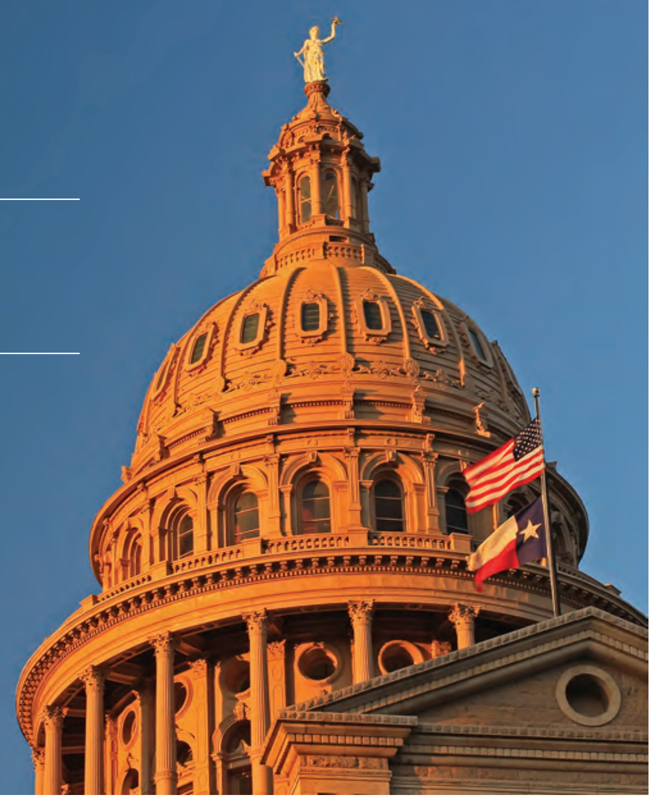
Section Two (continued)

Basic Financial Statements



STATE OF TEXAS

Statement of Net Position

August 31, 2014 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
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	34,548,291	17,659,885	52,208,176	1,254,807
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	125,256,028	82,805,593	208,061,621	1,075,129
Total Assets	159,804,319	100,465,478	260,269,797	2,329,936
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 28)	76,655	576,569	653,224	
Total Deferred Outflows of Resources	76,655	576,569	653,224	0

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: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
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	12,146,740	12,107,507	24,254,247	1,626,818
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	23,102,244	32,741,159	55,843,403	177,607
Total Liabilities	35,248,984	44,848,666	80,097,650	1,804,425
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 28)	5,226,734	16,063	5,242,797	
Total Deferred Inflows of Resources	5,226,734	16,063	5,242,797	0
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	$ 119,405,256	$ 56,177,318	$ 175,582,574	$ 525,511

STATE OF TEXAS

Statement of Activities

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

		Program Revenues		
Functions/Programs	Expenses	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	95,475,910	9,042,614	46,903,926	96,802
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	31,602,532	20,503,577	13,120,148	522,211
Total Primary Government	$ 127,078,442	$ 29,546,191	$ 60,024,074	$ 619,013
COMPONENT UNITS				
Component Units	$ 2,575,727	$ 2,729,408	$ 99,568	$
Total Component Units	$ 2,575,727	$ 2,729,408	$ 99,568	$ 0

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)	
(39,432,568)	0	(39,432,568)	0
	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	
0	2,543,404	2,543,404	0
(39,432,568)	2,543,404	(36,889,164)	0
			253,249
0	0	0	253,249
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	
(4,130,757)	4,130,757		
49,271,927	4,742,837	54,014,764	4,713
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)
109,565,897	48,891,077	158,456,974	267,549
$ 119,405,256	$ 56,177,318	$ 175,582,574	$ 525,511

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	65,702,811	
		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	(5,420,548)	
		(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	92,208,155	7,504,542	5,283,710	4,864,253	109,860,660
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	85,782,737	7,894,343	95,309	4,968,718	98,741,107
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,425,418	(389,801)	5,188,401	(104,465)	11,119,553
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)	(3,610,572)	734,953	(838,672)	779,069	(2,935,222)
Net Change in Fund Balances	2,814,846	345,152	4,349,729	674,604	8,184,331
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	14,944,324	3,345,564	30,601,491	5,587,207	54,478,586
Fund Balances, August 31, 2014	$ 17,759,170	$ 3,690,716	$ 34,951,220	$ 6,261,811	$ 62,662,917

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

STATE OF TEXAS

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	12,046,698	2,377,114	383,822	3,713,192	18,520,826	631,738
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	67,105,317	0	676,816	15,868,300	83,650,433	354,724
Total Assets	79,152,015	2,377,114	1,060,638	19,581,492	102,171,259	986,462
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 28)	289,181			287,388	576,569	
Total Deferred Outflows of Resources	289,181	0	0	287,388	576,569	0
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	11,098,073	393,458	383,107	1,093,811	12,968,449	607,152
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	18,090,981	769,916	616,469	14,108,632	33,585,998	0
Total Liabilities	29,189,054	1,163,374	999,576	15,202,443	46,554,447	607,152
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 28)	7,140			8,923	16,063	
Total Deferred Inflows of Resources	7,140	0	0	8,923	16,063	0
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	6,618,875	(977,424)	55,686	(595,781)	5,101,356	
Total Net Position	$ 50,245,002	$1,213,740	$ 61,062	$ 4,657,514	$ 56,177,318	$ 379,310

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					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
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	16,737,543	3,160,520	4,385,882	798,128	25,082,073	2,115,086
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	24,014,743	2,728,805	3,164,120	718,098	30,625,766	2,072,284
Operating Income (Loss)	(7,277,200)	431,715	1,221,762	80,030	(5,543,693)	42,802

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					Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
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)	7,646,536	9,092	1,571	280,817	7,938,016	11,096
Income Before Capital Contributions, Endowments and Transfers	369,336	440,807	1,223,333	360,847	2,394,323	53,898
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	6,033,793	95,657	(1,220,723)	(16,809)	4,891,918	0
Change in Net Position	6,403,129	536,464	2,610	344,038	7,286,241	53,898
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	43,841,873	677,276	58,452	4,313,476	48,891,077	325,412
Net Position, August 31, 2014	$ 50,245,002	$ 1,213,740	$ 61,062	$ 4,657,514	$ 56,177,318	$ 379,310

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 Cash Flows – Proprietary Funds

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 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	$	$ 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	800,388	38,655	120,863	466,364	1,426,270	21,774
Net Increase (Decrease) in Cash and Cash Equivalents	467,966	276,617	(37,164)	(869,336)	(161,917)	(25,043)
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	5,265,852	1,800,868	248,524	2,326,361	9,641,605	46,074
Cash and Cash Equivalents, August 31, 2014	$ 5,733,818	$ 2,077,485	$ 211,360	$ 1,457,025	$ 9,479,688	$ 21,031
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	2,587,216	30,839	(20,669)	(153,046)	2,444,340	(89,619)
Net Cash Provided (Used) by Operating Activities	$ (4,689,984)	$ 462,554	$ 1,201,093	$ (73,016)	$ (3,099,353)	$ (46,817)
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	8,225,312	0	175,209
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	22,777,461	5,775	323,493
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	81,479	0	0
Total Net Investment Income	22,858,940	5,775	323,493
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	133,839	0	189,085
Total Additions	31,218,091	(1,763,872)	687,787
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	13,587,006	0	409,329
INCREASE (DECREASE) IN NET POSITION	17,631,085	(1,763,872)	278,458
NET POSITION			
Net Position, September 1, 2013	141,992,981	14,486,087	3,131,014
Net Position, August 31, 2014	$ 159,624,066	$ 12,722,215	$ 3,409,472

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

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

State of Texas
Notes to Financial Statements

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

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

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

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. 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 employees life, accident and health insurance benefits fund accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

The major enterprise funds for the state are listed below.

The **Colleges and Universities** include:

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

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

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

The **Lottery Fund** receives fees from external users 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 liabilities of the current period and are reported as deferred inflows of resources. Unearned revenue is recorded when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures. 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 non-operating 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 constraints do not meet the requirements to be reported as restricted or committed. Intent is expressed by either the Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Unassigned fund balances represent amounts that have not been restricted, committed or assigned to specific purposes. The Texas Legislature, agency governing board, or the agency head or official to which the governing body has delegated the authority to assign amounts shall determine the procedures and policies for determining assigned fund balances. The general fund is the only fund that can report a positive unassigned fund balance. Note 13 presents disaggregated fund balances.

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

Interfund Activity and Transactions – Government-wide Financial Statements

Interfund activity is eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as external activity.

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

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

Risk Financing

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

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

Note 2

Capital Assets

Capital assets, 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 9/1/13	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/14
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	69,972,515	(53,726,295)	(1,670,232)	5,454,728	(40,191)	19,990,525
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	29,817,980	53,725,244	1,618,816	218,010	(335,907)	85,044,143
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*	(17,793,202)	(7,768)	(582)	(1,891,011)	178,207	(19,514,356)
Depreciable Assets, Net	12,024,778	53,717,476	1,618,234	(1,673,001)	(157,700)	65,529,787
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	476,241	2,453	21,833	40,151	(11,293)	529,385
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*	(313,764)	(2,272)	0	(51,460)	11,135	(356,361)
Amortizable Assets, Net	162,477	181	21,833	(11,309)	(158)	173,024
Governmental Activities Capital Assets, Net	$ 82,159,770	$ (8,638)	$ (30,165)	$ 3,770,418	$ (198,049)	$ 85,693,336

* 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	$ 1,942,471

Continued on the following page

Capital Asset Activity (continued)

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

	PRIMARY GOVERNMENT					
	Balance 9/1/13	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/14
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	6,174,378	(1,755,611)	(1,515,758)	2,696,986	(9,069)	5,590,926
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	35,894,501	1,736,112	1,463,100	725,231	(366,662)	39,452,282
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**	(16,778,424)	9,750	392	(1,723,945)	283,353	(18,208,874)
Depreciable Assets, Net	19,116,077	1,745,862	1,463,492	(998,714)	(83,309)	21,243,408
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	1,330,508	0	83,108	42,355	(48,913)	1,407,058
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**	(972,697)	0	0	(155,432)	45,361	(1,082,768)
Amortizable Assets, Net	357,811	0	83,108	(113,077)	(3,552)	324,290
Business-Type Activities Capital Assets, Net	$ 25,648,266	$ (9,749)	$ 30,842	$ 1,585,195	$ (95,930)	$ 27,158,624

** 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	$ 1,879,376

Concluded on the following page

Capital Asset Activity (concluded)

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

	PRIMARY GOVERNMENT					
	Balance 9/1/13	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/14
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	5,411	(4,970)	0	73	(4)	510
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	112,008	(49,796)	0	2,828	(6,046)	58,994
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	(53,952)	21,044	0	(3,965)	4,544	(32,329)
Depreciable Assets, Net	58,056	(28,752)	0	(1,137)	(1,502)	26,665
Intangible Capital Assets – Amortizable						
Computer Software	26,103	(25,679)				424
Total Intangible Assets at Historical Cost	26,103	(25,679)	0	0	0	424
Less Accumulated Amortization for:						
Computer Software	(16,056)	15,819		(13)		(250)
Total Accumulated Amortization	(16,056)	15,819	0	(13)	0	(250)
Amortizable Assets, Net	10,047	(9,860)	0	(13)	0	174
Component Units Capital Assets, Net	$ 73,514	$ (43,582)	$ 0	$ (1,077)	$ (1,506)	$ 27,349

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 investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 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, fiduciary 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.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2014 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 4,993	$
Other Governmental Funds	36	
Total Governmental Activities	5,029	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	1,560	90,513
Other Nonmajor Funds	155	
Total Business-Type Activities	1,715	90,513
Total Governmental and Business-Type Activities	$ 6,744	$ 90,513
FIDUCIARY FUNDS	$ 300,480	$ 0
COMPONENT UNITS	$ 10,477	$ 0

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. The table at the left presents the bank balances exposed to foreign currency risk as of Aug. 31, 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	$ 4,728	$ 297,955

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	1,143	
Equity	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.

Investments Exposed to Custodial Credit Risk

August 31, 2014 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Obligations		$ 138,661
Corporate Asset and Mortgage Backed		1,143
Repurchase Agreements		407,085
Commercial Paper		236,363
Miscellaneous		400,000
Other Governmental Funds		
Repurchase Agreement	2,334	
Total Governmental Activities	2,334	1,183,252
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	72,391	0
Total Governmental and Business-Type Activities	$ 74,725	$ 1,183,252

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	89		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	$ 1,085	$ 13,626	$ 315

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
AAAm						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
AAAm						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
AAAm						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) Fiduciary Funds	Fair Value (In Thousands) Proprietary Fund	Modified Duration Rate Fiduciary Funds	Modified Duration Rate 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	$ 6,278,259	$ 609,306	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	527,827	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	104,534	2.72
Total U.S. Government	632,361	7.17
Corporate Obligations:		
Domestic	390,608	5.68
Foreign	337,429	4.37
Total Corporate Obligations	728,037	5.07
Foreign Government and Provincial Obligations	1,802,690	6.61
Other Debt Securities	18,439	9.68
Total Debt Securities	3,181,527	6.39
Other Investment Funds – Debt	27,802	7.70
Fixed Income Money Market Funds	2,368,385	0.28
Total	$ 5,577,714	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.

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	$ 27,941,400	$ 1,811,325	$ 26,712,212	$ 26,673,501	$ (38,711)

* 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 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 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	$ 37,740	$ (961)	$ (242)	$ 12,459	$ 1,399	$ 1,281

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 interest 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 Maturities (in years)				
Investment Type	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
	$ 0	$ 8,391,220	$ 1,094,247	$ 7,975,071	$ 1,510,396

* 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	$ 18,811,791	$ 158,639	$ 4,664,860	$ 4,428,296	$ 19,206,994	$ 1,525,298	$ 17,681,696
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	$ 31,055,582	$ (1,139,507)	$ 6,131,029	$ 5,793,509	$ 30,253,595	$ 3,330,345	$ 26,923,250
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	$ 245,725	$ (6,591)	$ 1,010	$ 56,512	$ 183,632	$ 15,700	$ 167,932

* 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 numerous 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	$ 1,294,766	$ 25,014	$ 1,319,780

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	$ 2,140,486	$ 1,564,489	$ 3,704,975

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	$ 30,935	$ 1,031	$ 31,966

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 Preliminary Assessment/Site Inspection (PA/SI) Programs. On behalf of TCEQ, the Section identifies, ranks, and addresses sites contaminated with hazardous substances, which no parties are willing to address through a permit, corrective action, voluntary cleanup or enforcement program. These sites are identified through referral from internal and external groups such as TCEQ Enforcement, TCEQ Regional Offices, TCEQ Water Supply Division, public complaints and the United States Environmental Protection Agency (EPA).

Site estimates may change drastically from one year to another as the investigations progress and a better understanding of site conditions is obtained. The estimate of liabilities is limited to sites that have been, or are, being assessed and ranked for the Superfund program. Cost recovery activities during fiscal 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: Number	Bond Issues Outstanding: Amount Issued (in Thousands)	Range of Interest Rates: Lowest	Range of Interest Rates: Highest	Maturities: First Year	Maturities: Last Year	First Call Date
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	93	21,614,474					
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	355	31,423,791					
COMPONENT UNITS							
Revenue Bonds	14	1,231,167	2.70	6.10	1986	2041	10-08-1986
Total	462	$ 54,269,432					

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	16,188,598	148,713	3,098,249	564,740	2,157,160	16,713,660	720,892
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	24,633,429	212,398	3,732,178	911,055	3,497,901	24,169,049	2,346,631
COMPONENT UNITS							
Revenue Bonds	195,218	(508)		43,186	1,620	149,904	1,985
Total	$ 41,017,245	$ 360,603	$ 6,830,427	$ 1,518,981	$ 5,656,681	$ 41,032,613	$ 3,069,508

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

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	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	General Obligation Bonds			Revenue Bonds		
Year	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	Revenue Bonds		
Year	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	9,956,048
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	5,887,723
Total General Obligation Bonds	$ 15,843,771

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)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$ 2,755,082	$ 1,602,470	$ 1,152,612
Texas A&M University System	1,377,541	810,430	567,111
Total	$ 4,132,623	$ 2,412,900	$ 1,719,723

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 nonprofit 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.

Demand Bonds

August 31, 2014

	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	4	3	2	0	265,740
Revenue Bonds					
Texas Department of Transportation	1	1 (a)			100,000
Total	1	1	0	0	100,000
Governmental Activities Total	5	4	2	0	$ 365,740
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	27	27 (a)			$ 1,362,030
Total	27	27	0	0	1,362,030
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	12	8	0	4	1,567,433
Business-Type Activities Total	39	35	0	4	$ 2,929,463

(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-Thuringen 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	$ 150,000
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	325
Business-Type Activities Total	$ 398,211
COMPONENT UNITS	
Revenue Bonds	
Office of the Governor	$ 1,620
Component Units Total	$ 1,620

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		1,828,410	1,997,470	264,411	211,077
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		3,049,240	3,099,690	216,764	191,642
Total		$ 4,877,650	$ 5,097,160	$ 481,175	$ 402,719

(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)

	Variable-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net	Total
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	$ 3,577,495	$ 49,579	$ 1,471,079	$ 5,098,153

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

(Amounts in Thousands)

	Variable-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net *	Total
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	$ 31,660	$ 2,202	$ (14,279)	$ 19,583

* 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)

	Fixed-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net	Total
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			
Investment Derivatives			
Futures	$ 4,674	$	$ 10,305
BUSINESS-TYPE ACTIVITIES			
Cash Flow Hedges			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (106,755)	$ (482,281) *	$ 3,464,495
Investment Derivatives			
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			
Investment Derivatives			
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			
Investment Derivatives			
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 predefined 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%;	2,652	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,018	
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%;	935	A+ / Aa3
	SIFMA/5Y ISDA CMS > 71%	1,020	
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%;	484	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	267	
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	1M LIBOR >= 7.00%;	1,367	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	567	
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%;	2,355	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,427	
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%;	466	A+ / Aa3
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	208	
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)

	Minimum Future Lease Payments	
Year	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	$ 1,238,495	$ 14,523

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)

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

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.

Future Capital Lease Payments

August 31, 2014 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	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	$ 33,679	$ 21	$ 33,700	$ 16,908	$ 2,848	$ 19,756	$ 19	$ 1	$ 20

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

Assets Under Capital Leases

August 31, 2014 (Amounts in Thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities			
Type	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	$ 53,117	$ (13,977)	$ 33,903	$ (9,110)	$ 280	$ (213)

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.

Required Contribution Rates

	Employer			Members		
Plan	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	8.0%	8.0%	8.0%	6.6%	8.0%	6.6%
LECOS*	1.7%**	N/A	N/A	0.5%	N/A	N/A
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 maximum 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. Participants 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	134,162	37,084	12	554	857,342
Total Members	326,509	58,419	421	960	1,414,607

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	849,612	46,216	21,670	13,638	3,259,119
Employer Contributions Made	(482,239)	(27,758)	(27,715)	(12,211)	(2,515,176)
Increase (Decrease) in NPO	367,373	18,458	(6,045)	1,427	743,943
Net Pension Obligation, September 1, 2013	1,504,433	104,737	60,373	7,534	2,618,315
Net Pension Obligation, August 31, 2014*	$ 1,871,806	$ 123,195	$ 54,328	$ 8,961	$ 3,362,258

* 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

	UT Plan		A&M Plan	
Level of Coverage	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	726,387	190,640
Employer Contributions Made	(166,517)	(50,099)
Increase in Net OPEB Obligation	559,870	140,541
Net OPEB Obligation, September 1, 2013	2,799,478	719,225
Net OPEB Obligation, August 31, 2014	$ 3,359,348	$ 859,766

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

	ERS SRHP	
Level of Coverage	**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)

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

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	10,611
	$ 39,762

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)

	Current		Noncurrent		Total	
Fund Type	**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
	8,489	1,345	35,230	3,790	43,719	5,135
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
	25,937	33,081	813,399	844,839	839,336	877,920
Total	$ 34,426	$ 34,426	$ 848,629	$ 848,629	$ 883,055	$ 883,055

Due From/Due To

(Amounts in Thousands)

	Due From			Due To		
Fund Type	**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		
	982,175	0	309	1,773,653	0	0
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		
	1,008,131	0	0	176,223	0	0
FIDUCIARY FUNDS						
Pension and Other Employee Benefit Trust Funds	143,938			184,363		
Private-Purpose Trust Funds				7		
Agency Funds	1,215			1,213		
	145,153	0	0	185,583	0	0
DISCRETELY PRESENTED COMPONENT UNITS	0	0	0	0	309	0
Total	$ 2,135,459	$ 0	$ 309	$ 2,135,459	$ 309	$ 0

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out 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
	9,185,638	13,314,659
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
	6,021,504	1,921,588
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	128,515	99,360
Private-Purpose Trust Funds	134	184
	128,649	99,544
Total	$ 15,335,791	$ 15,335,791

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	Permament School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	$ 215,088	$ 143,262	$	$ 222	$ 358,572
Long-term Receivables	379,168				379,168
Permament Principal			12,860,777	832,736	13,693,513
Prepaid Items	1,742		6	37	1,785
Total Nonspendable	595,998	143,262	12,860,783	832,995	14,433,038
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	1,090,843	981,694	22,090,437	5,271,738	29,434,712
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	5,138,109	1,842,822	0	709,559	7,690,490
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	70,234	722,938	0	2,576	795,748
Unassigned:	10,863,986	0	0	(555,057)	10,308,929
Total Fund Balances – Governmental Funds	$ 17,759,170	$ 3,690,716	$ 34,951,220	$ 6,261,811	$ 62,662,917

* 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	45,743,131	3,148,248	48,891,379
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	5,749,642	(162,435)	5,587,207
Total Governmental Funds	51,492,773	2,985,813	54,478,586
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	58,248,087	(3,160,776)	55,087,311
Total Governmental Activities	109,740,860	(174,963)	109,565,897
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	44,631,614	(54,013)	44,577,601
Nonmajor Enterprise Funds	4,257,246	56,230	4,313,476
Total Business-Type Activities	48,888,860	2,217	48,891,077
Total Primary Government	158,629,720	(172,746)	158,456,974
FIDUCIARY FUNDS			
Pension and Other Employee Benefit 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	159,610,082	0	159,610,082
DISCRETELY PRESENTED COMPONENT UNITS	589,652	(322,103)	267,549
Total Reporting Entity	$ 318,829,454	$ (494,849)	$ 318,334,605

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	$ (174,963)	$ 2,217	$ 0	$ (322,103)	$ (494,849)

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 recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 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/registrar 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 Affair's (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	$ 6,774,098		

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 organization 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.

Changes in Claims Liability Balances

(Amounts in Thousands)

	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 JJL 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 guarantees 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 Nonprofit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the House of Representatives and the Comptroller. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

OneStar National Service Commission 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 Radioactive 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 contacting 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
	$ 2,921,235	

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. Nonexpendable 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 administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

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

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 if an individual fund is both a segment and reported as a major fund. Therefore, the following programs have met the requirements for disclosure. These programs were funded by the issuance of revenue bonds, which require revenues, expenses, gains, losses, assets and liabilities to be separately accounted for:

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

Condensed Statement of Net Position

August 31, 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	540,617	356,182	5,509
Deferred Outflows of Resources	22,441		
LIABILITIES			
Current Liabilities	15,455	7,406	12
Noncurrent Liabilities	447,593	257,108	3,744
Total Liabilities	463,048	264,514	3,756
NET POSITION			
Restricted	100,010	91,668	1,753
Total Net Position	$ 100,010	$ 91,668	$ 1,753

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	7,388	7,323	(177)
NONOPERATING REVENUES (EXPENSES)			
Transfer In (Out)	(79)	10,904	
Changes in Net Position	7,309	18,227	(177)
Net Position, September 1, 2013	87,761	74,489	1,800
Restatements	4,940	(1,048)	130
Net Position, September 1, 2013, as restated	92,701	73,441	1,930
Net Position, August 31, 2014	$ 100,010	$ 91,668	$ 1,753

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	155,758	63,964	1,108
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,223)	(8,075)	103
Cash and Cash Equivalents, September 1, 2013	49,969	23,060	35
Cash and Cash Equivalents, August 31, 2014	$ 39,746	$ 14,985	$ 138

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	Concession Dates 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	
	$ 1,730,434	$ 3,979,931	$ 5,141,081

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

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.