
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



