Cetip Interbank Deposit) and receipt of 0.25 to 10.91 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR, LIBOR, Mexican Interbank Rate or Brazil Cetip Interbank Deposit) and payment of 1.5 to 11 percent. As of Aug. 31, 2014, 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, 2014 (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	\$29,644	\$9,324	\$7,491	\$(3,282)	\$(454)	\$16,565

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, 2014, the fair value of various investment funds was \$79 billion.

Note 4

Short-Term Debt

On Aug. 27, 2013 (with an issue date of Sept. 03, 2013), \$7.2 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2013, were sold to coordinate the cash flow of the state for fiscal 2014. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2013 notes were repaid during fiscal 2014, bore interest at 2 percent and were priced to yield 0.2008 percent.

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 Sep. 03, 2014, and a maturity date of Aug. 31, 2015. The notes bear interest at 1.5 percent and were priced to yield 0.1326 percent. They are not subject to redemption prior to maturity. On Aug. 26, 2014, good faith funds in the amount of \$54 million were received. The balance of the \$5.4 billion was received on Sep. 03, 2014.

Also, during fiscal 2014, the Texas Department of Transportation issued Flexible Rate Revolving Notes

under its short-term borrowing program in the amount of \$250 million to cover cash management operations in the State Highway Fund, and \$100 million matured.

Texas Tech University System issued Commercial Paper Notes in the amount of \$78.7 million to serve as an interim financing source for long term construction projects in advance of issuing authorized bonds, and \$19.4 million matured.

The University of Houston System issued Commercial Paper Notes in the amount of \$54.4 million to finance various capital projects, and \$59.1 million matured.

The University of North Texas System issued Commercial Paper Notes, Series A in the amount of \$29.5 million to finance various capital projects, and \$10 million matured.

The University of Texas System issued Commercial Paper Notes in the amount of \$778.6 million to provide interim financing for capital improvements and to finance equipment purchases, and \$586.7 million matured.

Short-term debt activity for the fiscal year ended Aug. 31, 2014, is presented below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Beginning Balance 9/1/13	Issued	Reclassified *	Redeemed	Ending Balance 8/31/14
Tax and Revenue Anticipation Notes	\$	\$ 7,200,000	\$	\$ 7,200,000	\$
Commercial Paper		941,220	1,094,247	675,071	1,360,396
Flexible Rate Revolving Notes		250,000		100,000	150,000
	<u>\$ 0</u>	<u>\$ 8,391,220</u>	<u>\$ 1,094,247</u>	<u>\$ 7,975,071</u>	<u>\$ 1,510,396</u>

* Reclassified from Long-Term Liabilities in fiscal 2013 to Short-Term Liabilities in fiscal 2014.

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2014, is presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Balance 9/1/13	Restatements /Adjustments*	Additions**	Reductions	Balance 8/31/14	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	\$ 128,283	\$	\$ 48,224	\$ 44,679	\$ 131,828	\$ 45,955	\$ 85,873
Capital Lease Obligations	2,388		33,354	2,063	33,679	4,141	29,538
Employees' Compensable Leave	735,628	7,434	1,003,249	964,077	782,234	542,640	239,594
Notes and Loans Payable	1,527,847	3,134	412,769	648,984	1,294,766	165,231	1,129,535
General Obligation Bonds Payable	12,089,019	5,457	1,639,560	1,681,920	12,052,116	534,751	11,517,365
Revenue Bonds Payable	4,099,579	143,256	1,458,689	1,039,980	4,661,544	186,141	4,475,403
Pollution Remediation Obligation	229,047	(642)	69,015	46,593	250,827	46,439	204,388
Governmental Activities Long-Term Liabilities	<u>\$ 18,811,791</u>	<u>\$ 158,639</u>	<u>\$ 4,664,860</u>	<u>\$ 4,428,296</u>	<u>\$ 19,206,994</u>	<u>\$ 1,525,298</u>	<u>\$ 17,681,696</u>
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	\$ 57,382		\$ 17,131	\$ 14,318	\$ 60,195	\$ 22,009	\$ 38,186
Capital Lease Obligations	19,998		2,799	5,889	16,908	5,114	11,794
Employees' Compensable Leave	729,616	1,046	335,552	292,119	774,095	407,737	366,358
Notes and Loans Payable	2,322,436	(1,352,951)	1,907,522	736,521	2,140,486	39,699	2,100,787
General Obligation Bonds Payable	3,669,914	122,380	1,185,937	1,213,105	3,765,126	170,773	3,594,353
Revenue Bonds Payable	20,963,515	90,018	2,546,241	3,195,851	20,403,923	2,175,858	18,228,065
Pollution Remediation Obligation	30			30			
Liabilities Payable From Restricted Assets	3,292,691		135,847	335,676	3,092,862	509,155	2,583,707
Business-Type Activities Long-Term Liabilities	<u>\$ 31,055,582</u>	<u>\$ (1,139,507)</u>	<u>\$ 6,131,029</u>	<u>\$ 5,793,509</u>	<u>\$ 30,253,595</u>	<u>\$ 3,330,345</u>	<u>\$ 26,923,250</u>
COMPONENT UNITS							
Capital Lease Obligations	\$ 76	\$	\$ 10	\$ 67	\$ 19	\$ 13	\$ 6
Employees' Compensable Leave	6,094	(3,343)	800	777	2,774	1,703	1,071
Notes and Loans Payable	44,337	(2,740)	200	10,862	30,935	11,999	18,936
Revenue Bonds Payable	195,218	(508)		44,806	149,904	1,985	147,919
Component Units Long-Term Liabilities	<u>\$ 245,725</u>	<u>\$ (6,591)</u>	<u>\$ 1,010</u>	<u>\$ 56,512</u>	<u>\$ 183,632</u>	<u>\$ 15,700</u>	<u>\$ 167,932</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
2015	\$ 165,231	\$ 3,953	\$ 169,184
2016	198,965	3,507	202,472
2017	197,454	2,969	200,423
2018	190,503	2,685	193,188
2019	190,423	2,217	192,640
2020 - 2024	624,993	5,907	630,900
2025 - 2029	46,684	2,729	49,413
2030 - 2034	5,625	1,041	6,666
2035 - 2039	1,125	6	1,131
Total Requirements	1,621,003	25,014	1,646,017
Unamortized Accretion	(326,237)		(326,237)
Total Requirements	<u>\$ 1,294,766</u>	<u>\$ 25,014</u>	<u>\$ 1,319,780</u>

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2015	\$ 39,699	\$ 64,715	\$ 104,414
2016	52,541	71,488	124,029
2017	754,765	65,883	820,648
2018	8,475	52,584	61,059
2019	8,148	54,647	62,795
2020 - 2024	42,841	315,486	358,327
2025 - 2029	142,018	348,866	490,884
2030 - 2034	261,991	306,486	568,477
2035 - 2039	446,098	224,358	670,456
2040 - 2044	516,220	59,976	576,196
Total Requirements	2,272,796	1,564,489	3,837,285
Unamortized Accretion	(132,310)		(132,310)
Total Requirements	<u>\$ 2,140,486</u>	<u>\$ 1,564,489</u>	<u>\$ 3,704,975</u>

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2015	\$ 11,999	\$ 106	\$ 12,105
2016	3,346	89	3,435
2017	5,098	161	5,259
2018	4,775	146	4,921
2019	1,963	129	2,092
2020 - 2024	3,185	365	3,550
2025 - 2029	569	35	604
Total Requirements	<u>\$ 30,935</u>	<u>\$ 1,031</u>	<u>\$ 31,966</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 2014, TxDOT recognized \$128.5 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. Recoveries from the federal government are considered nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2014, the amount expected to offset state remediation costs could not reasonably be estimated.

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

The Superfund obligation estimates are based on budgeted projects to cover necessary activities for the

upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations are calculated based on contractor estimates or historical costs as applicable.

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

State Regulatory Cleanup Requirements: Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality (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, 2014, there were 395 active State Lead sites, with a total estimated pollution remediation obligation of \$37 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 Prelimi-

nary 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 2014 resulted in collections of \$1.8 million.

At the end of fiscal 2014, Texas had 64 sites with Pollution Remediation Obligations in the State and Federal Superfund programs and seven sites that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2014, is \$159.8 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 abandoned wells if the wells will cause or are likely to cause a serious threat of pollution or injury to the public health. The Commission has 17 active well plugging projects as of Aug. 31, 2014, with an estimated cost of \$5.5 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 eight active site remediation projects as of Aug. 31, 2014, with an estimated cost of \$1 million. 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, 2014, with an estimated cost of \$2.8 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. These reimbursements are unanticipated and not budgeted.

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 \$3.7 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 462 bond issues outstanding as of Aug. 31, 2014. Scheduled debt service payments from the general revenue fund for fiscal 2014 totaled \$564.4 million.

Information on Bond Issuances

August 31, 2014

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	71	\$ 14,995,189	0.21	6.07	1998	2045	05-18-2005
Revenue Bonds	22	6,619,285	2.50	7.25	1991	2034	02-01-2001
Governmental Activities Total	<u>93</u>	<u>21,614,474</u>					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	76	4,658,444	0.23	6.60	1995	2047	02-24-1994
Revenue Bonds	279	26,765,347	0.30	15.00	1999	2054	05-04-1995
Business-Type Activities Total	<u>355</u>	<u>31,423,791</u>					
COMPONENT UNITS							
Revenue Bonds	<u>14</u>	<u>1,231,167</u>	2.70	6.10	1986	2041	10-08-1986
Total	<u>462</u>	<u>\$ 54,269,432</u>					

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Bonds Outstanding 9/1/13	Adjustments *	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/14	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	\$ 12,089,019	\$ 5,457	\$ 1,639,560	\$ 389,815	\$ 1,292,105	\$ 12,052,116	\$ 534,751
Revenue Bonds	4,099,579	143,256	1,458,689	174,925	865,055	4,661,544	186,141
Governmental Activities Total	<u>16,188,598</u>	<u>148,713</u>	<u>3,098,249</u>	<u>564,740</u>	<u>2,157,160</u>	<u>16,713,660</u>	<u>720,892</u>
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,669,914	122,380	1,185,937	149,455	1,063,650	3,765,126	170,773
Revenue Bonds	20,963,515	90,018	2,546,241	761,600	2,434,251	20,403,923	2,175,858
Business-Type Activities Total	<u>24,633,429</u>	<u>212,398</u>	<u>3,732,178</u>	<u>911,055</u>	<u>3,497,901</u>	<u>24,169,049</u>	<u>2,346,631</u>
COMPONENT UNITS							
Revenue Bonds	<u>195,218</u>	<u>(508)</u>		<u>43,186</u>	<u>1,620</u>	<u>149,904</u>	<u>1,985</u>
Total	<u>\$ 41,017,245</u>	<u>\$ 360,603</u>	<u>\$ 6,830,427</u>	<u>\$ 1,518,981</u>	<u>\$ 5,656,681</u>	<u>\$ 41,032,613</u>	<u>\$ 3,069,508</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
2015	\$ 482,985	\$ 512,075	\$ 995,060	\$ 162,130	\$ 203,620	\$ 365,750
2016	401,870	510,753	912,623	165,075	196,060	361,135
2017	374,165	494,108	868,273	167,335	188,234	355,569
2018	382,460	478,128	860,588	171,635	180,214	351,849
2019	404,815	461,204	866,019	169,990	171,901	341,891
2020 – 2024	1,985,155	2,035,792	4,020,947	1,085,130	724,513	1,809,643
2025 – 2029	2,230,555	1,534,414	3,764,969	1,504,990	420,295	1,925,285
2030 – 2034	2,264,050	992,706	3,256,756	1,007,855	98,971	1,106,826
2035 – 2039	2,601,005	461,152	3,062,157			
2040 – 2044	212,605	19,049	231,654			
2045 – 2049	45,000	24	45,024			
	11,384,665 *	7,499,405	18,884,070	4,434,140 *	2,183,808	6,617,948
Accretion	(326)		(326)			
Premium	668,205		668,205	227,404		227,404
Discount	(428)		(428)			
Total	\$ 12,052,116	\$ 7,499,405	\$ 19,551,521	\$ 4,661,544	\$ 2,183,808	\$ 6,845,352

BUSINESS-TYPE ACTIVITIES						
Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 166,594	\$ 73,496	\$ 240,090	\$ 2,075,320	\$ 797,531	\$ 2,872,851
2016	174,527	69,723	244,250	854,180	757,831	1,612,011
2017	188,670	66,967	255,637	1,061,319	718,142	1,779,461
2018	185,850	63,893	249,743	902,309	678,573	1,580,882
2019	198,990	60,616	259,606	828,555	641,071	1,469,626
2020 – 2024	947,655	250,072	1,197,727	3,340,399	2,764,362	6,104,761
2025 – 2029	810,020	156,122	966,142	3,123,101	2,186,885	5,309,986
2030 – 2034	558,030	90,810	648,840	2,570,591	1,618,319	4,188,910
2035 – 2039	323,245	42,380	365,625	2,712,241	1,154,060	3,866,301
2040 – 2044	139,940	6,570	146,510	1,795,671	607,446	2,403,117
2045 – 2049	3,994	416	4,410	538,946	378,283	917,229
2050 – 2054				1,197,881	157,887	1,355,768
	3,697,515 *	881,065	4,578,580	21,000,513 *	12,460,390	33,460,903
Accretion	(100)		(100)	(1,305,100)		(1,305,100)
Premium	67,711		67,711	728,087		728,087
Discount				(19,577)		(19,577)
Total	\$ 3,765,126	\$ 881,065	\$ 4,646,191	\$ 20,403,923	\$ 12,460,390	\$ 32,864,313

COMPONENT UNITS			
Year	Revenue Bonds		
	Principal	Interest	Total
2015	\$ 1,985	\$ 4,932	\$ 6,917
2016	2,659	6,369	9,028
2017	2,799	6,245	9,044
2018	2,972	6,112	9,084
2019	3,131	5,967	9,098
2020 – 2024	18,461	27,260	45,721
2025 – 2029	24,400	21,770	46,170
2030 – 2034	33,747	14,972	48,719
2035 – 2039	41,283	6,081	47,364
2040 – 2044	10,841	398	11,239
	142,278 *	100,106	242,384
Premium	7,626		7,626
Total	\$ 149,904	\$ 100,106	\$ 250,010

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

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

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

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2014, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, authorized but unissued, are presented in the table below.

General Obligation Bonds Authorized But Unissued	
(Amounts in Thousands)	
SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	\$ 46,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,551,634
Water Development Bonds	6,360,469
College Student Loan Bonds	1,322,540
Texas Military Value Revolving Loan Fund	200,405
Total	<u>9,956,048</u>
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	2,669,547
Transportation Commission Transportation Bonds	2,901,360
Water Development Bonds - Economically Distressed Areas Program	151,976
Total	<u>5,887,723</u>
Total General Obligation Bonds	<u>\$ 15,843,771</u>

Revenue Bonds – General Comments

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

Self-Supporting

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

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

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

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets as of Aug. 31, 2014, excluding real estate, was \$13.8 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)			
	<u>Legal Debt Limits</u>	<u>Actual Bonds Payable</u>	<u>Authorized But Unissued</u>
University of Texas System	\$ 2,755,082	\$ 1,602,470	\$ 1,152,612
Texas A&M University System	<u>1,377,541</u>	<u>810,430</u>	<u>567,111</u>
Total	<u>\$ 4,132,623</u>	<u>\$ 2,412,900</u>	<u>\$ 1,719,723</u>

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, 2014, 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	\$ 10,271,800	\$ 6,617,948	\$ 33,461,762	\$ 242,384
Current Year Pledged Revenue	422,879	7,498,180	16,052,498	145,536
Current Year Principal and Interest Paid	346,106	371,027	1,617,605	49,928
Term of Commitment Fiscal Year Ending August 31,	2039	2034	2054	2041
Percentage of Revenue Pledged	100%	100%	100%	100%

Build America Bonds

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

The Texas Department of Transportation, the University of Texas System, the Texas Public Finance Authority and the University of Houston System had \$3.5 billion, \$1.7 billion, \$181.8 million and \$80 million of Direct Payment BABs outstanding, respectively, as of Aug. 31, 2014.

Under the Budget Control Act of 2011, across-the-board sequestration took effect on March 1, 2013. This resulted in the 35% federal subsidy for BABs interest payments being reduced to 32.34%, or a 7.6% reduction. Effective Oct. 1, 2014, the subsidy has been adjusted to 32.4%.

Variable Rate Bonds

Eight state agencies had a total of 90 variable rate bond issues with outstanding balances as of Aug. 31, 2014. 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 Texas Water Development Board, the University of Houston System and the University of Texas System had outstanding demand bonds as of Aug. 31, 2014.

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, 2014, 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	
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Department of Transportation	2	3 (a)			\$ 220,740
Office of the Governor	2		2 (c)		45,000
Total	<u>4</u>	<u>3</u>	<u>2</u>	<u>0</u>	<u>265,740</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>5</u>	<u>4</u>	<u>2</u>	<u>0</u>	<u>\$ 365,740</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	27	27 (a)			\$ 1,362,030
Total	<u>27</u>	<u>27</u>	<u>0</u>	<u>0</u>	<u>1,362,030</u>
Revenue Bonds					
University of Texas System	3			3 (b)	1,276,600
Texas Department of Housing and Community Affairs	7	7 (a)			237,255
Texas Water Development Board	1	1 (a)			48,683
University of Houston System	1			1 (b)	4,895
Total	<u>12</u>	<u>8</u>	<u>0</u>	<u>4</u>	<u>1,567,433</u>
Business-Type Activities Total	<u>39</u>	<u>35</u>	<u>0</u>	<u>4</u>	<u>\$ 2,929,463</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, 2014

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
Bank of 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	0.5250%	07/31/15
California Public Employees Retirement System	1	0.1500%	12/13/16
J.P. Morgan Chase Bank	1	0.3300%	04/27/16
J.P. Morgan Chase Bank	1	0.3800%	03/07/17
J.P. Morgan Chase Bank	2	0.3800%	06/30/17
Landesbank Hessen-Thüringen Girozentrale	3	0.4000%	12/31/15
Royal Bank of Canada	1	0.3000%	03/01/15
State Street Bank and Trust Company	1	0.1500%	12/13/16
State Street Bank and Trust Company	3	0.2950%	11/17/14
State Street Bank and Trust Company	2	0.2950%	04/03/15
State Street Bank and Trust Company	1	0.3750%	05/22/15
Sumitomo Mitsui Banking Corp	2	0.5000%	08/12/15
Sumitomo Mitsui Banking Corp	1	0.5000%	11/01/15
Sumitomo Mitsui Banking Corp	1	0.5000%	03/20/16
Texas Comptroller of Public Accounts*	4	0.1200%	08/31/14 **
Texas Comptroller of Public Accounts*	7	0.1200%	01/31/15
Wells Fargo Bank, NA	1	0.4900%	12/14/14
Wells Fargo Bank, NA	1	0.4900%	08/01/15
Total	39		

* Treasury Operations Division of the Texas Comptroller of Public Accounts

** Agreements continued with Bank of Tokyo-Mitsubishi UFJ.

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, 2014

	Estimated Debt Service (In Thousands)	Rate	Basis
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2005B	\$ 81,340 (a)	10.00%	2% + the greater of: Bank Prime rate + 1.5%, Daily Fed Fds Rate + 2% or 8%
Series 2006B	170,095 (b)	8.50%	1% + the greater of: 3.0% + Daily Fed Fds Rate or Bank prime rate + 2% or 7.5%
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	109,186 (c)	5.25%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	\$ 360,621		

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

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

(c) – Replacement debt is subject to quarterly 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 2014. The source of funds used for the extinguishments included loan repayments and other available funds.

Refunding

The table below summarizes bonds refunded during fiscal 2014 to lower interest rates or to restructure debt service requirements for cash management purposes.

Non-economic refunding transactions were undertaken to take advantage of unique opportunities provided by several large institutional investors. These transactions resulted in the conversion of outstanding taxable floating-rate bonds that reset weekly through a remarketing process

Early Extinguished Debt Issues

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

General Obligation Bonds	
Texas Department of Transportation	\$ 150,000

Government Activities Total	<u>\$ 150,000</u>
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BUSINESS-TYPE ACTIVITIES

General Obligation Bonds	
Texas Water Development Board	\$ 24,005
Veterans Land Board	295

Revenue Bonds	
Texas Department of Housing and Community Affairs	241,241
Texas Workforce Commission	116,810
Texas Water Development Board	11,995
Stephen F. Austin State University	3,540
University of Houston System	<u>325</u>

Business-Type Activities Total	<u>\$ 398,211</u>
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COMPONENT UNITS

Revenue Bonds	
Office of the Governor	\$ 1,620

Component Units Total	<u>\$ 1,620</u>
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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	\$ 973,775	\$ 1,072,450	\$ 153,689	\$ 120,196
Texas Public Finance Authority	Current Refunding	40,370	44,870	6,886	6,268
Texas Water Development Board	Current Refunding	15,095	15,095	2,074	1,719
Revenue Bonds					
Texas Department of Transportation	Advanced Refunding	799,170	865,055	101,762	82,894
Governmental Activities Total		<u>1,828,410</u>	<u>1,997,470</u>	<u>264,411</u>	<u>211,077</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	Current Refunding	914,990	914,990	(a)	(a)
Texas Water Development Board	Current Refunding	120,760	124,360	25,865	12,108
Revenue Bonds					
Texas Department of Transportation	Current Refunding	924,195	943,330	107,380	113,224
Texas Workforce Commission	Advanced Refunding	556,302	554,750	20,017	19,493
Texas Workforce Commission	Current Refunding	153,483	153,055	4,715	4,592
University of Texas System	Current Refunding	221,580	240,775	41,592	25,852
Texas A&M University System	Current Refunding	71,440	76,965	8,942	8,354
University of Houston System	Advanced Refunding	30,110	31,945	3,117	2,640
Stephen F. Austin State University	Current Refunding	22,255	23,910	1,867	1,590
Texas State University System	Current Refunding	21,755	23,435	3,173	2,575
Texas Woman's University	Current Refunding	12,370	12,175	96	1,214
Business-Type Activities Total		<u>3,049,240</u>	<u>3,099,690</u>	<u>216,764</u>	<u>191,642</u>
Total		<u>\$ 4,877,650</u>	<u>\$ 5,097,160</u>	<u>\$ 481,175</u>	<u>\$ 402,719</u>

(a) These non-economic refunding transactions are discussed in more detail in the Refunding narrative.

* Other funds totaling approximately \$9.7 million were used to refund/defease additional bonds.

into taxable indexed floaters which reset monthly at 1-month LIBOR plus a fixed spread.

The transactions eliminated the need for liquidity facilities and remarketing services with regard to the refunding bonds and freed up to \$300 million in existing liquidity facilities for use in conjunction with future new-money transactions. The investors agreed to make the amortization of the refunding bonds generally match that of the refunded bonds, eliminating the pricing, market access and counterparty risk associated with having to extend or negotiate new liquidity facilities three or more times over the next 10 years.

Defeased Bonds

Texas defeased 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, 2014, the amounts of defeased bonds, at par, that remain outstanding for all bond issuers are presented in the table below.

Defeased Bonds Outstanding	
(Amounts in Thousands)	
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Department of Transportation	\$ 1,220,750
Office of the Governor	9,690
Revenue Bonds	
Texas Department of Transportation	865,055
Governmental Activities Total	2,095,495
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	56,570
Veterans Land Board	20,500
Revenue Bonds	
Texas Workforce Commission	554,750
University of Texas System	468,993
Texas Water Development Board	137,490
Texas State University System	39,630
University of Houston System	10,415
Midwestern State University	9,545
Stephen F. Austin State University	345
Business-Type Activities Total	1,298,238
Total	\$ 3,393,733

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, 2014, there were 12 series of multifamily housing revenue bonds outstanding with an aggregate \$151 million principal amount payable. No bonds were issued in fiscal 2014.

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, 2014. 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, 2014, 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 Swaps, Net	Total
	Principal	Interest		
2015	\$ 138,015	\$ 5,304	\$ 121,975	\$ 265,294
2016	154,380	5,023	116,767	276,170
2017	158,205	4,738	111,103	274,046
2018	153,980	4,402	106,444	264,826
2019	163,485	4,046	99,843	267,374
2020 – 2024	737,690	14,968	418,155	1,170,813
2025 – 2029	752,000	7,525	282,707	1,042,232
2030 – 2034	680,670	2,726	156,426	839,822
2035 – 2039	554,580	758	54,454	609,792
2040 – 2044	83,510	88	3,195	86,793
2045 – 2049	980	1	10	991
Total	<u>\$ 3,577,495</u>	<u>\$ 49,579</u>	<u>\$ 1,471,079</u>	<u>\$ 5,098,153</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 Swaps, Net *	Total
	Principal	Interest		
2015	\$ 1,010	\$ 204	\$ (769)	\$ 445
2016	1,070	198	(767)	501
2017	1,135	190	(762)	563
2018	1,205	183	(759)	629
2019	1,280	174	(755)	699
2020 – 2024	7,715	731	(3,707)	4,739
2025 – 2029	10,435	435	(3,445)	7,425
2030 – 2034	7,810	87	(2,393)	5,504
2035 – 2039			(922)	(922)
Total	<u>\$ 31,660</u>	<u>\$ 2,202</u>	<u>\$ (14,279)</u>	<u>\$ 19,583</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		
2015	\$	\$ 16,612	\$ (277)	\$ 16,335
2016		16,611	(277)	16,334
2017		16,613	(277)	16,336
2018		16,611	(277)	16,334
2019		16,612	(276)	16,336
2020 – 2024	135,345	68,985	(1,157)	203,173
2025 – 2029	97,320	40,928	(612)	137,636
2030 – 2034	59,155	14,137	(212)	73,080
2035 – 2039	23,875	1,253	(19)	25,109
Total	\$ 315,695	\$ 208,362	\$ (3,384)	\$ 520,673

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, 2014, 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	\$ 4,674	\$	\$ 10,305
BUSINESS-TYPE ACTIVITIES			
<i>Cash Flow Hedges</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (106,755)	\$ (482,281) *	\$ 3,464,495
<i>Investment Derivatives</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ 1,492	\$ 1,459	\$ 88,192
Pay-Variable Receive-Fixed Interest Rate Swaps	(2,188)	(2,188)	376,022
Basis Swaps	(2,069)	16,747	1,028,005
Credit Default Swaps	1,913	1,857	103,482
Equity Swaps	470	470	80,372
Total Return Swaps	(26)	(26)	13,285
Commodity Swaps	(155)	(155)	21,526
Currency Swaps	(18)	(18)	74,050
Forwards	12,560	12,458	3,038,176
Futures	(8,655)		1,553,590
Options	(26,622)	1,480	11,239,483
FIDUCIARY ACTIVITIES			
<i>Investment Derivatives</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (125,704)	\$ (124,066)	\$ 576,363
Pay-Variable Receive-Fixed Interest Rate Swaps	125,393	124,901	323,202
Total Return Swaps	4,754	10,695	4,065,420
Credit Default Swaps	(2,015)	2,096	177,452
Forwards	(21,580)	23,684	8,376,244
Futures	(29,198)		14,669,579
Warrants	5,375	54,984	45,456
Options	1,927	1,408	3,133
DISCRETE COMPONENT UNITS			
<i>Investment Derivatives</i>			
Total Return Swaps	\$ (4)	\$ (4)	\$ 1,811
Futures	131		18,237
Options	82	82	4,403

* Of the net \$482,281 fair value for cash flow hedges, \$5,934 is reported as a hedging derivative asset and \$488,215 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.

** MSU and SFA invest funds in A&M'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 '2014 B-3, 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, 2014. 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, 2014, 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	\$ 24,505	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	16,030	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	15,485	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,650	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	28,450	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	29,725	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	32,460	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	32,035	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	33,875	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	35,710	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	35,745	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	37,870	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	37,700	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	38,915	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	67,095	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Bds Ser 2011A	67,290	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	68,755	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Bds Ser 2011C	70,040	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	70,625	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	95,715	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	98,650	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	148,125	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	39,560	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	29,865	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	13,005	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	61,590	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	150,000	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	40,800	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	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	32,305	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	12,890	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	22,030	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	30,565	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	18,155	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	17,695	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	20,870	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	38,570	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	17,580	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	60,880	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	41,365	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	24,280	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	15,025	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	24,325	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	18,520	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	19,795	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	19,535	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	31,735	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	\$	A- / Baa1
Vet Land Ref Bds Ser '99A	N/A		A- / Baa1
Vet Hsg Fund II Bds Ser 2001A-2	N/A		A- / Baa2
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AAA / Aa2
Vet Land Bds Ser 2002	N/A		A- / Baa2
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- / Baa2
Vet Bds Ser 2011A	N/A		A/A3
Vet Bds Ser 2011B	N/A		A/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% and 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		AA-/Aa3
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% and 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% and 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% and SIFMA/LIBOR Ratio > 74%	2,355 1,427	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	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% and SIFMA/LIBOR Ratio > 74%	466 208	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,785	A- / Baa2
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- / Baa2
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

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	\$ 40,000	09/01/2004	09/01/2034	Pay 3.67%; receive 65.5% of LIBOR + .20%
2004D Single Family	35,000	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	45,070	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	11/15/2006	09/01/2025	Pay 3.86%; receive 63% of LIBOR +.30%
2007A Single Family	60,900	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	165,715	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	165,715	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	190,573	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	190,573	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	133,420	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	133,420	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	297,185	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, 2014, the state was not exposed to credit risk because the swaps recorded in the positive position were offset by other swaps with negative fair values.

Interest Rate Risk: On the pay-fixed, receive-variable interest rate swaps, as LIBOR or the SIFMA municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable-rate debt, as LIBOR or the SIFMA municipal swap index 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 amortiza-

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

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A	\$	AA- (Stable)/Aa2 (Stable)
2004D Single Family	N/A		A (Neg)/A2 (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		A2/A
RFS Bonds 2007B	N/A		Aa3/A+
PUF Bonds 2008A	N/A		Baa2/A-
PUF Bonds 2008A	N/A		Aa3/AA-
RFS Bonds 2008B	N/A		Aa3/A+
RFS Bonds 2008B	N/A		Baa2/A-
RFS Bonds 2008B	N/A		Aa3/A+

tion 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 '2014 B-3 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 '2014 B-3, 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, 2014, are \$359.4 million for the primary government and \$4.9 million for discrete component units. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2014.

Noncancelable Operating Lease Obligations

August 31, 2014 (Amounts in Thousands)

Year	Minimum Future Lease Payments	
	Primary Government	Component Units
2015	\$ 290,512	\$ 3,483
2016	239,192	1,831
2017	184,696	1,448
2018	141,280	1,501
2019	107,696	1,327
2020-2024	242,933	4,933
2025-2029	21,433	
2030-2034	8,187	
2035-2039	1,446	
2040-2044	1,120	
Total	<u>\$ 1,238,495</u>	<u>\$ 14,523</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 (TTU) 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, 2014.

Noncancelable Operating Lease Rental Income

August 31, 2014 (Amounts in Thousands)

Year	Minimum Future Lease Rental Income
	Primary Government
2015	\$ 29,889
2016	25,657
2017	22,166
2018	18,412
2019	14,726
2020 and beyond	<u>204,488</u>
Total	<u>\$ 315,338</u>

The historical cost of the PSF leased assets is \$354.2 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 2014, PSF reported contingent rental revenues in the amount of \$758 thousand.

As of Aug. 31, 2014, the carrying value of UT's leased assets is \$108.7 million. The historical cost of UT's leased buildings is \$137.8 million and related accumulated depreciation is \$33.8 million. The historical cost of UT's leased land is \$4.4 million. UT did not report any contingent rental revenues.

As of Aug. 31, 2014, the carrying value of A&M's leased assets is \$68.1 million. The historical cost of A&M's leased buildings is \$106.3 million and related accumulated depreciation is \$39.3 million. The historical cost of A&M's leased land is \$1.1 million. A&M did not report any contingent rental revenues.

As of Aug. 31, 2014, the carrying value of TTU's leased building space is \$10.1 million. The historical cost of TTU's leased building space is \$21.9 million and the related accumulated depreciation is \$11.8 million. TTU 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.

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			
2015	\$ 4,141	\$ 5	\$ 4,146	\$ 5,114	\$ 566	\$ 5,680	\$ 13	\$ 1	\$ 14
2016	3,786	16	3,802	2,881	452	3,333	2		2
2017	3,584		3,584	1,424	368	1,792	2		2
2018	3,584		3,584	1,277	320	1,597	2		2
2019	3,584		3,584	824	228	1,052			
2020-2024	15,000		15,000	3,249	709	3,958			
2025-2029				2,139	205	2,344			
2030-2034									
Total	<u>\$ 33,679</u>	<u>\$ 21</u>	<u>\$ 33,700</u>	<u>\$ 16,908</u>	<u>\$ 2,848</u>	<u>\$ 19,756</u>	<u>\$ 19</u>	<u>\$ 1</u>	<u>\$ 20</u>

The following table presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2014.

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	\$	\$	\$ 750	\$	\$	\$
Buildings			17,862	(4,762)		
Furniture and Equipment	52,296	(13,498)	6,735	(3,852)	280	(213)
Vehicles, Boats, Aircraft			267	(83)		
Computer Software	821	(479)	753	(413)		
Other Assets			7,536			
Total	<u>\$ 53,117</u>	<u>\$ (13,977)</u>	<u>\$ 33,903</u>	<u>\$ (9,110)</u>	<u>\$ 280</u>	<u>\$ (213)</u>

Note 9

Retirement Plans

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

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

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

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

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

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

Texas Emergency Services Retirement System
P.O. Box 12577
Austin, Texas 78711-2577

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

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

Description of Plans and Funding Policy

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. The Employees Retirement System of Texas Plan (ERS Plan) is considered a cost-sharing, multiple-employer defined benefit plan with a special funding situation. In addition to the state of Texas, employers of the ERS Plan include various component units of the state. The Employees Retirement System and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS Plan. The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and the Judicial Retirement System of Texas (JRS) Plan One (JRS1) and Plan Two (JRS2) are considered single-employer defined benefit pension plans.

Contribution requirements are not actuarially determined, but are set by legislation. The contribution rates are based on a percentage of the monthly gross compensation for each member. Each plan's monthly contribution requirements are disclosed in the table below.

Plan	Employer			Members		
	Employee Class	Elected Class –	Elected Class –	Employee Class	Elected Class –	Elected Class –
		Legislators	Other		Legislators	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
JRS1	1455.63%	N/A	N/A	6.6%	N/A	N/A
JRS2	15.7%	N/A	N/A	6.6%	N/A	N/A
TRS	6.8%	N/A	N/A	6.4%	N/A	N/A

* Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.
 ** The 1.7 percent consists of 0.5 percent 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 percent of payroll.

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

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

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

um standard annuity is 100 percent of the state salary of a district judge.

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

In 2009, the 81st Legislature created new plan provisions for members of the employee class hired after Sept. 1, 2009, with the exception of certified peace officers and custodial officers. This resulted in different benefit levels and different requirements for benefit eligibility, vesting and early service retirement eligibility with reduced benefits, dependent upon the employee hire date. In 2013, the 83rd Legislature further amended the plan provisions related to retirement eligibility and benefits for members hired on or after Sept. 1, 2013.

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

- Employees vest after five years of service credit.
- Employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80 (Rule of 80).
- The average monthly compensation is the average of the highest 36 months of compensation.

For members of the employee class hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the following provisions apply:

- Employees vest after 10 years of service credit.
- Employees may retire at age 65 with 10 years of service credit or at any age when the member meets the Rule of 80.
- The standard retirement annuity is reduced by five percent for each year the member retires

before the member reaches age 60, with a maximum possible reduction of 25 percent.

- The average monthly compensation is the average of the highest 48 months of compensation.

For members of the employee class hired on or after Sept. 1, 2013, the following provisions apply:

- Employees vest after 10 years of service credit.
- Employees may retire at age 65 with 10 years of service or retire when the Rule of 80 is met with at least 10 years of service at age 62.
- The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 62.
- The average monthly compensation is the average of the highest 60 months of compensation.

Regardless of the hire date, the following provisions apply to all members of the employee class:

- The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.
- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

Certified peace officers and custodial officers may retire at age 55 with 10 years of service as a certified peace officer or custodial officer. The average monthly compensation depends on the date of hire. For members hired before Sept. 1, 2013, the average monthly compensation is the average of the highest 36 months of compensation; for members hired on or after Sept. 1, 2013, the average of the highest 60 months of compensation. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit.

A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and certified peace officers and custodial officers. A one-

time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life.

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

In 2009, the 81st Legislature created new plan provisions for LECOS members hired after Sept. 1, 2009. This resulted in different benefit levels and different requirements for benefit eligibility, vesting and early service retirement eligibility with reduced benefits, dependent upon the employee hire date. In 2013, the 83rd Legislature further amended the plan provisions related to retirement eligibility and benefits for members hired on or after Sept. 1, 2013.

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

- Employees with 20 years of service may retire at age 50 or at any age when the sum of age and service credit equals or exceeds 80.
- A member under the age of 50 may receive reduced benefits upon completing 20 years of service.
- The average monthly compensation is the average of the highest 36 months of compensation.

For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the following provisions apply:

- Employees may retire after 20 years of service at age 55 or at any age when the sum of age and service credit equals or exceeds 80.
- A member under the age of 55 may receive reduced benefits upon completing 20 years of service.

- The average monthly compensation is the average of the highest 48 months of compensation.

For members hired on or after Sept. 1, 2013, the following provisions apply:

- Employees may retire after 20 years of service at age 57 or at any age when the sum of age and service credit equals or exceeds 80.
- A member under the age of 57 may receive reduced benefits upon completing 20 years of service.
- The average monthly compensation is the average of the highest 60 months of compensation.

Regardless of the hire date, the following provisions apply to all members of the LECOS plan:

- The monthly standard annuity equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by the number of years of service credit.
- The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation.

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

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

Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of JRS1 and JRS2 may retire at any age with 20 years of service. Partici-

pants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with 12 years of service.

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

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

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the ERS, LECOS or JRS2 plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period already exceeds 30 years by one or more years. According to the actuarial valuations as of Aug. 31, 2014, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS, LECOS and JRS2 plans over any period of time. Therefore, the 30 year funding objective is not being realized for any of the plans.

Teacher Retirement System of Texas

The Board of Trustees of TRS is the administrator of one pension plan (TRS Plan). The TRS Plan, established under Texas Government Code, Chapters 821-824, is considered a cost-sharing multiple-employer defined benefit plan with a special funding situation. The state is required by statute to make contributions to the TRS Plan. For fiscal 2014 the state made the majority of the employer and non-employer contributing entities' contributions to the TRS Plan. A special

funding situation is created, which results in the state reporting the TRS Plan as if it was the sole employer. The employers of the TRS Plan include the state of Texas, TRS and 1,298 public schools, service centers, charter schools and community colleges. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan, provided they are employed for one-half or more of the standard work load and are not exempted from membership under Texas Government Code, Section 822.002. The commissioner of the Texas Education Agency may also elect to participate in the TRS Plan in lieu of participation in the ERS Plan in the same manner and under the same conditions as other members of the TRS Plan.

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

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

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

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

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

- Members may retire at age 65 with five years of service credit or when the sum of the member’s age and years of service credit equals at least 80 years (known as the “Rule of 80”) and membership is maintained until retirement.

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

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

- Members may retire at age 65 with five years of service credit, or at age 60 if the member meets the Rule of 80.
- The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit.
- At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.
- Members qualify for early retirement with reduced benefits if the member meets one of the following criteria:
 - The member is age 55 with five years of service credit but does not meet the Rule of 80.
 - The member has 30 or more years of service credit, but is less than age 60 and does not meet the Rule of 80.

- The member is less than age 60, meets the Rule of 80 and has five years of service credit.
- Grandfathered members who re-enter TRS on or after Sept. 1, 2007, qualify for early retirement with reduced benefits if the member meets one of the following criteria:
 - The member is at least age 55 with at least five years of service credit but does not meet the Rule of 80.
 - The member has 30 years of service credit but does not meet the Rule of 80 and is below age 60.
 - The member is below age 55 and meets the Rule of 80.

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

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

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

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

TRS also offers two other annuity payment options:

- **The Deferred Retirement Option Plan (DROP)** DROP allowed members to freeze their standard annuity and, instead of retiring,

have a portion of the frozen standard annuity deposited into a DROP account, for up to five years, while continuing to work for a TRS-affiliated employer. The plan was closed for new participants effective Dec. 31, 2005.

- **A Partial Lump-Sum Cash Option (PLSO)** PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits. Grandfathered members may participate in the PLSO plan if they meet the Rule of 80 or are at least age 65 with at least five years of service credit.

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

State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a

period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by such action. According to the actuarial valuation as of Aug. 31, 2014, if payroll grows as expected, contributions are sufficient to amortize the current unfunded accrued liabilities of the TRS Plan over a period of 29.8 years based on the smoothed asset value as of the valuation date. Therefore, the 30 year funding objective is being realized.

Optional Retirement Program

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

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

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent and 6.6 percent, respectively, for fiscal 2014. 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 2014 resulted in participant contributions of \$238.5 million and employer contributions of \$287.9 million.

As of Aug. 31, 2014, ORP had 37,214 participants. The total participant contributions were \$270.6 million and total employer contributions were \$323.7 million. Additional information for ORP is included in the fiscal 2014 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board.

Texas Emergency Services Retirement System

The Board of Trustees of Texas Emergency Services Retirement System (TESRS) is the administrator of the TESRS plan, a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. As of Aug. 31, 2014, there were 223 member fire departments participating in TESRS. The state is not an employer of the TESRS plan.

The statutory authority for TESRS is found in Texas Government Code, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members of participating

departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. Per Texas Government Code, Section 865.015, the state is required to appropriate a limited amount to make the fund actuarially sound. The appropriations may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. Legislative

appropriations to make the fund actuarially sound for fiscal 2014 was \$1.5 million.

The member fire department contributions to the fund were \$4.2 million for fiscal 2014. Contributions made were equal to the yearly statutorily required contributions.

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

Retirement Systems' Membership					
	ERS	LECOS	JRS1	JRS2	TRS
Retirees and Beneficiaries Currently Receiving Benefits	95,840	10,024	406	267	363,182
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	96,507	11,311	3	139	194,083
Current Employees: Vested and Non-Vested	<u>134,162</u>	<u>37,084</u>	<u>12</u>	<u>554</u>	<u>857,342</u>
Total Members	<u>326,509</u>	<u>58,419</u>	<u>421</u>	<u>960</u>	<u>1,414,607</u>

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

Actuarial Methods and Assumptions					
	ERS	LECOS	JRS1	JRS2	TRS
Actuarial Valuation Date	Aug. 31, 2014	Aug. 31, 2014	Aug. 31, 2014	Aug. 31, 2014	Aug. 31, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open
Remaining Amortization Period	30 years	30 years	30 years*	30 years	29.8 years
Asset Valuation Method	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	N/A	20% of market plus 80% of expected actuarial value	5-year Smoothed Market
Actuarial Assumptions:					
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%
Payroll Growth	3.5%	3.5%	N/A	3.5%	3.50%
Projected Salary Increases	0.0%-11.5%	5.0%-11.5%	3.5%	3.5%	4.25%-7.25%
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None

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

Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS
Annual Required Contribution (ARC)	\$ 819,602	\$ 44,126	\$ 22,001	\$ 13,487	\$ 3,206,850
Interest on Net Pension Obligation (NPO)	120,354	8,379	4,829	603	209,465
Adjustment to ARC	(90,344)	(6,289)	(5,160)	(452)	(157,196)
Annual Pension Cost	<u>849,612</u>	<u>46,216</u>	<u>21,670</u>	<u>13,638</u>	<u>3,259,119</u>
Employer Contributions Made	(482,239)	(27,758)	(27,715)	(12,211)	(2,515,176)
Increase (Decrease) in NPO	<u>367,373</u>	<u>18,458</u>	<u>(6,045)</u>	<u>1,427</u>	<u>743,943</u>
Net Pension Obligation, September 1, 2013	<u>1,504,433</u>	<u>104,737</u>	<u>60,373</u>	<u>7,534</u>	<u>2,618,315</u>
Net Pension Obligation, August 31, 2014*	<u>\$ 1,871,806</u>	<u>\$ 123,195</u>	<u>\$ 54,328</u>	<u>\$ 8,961</u>	<u>\$ 3,362,258</u>

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

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/(Asset)
ERS			
08/31/14	\$ 849,612	56.8%	\$ 1,871,806
08/31/13	763,997	49.2%	1,504,433
08/31/12	719,678	48.2%	1,116,173
LECOS			
08/31/14	\$ 46,216	60.1%	\$ 123,195
08/31/13	37,864	18.8%	104,737
08/31/12	35,818	0.0% *	73,990
JRS1			
08/31/14	\$ 21,670	127.9%	\$ 54,328
08/31/13	19,974	128.1%	60,373
08/31/12	21,033	125.8%	65,977
JRS2			
08/31/14	\$ 13,638	89.5%	\$ 8,961
08/31/13	10,615	42.9%	7,534
08/31/12	10,616	39.1%	1,468
TRS			
08/31/14	\$ 3,259,119	77.2%	\$ 3,362,258
08/31/13	3,069,621	73.4%	2,618,315
08/31/12	2,801,967	73.2%	1,801,067

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

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for fiscal 2014 is presented in the table above.

Trend Information

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

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

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
ERS						
08/31/14	\$ 25,431,922	\$ 32,076,395	\$ 6,644,473	79.3%	\$ 5,955,461	111.6%
LECOS						
08/31/14	\$ 883,595	\$ 1,163,207	\$ 279,612	76.0%	\$ 1,496,013	18.7%
JRS1						
08/31/14	\$ 0	\$ 332,238	\$ 332,238	0.0%	\$ 1,764	18,834.4%
JRS2						
08/31/14	\$ 348,431	\$ 386,295	\$ 37,864	90.2%	\$ 77,441	48.9%
TRS						
08/31/14	\$ 128,397,778	\$ 160,035,601	\$ 31,637,823	80.2%	\$ 38,522,207	82.1%

Funded Status

Information on the state's pension plans funded status for each plan as of Aug. 31, 2014, is presented in the table above.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 10

Deferred Compensation

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

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

Note 11

Postemployment Health Care and Life Insurance Benefits

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

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

University of Texas and Texas A&M University Systems

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

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

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

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

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these systems are considered to

be state employees. Benefit provisions for the UT and A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code, Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

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

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ended	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/14	\$ 166,517	\$ 726,387	22.9%	\$ 3,359,348
8/31/13	146,454	682,065	21.5%	2,799,478
8/31/12	142,737	639,952	22.3%	2,263,867
A&M Plan				
8/31/14	\$ 50,099	\$ 190,640	26.3%	\$ 859,766
8/31/13	61,529	176,876	34.8%	719,225
8/31/12	63,131	190,200	33.2%	603,878

For the fiscal year ended Aug. 31, 2014, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates for the state and retirees are presented in the next column. Costs are estimated by an actuary for claims

expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Required Contribution Rates – Retiree Health Care and Life Insurance Premium

For the Fiscal Year Ended August 31, 2014

Level of Coverage	UT Plan		A&M Plan	
	Employer	Plan Member	Employer	Plan Member*
Retiree Only	\$ 498	\$	\$ 457	\$ 20
Retiree/Spouse	758	208	694	256
Retiree/Children	664	218	623	185
Retiree/Family	927	410	788	351

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

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the employer annual required contributions (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The table below presents the components of the annual OPEB cost for the UT and A&M plans for fiscal 2014 and the net OPEB obligation for these two plans as of Aug. 31, 2014.

Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	\$ 675,481	\$ 176,672
Interest on Net OPEB Obligation	195,963	52,503
Adjustment to ARC	(145,057)	(38,535)
Annual OPEB Cost	<u>726,387</u>	<u>190,640</u>
Employer Contributions Made	<u>(166,517)</u>	<u>(50,099)</u>
Increase in Net OPEB Obligation	<u>559,870</u>	<u>140,541</u>
Net OPEB Obligation, September 1, 2013	<u>2,799,478</u>	<u>719,225</u>
Net OPEB Obligation, August 31, 2014	<u>\$ 3,359,348</u>	<u>\$ 859,766</u>

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2014, based on the plans' 2012 valuations valid for fiscal 2014 reporting, is presented in the table below.

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

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of

each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. The table below provides additional detail on the actuarial methods and assumptions used in the UT and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

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

* For service retirees, the mortality tables used by Teacher Retirement System (TRS) retirement plan that reflect TRS specific experience was adopted as most of the UT Employee Group Insurance Program (EGIP) 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 62 participating employers.

There is no special funding situation in SRHP. In a cost-sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements.

For cost-sharing multiple-employer defined benefit plans like SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB plan are not required to be based on the plan ARC.

Each employer has limited note disclosure requirements under the cost-sharing multiple-employer provisions of GASB 45. No disclosure of actuarial information as it relates to the entire plan is required on individual employer reports. Instead, the OPEB plan discloses all required actuarial calculations in the notes to its financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at:

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

Plan Description

Retirees of state agencies, institutions of higher education including the University of Texas Medical Branch Correctional Managed Care program (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, 2014

Level of Coverage	ERS SRHP	
	Employer	Plan Member
Retiree Only	\$ 503	\$
Retiree/Spouse	791	136
Retiree/Children	696	136
Retiree/Family	984	272

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2014 the state contributed \$535 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2013 and fiscal 2012, the state contributed \$471 million and \$425 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 1,247 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 2014 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, 2014
(Amounts in Thousands)

	<u>TRS-Care</u>
From Reporting Entities	\$ 169,847
On Behalf From State	303,556
On Behalf From Federal Government	23,277
	<u>\$ 496,680</u>

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

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

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare.

Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code, Chapter 1575.

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

Funding Policy

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

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

Medicare Part D

In fiscal 2014 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 2014.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2014
(Amounts in Thousands)

UT Plan	\$ 10,062
A&M Plan	3,961
ERS SRHP	15,128
TRS-Care	<u>10,611</u>
	<u>\$ 39,762</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 \$42.7 million. There is also a \$850.4 million receivable for Texas A&M University System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a \$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 a \$838.7 million transfer from the permanent school fund to the available school fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2014, 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	\$ 8,049	\$ 775	\$ 35,230	\$ 1,233	\$ 43,279	\$ 2,008
Nonmajor Governmental Funds	440	570		2,557	440	3,127
	<u>8,489</u>	<u>1,345</u>	<u>35,230</u>	<u>3,790</u>	<u>43,719</u>	<u>5,135</u>
PROPRIETARY FUNDS						
Colleges and Universities	25,796	32,819	810,964	844,839	836,760	877,658
Nonmajor Enterprise Funds	141	262	2,435		2,576	262
	<u>25,937</u>	<u>33,081</u>	<u>813,399</u>	<u>844,839</u>	<u>839,336</u>	<u>877,920</u>
Total	<u>\$ 34,426</u>	<u>\$ 34,426</u>	<u>\$ 848,629</u>	<u>\$ 848,629</u>	<u>\$ 883,055</u>	<u>\$ 883,055</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	\$ 132,205	\$	\$ 309	\$ 1,232,322	\$	\$
State Highway Fund	712,592			31,185		
Permanent School Fund	6			406		
Nonmajor Governmental Funds	137,372			509,740		
	<u>982,175</u>	<u>0</u>	<u>309</u>	<u>1,773,653</u>	<u>0</u>	<u>0</u>
PROPRIETARY FUNDS						
Colleges and Universities	763,983			24,231		
Unemployment Trust Fund	3,927					
Lottery Fund				122,643		
Nonmajor Enterprise Funds	67,094			26,176		
Internal Service Fund	173,127			3,173		
	<u>1,008,131</u>	<u>0</u>	<u>0</u>	<u>176,223</u>	<u>0</u>	<u>0</u>
FIDUCIARY FUNDS						
Pension and Other Employee Benefit Trust Funds	143,938			184,363		
Private-Purpose Trust Funds				7		
Agency Funds	1,215			1,213		
	<u>145,153</u>	<u>0</u>	<u>0</u>	<u>185,583</u>	<u>0</u>	<u>0</u>
DISCRETELY PRESENTED COMPONENT UNITS						
	0	0	0	0	309	0
Total	<u>\$ 2,135,459</u>	<u>\$ 0</u>	<u>\$ 309</u>	<u>\$ 2,135,459</u>	<u>\$ 309</u>	<u>\$ 0</u>

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In	Transfers Out
	Other Funds	Other Funds
GOVERNMENTAL FUNDS		
General Fund	\$ 4,707,806	\$ 8,544,769
State Highway Fund	413,600	392,616
Permanent School Fund		838,672
Nonmajor Governmental Funds	4,064,232	3,538,602
	<u>9,185,638</u>	<u>13,314,659</u>
PROPRIETARY FUNDS		
Colleges and Universities	5,910,196	637,590
Unemployment Trust Fund	95,657	
Lottery Fund		1,220,723
Nonmajor Enterprise Funds	15,651	63,275
	<u>6,021,504</u>	<u>1,921,588</u>
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	128,515	99,360
Private-Purpose Trust Funds	134	184
	<u>128,649</u>	<u>99,544</u>
Total	<u>\$ 15,335,791</u>	<u>\$ 15,335,791</u>

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances	\$ 31,441	\$ (31,441)	\$ 0
CURRENT LIABILITIES			
Internal Balances	\$ 654,811	\$ (654,811)	\$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (4,130,757)
Business-Type Activities	\$ 4,130,757

Note 13

Classification of Fund Balances/ Net Position

The table on the following page presents a summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2014.

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 and unassigned 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 spent according to the governmental function assigned to the agency.

Of the \$10.8 billion governmental funds total unassigned fund balance, \$6.7 billion is for the economic stabilization fund (ESF). The ESF was authorized by the Texas Constitution, Article III, Section 49g. In fiscal 2014 a transfer was made equal to 75 percent of the excess of the prior fiscal year collections for oil and natural gas production taxes over 1987 collections. The 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

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	\$ 215,088	\$ 143,262	\$	\$ 222	\$ 358,572
Long-term Receivables	379,168				379,168
Permanent Principal			12,860,777	832,736	13,693,513
Prepaid Items	1,742		6	37	1,785
Total Nonspendable	<u>595,998</u>	<u>143,262</u>	<u>12,860,783</u>	<u>832,995</u>	<u>14,433,038</u>
Restricted:					
Capital Purposes				77,136	77,136
Debt Service				255,406	255,406
Economic and Consumer Affairs	509,768			47,583	557,351
Education – Public Schools	53,808		22,090,437	424,619	22,568,864
Education – Loan Programs				1,090,650	1,090,650
Environment and Natural Resources – Other	41,385				41,385
Environment and Natural Resources – Water Programs	9			2,918,798	2,918,807
General Government*	165,807			13,542	179,349
Parks and Recreation	92,851			25,789	118,640
Public Health and Welfare – Federal Programs	28,303				28,303
Public Health and Welfare – Public Programs	126,610			28,904	155,514
Public Safety and Criminal Justice	50,299				50,299
Public Safety and Criminal Justice – Corrections				11,439	11,439
Public Safety and Criminal Justice – Law Enforcement	8,932			4,980	13,912
Transportation – Construction		489,266			489,266
Transportation – Licensing and Regulation		116,803			116,803
Transportation – Maintenance		48,019			48,019
Transportation – Other	13,071	327,606		372,892	713,569
Total Restricted	<u>1,090,843</u>	<u>981,694</u>	<u>22,090,437</u>	<u>5,271,738</u>	<u>29,434,712</u>
Committed:					
Capital Purposes	5,894				5,894
Economic and Consumer Affairs	847,785			421,011	1,268,796
Education – Public Schools	800,628			12,545	813,173
Education – Loan Programs	341,644				341,644
Environment and Natural Resources – Other	1,727,977				1,727,977
Environment and Natural Resources – Water Programs	15,783			186	15,969
General Government*	356,170			41,428	397,598
Parks and Recreation	91,919				91,919
Public Health and Welfare – Federal Programs	256				256
Public Health and Welfare – Public Programs	738,229				738,229
Public Safety and Criminal Justice	184,737			9,552	194,289
Public Safety and Criminal Justice – Corrections	977			2,544	3,521
Public Safety and Criminal Justice – Law Enforcement	26,110				26,110
Transportation – Construction		1,054,510			1,054,510
Transportation – Maintenance		103,495			103,495
Transportation – Other		684,817		222,293	907,110
Total Committed	<u>5,138,109</u>	<u>1,842,822</u>	<u>0</u>	<u>709,559</u>	<u>7,690,490</u>
Assigned:					
Economic and Consumer Affairs	719				719
Environment and Natural Resources – Other	11,584				11,584
General Government*	57,910			2,212	60,122
Public Safety and Criminal Justice – Law Enforcement	21				21
Transportation – Construction		413,683			413,683
Transportation – Maintenance		40,601			40,601
Transportation – Other		268,654		364	269,018
Total Assigned	<u>70,234</u>	<u>722,938</u>	<u>0</u>	<u>2,576</u>	<u>795,748</u>
Unassigned:	<u>10,863,986</u>	<u>0</u>	<u>0</u>	<u>(555,057)</u>	<u>10,308,929</u>
Total Fund Balances – Governmental Funds	<u>\$ 17,759,170</u>	<u>\$ 3,690,716</u>	<u>\$ 34,951,220</u>	<u>\$ 6,261,811</u>	<u>\$ 62,662,917</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.

the amount of any unanticipated deficit or revenue decline during a biennium. The Legislature may also appropriate any amount from the ESF for any purpose only if approved by at least two-thirds of the members present in each house.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB 54, balances reported as restricted in the fund financial statements plus the nonspendable permanent fund corpus balances are reported as restricted in the statement of net position. All other fund financial balances are reported as unrestricted in the statement of net position.

Note 14

Restatement of Beginning Balances

During fiscal 2014, certain accounting changes and adjustments were made that required the restatement of fund balances or net position. The beginning balances and all related restatements for the components of the state's financial reporting entity are presented in the table at right and discussed on the following page.

Restatements to Fund Balances/Net Position			
(Amounts in Thousands)			
	September 1, 2013, As Previously Reported	Restatements	September 1, 2013, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES			
Major Funds:			
General Fund	\$ 15,041,488	\$ (97,164)	\$ 14,944,324
State Highway Fund	100,152	3,245,412	3,345,564
Permanent School Fund	30,601,491		30,601,491
Total Major Funds	<u>45,743,131</u>	<u>3,148,248</u>	<u>48,891,379</u>
Nonmajor Funds:			
Special Revenue Funds	3,226,140	(162,434)	3,063,706
Debt Service Funds	816,971	(1)	816,970
Capital Project Funds	917,992		917,992
Permanent Funds	788,539		788,539
Total Nonmajor Funds	<u>5,749,642</u>	<u>(162,435)</u>	<u>5,587,207</u>
Total Governmental Funds	<u>51,492,773</u>	<u>2,985,813</u>	<u>54,478,586</u>
Governmental Activities Adjustments:			
Capital Assets	82,159,770	(8,638)	82,151,132
Long-Term Liabilities	(25,450,435)	(3,152,138)	(28,602,573)
Deferred Inflow of Resources	1,213,340		1,213,340
Internal Service Fund	325,412		325,412
Total Governmental Activities Adjustments	<u>58,248,087</u>	<u>(3,160,776)</u>	<u>55,087,311</u>
Total Governmental Activities	<u>109,740,860</u>	<u>(174,963)</u>	<u>109,565,897</u>
BUSINESS-TYPE ACTIVITIES			
Major Funds:			
Colleges and Universities	43,895,886	(54,013)	43,841,873
Unemployment Trust Fund	677,276		677,276
Lottery Fund	58,452		58,452
Total Major Funds	<u>44,631,614</u>	<u>(54,013)</u>	<u>44,577,601</u>
Nonmajor Enterprise Funds	4,257,246	56,230	4,313,476
Total Business-Type Activities	<u>48,888,860</u>	<u>2,217</u>	<u>48,891,077</u>
Total Primary Government	<u>158,629,720</u>	<u>(172,746)</u>	<u>158,456,974</u>
FIDUCIARY FUNDS			
Pension and Other Employee Benefit Trust Funds			
Trust Funds	141,992,981		141,992,981
External Investment Trust Funds	14,486,087		14,486,087
Private-Purpose Trust Funds	3,131,014		3,131,014
Total Fiduciary Funds	<u>159,610,082</u>	<u>0</u>	<u>159,610,082</u>
DISCRETELY PRESENTED COMPONENT UNITS	<u>589,652</u>	<u>(322,103)</u>	<u>267,549</u>
Total Reporting Entity	<u>\$ 318,829,454</u>	<u>\$ (494,849)</u>	<u>\$ 318,334,605</u>

Restatements by Types of Activity

(Amounts in Thousands)

Type of Activity	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Units	Total
A. Capital Asset Adjustments	\$ (8,638)	\$ (9,933)	\$	\$ (43,582)	\$ (62,153)
B. GASB 65 Implementation	(32,106)	(4,418)		(2,981)	(39,505)
C. Reclassification of CDBG Housing Loans	(85,533)				(85,533)
D. Disaffiliation of Component Unit				(273,428)	(273,428)
E. Miscellaneous Adjustments	(48,686)	16,568		(2,112)	(34,230)
Total Restatements	<u>\$ (174,963)</u>	<u>\$ 2,217</u>	<u>\$ 0</u>	<u>\$ (322,103)</u>	<u>\$ (494,849)</u>

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

- A. These restatements are for adjustments to capital assets and accumulated depreciation or amortization. The restatements include a \$43.6 million capital asset adjustment due to the disaffiliation of Texas Guaranteed Student Loan Corporation with the state at the beginning of fiscal 2014 as a result of Senate Bill No. 215 from the 83rd Legislature, Regular Session. In addition, there is a difference of \$200 thousand in the business-type activities between the \$9.9 million capital asset adjustment in this note and the \$9.7 million adjustment in Note 2. The \$200 thousand difference represents the current year adjustments in Note 2 but not capital asset restatements.
- B. These restatements are to record the effect of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, related to bond issuance costs, loan origination fees received that do not qualify as points, and commitment fees previously deferred.
- C. This restatement is to reclassify loans receivable associated with Community Development Block Grant (CDBG) housing loans as grant expense to be in line with the objective of the loan program.

D. This restatement is to record the disaffiliation of Texas Guaranteed Student Loan Corporation with the state. The total restatement as a result of this disaffiliation is \$317 million which includes the \$43.6 million restatement in capital assets in category A.

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

Included in these miscellaneous restatements are the restatements related to Texas A&M System's component units:

- Casa Verde Research Center, Sociedad Anonimo
- Representacion de TAMU en la Republica Mexicana, A.C.
- National Biosecurity Foundation
- Texas 4-H Incorporated

Starting fiscal 2014, the state determined to exclude these component units from its financial reporting entity due to materiality reasons. The total restatement amount resulting from the exclusion of these entities was \$700 thousand.

Note 15

Commitments and Contingencies

Commitments

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes. These loan commitments are provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board had loan commitments totaling \$456.4 million as of Aug. 31, 2014. The Texas Department of Transportation (TxDOT) has an equity loan agreement of \$15.5 billion. Of this amount, \$5.9 billion is related to North Texas Tollway Authority for State Highway 161 Project in Dallas. The remainder of \$9.6 billion is used by the Grand Parkway Transportation Corporation to pay for certain costs related to development, construction, operation, maintenance and financing of projects in Harris County and possible extensions or expansions of the Grand Parkway in the Dallas/Fort Worth area.

Investment Funds

As of Aug. 31, 2014, state agencies, public employee retirement systems and institutions of higher education had entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. As of Aug. 31, 2014, the remaining commitment was \$30.2 billion.

Construction and Other Commitments

As of Aug. 31, 2014, TxDOT had contractual commitments of approximately \$9.7 billion for construction and comprehensive developments. These are not rec-

ognized 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, 2014, the amount of unrealized payables for uncompleted pass-through toll agreements was \$287.1 million. In addition, TxDOT has equity grant commitments of \$286.3 million to various local toll project entities.

Contingencies

Protested Tax Payments

As of Aug. 31, 2014, pending litigation filed by taxpayers seeking refunds of state taxes totaled \$211.1 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse ruling in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2014. These claims total \$86.7 million and include a number of lawsuits and claims that may be significant to individual state agencies. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed 704 cases exercising eminent domain for \$437.6 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, the voters of the state approved a constitutional amendment that provides for the guarantee by the permanent school fund of up to a defined capacity of \$82.8 billion in school district bonds as of Aug. 31, 2014. 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/registrant an amount necessary to pay the maturing or matured principal and/or interest

to bondholders. As of Aug. 31, 2014, \$58.1 billion in debt in outstanding bond issues was guaranteed by the permanent school fund for 815 school districts in the state and \$302.5 million for 6 charter districts. Under state 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, 2014, 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) derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. As of Aug. 31,

2014, the aggregate fair value of all derivative instruments with collateral provisions was \$22.4 million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2014.

The Teacher Retirement System of Texas (TRS) is party to derivative instruments with provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2014, the aggregate fair value of all derivative instruments with these provisions was \$38.7 million. If the collateral posting thresholds did not exist, TRS would be required to post the aggregate amount of \$621.1 thousand in collateral to its counterparties. TRS posted no collateral as of Aug. 31, 2014.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued \$2.5 billion in new bonds and commercial paper and \$4.2 billion in refunding bonds since Aug. 31, 2014, 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.

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2014

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
STEPHEN F. AUSTIN UNIVERSITY			
Municipal Tax Exempt Lease	\$ 11,311	12/04/14	For energy savings retrofit campus projects.
TEXAS A&M UNIVERSITY SYSTEM			
Revenue Financing System Bonds, Series 2015C	176,925	01/27/15	Refund \$149 million Revenue Financing System Bonds, Series 2005B and \$24.1 million outstanding Commercial Paper Notes.
Revenue Financing System Bonds, Series 2015A	64,670	02/18/15	Refund \$71.2 million Revenue Financing System Bonds, Series 2005A.
Revenue Financing System Bonds, Series 2015B	142,155	02/18/15	Refund \$155.9 million outstanding Commercial Paper Notes.
Revenue Financing System Commercial Paper	10,000	10/28/14	Provides interim construction financing.
Revenue Financing System Commercial Paper	12,500	12/02/14	Provides interim construction financing.
Revenue Financing System Commercial Paper	101,783	12/02/14	Provides interim construction financing.
TEXAS DEPARTMENT OF TRANSPORTATION			
State of Texas Highway Improvement General Obligation Bonds, Series Prop 12	1,260,000	10/15/14	To fund highway improvement projects.
State of Texas General Obligation Mobility Fund and Refunding Bonds, Series 2014 A&B	1,830,160	12/15/14	To pay or reimburse the State Highway Fund or Mobility Fund for authorized purposes.
CTTS Revenue Refunding Bonds, Series 2015	1,608,340	02/04/15	To refund previous CTTS Series bonds.
TEXAS HIGHER EDUCATION COORDINATING BOARD			
College Student Loan Bonds, Series 2014	68,130	12/18/14	Provide low interest student loans.
TEXAS PUBLIC FINANCE AUTHORITY			
Texas Windstorm Insurance Association Premium Revenue Taxable Bonds, Series 2014	500,000	09/30/14	To finance future costs of the Association's programs.
General Obligation Commercial Paper Notes, Series 2008	550	11/20/14	To fund projects for the Texas Department of Public Safety.
General Obligation Commercial Paper Notes, Series 2008	550	11/20/14	To fund projects for the Texas Department of Aging and Disability Services.
General Obligation Commercial Paper Notes, Series 2008	250	11/20/14	To fund projects for the Department of State Health Services.

Concluded on the following page.

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2014 (concluded)

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS PUBLIC FINANCE AUTHORITY (concluded)			
General Obligation Commercial Paper Notes, Series 2008	\$ 160	11/20/14	To fund projects for the Texas Military Department.
General Obligation Commercial Paper Notes, CPRIT Taxable Series A	57,600	11/05/14	Finance cancer research projects.
Taxable Education Revenue Bonds, Series 2014B	260	10/30/14	To fund projects for the Harmony Public Schools.
Taxable Education Revenue Bonds, Series 2014Q	8,880	10/30/14	To fund projects for the Harmony Public Schools.
Education Revenue Bonds, Series 2014A	38,595	11/06/14	To fund projects for KIPP Austin Public Schools, Inc.
Taxable Education Revenue Qualified Zone Academy Bonds, Series 2014Z	5,623	11/06/14	To fund projects for KIPP Austin Public Schools, Inc.
TEXAS STATE TECHNICAL COLLEGE (TSTC)			
Texas Economic Development Bank Loan	1,800	01/15/15	For renovation of hangar at TSTC Waco Airport.
TEXAS TECH UNIVERSITY SYSTEM			
Revenue Financing System Commercial Paper Notes Tax-Exempt, Series A	10,200	12/09/14	To finance a variety of capital projects at various institutions.
Revenue Financing System Commercial Paper Notes Taxable, Series A	16,000	12/09/14	To finance a variety of capital projects at various institutions.
Revenue Financing System Commercial Paper Notes Tax-Exempt, Series A	4,000	02/12/15	To finance a variety of capital projects at various institutions.
Revenue Financing System Commercial Paper Notes Taxable, Series A	6,000	02/15/15	To finance a variety of capital projects at various institutions.
TEXAS WATER DEVELOPMENT BOARD			
Water Financial Assistance Refunding Bonds, Series 2015A	33,045	01/13/15	To partially refund Water Financial Assistance Bonds, Series 2004B and 2004D.
Water Financial Assistance Refunding Bonds, Taxable Series 2015B	69,985	01/13/15	To refund Water Financial Assistance Bonds Series 2004A and 2004E and partially refund Water Financial Assistance Bonds Series 2004 and 2004D.
Water Financial Assistance Refunding Bonds, Taxable Series 2015C	16,915	01/13/15	Refund Water Financial Assistance Bonds, Series 2004C.
UNIVERSITY OF HOUSTON SYSTEM			
Consolidated Revenue Refunding Bonds, Series 2014.	47,915	11/01/14	Refund Consolidated Revenue and Refunding Bonds, Series 2006.
UNIVERSITY OF TEXAS SYSTEM			
Permanent University Fund (PUF) Taxable Commercial Paper Notes, Series B	42,000	11/21/14	To finance a variety of capital projects and equipment purchases at various institutions.
Revenue Financing System (RFS) Refunding Bonds, Series 2014B	250,700	11/24/14	To refund \$200.2 million of RFS Bonds, Series 2006B, \$4.4 million of RFS Refunding Bonds, Series 2006D and \$57.1 million of RFS Bonds, Series 2006F.
Revenue Financing System Commercial Paper Notes, Series A	74,774	12/02/14	To finance a variety of capital projects and equipment purchases at various institutions.
Revenue Financing System Commercial Paper Notes, Series B	16,000	12/04/14	To finance a variety of capital projects and equipment purchases at various institutions.
Permanent University Fund Taxable Commercial Paper Notes, Series B	50,000	01/22/15	To finance a variety of capital projects and equipment purchases at various institutions.
Revenue Financing System Taxable Commercial Paper Notes, Series B	1,330	02/11/15	To retire \$1.3 million in RFS Taxable Commercial Paper Notes, Series B.
Revenue Financing System Commercial Paper Notes, Series A	9,992	02/03/15	To finance a variety of capital projects and equipment purchases at various institutions.
VETERANS LAND BOARD			
General Obligation State of Texas Veterans Bonds, Series 2014D	100,000	09/10/14	Augment the Veterans Housing Assistance Fund.
General Obligation State of Texas Veterans Bonds, Series 2015A	125,000	02/11/15	Augment the Veterans Housing Assistance Fund.
Total Bond and Commercial Paper Issued/Refunded	<u>\$ 6,774,098</u>		

Other Subsequent Events

The Texas Workforce Commission transferred \$42.8 million of taxes to the unemployment trust fund in October 2014 in accordance with Texas Labor Code, Section 204.123. The taxes were originally deposited to the employment and training investment holding fund, an account within the general revenue fund. Texas Labor Code, Section 204.061, defines a statutory floor for the unemployment trust fund as 1 percent of total taxable wages for the four quarters ended June 30, 2014. This transfer was required because the unemployment trust fund balance was below that floor.

On Nov. 4, 2014, Texas voters approved the ballot measure known as Proposition 1, which created a constitutional amendment for transportation funding. Under the amendment, a portion of oil and gas tax revenues that typically go into the economic stabilization fund will be deposited to the state highway fund. The amendment did not create any new taxes or fees.

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 Employee Group Benefits Program

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

University of Texas System and Texas A&M University System

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

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan 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 organiza-

tion plans and also offers employees of certain areas the option of choosing coverage under an HMO plan. In fiscal 2014, 1,122 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, 2013, and Aug. 31, 2014. Claims and judgment amounts presented in Note 5 are also included in the table below.

	Beginning Balance	Increases	Decreases	Ending Balance
2014	\$ 804,798	\$ 3,237,461	\$ 3,217,078	\$ 825,181
2013	\$ 787,456	\$ 2,846,831	\$ 2,829,489	\$ 804,798

Of the fiscal 2014 claims liability ending balance, \$192 million relates to long-term claims liabilities, which are reported in Note 5. Of the remaining, \$632 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, 2014, there was an estimated \$1.1 billion of assessments filed that are currently in the redetermination hearings process. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements.

Note 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Other component units are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for informational purposes of interested parties. The component units are reported for the fiscal year ended Aug. 31, 2014, 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.

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.

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

Lubbock, Texas 79409. The NWRC was dissolved as of August 31, 2014.

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

Texas State University 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, 2014. 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 Texas A&M University System 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 December 31, 2013. Separate financial statements may be obtained by contacting the SPMF at 5909 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, 2014. Separate financial statements may be obtained by contacting the Book Store at 301 University Boulevard, Galveston, Texas 77555.

University of Texas Physicians (UT Physicians) is a legally separate entity established to provide management services for the physician practice plan at the University of Texas Health Science Center at Houston (UTHSCH). Its five-member governing board is appointed by UTHSCH. UTHSCH has the ability to impose its will on UT Physicians through its ability to modify or approve the budget of UT Physicians, its ability to modify or approve rates or fees affecting revenues of UT Physicians and its ability to appoint, hire, reassign or dismiss those responsible for UT Physicians' day-to-day operations. Separate financial statements may be obtained by contacting UT Physicians at P.O. Box 20627, Houston, Texas 77225.

University of Texas System Medical Foundation (Medical Foundation) is a legally separate entity established to support the medical residency programs at UTHSCH. Its three-member governing board is appointed by the UTHSCH. UTHSCH has the ability to impose its will on the Medical Foundation through

its ability to modify or approve the budget of the Medical Foundation and its ability to appoint, hire, reassign or dismiss those responsible for the Medical Foundation's day-to-day operations. Separate financial statements may be obtained by contacting the Medical Foundation at 6431 Fannin, Suite JJJ 310, Houston, Texas 77030.

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

M.D. Anderson Physicians Network (MDAPN) is a legally separate entity established to support the University of Texas M.D. Anderson Cancer Center (Cancer Center). MDAPN's four-member board is appointed by the president of the Cancer Center. The president can also remove appointed board members at will. Separate financial statements may be obtained by contacting MDAPN at 7505 South Main, Suite 500, Houston, Texas 77030.

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

MDASC at 7505 South Main, Suite 500, Houston, Texas 77030.

East Texas Quality Care Network (ETQCN) is a legally separate entity established to provide agency nursing services to the University of Texas Health Science Center at Tyler (UTHSCT). Its four-member governing board is appointed by UTHSCT. UTHSCT has the ability to remove board members at will, the ability to modify or approve the budget of ETQCN, the ability to modify or approve rates or fees affecting revenues of ETQCN, the ability to veto, overrule or modify the decisions of ETQCN's board, the ability to appoint, hire, reassign or dismiss those responsible for ETQCN's day-to-day operations and the ability to unilaterally abolish ETQCN. Separate financial statements may be obtained by contacting ETQCN at P.O. Box 6053, Tyler, Texas 75711-6053.

University of Texas Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to 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, 2013. 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.

Texas Guaranteed Student Loan Corporation (TGSLC) is a private nonprofit corporation that guar-

antees loans made to eligible students under the federal guaranteed student loan program. As of fiscal 2014, TGSLC is a nonprofit corporation and is no longer a component unit of, or otherwise affiliated with, the state of Texas. TGSLC is reported here because its activity was removed from the fiscal 2014 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

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, 2014. 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 Non-profit 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 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, 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, 2013. 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 prepaid tuition program 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, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Match the Promise Foundation (TMPF) is a legally separate entity established to implement the Texas Save and Match Program, which helps families save for college by offering competitive matching scholarships and tuition grants to Texas students who participate in the Texas Tuition Promise Fund. The Comptroller appoints TMPF's governing board, and can remove appointed board members at will. The Comptroller also assigns and supervises employees responsible for the day-to-day operations of TMPF. Separate financial statements may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association is reported for the fiscal year ended Dec. 31, 2013. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building E, Suite 530, Austin, Texas 78749.

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

The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the fiscal year ended Dec. 31, 2013. 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, 2013. Financial statements may be obtained by contacting the Texas Health Reinsurance System at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

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, 2013. Financial statements may be obtained by contacting the THIP at P.O. Box 17463, San Antonio, Texas 78217.

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, 2013. 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, 2013. 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, 2013. 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, 2013. 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, 2013. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses, and primarily benefits the citizens of Texas. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers TAFA with the assistance of the board. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount

sufficient to pay those obligations. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority

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

Texas Appraiser Licensing and Certification Board

(TALCB) is a legally separate entity statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) to serve the real estate community in Texas. The governor appoints the members of the governing board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in the presentation of incomplete financial statements. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Economic Development Corporation

(TED Corp.), a legally separate nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. TED Corp.'s services primarily benefit the Texas citizenry. The board of directors is appointed by the governor. The Office of the Governor is the oversight agency for

TED Corp., and has the ability to remove board members at will. The TED Corp. is reported for the fiscal year ended Dec. 31, 2013. 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, 2013. 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, 2013. 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, 2013. 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. Financial statements for the State Agency Council may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

Film Texas Fund 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, 2013. 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, 2013. Separate financial statements for TGMA may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

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

University of North Texas Foundation (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.

Casa Verde Research Center, Sociedad Anonimo (Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. Based on an analysis performed at year end, Casa Verde is neither material to the financial statements, nor would omission of Casa Verde result in misleading financial statements. Casa Verde is no longer reported as a component unit, but is reported here because its activity was removed from the fiscal 2014 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center) is a legally separate organization established in Mexico City, Mexico, to serve as a central point of contact for the support and promotion of Texas A&M University's international education, research and outreach activities. In addition, the Mexico Center provides services outside of Texas A&M University, such as to Mexican government entities. Based on an analysis performed at year end, the Mexico Center is neither material to the financial statements, nor would omission of the Mexico Center result in misleading financial statements. The Mexico Center is no longer reported as a component unit, but is reported here because its activity was removed from the fiscal 2014 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

National Biosecurity Foundation (NBF) is a legally separate nonprofit corporation established to develop national, regional and local biosecurity countermeasures against unconventional weapons, including biological, chemical and radioactive weapons, and communicable diseases applicable to both military and civilian populations. Based on an analysis performed at year end, the NBF is neither material to the financial statements, nor would omission of the NBF result in misleading financial statements. The NBF is no longer reported as a component unit, but is reported here because its activity was removed from the fiscal 2014 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

Texas 4-H Inc. is a legally separate nonprofit organization established to prepare the youth of Texas to meet the challenges of childhood, adolescence and adulthood through a coordinated, long-term, progressive series of educational experiences that enhance life skills and develop social, emotional, physical and cognitive competencies. Texas 4-H Inc. serves as the central organization for the subordinate organizations and affiliate organizations that compose the 4-H program in Texas. Based on an analysis performed at year end, Texas 4-H Inc. is neither material to the financial statements, nor would omission of Texas 4-H Inc. result in misleading financial statements. Texas 4-H Inc. is no longer reported as a component unit, but is reported here because its activity was removed from the fiscal 2014 financial statements by restating beginning net position. See Note 14 for more information on restatements of beginning balances.

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.

Texas Department of Public Safety Foundation (TDPSF) is a legally separate nonprofit corporation established for the purpose of supporting the Texas Department of Public Safety's mission and its employees through financial assistance, recognition of valor and sacrifice and contribution to employees and their family members injured or killed in the line of duty. The majority of the board members is appointed by the chairman of the Public Safety Commission, but TDPSF is not financially dependent upon the Public Safety Commission.

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

Governmental Funds

The **Texas Department of Transportation Project Fund** reported a deficit of \$536 million. The deficit is a result of capital outlay expenditures exceeding revenues and the related “due to” state highway fund of \$468 million in fiscal 2014. The intent is to reimburse the state

highway fund when bonds are issued in fiscal 2015. The State of Texas Highway Improvement, General Obligation Bonds, Series 2014, were issued on October 2014, for \$1.26 billion, for highway improvement projects.

The **Texas Mobility Capital Project Fund** reported a deficit of \$19.1 million. The deficit is a result of expenditures exceeding revenues. In addition, the Texas Transportation Commission has issued \$1.8 billion in bonds in fiscal year 2015. These proceeds will be available to pay or reimburse the state highway fund or mobility fund for authorized purposes.

Proprietary Funds

The **Texas Prepaid Tuition Plans** reported a deficit of \$445.6 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and actual and projected contributions from account holders and investment earnings on those contributions to the Texas Guaranteed Tuition Plan (Plan). The Plan was closed to new enrollment in 2003 when tuition was deregulated. Over the life of the Plan, actual tuition and required fees for Texas public four year colleges and universities grew at a higher percentage rate than the Plan’s investment return.

The **Grand Parkway Transportation Corporation (GPTC)**, a blended component unit of the Texas Department of Transportation, reported a deficit of \$10.2 million. The deficit is due to the payment of bond issuance costs. GPTC issued bonds in fiscal 2013 and incurred \$15.7 million bond issuance expense. None of the segments of the Grand Parkway were opened to traffic as of Aug. 31, 2013, thus no revenues were collected to offset the bond issuance costs. GPTC carried over a negative balance of \$15.9 million bond issuance expense and decrease in fair value of investment from the prior year. Toll revenue generated from this fiscal year resulted in a positive change in net position of \$5.7 million. The revenues have reduced the deficit of the fund balance from \$15.9 million to \$10.2 million.

Discretely Presented Component Units

The **Texas Property and Casualty Insurance Guaranty Association** reported a deficit of \$65.8 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 **Fair Access to Insurance Requirement Plan Association** reported a deficit of \$4.7 million. The deficit is a result of large storms in 2008. At the time of initial deficit, it was decided not to assess the members or issue public securities to reduce the deficit.

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 \$308.2 million is based on the payments received in December 2014. Tobacco settlement revenues were \$483.8 million in fiscal 2013 and \$496.2 million in fiscal 2014. Cumulative actual tobacco settlement revenues as of fiscal 2014 were \$8.6 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$2.9 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	\$ 2,880,029	Expendable
Term Endowments	41,206	Expendable
	<u>\$ 2,921,235</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

Extraordinary and Special Items

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

The state did not report special items in the current fiscal year. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Note 24

Taxes Receivable and Tax Refunds Payable

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

Texas franchise tax receivables represent balances due as of Aug. 31, 2014, for business activity that occurred in calendar year 2013. The franchise tax payments were due May 15, 2014; however, taxpayers were allowed to extend the filing date to November 2014.

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 2014 is not due until May 2015. 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, 2014 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	\$ 1,712,962
Motor Vehicle and Manufactured Housing	146,512
Motor Fuels	5,999
Oil and Natural Gas Production	772,045
Franchise	213,466
Insurance Occupation	237,549
Cigarette and Tobacco	31,200
Other	213,912
Total Taxes Receivable*	\$ 3,333,645
Liquidity Characteristics:	
Current Taxes Receivable	\$ 3,306,431
Noncurrent Taxes Receivable	27,214
Total Taxes Receivable	\$ 3,333,645
* Total Taxes Receivable General Fund	\$ 3,333,645
Motor Fuel Taxes Receivable in Other Governmental Funds:	
State Highway Fund	221,977
Nonmajor Governmental Funds	74,214
Total Taxes Receivable – Balance Sheet – Governmental Funds	\$ 3,629,836

Tax Refunds Payable by Tax Type

August 31, 2014 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	\$ 272,333
Franchise	608,755
Total Tax Refunds Payable	\$ 881,088

Note 25

Termination Benefits

Health Care Related Termination Benefits

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

trators 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 2014, the cost to the state was approximately \$34 million for 3,524 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.

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.

Note 26

Segment Information

Primary Government

A segment is a separately identifiable activity reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. Segment disclosure is not required for an activity whose only outstanding debt is conduit debt or

Condensed Statement of Net Position

August 31, 2014 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
ASSETS			
Current Restricted Assets	\$ 42,886	\$ 16,247	\$ 164
Noncurrent Restricted Assets	497,731	339,935	5,345
Total Assets	<u>540,617</u>	<u>356,182</u>	<u>5,509</u>
Deferred Outflows of Resources	22,441		
LIABILITIES			
Current Liabilities	15,455	7,406	12
Noncurrent Liabilities	447,593	257,108	3,744
Total Liabilities	<u>463,048</u>	<u>264,514</u>	<u>3,756</u>
NET POSITION			
Restricted	<u>100,010</u>	<u>91,668</u>	<u>1,753</u>
Total Net Position	<u>\$ 100,010</u>	<u>\$ 91,668</u>	<u>\$ 1,753</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended August 31, 2014 (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	\$ 26,477	\$ 13,697	\$ 371
Net Increase (Decrease) in Fair Value	(95)	3,984	(276)
Other Operating Revenues	106		
Operating Expenses	(19,100)	(10,358)	(272)
Operating Income	<u>7,388</u>	<u>7,323</u>	<u>(177)</u>
NONOPERATING REVENUES (EXPENSES)			
Transfer In (Out)	(79)	10,904	
Changes in Net Position	<u>7,309</u>	<u>18,227</u>	<u>(177)</u>
Net Position, September 1, 2013	87,761	74,489	1,800
Restatements	4,940	(1,048)	130
Net Position, September 1, 2013, as restated	<u>92,701</u>	<u>73,441</u>	<u>1,930</u>
Net Position, August 31, 2014	<u>\$ 100,010</u>	<u>\$ 91,668</u>	<u>\$ 1,753</u>

Condensed Statement of Cash Flows

For the Fiscal Year Ended August 31, 2014 (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	\$ 760	\$ (10,848)	\$
Noncapital Financing Activities	(166,741)	(61,191)	(1,005)
Investing Activities	<u>155,758</u>	<u>63,964</u>	<u>1,108</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	<u>(10,223)</u>	<u>(8,075)</u>	<u>103</u>
Cash and Cash Equivalents, September 1, 2013	49,969	23,060	35
Cash and Cash Equivalents, August 31, 2014	<u>\$ 39,746</u>	<u>\$ 14,985</u>	<u>\$ 138</u>

Note 27

Service Concession Arrangements

The state of Texas has seven arrangements that fit the criteria of a service concession arrangement (SCA). As the transferor in these arrangements, the state retains ownership rights and title to all assets associated with

an SCA. All of these arrangements were entered into by the Texas Department of Transportation (TxDOT). The fees the operator collects are in the form of tolls. Project maintenance and operations will transfer back to TxDOT once the arrangements have ended.

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

Service Concession Arrangements

August 31, 2014

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	Under Construction	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, 2014, are presented in the table below.

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

August 31, 2014 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	\$	\$	\$ 222,826
SH 130 Segments 5 and 6	119,248	1,444,038	1,467,997
SH 121 Concession	1,611,186	1,322,028	3,411,487
North Tarrant Exp Seg 1 and 2-West		658,919	38,771
North Tarrant Exp Seg 3A and 3B		190,830	
LBJ/IH-635 Managed Lanes		320,104	
Grand Parkway Seg D, E, F1, F2, G		44,012	
	<u>\$ 1,730,434</u>	<u>\$ 3,979,931</u>	<u>\$ 5,141,081</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 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, 2014, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling \$286.3 million and \$15.6 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 \$9.6 billion is related to a TELA with the GPTC. Under the TELA, TxDOT has agreed to lend a negotiated amount each year should

revenues of the projects be insufficient to cover operations and maintenance, including debt service. The GPTC funds are to be used to pay for certain costs relating to the development, construction, operation, maintenance and financing of Segments D (Harris County), 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, 2014, no draw-downs of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of \$1.4 billion for its costs of design, construction and right-of-way acquisition for the year ended Aug. 31, 2014. This amount is reported as business-type activities.

Note 28

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2014, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements, bond refunding, the acquisition of Texas Wesleyan University Law School by Texas A&M University, unearned tax prepayment, 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, 2014 for governmental activities, business-type activities and governmental funds.

Deferred Outflows of Resources and Deferred Inflows of Resources

August 31, 2014 (Amounts in Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Government-wide Financial Statements		
<i>Governmental Activities</i>		
Unearned Tax Prepayments	\$	\$ 85,653
Bond/Debt refunding SCAs (Note 27)	76,655	5,141,081
Total	<u>\$ 76,655</u>	<u>\$ 5,226,734</u>
<i>Business-Type Activities</i>		
Bond/Debt refunding	\$ 53,211	\$ 10,129
Derivatives (Note 7)	488,215	5,934
Government Acquisitions	35,143	
Total	<u>\$ 576,569</u>	<u>\$ 16,063</u>
Fund Financial Statements		
<i>Governmental Funds</i>		
Revenue Earned But Not Available	\$	\$ 275,195
Unearned Tax Prepayments		85,653
Total	<u>\$ 0</u>	<u>\$ 360,848</u>

Deferred outflows of resources in business-type activities of \$488.2 million were related to hedging derivatives in a liability position and \$5.9 million of deferred inflows of resources were related to hedging derivatives in an asset position. The net hedging derivative liability of \$482.3 million is disclosed in Note 7.

Deferred outflows of resources in business-type activities of \$35.1 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 2014 was \$3.9 million.

Deferred inflows of resources in governmental activities of \$5.1 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 27.

Deferred outflows of resources of \$76.7 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 2014 in business-type activities for \$10.1 million in deferred inflows of resources related to gains and \$53.2 million in deferred outflows of resources related to losses, respectively.

As a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal 2014, the governmental funds reported deferred inflows of resources of \$275.2 million related to various types of revenues earned but not available within 60 days of fiscal year end. Additionally, the governmental funds reported \$85.7 million of deferred inflows of resources related to tax prepayments allocated for use in fiscal 2015. This is also reported in governmental activities.

Note 29

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, 2014, the total principal debt guaranteed on bond issues is \$58.4 million.

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, 2014, \$9.5 million of available grant funds have been committed.

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, 2014 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	\$ 44,398,129	\$ 46,128,403	\$ 45,103,910	\$ (1,024,493)
Federal	32,791,676	35,748,374	35,371,253	(377,121)
Licenses, Fees and Permits	2,503,761	2,719,955	3,034,939	314,984
Interest and Other Investment Income	200,046	127,648	237,755	110,107
Land Income	19,453	19,919	56,001	36,082
Settlement of Claims	538,011	538,647	557,852	19,205
Sales of Goods and Services	1,809,476	2,785,656	2,149,172	(636,484)
Other	3,221,283	3,978,474	3,872,214	(106,260)
Total Revenues	<u>85,481,835</u>	<u>92,047,076</u>	<u>90,383,096</u>	<u>(1,663,980)</u>
EXPENDITURES				
General Government	4,677,737	3,619,935	2,540,042	1,079,893
Education	23,532,842	24,180,256	25,874,627	(1,694,371)
Employee Benefits	1,504,118	16,702	1,888	14,814
Teacher Retirement Benefits	1,807,721	1,807,721	1,956,589	(148,868)
Health and Human Services	38,335,344	43,445,348	46,581,112	(3,135,764)
Public Safety and Corrections	4,415,438	5,554,700	4,909,232	645,468
Transportation	299,882	325,689	99,107	226,582
Natural Resources and Recreation	2,311,188	2,599,407	1,864,886	734,521
Regulatory Services	260,795	333,823	314,847	18,976
Total Expenditures	<u>77,145,065</u>	<u>81,883,581</u>	<u>84,142,330</u>	<u>(2,258,749)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>8,336,770</u>	<u>10,163,495</u>	<u>6,240,766</u>	<u>(3,922,729)</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,344,034	1,855,772	4,637,726	2,781,954
Transfer Out	(7,660,553)	(7,666,019)	(8,475,417)	(809,398)
Sale of Capital Assets	6,354	6,868	15,477	8,609
Insurance Recoveries	250	674	8,351	7,677
Available Beginning Balances	7,006,276	7,006,276	7,006,276	
Total Other Financing Sources (Uses)	<u>696,361</u>	<u>1,203,571</u>	<u>3,192,413</u>	<u>1,988,842</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ 9,033,131</u>	<u>\$ 11,367,066</u>	<u>\$ 9,433,179</u>	<u>\$ (1,933,887)</u>

STATE OF TEXAS

Budgetary Comparison Schedule

Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 43,275	\$ 43,275	\$ 2,479,713	\$ 2,436,438
Federal	4,369,344	3,681,039	3,361,625	(319,414)
Licenses, Fees and Permits	1,560,591	1,479,179	1,465,554	(13,625)
Interest and Other Investment Income	10,170	14,204	31,438	17,234
Land Income	8,066	8,066	13,650	5,584
Settlement of Claims	1,554	2,042	17,635	15,593
Sales of Goods and Services	168,477	174,613	9,004	(165,609)
Other	3,497	41,608	21,546	(20,062)
Total Revenues	<u>6,164,974</u>	<u>5,444,026</u>	<u>7,400,165</u>	<u>1,956,139</u>
EXPENDITURES				
General Government	17,257	20,285	21,020	(735)
Employee Benefits	96,037			
Public Safety and Corrections	609,789	745,057	479,452	265,605
Transportation	9,057,861	10,123,456	7,574,967	2,548,489
Regulatory Services	4,996	4,996	4,383	613
Total Expenditures	<u>9,785,940</u>	<u>10,893,794</u>	<u>8,079,822</u>	<u>2,813,972</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(3,620,966)</u>	<u>(5,449,768)</u>	<u>(679,657)</u>	<u>4,770,111</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	2,772,742	2,372,743	413,600	(1,959,143)
Transfer Out			(392,616)	(392,616)
Sale of Capital Assets	5,612	5,612	7,753	2,141
Insurance Recoveries	11,000	11,000	248	(10,752)
Available Beginning Balances	3,479,932	3,479,932	3,479,932	
Total Other Financing Sources (Uses)	<u>6,269,286</u>	<u>5,869,287</u>	<u>3,508,917</u>	<u>(2,360,370)</u>
Excess of Revenues and Other Financing Sources				
Over Expenditures and Other Financing Uses	<u>\$ 2,648,320</u>	<u>\$ 419,519</u>	<u>\$ 2,829,260</u>	<u>\$ 2,409,741</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.

Reconciliation of Budgetary Basis to GAAP Basis		
August 31, 2014 (Amounts in Thousands)		
	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 9,433,179	\$ 2,829,260
Basis of Accounting Differences:		
Receivables and Unearned Revenues	495,793	104,376
Payables	(179,123)	297,676
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(7,006,276)	(3,479,932)
Other Revenues Not Budgeted	324,864	1,651,381
Other Expenditures Not Budgeted	(286,945)	(1,057,610)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	33,354	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis	<u>\$ 2,814,846</u>	<u>\$ 345,151</u>

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

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund – The \$1.7 billion variance in education was due to various prior year educational programs in that year's budget primarily being spent in this fiscal year. The \$3.1 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 \$148.9 million variance in teacher retirement benefits results from prior year contributions/allocations reappropriated in this fiscal year as stipulated by legislation.

Major special revenue fund – state highway fund – The \$735 thousand variance in general government is the result of authorized expenditures paid from revenues received in excess of estimated appropriations.

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 a line 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, anticipated revenues based on laws then in effect and estimat-

ed 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 2014, \$198.2 thousand was transferred to the Texas Veteran's Commission to provide additional funds for staffing needs in processing veteran's claims for disability benefits. 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 Funding Progress

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented in the table below.

Schedules 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)
Employees Retirement System of Texas (ERS)						
08/31/14	\$ 25,431,923	\$ 32,076,395	\$ 6,644,472	79.3%	\$ 5,955,461	111.6%
08/31/13	24,667,639	30,987,987	6,320,348	79.6%	5,959,473	106.1%
08/31/12	24,272,514	29,377,069	5,104,555	82.6%	5,676,509	89.9%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/14	\$ 883,595	\$ 1,163,207	\$ 279,612	76.0%	\$ 1,496,013	18.7%
08/31/13	843,017	1,149,712	306,695	73.3%	1,627,699	18.8%
08/31/12	832,451	1,015,668	183,217	82.0%	1,498,979	12.2%
Judicial Retirement System Plan One (JRS1)						
08/31/14	\$ 0	\$ 332,238 **	\$ 332,238	0.0%	\$ 1,764	18,834.4%
08/31/13	0	252,943	252,943	0.0%	1,904	13,284.8%
08/31/12	0	232,922	232,922	0.0%	2,200	10,587.4%
Judicial Retirement System Plan Two (JRS2)						
08/31/14	\$ 348,431	\$ 386,295	\$ 37,864	90.2%	\$ 77,441	48.9%
08/31/13	318,026	359,044	41,018	88.6%	77,854	52.7%
08/31/12	300,433	315,199	14,766	95.3%	68,778	21.5%
Teacher Retirement System of Texas (TRS)						
08/31/14	\$ 128,397,778	\$ 160,035,601	\$ 31,637,823	80.2%	\$ 38,522,207	82.1%
08/31/13	121,729,819	150,666,094	28,936,275	80.8%	36,504,576	79.3%
08/31/12	118,326,042	144,427,226	26,101,184	81.9%	35,444,569	73.6%

* Addresses for obtaining the financial reports for the pension plans are provided in Note 9.

** AAL for JRS1 is determined based on a 4.17 percent discount rate as of Aug. 31, 2014; otherwise AAL is determined based on an 8.00 percent discount rate for all plans and all years.

The schedules 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.

Schedules 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)						
12/31/12	\$ 0	\$ 6,939,197	\$ 6,939,197	0.0%	\$ 5,674,298	122.3%
12/31/10	0	5,956,798	5,956,798	0.0%	5,309,413	112.2%
12/31/09	0	5,676,868	5,676,868	0.0%	5,026,491	112.9%
A&M Care Health and Life Plan (A&M Plan)						
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%
09/01/09	0	1,864,320	1,864,320	0.0%	1,315,292	141.7%

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

Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following plans varied from the previous year to the current year due to actuarial methods used, and changes in actuarial assumptions or benefit provisions. Significant factors are summarized below.

Pension Plans

Amounts reported for the ERS, LECOS, and JRS2 plans varied due to interest on the unfunded liability balances, near elimination of smoothed asset losses from 2008-2010, and increased member contribution rates. For the JRS1 plan, the amounts varied due to a decrease in the discount rate. Amounts reported for the TRS plan varied from the previous year due to changes in the benefit provisions and the legislative increases in the member and employer contribution rates.

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. As of Aug. 31, 2014, the 2012 valuations are still valid.

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

- The period of coverage assumption for dependent children and the tobacco usage assumption have been updated to reflect statutory changes and recent plan experience.
- The Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect claims and expense experience since the prior valuation. The Assumed Expenses include provision for the Patient-Centered Outcomes Research Institute fee and the Transitional Reinsurance Program fee.

-
- 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.

There were changes in assumptions that account for the lower than expected actuarial accrued liability for the A&M Plan since the prior valuation. These changes include a combination of the following factors:

- Factors that decrease the liability include a smaller active population, revision in the post Medicare trend assumptions, and lower than expected claims/contributions.
- Factors that increase the liability include the addition of an excise tax due to the Patient Protection and Affordable Care Act, improved mortality assumptions, and a slightly greater retiree population.

Section Two (continued)

Other Supplementary Information Combining Financial Statements and Schedules



Section Two (continued)

Governmental Funds



STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2014 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,346,130	\$ 608,642	\$ 702,795	\$ 52,178	\$ 2,709,745
Short-Term Investments	157,334			39,469	196,803
Receivables:					
Accounts	33	471	2,754		3,258
Taxes	74,214				74,214
Federal	1,944	19,426			21,370
Investment Trades				94	94
Interest and Dividends	12,322	80		25	12,427
Due From Other Funds	73,742		63,032	598	137,372
Interfund Receivable			440		440
Inventories	217		5		222
Prepaid Items	37				37
Investments	1,607,961			1,057,221	2,665,182
Loans and Contracts	867,269				867,269
Restricted:					
Cash and Cash Equivalents	4,725				4,725
Loans and Contracts	852,596				852,596
Other Assets	88,268				88,268
Total Assets	<u>\$ 5,086,792</u>	<u>\$ 628,619</u>	<u>\$ 769,026</u>	<u>\$ 1,149,585</u>	<u>\$ 7,634,022</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 120,115	\$ 320	\$ 240,082	\$ 1,439	\$ 361,956
Investment Trades	384			99	483
Payroll	4,128				4,128
Due To Other Funds	2,686		472,604	34,450	509,740
Interfund Payable	2,575		552		3,127
Unearned Revenues	152		490,641		490,793
Other Liabilities	200		1,780		1,980
Total Liabilities	<u>130,240</u>	<u>320</u>	<u>1,205,659</u>	<u>35,988</u>	<u>1,372,207</u>
Deferred Inflows of Resources:					
Deferred Inflows of Resources	4				4
Total Deferred Inflows of Resources	<u>4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>
Fund Balances:					
Nonspendable	254		5	832,736	832,995
Restricted	4,256,704	628,299	118,419	268,316	5,271,738
Committed	697,014			12,545	709,559
Assigned	2,576				2,576
Unassigned			(555,057)		(555,057)
Total Fund Balances	<u>4,956,548</u>	<u>628,299</u>	<u>(436,633)</u>	<u>1,113,597</u>	<u>6,261,811</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,086,792</u>	<u>\$ 628,619</u>	<u>\$ 769,026</u>	<u>\$ 1,149,585</u>	<u>\$ 7,634,022</u>

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	\$ 3,482,618	\$	\$	\$	\$ 3,482,618
Federal	2,896	49,999			52,895
Licenses, Fees and Permits	250,526	399,401			649,927
Interest and Other Investment Income	99,238	3,603	3,556	103,584	209,981
Land Income	33			20	53
Sales of Goods and Services	2,267		195,224		197,491
Other	22,848		23	248,417	271,288
Total Revenues	<u>3,860,426</u>	<u>453,003</u>	<u>198,803</u>	<u>352,021</u>	<u>4,864,253</u>
EXPENDITURES					
Current:					
General Government	218,611	786	24,921	2,608	246,926
Education	1,251,026		85	2,458	1,253,569
Employee Benefits	16,365				16,365
Health and Human Services	40		21,354	621	22,015
Public Safety and Corrections	55,612		30,768		86,380
Transportation	5,541	84,962	416,392		506,895
Natural Resources and Recreation	17,192		5,178	2,245	24,615
Regulatory Services	409,488				409,488
Capital Outlay	3,365		1,025,807		1,029,172
Debt Service:					
Principal		679,660			679,660
Interest	145	685,866	28		686,039
Other Financing Fees	648	6,029	917		7,594
Total Expenditures	<u>1,978,033</u>	<u>1,457,303</u>	<u>1,525,450</u>	<u>7,932</u>	<u>4,968,718</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>1,882,393</u>	<u>(1,004,300)</u>	<u>(1,326,647)</u>	<u>344,089</u>	<u>(104,465)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	3,212,410	816,286	35,536		4,064,232
Transfer Out	(3,329,381)	(901)	(189,289)	(19,031)	(3,538,602)
Bonds and Notes Issued	113,740	5,269	125,775		244,784
Bonds Issued for Refunding	15,095	1,505,435			1,520,530
Premiums on Bonds Issued	13,679	200,455			214,134
Payment to Escrow for Refunding	(15,095)	(1,710,915)			(1,726,010)
Sale of Capital Assets	1				1
Total Other Financing Sources (Uses)	<u>10,449</u>	<u>815,629</u>	<u>(27,978)</u>	<u>(19,031)</u>	<u>779,069</u>
Net Change in Fund Balances	<u>1,892,842</u>	<u>(188,671)</u>	<u>(1,354,625)</u>	<u>325,058</u>	<u>674,604</u>
Fund Balances, September 1, 2013	3,226,140	816,971	917,992	788,539	5,749,642
Restatements	(162,434)	(1)			(162,435)
Fund Balances, September 1, 2013, as Restated	<u>3,063,706</u>	<u>816,970</u>	<u>917,992</u>	<u>788,539</u>	<u>5,587,207</u>
Fund Balances, August 31, 2014	<u>\$ 4,956,548</u>	<u>\$ 628,299</u>	<u>\$ (436,633)</u>	<u>\$ 1,113,597</u>	<u>\$ 6,261,811</u>

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increases and calculated amounts from franchise taxes. The fund was established with the intent of reducing school district property taxes.

The **Texas Transportation Corporations** issue bonds and notes – currently only conduit debt – to finance the cost of projects. The corporations act on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements entered into by TxDOT.

The **Transportation Infrastructure Fund** makes grants to counties for transportation infrastructure projects located in areas of the state affected by increased oil and gas production. The sources of the fund include federal funds, matching state funds, legislative appropriations, gifts, grants, fees and investment earnings.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2014 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations	Transportation Infrastructure Fund	Water Development Funds	System Benefit Fund	Available School Fund	Other Nonmajor Special Revenue Funds*	Totals
ASSETS								
Cash and Cash Equivalents	\$	\$ 356	\$ 224,882	\$ 299,027	\$ 533,248	\$ 18,334	\$ 270,283	\$ 1,346,130
Short-Term Investments				157,325			9	157,334
Receivables:								
Accounts							33	33
Taxes						74,214		74,214
Federal				10			1,934	1,944
Interest and Dividends	16			3,584		46	8,676	12,322
Due From Other Funds		184		2		71,768	1,788	73,742
Inventories							217	217
Prepaid Items		4					33	37
Investments				1,607,947			14	1,607,961
Loans and Contracts				857,450			9,819	867,269
Restricted:								
Cash and Cash Equivalents							4,725	4,725
Loans and Contracts							852,596	852,596
Other Assets							88,268	88,268
Total Assets	<u>\$ 16</u>	<u>\$ 544</u>	<u>\$ 224,882</u>	<u>\$ 2,925,345</u>	<u>\$ 533,248</u>	<u>\$ 164,362</u>	<u>\$ 1,238,395</u>	<u>\$ 5,086,792</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Payables:								
Accounts	\$	\$ 176	\$ 2,589	\$ 2,016	\$ 112,237	\$	\$ 3,097	\$ 120,115
Investment Trades				384				384
Payroll							4,128	4,128
Due To Other Funds				877			1,809	2,686
Interfund Payable				2,575				2,575
Unearned Revenues							152	152
Other Liabilities							200	200
Total Liabilities	<u>0</u>	<u>176</u>	<u>2,589</u>	<u>5,852</u>	<u>112,237</u>	<u>0</u>	<u>9,386</u>	<u>130,240</u>
Deferred Inflows of Resources:								
Deferred Inflows of Resources						4		4
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>4</u>
Fund Balances:								
Nonspendable		4					250	254
Restricted	16			2,919,307		164,358	1,173,023	4,256,704
Committed			222,293	186	421,011		53,524	697,014
Assigned		364					2,212	2,576
Total Fund Balances	<u>16</u>	<u>368</u>	<u>222,293</u>	<u>2,919,493</u>	<u>421,011</u>	<u>164,358</u>	<u>1,229,009</u>	<u>4,956,548</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 16</u>	<u>\$ 544</u>	<u>\$ 224,882</u>	<u>\$ 2,925,345</u>	<u>\$ 533,248</u>	<u>\$ 164,362</u>	<u>\$ 1,238,395</u>	<u>\$ 5,086,792</u>

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations	Transportation Infrastructure Fund	Water Development Funds	System Benefit Fund	Available School Fund	Other Nonmajor Special Revenue Funds*	Totals
REVENUES								
Taxes	\$ 2,665,228	\$	\$	\$	\$	\$ 817,390	\$	\$ 3,482,618
Federal				228			2,668	2,896
Licenses, Fees and Permits					17,065		233,461	250,526
Interest and Other Investment Income	626		726	41,635		452	55,799	99,238
Land Income							33	33
Sales of Goods and Services				66			2,201	2,267
Other		2,079		2,047			18,722	22,848
Total Revenues	<u>2,665,854</u>	<u>2,079</u>	<u>726</u>	<u>43,976</u>	<u>17,065</u>	<u>817,842</u>	<u>312,884</u>	<u>3,860,426</u>
EXPENDITURES								
Current:								
General Government							218,611	218,611
Education						1,227,473	23,553	1,251,026
Employee Benefits							16,365	16,365
Health and Human Services							40	40
Public Safety and Corrections							55,612	55,612
Transportation		2,108	3,433					5,541
Natural Resources and Recreation				13,714			3,478	17,192
Regulatory Services					409,488			409,488
Capital Outlay				34			3,331	3,365
Debt Service:								
Interest				145				145
Other Financing Fees				87			561	648
Total Expenditures	<u>0</u>	<u>2,108</u>	<u>3,433</u>	<u>13,980</u>	<u>409,488</u>	<u>1,227,473</u>	<u>321,551</u>	<u>1,978,033</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>2,665,854</u>	<u>(29)</u>	<u>(2,707)</u>	<u>29,996</u>	<u>(392,423)</u>	<u>(409,631)</u>	<u>(8,667)</u>	<u>1,882,393</u>
OTHER FINANCING SOURCES (USES)								
Transfer In			225,000	2,009,719		838,672	139,019	3,212,410
Transfer Out	(2,666,189)			(52,320)		(420,244)	(190,628)	(3,329,381)
Bonds and Notes Issued							113,740	113,740
Bonds Issued for Refunding				15,095				15,095
Premiums on Bonds Issued							13,679	13,679
Payment to Escrow for Refunding				(15,095)				(15,095)
Sale of Capital Assets				1				1
Total Other Financing Sources (Uses)	<u>(2,666,189)</u>	<u>0</u>	<u>225,000</u>	<u>1,957,400</u>	<u>0</u>	<u>418,428</u>	<u>75,810</u>	<u>10,449</u>
Net Change in Fund Balances	<u>(335)</u>	<u>(29)</u>	<u>222,293</u>	<u>1,987,396</u>	<u>(392,423)</u>	<u>8,797</u>	<u>67,143</u>	<u>1,892,842</u>
Fund Balances, September 1, 2013	351	397		1,096,877	813,434	155,561	1,159,520	3,226,140
Restatements				(164,780)			2,346	(162,434)
Fund Balances, September 1, 2013, as Restated	<u>351</u>	<u>397</u>	<u>0</u>	<u>932,097</u>	<u>813,434</u>	<u>155,561</u>	<u>1,161,866</u>	<u>3,063,706</u>
Fund Balances, August 31, 2014	<u>\$ 16</u>	<u>\$ 368</u>	<u>\$ 222,293</u>	<u>\$ 2,919,493</u>	<u>\$ 421,011</u>	<u>\$ 164,358</u>	<u>\$ 1,229,009</u>	<u>\$ 4,956,548</u>

* The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Budgetary Comparison Schedule

Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Property Tax Relief Fund				Transportation Infrastructure Fund			
	Budgetary Amounts		Actual Amounts	Final To Actual	Budgetary Amounts		Actual Amounts	Final To Actual
	Original	Final	Budgetary Basis	Variance	Original	Final	Budgetary Basis	Variance
REVENUES								
Taxes	\$ 2,791,808	\$ 2,656,364	\$ 2,665,228	\$ 8,864	\$	\$	\$	\$
Federal								
Licenses, Fees and Permits								
Interest and Other Investment Income	1,290	994	962	(32)			726	726
Land Income								
Sales of Goods and Services								
Other								
Total Revenues	<u>2,793,098</u>	<u>2,657,358</u>	<u>2,666,190</u>	<u>8,832</u>	<u>0</u>	<u>0</u>	<u>726</u>	<u>726</u>
EXPENDITURES								
General Government								
Education	2,793,098	2,793,098		2,793,098				
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation					225,000	225,000	845	224,155
Natural Resources and Recreation								
Regulatory Services								
Total Expenditures	<u>2,793,098</u>	<u>2,793,098</u>	<u>0</u>	<u>2,793,098</u>	<u>225,000</u>	<u>225,000</u>	<u>845</u>	<u>224,155</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>0</u>	<u>(135,740)</u>	<u>2,666,190</u>	<u>2,801,930</u>	<u>(225,000)</u>	<u>(225,000)</u>	<u>(119)</u>	<u>224,881</u>
OTHER FINANCING SOURCES (USES)								
Transfer In					225,000	225,000	225,000	
Transfer Out			(2,666,190)	(2,666,190)				
Sale of Capital Assets								
Available Beginning Balances								
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>(2,666,190)</u>	<u>(2,666,190)</u>	<u>225,000</u>	<u>225,000</u>	<u>225,000</u>	<u>0</u>
Excess (Deficiency) of Revenues and								
Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	<u>\$ 0</u>	<u>\$ (135,740)</u>	<u>\$ 0</u>	<u>\$ 135,740</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 224,881</u>	<u>\$ 224,881</u>

Continued on the following page

* The activity of the discretely presented Texas Transportation Corporations is not shown on this schedule because there is no legally adopted budget.

STATE OF TEXAS

Budgetary Comparison Schedule

Nonmajor Special Revenue Funds (continued)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Water Development Funds				System Benefit Fund			
	Budgetary Amounts		Actual Amounts	Final To	Budgetary Amounts		Actual Amounts	Final To
	Original	Final	Budgetary Basis	Actual Variance	Original	Final	Budgetary Basis	Actual Variance
REVENUES								
Taxes	\$	\$	\$	\$	\$	\$	\$	\$
Federal			253	253				
Licenses, Fees and Permits					145,510	17,077	17,065	(12)
Interest and Other Investment Income	23,642	23,642	41,245	17,603	4,148			
Land Income								
Sales of Goods and Services			143	143				
Other			2,047	2,047				
Total Revenues	<u>23,642</u>	<u>23,642</u>	<u>43,688</u>	<u>20,046</u>	<u>149,658</u>	<u>17,077</u>	<u>17,065</u>	<u>(12)</u>
EXPENDITURES								
General Government								
Education								
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation	6,556	2,012,557	11,740	2,000,817				
Regulatory Services					621,278	623,580	322,346	301,234
Total Expenditures	<u>6,556</u>	<u>2,012,557</u>	<u>11,740</u>	<u>2,000,817</u>	<u>621,278</u>	<u>623,580</u>	<u>322,346</u>	<u>301,234</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	17,086	(1,988,915)	31,948	2,020,863	(471,620)	(606,503)	(305,281)	301,222
OTHER FINANCING SOURCES (USES)								
Transfer In	2,000,000	2,000,000	2,009,719	9,719				
Transfer Out			(52,320)	(52,320)				
Sale of Capital Assets			1	1				
Available Beginning Balances	17,138	17,138	17,138		838,530	838,530	838,530	
Total Other Financing Sources (Uses)	<u>2,017,138</u>	<u>2,017,138</u>	<u>1,974,538</u>	<u>(42,600)</u>	<u>838,530</u>	<u>838,530</u>	<u>838,530</u>	<u>0</u>
Excess (Deficiency) of Revenues and								
Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	<u>\$ 2,034,224</u>	<u>\$ 28,223</u>	<u>\$ 2,006,486</u>	<u>\$ 1,978,263</u>	<u>\$ 366,910</u>	<u>\$ 232,027</u>	<u>\$ 533,249</u>	<u>\$ 301,222</u>

Concluded on the following page

* The activity of the discretely presented Texas Transportation Corporations is not shown on this schedule because there is no legally adopted budget.

STATE OF TEXAS

Budgetary Comparison Schedule

Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Available School Fund				Other Nonmajor Special Revenue Funds*			
	Budgetary Amounts		Actual Amounts	Final To	Budgetary Amounts		Actual Amounts	Final To
	Original	Final	Budgetary Basis	Actual Actual	Original	Final	Budgetary Basis	Actual Actual
				Variance				Variance
REVENUES								
Taxes	\$	\$	\$ 814,579	\$ 814,579	\$	\$	\$	\$
Federal					4,250	4,250	1,624	(2,626)
Licenses, Fees and Permits					98,684	98,684	88,080	(10,604)
Interest and Other Investment Income	1,513	685	432	(253)	597	597	1,919	1,322
Land Income							23	23
Sales of Goods and Services					31,795	31,795	2,514	(29,281)
Other					48	63	85	22
Total Revenues	<u>1,513</u>	<u>685</u>	<u>815,011</u>	<u>814,326</u>	<u>135,374</u>	<u>135,389</u>	<u>94,245</u>	<u>(41,144)</u>
EXPENDITURES								
General Government					505,196	172,775	99,983	72,792
Education	1,350,059	1,350,059	1,227,473	122,586			434	(434)
Employee Benefits					602,618	18,899	16,209	2,690
Health and Human Services					17,715	17,756	186	17,570
Public Safety and Corrections					5,500	5,500	2	5,498
Transportation								
Natural Resources and Recreation					3,324	9,071	5,356	3,715
Regulatory Services								
Total Expenditures	<u>1,350,059</u>	<u>1,350,059</u>	<u>1,227,473</u>	<u>122,586</u>	<u>1,134,353</u>	<u>224,001</u>	<u>122,170</u>	<u>101,831</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>(1,348,546)</u>	<u>(1,349,374)</u>	<u>(412,462)</u>	<u>936,912</u>	<u>(998,979)</u>	<u>(88,612)</u>	<u>(27,925)</u>	<u>60,687</u>
OTHER FINANCING SOURCES (USES)								
Transfer In	1,767,360	1,634,571	838,672	(795,899)			76,672	76,672
Transfer Out		(420,977)	(420,244)	733			(35,002)	(35,002)
Sale of Capital Assets								
Available Beginning Balances	<u>17,273</u>	<u>17,273</u>	<u>17,273</u>		<u>19,764</u>	<u>19,764</u>	<u>19,764</u>	
Total Other Financing Sources (Uses)	<u>1,784,633</u>	<u>1,230,867</u>	<u>435,701</u>	<u>(795,166)</u>	<u>19,764</u>	<u>19,764</u>	<u>61,434</u>	<u>41,670</u>
Excess (Deficiency) of Revenues and								
Other Financing Sources Over (Under)								
Expenditures and Other Financing Uses	<u>\$ 436,087</u>	<u>\$ (118,507)</u>	<u>\$ 23,239</u>	<u>\$ 141,746</u>	<u>\$ (979,215)</u>	<u>\$ (68,848)</u>	<u>\$ 33,509</u>	<u>\$ 102,357</u>

* The activity of the discretely presented Texas Transportation Corporations is not shown on this schedule because there is no legally adopted budget.

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas opportunity plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Department of Transportation Texas Mobility Fund** receives proceeds from the sale of general obligation bonds and the revenues dictated by statute to provide for the debt service requirements of those bonds. The bond proceeds provide a method of financing for the construction, reconstruction, acquisition and expansion of state highway projects. The proceeds remain in the fund until transferred to the state highway fund.

The **Texas Public Finance Authority G.O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on the sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2014 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
ASSETS							
Cash and Cash Equivalents	\$ 111,172	\$ 364,216	\$ 24	\$ 5,117	\$ 128,107	\$ 6	\$ 608,642
Receivables:							
Accounts	471						471
Federal		8,975			10,451		19,426
Interest and Dividends	80						80
Total Assets	<u>\$ 111,723</u>	<u>\$ 373,191</u>	<u>\$ 24</u>	<u>\$ 5,117</u>	<u>\$ 138,558</u>	<u>\$ 6</u>	<u>\$ 628,619</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts	\$ 21	\$ 299	\$ 0	\$ 0	\$ 0	\$ 0	\$ 320
Total Liabilities	<u>21</u>	<u>299</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>320</u>
Fund Balances:							
Restricted	111,702	372,892	24	5,117	138,558	6	628,299
Total Fund Balances	<u>111,702</u>	<u>372,892</u>	<u>24</u>	<u>5,117</u>	<u>138,558</u>	<u>6</u>	<u>628,299</u>
Total Liabilities and Fund Balances	<u>\$ 111,723</u>	<u>\$ 373,191</u>	<u>\$ 24</u>	<u>\$ 5,117</u>	<u>\$ 138,558</u>	<u>\$ 6</u>	<u>\$ 628,619</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Department of Transportation Texas Mobility Fund	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
REVENUES							
Federal	\$ 21	\$ 21,561	\$ 3,368	\$	\$ 25,049	\$	\$ 49,999
Licenses, Fees and Permits		399,401					399,401
Interest and Other Investment Income	1,178	1,917	9	20	466	13	3,603
Total Revenues	1,199	422,879	3,377	20	25,515	13	453,003
EXPENDITURES							
Current:							
General Government			477	309			786
Transportation		84,962					84,962
Debt Service:							
Principal	52,715	210,385	175,800	5,065	125,995	109,700	679,660
Interest	40,704	317,376	80,441	286	189,306	57,753	685,866
Other Financing Fees		4,136	1,082	811			6,029
Total Expenditures	93,419	616,859	257,800	6,471	315,301	167,453	1,457,303
Deficiency of Revenues Under Expenditures	(92,220)	(193,980)	(254,423)	(6,451)	(289,786)	(167,440)	(1,004,300)
OTHER FINANCING SOURCES (USES)							
Transfer In	110,603		254,526	11,368	273,247	166,542	816,286
Transfer Out	(900)					(1)	(901)
Bonds and Notes Issued			4,375			894	5,269
Bonds Issued for Refunding		973,775	298,706	232,954			1,505,435
Premium on Bonds Issued		157,759	42,696				200,455
Payment to Escrow for Refunding		(1,127,015)	(346,020)	(237,880)			(1,710,915)
Total Other Financing Sources	109,703	4,519	254,283	6,442	273,247	167,435	815,629
Net Change in Fund Balances	17,483	(189,461)	(140)	(9)	(16,539)	(5)	(188,671)
Fund Balances, September 1, 2013	94,219	562,353	164	5,126	155,097	12	816,971
Restatements						(1)	(1)
Fund Balances, September 1, 2013, as Restated	94,219	562,353	164	5,126	155,097	11	816,970
Fund Balances, August 31, 2014	\$ 111,702	\$ 372,892	\$ 24	\$ 5,117	\$ 138,558	\$ 6	\$ 628,299

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Juvenile Justice Department Project Funds** are used to pay for minor construction and repairs of the former Texas Youth Commission buildings and facilities.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new Department of Public Safety buildings and crime lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used for public road and highway development, construction and improvement projects. The funds are also used to establish, acquire, operate, maintain and dispose of airports and air navigation facilities.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of courthouses.

The **Texas Mobility Capital Project Funds** are used to provide a method of financing construction, reconstruction, acquisition and expansion of state highways and other transportation projects.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2014 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Department Project Funds	Texas Juvenile Justice Department Project Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,545	\$ 8,284	\$ 29,445	\$ 11,159	\$ 2,307
Accounts Receivable			2,754		
Due From Other Funds			37,284		293
Interfund Receivable		(13)			
Inventories	5				
Total Assets	<u>\$ 2,550</u>	<u>\$ 8,271</u>	<u>\$ 69,483</u>	<u>\$ 11,159</u>	<u>\$ 2,600</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 8	\$ 2,300	\$ 4,336	\$ 1,408	\$
Due To Other Funds					
Interfund Payable		295			
Unearned Revenues					
Other Liabilities			1,225	555	
Total Liabilities	<u>8</u>	<u>2,595</u>	<u>5,561</u>	<u>1,963</u>	<u>0</u>
Fund Balances:					
Nonspendable	5				
Restricted	2,537	5,676	63,922	9,196	2,600
Unassigned					
Total Fund Balances	<u>2,542</u>	<u>5,676</u>	<u>63,922</u>	<u>9,196</u>	<u>2,600</u>
Total Liabilities and Fund Balances	<u>\$ 2,550</u>	<u>\$ 8,271</u>	<u>\$ 69,483</u>	<u>\$ 11,159</u>	<u>\$ 2,600</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Texas Mobility Capital Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 5,109	\$ 6,760	\$ 613,673	\$ 19,025	\$ (26)	\$ 4,514	\$ 702,795
25,455						2,754
			453			63,032
						440
						5
<u>\$ 30,564</u>	<u>\$ 6,760</u>	<u>\$ 613,673</u>	<u>\$ 19,478</u>	<u>\$ (26)</u>	<u>\$ 4,514</u>	<u>\$ 769,026</u>
\$ 22,294	\$ 2,073	\$ 191,424	\$ 731	\$ 14,035	\$ 1,473	\$ 240,082
		467,569		5,035		472,604
245			12			552
		490,641				490,641
<u>22,539</u>	<u>2,073</u>	<u>1,149,634</u>	<u>743</u>	<u>19,070</u>	<u>1,473</u>	<u>1,205,659</u>
8,025	4,687		18,735		3,041	5
		(535,961)		(19,096)		118,419
<u>8,025</u>	<u>4,687</u>	<u>(535,961)</u>	<u>18,735</u>	<u>(19,096)</u>	<u>3,041</u>	<u>(555,057)</u>
<u>\$ 30,564</u>	<u>\$ 6,760</u>	<u>\$ 613,673</u>	<u>\$ 19,478</u>	<u>\$ (26)</u>	<u>\$ 4,514</u>	<u>\$ 769,026</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Juvenile Justice Department Project Funds
REVENUES					
Interest and Other Investment Income	\$ 5	\$ 41	\$ 75	\$ 54	\$ 10
Sales of Goods and Services			8,061		
Other Revenues			23		
Total Revenues	<u>5</u>	<u>41</u>	<u>8,159</u>	<u>54</u>	<u>10</u>
EXPENDITURES					
Current:					
General Government	631		14,001		
Education					
Health and Human Services					
Public Safety and Corrections				28,103	
Transportation					
Natural Resources and Recreation		5,178			
Capital Outlay	20	24,428	20,737	4,644	2,376
Debt Service:					
Interest					
Other Financing Fees					
Total Expenditures	<u>651</u>	<u>29,606</u>	<u>34,738</u>	<u>32,747</u>	<u>2,376</u>
Deficiency of Revenues					
Under Expenditures	<u>(646)</u>	<u>(29,565)</u>	<u>(26,579)</u>	<u>(32,693)</u>	<u>(2,366)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	627		6,971		
Transfer Out	(2,109)				
Bonds and Notes Issued	3,125	23,900	28,000	30,000	650
Total Other Financing Sources (Uses)	<u>1,643</u>	<u>23,900</u>	<u>34,971</u>	<u>30,000</u>	<u>650</u>
Net Change in Fund Balances	<u>997</u>	<u>(5,665)</u>	<u>8,392</u>	<u>(2,693)</u>	<u>(1,716)</u>
Fund Balances, September 1, 2013	1,545	11,341	55,530	11,889	4,316
Fund Balances, August 31, 2014	<u>\$ 2,542</u>	<u>\$ 5,676</u>	<u>\$ 63,922</u>	<u>\$ 9,196</u>	<u>\$ 2,600</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Texas Mobility Capital Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 39	\$ 39	\$ 772 187,163	\$ 91	\$ 2,409	\$ 21	\$ 3,556 195,224 23
<u>39</u>	<u>39</u>	<u>187,935</u>	<u>91</u>	<u>2,409</u>	<u>21</u>	<u>198,803</u>
			10,289			24,921
21,354					85	85
	2,665					21,354
		341		416,051		30,768
						416,392
8,192	19,486	700,469	3,343	238,641	3,471	5,178
						1,025,807
28						28
<u>29,574</u>	<u>22,151</u>	<u>700,810</u>	<u>13,632</u>	<u>917</u> <u>655,609</u>	<u>3,556</u>	<u>917</u> <u>1,525,450</u>
(29,535)	(22,112)	(512,875)	(13,541)	(653,200)	(3,535)	(1,326,647)
27,938						35,536
(17)		(187,163)				(189,289)
7,000	24,100		8,000		1,000	125,775
<u>34,921</u>	<u>24,100</u>	<u>(187,163)</u>	<u>8,000</u>	<u>0</u>	<u>1,000</u>	<u>(27,978)</u>
5,386	1,988	(700,038)	(5,541)	(653,200)	(2,535)	(1,354,625)
2,639	2,699	164,077	24,276	634,104	5,576	917,992
<u>\$ 8,025</u>	<u>\$ 4,687</u>	<u>\$ (535,961)</u>	<u>\$ 18,735</u>	<u>\$ (19,096)</u>	<u>\$ 3,041</u>	<u>\$ (436,633)</u>

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** was established by the Legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account was designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **National Research University Fund** was established by the Legislature to provide a dedicated, independent and equitable source of funding to enable emerging research universities to achieve national prominence as major research universities. The fund consists of appropriations and transfers under the Texas Constitution and amounts provided by law, gifts, grants and interest. The Texas Constitution required that balances

in the permanent higher education fund be transferred to the national research university fund on Jan. 1, 2010. Funds are allocated to eligible universities based on an equitable formula.

The **Permanent Fund Supporting Military and Veterans Exemptions** (Perm Fund Supporting MIL/VET Exempt) was established by the legislature to receive gifts, grants and investment returns for distributions to higher education institutions to offset the cost of the exemptions to certain veterans and/or dependents. Distributions are determined by the Legislative Budget Board based on each institution's respective share of the aggregate cost to all institutions of the exemptions. The Texas Treasury Safekeeping Trust Company determines the amount available for distribution from the fund.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2014 (Amounts in Thousands)

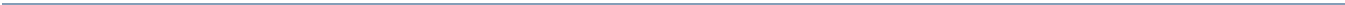
	Permanent Health Fund for Higher Education	National Research University Fund	Perm Fund Supporting MIL/VET Exempt	Other Nonmajor Permanent Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 16,530	\$ 34,484	\$	\$ 1,164	\$ 52,178
Short-Term Investments	5,437	24,714	9,318		39,469
Receivables:					
Investment Trades	18	76			94
Interest and Dividends	5	17	3		25
Due From Other Funds				598	598
Investments	<u>144,453</u>	<u>658,554</u>	<u>250,820</u>	<u>3,394</u>	<u>1,057,221</u>
Total Assets	<u>\$ 166,443</u>	<u>\$ 717,845</u>	<u>\$ 260,141</u>	<u>\$ 5,156</u>	<u>\$ 1,149,585</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 360	\$ 347	\$ 134	\$ 598	\$ 1,439
Investment Trades	18	81			99
Due To Other Funds	210	34,240			34,450
Total Liabilities	<u>588</u>	<u>34,668</u>	<u>134</u>	<u>598</u>	<u>35,988</u>
Fund Balances:					
Nonspendable	149,814	682,922			832,736
Restricted	3,496	255	260,007	4,558	268,316
Committed	12,545				12,545
Total Fund Balances	<u>165,855</u>	<u>683,177</u>	<u>260,007</u>	<u>4,558</u>	<u>1,113,597</u>
Total Liabilities and Fund Balances	<u>\$ 166,443</u>	<u>\$ 717,845</u>	<u>\$ 260,141</u>	<u>\$ 5,156</u>	<u>\$ 1,149,585</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

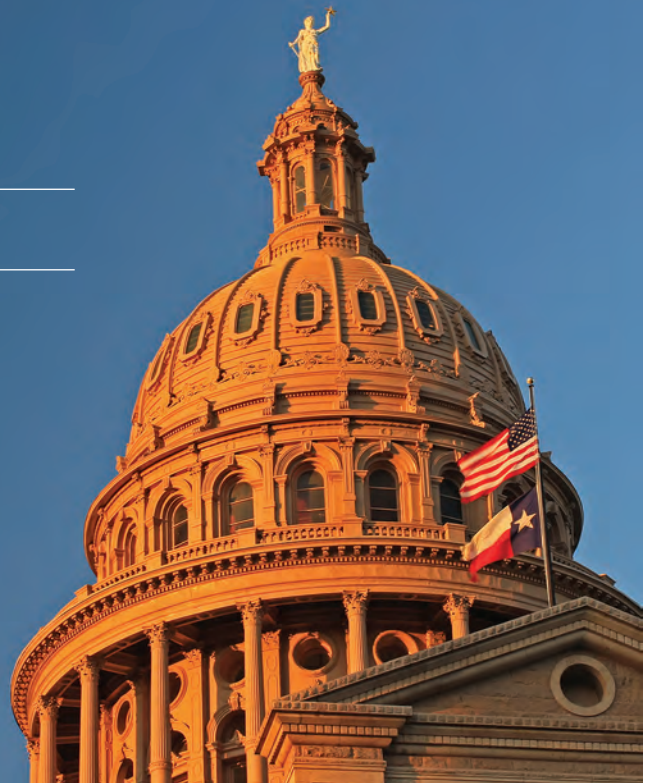
For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

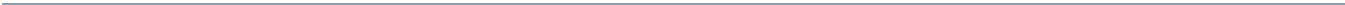
	Permanent Health Fund for Higher Education	National Research University Fund	Perm Fund Supporting MIL/VET Exempt	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income	\$ 16,591	\$ 72,484	\$ 12,009	\$ 2,500	\$ 103,584
Land Income				20	20
Other			248,417		248,417
Total Revenues	<u>16,591</u>	<u>72,484</u>	<u>260,426</u>	<u>2,520</u>	<u>352,021</u>
EXPENDITURES					
Current:					
General Government	396	1,793	419		2,608
Education	329			2,129	2,458
Health and Human Services	621				621
Natural Resources and Recreation	2,244			1	2,245
Total Expenditures	<u>3,590</u>	<u>1,793</u>	<u>419</u>	<u>2,130</u>	<u>7,932</u>
Excess of Revenues Over Expenditures	<u>13,001</u>	<u>70,691</u>	<u>260,007</u>	<u>390</u>	<u>344,089</u>
OTHER FINANCING USES					
Transfer Out	(1,444)	(17,567)		(20)	(19,031)
Total Other Financing Uses	<u>(1,444)</u>	<u>(17,567)</u>	<u>0</u>	<u>(20)</u>	<u>(19,031)</u>
Net Change in Fund Balances	<u>11,557</u>	<u>53,124</u>	<u>260,007</u>	<u>370</u>	<u>325,058</u>
Fund Balances, September 1, 2013	<u>154,298</u>	<u>630,053</u>	<u>0</u>	<u>4,188</u>	<u>788,539</u>
Fund Balances, August 31, 2014	<u>\$ 165,855</u>	<u>\$ 683,177</u>	<u>\$ 260,007</u>	<u>\$ 4,558</u>	<u>\$ 1,113,597</u>



Section Two (continued)

Enterprise Funds





Nonmajor Enterprise Funds

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds and water pollution control revolving funds that receive proceeds from bonds issued by the Texas Water Development Board to provide assistance to political subdivisions.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Transportation Commission** receives proceeds from the sale of bonds used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Texas Prepaid Tuition Plans** offer programs that allow Texas families to lock in the cost of future college tuition and required fees at current prices.

The **Grand Parkway Transportation Corporation**, a blended component unit of the Texas Department of Transportation, is authorized to assist and act on behalf of the agency in the development, financing, design, construction, reconstruction, expansion, operation and/or maintenance of the Grand Parkway toll project.

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds

August 31, 2014 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 243,540	\$ 32,861	\$ 21,598	\$
Short-Term Investments	576,206		261,485	
Securities Lending Collateral				83,055
Restricted:				
Cash and Cash Equivalents		119,678	33,791	245,397
Short-Term Investments		123		63,978
Loans and Contracts		10,958		66,683
Receivables:				
Federal	1,563			8,653
Other Intergovernmental			200	
Accounts		588	11,358	3,209
Interest and Dividends	35,011	12,024	284	21,016
Investment Trades				
Other		41		
Due From Other Funds	17		26,079	1,780
Interfund Receivable	140			
Inventories		5	864	
Prepaid Items			570	1
Loans and Contracts	187,699	2,725		146,668
Other Current Assets		197		
Total Current Assets	<u>1,044,176</u>	<u>179,200</u>	<u>356,229</u>	<u>640,440</u>
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		824,202	114,999	537,858
Receivables				
Loans and Contracts		1,050,033		2,057,966
Other				3,396
Loans and Contracts	4,561,949	50,294		
Investments		2,775		137
Interfund Receivable	2,435			
Other Receivables			50	
Capital Assets:				
Non-Depreciable or Non-Amortizable		31	718,478	16,769
Depreciable or Amortizable, Net		132	2,083,687	52,407
Assets Held in Trust				
Hedging Derivative Asset				5,934
Intangible Assets – Service Concession Arrangements				
Other Noncurrent Assets		228		
Total Noncurrent Assets	<u>4,564,384</u>	<u>1,927,695</u>	<u>2,917,214</u>	<u>2,674,467</u>
Total Assets	<u>5,608,560</u>	<u>2,106,895</u>	<u>3,273,443</u>	<u>3,314,907</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources		22,441	7,071	257,876
Total Deferred Outflows of Resources	<u>0</u>	<u>22,441</u>	<u>7,071</u>	<u>257,876</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
\$	\$ 6,379	\$ 16,823	\$ 49,934	\$ 371,135
	78,237	69,837		907,528
	215,738	436,068	1,053	1,051,725
		371,967		436,068
				77,641
				10,216
				200
3,357		3,105	184	21,801
	3,846	974	52	73,207
	144,253			144,253
	148		3,761	3,950
39,218				67,094
			1	141
9,290			925	11,084
			222	793
	35,924		1,851	374,867
				197
<u>51,865</u>	<u>484,525</u>	<u>898,774</u>	<u>57,983</u>	<u>3,713,192</u>
			34,165	34,165
	1,432,001	715,142	95	3,624,297
	127,545			127,545
				3,107,999
				3,396
			18,863	4,631,106
		19,952		22,864
				2,435
				50
283			428	735,989
371			219	2,136,816
			4,266	4,266
				5,934
		1,431,210		1,431,210
				228
<u>654</u>	<u>1,559,546</u>	<u>2,166,304</u>	<u>58,036</u>	<u>15,868,300</u>
<u>52,519</u>	<u>2,044,071</u>	<u>3,065,078</u>	<u>116,019</u>	<u>19,581,492</u>
				287,388
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>287,388</u>

Concluded on the following page

STATE OF TEXAS

**Combining Statement of Net Position –
Nonmajor Enterprise Funds (concluded)**

August 31, 2014 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts Payroll	\$ 275	\$ 1,448	\$	\$ 20,658
Investment Trades				
Interest	9,933	19,263	3,717	7,719
Due To Other Funds	1,306			1,060
Interfund Payable		262		
Unearned Revenue		5,958	1,009	286
Obligations/Securities Lending				83,055
Employees' Compensable Leave		554		
Notes and Loans Payable				
General Obligation Bonds Payable	47,729			116,159
Revenue Bonds Payable	59,459	21,807	14,139	
Liabilities Payable From Restricted Assets				
Other Current Liabilities		290		508
Total Current Liabilities	<u>118,702</u>	<u>49,582</u>	<u>18,865</u>	<u>229,445</u>
Noncurrent Liabilities:				
Employees' Compensable Leave		433		
Notes and Loans Payable			1,107,370	
General Obligation Bonds Payable	1,256,306			2,333,532
Revenue Bonds Payable	740,067	1,674,310	1,688,318	
Liabilities Payable From Restricted Assets				
Assets Held for Others				
Hedging Derivative Liability		22,441		257,876
Other Noncurrent Liabilities		104,747		
Total Noncurrent Liabilities	<u>1,996,373</u>	<u>1,801,931</u>	<u>2,795,688</u>	<u>2,591,408</u>
Total Liabilities	<u>2,115,075</u>	<u>1,851,513</u>	<u>2,814,553</u>	<u>2,820,853</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources				5,934
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,934</u>
NET POSITION				
Net Investment in Capital Assets		163	636,694	69,176
Restricted for:				
Debt Service		198,731	38,952	
Veterans Land Board Housing Programs				789,370
Other	3,492,411		25,697	
Unrestricted	1,074	78,929	(235,382)	(112,550)
Total Net Position	<u>\$ 3,493,485</u>	<u>\$ 277,823</u>	<u>\$ 465,961</u>	<u>\$ 745,996</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
\$ 6,288	\$ 794	\$ 60,901	\$ 1,217	\$ 91,581
1,475			2,217	3,692
	154,314			154,314
		45,909		86,541
525	98	23,164	23	26,176
				262
	863		103	8,219
	78,237			161,292
1,219	70		695	2,538
		12,100		12,100
				163,888
				95,405
	287,005			287,005
				798
<u>9,507</u>	<u>521,381</u>	<u>142,074</u>	<u>4,255</u>	<u>1,093,811</u>
68	49		427	977
		757,666	20,000	1,885,036
				3,589,838
		2,172,512		6,275,207
	1,968,244			1,968,244
			4,266	4,266
				280,317
				104,747
<u>68</u>	<u>1,968,293</u>	<u>2,930,178</u>	<u>24,693</u>	<u>14,108,632</u>
<u>9,575</u>	<u>2,489,674</u>	<u>3,072,252</u>	<u>28,948</u>	<u>15,202,443</u>
		2,989		8,923
<u>0</u>	<u>0</u>	<u>2,989</u>	<u>0</u>	<u>8,923</u>
654			394	707,081
				237,683
				789,370
			1,053	3,519,161
<u>42,290</u>	<u>(445,603)</u>	<u>(10,163)</u>	<u>85,624</u>	<u>(595,781)</u>
<u>\$ 42,944</u>	<u>\$ (445,603)</u>	<u>\$ (10,163)</u>	<u>\$ 87,071</u>	<u>\$ 4,657,514</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds
OPERATING REVENUES				
Auxiliary Enterprises – Pledged	\$	\$	\$	\$
Other Sales of Goods and Services				7,740
Other Sales of Goods and Services – Pledged			130,902	31,895
Interest and Investment Income	156,155	87,650		88,080
Federal Revenue				48,824
Other	5,597	30,074	13,312	488
Other – Pledged	3,000			
Total Operating Revenues	<u>164,752</u>	<u>117,724</u>	<u>144,214</u>	<u>177,027</u>
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages	5,906	9,533	1,335	
Payroll Related Costs	761	2,731		
Professional Fees and Services	639	3,178	8,786	74,403
Travel	32	223	11	152
Materials and Supplies	3	302	3,664	2,753
Communication and Utilities	26	145	951	21
Repairs and Maintenance	5	300	8,395	508
Rentals and Leases	58	66		
Printing and Reproduction		68	10	5
Depreciation and Amortization		37	53,652	4,539
Bad Debt Expense		472		
Interest Expense	106,401	70,877		81,185
Employee/Participant Benefit Payments				
Other Expenses	315	8,094	29,818	10,768
Total Operating Expenses	<u>114,146</u>	<u>96,026</u>	<u>106,622</u>	<u>174,334</u>
Operating Income (Loss)	<u>50,606</u>	<u>21,698</u>	<u>37,592</u>	<u>2,693</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
\$ 107,304	\$ 43,945	\$	\$ 8,397	\$ 107,304
		10,757		60,082
			647	173,554
				332,532
241	952	35	22,133	48,824
				72,832
				3,000
<u>107,545</u>	<u>44,897</u>	<u>10,792</u>	<u>31,177</u>	<u>798,128</u>
75,474			1,506	76,980
13,515	870	108	11,357	42,624
4,701	221		2,790	11,204
18	2,997	1,001	2,759	93,781
42	8		175	643
925	92	299	1,195	9,233
	40	1	692	1,876
180	320	310	1,777	11,795
720	21		982	1,847
71	4		62	220
78			100	58,406
1				473
			40	258,503
	77,396			77,396
<u>24</u>	<u>19,883</u>	<u>1,320</u>	<u>2,895</u>	<u>73,117</u>
<u>95,749</u>	<u>101,852</u>	<u>3,039</u>	<u>26,330</u>	<u>718,098</u>
11,796	(56,955)	7,753	4,847	80,030

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STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	\$ 244,105	\$	\$	\$ 3,485
Gifts				25
Land Income			13	
Interest and Investment Income (Loss)	3,906		6,120	33,961
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense			(136,138)	
Borrower Rebates and Agent Fees				(58)
Gain (Loss) on Sale of Capital Assets				
Settlement of Claims				
Claims and Judgments				
Other Revenues			189	
Other Expenses	(27,424)		(12)	
Total Nonoperating Revenues (Expenses)	<u>220,587</u>	<u>0</u>	<u>(129,828)</u>	<u>37,413</u>
Income (Loss) Before Capital Contributions and Transfers	<u>271,193</u>	<u>21,698</u>	<u>(92,236)</u>	<u>40,106</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital Contributions – Other			30,814	
Transfer In	2,336	3,281	2,075	1,784
Transfer Out	(5,760)			(28,068)
Total Capital Contributions and Transfers	<u>(3,424)</u>	<u>3,281</u>	<u>32,889</u>	<u>(26,284)</u>
Change in Net Position	<u>267,769</u>	<u>24,979</u>	<u>(59,347)</u>	<u>13,822</u>
Net Position, September 1, 2013	3,133,480	248,578	565,192	732,522
Restatements	92,236	4,266	(39,884)	(348)
Net Position, September 1, 2013, as Restated	<u>3,225,716</u>	<u>252,844</u>	<u>525,308</u>	<u>732,174</u>
Net Position, August 31, 2014	<u>\$ 3,493,485</u>	<u>\$ 277,823</u>	<u>\$ 465,961</u>	<u>\$ 745,996</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
\$	\$	\$	\$ 7	\$ 247,597
			1,720	1,745
				13
	153,948	977	18	198,930
	286			286
	(1,223)			(1,223)
				(136,138)
	(71)			(129)
1				1
1				1
			(2)	(2)
				189
		(3,017)		(30,453)
2	152,940	(2,040)	1,743	280,817
11,798	95,985	5,713	6,590	360,847
			1	30,815
4,575			1,600	15,651
(24,301)			(5,146)	(63,275)
(19,726)	0	0	(3,545)	(16,809)
(7,928)	95,985	5,713	3,045	344,038
50,872	(541,588)	(15,876)	84,066	4,257,246
			(40)	56,230
50,872	(541,588)	(15,876)	84,026	4,313,476
\$ 42,944	\$ (445,603)	\$ (10,163)	\$ 87,071	\$ 4,657,514

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Proceeds from Customers	\$	\$	\$ 140,534	\$ 20,673
Proceeds from Gifts				1,069
Proceeds from Loan Programs		107,284		404,939
Proceeds from Other Operating Revenues	90	74,430		71,316
Payments to Suppliers for Goods and Services	(4,574)	(21,396)	(52,378)	(91,910)
Payments to Employees	(5,848)	(12,194)	(1,327)	
Payments for Loans Provided		(59,543)		(531,609)
Payments for Other Operating Expenses				(8,540)
Net Cash Provided (Used) by Operating Activities	<u>(10,332)</u>	<u>88,581</u>	<u>86,829</u>	<u>(134,062)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance	351	43,100		1,064,990
Proceeds from Transfers from Other Funds	336,299	3,247	53,604	63,033
Proceeds from Grant Receipts	243,987			
Proceeds from Interfund Payables	17,029			
Proceeds from Other Noncapital Financing Activities				
Payments of Principal on Debt Issuance	(111,729)	(262,084)		(1,010,177)
Payments of Interest	(108,724)	(75,764)		(78,438)
Payments of Other Costs on Debt Issuance	(1,613)	(407)	(67,198)	
Payments for Transfers to Other Funds	(333,963)			(94,215)
Payments for Grant Disbursements	(31,805)			
Payments for Interfund Receivables	(29,824)			
Payments for Other Noncapital Financing Uses				
Net Cash (Used) by Noncapital Financing Activities	<u>(19,992)</u>	<u>(291,908)</u>	<u>(13,594)</u>	<u>(54,807)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Debt Issuance				
Proceeds from Federal Grants and Contracts				3,647
Proceeds from Other Capital and Related Financing Activities			10	
Proceeds from Capital Contributions			200	
Payments for Additions to Capital Assets		(62)	(38)	(7,755)
Payments of Principal on Debt Issuance			(10,155)	
Payments of Interest on Debt Issuance			(65,869)	
Payments of Other Costs on Debt Issuance			(13)	
Net Cash (Used) by Capital and Related Financing Activities	<u>0</u>	<u>(62)</u>	<u>(75,865)</u>	<u>(4,108)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments	633,265	275,077	33	305,347
Proceeds from Interest and Investment Income	158,663	42,448	6,309	29,221
Proceeds from Principal Payments on Loans	238,912			
Payments to Acquire Investments	(619,113)	(92,131)	(126)	(308,890)
Payments for Nonprogram Loans Provided	(361,694)			
Net Cash Provided by Investing Activities	<u>50,033</u>	<u>225,394</u>	<u>6,216</u>	<u>25,678</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>19,709</u>	<u>22,005</u>	<u>3,586</u>	<u>(167,299)</u>
Cash and Cash Equivalents, September 1, 2013	182,141	130,534	51,803	412,696
Restatements	41,690			
Cash and Cash Equivalents, September 1, 2013, as Restated	<u>223,831</u>	<u>130,534</u>	<u>51,803</u>	<u>412,696</u>
Cash and Cash Equivalents, August 31, 2014	<u>\$ 243,540</u>	<u>\$ 152,539</u>	<u>\$ 55,389</u>	<u>\$ 245,397</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
\$ 108,667	\$ 61,635	\$ 7,687	\$ 9,724	\$ 348,920
				1,069
				512,223
241	680		21,034	167,791
(75,511)	(3,190)	(87)	(1,416)	(250,462)
(18,216)	(1,067)		(14,413)	(53,065)
				(591,152)
(1,981)	(186,608)		(11,211)	(208,340)
<u>13,200</u>	<u>(128,550)</u>	<u>7,600</u>	<u>3,718</u>	<u>(73,016)</u>
		972,596		2,081,037
4,575			2,565	463,323
				243,987
				17,029
			1,725	1,725
		(943,330)	(5,000)	(2,332,320)
		(71,268)	(40)	(334,234)
		(2,848)	(4)	(72,070)
(17,624)			(6,088)	(451,890)
				(31,805)
		(737,435)		(767,259)
			(9)	(9)
<u>(13,049)</u>	<u>0</u>	<u>(782,285)</u>	<u>(6,851)</u>	<u>(1,182,486)</u>
				3,647
				10
				200
(152)			(11)	(8,018)
				(10,155)
				(65,869)
				(13)
<u>(152)</u>	<u>0</u>	<u>0</u>	<u>(11)</u>	<u>(80,198)</u>
19,011	2,067,766	1,109,600		4,410,099
24	32,194	3,396	685	272,940
			2,600	241,512
(19,034)	(2,017,588)	(1,038,085)	(16)	(4,094,983)
			(1,510)	(363,204)
<u>1</u>	<u>82,372</u>	<u>74,911</u>	<u>1,759</u>	<u>466,364</u>
<u>0</u>	<u>(46,178)</u>	<u>(699,774)</u>	<u>(1,385)</u>	<u>(869,336)</u>
0	268,295	1,152,665	86,537	2,284,671
				41,690
<u>0</u>	<u>268,295</u>	<u>1,152,665</u>	<u>86,537</u>	<u>2,326,361</u>
<u>\$ 0</u>	<u>\$ 222,117</u>	<u>\$ 452,891</u>	<u>\$85,152</u>	<u>\$ 1,457,025</u>

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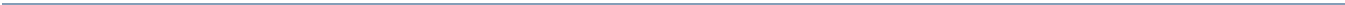
STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Texas Water Development Board Funds	Texas Department of Housing and Community Affairs	Texas Transportation Commission	Veterans Land Board Loan Program Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 50,606	\$ 21,698	\$ 37,592	\$ 2,693
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization		37	53,652	4,539
Bad Debt Expense		472		
Operating Income (Loss) and Cash Flow Categories Classification Differences	(60,303)	32,162		78,595
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(71)	(524)	(3,681)	(7,073)
(Increase) Decrease in Due From Other Funds				
(Increase) Decrease in Inventories				
(Increase) Decrease in Loans and Contracts		4,001		(210,265)
(Increase) Decrease in Other Assets		6,032		575
(Increase) Decrease in Prepaid Expenses			(734)	
Increase (Decrease) in Payables	4	(2,491)		(3,395)
Increase (Decrease) in Due To Other Funds	(568)			
Increase (Decrease) in Unearned Revenue		(10,188)		
Increase (Decrease) in Employees' Compensable Leave				
Increase (Decrease) in Other Liabilities		37,382		269
Total Adjustments	<u>(60,938)</u>	<u>66,883</u>	<u>49,237</u>	<u>(136,755)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (10,332)</u>	<u>\$ 88,581</u>	<u>\$ 86,829</u>	<u>\$ (134,062)</u>
NONCASH TRANSACTIONS				
Donation of Capital Assets	\$	\$	\$ 14,853	\$
Net Change in Fair Value of Investments	\$ (27)	\$ 2,424	\$	\$ 25,669
Other	\$	\$	\$	\$ (187)

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Grand Parkway Transportation Corporation	Other Nonmajor Enterprise Funds	Totals
\$ 11,796	\$ (56,955)	\$ 7,753	\$ 4,847	\$ 80,030
78			100	58,406
1				473
			(594)	49,860
1,363	11,283	(3,104)	(94)	(1,901)
			339	339
44			76	120
				(206,264)
				6,607
		16	37	(681)
(82)	391	2,935	(628)	(3,266)
			(33)	(601)
	181		(21)	(10,028)
	13		(170)	(157)
	(83,463)		(141)	(45,953)
<u>1,404</u>	<u>(71,595)</u>	<u>(153)</u>	<u>(1,129)</u>	<u>(153,046)</u>
<u>\$ 13,200</u>	<u>\$ (128,550)</u>	<u>\$ 7,600</u>	<u>\$ 3,718</u>	<u>\$ (73,016)</u>
\$	\$	\$	\$ 1	\$ 14,854
\$	\$ 122,251	\$ 296	\$	\$ 150,613
\$	\$	\$	\$	\$ (187)



Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules were prepared to report the breakdown of the following universities:

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

STATE OF TEXAS

Schedule of Net Position

Colleges and Universities – Major Enterprise Fund

August 31, 2014 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 2,647,463	\$ 732,687	\$ 238,340	\$ 245,251	\$ 478,560
Short-Term Investments		128		126,214	
Securities Lending Collateral	997,970				
Restricted:					
Cash and Cash Equivalents	245,414	387,876	125,702	69,201	107,883
Short-Term Investments					
Loans and Contracts					
Receivables:					
Federal	551,479	138,120	30,090	35,905	12,696
Other Intergovernmental	97,899	4,012			15
Accounts	1,184,806	155,889	73,706	25,040	112,560
Interest and Dividends	62,113	6,967	682	559	45
Gifts	145,416	72,825	23,990	31,570	3,448
Investment Trades	64,710	49,226			196
Other	411,588	4,198	3,346	1,531	947
Due From Other Funds	146,967	112,406	141,275	127,090	87,169
Interfund Receivable		25,796			
Inventories	98,079	24,597	4,144	1,984	4,804
Prepaid Items			42,304	37,784	35,256
Loans and Contracts	52,782	29,496	1,686	16,382	13,711
Other Current Assets	231,639	92,730	450		23,917
Total Current Assets	<u>6,938,325</u>	<u>1,836,953</u>	<u>685,715</u>	<u>718,511</u>	<u>881,207</u>
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	(11,515)		48,007		32,625
Short-Term Investments					
Investments	28,649,781	975,494	395,192		157,669
Receivables				46,212	407
Loans and Contracts	74,972	3,028		10,574	
Other					
Loans and Contracts		14,660	4,625		
Investments	5,538,730	2,537,383	1,218,356	803,939	122,421
Interfund Receivable		810,964			
Gifts Receivable	236,977	535,267	55,011		1,970
Capital Assets:					
Non-Depreciable or Non-Amortizable	3,229,712	789,175	152,612	287,196	133,302
Depreciable or Amortizable, Net	10,827,749	3,365,739	1,298,922	1,045,145	1,253,633
Assets Held in Trust		362			
Other Noncurrent Assets	35,060	5,019			
Total Noncurrent Assets	<u>48,581,466</u>	<u>9,037,091</u>	<u>3,172,725</u>	<u>2,193,066</u>	<u>1,702,027</u>
Total Assets	<u>55,519,791</u>	<u>10,874,044</u>	<u>3,858,440</u>	<u>2,911,577</u>	<u>2,583,234</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflows of Resources	249,213	35,143		57	
Total Deferred Outflows of Resources	<u>249,213</u>	<u>35,143</u>	<u>0</u>	<u>57</u>	<u>0</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 202,837	\$ 11,594	\$ 72,517	\$ 11,916	\$ 12,721	\$ 33,838	\$ 4,687,724
	53,725	1,140		9,990	6,041	197,238
						997,970
18,524	2,215	11,899	8,609	(5,514)	5,058	976,867
	65,664		3,382		373	69,419
				10		10
32,182	1,909	13,447	8,727	212	11,643	836,410
777		36	4,335			107,074
72,880	14,015	10,540	24,313	8,190	7,011	1,688,950
1,439	525	46		41	13	72,430
3,351				2,147		282,747
						114,132
17,086	4,718		592	1,474		445,480
82,801	38,585	7,726	3,740	2,282	13,942	763,983
						25,796
2,439	1,303	837	630	238	3,144	142,199
	1,132	11,763		9,385		137,624
1,539	5,701	2,230				123,527
28,382						377,118
<u>464,237</u>	<u>201,086</u>	<u>132,181</u>	<u>66,244</u>	<u>41,176</u>	<u>81,063</u>	<u>12,046,698</u>
					110	69,227
				(35)	460	425
85,268	98,842	11,925	47,121	7,042		30,428,334
		1,725				48,344
5,153		4,877	1,006	48		99,658
			8,748			8,748
						19,285
152,316		48,007		40,496		10,461,648
						810,964
1,689				841		831,755
186,836	7,031	11,085	28,522	9,934	19,532	4,854,937
744,057	210,431	198,575	235,644	118,876	131,735	19,430,506
						362
				1,045		41,124
<u>1,175,319</u>	<u>316,304</u>	<u>276,194</u>	<u>321,041</u>	<u>178,247</u>	<u>151,837</u>	<u>67,105,317</u>
<u>1,639,556</u>	<u>517,390</u>	<u>408,375</u>	<u>387,285</u>	<u>219,423</u>	<u>232,900</u>	<u>79,152,015</u>
4,768						289,181
<u>4,768</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>289,181</u>

Concluded on the following page

STATE OF TEXAS

Schedule of Net Position

Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2014 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts Payable	\$ 1,161,287	\$ 160,095	\$ 44,377	\$ 38,592	\$ 46,862
Other Intergovernmental	462,098	118,602	69,457	49,991	30,021
Federal				120	16,277
Investment Trades	328,992	54,412			3,657
Interest					
Due To Other Funds	15,862	2,140	1,663	464	1,485
Interfund Payable	30,231				
Unearned Revenue	1,380,186	553,266	196,321	211,010	363,733
Obligations/Securities Lending	997,970				
Short-Term Debt	1,121,230		114,963	48,136	
Claims and Judgments	12,468	2,445	1,052	198	
Capital Lease Obligations	2,910	611	17	391	
Employees' Compensable Leave	346,601	20,549	5,046	12,408	11,847
Notes and Loans Payable	20,645	4,752			
General Obligation Bonds Payable					
Revenue Bonds Payable	1,549,170	148,082	31,968	43,984	44,233
Funds Held for Others	20,176	40,302	36,833	21,908	5,584
Other Current Liabilities	249,388	74,459	4,724	1,997	703
Total Current Liabilities	<u>7,699,214</u>	<u>1,179,715</u>	<u>506,421</u>	<u>429,199</u>	<u>524,402</u>
Noncurrent Liabilities:					
Interfund Payable	828,553				
Claims and Judgments	19,503	6,590	12,093		
Capital Lease Obligations	1,584	590		5,859	
Employees' Compensable Leave	180,689	87,967	36,609	12,884	10,918
Notes and Loans Payable	20,137	116,667		450	
General Obligation Bonds Payable					
Revenue Bonds Payable	5,558,189	2,697,639	456,774	879,168	798,069
Assets Held for Others	769,898	95,771			
Net OPEB Obligation	3,359,348	859,766			
Hedging Derivative Liability	207,898				
Other Noncurrent Liabilities	43,825	81,650	477		4,609
Total Noncurrent Liabilities	<u>10,989,624</u>	<u>3,946,640</u>	<u>505,953</u>	<u>898,361</u>	<u>813,596</u>
Total Liabilities	<u>18,688,838</u>	<u>5,126,355</u>	<u>1,012,374</u>	<u>1,327,560</u>	<u>1,337,998</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows of Resources	7,140				
Total Deferred Inflows of Resources	<u>7,140</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET POSITION					
Net Investment in Capital Assets	6,109,146	1,461,603	885,550	467,616	544,633
Restricted for:					
Education	2,005,870	316,790	300,589	189,347	67,445
Debt Service	3,126		31,210	27	1,375
Capital Projects	147,678	540,347	15,777	8,457	101,977
Funds Held as Permanent Investments:					
Nonexpendable	21,735,209	369,480	622,048	427,088	151,034
Expendable	5,466,324	302,342	119,192	47,584	23,716
Unrestricted	<u>1,605,673</u>	<u>2,792,270</u>	<u>871,700</u>	<u>443,955</u>	<u>355,056</u>
Total Net Position	<u>\$ 37,073,026</u>	<u>\$ 5,782,832</u>	<u>\$ 2,846,066</u>	<u>\$ 1,584,074</u>	<u>\$ 1,245,236</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 39,926	\$ 3,368	\$ 3,407	\$ 9,573	\$ 4,667	\$ 3,662	\$ 1,515,816
43,347	4,843	9,271	6,345	4,243	6,907	805,125
6,718	2,083					25,078
	1,741				44	1,905
						387,061
5,773		2,331	1,713		226	10,043
200	383	1,293	741			24,231
		1,506		262	820	32,819
193,887	40,235	66,538	48,296	26,003	15,787	3,095,262
						997,970
76,067						1,360,396
5,846						22,009
118	249	83		74	661	5,114
2,620	2,098	436	1,349	164	744	403,862
			2,202			27,599
		1,030	4,015		1,840	6,885
26,375	4,792	9,070	8,192	4,289	2,789	1,872,944
17,967		15,319		116	2,343	160,548
377	1,149	3,343	6,028	65	1,173	343,406
<u>419,221</u>	<u>60,941</u>	<u>113,627</u>	<u>88,454</u>	<u>39,883</u>	<u>36,996</u>	<u>11,098,073</u>
		8,596		1,524	6,166	844,839
						38,186
60	683	21			2,997	11,794
20,102	1,278	3,881	4,188	1,455	4,404	364,375
15,000			63,497			215,751
		4,515				4,515
389,737	68,809	131,529	77,141	68,867	57,020	11,182,942
1,475						867,144
						4,219,114
						207,898
2,466			1,206	190		134,423
<u>428,840</u>	<u>70,770</u>	<u>148,542</u>	<u>146,032</u>	<u>72,036</u>	<u>70,587</u>	<u>18,090,981</u>
848,061	131,711	262,169	234,486	111,919	107,583	29,189,054
						7,140
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,140</u>
429,303	143,935	53,971	115,210	54,839	82,116	10,347,922
13,275	41,076	14,991	306		458	2,950,147
19	5,367		839			41,963
	61,318	131		1,842	146	877,673
50,874		7,084		4,376	570	23,367,763
16,245		4,460	47,915	12,881		6,040,659
<u>286,547</u>	<u>133,983</u>	<u>65,569</u>	<u>(11,471)</u>	<u>33,566</u>	<u>42,027</u>	<u>6,618,875</u>
<u>\$ 796,263</u>	<u>\$ 385,679</u>	<u>\$ 146,206</u>	<u>\$ 152,799</u>	<u>\$ 107,504</u>	<u>\$ 125,317</u>	<u>\$ 50,245,002</u>

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	\$	\$ 48,076	\$ 14,561	\$	\$
Tuition Revenue – Pledged	2,030,705	1,097,004	430,453	581,405	611,565
Discounts and Allowances	(526,190)	(282,604)	(94,900)	(122,525)	(142,428)
Hospital Revenue – Pledged	10,744,642	9,074			
Discounts and Allowances	(5,995,654)				
Professional Fees	4,699,566	8	270,974		
Professional Fees – Pledged	4,500	1,024	1,023		
Discounts and Allowances	(3,295,052)		(27,442)		
Auxiliary Enterprises					
Auxiliary Enterprises – Pledged	499,560	293,230	144,636	88,578	133,798
Discounts and Allowances	(14,508)	(34,242)		(10,412)	(1,177)
Other Sales of Goods and Services		13,922	5,621		
Other Sales of Goods and Services – Pledged	475,832	243,229	12,029	54,048	22,866
Discounts and Allowances	(476)				
Interest and Investment Income		2,956			
Interest and Investment Income – Pledged					
Federal Revenue	1,241,904	419,768	66,316	63,686	29,598
State Grant Revenue	53	3,436	4,703	6,154	3,742
Other Operating Grant Revenue	355,348	232,880	177,659	3	
Other Operating Grant Revenue – Pledged	764,252	29,398	3,781	33,662	6,723
Other	12,055	22,798	26,822		
Other – Pledged	280,413	37,711		1,452	10,007
Total Operating Revenues	<u>11,276,950</u>	<u>2,137,668</u>	<u>1,036,236</u>	<u>696,051</u>	<u>674,694</u>
OPERATING EXPENSES					
Cost of Goods Sold	111,446	8,925	13,860	2,963	7,346
Salaries and Wages	6,940,199	1,578,533	802,350	562,961	493,653
Payroll Related Costs	1,741,881	362,160	144,839	105,792	102,740
Professional Fees and Services	394,919	333,698	64,091	73,088	56,948
Travel	135,886	77,436	31,104	15,268	18,732
Materials and Supplies	1,498,775	233,048	71,871	41,085	92,887
Communication and Utilities	397,593	131,311	49,670	48,886	44,128
Repairs and Maintenance	261,049	146,086	37,706	17,285	18,054
Rentals and Leases	145,273	65,520	13,076	34,421	5,859
Printing and Reproduction	34,859	11,647	4,949	3,914	4,069
Depreciation and Amortization	1,115,888	279,093	125,461	91,620	84,258
Bad Debt Expense	1,423	724	262		2,184
Interest Expense		56	23	1,542	7
Scholarships	419,749	190,404	67,587	109,619	115,786
Claims and Judgments	26,161	546	2,155	845	117
Net Change in Pension/OPEB Obligations	559,870	140,541			
Other Expenses	1,081,342	210,634	107,285	41,807	23,540
Total Operating Expenses	<u>14,866,313</u>	<u>3,770,362</u>	<u>1,536,289</u>	<u>1,151,096</u>	<u>1,070,308</u>
Operating Loss	<u>(3,589,363)</u>	<u>(1,632,694)</u>	<u>(500,053)</u>	<u>(455,045)</u>	<u>(395,614)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 364,427	\$ 93,541	\$ 3,944	\$ 80,797	\$ 42,095	\$ 7,290	\$ 73,871
(84,646)	(26,369)	(25,386)	(24,833)	(10,813)	(21,018)	(1,361,712)
						10,753,716
134,020						(5,995,654)
(77,138)						5,104,568
		1,780			822	6,547
54,351	27,718	37,259	11,813	9,166	11,553	(3,399,632)
	(6,247)	(9,408)			(3,329)	2,602
		837				1,311,662
40,269		5,382	98	1,517	3,836	(79,323)
						20,380
						859,106
						(476)
					3	2,959
					63	63
70,993	2,342	4,257	13,773	539	2,764	1,915,940
4,405			1,229			23,722
20,116	2,315	708		976	1,025	791,030
			1,054			838,870
	865					62,540
5,532	860	30	4,347	1,413		341,765
<u>532,329</u>	<u>95,025</u>	<u>116,644</u>	<u>88,278</u>	<u>44,893</u>	<u>38,775</u>	<u>16,737,543</u>
5,767	18	9,221			3,229	162,775
419,672	87,623	90,580	89,600	37,388	70,481	11,173,040
76,134	15,497	17,402	15,620	8,356	13,263	2,603,684
45,155	1,989	2,117	6,009	4,832	839	983,685
12,098	2,255	2,676	3,097	1,743	1,081	301,376
46,667	14,262	12,089	9,883	5,894	13,024	2,039,485
18,747	6,948	8,820	6,868	2,693	6,041	721,705
21,059	8,383	4,863	4,805	4,652	2,722	526,664
8,644	2,041	2,384	1,987	707	1,698	281,610
3,838	594	308	658	122	74	65,032
53,867	15,172	16,872	15,656	11,717	11,185	1,820,789
	948	5	2,121	325		7,992
				1	6	1,635
66,325	16,628	18,603	18,968	10,458	13,843	1,047,970
5,267					80	35,171
						700,411
45,281	7,210	7,663	9,882		7,075	1,541,719
<u>828,521</u>	<u>179,568</u>	<u>193,603</u>	<u>185,154</u>	<u>88,888</u>	<u>144,641</u>	<u>24,014,743</u>
(296,192)	(84,543)	(76,959)	(96,876)	(43,995)	(105,866)	(7,277,200)

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	\$ 333,810	\$ 204,412	\$ 45,225	\$ 99,822	\$ 108,727
Gifts	393,590	253,801	42,625		17,404
Gifts – Pledged	21,463	426,799	6,168	68,306	2,375
Land Income		15,463			
Interest and Investment Income (Loss)	4,914,417	347,935	133,422		27,831
Interest and Investment Income – Pledged	426,524	103,279	27,065	80,788	
Investing Activities Expense	(94,701)	(6,084)			(40)
Interest Expense	(258,318)	(114,554)	(21,249)	(33,519)	(36,396)
Borrower Rebates and Agent Fees	(1,430)	(2,566)			
Gain (Loss) on Sale of Capital Assets	(35,331)	11,110	(1,172)		(1,397)
Settlement of Claims					
Claims and Judgments		(339)			(251)
Other Revenues		12,368	12,317		1,786
Other Revenues – Pledged	16,748	8,626	3,355	10,889	
Other Expenses	(5,602)	(30,605)	(5,066)	(81,687)	(2,517)
Total Nonoperating Revenues (Expenses)	<u>5,711,170</u>	<u>1,229,645</u>	<u>242,690</u>	<u>144,599</u>	<u>117,522</u>
Income (Loss) Before Capital Contributions, Endowments and Transfers	<u>2,121,807</u>	<u>(403,049)</u>	<u>(257,363)</u>	<u>(310,446)</u>	<u>(278,092)</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS					
Capital Contributions – Federal	6,410				20
Capital Contributions/(Distributions) – Other	456,130	42,865	3,815	9	(578)
Contributions to Permanent and Term Endowments	183,462	6,279	31,583	9,846	6,894
Transfer In	2,555,115	1,581,442	475,349	356,287	353,309
Transfer Out	(576,966)	(17,363)	(11,167)	(9,293)	(10,405)
Total Capital Contributions, Endowments and Transfers	<u>2,624,151</u>	<u>1,613,223</u>	<u>499,580</u>	<u>356,849</u>	<u>349,240</u>
Change in Net Position	<u>4,745,958</u>	<u>1,210,174</u>	<u>242,217</u>	<u>46,403</u>	<u>71,148</u>
Net Position, September 1, 2013	32,359,189	4,572,658	2,605,522	1,535,271	1,183,778
Restatements	(32,121)		(1,673)	2,400	(9,690)
Net Position, September 1, 2013, as Restated	<u>32,327,068</u>	<u>4,572,658</u>	<u>2,603,849</u>	<u>1,537,671</u>	<u>1,174,088</u>
Net Position, August 31, 2014	<u>\$ 37,073,026</u>	<u>\$ 5,782,832</u>	<u>\$ 2,846,066</u>	<u>\$ 1,584,074</u>	<u>\$ 1,245,236</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 49,780	\$ 21,147	\$ 21,110	\$ 20,156	\$ 8,327	\$ 26,687	\$ 939,203
12,772	3,473	3,353		7,370	340	734,728
6,901			515		1,058	533,585
		197				15,660
21,848	908	1,806	3,800		10	5,451,977
8,799	4,236	3,817	7,273	5,053	132	666,966
		(224)	(314)			(101,363)
(17,327)	(3,149)	(6,707)	(6,017)	(3,247)	(3,079)	(503,562)
						(3,996)
(835)	(298)	359		(134)	(68)	(27,766)
		507		1,796	99	2,402
(72)						(662)
	1,881	64		14	153	28,583
16			936			40,570
(411)	(32)			(29)	(3,840)	(129,789)
<u>81,471</u>	<u>28,166</u>	<u>24,282</u>	<u>26,349</u>	<u>19,150</u>	<u>21,492</u>	<u>7,646,536</u>
(214,721)	(56,377)	(52,677)	(70,527)	(24,845)	(84,374)	369,336
						6,430
1,293		893		9,268	2,111	515,806
234		48	268	337		238,951
269,894	70,636	61,993	75,504	26,537	84,130	5,910,196
(6,062)	(2,420)	(1,369)	(775)	(778)	(992)	(637,590)
<u>265,359</u>	<u>68,216</u>	<u>61,565</u>	<u>74,997</u>	<u>35,364</u>	<u>85,249</u>	<u>6,033,793</u>
50,638	11,839	8,888	4,470	10,519	875	6,403,129
758,457	373,493	136,763	149,194	97,002	124,559	43,895,886
(12,832)	347	555	(865)	(17)	(117)	(54,013)
<u>745,625</u>	<u>373,840</u>	<u>137,318</u>	<u>148,329</u>	<u>96,985</u>	<u>124,442</u>	<u>43,841,873</u>
<u>\$ 796,263</u>	<u>\$ 385,679</u>	<u>\$ 146,206</u>	<u>\$ 152,799</u>	<u>\$ 107,504</u>	<u>\$ 125,317</u>	<u>\$ 50,245,002</u>

STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund**

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Proceeds from Customers	\$ 6,146,237	\$ 272,176	\$ 293,292	\$ 56,712	\$ 18,409
Proceeds from Tuition and Fees	1,533,015	814,312	359,515	470,012	480,702
Proceeds from Research Grants and Contracts	2,373,996	774,722	246,621	110,931	42,673
Proceeds from Loan Programs	109,311	10,389	5,563	119,029	18,539
Proceeds from Auxiliaries	484,707	244,459	151,269	79,153	132,545
Proceeds from Other Operating Revenues	769,722	97,330		1,459	15,206
Payments to Suppliers for Goods and Services	(4,417,792)	(1,342,635)	(204,736)	(234,064)	(289,803)
Payments to Employees	(8,667,494)	(1,925,727)	(938,861)	(661,657)	(614,777)
Payments for Loans Provided	(117,815)	(7,503)	(6,513)	(116,876)	(17,814)
Payments for Other Operating Expenses		(255,076)	(267,354)	(149,143)	(98,223)
Net Cash (Used) by Operating Activities	<u>(1,786,113)</u>	<u>(1,317,553)</u>	<u>(361,204)</u>	<u>(324,444)</u>	<u>(312,543)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from Debt Issuance					
Proceeds from Gifts	344,415	147,619	104,905	56,848	24,548
Proceeds from Endowments	120,599	6,279		9,846	15
Proceeds from Transfers from Other Funds	2,943,461	1,407,035	400,280	238,463	334,669
Proceeds from Loan Programs					74
Proceeds from Grant Receipts	358,183	205,441	45,262	101,139	108,624
Proceeds from Other Noncapital Financing Activities	3,179	128,524	296,151		1,922
Payments of Interest		(480)			
Payments for Transfers to Other Funds	(1,452,858)	(17,705)	(6,460)	(10,757)	
Payments for Other Noncapital Financing Uses	<u>(3,741)</u>	<u>(68,374)</u>	<u>(287,800)</u>		<u>(17,546)</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,313,238</u>	<u>1,808,339</u>	<u>552,338</u>	<u>395,539</u>	<u>452,306</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	19,799	15,012	91		165
Proceeds from Debt Issuance	1,555,301	758,866	78,700	152,575	71,518
Proceeds from State Grants and Contracts		30,364			
Proceeds from Federal Grants and Contracts					43
Proceeds from Gifts					28,637
Proceeds from Other Capital and Related Financing Activities				30,913	12,351
Proceeds from Capital Contributions	388,194	801	49,213	50,938	
Proceeds from Interfund Payables		1,136			
Payments for Additions to Capital Assets	(1,803,406)	(607,672)	(168,111)	(196,482)	(118,298)
Payments of Principal on Debt Issuance	(1,087,224)	(300,812)	(48,606)	(71,000)	(40,970)
Payments for Capital Leases		(284)		(383)	
Payments of Interest on Debt Issuance	(280,974)	(114,071)	(22,454)	(34,091)	(38,123)
Payments of Other Costs on Debt Issuance	(4,894)	(2,556)		(39,892)	(17)
Payments for Interfund Receivables		(2,397)			
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,213,204)</u>	<u>(221,613)</u>	<u>(111,167)</u>	<u>(107,422)</u>	<u>(84,694)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 98,058	\$ 83,318	\$ 5,883	\$	\$	\$ 3,626	\$ 6,977,711
280,640	42,260	74,676	51,261	29,879	19,911	4,156,183
91,564	5,238	3,849	14,627	2,195	6,590	3,673,006
3,064		56		22		265,973
53,910	12,523	32,871	11,813	9,608	9,321	1,222,179
14,083	3,662	30	8,116	2,931		912,539
(202,570)	(45,247)	(48,989)		(18,070)	(35,819)	(6,839,725)
(492,671)	(111,488)	(107,295)	(111,732)	(46,426)	(85,052)	(13,763,180)
	(57,294)					(323,815)
(84,277)	(9,399)	(19,078)	(62,292)	(11,248)	(14,765)	(970,855)
<u>(238,199)</u>	<u>(76,427)</u>	<u>(57,997)</u>	<u>(88,207)</u>	<u>(31,109)</u>	<u>(96,188)</u>	<u>(4,689,984)</u>
12,761	4,291	2,543	782	7,888	3	706,603
234				337		137,310
276,238	77,446	53,583	83,946	21,425	78,670	5,915,216
	20,014	160				20,248
57,674		21,824	20,156	8,589	26,687	953,579
2		571		1,780	153	432,282
						(480)
(13,201)	(7)	(1,365)		(778)		(1,503,131)
<u>(1,276)</u>					<u>(3,840)</u>	<u>(382,577)</u>
<u>332,432</u>	<u>101,744</u>	<u>77,316</u>	<u>104,884</u>	<u>39,241</u>	<u>101,673</u>	<u>6,279,050</u>
73		534	6,031			41,705
44,510		24,034		1		2,685,505
		8,426				38,790
						43
					1,058	29,695
		198		3,559	99	47,120
		893		736	75	490,850
						1,136
(87,625)	(6,746)	(4,561)	(15,588)	(3,165)	(6,394)	(3,018,048)
(32,230)	(4,570)	(38,042)	(17,912)	(5,729)	(4,977)	(1,652,072)
(120)	(296)	(83)				(1,166)
(20,050)	(3,204)	(6,495)	(5,967)	(3,256)	(3,194)	(531,879)
	(3)	(259)			(992)	(48,613)
		<u>(1,506)</u>			<u>(651)</u>	<u>(4,554)</u>
<u>(95,442)</u>	<u>(14,819)</u>	<u>(16,861)</u>	<u>(33,436)</u>	<u>(7,854)</u>	<u>(14,976)</u>	<u>(1,921,488)</u>

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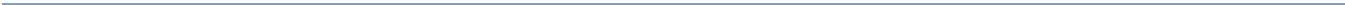
STATE OF TEXAS

Schedule of Cash Flows**Colleges and Universities – Major Enterprise Fund (concluded)**

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	University of Texas System	Texas A&M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	\$ 16,084,245	\$ 2,646,289	\$ 152,147	\$ 537,292	\$ 193,724
Proceeds from Interest and Investment Income	1,821,218	62,416	60,405	48,585	7,946
Payments to Acquire Investments	(16,865,437)	(2,813,441)	(390,166)	(548,207)	(197,665)
Net Cash Provided (Used) by Investing Activities	<u>1,040,026</u>	<u>(104,736)</u>	<u>(177,614)</u>	<u>37,670</u>	<u>4,005</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>353,947</u>	<u>164,437</u>	<u>(97,647)</u>	<u>1,343</u>	<u>59,074</u>
Cash and Cash Equivalents, September 1, 2013	2,527,415	956,126	509,696	313,109	574,000
Restatements					(14,006)
Cash and Cash Equivalents, September 1, 2013, as Restated	<u>2,527,415</u>	<u>956,126</u>	<u>509,696</u>	<u>313,109</u>	<u>559,994</u>
Cash and Cash Equivalents, August 31, 2014	<u>\$ 2,881,362</u>	<u>\$ 1,120,563</u>	<u>\$ 412,049</u>	<u>\$ 314,452</u>	<u>\$ 619,068</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating (Loss)	\$ (3,589,363)	\$ (1,632,694)	\$ (500,053)	\$ (455,045)	\$ (395,614)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:					
Depreciation and Amortization	1,115,888	279,093	125,461	91,620	84,258
Bad Debt Expense	333,794	4,448	432		1,871
Operating Income (Loss) and Cash Flow Categories Classification Differences	8,511	(41)		2,155	(38,748)
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(463,453)	(37,976)	(12,564)	9,289	(7,042)
(Increase) Decrease in Due From Other Funds		1,304	(181)		182
(Increase) Decrease in Inventories	(6,911)	133	(431)	(78)	191
(Increase) Decrease in Notes Receivable			(1,095)		(400)
(Increase) Decrease in Loans and Contracts	(8,173)	592			274
(Increase) Decrease in Other Assets	(28,050)	5,835		(1,190)	10,452
(Increase) Decrease in Prepaid Expenses		(10,806)	(3,636)	(3,775)	(208)
Increase (Decrease) in Payables	137,786	(59,031)	4,799	4,358	(2,483)
Increase (Decrease) in Deposits	(1,031)	(151)			269
Increase (Decrease) in Due To Other Funds		(853)	261		(6,949)
Increase (Decrease) in Unearned Revenue	129,458	6,247	21,836	14,508	33,578
Increase (Decrease) in Employees' Compensable Leave	31,000	5,466	1,995	1,146	1,317
Increase (Decrease) in Benefits Payable	559,870	138,251	2,790	5,950	1,096
Increase (Decrease) in Other Liabilities	(5,439)	(17,370)	(818)	6,618	5,413
Total Adjustments	<u>1,803,250</u>	<u>315,141</u>	<u>138,849</u>	<u>130,601</u>	<u>83,071</u>
Net Cash (Used) by Operating Activities	<u>\$ (1,786,113)</u>	<u>\$ (1,317,553)</u>	<u>\$ (361,204)</u>	<u>\$ (324,444)</u>	<u>\$ (312,543)</u>
NONCASH TRANSACTIONS					
Donation of Capital Assets	\$ 248,511	\$ 42,064	\$ 3,871	\$	\$ 1,659
Net Change in Fair Value of Investments	\$ 2,086,546	\$ 274,706	\$ 48,154	\$ 32,157	\$ 19,834
Borrowing Under Capital Lease Purchase	\$ 1,542	\$	\$	\$	\$
Other	\$ (31,488)	\$ 105,958	\$ (561)	\$	\$ 1,072

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 9,256	\$ 49,119	\$ 183	\$ 4,155	\$ 39,835	\$ 5,782	\$ 19,722,027
8,639	2,677	2,194	4,153	3,050	217	2,021,500
(10,916)	(63,644)	(9,687)		(43,941)	(35)	(20,943,139)
<u>6,979</u>	<u>(11,848)</u>	<u>(7,310)</u>	<u>8,308</u>	<u>(1,056)</u>	<u>5,964</u>	<u>800,388</u>
5,770	(1,350)	(4,852)	(8,451)	(778)	(3,527)	467,966
219,371	15,159	89,268	28,976	7,985	42,533	5,283,638
(3,780)						(17,786)
<u>215,591</u>	<u>15,159</u>	<u>89,268</u>	<u>28,976</u>	<u>7,985</u>	<u>42,533</u>	<u>5,265,852</u>
<u>\$ 221,361</u>	<u>\$ 13,809</u>	<u>\$ 84,416</u>	<u>\$ 20,525</u>	<u>\$ 7,207</u>	<u>\$ 39,006</u>	<u>\$ 5,733,818</u>
\$ (296,192)	\$ (84,543)	\$ (76,959)	\$ (96,876)	\$ (43,995)	\$ (105,866)	\$ (7,277,200)
53,867	15,172	16,872	15,656	11,717	11,185	1,820,789
	947	5		324		341,821
209	(8,375)	(112)	(7,047)	241	1,404	(41,803)
(23,703)	(1,018)	(1,690)	(4,054)	(2,319)	1,186	(543,344)
	88	464	(966)		319	1,210
(308)	(307)	(336)	(143)	28	(413)	(8,575)
						(1,495)
2,508	174			(5)		(4,630)
(3,747)						(16,700)
935	(6)	(661)	383	(796)		(18,570)
8,775	557	343	3,324	1,478	(3,416)	96,490
		298			(161)	(776)
(333)	(103)	(217)				(8,194)
11,135	996	3,326	2,491	2,066	(605)	225,036
	66	337	103	152	(60)	41,522
	7	151				708,115
<u>8,655</u>	<u>(82)</u>	<u>182</u>	<u>(1,078)</u>	<u></u>	<u>239</u>	<u>(3,680)</u>
<u>57,993</u>	<u>8,116</u>	<u>18,962</u>	<u>8,669</u>	<u>12,886</u>	<u>9,678</u>	<u>2,587,216</u>
<u>\$ (238,199)</u>	<u>\$ (76,427)</u>	<u>\$ (57,997)</u>	<u>\$ (88,207)</u>	<u>\$ (31,109)</u>	<u>\$ (96,188)</u>	<u>\$ (4,689,984)</u>
\$ 1,109	\$	\$	\$	\$ 9,075	\$ 2,024	\$ 308,313
\$ 29,656	\$ 734	\$ 3,156	\$ 7,273	\$ 3,434	\$	\$ 2,505,650
\$ 295	\$	\$	\$	\$	\$ 39	\$ 1,876
\$ 11,364	\$	\$	\$	\$ 107	\$ 591	\$ 87,043



Section Two (continued)

Fiduciary Funds

(And Similar Component Units)



Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **State Employees Retirement System (S.E.R.S.) Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who completed 20 or more years of service or became occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Texas Emergency Services Retirement System Fund** accounts for the accumulation of resources for pension, death and disability benefits for eligible fire and emergency services personnel who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state's general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

August 31, 2014 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Texas Emergency Services Retirement System Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,236,858	\$ 46,058	\$ 2,142	\$ 943	\$ 296
Securities Lending Collateral	22,876,579	1,355,716	47,143	19,744	
Investments:					
U.S. Government	23,074,731	4,667,503	162,335	67,992	
Corporate Equity	22,265,164	6,908,863	240,289	100,642	42,268
Corporate Obligations	214,688				
Foreign Securities	30,236,834	6,984,785	242,929	101,748	23,864
Externally Managed Investments	44,345,751	5,059,929	175,983	73,708	
Other	11,457,939	996,618	34,640	14,462	24,243
Receivables:					
Federal					
Interest and Dividends	217,522	63,995	2,226	932	89
Accounts	195,414	71,670	1,248	1,437	1,055
Investment Trades	949,152	331,390	11,526	4,827	152
Other	42,362				
Due From Other Funds	110,659	12,743			
Prepaid Items					
Properties, at Cost, Net of Accumulated Depreciation or Amortization	38,054	9,913			
Total Assets	157,261,707	26,509,183	920,461	386,435	91,967
LIABILITIES					
Payables:					
Accounts	\$ 47,731	\$ 19,965	\$ 482	\$ 216	\$ 103
Investment Trades	646,946	85,783	2,983	1,250	115
Payroll	4,384				
Annuities	747,291				
Due To Other Funds	6,845	3,860	314	76	
Unearned Revenue		954			66
Employees' Compensable Leave	6,995	2,781			
Obligations/Securities Lending	22,869,876	1,345,724	46,804	19,603	
Other Liabilities	152,396				
Total Liabilities	24,482,464	1,459,067	50,583	21,145	284
NET POSITION					
Held in Trust for Pension Benefits and Other Purposes	132,779,243	25,050,116	869,878	365,290	91,683
Total Net Position	\$ 132,779,243	\$ 25,050,116	\$ 869,878	\$ 365,290	\$ 91,683

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexasSaver Administrative Trust Fund	Totals
\$	\$ 395,767	\$ 15,415	\$ 3,912	\$ 12,583	\$ 7,984	\$ 1,721,958
						24,299,182
						27,972,561
						29,557,226
						214,688
						37,590,160
						49,655,371
		274,247				12,802,149
	44,800	29,281				74,081
	132	2		4	1	284,903
	54,160	11,912	35	6,075	36	343,042
						1,297,047
	80,096					122,458
305	19,966	247		18		143,938
				250		250
						47,967
<u>305</u>	<u>594,921</u>	<u>331,104</u>	<u>3,947</u>	<u>18,930</u>	<u>8,021</u>	<u>186,126,981</u>
\$ 305	\$ 136,444	\$ 157,456	\$ 2,541	\$ 12,717	\$ 5,485	\$ 383,445
	226					737,077
						4,610
		173,029	44	113	82	747,291
		619				184,363
	311					1,639
						10,087
						24,282,007
						152,396
<u>305</u>	<u>136,981</u>	<u>331,104</u>	<u>2,585</u>	<u>12,830</u>	<u>5,567</u>	<u>26,502,915</u>
	457,940		1,362	6,100	2,454	159,624,066
<u>\$ 0</u>	<u>\$ 457,940</u>	<u>\$ 0</u>	<u>\$ 1,362</u>	<u>\$ 6,100</u>	<u>\$ 2,454</u>	<u>\$ 159,624,066</u>

STATE OF TEXAS

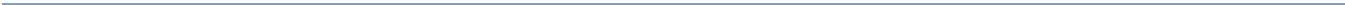
Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Texas Emergency Services Retirement System Fund
ADDITIONS					
Contributions:					
Member Contributions	\$ 2,425,072	\$ 430,595	\$ 8,180	\$ 5,195	\$ 4,177
State Contributions	1,653,033	482,329	27,758	12,211	
Premium Contributions					
Federal Contributions					
Other Contributions	940,494				
Total Contributions	<u>5,018,599</u>	<u>912,924</u>	<u>35,938</u>	<u>17,406</u>	<u>4,177</u>
Investment Income:					
From Investing Activities:					
Net Increase in Fair Value of Investments	16,443,656	2,655,804	91,227	37,653	11,392
Interest, Dividend and Other	3,118,912	622,341	21,422	8,872	1,051
Total Investing Income	<u>19,562,568</u>	<u>3,278,145</u>	<u>112,649</u>	<u>46,525</u>	<u>12,443</u>
Less Investing Activities Expense	200,672	34,313	1,202	460	538
Net Income from Investing Activities	<u>19,361,896</u>	<u>3,243,832</u>	<u>111,447</u>	<u>46,065</u>	<u>11,905</u>
From Securities Lending Activities:					
Securities Lending Income	122,115	1,092	38	15	
Less Securities Lending Expense:					
Borrower Rebates*	17,465	(8,395)	(289)	(120)	
Management Fees	32,116	957	33	14	
Net Income from Securities Lending	<u>72,534</u>	<u>8,530</u>	<u>294</u>	<u>121</u>	<u>0</u>
Total Net Investment Income	<u>19,434,430</u>	<u>3,252,362</u>	<u>111,741</u>	<u>46,186</u>	<u>11,905</u>
Other Additions:					
Other Revenue	4,143	160			3
Transfer In	17,512	80,466			1,530
Total Other Additions	<u>21,655</u>	<u>80,626</u>	<u>0</u>	<u>0</u>	<u>1,533</u>
Total Additions	<u>24,474,684</u>	<u>4,245,912</u>	<u>147,679</u>	<u>63,592</u>	<u>17,615</u>
DEDUCTIONS					
Benefits	8,550,614	1,919,728	55,228	16,166	4,168
Refunds of Contributions	410,601	106,809	1,919	254	
Transfer Out	80,466	17,602			
Administrative Expenses	39,185	17,692	1,280	255	161
Depreciation and Amortization Expense	2,297	1,474			
Loss on Sale of Properties		4			
Loss on Impairment of Capital Assets	24				
Other Expenses	398	1,029	44	12	5
Total Deductions	<u>9,083,585</u>	<u>2,064,338</u>	<u>58,471</u>	<u>16,687</u>	<u>4,334</u>
INCREASE (DECREASE) IN NET POSITION	<u>15,391,099</u>	<u>2,181,574</u>	<u>89,208</u>	<u>46,905</u>	<u>13,281</u>
NET POSITION					
Net Position, September 1, 2013	<u>117,388,144</u>	<u>22,868,542</u>	<u>780,670</u>	<u>318,385</u>	<u>78,402</u>
Net Position, August 31, 2014	<u>\$ 132,779,243</u>	<u>\$ 25,050,116</u>	<u>\$ 869,878</u>	<u>\$ 365,290</u>	<u>\$ 91,683</u>

* The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$ 189,004	\$ 4,520	\$	\$ 80,109	\$	\$ 3,146,852
	303,695	605,512				3,084,538
	363,631	150,756				514,387
	78,589	63,362				141,951
	393,985			3,105		1,337,584
<u>0</u>	<u>1,328,904</u>	<u>824,150</u>	<u>0</u>	<u>83,214</u>	<u>0</u>	<u>8,225,312</u>
						19,239,732
	2,061	273	14	25	24	3,774,995
<u>0</u>	<u>2,061</u>	<u>273</u>	<u>14</u>	<u>25</u>	<u>24</u>	<u>23,014,727</u>
		18	16	16	31	237,266
<u>0</u>	<u>2,061</u>	<u>255</u>	<u>(2)</u>	<u>9</u>	<u>(7)</u>	<u>22,777,461</u>
						123,260
						8,661
						33,120
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>81,479</u>
<u>0</u>	<u>2,061</u>	<u>255</u>	<u>(2)</u>	<u>9</u>	<u>(7)</u>	<u>22,858,940</u>
			507	113	398	5,324
27,715	1,292					128,515
<u>27,715</u>	<u>1,292</u>	<u>0</u>	<u>507</u>	<u>113</u>	<u>398</u>	<u>133,839</u>
27,715	1,332,257	824,405	505	83,336	391	31,218,091
27,715	1,416,952	813,823		78,720		12,883,114
	1,292					519,583
	3,624	3,986	320	475	565	99,360
						67,543
						3,771
						4
						24
	3,499	6,596	14	1,985	25	13,607
<u>27,715</u>	<u>1,425,367</u>	<u>824,405</u>	<u>334</u>	<u>81,180</u>	<u>590</u>	<u>13,587,006</u>
<u>0</u>	<u>(93,110)</u>	<u>0</u>	<u>171</u>	<u>2,156</u>	<u>(199)</u>	<u>17,631,085</u>
<u>0</u>	<u>551,050</u>	<u>0</u>	<u>1,191</u>	<u>3,944</u>	<u>2,653</u>	<u>141,992,981</u>
<u>\$ 0</u>	<u>\$ 457,940</u>	<u>\$ 0</u>	<u>\$ 1,362</u>	<u>\$ 6,100</u>	<u>\$ 2,454</u>	<u>\$ 159,624,066</u>



Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the money received in the settlement of the State of Texas v. The American Tobacco Co., et. al., designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Treasury Operations Division of the Texas Comptroller of Public Accounts.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas College Savings Plans** receive money contributed by account holders, money acquired from private sources and income from investment of deposits. The plans may be used only to pay costs of program administration and operations, make payments to state, private or independent institutions of higher education and make refunds to account holders.

Other Private-Purpose Trust Funds account for other assets held in a trustee capacity where principal and income benefit individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Private-Purpose Trust Funds

August 31, 2014 (Amounts in Thousands)

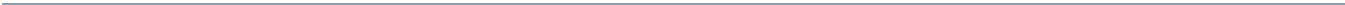
	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	\$	\$ 243,650	\$ 213,833	\$ 10,011	\$ 3,229	\$ 45,260	\$ 515,983
Restricted Cash and Cash Equivalents						14	14
Investments:							
U.S. Government				19,009		1,207	20,216
Corporate Equity	40,698					12,493	53,191
Corporate Obligations						2,247	2,247
Other	2,316,913				500,220	19,446	2,836,579
Receivables:							
Interest and Dividends	23	1			35	14	73
Accounts						138	138
Investment Trades	256						256
Other					68	4,300	4,368
Due From Other Funds							
Properties, at Cost, Net of Accumulated Depreciation or Amortization						765	765
Other Assets		84,727					84,727
Total Assets	2,357,890	328,378	213,833	29,020	503,552	85,884	3,518,557
LIABILITIES							
Payables:							
Accounts	\$ 1,196	\$	\$	\$ 3,600	\$ 67	\$ 18,705	\$ 23,568
Investment Trades	274						274
Interest						10	10
Due To Other Funds					6	1	7
Unearned Revenue					449	17	466
Funds Held for Others		84,727				33	84,760
Total Liabilities	1,470	84,727	0	3,600	522	18,766	109,085
NET POSITION							
Held in Trust for Individuals, Organizations and Other Governments	2,356,420	243,651	213,833	25,420	503,030	67,118	3,409,472
Total Net Position	\$ 2,356,420	\$ 243,651	\$ 213,833	\$ 25,420	\$ 503,030	\$ 67,118	\$ 3,409,472

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	\$	\$	\$	\$	\$	\$ 8,807	\$ 8,807
Other Contributions					166,402		166,402
Total Contributions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>166,402</u>	<u>8,807</u>	<u>175,209</u>
Investment Income:							
From Investing Activities:							
Net Appreciation in							
Fair Value of Investments	234,074				61,911	2,271	298,256
Interest and Investment Income	<u>21,813</u>	<u>73</u>	<u>53</u>	<u></u>	<u>2,293</u>	<u>2,873</u>	<u>27,105</u>
Total Investing Income	<u>255,887</u>	<u>73</u>	<u>53</u>	<u>0</u>	<u>64,204</u>	<u>5,144</u>	<u>325,361</u>
Less Investing Activities Expense							
Net Income from Investing Activities	<u></u>	<u></u>	<u></u>	<u></u>	<u>1,868</u>	<u></u>	<u>1,868</u>
Total Net Investment Income	<u>255,887</u>	<u>73</u>	<u>53</u>	<u>0</u>	<u>62,336</u>	<u>5,144</u>	<u>323,493</u>
Other Additions:							
Settlement of Claims						3,858	3,858
Other Revenue		9,560	30,241	142,388	347	2,557	185,093
Transfer In						134	134
Total Other Additions	<u>0</u>	<u>9,560</u>	<u>30,241</u>	<u>142,388</u>	<u>347</u>	<u>6,549</u>	<u>189,085</u>
Total Additions	<u>255,887</u>	<u>9,633</u>	<u>30,294</u>	<u>142,388</u>	<u>229,085</u>	<u>20,500</u>	<u>687,787</u>
DEDUCTIONS							
Benefits					145,234	424	145,658
Transfer Out		134				50	184
Intergovernmental Payments	50,000					10,202	60,202
Administrative Expenses	<u>6,179</u>	<u>1</u>			<u>278</u>	<u>463</u>	<u>6,921</u>
Depreciation and Amortization Expense						39	39
Settlement of Claims		43,306				3,860	47,166
Interest Expense						4	4
Other Expenses	<u></u>	<u>7,704</u>	<u>35</u>	<u>140,325</u>	<u>70</u>	<u>1,021</u>	<u>149,155</u>
Total Deductions	<u>56,179</u>	<u>51,145</u>	<u>35</u>	<u>140,325</u>	<u>145,582</u>	<u>16,063</u>	<u>409,329</u>
INCREASE (DECREASE) IN NET POSITION	<u>199,708</u>	<u>(41,512)</u>	<u>30,259</u>	<u>2,063</u>	<u>83,503</u>	<u>4,437</u>	<u>278,458</u>
NET POSITION							
Net Position, September 1, 2013	<u>2,156,712</u>	<u>285,163</u>	<u>183,574</u>	<u>23,357</u>	<u>419,527</u>	<u>62,681</u>	<u>3,131,014</u>
Net Position, August 31, 2014	<u>\$ 2,356,420</u>	<u>\$ 243,651</u>	<u>\$ 213,833</u>	<u>\$ 25,420</u>	<u>\$ 503,030</u>	<u>\$ 67,118</u>	<u>\$ 3,409,472</u>



Agency Funds

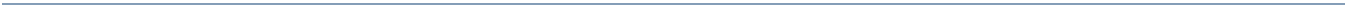
The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Texas Comptroller of Public Accounts for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

Other Agency Funds account for other resources held by the state in an agent capacity for individuals, private organizations or other governments.



STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Agency Funds

August 31, 2014 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self-Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$	\$ 735	\$ 7,300	\$ 894,220	\$ 341,492	\$ 1,243,747
Investments:						
U.S. Government	639,015				26	639,041
Corporate Equity					393,298	393,298
Corporate Obligations					108	108
Repurchase Agreements					29,984	29,984
Other					121,134	121,134
Receivables:						
Interest and Dividends	239					239
Accounts					6,765	6,765
Taxes					13	13
Other Intergovernmental					2	2
Due From Other Funds					1,215	1,215
Other Assets		972,806	505,114		111,002	1,588,922
Total Assets	<u>\$ 639,254</u>	<u>\$ 973,541</u>	<u>\$ 512,414</u>	<u>\$ 894,220</u>	<u>\$ 1,005,039</u>	<u>\$ 4,024,468</u>
LIABILITIES						
Payables:						
Accounts	\$	\$	\$	\$	\$ 894	\$ 894
Other Intergovernmental				894,220		894,220
Due To Other Funds					1,213	1,213
Funds Held for Others	639,254	973,541	512,414		1,002,921	3,128,130
Other Liabilities					11	11
Total Liabilities	<u>\$ 639,254</u>	<u>\$ 973,541</u>	<u>\$ 512,414</u>	<u>\$ 894,220</u>	<u>\$ 1,005,039</u>	<u>\$ 4,024,468</u>

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Balance September 1, 2013	Additions	Deductions	Balance August 31, 2014
Texas Public Finance Authority				
Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	\$ 1	\$	\$ 1	\$
Investments	52,762	586,253		639,015
Interest and Dividends Receivable	627		388	239
Total Assets	<u>\$ 53,390</u>	<u>\$ 586,253</u>	<u>\$ 389</u>	<u>\$ 639,254</u>
LIABILITIES				
Funds Held for Others	\$ 53,390	\$ 585,864	\$	\$ 639,254
Total Liabilities	<u>\$ 53,390</u>	<u>\$ 585,864</u>	<u>\$ 0</u>	<u>\$ 639,254</u>
Life, Health, Accident and Casualty				
Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 318	\$ 743	\$ 326	\$ 735
Other Assets	980,088	211,152	218,434	972,806
Total Assets	<u>\$ 980,406</u>	<u>\$ 211,895</u>	<u>\$ 218,760</u>	<u>\$ 973,541</u>
LIABILITIES				
Funds Held for Others	\$ 980,406	\$ 211,895	\$ 218,760	\$ 973,541
Total Liabilities	<u>\$ 980,406</u>	<u>\$ 211,895</u>	<u>\$ 218,760</u>	<u>\$ 973,541</u>
Texas Workers' Compensation				
Self-Insurance Fund				
ASSETS				
Cash and Cash Equivalents	\$ 7,970	\$ 8,229	\$ 8,899	\$ 7,300
Other Assets	517,566		12,452	505,114
Total Assets	<u>\$ 525,536</u>	<u>\$ 8,229</u>	<u>\$ 21,351</u>	<u>\$ 512,414</u>
LIABILITIES				
Accounts Payable	\$	\$ 900	\$ 900	\$
Funds Held for Others	525,536	259	13,381	512,414
Total Liabilities	<u>\$ 525,536</u>	<u>\$ 1,159</u>	<u>\$ 14,281</u>	<u>\$ 512,414</u>
City, County, MTA and SPD Sales				
Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 834,496	\$ 9,773,552	\$ 9,713,828	\$ 894,220
Total Assets	<u>\$ 834,496</u>	<u>\$ 9,773,552</u>	<u>\$ 9,713,828</u>	<u>\$ 894,220</u>
LIABILITIES				
Payables:				
Accounts	\$	\$ 7,712,915	\$ 7,712,915	\$
Other Intergovernmental	834,496	894,220	834,496	894,220
Funds Held for Others		10,608,049	10,608,049	
Total Liabilities	<u>\$ 834,496</u>	<u>\$ 19,215,184</u>	<u>\$ 19,155,460</u>	<u>\$ 894,220</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)

	Balance September 1, 2013	Additions	Deductions	Balance August 31, 2014
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 263,967	\$ 10,375,130	\$ 10,297,605	\$ 341,492
Investments	386,950	531,884	374,284	544,550
Receivables:				
Accounts	7,431	6,402	7,068	6,765
Taxes		13		13
Other Intergovernmental	1,126		1,124	2
Due From Other Funds	1,035	2,164	1,984	1,215
Interfund Receivable		2,625	2,625	
Other Assets	109,909	58,852	57,759	111,002
Total Assets	<u>\$ 770,418</u>	<u>\$ 10,977,070</u>	<u>\$ 10,742,449</u>	<u>\$ 1,005,039</u>
LIABILITIES				
Payables:				
Accounts	\$ 323	\$ 738,820	\$ 738,249	\$ 894
Due To Other Funds	4,087	948,548	951,422	1,213
Funds Held for Others	765,997	10,845,445	10,608,521	1,002,921
Other Liabilities	11	11	11	11
Total Liabilities	<u>\$ 770,418</u>	<u>\$ 12,532,824</u>	<u>\$ 12,298,203</u>	<u>\$ 1,005,039</u>
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 1,106,752	\$ 20,157,654	\$ 20,020,659	\$ 1,243,747
Investments	439,712	1,118,137	374,284	1,183,565
Receivables:				
Interest and Dividends	627		388	239
Accounts	7,431	6,402	7,068	6,765
Taxes		13		13
Other Intergovernmental	1,126		1,124	2
Due From Other Funds	1,035	2,164	1,984	1,215
Interfund Receivable		2,625	2,625	
Other Assets	1,607,563	270,004	288,645	1,588,922
Total Assets	<u>\$ 3,164,246</u>	<u>\$ 21,556,999</u>	<u>\$ 20,696,777</u>	<u>\$ 4,024,468</u>
LIABILITIES				
Payables:				
Accounts	323	8,452,635	8,452,064	894
Other Intergovernmental	834,496	894,220	834,496	894,220
Due To Other Funds	4,087	948,548	951,422	1,213
Funds Held for Others	2,325,329	22,251,512	21,448,711	3,128,130
Other Liabilities	11	11	11	11
Total Liabilities	<u>\$ 3,164,246</u>	<u>\$ 32,546,926</u>	<u>\$ 31,686,704</u>	<u>\$ 4,024,468</u>

Section Two (concluded)

Discretely Presented Component Units



Discretely Presented Component Units

A statement of net position and a statement of activities were prepared to report the breakdown of the following discretely presented component units:

Teacher Retirement System of Texas
State Bar of Texas
Texas State Affordable Housing Corporation
OneStar National Service Commission Inc.
Texas Low-Level Radioactive Waste Disposal Compact Commission
Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.
Texas Match the Promise Foundation
Texas Windstorm Insurance Association
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Pool
Texas Title Insurance Guaranty Association
Texas Life and Health Insurance Guaranty Association
Texas Property and Casualty Insurance Guaranty Association
Fair Access to Insurance Requirements Plan Association
Texas Boll Weevil Eradication Foundation Inc.
Texas Agricultural Finance Authority
Texas Water Resources Finance Authority
Texas Appraiser Licensing and Certification Board
Texas Economic Development Corporation
Texas Small Business Industrial Development Corporation
Texas Disaster Relief Fund
Texas Health Services Authority
Beacon State Fund
State Agency Council
Film Texas Fund
Texas Governor's Mansion Administration
Robert G. Carr and Nona K. Carr Scholarship Foundation
University of North Texas Foundation

STATE OF TEXAS

Combining Statement of Net Position – Component Units

August 31, 2014 (Amounts in Thousands)*

	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.	Texas Match the Promise Foundation	Texas Windstorm Insurance Association
ASSETS								
Current Assets:								
Cash and Cash Equivalents	\$ 230,332	\$ 27,548	\$ 2,206	\$ 746	\$ 476	\$ 15	\$ 54	\$ 439,193
Short-Term Investments		15,320	5,604					
Restricted:								
Cash and Cash Equivalents			5,493	163				
Loans and Contracts			2,091					
Receivables:								
Federal				31				
Other Intergovernmental				8				
Accounts	577	3,208	276					
Interest and Dividends	76		265					
Other								
Inventories		731						
Prepaid Items		591	69					42,788
Loans and Contracts								
Other Current Assets		2,094		13		75	353	12,153
Total Current Assets	230,985	49,492	16,004	961	476	90	407	494,134
Noncurrent Assets:								
Restricted:								
Cash and Cash Equivalents								
Investments			153,087					
Loans and Contracts			8,647					
Loans and Contracts								
Investments			2,371					
Gifts Receivable								
Other Receivables								
Other Noncurrent Assets			9,660					
Capital Assets:								
Non-Depreciable or Non-Amortizable		164	232					
Depreciable or Amortizable, Net		9,079	1,251					10,987
Assets Held in Trust								
Total Noncurrent Assets	0	9,243	175,248	0	0	0	0	10,987
Total Assets	230,985	58,735	191,252	961	476	90	407	505,121

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* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2014 (Amounts in Thousands)*

	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.	Texas Match the Promise Foundation	Texas Windstorm Insurance Association
LIABILITIES								
Current Liabilities:								
Payables:								
Accounts Payable	\$ 207,545	\$ 4,213	\$ 272	\$ 41	\$ 32	\$	\$	\$ 47,576
Interest			1,706					
Due To Primary Government					309			
Unearned Revenue		13,973	382	806				234,740
Capital Lease Obligations		13						
Employees' Compensable Leave	106	561						
Notes and Loans Payable			613					
Revenue Bonds Payable			1,985					
Funds Held for Others		762						
Other Current Liabilities			339			75	68	168,903
Total Current Liabilities	<u>207,766</u>	<u>19,522</u>	<u>5,297</u>	<u>847</u>	<u>341</u>	<u>75</u>	<u>68</u>	<u>451,219</u>
Noncurrent Liabilities:								
Capital Lease Obligations		6						
Employees' Compensable Leave	52	979						
Notes and Loans Payable			2,682					
Revenue Bonds Payable			147,919					
Other Noncurrent Liabilities			3,952					
Total Noncurrent Liabilities	<u>52</u>	<u>985</u>	<u>154,553</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>207,818</u>	<u>20,507</u>	<u>159,850</u>	<u>847</u>	<u>341</u>	<u>75</u>	<u>68</u>	<u>451,219</u>
NET POSITION								
Net Investment in Capital Assets		9,224	1,484					10,987
Restricted for:								
Funds Held as Permanent Investments:								
Nonexpendable								
Expendable								
Other	23,167		12,284	163				
Unrestricted		29,004	17,634	(49)	135	15	339	42,915
Total Net Position	<u>\$ 23,167</u>	<u>\$ 38,228</u>	<u>\$ 31,402</u>	<u>\$ 114</u>	<u>\$ 135</u>	<u>\$ 15</u>	<u>\$ 339</u>	<u>\$ 53,902</u>

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* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2014 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Pool	Texas Title Insurance Guaranty Association	Texas Life and Health Insurance Guaranty Association	Texas Property and Casualty Insurance Guaranty Association	Fair Access to Insurance Requirements Plan Association	Texas Boll Weevil Eradication Foundation Inc.
ASSETS								
Current Assets:								
Cash and Cash Equivalents	\$ 482	\$ 464	\$ 3,379	\$ 14,540	\$ 12,872	\$ 47,290	\$ 65,101	\$ 88,795
Short-Term Investments	5,081		53,267		10,421			
Restricted:								
Cash and Cash Equivalents								
Loans and Contracts								
Receivables:								
Federal								1,000
Other Intergovernmental								6,697
Accounts	265		582	529	115	1	15,924	1,445
Interest and Dividends					5	2,168	11	
Other	127				22			10
Inventories								2,761
Prepaid Items	5						7,520	104
Loans and Contracts								
Other Current Assets			43,022				436	
Total Current Assets	<u>5,960</u>	<u>464</u>	<u>100,250</u>	<u>15,069</u>	<u>23,435</u>	<u>49,459</u>	<u>88,992</u>	<u>100,812</u>
Noncurrent Assets:								
Restricted:								
Cash and Cash Equivalents								
Investments								12,721
Loans and Contracts								
Loans and Contracts								
Investments						413,524		
Gifts Receivable								
Other Receivables					321			1,168
Other Noncurrent Assets	43		6		5,683			
Capital Assets:								
Non-Depreciable or Non-Amortizable	114							
Depreciable or Amortizable, Net	1,778		4		70	500		3,085
Assets Held in Trust								
Total Noncurrent Assets	<u>1,935</u>	<u>0</u>	<u>10</u>	<u>0</u>	<u>6,074</u>	<u>414,024</u>	<u>0</u>	<u>16,974</u>
Total Assets	<u>7,895</u>	<u>464</u>	<u>100,260</u>	<u>15,069</u>	<u>29,509</u>	<u>463,483</u>	<u>88,992</u>	<u>117,786</u>

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* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2014 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Pool	Texas Title Insurance Guaranty Association	Texas Life and Health Insurance Guaranty Association	Texas Property and Casualty Insurance Guaranty Association	Fair Access to Insurance Requirements Plan Association	Texas Boll Weevil Eradication Foundation Inc.
LIABILITIES								
Current Liabilities:								
Payables:								
Accounts Payroll	\$ 22	\$ 19	\$ 1,067	\$ 146	\$ 904	\$ 1,476	\$ 18,241	\$ 100
Interest								488
Due To Primary Government								2,769
Unearned Revenue			59,609			25,185	43,332	
Capital Lease Obligations								
Employees' Compensable Leave	74							886
Notes and Loans Payable								2,390
Revenue Bonds Payable								
Funds Held for Others								
Other Current Liabilities	113		39,584	1,726	6,986	502,584	32,097	
Total Current Liabilities	261	19	100,260	1,872	7,890	529,245	93,670	6,633
Noncurrent Liabilities:								
Capital Lease Obligations								
Employees' Compensable Leave								
Notes and Loans Payable								16,254
Revenue Bonds Payable								
Other Noncurrent Liabilities					5,600			123
Total Noncurrent Liabilities	0	0	0	0	5,600	0	0	16,377
Total Liabilities	261	19	100,260	1,872	13,490	529,245	93,670	23,010
NET POSITION								
Net Investment in Capital Assets	1,892				69	500		3,085
Restricted for:								
Funds Held as Permanent Investments:								
Nonexpendable								
Expendable								
Other				11,779				12,598
Unrestricted	5,742	445		1,418	15,950	(66,262)	(4,678)	79,093
Total Net Position	\$ 7,634	\$ 445	\$ 0	\$ 13,197	\$ 16,019	\$ (65,762)	\$ (4,678)	\$ 94,776

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* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2014 (Amounts in Thousands)*

	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund
ASSETS								
Current Assets:								
Cash and Cash Equivalents	\$ 18,833	\$ 4,534	\$ 990	\$ 1,345	\$ 846	\$ 855	\$ 6,439	\$ 152
Short-Term Investments		22,635						
Restricted:								
Cash and Cash Equivalents								
Loans and Contracts								
Receivables:								
Federal								
Other Intergovernmental								
Accounts				239				
Interest and Dividends	24	36						
Other								
Inventories			5					
Prepaid Items	4			70				
Loans and Contracts	187	434						
Other Current Assets							40	
Total Current Assets	<u>19,048</u>	<u>27,639</u>	<u>995</u>	<u>1,654</u>	<u>846</u>	<u>855</u>	<u>6,479</u>	<u>152</u>
Noncurrent Assets:								
Restricted:								
Cash and Cash Equivalents								
Investments								
Loans and Contracts								
Loans and Contracts	2,494	4,461						
Investments		48						
Gifts Receivable								
Other Receivables								
Other Noncurrent Assets								
Capital Assets:								
Non-Depreciable or Non-Amortizable								
Depreciable or Amortizable, Net			74	1			10	
Assets Held in Trust								
Total Noncurrent Assets	<u>2,494</u>	<u>4,509</u>	<u>74</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>0</u>
Total Assets	<u>21,542</u>	<u>32,148</u>	<u>1,069</u>	<u>1,655</u>	<u>846</u>	<u>855</u>	<u>6,489</u>	<u>152</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2014 (Amounts in Thousands)*

	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund
LIABILITIES								
Current Liabilities:								
Payables:								
Accounts Payable	\$ 73	\$	\$ 22	\$ 158	\$	\$	\$ 49	\$
Interest	5		96					
Due To Primary Government								
Unearned Revenue							1,427	
Capital Lease Obligations								
Employees' Compensable Leave	5		71					
Notes and Loans Payable	8,996							
Revenue Bonds Payable								
Funds Held for Others								
Other Current Liabilities							1	
Total Current Liabilities	<u>9,079</u>	<u>0</u>	<u>189</u>	<u>158</u>	<u>0</u>	<u>0</u>	<u>1,477</u>	<u>0</u>
Noncurrent Liabilities:								
Capital Lease Obligations								
Employees' Compensable Leave	9		31					
Notes and Loans Payable								
Revenue Bonds Payable								
Other Noncurrent Liabilities								
Total Noncurrent Liabilities	<u>9</u>	<u>0</u>	<u>31</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>9,088</u>	<u>0</u>	<u>220</u>	<u>158</u>	<u>0</u>	<u>0</u>	<u>1,477</u>	<u>0</u>
NET POSITION								
Net Investment in Capital Assets								
Restricted for:								
Funds Held as Permanent Investments:								
Nonexpendable								
Expendable								
Other			892					
Unrestricted	<u>12,454</u>	<u>32,148</u>	<u>(43)</u>	<u>1,497</u>	<u>846</u>	<u>855</u>	<u>5,012</u>	<u>152</u>
Total Net Position	<u>\$ 12,454</u>	<u>\$ 32,148</u>	<u>\$ 849</u>	<u>\$ 1,497</u>	<u>\$ 846</u>	<u>\$ 855</u>	<u>\$ 5,012</u>	<u>\$ 152</u>

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* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2014 (Amounts in Thousands)*

	State Agency Council	Film Texas Fund	Texas Governor's Mansion Administration	Robert G. Carr and Nona K. Carr Scholarship Foundation	University of North Texas Foundation	Totals
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 31	\$ 1	\$ 3	\$ 344	\$ 9,494	\$ 977,360
Short-Term Investments					9,761	122,089
Restricted:						
Cash and Cash Equivalents				192		5,848
Loans and Contracts						2,091
Receivables:						
Federal						1,031
Other Intergovernmental						6,705
Accounts			10	3	2	23,176
Interest and Dividends						2,585
Other					297	456
Inventories					8	3,505
Prepaid Items	1				2	51,154
Loans and Contracts						621
Other Current Assets						58,186
Total Current Assets	<u>32</u>	<u>1</u>	<u>13</u>	<u>539</u>	<u>19,564</u>	<u>1,254,807</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						12,721
Investments				131,336	277,683	562,106
Loans and Contracts						8,647
Loans and Contracts						6,955
Investments				78		416,021
Gifts Receivable					17,249	17,249
Other Receivables						1,489
Other Noncurrent Assets						15,392
Capital Assets:						
Non-Depreciable or Non-Amortizable						510
Depreciable or Amortizable, Net						26,839
Assets Held in Trust					7,200	7,200
Total Noncurrent Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>131,414</u>	<u>302,132</u>	<u>1,075,129</u>
Total Assets	<u>32</u>	<u>1</u>	<u>13</u>	<u>131,953</u>	<u>321,696</u>	<u>2,329,936</u>

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* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (concluded)

August 31, 2014 (Amounts in Thousands)*

	State Agency Council	Film Texas Fund	Texas Governor's Mansion Administration	Robert G. Carr and Nona K. Carr Scholarship Foundation	University of North Texas Foundation	Totals
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	\$	\$	\$	\$	\$ 1,198	\$ 283,154
Payroll				22		778
Interest						4,475
Due To Primary Government						309
Unearned Revenue	5					379,459
Capital Lease Obligations						13
Employees' Compensable Leave						1,703
Notes and Loans Payable						11,999
Revenue Bonds Payable						1,985
Funds Held for Others					187,534	188,296
Other Current Liabilities					2,171	754,647
Total Current Liabilities	<u>5</u>	<u>0</u>	<u>0</u>	<u>22</u>	<u>190,903</u>	<u>1,626,818</u>
Noncurrent Liabilities:						
Capital Lease Obligations						6
Employees' Compensable Leave						1,071
Notes and Loans Payable						18,936
Revenue Bonds Payable						147,919
Other Noncurrent Liabilities						9,675
Total Noncurrent Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>177,607</u>
Total Liabilities	<u>5</u>	<u>0</u>	<u>0</u>	<u>22</u>	<u>190,903</u>	<u>1,804,425</u>
NET POSITION						
Net Investment in Capital Assets						27,241
Restricted for:						
Funds Held as Permanent Investments:						
Nonexpendable				118,785	81,065	199,850
Expendable				13,146	46,281	59,427
Other						60,883
Unrestricted	<u>27</u>	<u>1</u>	<u>13</u>		<u>3,447</u>	<u>178,110</u>
Total Net Position	<u>\$ 27</u>	<u>\$ 1</u>	<u>\$ 13</u>	<u>\$ 131,931</u>	<u>\$ 130,793</u>	<u>\$ 525,511</u>

* Amounts reported as of Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)*

	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	OneStar National Service Commission Inc.	Texas Low-Level Radioactive Waste Disposal Compact Commission	Texas Prepaid Higher Education Tuition Scholarship Foundation Inc.
EXPENSES						
Salaries and Wages	\$ 1,212	\$ 18,116	\$ 2,104	\$ 902	\$	\$
Payroll Related Costs	336	5,219		199		
Professional Fees and Services	1,020	3,115	379	511	179	
Travel	8	8,337	105	66	46	
Materials and Supplies	3	722		35	1	
Communications and Utilities	1	612		27	1	
Repairs and Maintenance		926				
Rentals and Leases	47	1,315	43	127	6	
Printing and Reproduction		2,917		19	1	
Claims and Judgments		1,347				
Bad Debt Expense						
Cost of Goods Sold		932				
Depreciation and Amortization		983	273			
Other Financing Fees						
Public Assistance Payments				12,556		
Employee/Participant Benefit Payments	1,767,429					
Direct Interest Expense						
Interest Expense – Other		13	6,848			
Other Expenses	19,251	4,959	2,733	63	383	
Total Expenses	<u>1,789,307</u>	<u>49,513</u>	<u>12,485</u>	<u>14,505</u>	<u>617</u>	<u>0</u>
PROGRAM REVENUES						
Charges for Services	1,929,065	41,544	5,791		100	
Operating Grants and Contributions	83	6,541	8,022	14,505		
Total Program Revenues	<u>1,929,148</u>	<u>48,085</u>	<u>13,813</u>	<u>14,505</u>	<u>100</u>	<u>0</u>
Net Program Revenues (Expenses)	<u>139,841</u>	<u>(1,428)</u>	<u>1,328</u>	<u>0</u>	<u>(517)</u>	<u>0</u>
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings	941					
Other General Revenues			1,178		583	
Gain on Sale of Capital Assets						
Total General Revenues	<u>941</u>	<u>0</u>	<u>1,178</u>	<u>0</u>	<u>583</u>	<u>0</u>
Change in Net Position	<u>140,782</u>	<u>(1,428)</u>	<u>2,506</u>	<u>0</u>	<u>66</u>	<u>0</u>
Net Position, September 1, 2013	(117,615)	39,656	31,876	114	69	15
Restatements			(2,980)			
Net Position, September 1, 2013, as Restated	<u>(117,615)</u>	<u>39,656</u>	<u>28,896</u>	<u>114</u>	<u>69</u>	<u>15</u>
Net Position, August 31, 2014	<u>\$ 23,167</u>	<u>\$ 38,228</u>	<u>\$ 31,402</u>	<u>\$ 114</u>	<u>\$ 135</u>	<u>\$ 15</u>

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* Amounts reported for the fiscal year ended Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units (continued)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)*

	Texas Match the Promise Foundation	Texas Windstorm Insurance Association	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Pool	Texas Title Insurance Guaranty Association
EXPENSES						
Salaries and Wages	\$	\$ 17,651	\$ 1,269	\$	\$ 426	\$
Payroll Related Costs		1,740	390			
Professional Fees and Services			410		12,584	302
Travel			3	2	3	
Materials and Supplies			34		50	
Communications and Utilities			42			
Repairs and Maintenance			54			
Rentals and Leases		1,281	287		77	
Printing and Reproduction			2			
Claims and Judgments					322,297	
Bad Debt Expense						
Cost of Goods Sold						
Depreciation and Amortization		837	728		3	
Other Financing Fees		20,801				
Public Assistance Payments						
Employee/Participant Benefit Payments						
Direct Interest Expense						
Interest Expense – Other						
Other Expenses	68	77,602	167	7	206	3,585
Total Expenses	68	119,912	3,386	9	335,646	3,887
PROGRAM REVENUES						
Charges for Services		295,130	2,830		325,603	4,978
Operating Grants and Contributions	89	1,077	20	2	10,043	
Total Program Revenues	89	296,207	2,850	2	335,646	4,978
Net Program Revenues (Expenses)	21	176,295	(536)	(7)	0	1,091
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings						
Other General Revenues						
Gain on Sale of Capital Assets						
Total General Revenues	0	0	0	0	0	0
Change in Net Position	21	176,295	(536)	(7)	0	1,091
Net Position, September 1, 2013	318	(122,393)	8,170			12,106
Restatements				452		
Net Position, September 1, 2013, as Restated	318	(122,393)	8,170	452	0	12,106
Net Position, August 31, 2014	\$ 339	\$ 53,902	\$ 7,634	\$ 445	\$ 0	\$ 13,197

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* Amounts reported for the fiscal year ended Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units (continued)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)*

	Texas Life and Health Insurance Guaranty Association	Texas Property and Casualty Insurance Guaranty Association	Fair Access to Insurance Requirements Plan Association	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority
EXPENSES						
Salaries and Wages	\$ 411	\$ 4,471	\$ 4,922	\$ 10,920	\$ 342	\$ 2
Payroll Related Costs	65		1,865		81	
Professional Fees and Services	152	188		986	13	
Travel		32		224	6	
Materials and Supplies		108		2,582	4	
Communications and Utilities		24		398		
Repairs and Maintenance				518		
Rentals and Leases	156	450	373	549		
Printing and Reproduction		14				
Claims and Judgments	8,652	130,989		3		
Bad Debt Expense				(77)		
Cost of Goods Sold						
Depreciation and Amortization	22	166		1,125		
Other Financing Fees			(1,142)			
Public Assistance Payments					281	7,700
Employee/Participant Benefit Payments						
Direct Interest Expense					(1)	
Interest Expense – Other				249		
Other Expenses	277	604	54,810	1,854	398	12
Total Expenses	<u>9,735</u>	<u>137,046</u>	<u>60,828</u>	<u>19,331</u>	<u>1,124</u>	<u>7,714</u>
PROGRAM REVENUES						
Charges for Services	3,919	18,307	75,343	21,624	879	
Operating Grants and Contributions	13	(5,531)	(150)	17,915	1,200	221
Total Program Revenues	<u>3,932</u>	<u>12,776</u>	<u>75,193</u>	<u>39,539</u>	<u>2,079</u>	<u>221</u>
Net Program Revenues (Expenses)	<u>(5,803)</u>	<u>(124,270)</u>	<u>14,365</u>	<u>20,208</u>	<u>955</u>	<u>(7,493)</u>
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings				192	146	
Other General Revenues				90	8	
Gain on Sale of Capital Assets				1,538		
Total General Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,820</u>	<u>154</u>	<u>0</u>
Change in Net Position	<u>(5,803)</u>	<u>(124,270)</u>	<u>14,365</u>	<u>22,028</u>	<u>1,109</u>	<u>(7,493)</u>
Net Position, September 1, 2013	21,822	58,508	(19,043)	72,748	11,345	39,641
Restatements						
Net Position, September 1, 2013, as Restated	<u>21,822</u>	<u>58,508</u>	<u>(19,043)</u>	<u>72,748</u>	<u>11,345</u>	<u>39,641</u>
Net Position, August 31, 2014	<u>\$ 16,019</u>	<u>\$ (65,762)</u>	<u>\$ (4,678)</u>	<u>\$ 94,776</u>	<u>\$ 12,454</u>	<u>\$ 32,148</u>

Continued on the following page

* Amounts reported for the fiscal year ended Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units (continued)

For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)*

	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Beacon State Fund
EXPENSES						
Salaries and Wages	\$ 927	\$ 59	\$	\$	\$ 527	\$
Payroll Related Costs	278				81	
Professional Fees and Services	75	145		1	1,012	
Travel	29	147	1		31	2
Materials and Supplies	11	125			9	27
Communications and Utilities	9	1			119	2
Repairs and Maintenance	10					
Rentals and Leases	43	108			28	4
Printing and Reproduction		7				6
Claims and Judgments						
Bad Debt Expense						
Cost of Goods Sold						
Depreciation and Amortization	13				4	
Other Financing Fees						
Public Assistance Payments						25
Employee/Participant Benefit Payments						
Direct Interest Expense			1			
Interest Expense – Other						
Other Expenses	153	630	29		23	19
Total Expenses	<u>1,548</u>	<u>1,222</u>	<u>31</u>	<u>1</u>	<u>1,834</u>	<u>85</u>
PROGRAM REVENUES						
Charges for Services	1,985	22			1,830	1
Operating Grants and Contributions		773	6	2	5,001	100
Total Program Revenues	<u>1,985</u>	<u>795</u>	<u>6</u>	<u>2</u>	<u>6,831</u>	<u>101</u>
Net Program Revenues (Expenses)	<u>437</u>	<u>(427)</u>	<u>(25)</u>	<u>1</u>	<u>4,997</u>	<u>16</u>
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings						
Other General Revenues	37					
Gain on Sale of Capital Assets						
Total General Revenues	<u>37</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Position	<u>474</u>	<u>(427)</u>	<u>(25)</u>	<u>1</u>	<u>4,997</u>	<u>16</u>
Net Position, September 1, 2013	375	1,924	831	854	15	136
Restatements			40			
Net Position, September 1, 2013, as Restated	<u>375</u>	<u>1,924</u>	<u>871</u>	<u>854</u>	<u>15</u>	<u>136</u>
Net Position, August 31, 2014	<u>\$ 849</u>	<u>\$ 1,497</u>	<u>\$ 846</u>	<u>\$ 855</u>	<u>\$ 5,012</u>	<u>\$ 152</u>

Concluded on the following page

* Amounts reported for the fiscal year ended Aug. 31, 2014, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

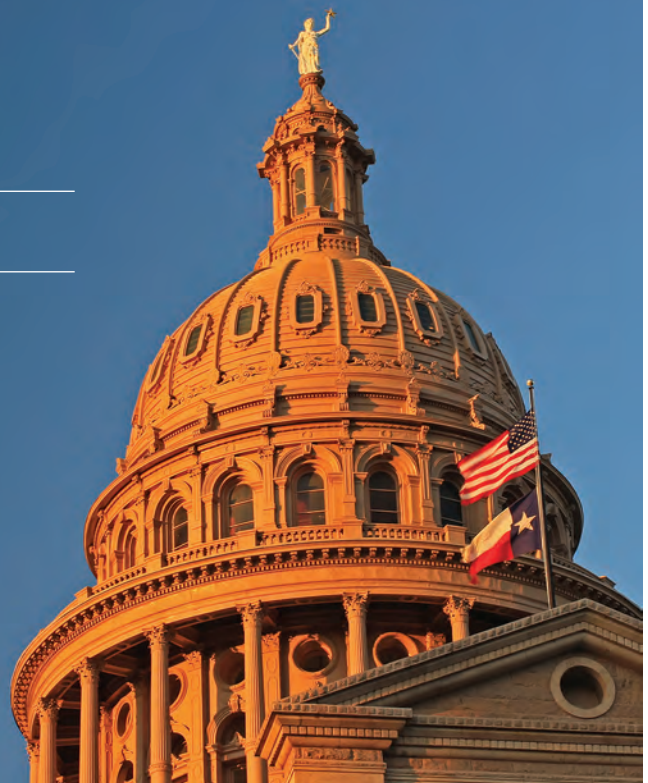
For the Fiscal Year Ended August 31, 2014 (Amounts in Thousands)*

	State Agency Council	Film Texas Fund	Texas Governor's Mansion Administration	Robert G. Carr and Nona K. Carr Scholarship Foundation	University of North Texas Foundation	Totals
EXPENSES						
Salaries and Wages	\$	\$	\$ 3	\$ 236	\$ 822	\$ 65,322
Payroll Related Costs				67		10,321
Professional Fees and Services				37	632	21,741
Travel				9	11	9,062
Materials and Supplies	1	1	6	32		3,751
Communications and Utilities				1		1,237
Repairs and Maintenance						1,508
Rentals and Leases				3		4,897
Printing and Reproduction				1		2,967
Claims and Judgments						463,288
Bad Debt Expense						(77)
Cost of Goods Sold						932
Depreciation and Amortization						4,154
Other Financing Fees						19,659
Public Assistance Payments					1,273	21,835
Employee/Participant Benefit Payments						1,767,429
Direct Interest Expense						0
Interest Expense – Other						7,110
Other Expenses			4	13	2,741	170,591
Total Expenses	<u>1</u>	<u>1</u>	<u>13</u>	<u>399</u>	<u>5,479</u>	<u>2,575,727</u>
PROGRAM REVENUES						
Charges for Services			17		440	2,729,408
Operating Grants and Contributions			2	17,760	21,874	99,568
Total Program Revenues	<u>0</u>	<u>0</u>	<u>19</u>	<u>17,760</u>	<u>22,314</u>	<u>2,828,976</u>
Net Program Revenues (Expenses)	<u>(1)</u>	<u>(1)</u>	<u>6</u>	<u>17,361</u>	<u>16,835</u>	<u>253,249</u>
GENERAL REVENUES						
General Revenues						
Unrestricted Investment Earnings						1,279
Other General Revenues						1,896
Gain on Sale of Capital Assets						1,538
Total General Revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,713</u>
Change in Net Position	<u>(1)</u>	<u>(1)</u>	<u>6</u>	<u>17,361</u>	<u>16,835</u>	<u>257,962</u>
Net Position, September 1, 2013	28	2	7	114,570	115,879	271,958
Restatements					(1,921)	(4,409)
Net Position, September 1, 2013, as Restated	<u>28</u>	<u>2</u>	<u>7</u>	<u>114,570</u>	<u>113,958</u>	<u>267,549</u>
Net Position, August 31, 2014	<u>\$ 27</u>	<u>\$ 1</u>	<u>\$ 13</u>	<u>\$ 131,931</u>	<u>\$ 130,793</u>	<u>\$ 525,511</u>

* Amounts reported for the fiscal year ended Aug. 31, 2014, unless otherwise indicated in Note 19.

Section Three

Statistical Section



State of Texas Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and other supplementary information says about the state’s overall financial health.

Contents	Pages
Financial Trends Information	261 – 267
These schedules contain trend information intended to help the reader understand how the state’s financial position has changed over time.	
Revenue Capacity Information	268 – 270
These schedules contain information intended to help the reader assess the state’s most significant revenue source – state tax collections.	
Debt Capacity Information	271 – 275
These schedules present information intended to assist users in understanding and assessing the state’s current levels of outstanding debt and the ability to issue additional debt.	
Demographic and Economic Information	276 – 278
These schedules provide demographic and economic indicators intended to help the reader understand the socio-economic environment within which the state’s financial activities take place.	
Operating Information	279 – 283
These schedules provide contextual information about the state’s operations and resources intended to assist readers in using financial statement information to understand and assess the state’s economic condition.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Texas Comprehensive Annual Financial Report databases for the relevant years.

STATE OF TEXAS
Statistical Section – Financial Trends Information
Net Position by Component
Last Ten Fiscal Years

(Amounts in Millions)

	2005	2006	2007	2008	2009
GOVERNMENTAL ACTIVITIES					
Net Investment in Capital Assets	\$ 53,815	\$ 55,473	\$ 56,438	\$ 58,208	\$ 59,720
Restricted	24,110	25,993	29,347	31,358	32,663
Unrestricted	3,753	8,696	12,565	11,105	3,479
Total Governmental Activities Net Position	<u>81,678</u>	<u>90,162</u>	<u>98,350</u>	<u>100,671</u>	<u>95,862</u>
BUSINESS-TYPE ACTIVITIES					
Net Investment in Capital Assets	6,253	6,871	7,343	7,385	7,655
Restricted	20,581	22,812	25,815	24,882	18,744
Unrestricted	7,076	8,056	9,741	9,885	8,619
Total Business-Type Activities Net Position	<u>33,910</u>	<u>37,739</u>	<u>42,899</u>	<u>42,152</u>	<u>35,018</u>
PRIMARY GOVERNMENT					
Net Investment in Capital Assets	60,068	62,344	63,781	65,593	67,375
Restricted	44,691	48,805	55,162	56,240	51,407
Unrestricted	10,829	16,752	22,306	20,990	12,098
Total Primary Government Net Position	<u>\$ 115,588</u>	<u>\$ 127,901</u>	<u>\$ 141,249</u>	<u>\$ 142,823</u>	<u>\$ 130,880</u>

	2010	2011	2012	2013	2014
GOVERNMENTAL ACTIVITIES					
Net Investment in Capital Assets	\$ 60,744	\$ 61,917	\$ 63,458	\$ 64,095	\$ 68,739
Restricted	26,136	32,014	33,817	34,407	41,660
Unrestricted	8,025	3,322	4,497	11,239	9,006
Total Governmental Activities Net Position	<u>94,905</u>	<u>97,253</u>	<u>101,772</u>	<u>109,741</u>	<u>119,405</u>
BUSINESS-TYPE ACTIVITIES					
Net Investment in Capital Assets	7,933	9,243	9,713	10,330	11,055
Restricted	22,209	24,375	27,539	31,093	40,021
Unrestricted	7,230	8,516	9,553	7,466	5,101
Total Business-Type Activities Net Position	<u>37,372</u>	<u>42,134</u>	<u>46,805</u>	<u>48,889</u>	<u>56,177</u>
PRIMARY GOVERNMENT					
Net Investment in Capital Assets	68,677	71,160	73,171	74,425	79,794
Restricted	48,345	56,389	61,356	65,500	81,681
Unrestricted	15,255	11,838	14,050	18,705	14,107
Total Primary Government Net Position	<u>\$ 132,277</u>	<u>\$ 139,387</u>	<u>\$ 148,577</u>	<u>\$ 158,630</u>	<u>\$ 175,582</u>

Source: 2005 – 2014 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years

(Amounts in Thousands)

	2005	2006	2007	2008	2009
GOVERNMENTAL ACTIVITIES:					
Expenses					
General Government	\$ 2,206,793	\$ 2,681,117	\$ 2,555,309	\$ 2,659,822	\$ 3,052,177
Education	16,293,851	18,025,550	21,313,526	24,986,076	24,952,375
Employee Benefits	50,544	56,718	61,171	86,195	220,272
Teacher Retirement State Contributions	2,083,530	1,932,325	2,017,000	1,761,759	1,667,325
Health and Human Services	27,302,426	28,808,315	30,886,484	32,426,046	38,124,180
Public Safety and Corrections	4,086,450	5,084,923	5,035,761	5,020,897	6,026,868
Transportation	3,766,301	4,452,154	4,252,129	4,478,109	4,025,226
Natural Resources and Recreation	1,070,481	961,178	1,217,201	1,451,450	1,673,915
Regulatory Services	349,420	282,067	314,266	398,885	445,938
Interest on General Long-Term Debt	417,854	54,121	229,354	578,059	525,648
Total Expenses	<u>57,627,650</u>	<u>62,338,468</u>	<u>67,882,201</u>	<u>73,847,298</u>	<u>80,713,924</u>
Program Revenues					
Charges for Services:					
General Government	802,588	1,199,924	1,141,278	1,171,997	1,010,388
Education	594,702	626,224	584,971	821,291	474,249
Employee Benefits	97	120	116	107	109
Teacher Retirement State Contributions	10	93,694	26,661		33,624
Health and Human Services	1,124,402	1,177,825	2,059,789	1,832,315	1,825,395
Public Safety and Corrections	463,097	441,803	823,602	331,101	354,117
Transportation	1,342,073	1,373,339	1,530,669	1,785,835	1,920,123
Natural Resources and Recreation	716,981	570,872	714,687	661,657	574,032
Regulatory Services	534,469	596,705	604,199	635,089	646,959
Operating Grants and Contributions	26,667,982	28,979,226	29,995,409	25,900,072	32,410,929
Capital Grants and Contributions	3,253,051	2,803,006	1,823,686	2,585,507	2,619,631
Total Program Revenues	<u>35,499,452</u>	<u>37,862,738</u>	<u>39,305,067</u>	<u>35,724,971</u>	<u>41,869,556</u>
Total Governmental Activities					
Net Program Expense	<u>(22,128,198)</u>	<u>(24,475,730)</u>	<u>(28,577,134)</u>	<u>(38,122,327)</u>	<u>(38,844,368)</u>
General Revenues					
Taxes:					
Sales and Use	16,260,689	18,475,176	20,230,164	21,640,855	21,026,034
Motor Vehicle and Manufactured Housing	2,897,031	3,046,856	3,338,498	3,384,597	2,568,599
Motor Fuels	2,915,680	3,053,476	3,149,043	3,000,148	3,155,941
Franchise	2,203,578	2,632,780	3,273,050	4,712,183	3,303,170
Oil and Natural Gas Production	2,409,276	3,441,638	2,692,032	4,036,033	1,335,296
Insurance Occupation	1,213,627	1,238,846	1,368,340	1,446,828	1,295,330
Cigarette and Tobacco	596,569	547,000	1,325,712	1,454,187	1,564,061
Other	1,435,701	1,558,073	1,694,750	1,744,400	1,680,362
Unrestricted Investment Earnings	327,516	760,207	941,938	1,041,840	178,470
Settlement of Claims	885,975	583,787	538,836	555,476	555,626
Gain on Sale of Capital Assets	8,461	2,762	3,942		
Gain on Other Financial Activity					
Other General Revenues	822,652	1,071,679	1,627,330	1,392,565	1,769,051
Capital Contributions	107	1,449	309	8,653	1,554
Transfers – Internal Activity	<u>(2,966,197)</u>	<u>(3,513,639)</u>	<u>(3,383,910)</u>	<u>(3,909,529)</u>	<u>(4,268,014)</u>
Total General Revenues, Contributions and Transfers	<u>29,010,665</u>	<u>32,900,090</u>	<u>36,800,034</u>	<u>40,508,236</u>	<u>34,165,480</u>
Change in Net Position – Governmental Activities	<u>6,882,467</u>	<u>8,424,360</u>	<u>8,222,900</u>	<u>2,385,909</u>	<u>(4,678,888)</u>

Source: 2005 – 2014 state of Texas financial statements

2010	2011	2012	2013	2014
\$ 3,451,868	\$ 4,037,805	\$ 3,116,737	\$ 2,873,598	\$ 2,967,443
27,344,876	28,643,283	25,724,127	25,321,607	27,138,847
252,457	324,477	423,492	437,939	399,454
2,200,408	2,262,638	2,390,178	2,492,310	2,700,533
41,487,191	44,875,285	44,737,457	44,888,201	48,015,340
6,231,847	5,539,155	5,294,730	5,316,819	5,542,840
4,146,987	4,377,794	4,484,662	5,384,628	5,223,720
1,559,708	1,474,675	1,634,659	1,850,253	1,944,520
447,557	408,115	410,724	461,418	792,267
755,314	797,030	715,148	741,397	750,946
<u>87,878,213</u>	<u>92,740,257</u>	<u>88,931,914</u>	<u>89,768,170</u>	<u>95,475,910</u>
984,639	1,019,521	1,036,382	1,110,854	1,142,351
463,719	632,584	480,475	506,995	801,358
135	100	134	116	70
1,782,704	2,101,440	1,910,599	2,332,588	2,894,301
336,134	330,198	342,782	348,876	338,239
1,891,247	1,999,695	2,224,635	2,363,393	2,492,591
605,751	587,423	699,872	680,996	716,696
687,746	666,158	710,209	707,406	657,008
43,148,227	47,220,463	42,796,231	42,868,081	46,903,926
2,453,183	2,538,949	47,578	31,248	96,802
<u>52,353,485</u>	<u>57,096,531</u>	<u>50,248,897</u>	<u>50,950,553</u>	<u>56,043,342</u>
<u>(35,524,728)</u>	<u>(35,643,726)</u>	<u>(38,683,017)</u>	<u>(38,817,617)</u>	<u>(39,432,568)</u>
19,558,426	21,751,249	24,349,600	26,199,771	27,372,895
2,624,725	3,001,387	3,580,663	3,891,539	4,213,273
3,060,246	3,108,153	3,195,332	3,214,393	3,327,707
3,809,109	3,998,073	4,574,184	4,826,435	5,884,749
2,157,334	3,069,384	3,727,498	4,501,478	4,645,756
1,309,620	1,379,621	1,528,111	1,781,711	1,967,613
1,394,122	1,551,420	1,428,413	1,603,086	1,348,923
1,676,452	1,802,300	1,954,752	2,100,125	2,155,450
575,642	334,621	645,813	142,724	300,423
925,676	584,305	620,898	640,565	574,082
	99	7,163	376	1,865
				6,708
2,017,783	1,533,427	1,880,352	2,045,961	1,755,856
30,845	108,119	930	475	(152,616)
<u>(4,491,627)</u>	<u>(4,179,888)</u>	<u>(3,944,781)</u>	<u>(4,028,026)</u>	<u>(4,130,757)</u>
<u>34,648,353</u>	<u>38,042,270</u>	<u>43,548,928</u>	<u>46,920,613</u>	<u>49,271,927</u>
<u>(876,375)</u>	<u>2,398,544</u>	<u>4,865,911</u>	<u>8,102,996</u>	<u>9,839,359</u>

Concluded on the following page

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position (concluded)

Last Ten Fiscal Years

(Amounts in Thousands)

	2005	2006	2007	2008	2009
BUSINESS-TYPE ACTIVITIES:					
Expenses					
General Government	\$ 142,142	\$ 162,499	\$ 186,628	\$ 177,012	\$ 180,543
Education	14,716,405	15,982,582	17,165,602	18,619,716	20,135,452
Teacher Retirement State Contributions	761,240	813,133	909,845		
Health and Human Services	1,540,459	1,253,431	1,204,609	1,467,185	4,908,112
Public Safety and Corrections	71,308	73,775	75,305	80,607	83,498
Transportation	346	16,339	125,910	164,280	220,881
Natural Resources and Recreation	264,707	284,241	283,653	247,018	304,577
Lottery	2,594,241	2,687,084	2,691,210	2,634,446	2,680,273
Total Expenses	<u>20,090,848</u>	<u>21,273,084</u>	<u>22,642,762</u>	<u>23,390,264</u>	<u>28,513,336</u>
Program Revenues					
Charges for Services:					
General Government	27,947	37,245	42,713	43,106	42,147
Education	6,662,679	7,284,371	8,268,639	8,705,756	9,253,972
Teacher Retirement State Contributions	823,910	861,648	939,879		
Health and Human Services	1,963,403	1,862,804	1,665,242	1,058,134	1,027,897
Public Safety and Corrections	77,521	79,032	82,779	87,365	90,469
Transportation	14	13	16,757	48,958	66,375
Natural Resources and Recreation	22,106	33,716	41,034	42,964	46,682
Lottery	3,663,414	3,775,491	3,774,948	3,672,423	3,720,995
Operating Grants and Contributions	8,086,139	7,200,099	9,001,427	4,808,580	3,613,083
Capital Grants and Contributions	211,726	155,541	197,731	245,962	95,889
Total Program Revenues	<u>21,538,859</u>	<u>21,289,960</u>	<u>24,031,149</u>	<u>18,713,248</u>	<u>17,957,509</u>
Total Business-Type Activities					
Net Program Revenue (Expense)	<u>1,448,011</u>	<u>16,876</u>	<u>1,388,387</u>	<u>(4,677,016)</u>	<u>(10,555,827)</u>
General Revenues					
Unrestricted Investment Earnings	68,423	55,150	245,977	190,974	129,445
Settlement of Claims	20	94	283	6	14,691
Gain on Sale of Capital Assets	6,431	276	13,363	269	609
Other General Revenue	126,957	91,017	266,722	270,787	156,903
Capital Contributions	133	3,874	1,364		
Contributions to Permanent and Term Endowments	145,919	123,939	184,193	167,692	120,404
Special Items		(38,898)	(318,813)	(150,026)	
Transfers – Internal Activity	<u>2,966,197</u>	<u>3,513,639</u>	<u>3,383,910</u>	<u>3,909,529</u>	<u>4,268,014</u>
Total General Revenues, Contributions, Special Items and Transfers	<u>3,314,080</u>	<u>3,749,091</u>	<u>3,776,999</u>	<u>4,389,231</u>	<u>4,690,066</u>
Change in Net Position – Business-Type Activities	<u>4,762,091</u>	<u>3,765,967</u>	<u>5,165,386</u>	<u>(287,785)</u>	<u>(5,865,761)</u>
Change in Net Position – Primary Government	<u>\$ 11,644,558</u>	<u>\$ 12,190,327</u>	<u>\$ 13,388,286</u>	<u>\$ 2,098,124</u>	<u>\$ (10,544,649)</u>

Source: 2005 – 2014 state of Texas financial statements

2010	2011	2012	2013	2014
\$ 162,620	\$ 150,406	\$ 149,663	\$ 149,735	\$ 122,356
20,943,292	22,226,690	22,667,443	23,828,365	24,896,493
7,826,452	6,055,958	5,117,829	3,854,869	2,759,024
87,120	86,262	91,313	91,331	95,749
206,822	209,880	215,845	228,769	248,827
353,641	423,140	346,150	319,094	315,963
2,681,627	2,783,798	3,027,943	3,185,869	3,164,120
<u>32,261,574</u>	<u>31,936,134</u>	<u>31,616,186</u>	<u>31,658,032</u>	<u>31,602,532</u>
47,377	49,717	50,996	57,286	59,977
9,907,344	10,931,371	11,671,987	12,395,115	13,212,424
2,107,474	2,675,581	2,894,246	2,749,160	2,532,273
93,734	95,736	102,593	101,082	107,544
73,312	74,877	85,819	119,152	155,019
44,973	43,374	40,084	45,546	48,705
3,739,165	3,811,862	4,191,587	4,376,786	4,385,331
13,292,594	14,103,243	12,543,063	9,320,966	13,120,148
305,669	281,741	259,750	350,922	522,211
<u>29,611,642</u>	<u>32,067,502</u>	<u>31,840,125</u>	<u>29,516,015</u>	<u>34,143,632</u>
(2,649,932)	131,368	223,939	(2,142,017)	2,541,100
134,195	86,295	133,680	11,566	165,597
1,384	1,215	378	3,187	2,403
	1	543		11,469
241,013	222,640	248,725	164,538	195,964
	3,045			
136,577	126,971	136,800	184,108	238,951
<u>4,491,627</u>	<u>4,179,888</u>	<u>3,944,781</u>	<u>4,028,026</u>	<u>4,130,757</u>
5,004,796	4,620,055	4,464,907	4,391,425	4,745,141
<u>2,354,864</u>	<u>4,751,423</u>	<u>4,688,846</u>	<u>2,249,408</u>	<u>7,286,241</u>
<u>\$ 1,478,489</u>	<u>\$ 7,149,967</u>	<u>\$ 9,554,757</u>	<u>\$10,352,404</u>	<u>\$17,125,600</u>

STATE OF TEXAS
Statistical Section – Financial Trends Information
Fund Balances – Governmental Funds
Last Ten Fiscal Years

(Amounts in Millions)

	2005	2006	2007	2008	2009	2010
GENERAL FUND						
Reserved	\$ 1,752	\$ 1,648	\$ 2,138	\$ 2,471	\$ 3,380	\$ 5,460
Unreserved	286	5,673	8,698	8,184	5,586	2,950
Total General Fund	<u>\$ 2,038</u>	<u>\$ 7,321</u>	<u>\$ 10,836</u>	<u>\$ 10,655</u>	<u>\$ 8,966</u>	<u>\$ 8,410</u>
ALL OTHER GOVERNMENTAL FUNDS						
Reserved	\$ 24,275	\$ 25,999	\$ 29,054	\$ 27,957	\$ 25,586	\$ 28,193
Unreserved						
Special Revenue	1,460	910	1,847	4,953	5,323	3,343
Capital Projects		7	(11)	(124)	(111)	(204)
Permanent	546	575	632	564	477	1,028
Total All Other Governmental Funds	<u>\$ 26,281</u>	<u>\$ 27,491</u>	<u>\$ 31,522</u>	<u>\$ 33,350</u>	<u>\$ 31,275</u>	<u>\$ 32,360</u>

	2011*	2012	2013	2014
GENERAL FUND				
Nonspendable	\$ 501	\$ 678	\$ 599	\$ 596
Restricted	1,393	1,764	1,160	1,091
Committed	4,185	5,283	5,159	5,138
Assigned	29	44	95	70
Unassigned	1,077	1,095	8,028	10,864
Total General Fund	<u>\$ 7,185</u>	<u>\$ 8,864</u>	<u>\$ 15,041</u>	<u>\$ 17,759</u>
ALL OTHER GOVERNMENTAL FUNDS				
Nonspendable	\$ 12,254	\$ 12,915	\$ 13,203	\$ 13,837
Restricted	22,606	21,897	23,051	28,344
Committed	758	1,013	883	2,552
Assigned	2	2	2	726
Unassigned	(738)	(511)	(688)	(555)
Total All Other Governmental Funds	<u>\$ 34,882</u>	<u>\$ 35,316</u>	<u>\$ 36,451</u>	<u>\$ 44,904</u>

* Due to the changes in the state's fund structure initiated when GASB Statement No. 54 was implemented, information for fund balances is only available for the line items presented beginning in fiscal 2011.

Source: 2005 – 2014 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years*

(Amounts in Millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
REVENUES										
Taxes	\$ 29,830	\$ 33,867	\$ 36,670	\$ 41,256	\$ 37,654	\$ 35,868	\$ 39,632	\$ 44,171	\$ 47,857	\$ 51,413
Federal	25,851	28,212	26,967	28,656	35,699	42,483	44,907	38,219	38,016	39,776
Licenses, Fees and Permits	3,590	4,011	4,324	4,522	4,433	4,533	4,661	5,076	5,178	5,251
Interest and Other Investment Income	3,317	3,218	4,574	(368)	(1,957)	2,171	3,609	3,204	3,011	4,999
Land Income	544	462	422	650	390	384	551	432	473	752
Settlement of Claims	883	583	539	555	555	614	593	611	625	577
Sales of Goods and Services	1,445	1,503	2,697	2,063	1,962	1,816	2,125	1,860	2,355	2,911
Other	1,918	2,159	2,730	2,590	3,192	3,499	3,087	3,888	4,068	4,182
Total Revenues	67,378	74,015	78,923	79,924	81,928	91,368	99,165	97,461	101,583	109,861
EXPENDITURES										
General Government	2,151	2,530	2,415	2,628	3,025	3,352	3,981	3,065	2,804	2,875
Education	16,204	18,025	21,317	24,976	24,941	27,331	28,639	25,715	25,313	27,148
Employee Benefits	12	13	14	14	13	15	14	14	19	18
Teacher Retirement State Contributions				1,781	1,729	1,830	1,854	1,641	1,675	1,957
Health and Human Services	27,192	28,761	30,855	32,355	37,988	41,367	44,869	44,709	44,841	47,947
Public Safety and Corrections	3,952	4,939	4,897	4,864	5,802	6,006	5,415	5,114	5,171	4,891
Transportation	3,246	3,909	3,702	3,895	3,399	3,474	3,647	3,788	4,677	1,068
Natural Resources and Recreation	1,039	930	1,172	1,420	1,606	1,566	1,518	1,619	1,840	4,897
Regulatory Services	345	294	317	393	434	438	407	412	461	791
Capital Outlay	3,735	3,938	4,368	4,404	3,738	3,539	3,737	3,528	3,511	5,529
Debt Service:										
Principal	306	393	437	415	596	731	592	580	706	836
Interest	375	238	370	428	513	720	757	725	737	769
Other Financing Fees		2	14	15	15	41	16	8	7	16
Total Expenditures	58,557	63,972	69,878	77,588	83,799	90,410	95,446	90,918	91,762	98,742
Excess (Deficiency) of Revenues Over (Under) Expenditures	8,821	10,043	9,045	2,336	(1,871)	958	3,719	6,543	9,821	11,119
OTHER FINANCING SOURCES (USES)										
Transfer In	7,488	7,343	7,765	13,832	9,737	11,465	6,138	7,278	7,059	9,192
Transfer Out	(12,248)	(12,433)	(12,887)	(17,777)	(14,033)	(15,987)	(10,344)	(11,249)	(10,883)	(13,321)
Bonds and Notes Issued	1,242	1,440	3,471	2,988	1,940	3,808	1,566	338	1,142	953
Bonds Issued for Refunding	208	72	249	515	271	385	547	38	99	2,432
Premiums on Bonds Issued **			126	180	33	48	85	14	200	408
Payment to Escrow for Refunding	(208)	(72)	(263)	(559)	(309)	(214)	(580)	(62)	(113)	(2,671)
Sale of Capital Assets	37	17	29	22	16	14	9	31	17	41
Increases in Obligations Under Capital Leases		3		1		10	3	3		15
Gain on Other Financial Activity										7
Insurance Recoveries		7	2	15	18	15	12	2	5	9
Total Other Financing Sources (Uses)	(3,481)	(3,623)	(1,508)	(783)	(2,327)	(456)	(2,564)	(3,607)	(2,474)	(2,935)
NET CHANGE IN FUND BALANCES	\$ 5,340	\$ 6,420	\$ 7,537	\$ 1,553	\$ (4,198)	\$ 502	\$ 1,155	\$ 2,936	\$ 7,347	\$ 8,184
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES										
	1.2%	1.1%	1.3%	1.2%	1.4%	1.7%	1.5%	1.5%	1.6%	1.7%

* This table comprises the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2007.

Source: 2005 – 2014 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Taxable Sales by Industry
For the Calendar Years 2004 through 2013*

(Amounts in Millions)

NAICS** Industry	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, Forestry, Fishing, Hunting	\$ 105	\$ 139	\$ 152	\$ 143	\$ 151	\$ 133	\$ 137	\$ 147	\$ 178	\$ 182
Mining, Quarrying, Oil & Gas Extraction	3,967	5,615	8,833	11,707	15,653	10,398	12,514	21,010	26,978	26,607
Utilities	5,485	6,657	9,068	9,237	10,883	9,623	9,525	9,945	9,266	9,568
Construction	8,132	9,381	11,603	13,258	14,292	10,948	10,834	12,725	15,078	16,621
Manufacturing	17,612	21,576	24,691	26,598	28,913	22,539	23,787	27,910	31,292	33,556
Wholesale Trade	19,047	20,249	25,315	25,853	27,918	21,444	23,447	27,595	30,232	32,199
Retail Trade	108,141	117,266	127,165	134,740	136,845	130,829	133,441	140,924	152,843	162,120
Transportation, Warehousing	1,392	1,212	1,794	2,086	2,884	2,167	2,508	3,092	3,417	3,850
Information	24,843	26,071	28,489	32,242	33,075	32,753	33,036	34,618	36,376	38,237
Finance, Insurance	1,834	2,041	2,112	2,240	2,708	2,684	2,404	2,604	2,642	2,773
Real Estate, Rental, Leasing	5,861	6,829	8,257	8,950	9,526	7,526	7,814	9,204	10,492	11,494
Professional, Scientific, Technical Serv.	5,239	6,219	7,064	7,704	8,528	7,705	7,861	8,766	9,435	10,103
Management of Companies, Enterprises	1,972	1,981	838	595	511	336	322	393	440	511
Admin Supt Waste Mgmt Remediation Serv.	7,560	7,991	8,667	9,374	9,883	9,404	9,508	10,183	10,898	11,331
Educational Services	344	380	417	323	341	368	450	474	460	493
Health Care, Social Assistance	550	593	645	727	759	793	841	846	995	1,041
Arts, Entertainment, Recreation	2,567	2,751	3,033	3,342	3,591	3,544	3,640	3,940	4,136	4,499
Accommodation, Food Services	25,441	27,316	29,746	31,877	33,654	33,260	34,635	37,162	40,439	42,655
Other Services (Except Public Admin)	6,317	6,848	7,254	7,779	7,939	7,216	7,676	8,344	9,211	9,687
Public Administration	2,394	2,522	1,459	1,491	1,645	1,660	1,687	1,961	2,624	2,741
Nonclassifiable	8	7	4	4	4	4	4	6	5	5
Other	142	22	8	8	10	30	19	94	1,213	1,554
Total Taxable Sales	\$ 248,953	\$ 273,666	\$ 306,614	\$ 330,278	\$ 349,713	\$ 315,364	\$ 326,090	\$ 361,943	\$ 398,650	\$ 421,827
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

* Fiscal 2014 data is not available until mid-year of the following fiscal year. Prior years subject to revisions due to length of verification process and amended returns.

** North American Industry Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports"

STATE OF TEXAS

Statistical Section – Revenue Capacity Information

State Tax Collections and Retail Sales

Last Ten Fiscal Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Tax Collections*	\$ 29,830	\$ 33,867	\$ 36,670	\$ 41,256	\$ 37,654	\$ 35,868	\$ 39,632	\$ 44,171	\$ 47,857	\$ 51,413
Percentage Tax Collection Change From Prior Year	6.6%	13.5%	8.3%	12.5%	(8.7)%	(4.7)%	10.5%	11.5%	8.3%	7.4%
Resident Population	22.9	23.4	23.9	24.4	24.9	25.3	25.7	26.1	26.5	26.9
Percentage Population Change From Prior Year	2.2%	2.2%	2.1%	2.1%	2.0%	1.6%	1.6%	1.6%	1.5%	1.5%
State Tax Collections Per Capita	\$ 1,303	\$ 1,447	\$ 1,534	\$ 1,691	\$ 1,512	\$ 1,418	\$ 1,542	\$ 1,692	\$ 1,806	\$ 1,911

* This table comprises the following funds: general, special revenue, debt service and capital projects.

Source: Tax collection figures are from the 2005 – 2014 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and were revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales

Last Ten Years*

(Amounts in Millions)

Year	Retail Sales	Percent Change
2005	\$ 364,788	7.2%
2006	\$ 380,303	4.3%
2007	\$ 394,884	3.8%
2008	\$ 435,256	10.2%
2009	\$ 389,524	(10.5)%
2010	\$ 399,398	2.5%
2011	\$ 432,915	8.4%
2012	\$ 464,382	7.3%
2013	\$ 511,738	10.2%
2014**	\$ 246,597	6.8%

* Reported amounts for retail sales may be revised as more complete information is received.

** Amount is for first half of 2014 and the percentage change is calculated over the first half of 2013.

Source: Texas Comptroller of Public Accounts

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Texas Gross State Product by Industry
Last Ten Years*

(Amounts in Millions, Except Percentage Data)

NAICS** Industry	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Agriculture, Forestry and Fishing	\$ 8,492	\$ 7,650	\$ 8,506	\$ 7,464	\$ 5,964	\$ 9,709	\$ 9,804	\$ 10,194	\$ 13,375	\$ 13,192
% Change	(14.0)	(9.9)	11.2	(12.3)	(20.1)	62.8	1.0	4.0	31.2	(1.4)
Mining and Natural Resources	99,803	116,161	137,043	182,889	119,696	134,618	171,134	190,156	206,214	221,997
% Change	36.0	16.4	18.0	33.5	(34.6)	12.5	27.1	11.1	8.4	7.7
Construction	53,096	59,574	64,581	64,340	61,603	60,096	61,758	67,535	72,595	76,763
% Change	10.5	12.2	8.4	(0.4)	(4.3)	(2.4)	2.8	9.4	7.5	5.7
Manufacturing	147,275	168,625	181,273	163,627	153,204	178,942	210,312	228,050	233,194	245,699
% Change	4.3	14.5	7.5	(9.7)	(6.4)	16.8	17.5	8.4	2.3	5.4
Trade, Transportation and Utilities	186,102	203,909	213,600	220,989	213,255	226,093	240,696	267,490	278,953	294,620
% Change	7.3	9.6	4.8	3.5	(3.5)	6.0	6.5	11.1	4.3	5.6
Information	41,070	41,602	43,326	43,986	41,877	41,167	42,150	44,816	46,153	48,722
% Change	1.7	1.3	4.1	1.5	(4.8)	(1.7)	2.4	6.3	3.0	5.6
Financial Activities	141,719	150,992	158,527	165,722	167,303	175,302	183,743	196,497	207,101	213,896
% Change	6.9	6.5	5.0	4.5	1.0	4.8	4.8	6.9	5.4	3.3
Professional and Business Services	96,392	106,761	118,225	128,510	122,764	128,971	138,121	148,440	156,192	167,452
% Change	9.6	10.8	10.7	8.7	(4.5)	5.1	7.1	7.5	5.2	7.2
Educational and Health Services	58,293	62,493	65,731	70,915	77,579	80,979	83,898	88,329	92,557	96,743
% Change	3.9	7.2	5.2	7.9	9.4	4.4	3.6	5.3	4.8	4.5
Leisure and Hospitality Services	32,280	34,800	35,994	36,722	37,452	38,593	40,211	43,215	45,592	48,047
% Change	4.5	7.8	3.4	2.0	2.0	3.0	4.2	7.5	5.5	5.4
Other Private Services	22,713	24,387	25,255	25,496	26,077	26,644	27,200	28,815	29,903	30,432
% Change	6.4	7.4	3.6	1.0	2.3	2.2	2.1	5.9	3.8	1.8
Government, including Schools	110,857	116,839	124,900	132,671	140,460	147,402	148,296	149,464	150,773	153,233
% Change	5.5	5.4	6.9	6.2	5.9	4.9	0.6	0.8	0.9	1.6
TOTAL	\$ 998,093	\$ 1,093,794	\$ 1,176,962	\$ 1,243,331	\$ 1,167,232	\$ 1,248,516	\$ 1,357,322	\$ 1,463,003	\$ 1,532,605	\$ 1,610,796
% Change	8.4	9.6	7.6	5.6	(6.1)	7.0	8.7	7.8	4.8	5.1
TOTAL (In 2009 Chained Dollars)	1,056,502	1,118,319	1,165,041	1,173,481	1,167,233	1,201,991	1,252,008	1,338,578	1,387,598	1,447,826
% Change	2.0	5.9	4.2	0.7	(0.5)	3.0	4.2	6.9	3.7	4.3

* The U.S. Bureau of Economic Analysis periodically revises its personal income and gross product data for states. These revisions include data changes for previous years, as new and more complete information becomes available.

** North American Industry Classification System

Source: U.S. Bureau of Economic Analysis for 2005 – 2014 and IHS for 2014

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Legal Debt Margin Information
Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	2005	2006	2007	2008	2009
Debt Service Limit*	\$ 1,405,937	\$ 1,518,628	\$ 1,664,884	\$ 1,773,089	\$ 1,795,118
Total Net Debt Service Applicable to Limit	<u>620,989</u>	<u>545,725</u>	<u>605,518</u>	<u>1,450,498</u>	<u>1,464,078</u>
Legal Debt Service Margin	<u>\$ 784,948</u>	<u>\$ 972,903</u>	<u>\$ 1,059,366</u>	<u>\$ 322,591</u>	<u>\$ 331,040</u>
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	44.2%	35.9%	36.4%	81.8%	81.6%

	2010	2011	2012	2013	2014
Debt Service Limit*	\$ 1,759,856	\$ 1,782,305	\$ 1,908,572	\$ 2,092,423	\$ 2,254,734
Total Net Debt Service Applicable to Limit	<u>1,443,705</u>	<u>1,318,175</u>	<u>1,329,298</u>	<u>1,271,754</u>	<u>1,222,025</u>
Legal Debt Service Margin	<u>\$ 316,151</u>	<u>\$ 464,130</u>	<u>\$ 579,274</u>	<u>\$ 820,669</u>	<u>\$ 1,032,709</u>
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	82.0%	74.0%	69.7%	60.8%	54.2%

Legal Debt Service Margin Calculation for Fiscal 2014

Unrestricted General Revenue fiscal 2012	\$ 42,287,113
Unrestricted General Revenue fiscal 2013	45,045,108
Unrestricted General Revenue fiscal 2014	47,951,831
Debt Service Limit*	2,254,734
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from General Revenue (GR)	542,367
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	<u>679,658</u>
Total Net Debt Service Applicable to Limit	1,222,025
Legal Debt Service Margin	<u>\$ 1,032,709</u>

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board

STATE OF TEXAS

Statistical Section – Debt Capacity Information
Ratio of Outstanding Debt by Type**Last Ten Fiscal Years**

(Amounts in Millions, Except Percentage Data and Per Capita)

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita*
	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases			
2005	\$ 3,972	\$ 632	\$ 262	\$ 44	\$ 2,815	\$ 11,749	\$ 1,614	\$ 14	\$ 21,102	2.8%	\$ 921
2006	4,479	1,152	331	15	2,739	12,378	1,741	12	22,847	2.8%	975
2007	6,757	2,031	216	11	2,775	12,304	2,029	14	26,137	3.0%	1,094
2008	8,061	3,445	340	10	2,708	13,370	2,437	14	30,385	3.2%	1,247
2009	9,745	3,287	150	8	2,927	15,488	2,348	13	33,966	3.7%	1,366
2010	10,086	5,620	761	15	2,944	17,043	3,103	14	39,586	4.1%	1,565
2011	11,520	5,456	1,150	14	2,956	18,767	2,006	20	41,889	4.0%	1,631
2012	11,314	4,277	1,381	12	3,230	19,033	2,075	22	41,344	3.7%	1,583
2013	12,089	4,100	1,528	2	3,670	20,964	2,322	20	44,695	3.9%	1,687
2014	12,052	4,662	1,295	34	3,765	20,404	2,140	17	44,369	3.6%	1,650

* Prior years numbers are subject to revisions. Calculation based on resident population figures from U.S. Bureau of the Census and Texas Comptroller of Public Accounts.

Source: 2005 – 2014 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Debt Capacity Information**Ratios of General Bonded Debt Outstanding****Last Ten Fiscal Years***

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Bonded Debt (General										
Obligation Bonds Only)	\$ 6,787	\$ 7,218	\$ 9,532	\$ 10,768	\$ 12,672	\$ 13,029	\$ 14,476	\$ 14,544	\$ 15,759	\$ 15,817
Percentage Bonded Debt										
Change From Prior Year	16.3%	6.4%	32.1%	13.0%	17.7%	2.8%	11.1%	0.5%	8.4%	0.4%
Tax Collections	\$ 29,830	\$ 33,867	\$ 36,670	\$ 41,256	\$ 37,654	\$ 35,868	\$ 39,632	\$ 44,171	\$ 47,857	\$ 51,413
Percentage Bonded Debt to										
Tax Collections	22.8%	21.3%	26.0%	26.1%	33.7%	36.3%	36.5%	32.9%	32.9%	30.8%
Resident Population	22.9	23.4	23.9	24.4	24.9	25.3	25.7	26.1	26.6	26.9
General Bonded Debt										
Per Capita	\$ 296	\$ 308	\$ 399	\$ 441	\$ 509	\$ 515	\$ 563	\$ 557	\$ 592	\$ 588

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collection amounts are from the 2005 – 2014 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Pledged Revenue Bond Coverage
Last Ten Fiscal Years

(Amounts in Thousands, Except Ratio Data)

	2005	2006	2007	2008	2009
GOVERNMENTAL ACTIVITIES					
Pledged Revenue Bond Amount	\$ 150,119	\$ 81,011	\$ 5,765,826	\$ 6,748,490	\$ 6,640,110
Operating Expenditures	15,540	1,452	6,881,279	7,447,496	7,233,759
Net Available Revenue	<u>\$ 134,579</u>	<u>\$ 79,559</u>	<u>\$ (1,115,453)</u>	<u>\$ (699,006)</u>	<u>\$ (593,649)</u>
Debt Service –					
Principal	\$ 84,087	\$ 86,056	\$ 104,077	\$ 112,250	\$ 156,490
Interest	26,115	25,764	66,822	118,203	152,025
Total Debt Service	<u>\$ 110,202</u>	<u>\$ 111,820</u>	<u>\$ 170,899</u>	<u>\$ 230,453</u>	<u>\$ 308,515</u>
Coverage Ratio	1.2	0.7	(6.5)	(3.0)	(1.9)
BUSINESS-TYPE ACTIVITIES					
Pledged Revenue Bond Amount	\$ 8,369,686	\$ 9,088,841	\$ 9,869,477	\$ 10,225,735	\$ 10,700,325
Operating Expenditures	839,699	364,043	1,457,567	11,698,563	8,481,872
Net Available Revenue	<u>\$ 7,529,987</u>	<u>\$ 8,724,798</u>	<u>\$ 8,411,910</u>	<u>\$ (1,472,828)</u>	<u>\$ 2,218,453</u>
Debt Service –					
Principal	\$ 532,128	\$ 623,346	\$ 683,150	\$ 420,487	\$ 455,540
Interest	503,958	537,104	560,359	558,666	620,323
Total Debt Service	<u>\$ 1,036,086</u>	<u>\$ 1,160,450</u>	<u>\$ 1,243,509</u>	<u>\$ 979,153</u>	<u>\$ 1,075,863</u>
Coverage Ratio	7.3	7.5	6.8	(1.5)	2.1
COMPONENT UNITS*					
Pledged Revenue Bond Amount	\$ 13,524	\$ 13,704	\$ 13,034	\$ 10,971	\$ 62,397
Operating Expenditures	225	264	91	552	1,051
Net Available Revenue	<u>\$ 13,299</u>	<u>\$ 13,440</u>	<u>\$ 12,943</u>	<u>\$ 10,419</u>	<u>\$ 61,346</u>
Debt Service –					
Principal	\$ 3,628	\$ 5,840	\$ 5,485	\$ 5,090	\$ 78,793
Interest	3,628	4,940	5,051	3,610	16,926
Total Debt Service	<u>\$ 3,628</u>	<u>\$ 10,780</u>	<u>\$ 10,536</u>	<u>\$ 8,700</u>	<u>\$ 95,719</u>
Coverage Ratio	3.7	1.2	1.2	1.2	0.6
Total Combined Coverage Ratio	6.7	6.9	5.1	(1.8)	1.1

* Component unit amounts from 2005 to 2007 were adjusted to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources.
Operating expenditures include capital outlay expenditures.

Source: 2005 – 2014 state of Texas financial statements and bond reporting system

2010	2011	2012	2013	2014
\$ 5,522,453	\$ 6,085,973	\$ 6,619,706	\$ 6,823,519	\$ 7,497,602
6,085,684	6,729,036	6,075,344	6,738	7,353,756
<u>\$ (563,231)</u>	<u>\$ (643,063)</u>	<u>\$ 544,362</u>	<u>\$ 6,816,781</u>	<u>\$ 143,846</u>
\$ 168,785	\$ 161,750	\$ 170,650	\$ 172,015	\$ 174,925
147,501	263,708	210,694	203,294	196,102
<u>\$ 316,286</u>	<u>\$ 425,458</u>	<u>\$ 381,344</u>	<u>\$ 375,309</u>	<u>\$ 371,027</u>
(1.8)	(1.5)	1.4	18.2	0.4
\$11,514,734	\$12,864,956	\$13,595,957	\$14,723,022	\$16,052,498
9,202,811	9,986,234	10,516,772	11,780,640	12,203,713
<u>\$ 2,311,923</u>	<u>\$ 2,878,722</u>	<u>\$ 3,079,185</u>	<u>\$ 2,942,382</u>	<u>\$ 3,848,785</u>
\$ 482,474	\$ 638,223	\$ 637,203	\$ 705,187	\$ 773,920
703,116	792,065	827,258	802,272	843,685
<u>\$ 1,185,590</u>	<u>\$ 1,430,288</u>	<u>\$ 1,464,461</u>	<u>\$ 1,507,459</u>	<u>\$ 1,617,605</u>
2.0	2.0	2.1	2.0	2.4
\$ 63,667	\$ 97,297	\$ 42,905	\$ 189,908	\$ 145,536
1,332	1,038	754	217	-
<u>\$ 62,335</u>	<u>\$ 96,259</u>	<u>\$ 42,151</u>	<u>\$ 189,691</u>	<u>\$ 145,536</u>
\$ 42,762	\$ 58,588	\$ 29,849	\$ 92,259	\$ 43,186
5,194	11,760	10,943	11,615	9,463
<u>\$ 47,956</u>	<u>\$ 70,348</u>	<u>\$ 40,792</u>	<u>\$ 103,874</u>	<u>\$ 52,649</u>
1.3	1.4	1.0	1.8	2.8
1.2	1.2	1.9	5.0	2.0

STATE OF TEXAS
Statistical Section – Demographic and Economic Information
Texas Nonfarm Employment Detail: Number of Jobs
Calendar Years 2005 – 2014*

Employment by Industry	2005	2006	2007	2008	2009
GOODS-PRODUCING					
Natural Resources and Mining	166,000	185,800	207,400	230,200	202,200
Construction	566,700	605,300	648,200	673,500	597,500
Manufacturing					
Durables	570,200	599,800	613,100	607,800	536,400
Nondurables	326,700	324,200	321,000	316,800	302,000
Total, Goods-Producing	<u>1,629,600</u>	<u>1,715,100</u>	<u>1,789,700</u>	<u>1,828,300</u>	<u>1,638,100</u>
SERVICE-PROVIDING					
Trade, Transportation, and Utilities					
Wholesale Trade	477,300	497,900	518,900	529,000	499,200
Retail Trade	1,109,100	1,132,300	1,161,200	1,174,300	1,141,700
Transportation and Warehousing	361,300	374,700	387,600	392,400	372,000
Utilities	45,700	44,300	45,500	47,300	47,900
Information	223,100	221,600	221,000	217,200	204,300
Financial Activities					
Finance and Insurance	436,300	451,100	461,700	461,800	452,700
Real Estate and Rental and Leasing	173,100	177,100	182,200	185,300	175,400
Professional and Business Services					
Professional, Scientific and Technical	493,300	522,500	558,200	586,200	563,200
Management, Administrative and Support	668,400	718,300	744,100	750,400	688,700
Educational and Health Services					
Educational Services, Private	140,600	143,100	146,900	148,800	150,700
Health Care and Social Assistance	1,043,800	1,073,500	1,108,600	1,140,600	1,185,600
Leisure and Hospitality	906,800	940,300	979,800	1,006,000	1,006,000
Other Services	347,800	347,800	355,300	363,100	361,100
Government					
Federal Civilian	181,900	185,400	186,300	191,100	197,800
State	346,000	350,200	355,700	361,500	368,200
Local	1,152,700	1,167,800	1,189,200	1,223,100	1,251,900
Total, Service-Providing	<u>8,107,200</u>	<u>8,347,900</u>	<u>8,602,200</u>	<u>8,778,100</u>	<u>8,666,400</u>
Total Nonfarm Employment	<u>9,736,800</u>	<u>10,063,000</u>	<u>10,391,900</u>	<u>10,606,400</u>	<u>10,304,500</u>

* Data in the table are annual averages. Prior years are subject to annual benchmark revisions.

** Data for 2014 includes estimates for the final month.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Source: Texas Workforce Commission and IHS

2010	2011	2012	2013	2014**
206,300	237,400	271,800	290,400	312,500
563,900	563,700	584,400	612,500	638,200
517,000	542,700	568,800	576,100	585,400
295,300	293,200	295,100	295,600	299,600
<u>1,582,500</u>	<u>1,637,000</u>	<u>1,720,100</u>	<u>1,774,600</u>	<u>1,835,700</u>
496,600	516,100	540,800	559,400	580,000
1,136,600	1,160,100	1,186,100	1,220,200	1,253,600
370,700	385,200	402,000	415,500	442,200
48,100	48,400	48,400	48,800	49,600
195,700	195,800	197,400	200,700	207,200
454,400	466,600	481,700	495,000	509,200
171,000	174,100	179,700	186,600	193,700
566,700	587,900	621,500	645,900	673,300
707,900	752,500	788,100	812,600	846,300
155,900	161,400	166,100	173,700	183,900
1,225,100	1,252,300	1,279,400	1,310,100	1,345,900
1,008,000	1,041,000	1,086,000	1,141,000	1,187,000
360,400	367,400	382,400	396,300	403,500
209,700	201,400	199,200	197,000	190,500
374,700	366,000	361,700	364,400	366,500
1,272,200	1,253,300	1,233,100	1,249,700	1,283,700
<u>8,753,700</u>	<u>8,929,500</u>	<u>9,153,600</u>	<u>9,416,900</u>	<u>9,716,100</u>
<u>10,336,200</u>	<u>10,566,500</u>	<u>10,873,700</u>	<u>11,191,500</u>	<u>11,551,800</u>

STATE OF TEXAS

Statistical Section – Demographic and Economic Information
Texas and U.S. Selected Statistics

Last Ten Calendar Years*

Year	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
2005	22,897	2.0%	296,460	0.9%	756,298	8.7%	10,609,275	5.6%	33,030	6.5%	35,787	4.6%
2006	23,426	2.3%	299,282	1.0%	828,546	9.6%	11,389,000	7.3%	35,369	7.1%	38,054	6.3%
2007	23,891	2.0%	302,227	1.0%	878,517	6.0%	11,994,875	5.3%	36,772	4.0%	39,688	4.3%
2008	24,371	2.0%	304,948	0.9%	963,718	9.7%	12,429,625	3.6%	39,544	7.5%	40,760	2.7%
2009	24,857	2.0%	307,580	0.9%	916,321	(4.9)%	12,087,450	(2.8)%	36,864	(6.8)%	39,299	(3.6)%
2010	25,294	1.8%	310,070	0.8%	960,970	4.9%	12,429,350	2.8%	37,991	3.1%	40,086	2.0%
2011	25,695	1.6%	312,315	0.7%	1,051,688	9.4%	13,201,975	6.2%	40,930	7.7%	42,271	5.5%
2012	26,107	1.6%	314,524	0.7%	1,127,675	7.2%	13,887,700	5.2%	43,195	5.5%	44,155	4.5%
2013	26,497	1.5%	316,746	0.7%	1,160,079	2.9%	14,166,900	2.0%	43,782	1.4%	44,726	1.3%
2014**	26,889	1.5%	319,016	0.7%	1,230,290	6.1%	14,715,958	3.9%	45,754	4.5%	46,129	3.1%

* Prior years are subject to revisions.

** Numbers for 2014 include some forecast model quarterly estimates for the latter part of the year.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts

**Texas and U.S. Employment and
Unemployment Rates**

Last Ten Calendar Years*

(Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
2005	9,737	2.6%	133,997	1.7%	5.4%	5.1%
2006	10,063	3.3%	136,403	1.8%	4.9%	4.6%
2007	10,392	3.3%	137,935	1.1%	4.3%	4.6%
2008	10,607	2.1%	137,170	(0.6)%	4.9%	5.8%
2009	10,304	(2.9)%	131,220	(4.3)%	7.5%	9.3%
2010	10,336	0.3%	130,272	(0.7)%	8.2%	9.6%
2011	10,566	2.2%	131,849	1.2%	7.9%	8.9%
2012	10,874	2.9%	134,098	1.7%	6.9%	8.1%
2013	11,192	2.9%	136,363	1.7%	6.3%	7.4%
2014**	11,575	3.4%	138,850	1.8%	5.2%	6.2%

* Prior years numbers are subject to benchmark revisions.

** Texas numbers for 2014 include an estimate for the final month of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics.

STATE OF TEXAS
Statistical Section – Operating Information
Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
FUNCTION										
General Government	13,435	12,999	13,438	13,155	13,720	13,801	13,692	12,955	13,036	12,786
Education	140,367	144,636	146,944	152,121	156,375	159,918	161,636	161,670	163,239	165,199
Employee Benefits	292	294	302	311	325	344	338	334	335	342
Teacher Retirement State Contributions	451	444	445	454	476	496	514	515	533	584
Health and Human Services	48,389	49,097	50,910	53,161	56,067	58,071	58,717	57,790	57,437	57,659
Public Safety and Corrections	51,397	51,564	50,889	50,340	52,165	53,209	51,771	52,310	50,050	49,996
Transportation	14,551	14,744	14,748	14,148	13,257	12,692	12,513	12,436	12,456	12,456
Natural Resources and Recreation	8,053	8,018	8,014	8,264	8,484	8,646	8,388	7,855	7,930	8,070
Regulatory Services	3,882	3,869	3,828	3,891	4,048	4,052	3,942	3,841	3,819	3,867
Total FTEs	<u>280,817</u>	<u>285,665</u>	<u>289,518</u>	<u>295,845</u>	<u>304,917</u>	<u>311,229</u>	<u>311,511</u>	<u>309,706</u>	<u>308,835</u>	<u>310,959</u>
Percentage Change	2.2%	1.7%	1.3%	2.2%	3.1%	2.1%	0.1%	(0.6)%	(0.3)%	0.7%

Source: Texas State Auditor's Office

STATE OF TEXAS
Statistical Section – Operating Information
Capital Asset Statistics by Function
Last Ten Fiscal Years*

Function	2005	2006	2007	2008	2009
GENERAL GOVERNMENT					
Number of Texas Facilities Commission Owned Facilities	71	75	75	137	137
State Real Property Inventory in Acres	2,446,418	2,425,037	1,322,123	1,325,319	1,329,671
EDUCATION					
Number of School Districts	1,037	1,033	1,031	1,031	1,031
Number of Students	4,383,871	4,505,572	4,576,933	4,671,493	4,749,571
Number of Higher Education Institutions	145	145	145	145	145
HEALTH AND HUMAN SERVICES					
Number of State Mental Health Facilities	39	39	39	39	39
Number of State Hospitals	10	10	10	11	11
PUBLIC SAFETY AND CORRECTIONS					
Number of State Prisons – Texas Department of Criminal Justice only	106	106	106	112	113
Number of Available Beds (Capacity)	155,277	156,520	156,652	160,622	159,656
Number of Authorized Vehicular State Patrol Units	1,095	1,195	1,281	1,281	1,494
TRANSPORTATION					
Centerline Miles of Highways**	79,696	79,849	79,975	80,067	79,903
Number of Bridges***	32,421	33,322	32,996	33,118	33,393
NATURAL RESOURCES AND RECREATION					
Number of State Parks Managed	117	112	110	93	93
Number of Park Acreage	610,319	608,716	602,892	605,470	614,790

* Prior years are subject to revisions.

** Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway). Centerline miles for 2014 are not available until June, 2015.

*** Number of bridges are the bridges owned by the state. Texas Department of Transportation also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites. Complete capital asset statistics by function for all data presented only available from 2005 – 2014.

2010	2011	2012	2013	2014
133	133	131	131	210
1,342,038	1,333,113	1,342,680	1,554,664	1,559,615
1,030	1,029	1,244	1,245	1,238
4,847,844	4,933,617	4,978,120	5,058,939	5,135,880
148	148	148	148	148
39	39	39	39	38
11	11	11	12	12
112	111	111	111	109
159,771	163,144	162,057	161,168	156,756
1,811	1,572	1,791	1,791	1,804
79,992	80,233	80,268	80,323	N/A
33,679	33,883	34,337	34,576	34,892
93	93	94	95	95
604,799	621,491	624,602	630,394	630,597

STATE OF TEXAS
Statistical Section – Operating Information
Operating Indicators by Function
Last Ten Fiscal Years

Function	2005	2006	2007	2008	2009
GENERAL GOVERNMENT / REGULATORY SERVICES					
Number of Tax Returns Processed	3,796,940	3,904,659	4,251,103	4,054,947	4,471,082
Number of Licenses Issued**	1,494,693	1,554,754	1,166,069	1,243,330	1,310,014
EDUCATION					
Average Daily School Attendance (ADA)	4,099,615	4,205,729	4,260,406	4,326,176	4,420,134
Percent of Students Passing TAKS Test*	62%	67%	70%	72%	74%
Percent of Students Passing STAAR Test*	N/A	N/A	N/A	N/A	N/A
Texas Higher Education Enrollments**	1,184,373	1,211,582	1,228,897	1,264,286	1,366,436
Higher Education Degrees Awarded***	185,326	188,258	193,321	198,298	209,868
HEALTH AND HUMAN SERVICES					
Number of Medicaid Clients Served****	2,779,373	2,873,786	2,832,214	2,877,203	3,002,731
Number of TANF Clients Served ****	219,045	172,776	145,838	125,309	113,786
Number of Immunizations	6,381,835	11,617,682	12,827,417	12,771,928	12,734,334
PUBLIC SAFETY AND CORRECTIONS					
Number of New Prison Population	73,815	74,170	73,525	74,283	72,738
Number of Prison Population Released	69,846	71,214	72,032	72,002	72,218
Average Daily Prison Population	151,448	151,734	152,805	155,588	155,432
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,628	1,689	1,709	1,825
TRANSPORTATION					
Number of Construction Project Preliminary Engineering Plans Completed	989	1,075	877	694	710
Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract	18,554	15,811	13,197	8,462	15,671
– Via State Sources	7,318	6,406	5,984	6,344	5,910
Number of Vehicles Registered	19,624,460	20,609,866	21,432,773	24,359,319	24,607,246
NATURAL RESOURCES AND RECREATION					
Number of State Parks Visits (in Millions)	5.2	5.0	4.9	4.3	4.5
Number of Parks and Wildlife Licenses Issued*****	2,626,957	2,625,225	2,665,045	2,892,695	2,932,002

* The TAKS (Texas Assessment of Knowledge and Skills) was phased out beginning in 2012 and was replaced by the STAAR (State of Texas Assessments of Academic Readiness). Due to the transition, ratings were suspended in 2012 while a new accountability system was developed. The new STAAR state rating system became effective in 2013.

** The current year figure is not available. The final count will be revised and certified the following year.

*** The 2014 degrees conferred will not be available until later in 2015.

**** Medicaid average monthly caseload is based on data through December 2014. Fiscal 2013 data was finalized March 2014, and fiscal 2014 data will be finalized March 2015. TANF is based on data through October 2014.

***** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites. Prior years are subject to revisions.

2010	2011	2012	2013	2014
4,594,272	4,642,495	4,820,459	5,054,013	5,026,391
1,314,903	1,332,146	1,422,788	1,165,705	N/A
4,506,950	4,592,226	4,633,341	4,699,372	4,780,813
77%	76%	N/A	N/A	N/A
N/A	N/A	N/A	77%	77%
1,464,081	1,509,098	1,457,502	1,453,630	N/A
224,498	238,665	251,098	263,371	N/A
3,296,439	3,541,286	3,652,489	3,653,935	3,741,334
121,290	116,386	107,288	93,988	80,804
14,412,427	12,258,819	13,393,087	15,225,244	15,883,882
72,315	73,988	74,232	71,713	71,325
71,063	70,916	77,316	72,071	70,521
154,315	155,830	154,933	151,265	150,620
1,814	1,794	1,791	1,791	1,804
1,169	944	750	905	769
16,160	14,749	18,693	17,941	17,054
6,718	8,389	9,643	8,941	7,939
21,570,282	21,939,786	22,618,153	23,227,032	23,886,263
4.4	4.3	4.3	4.5	4.6
2,749,336	2,873,967	2,891,267	2,961,781	3,028,100



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