



Glenn Hegar Texas Comptroller of Public Accounts

State of Texas Comprehensive Annual Financial Report



For the Fiscal Year Ended
August 31, 2017

The spreadsheets in this publication are available
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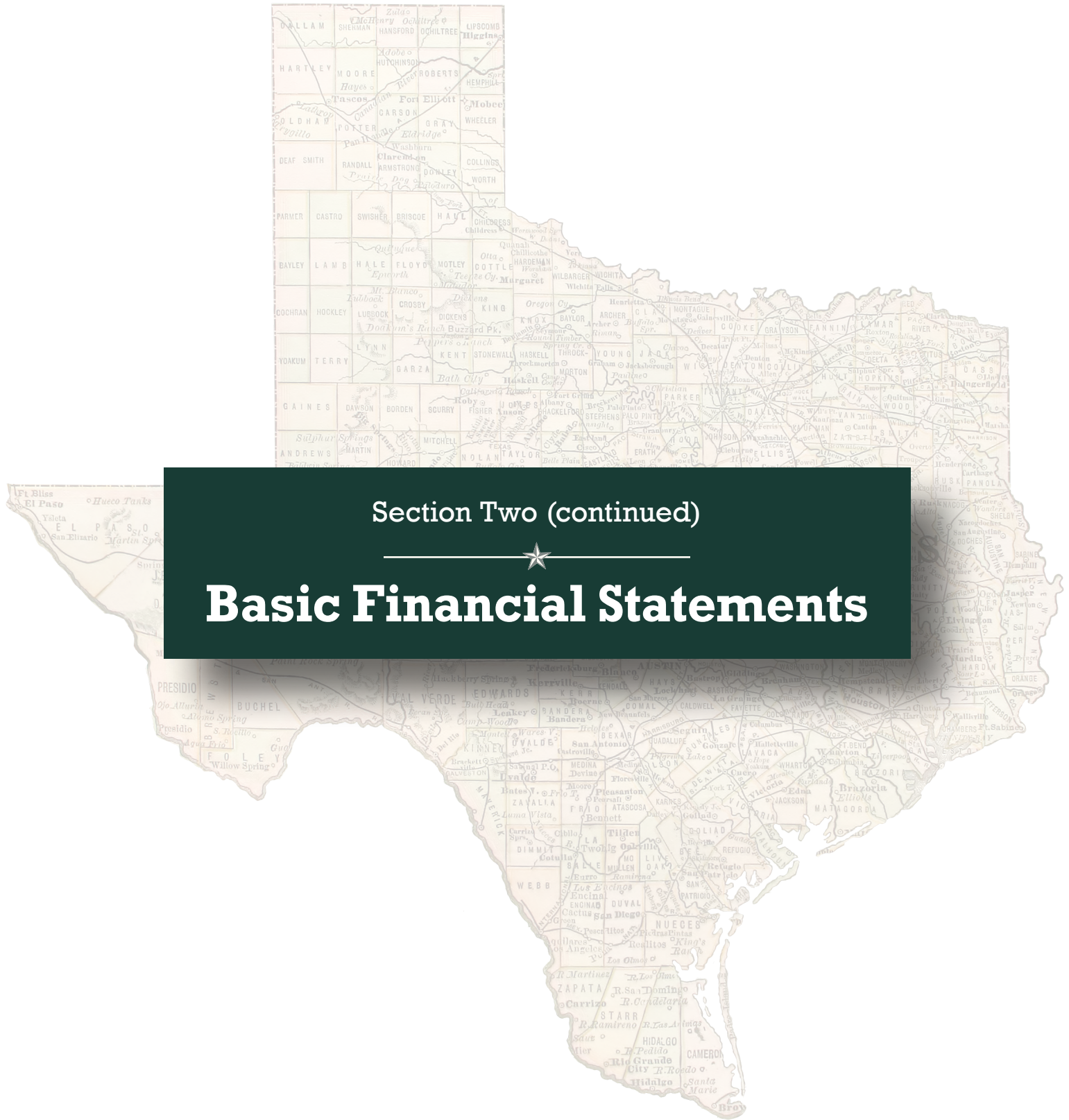
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Section Two (continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2017 (Amounts in Thousands)

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 21,834,499	\$ 5,790,802	\$ 27,625,301	\$ 1,592,054
Short-Term Investments	637,622	1,170,867	1,808,489	47,134
Securities Lending Collateral	2,864,236	607,970	3,472,206	
Receivables:				
Taxes	3,134,705		3,134,705	
Federal	2,195,521	1,005,439	3,200,960	51
Other Intergovernmental	656,113	123,735	779,848	1,682
Accounts	931,746	2,242,495	3,174,241	58,638
Interest and Dividends	101,238	276,731	377,969	838
Gifts	735	276,044	276,779	
Investment Trades	29,440	748,936	778,376	
Other	38,840	506,542	545,382	547
From Fiduciary Funds	3,756		3,756	
Due From Primary Government (Note 12)				176
Due From Component Units (Note 12)	1,000		1,000	
Inventories	391,252	208,794	600,046	4,963
Prepaid Items	2,257	221,884	224,141	5,037
Loans and Contracts	77,643	413,124	490,767	563
Other Current Assets		395,386	395,386	3,614
Restricted:				
Cash and Cash Equivalents	60,017	4,410,109	4,470,126	2,223
Short-Term Investments	10,910	1,139,743	1,150,653	
Loans and Contracts	121,476	163,665	285,141	8,601
Total Current Assets	<u>33,093,006</u>	<u>19,702,266</u>	<u>52,795,272</u>	<u>1,726,121</u>
Noncurrent Assets:				
Internal Balances (Note 12)	15,445	(15,445)		
Loans and Contracts	1,568,523	6,387,417	7,955,940	5,308
Investments	43,774,006	14,401,207	58,175,213	6,224
Receivables:				
Taxes	7,971		7,971	
Gifts		688,041	688,041	3,378
Other	365,516	25,223	390,739	
Restricted:				
Cash and Cash Equivalents		366,298	366,298	13,130
Short-Term Investments		55,585	55,585	
Investments		43,220,883	43,220,883	496,741
Receivables		180,026	180,026	
Loans and Contracts	1,510,825	3,561,580	5,072,405	6,505
Other	92,867	12,888	105,755	
Assets Held in Trust		5,490	5,490	5,442
Hedging Derivative Asset (Note 7)		14,565	14,565	
Prepaid Items				3,056
Intangible Assets – Service Concession				
Arrangements (Note 26)		2,355,252	2,355,252	
Other Noncurrent Assets	71,620	185,051	256,671	878
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	30,725,592	6,174,924	36,900,516	5,364
Depreciable or Amortizable, Net	74,252,753	25,116,742	99,369,495	23,567
Total Noncurrent Assets	<u>152,385,118</u>	<u>102,735,727</u>	<u>255,120,845</u>	<u>569,593</u>
Total Assets	<u>185,478,124</u>	<u>122,437,993</u>	<u>307,916,117</u>	<u>2,295,714</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	10,959,432	1,836,820	12,796,252	
Total Deferred Outflows of Resources	<u>10,959,432</u>	<u>1,836,820</u>	<u>12,796,252</u>	<u>0</u>

Concluded on the following page

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

Statement of Net Position (concluded)

August 31, 2017 (Amounts in Thousands)

LIABILITIES	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Current Liabilities:				
Payables:				
Accounts	\$ 5,049,835	\$ 1,894,051	\$ 6,943,886	\$ 539,544
Payroll	787,472	991,864	1,779,336	519
Other Intergovernmental	666,652	3,443	670,095	
Federal	2,660	39,883	42,543	
Investment Trades	93,221	804,319	897,540	
Interest	324,230	124,828	449,058	661
Tax Refunds (Note 23)	570,647		570,647	
Annuities		7,538	7,538	
To Fiduciary Funds	418,342		418,342	
Due To Primary Government (Note 12)				1,000
Due To Component Units (Note 12)	176		176	
Internal Balances (Note 12)	918,266	(918,266)		
Unearned Revenue	878,310	3,782,984	4,661,294	292,740
Obligations/Reverse Repurchase Agreement	35,827		35,827	
Obligations/Securities Lending	2,898,999	607,969	3,506,968	
Claims and Judgments (Note 5)	45,171	130,866	176,037	
Capital Lease Obligations (Note 5, 8)	4,023	12,146	16,169	46
Employees' Compensable Leave (Note 5)	607,814	461,725	1,069,539	1,580
Notes and Loans Payable (Note 5)	203,421	41,715	245,136	3,039
General Obligation Bonds Payable (Note 5, 6)	626,992	235,825	862,817	
Revenue Bonds Payable (Note 5, 6)	281,957	2,440,944	2,722,901	10,473
Pollution Remediation Obligation (Note 5)	40,824		40,824	
Liabilities Payable From Restricted Assets (Note 5)		532,108	532,108	
Short-Term Debt (Note 4)		772,690	772,690	
Funds Held for Others		138,801	138,801	198,167
Other Current Liabilities	354,970	216,525	571,495	113,018
Total Current Liabilities	<u>14,809,809</u>	<u>12,321,958</u>	<u>27,131,767</u>	<u>1,160,787</u>
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	61,452	51,531	112,983	
Capital Lease Obligations (Note 5, 8)	19,060	60,938	79,998	85
Employees' Compensable Leave (Note 5)	255,862	416,689	672,551	1,076
Notes and Loans Payable (Note 5)	1,168,735	2,281,795	3,450,530	8,840
General Obligation Bonds Payable (Note 5, 6)	15,256,540	4,127,483	19,384,023	
Revenue Bonds Payable (Note 5, 6)	4,495,511	23,579,826	28,075,337	36,976
Pollution Remediation Obligation (Note 5)	213,416	1,023	214,439	
Liabilities Payable From Restricted Assets (Note 5)		2,235,846	2,235,846	
Assets Held for Others		937,324	937,324	
Net Pension Liability (Note 9)*	42,400,618	4,369,774	46,770,392	
Total Pension Liability (Note 9)*	328,044		328,044	
Net OPEB Obligation (Note 11)		6,666,002	6,666,002	
Derivative Instrument Liability		171,471	171,471	
Hedging Derivative Liability (Note 7)		478,681	478,681	
Other Noncurrent Liabilities		161,097	161,097	417,309
Total Noncurrent Liabilities	<u>64,199,238</u>	<u>45,539,480</u>	<u>109,738,718</u>	<u>464,286</u>
Total Liabilities	<u>79,009,047</u>	<u>57,861,438</u>	<u>136,870,485</u>	<u>1,625,073</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	15,504,980	651,251	16,156,231	
Total Deferred Inflows of Resources	<u>15,504,980</u>	<u>651,251</u>	<u>16,156,231</u>	<u>0</u>
NET POSITION				
Net Investment in Capital Assets	76,925,845	11,755,741	88,681,586	18,560
Restricted for:				
Education	584,230	3,367,558	3,951,788	
Transportation	3,123,976		3,123,976	
Debt Service	618,138	429,284	1,047,422	
Capital Projects		1,360,182	1,360,182	
Veterans Land Board Housing Programs		699,509	699,509	
Unemployment Trust Fund		1,430,426	1,430,426	
Funds Held as Permanent Investments:				
Nonexpendable	40,944,666	24,107,126	65,051,792	235,148
Expendable	1,941,317	11,403,266	13,344,583	34,114
Other	2,955,696	4,497,166	7,452,862	115,741
Unrestricted	<u>(25,170,339)</u>	<u>6,711,866</u>	<u>(18,458,473)</u>	<u>267,078</u>
Total Net Position	<u>\$ 101,923,529</u>	<u>\$ 65,762,124</u>	<u>\$ 167,685,653</u>	<u>\$ 670,641</u>

* Net Pension Liability is related to the trusted pension plans under GASB Statement No. 68. Total Pension Liability is related to the non-trusted pension plan under GASB Statement No. 73

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 5,213,330	\$ 1,327,396	\$ 708,549	\$ 8
Education	28,400,268	1,084,465	9,600,480	
Employee Benefits	1,695	70		
Teacher Retirement State Contributions	2,148,958			
Health and Human Services	55,499,408	4,029,864	35,266,515	493
Public Safety and Corrections	6,354,517	338,672	352,468	401
Transportation	6,143,369	2,920,669	3,834,985	49,542
Natural Resources and Recreation	2,163,813	719,546	981,314	758
Regulatory Services	420,273	575,609	3,682	
Interest on General Long-Term Debt	167,115			
Total Governmental Activities	<u>106,512,746</u>	<u>10,996,291</u>	<u>50,747,993</u>	<u>51,202</u>
Business-Type Activities:				
General Government	139,018	75,580	58,529	
Education	29,952,017	15,884,278	11,636,444	180,782
Employee Benefits	1,584			
Health and Human Services	2,684,798	2,688,423	83,640	
Public Safety and Corrections	99,239	113,459		
Transportation	451,780	359,149	13,858	
Natural Resources and Recreation	356,284	40,644	522,781	
Lottery	3,749,583	5,078,175		
Total Business-Type Activities	<u>37,434,303</u>	<u>24,239,708</u>	<u>12,315,252</u>	<u>180,782</u>
Total Primary Government	<u>\$143,947,049</u>	<u>\$ 35,235,999</u>	<u>\$ 63,063,245</u>	<u>\$ 231,984</u>
COMPONENT UNITS				
Component Units	\$ 2,759,116	\$ 2,766,645	\$ 76,588	\$ 0
Total Component Units	<u>\$ 2,759,116</u>	<u>\$ 2,766,645</u>	<u>\$ 76,588</u>	<u>\$ 0</u>

Concluded on the following page

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

STATE OF TEXAS

Statement of Activities (concluded)

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			Component Units
	Primary Government		Total	
	Governmental Activities	Business-Type Activities		
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ (3,177,377)	\$	\$ (3,177,377)	\$
Education	(17,715,323)		(17,715,323)	
Employee Benefits	(1,625)		(1,625)	
Teacher Retirement State Contributions	(2,148,958)		(2,148,958)	
Health and Human Services	(16,202,536)		(16,202,536)	
Public Safety and Corrections	(5,662,976)		(5,662,976)	
Transportation	661,827		661,827	
Natural Resources and Recreation	(462,195)		(462,195)	
Regulatory Services	159,018		159,018	
Interest on General Long-Term Debt	(167,115)		(167,115)	
Total Governmental Activities	<u>(44,717,260)</u>	<u>0</u>	<u>(44,717,260)</u>	<u>0</u>
Business-Type Activities:				
General Government		(4,909)	(4,909)	
Education		(2,250,513)	(2,250,513)	
Employee Benefits		(1,584)	(1,584)	
Health and Human Services		87,265	87,265	
Public Safety and Corrections		14,220	14,220	
Transportation		(78,773)	(78,773)	
Natural Resources and Recreation		207,141	207,141	
Lottery		1,328,592	1,328,592	
Total Business-Type Activities	<u>0</u>	<u>(698,561)</u>	<u>(698,561)</u>	<u>0</u>
Total Primary Government	<u>(44,717,260)</u>	<u>(698,561)</u>	<u>(45,415,821)</u>	<u>0</u>
COMPONENT UNITS				
Component Units				84,117
Total Component Units	<u>0</u>	<u>0</u>	<u>0</u>	<u>84,117</u>
General Revenues				
Taxes:				
Sales and Use	29,041,682		29,041,682	
Motor Vehicle and Manufactured Housing	4,572,207		4,572,207	
Motor Fuels	3,643,017		3,643,017	
Franchise	3,423,345		3,423,345	
Oil and Natural Gas Production	3,309,915		3,309,915	
Insurance Occupation	2,359,979		2,359,979	
Cigarette and Tobacco	1,522,924		1,522,924	
Other	2,314,745		2,314,745	
Unrestricted Investment Earnings	481,261	86,447	567,708	5,295
Settlement of Claims	537,444	1,213	538,657	
Gain on Sale of Capital Assets	1,249	26	1,275	654
Loss on Other Financial Activity	(3,279)		(3,279)	
Other General Revenues	2,721,599	177,799	2,899,398	8,306
Capital Contributions	84,619	5,593	90,212	
Contributions to Permanent and Term Endowments		209,404	209,404	
Transfers - Internal Activities (Note 12)	(5,345,718)	5,345,718		
Total General Revenues, Contributions, Special Items and Transfers	<u>48,664,989</u>	<u>5,826,200</u>	<u>54,491,189</u>	<u>14,255</u>
Change in Net Position	<u>3,947,729</u>	<u>5,127,639</u>	<u>9,075,368</u>	<u>98,372</u>
Net Position, September 1, 2016	98,744,452	60,647,997	159,392,449	571,685
Restatements (Note 14)	(768,652)	(13,512)	(782,164)	584
Net Position, September 1, 2016, as Restated	<u>97,975,800</u>	<u>60,634,485</u>	<u>158,610,285</u>	<u>572,269</u>
Net Position, August 31, 2017	<u>\$ 101,923,529</u>	<u>\$ 65,762,124</u>	<u>\$ 167,685,653</u>	<u>\$ 670,641</u>

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2017 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 11,072,577	\$ 3,596,317	\$ 3,457,034	\$ 3,687,664	\$ 21,813,592
Short-Term Investments	99,422		127,686	113,881	340,989
Securities Lending Collateral			2,845,888		2,845,888
Receivables:					
Accounts	424,475	162,984	127,047	4,246	718,752
Taxes (Note 23)	2,786,422	267,006		89,248	3,142,676
Federal	1,766,082	429,114		325	2,195,521
Investment Trades	41		29,006	393	29,440
Other Intergovernmental	525,682	130,431			656,113
Interest and Dividends	10,317	6,981	68,294	12,488	98,080
Other	404,360			731	405,091
Due From Other Funds (Note 12)	196,476	979,693	5	153,535	1,329,709
Due From Component Units (Note 12)	1,000				1,000
Interfund Receivable (Note 12)	24,249				24,249
Inventories	236,960	153,869	100	323	391,252
Prepaid Items	2,256		1		2,257
Investments	2,258,583		37,861,921	3,133,922	43,254,426
Loans and Contracts	272,491	626,137	119	747,419	1,646,166
Other Assets	71,620				71,620
Restricted:					
Cash and Cash Equivalents	36,397	22,120		1,500	60,017
Short-Term Investments		10,910			10,910
Loans and Contracts	578,382			1,053,919	1,632,301
Other Assets				92,867	92,867
Total Assets	\$ 20,767,792	\$ 6,385,562	\$ 44,517,101	\$ 9,092,461	\$ 80,762,916
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 3,294,733	\$ 965,814	\$ 10,129	\$ 143,302	\$ 4,413,978
Investment Trades			93,221		93,221
Other Intergovernmental	666,652				666,652
Tax Refunds (Note 23)	570,647				570,647
Payroll	703,971	75,712	2,511	5,278	787,472
Federal	2,660				2,660
Due To Other Funds (Note 12)	2,264,233	3,760	36	72,428	2,340,457
Due To Component Units (Note 12)	176				176
Interfund Payable (Note 12)	15			2,332	2,347
Unearned Revenues	445,969	113,707	91,240	663,315	1,314,231
Obligations/Reverse Repurchase Agreements	35,827				35,827
Obligations/Securities Lending			2,880,372		2,880,372
Other Liabilities	351,966	1,056		1,948	354,970
Total Liabilities	8,336,849	1,160,049	3,077,509	888,603	13,463,010
Deferred Inflows of Resources:					
Deferred Inflows of Resources (Note 27)	412,665	188,064	21,625		622,354
Total Deferred Inflows of Resources	412,665	188,064	21,625	0	622,354
Fund Balances					
Nonspendable (Note 13)	698,186	153,869	40,083,721	861,369	41,797,145
Restricted (Note 13)	1,166,030	3,079,796	1,334,246	7,239,961	12,820,033
Committed (Note 13)	4,545,214	927,031		109,171	5,581,416
Assigned (Note 13)	50,880	876,753		2,795	930,428
Unassigned (Note 13)	5,557,968			(9,438)	5,548,530
Total Fund Balances	12,018,278	5,037,449	41,417,967	8,203,858	66,677,552
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 20,767,792	\$ 6,385,562	\$ 44,517,101	\$ 9,092,461	\$ 80,762,916

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, 2017 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 66,677,552

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	\$ 30,725,592	
Capital Assets – Depreciable or Amortizable, Net	<u>74,252,753</u>	104,978,345

Reversal of prior year unearned tax revenues recorded in governmental funds, but not in the Statement of Net Position. 436,551

Deferred inflows of resources represent revenues the state earned after fiscal year-end but not available to pay current year's expenditures, therefore, the revenues are deferred in the funds, but not reported in the Statement of Net Position. (Note 27) 622,354

Deferred outflows of resources were reported in the Statement of Net Position to reflect the loss on bond/debt refunding and impact of pension implementation. (Note 27) 10,959,432

Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized upfront payments received, gain on bond refundings and capital assets acquired in refundings and capital assets acquired in connection with the service concession arrangements and impact of pension implementation. (Note 26, 27) (15,504,980)

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, 9, and RSI)

Claims and Judgments	(106,623)	
Capital Lease Obligations	(23,083)	
Employees' Compensable Leave	(863,676)	
Notes and Loans Payable	(1,372,156)	
General Obligation Bonds Payable	(15,883,532)	
Revenue Bonds Payable	(4,777,468)	
Pollution Remediation Obligation	(254,240)	
Net Pension Liability	(42,400,618)	
Total Pension Liability	<u>(328,044)</u>	(66,009,440) *

* current portion = \$1,810,202 and noncurrent portion = \$64,199,238

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. (324,230)

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. 87,945

Net Position of Governmental Activities \$ 101,923,529

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 45,207,226	\$ 2,675,915	\$	\$ 2,310,408	\$ 50,193,549
Federal	39,835,769	3,781,833		51,946	43,669,548
Licenses, Fees and Permits	3,041,707	1,613,887		867,368	5,522,962
Interest and Other Investment Income	113,783	57,728	4,326,952	402,755	4,901,218
Land Income	19,872	13,222	940,519	12	973,625
Settlement of Claims	510,081	28,215	561	867	539,724
Sales of Goods and Services	3,789,672	70,135	103,883	208,367	4,172,057
Other	5,327,334	10,749	3,498	22,195	5,363,776
Total Revenues	<u>97,845,444</u>	<u>8,251,684</u>	<u>5,375,413</u>	<u>3,863,918</u>	<u>115,336,459</u>
EXPENDITURES					
Current:					
General Government	2,916,381	512		253,997	3,170,890
Education	26,279,701		163,973	1,948,180	28,391,854
Employee Benefits	2,112			23,876	25,988
Teacher Retirement State Contributions	2,148,958				2,148,958
Health and Human Services	55,448,840			17,529	55,466,369
Public Safety and Corrections	6,135,427	556		65,845	6,201,828
Transportation	16,079	3,542,977		181,470	3,740,526
Natural Resources and Recreation	2,109,290			28,331	2,137,621
Regulatory Services	420,185	(1,463)		1,378	420,100
Capital Outlay	262,565	6,018,624	374	771,174	7,052,737
Debt Service:					
Principal	111,347	109,081		548,419	768,847
Interest	177,373			667,150	844,523
Other Financing Fees	503	4,267		9,780	14,550
Total Expenditures	<u>96,028,761</u>	<u>9,674,554</u>	<u>164,347</u>	<u>4,517,129</u>	<u>110,384,791</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,816,683</u>	<u>(1,422,870)</u>	<u>5,211,066</u>	<u>(653,211)</u>	<u>4,951,668</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	3,083,132	943,558		2,345,437	6,372,127
Transfer Out (Note 12)	(7,879,077)	(532,259)	(1,056,412)	(2,238,237)	(11,705,985)
Bonds and Notes Issued	222,900	886,210		804,661	1,913,771
Bonds Issued for Refunding		89,370		1,202,560	1,291,930
Premiums on Bonds Issued		112,255		294,275	406,530
Payment to Escrow for Refunding		(100,000)		(1,360,887)	(1,460,887)
Sale of Capital Assets	14,560	8,469	4	3	23,036
Service Concession Arrangement		392			392
Loss on Other Financial Activity	(3,279)				(3,279)
Insurance Recoveries	9,875				9,875
Capital Contributions	83,652				83,652
Total Other Financing Sources (Uses)	<u>(4,468,237)</u>	<u>1,407,995</u>	<u>(1,056,408)</u>	<u>1,047,812</u>	<u>(3,068,838)</u>
Net Change in Fund Balances	<u>(2,651,554)</u>	<u>(14,875)</u>	<u>4,154,658</u>	<u>394,601</u>	<u>1,882,830</u>
Fund Balances, September 1, 2016	14,671,967	5,052,817	37,263,929	7,809,412	64,798,125
Restatements (Note 14)	(2,135)	(493)	(620)	(155)	(3,403)
Fund Balances, September 1, 2016, as Restated	<u>14,669,832</u>	<u>5,052,324</u>	<u>37,263,309</u>	<u>7,809,257</u>	<u>64,794,722</u>
Fund Balances, August 31, 2017	<u>\$ 12,018,278</u>	<u>\$ 5,037,449</u>	<u>\$ 41,417,967</u>	<u>\$ 8,203,858</u>	<u>\$ 66,677,552</u>

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

Net Change in Fund Balances \$ 1,882,830

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	\$ 7,052,737	
Depreciation Expense (Note 2)	(2,093,944)	
Amortization Expense (Note 2)	<u>(57,863)</u>	
		4,900,930

The effect of various miscellaneous transactions involving capital assets (such as sales and trade-ins) is to decrease net position. (21,786)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (2,170,389)

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. 91,330

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	(3,205,701)	
Premium on Bond Proceeds	(406,530)	
Repayment of Bond and Capital Lease Principal	<u>2,229,734</u>	
		(1,382,497)

Some expenses reported in the Statement of Activities do not require the use of current financial resources, therefore, they are not reported as expenditures in governmental funds. 652,272

Transfers of capital assets are not reported in the governmental funds. In addition, resources flow between fiduciary funds and governmental funds and are converted to revenues or expenses on the Statement of Activities.

Capital Asset Transfers (Note 2)	(4,961)	
Increase in Revenues	7,279	
Increase in Expenses	(380)	
Net Change in Transfers	<u>(6,899)</u>	
		<u>(4,961)</u>

Change in Net Position of Governmental Activities \$ 3,947,729

Statement of Net Position – Proprietary Funds

August 31, 2017 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 4,693,373	\$ 622	\$ 241,274	\$ 855,533	\$ 5,790,802	\$ 20,907
Short-Term Investments	645,709			525,158	1,170,867	296,633
Securities Lending Collateral	490,906			117,064	607,970	18,348
Restricted:						
Cash and Cash Equivalents	2,011,184	1,315,402		1,083,523	4,410,109	
Short-Term Investments	606,959		80,317	452,467	1,139,743	
Loans and Contracts				163,665	163,665	
Receivables:						
Federal	974,623	8,962		21,854	1,005,439	
Other Intergovernmental	123,735				123,735	
Accounts	1,904,913	258,146	21,839	57,597	2,242,495	212,994
Interest and Dividends	87,151	5,096		184,484	276,731	3,158
Gifts	276,044				276,044	
Investment Trades	747,358			1,578	748,936	
Other	500,946			5,596	506,542	
Due From Other Funds (Note 12)	1,087,335	4,207		38,396	1,129,938	2,843
Interfund Receivable (Note 12)	84,930			160	85,090	
Inventories	169,883		27,118	11,793	208,794	
Prepaid Items	215,566		592	5,726	221,884	
Loans and Contracts	143,668			269,456	413,124	
Other Current Assets	395,327			59	395,386	
Total Current Assets	<u>15,159,610</u>	<u>1,592,435</u>	<u>371,140</u>	<u>3,794,109</u>	<u>20,917,294</u>	<u>554,883</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	332,000			34,298	366,298	
Short-Term Investments	55,585				55,585	
Investments	40,434,161		518,658	2,268,064	43,220,883	
Receivables	68,895			111,131	180,026	
Loans and Contracts	94,080			3,467,500	3,561,580	
Other	12,000			888	12,888	
Loans and Contracts	20,342			6,367,075	6,387,417	
Investments	14,274,908			126,299	14,401,207	519,580
Interfund Receivable (Note 12)	891,586			1,980	893,566	
Gifts Receivable	688,041				688,041	
Other Receivables	3,421	21,802			25,223	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	5,462,616			712,308	6,174,924	
Depreciable or Amortizable, Net	23,100,359		546	2,015,837	25,116,742	
Assets Held in Trust	362			5,128	5,490	
Hedging Derivative Asset (Note 7)	10,339			4,226	14,565	
Intangible Assets - Service						
Concessions Arrangements (Note 26)				2,355,252	2,355,252	
Other Noncurrent Assets	185,008			43	185,051	
Total Noncurrent Assets	<u>85,633,703</u>	<u>21,802</u>	<u>519,204</u>	<u>17,470,029</u>	<u>103,644,738</u>	<u>519,580</u>
Total Assets	<u>100,793,313</u>	<u>1,614,237</u>	<u>890,344</u>	<u>21,264,138</u>	<u>124,562,032</u>	<u>1,074,463</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 27)	1,574,124			262,696	1,836,820	
Total Deferred Outflows of Resources	<u>1,574,124</u>	<u>0</u>	<u>0</u>	<u>262,696</u>	<u>1,836,820</u>	<u>0</u>
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,765,166	41,789	33,591	53,505	1,894,051	635,857
Payroll	984,230		2,126	5,508	991,864	
Other Intergovernmental	3,443				3,443	
Federal	38,841	1,042			39,883	
Investment Trades	801,300			3,019	804,319	
Interest	37,395			87,433	124,828	
Annuities			7,538		7,538	

Concluded on the following page

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2017 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	\$ 36,065	\$	\$ 160,604	\$ 8,546	\$ 205,215	\$ 331,404
Interfund Payable (Note 12)	91,299			248	91,547	
Unearned Revenue	3,633,999	140,980		8,005	3,782,984	630
Obligations/Securities Lending	490,906			117,063	607,969	18,627
Short-Term Debt (Note 4)	691,507			81,183	772,690	
Claims and Judgments (Note 5)	130,866				130,866	
Capital Lease Obligations (Note 5, 8)	12,146				12,146	
Employees' Compensable Leave (Note 5)	457,591		1,357	2,777	461,725	
Notes and Loans Payable (Note 5)	41,491			224	41,715	
General Obligation Bonds Payable (Note 5, 6)	3,517			232,308	235,825	
Revenue Bonds Payable (Note 5, 6)	2,366,008			74,936	2,440,944	
Liabilities Payable From Restricted						
Assets (Note 5)	60,768		166,977	304,363	532,108	
Funds Held for Others	138,801				138,801	
Other Current Liabilities	212,579		1,095	2,851	216,525	
Total Current Liabilities	<u>11,997,918</u>	<u>183,811</u>	<u>373,288</u>	<u>981,969</u>	<u>13,536,986</u>	<u>986,518</u>
Noncurrent Liabilities:						
Interfund Payable (Note 12)	909,011				909,011	
Claims and Judgments (Note 5)	51,531				51,531	
Capital Lease Obligations (Note 5, 8)	60,938				60,938	
Employees' Compensable Leave (Note 5)	414,490		1,178	1,021	416,689	
Notes and Loans Payable (Note 5)	1,320,169			961,626	2,281,795	
General Obligation Bonds Payable (Note 5, 6)	23,816			4,103,667	4,127,483	
Revenue Bonds Payable (Note 5, 6)	15,486,678			8,093,148	23,579,826	
Liabilities Payable From Restricted						
Assets (Note 5)	13,722		476,693	1,745,431	2,235,846	
Pollution Remediation Obligation (Note 5)	1,023				1,023	
Assets Held for Others	932,197			5,127	937,324	
Net OPEB Obligation (Note 11)	6,666,002				6,666,002	
Net Pension Liability (Note 9)	4,369,774				4,369,774	
Derivative Instrument Liability	171,471				171,471	
Hedging Derivative Liability (Note 7)	246,088			232,593	478,681	
Other Noncurrent Liabilities	73,540			87,557	161,097	
Total Noncurrent Liabilities	<u>30,740,450</u>	<u>0</u>	<u>477,871</u>	<u>15,230,170</u>	<u>46,448,491</u>	<u>0</u>
Total Liabilities	<u>42,738,368</u>	<u>183,811</u>	<u>851,159</u>	<u>16,212,139</u>	<u>59,985,477</u>	<u>986,518</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 27)	647,025			4,226	651,251	
Total Deferred Inflows of Resources	<u>647,025</u>	<u>0</u>	<u>0</u>	<u>4,226</u>	<u>651,251</u>	<u>0</u>
NET POSITION						
Net Investment in Capital Assets	11,079,292		546	675,903	11,755,741	
Restricted for:						
Education	3,367,558				3,367,558	
Debt Service	85,667			343,617	429,284	
Capital Projects	1,360,182				1,360,182	
Veterans Land Board Housing Programs				699,509	699,509	
Unemployment Trust Funds		1,430,426			1,430,426	
Funds Held as Permanent Investments:						
Nonexpendable	24,106,900			226	24,107,126	
Expendable	11,403,266				11,403,266	
Other			5,000	4,492,166	4,497,166	87,945
Unrestricted	<u>7,579,179</u>		<u>33,639</u>	<u>(900,952)</u>	<u>6,711,866</u>	
Total Net Position	<u>\$58,982,044</u>	<u>\$ 1,430,426</u>	<u>\$ 39,185</u>	<u>\$ 5,310,469</u>	<u>\$65,762,124</u>	<u>\$ 87,945</u>

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

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
OPERATING REVENUES						
Lottery Collections	\$	\$	\$ 5,077,816	\$	\$ 5,077,816	\$
Tuition Revenue	172,891				172,891	
Tuition Revenue – Pledged	6,429,829				6,429,829	
Discounts and Allowances	(1,654,353)				(1,654,353)	
Hospital Revenue – Pledged	13,572,250				13,572,250	
Discounts and Allowances	(7,785,987)				(7,785,987)	
Professional Fees	6,299,584				6,299,584	
Professional Fees – Pledged	34,134				34,134	
Discounts and Allowances	(4,245,322)				(4,245,322)	
Auxiliary Enterprises	3,018				3,018	
Auxiliary Enterprises – Pledged	1,571,689			111,847	1,683,536	
Discounts and Allowances	(91,605)				(91,605)	
Unemployment Taxes		2,687,903			2,687,903	
Other Sales of Goods and Services	32,346			54,822	87,168	
Other Sales of Goods and Services – Pledged	953,529			391,483	1,345,012	
Discounts and Allowances	(6,867)			(37,181)	(44,048)	
Interest and Investment Income	3,079			296,866	299,945	
Interest and Investment Income – Pledged	79			57,120	57,199	
Federal Revenue	2,027,806	83,640		60,553	2,171,999	
State Grant Revenue	19,567				19,567	
Premium Revenue						2,525,528
Other Operating Grant Revenue	941,776				941,776	
Other Operating Grant Revenue – Pledged	1,007,924				1,007,924	
Other Revenues	77,043	150,349	799	89,492	317,683	1,905
Other Revenues – Pledged	509,938			15,704	525,642	
Total Operating Revenues	<u>19,872,348</u>	<u>2,921,892</u>	<u>5,078,615</u>	<u>1,040,706</u>	<u>28,913,561</u>	<u>2,527,433</u>
OPERATING EXPENSES						
Cost of Goods Sold	202,601			78,388	280,989	
Salaries and Wages	13,215,327		19,033	47,516	13,281,876	6,749
Payroll Related Costs	3,510,075		6,628	13,924	3,530,627	2,441
Professional Fees and Services	1,207,363		5,717	104,446	1,317,526	924
Travel	340,143		350	693	341,186	55
Materials and Supplies	2,462,438		1,959	10,513	2,474,910	595
Communication and Utilities	694,053		529	2,237	696,819	365
Repairs and Maintenance	617,003		372	21,979	639,354	463
Rentals and Leases	315,804		5,300	2,535	323,639	157
Printing and Reproduction	72,943		33,289	140	106,372	15
Depreciation and Amortization	2,194,361		229	124,135	2,318,725	
Unemployment Benefit Payments		2,682,909			2,682,909	
Bad Debt Expense	14,784		171	303	15,258	
Interest Expense	239			293,311	293,550	
Scholarships	1,147,063				1,147,063	
Lottery Fees and Other Costs			381,654		381,654	
Lottery Prize Payments			3,257,375		3,257,375	
Employee/Participant Benefit Payments				42,253	42,253	2,434,697
Claims and Judgments	43,814			(500)	43,314	
Net Change in OPEB Obligations	900,772				900,772	
Other Expenses	1,969,172		36,977	108,084	2,114,233	3,297
Total Operating Expenses	<u>28,907,955</u>	<u>2,682,909</u>	<u>3,749,583</u>	<u>849,957</u>	<u>36,190,404</u>	<u>2,449,758</u>
Operating Income (Loss)	<u>(9,035,607)</u>	<u>238,983</u>	<u>1,329,032</u>	<u>190,749</u>	<u>(7,276,843)</u>	<u>77,675</u>

Concluded on the following page

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	\$ 1,003,530	\$	\$	\$ 166,035	\$ 1,169,565	\$
Gifts	571,082			521	571,603	
Gifts – Pledged	161,324				161,324	
Land Income				12	12	
Interest and Investment Income	4,850,681	21,762	(27,648)	106,012	4,950,807	13,475
Interest and Investment Income – Pledged	773,380				773,380	
Loan Premium and Fees on Securities Lending				108	108	94
Investing Activities Expense	(147,554)			(424)	(147,978)	
Depreciation and Amortization				24,934	24,934	
Interest Expense	(549,836)	(1,872)		(276,277)	(827,985)	
Borrower Rebates and Agent Fees	(5,982)			(304)	(6,286)	84
Gain (Loss) on Sale of Capital Assets	(140,704)		20	5	(140,679)	
Settlement of Claims	1,211			2	1,213	2
Claims and Judgments	(935)				(935)	
Other Revenues	140,028			2,338	142,366	
Other Revenues – Pledged	136,480				136,480	
Other Expenses	(122,969)	(15)		(20,376)	(143,360)	
Total Nonoperating Revenues (Expenses)	<u>6,669,736</u>	<u>19,875</u>	<u>(27,628)</u>	<u>2,586</u>	<u>6,664,569</u>	<u>13,655</u>
Income (Loss) Before Capital Contributions,						
Endowments and Transfers	<u>(2,365,871)</u>	<u>258,858</u>	<u>1,301,404</u>	<u>193,335</u>	<u>(612,274)</u>	<u>91,330</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	100				100	
Capital Contributions – Other	186,044			5,191	191,235	
Contributions to Permanent and Term Endowments	209,404				209,404	
Transfer In (Note 12)	6,878,819	189,071		84,495	7,152,385	
Transfer Out (Note 12)	<u>(424,127)</u>		<u>(1,333,968)</u>	<u>(55,116)</u>	<u>(1,813,211)</u>	
Total Capital Contributions, Endowments and Transfers	<u>6,850,240</u>	<u>189,071</u>	<u>(1,333,968)</u>	<u>34,570</u>	<u>5,739,913</u>	<u>0</u>
Change in Net Position	<u>4,484,369</u>	<u>447,929</u>	<u>(32,564)</u>	<u>227,905</u>	<u>5,127,639</u>	<u>91,330</u>
Net Position, September 1, 2016	54,511,165	982,497	71,749	5,082,586	60,647,997	498,874
Restatements (Note 14)	<u>(13,490)</u>			<u>(22)</u>	<u>(13,512)</u>	<u>(502,259)</u>
Net Position, September 1, 2016, as Restated	<u>54,497,675</u>	<u>982,497</u>	<u>71,749</u>	<u>5,082,564</u>	<u>60,634,485</u>	<u>(3,385)</u>
Net Position, August 31, 2017	<u>\$58,982,044</u>	<u>\$ 1,430,426</u>	<u>\$ 39,185</u>	<u>\$ 5,310,469</u>	<u>\$65,762,124</u>	<u>\$ 87,945</u>

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

* Employees life, accident and health insurance benefits fund is the only internal service fund. Combining statements are not presented.

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	\$ 8,543,888	\$ 2,671,150	\$ 5,075,530	\$ 603,045	\$ 16,893,613	\$ 559,671
Proceeds from Tuition and Fees	4,982,232				4,982,232	
Proceeds from Research Grants and Contracts	3,918,489	76,492			3,994,981	
Proceeds from Gifts				51	51	
Proceeds from Loan Programs	297,331			586,304	883,635	
Proceeds from Auxiliaries	1,493,688				1,493,688	
Proceeds from Other Operating Revenues	1,084,492	155,921		77,259	1,317,672	1,932,134
Payments to Suppliers for Goods and Services	(8,203,603)		(471,432)	(319,011)	(8,994,046)	(3,902)
Payments to Employees	(16,347,383)		(25,824)	(56,932)	(16,430,139)	(12,701)
Payments for Loans Provided	(300,288)			(231,869)	(532,157)	
Payments for Lottery Prizes			(3,255,760)		(3,255,760)	
Payments for Unemployment Benefits		(2,695,100)			(2,695,100)	
Payments for Other Operating Expenses	(1,044,450)			(242,140)	(1,286,590)	(2,360,054)
Net Cash Provided (Used) by Operating Activities	(5,575,604)	208,463	1,322,514	416,707	(3,627,920)	115,148
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				2,096,369	2,096,369	
Proceeds from Gifts	872,836				872,836	
Proceeds from Endowments	329,598				329,598	
Proceeds from Transfers from Other Funds	6,882,216	346,947		221,463	7,450,626	
Proceeds from Interfund Payables				6,381	6,381	250,000
Proceeds from Loan Programs	19,583				19,583	
Proceeds from Grant Receipts	1,016,495			163,062	1,179,557	
Proceeds from Other Noncapital Financing Activities	445,090		2,470	1,950	449,510	
Payments of Principal on Debt Issuance	(278)	(304,786)		(1,893,480)	(2,198,544)	
Payments of Interest	(24)	(3,951)		(411,325)	(415,300)	
Payments of Other Costs on Debt Issuance	(305)	(19)		(3,407)	(3,731)	
Payments for Transfers to Other Funds	(1,236,101)	(159,118)	(1,294,908)	(123,285)	(2,813,412)	
Payments for Grant Disbursements	(18,215)			(29,659)	(47,874)	
Payments for Interfund Receivables				(16,098)	(16,098)	
Payments for Other Noncapital Financing Uses	(396,791)		(70,790)	(111,025)	(578,606)	
Net Cash Provided (Used) by Noncapital Financing Activities	7,914,104	(120,927)	(1,363,228)	(99,054)	6,330,895	250,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	7,269				7,269	
Proceeds from Debt Issuance	6,624,795				6,624,795	
Proceeds from State Grants and Contracts	47,416				47,416	
Proceeds from Federal Grants and Contracts	100			3,301	3,401	
Proceeds from Gifts	1,092				1,092	
Proceeds from Other Capital and Related Financing Activities	264,361			13	264,374	
Proceeds from Capital Contributions	290,210				290,210	
Payments for Additions to Capital Assets	(3,587,556)		(322)	(8,054)	(3,595,932)	
Payments of Principal on Debt Issuance	(4,000,454)			(7,885)	(4,008,339)	
Payments for Capital Leases	(10,993)			(510)	(11,503)	
Payments of Interest on Debt Issuance	(634,969)			(107,051)	(742,020)	
Payments of Other Costs on Debt Issuance	(267,384)			(25)	(267,409)	
Payments for Interfund Receivables	(5,434)				(5,434)	
Net Cash (Used) by Capital and Related Financing Activities	(1,271,547)	0	(322)	(120,211)	(1,392,080)	0

Concluded on the following page

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Fund*
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds		
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	\$ 23,614,411	\$	\$ 70,790	\$ 2,046,695	\$ 25,731,896	\$
Proceeds from Interest and Investment Income	1,666,352	21,529		1,354,877	3,042,758	600
Proceeds from Principal Payments on Loans	6			465,551	465,557	
Payments to Acquire Investments	(25,179,131)		(2,734)	(2,750,087)	(27,931,952)	(374,294)
Payments for Nonprogram Loans Provided				(1,263,613)	(1,263,613)	
Net Cash Provided (Used) by Investing Activities	101,638	21,529	68,056	(146,577)	44,646	(373,694)
Net Increase (Decrease) in Cash and Cash Equivalents	1,168,591	109,065	27,020	50,865	1,355,541	(8,546)
Cash and Cash Equivalents, September 1, 2016	5,867,784	1,206,959	214,254	1,922,489	9,211,486	29,453
Restatements	182				182	
Cash and Cash Equivalents, September 1, 2016, as Restated	5,867,966	1,206,959	214,254	1,922,489	9,211,668	29,453
Cash and Cash Equivalents, August 31, 2017	\$ 7,036,557	\$ 1,316,024	\$ 241,274	\$ 1,973,354	\$ 10,567,209	\$ 20,907
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (9,035,607)	\$ 238,983	\$ 1,329,032	\$ 190,749	\$ (7,276,843)	\$ 77,675
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	2,194,361		229	124,135	2,318,725	
Bad Debt Expense	537,053		171	303	537,527	
Pension Expense	502,463				502,463	
Operating Income (Loss) and Cash Flow Categories Classification Differences**	8,288			61,630	69,918	(502,257)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(771,340)	(10,020)	(3,086)	17,375	(767,071)	(57,676)
(Increase) Decrease in Due From Other Funds	(1,082)			1,538	456	504,121
(Increase) Decrease in Inventories	(8,767)		(12,614)	(1,210)	(22,591)	
(Increase) Decrease in Notes Receivable	1,131				1,131	
(Increase) Decrease in Loans and Contracts	(10,504)			(631,755)	(642,259)	
(Increase) Decrease in Other Assets	14,515			(109,161)	(94,646)	
(Increase) Decrease in Prepaid Expenses	(4,465)		198	(1,996)	(6,263)	
Increase (Decrease) in Payables	117,168	(23,790)	8,584	(191,784)	(89,822)	24,690
Increase (Decrease) in Deposits	1,349			673,291	674,640	
Increase (Decrease) in Due To Other Funds	234			691	925	68,629
Increase (Decrease) in Unearned Revenue	313,993	3,290		619	317,902	(34)
Increase (Decrease) in Employees' Compensable Leave	18,693			(61)	18,632	
Increase (Decrease) in Benefits Payable	528,128				528,128	
Increase (Decrease) in Other Liabilities	18,785			282,343	301,128	
Total Adjustments	3,460,003	(30,520)	(6,518)	225,958	3,648,923	37,473
Net Cash Provided (Used) by Operating Activities	\$ (5,575,604)	\$ 208,463	\$ 1,322,514	\$ 416,707	\$ (3,627,920)	\$ 115,148
NONCASH TRANSACTIONS						
Donation of Capital Assets	\$ 52,524	\$	\$	\$ 5,191	\$ 57,715	\$
Net Change in Fair Value of Investments	\$ 2,253,514	\$	\$ (27,649)	\$ 34,144	\$ 2,260,009	\$ (830)
Borrowing Under Capital Lease Purchase	\$ 12,868	\$	\$	\$	\$ 12,868	\$
Other	\$ 134,593	\$	\$ 20	\$ 791	\$ 135,404	\$

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.

** See note 14 for the amount reported under Internal Service Fund.

STATE OF TEXAS

Statement of Fiduciary Net Position

August 31, 2017 (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	\$ 755,534	\$	\$ 1,044,791	\$ 1,545,724
Restricted Cash and Cash Equivalents			14	
Securities Lending Collateral	18,180,633			
Investments:				
U.S. Government	24,439,184	11,275,681	84,658	298,748
Corporate Equity	27,226,455		35,932	129,766
Corporate Obligations	1,310,725	2,586,491	2,945	394
Repurchase Agreements		3,848,742		36,229
Foreign Securities	36,077,375		8,439	
Externally Managed Investments	66,731,217			
Other	17,722,318	729,717	3,118,237	167,617
Receivables:				
Federal	207,897			
Interest and Dividends	317,602	7,648	152	1,040
Accounts	527,537		95	7,498
Taxes				19
Investment Trades	1,111,120		606	
Other	149,635		4,343	
Due From Other Funds (Note 12)	428,426		380	
Prepaid Items	132			
Properties, at Cost, Net of Accumulated Depreciation or Amortization	93,998		649	
Other Assets				1,558,296
Total Assets	<u>195,279,788</u>	<u>18,448,279</u>	<u>4,301,241</u>	<u>3,745,331</u>
LIABILITIES				
Payables:				
Accounts	\$ 347,578	\$ 19,417	\$ 766,571	\$ 608
Investment Trades	716,138	3,493		
Payroll	5,507			
Other Intergovernmental				1,077,347
Interest			9	
Annuities	128,998			
Due To Other Funds (Note 12)	13,286			934
Unearned Revenue	843		759	
Employees' Compensable Leave	12,210			
Obligations/Securities Lending	18,161,275			
Funds Held for Others			96	2,666,421
Other Liabilities	182,726	333	290,376	21
Total Liabilities	<u>19,568,561</u>	<u>23,243</u>	<u>1,057,811</u>	<u>3,745,331</u>
NET POSITION				
Restricted for Pensions	174,582,301			
Held in Trust for:				
OPEB and Other Purposes**	1,128,926			
Individuals, Organizations and Other Governments			3,243,430	
Pool Participants		18,425,036		
Total Net Position	<u>\$ 175,711,227</u>	<u>\$ 18,425,036</u>	<u>\$ 3,243,430</u>	<u>\$ 0</u>

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

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

** Other Post Employment Benefits (OPEB)

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	\$ 4,271,853	\$	\$
State Contributions	3,789,429		
Premium Contributions	629,253		
Federal Contributions	174,839		3,477
Other Contributions	1,995,948		204,795
Total Contributions	<u>10,861,322</u>	<u>0</u>	<u>208,272</u>
Investment Income:			
From Investing Activities:			
Net Increase in Fair Value of Investments	13,191,104		284,846
Interest, Dividend and Other	6,435,687	153,294	47,166
Total Investing Income	<u>19,626,791</u>	<u>153,294</u>	<u>332,012</u>
Less Investing Activities Expense	254,090	9,504	4,116
Net Income from Investing Activities	<u>19,372,701</u>	<u>143,790</u>	<u>327,896</u>
From Securities Lending Activities:			
Securities Lending Income	240,265		
Less Securities Lending Expense:			
Borrower Rebates**	129,975		
Management Fees	10,701		
Net Income from Securities Lending	<u>99,589</u>	<u>0</u>	<u>0</u>
Total Net Investment Income	<u>19,472,290</u>	<u>143,790</u>	<u>327,896</u>
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	<u>0</u>	<u>3,992,908</u>	<u>0</u>
Other Additions:			
Settlement of Claims	2,048		4,615
Other Revenue	3,696		312,303
Transfer In (Note 12)	117,236		380
Total Other Additions	<u>122,980</u>	<u>0</u>	<u>317,298</u>
Total Additions	<u>30,456,592</u>	<u>4,136,698</u>	<u>853,466</u>
DEDUCTIONS			
Benefits	14,965,106		182,955
Refunds of Contributions	544,677		
Transfer Out (Note 12)	115,717		7,215
Intergovernmental Payments			74,642
Administrative Expenses	73,255		7,589
Depreciation and Amortization Expense	4,587		39
Settlement of Claims			14,723
Interest Expense			8
Loss on Sale of Capital Assets	11		
Other Expenses	5,814		895,826
Total Deductions	<u>15,709,167</u>	<u>0</u>	<u>1,182,997</u>
INCREASE IN NET POSITION	<u>14,747,425</u>	<u>4,136,698</u>	<u>(329,531)</u>
NET POSITION			
Net Position, September 1, 2016	160,461,543	14,288,338	3,572,961
Restatements (Note 14)	502,259		
Net Position, September 1, 2016, as Restated	<u>160,963,802</u>	<u>14,288,338</u>	<u>3,572,961</u>
Net Position, August 31, 2017	<u>\$ 175,711,227</u>	<u>\$ 18,425,036</u>	<u>\$ 3,243,430</u>

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

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

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

State of Texas

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Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the state of Texas were prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state implemented the following six GASB statements in fiscal 2017.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for assets accumulated for the purposes of providing pensions.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the decision-useful information, supporting assessments of accountability and interperiod equity, and creates additional transparency for postemployment benefits other than pension plans (OPEB).

GASB Statement No. 77, *Tax Abatement Disclosures*, establishes financial reporting standards for tax abatement agreements entered into by governments. Certain information about tax abatement agreements that are entered into by the reporting government and entered into by other governments that reduce the reporting government's tax revenues is required to be disclosed.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pensions Plans*, amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of governmental employers through a cost-

sharing multiple-employer defined benefit pension plan that meets certain criteria.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*, amends the blending requirement for the financial statement presentation of component units. The additional criteria requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, with paragraph 7 not applicable to the state of Texas pension plans. GASB Statement No. 82 addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68 and No. 73.

Financial Reporting Entity

For financial reporting purposes, the state of Texas includes all 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 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. The government-wide 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, junior and community colleges are excluded from the state's financial reporting entity. These entities are legally separate and fiscally independent from the state. The state is not financially accountable for these entities and it does not make the state's financial statements misleading to exclude them.

Financial Reporting Structure

The basic financial statements include government-wide financial statements, fund financial statements and notes to the 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 – its financial position at the end of the fiscal year and the change in financial position resulting from the activities of the fiscal year, 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. These statements also report all current and noncurrent assets and liabilities, revenues, expenses, and gains and losses of the state using an economic resources measurement focus and an accrual basis of accounting.

The statement of net position is presented in a net position format. The net position is displayed in three components: net investment in capital assets; restricted (presented with major categories of restrictions); and unrestricted. This statement reports deferred outflows of resources and deferred inflows of resources in separate categories from assets and liabilities and distinguishes between restricted and unrestricted current and noncurrent assets.

The statement of activities reflects both the gross expense and net expense/revenue by function (public safety and corrections, transportation, etc.) The net expense/revenue is calculated by netting program expenses, including depreciation and amortization, against program revenues for each program. The net expense/revenue identifies the extent to which each function draws from the general revenues of the state or is self-financing through fees and intergovernmental aid.

Program revenues are directly associated with a function of governmental or business-type activities. Internally dedicated resources are reported as general revenues rather than program revenues.

Program revenues include charges for services, operating grants and contributions, and capital grants and contributions. Charges for services arise from charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided. 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 from other governments, organizations or individuals. 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.

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. Other expenses reported for each function are clearly identifiable to that particular function and are direct expenses. The amount of direct interest expense included in direct expenses in the statement of activities is \$665 million.

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 finance 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 nonmajor 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 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 appropri-

ate 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 to the reporting entity-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 payments. 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 capi-

tal 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. Proprietary funds are reported using economic resources measurement focus and full accrual basis of accounting. GAAP 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), to 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 and uses the fees 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 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 discretely presented.

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* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which partially amended GASB Statement No. 33.

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 (such as revenues and other financing sources) and decreases (such as expen-

ditures and other financing uses) in current financial resources.

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 revenues (such as 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 as they would be under the modified accrual basis of accounting used in the governmental fund financial statements. Proceeds of long-term debt are recorded as liabilities rather than other financing sources under the modified accrual basis. 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's 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, cash and cash equivalents 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 enterprise funds, discrete component units, employee benefit trust funds and agency funds. 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 with exceptions. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Texas local government investment pool (TexPool) and Texas local government investment pool prime (TexPool Prime) meet the criteria for a qualifying external investment pool under GASB Statement No. 79, *Certain External Investment Pools and Pool Participant*. 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 revenue and patient receivables. Receivables represent amounts due to the state as of Aug. 31, 2017, 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 2017 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 23 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 temporary assistance for needy families. Other receivables in the colleges and universities fund consist primarily of receivables from investments, from external parties and other companies. Other receivables in proprietary funds other than the colleges and universities fund consist of receivables related to unemployment compensation benefit overpayments. Other receivables in the pension and other employee benefit trust funds consist primarily of receivables for service credit purchase and rebate income from pharmaceutical manufacturers for prescription drugs under a retiree group health insurance program. Activities between funds that represent lending/borrowing arrangements outstanding at fiscal year-end 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.

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 a group of similar and dissimilar assets of the same class (all the roads and bridges of the state) using the same depreciation rate. The composite depreciation rate for fiscal 2017 is 2.5 percent based on a 40-year weighted average life expectancy of the assets in service.

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 currently amortized over the life of the bonds using the straight-line method. State agencies also have the option of using bonds outstanding or the effective interest method. Bonds payable are reported net of the applicable bond accretion, premium or discount. Gain or 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 fiscal year in which they were incurred.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current fiscal year. The face amount of the debt issued and the related premiums are 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.

Under the federal Fair Labor Standards Act and state laws for nonexempt, nonemergency employees overtime can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) 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 accu-

mulated on an hour-for-hour basis and must be taken within one year from the 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 or annual 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 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 Interpretation of NCGA Statement 1*, as well as subsequent debt obligations that are substantially the same as those already reported. GASB Interpretation No. 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 Concepts Statement No. 4, *Elements of Financial Statements*, as the consumptions and acquisitions of net assets by the government that are applicable to future periods. Based on this concept, the state reports the following as deferred outflows of resources or deferred inflows of resources:

- various types of revenues earned but not available within 60 days of fiscal year end.
- gains and losses on bond refunding transactions.
- 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) reported as deferred inflows of resources. Note 26 provides details on SCAs.
- the changes in the fair value of hedging derivative instruments reported as either deferred outflows of resources or deferred inflows of resources. Note 7 presents additional information about derivative instruments.
- certain changes in net pension liability reported as either deferred outflows of resources or deferred inflows of resources. Note 9 provides details on pensions.
- the excess consideration provided over the net position acquired in the acquisition of the Texas

Wesleyan University Law School reported as deferred outflows of resources.

Note 27 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; or
- 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 can only be used 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 the restricted for capital projects category of net position.

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; or
- 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 Texas 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/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/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 activities are presented on the fund financial statements but are not carried forward to the government-wide financial statements. The interfund activities on the government-wide financial statements are consolidated to present only the activities between governmental activities and business-type activities. Interfund services provided and used are allocated to various functions within the primary government. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are also presented on the fund financial statements, but are not carried forward to 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 been incurred at the date of the financial statements 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 of governmental funds, which include land, infrastructure, buildings, equipment and intangible assets 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 table 2A.

Table 2B on the following pages present the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2017. 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 the acquisition value. 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 is reported using the depreciation approach.

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, \$361.2 million of interest was charged to expense and \$65.1 million of interest was capitalized, for a net \$426.3 million of interest cost incurred.

Capitalization of Assets		
Table 2A		
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

Capital Asset Activity

Table 2B

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/17
	Balance 9/1/16	Adjustments	Reclassifications	Additions	Deletions	
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 12,609,626	\$ 83,136	\$ 893	\$ 758,738	\$ (3,817)	\$ 13,448,576
Infrastructure	636					636
Construction in Progress	15,838,662	(13,683)	(4,827,202)	6,179,477		17,177,254
Other Capital Assets	72,315			129	(3)	72,441
Land Use Rights – Permanent	119,914	(83,130)		2,395	(12,494)	26,685
Total Non-Depreciable & Non-Amortizable Assets	<u>28,641,153</u>	<u>(13,677)</u>	<u>(4,826,309)</u>	<u>6,940,739</u>	<u>(16,314)</u>	<u>30,725,592</u>
Depreciable Assets						
Buildings and Building Improvements	6,185,944		124,695	10,759	(18,307)	6,303,091
Infrastructure	85,292,043	(5,292)	4,675,529	963	(7,845)	89,955,398
Facilities and Other Improvements	233,258		6,682	1,824	(668)	241,096
Furniture and Equipment	1,196,768	707	3,182	74,096	(57,902)	1,216,851
Vehicles, Boats and Aircraft	1,246,248	284	28	134,649	(61,635)	1,319,574
Other Capital Assets	152,467	(13)	1,025	1,837	(524)	154,792
Total Depreciable Assets at Historical Cost	<u>94,306,728</u>	<u>(4,314)</u>	<u>4,811,141</u>	<u>224,128</u>	<u>(146,881)</u>	<u>99,190,802</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(4,148,548)	(77)		(189,594)	9,156	(4,329,063)
Infrastructure	(17,046,537)			(1,725,609)	572	(18,771,574)
Facilities and Other Improvements	(172,834)			(6,558)	660	(178,732)
Furniture and Equipment	(890,705)	603	102	(82,640)	54,737	(917,903)
Vehicles, Boats and Aircraft	(774,785)	(105)	(29)	(83,432)	55,050	(803,301)
Other Capital Assets	(88,513)	(10)		(6,111)	251	(94,383)
Total Accumulated Depreciation*	<u>(23,121,922)</u>	<u>411</u>	<u>73</u>	<u>(2,093,944)</u>	<u>120,426</u>	<u>(25,094,956)</u>
Depreciable Assets, Net	<u>71,184,806</u>	<u>(3,903)</u>	<u>4,811,214</u>	<u>(1,869,816)</u>	<u>(26,455)</u>	<u>74,095,846</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	19,440				(3,684)	15,756
Computer Software	526,963	(8)	10,134	21,252	(17,899)	540,442
Other Intangible Capital Assets – Term	79,673					79,673
Total Intangible Assets at Historical Cost	<u>626,076</u>	<u>(8)</u>	<u>10,134</u>	<u>21,252</u>	<u>(21,583)</u>	<u>635,871</u>
Less Accumulated Amortization for:						
Land Use Rights – Term	(13,579)			(2,477)	2,792	(13,264)
Computer Software	(395,438)	8		(47,419)	17,769	(425,080)
Other Intangible Capital Assets – Term	(32,653)			(7,967)		(40,620)
Total Accumulated Amortization*	<u>(441,670)</u>	<u>8</u>	<u>0</u>	<u>(57,863)</u>	<u>20,561</u>	<u>(478,964)</u>
Amortizable Assets, Net	<u>184,406</u>	<u>0</u>	<u>10,134</u>	<u>(36,611)</u>	<u>(1,022)</u>	<u>156,907</u>
Governmental Activities Capital Assets, Net	<u>\$ 100,010,365</u>	<u>\$ (17,580)</u>	<u>\$ (4,961)</u>	<u>\$ 5,034,312</u>	<u>\$ (43,791)</u>	<u>\$ 104,978,345</u>

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

General Government	\$ 54,659
Education	19,456
Employee Benefits	5
Health and Human Services	56,570
Public Safety and Corrections	177,747
Transportation	1,800,438
Natural Resources and Recreation	39,131
Regulatory Services	3,801
Total	<u>\$ 2,151,807</u>

Continued on the following page

Capital Asset Activity (continued)

Table 2B

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/17
	Balance 9/1/16	Adjustments	Reclassifications	Additions	Deletions	
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 2,039,730		\$ 4,779	\$ 92,365	\$ (5,202)	\$ 2,131,672
Construction in Progress	2,733,473	(1,154)	(2,261,212)	2,878,421	(146,921)	3,202,607
Other Capital Assets	714,336		2,136	87,865	(465)	803,872
Land Use Rights – Permanent	22,799			91		22,890
Other Intangible Capital Assets – Permanent	13,883					13,883
Total Non-Depreciable & Non-Amortizable Assets	<u>5,524,221</u>	<u>(1,154)</u>	<u>(2,254,297)</u>	<u>3,058,742</u>	<u>(152,588)</u>	<u>6,174,924</u>
Depreciable Assets						
Buildings and Building Improvements	31,250,129	4,721	1,786,432	160,229	(37,880)	33,163,631
Infrastructure	3,800,657	(11)	152,402	4,336	(1,506)	3,955,878
Facilities and Other Improvements	2,757,529		193,810	14,309	(522)	2,965,126
Furniture and Equipment	5,633,396	687	65,197	487,309	(276,179)	5,910,410
Vehicles, Boats and Aircraft	304,421	6	200	29,086	(13,413)	320,300
Other Capital Assets	1,642,477		6,062	67,533	(19,679)	1,696,393
Total Depreciable Assets at Historical Cost	<u>45,388,609</u>	<u>5,403</u>	<u>2,204,103</u>	<u>762,802</u>	<u>(349,179)</u>	<u>48,011,738</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(14,295,307)	(5,249)		(1,295,427)	19,770	(15,576,213)
Infrastructure	(981,001)			(110,763)		(1,091,764)
Facilities and Other Improvements	(1,016,783)	(33)		(105,309)	230	(1,121,895)
Furniture and Equipment	(3,855,343)	(1,251)	59	(479,980)	228,826	(4,107,689)
Vehicles, Boats and Aircraft	(220,621)	700	15	(22,877)	11,941	(230,842)
Other Capital Assets	(1,110,300)	(125)		(75,075)	17,798	(1,167,702)
Total Accumulated Depreciation**	<u>(21,479,355)</u>	<u>(5,958)</u>	<u>74</u>	<u>(2,089,431)</u>	<u>278,565</u>	<u>(23,296,105)</u>
Depreciable Assets, Net	<u>23,909,254</u>	<u>(555)</u>	<u>2,204,177</u>	<u>(1,326,629)</u>	<u>(70,614)</u>	<u>24,715,633</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term	255			9,275	(9,275)	255
Computer Software	1,529,640		55,082	34,010	(83,406)	1,535,326
Other Intangible Capital Assets – Term	312			319		631
Total Intangible Assets at Historical Cost	<u>1,530,207</u>	<u>0</u>	<u>55,082</u>	<u>43,604</u>	<u>(92,681)</u>	<u>1,536,212</u>
Less Accumulated Amortization for:						
Land Use Rights – Term	(166)			(9,300)	9,274	(192)
Computer Software	(1,054,998)			(156,069)	76,223	(1,134,844)
Other Intangible Capital Assets – Term	(43)			(24)		(67)
Total Accumulated Amortization**	<u>(1,055,207)</u>	<u>0</u>	<u>0</u>	<u>(165,393)</u>	<u>85,497</u>	<u>(1,135,103)</u>
Amortizable Assets, Net	<u>475,000</u>	<u>0</u>	<u>55,082</u>	<u>(121,789)</u>	<u>(7,184)</u>	<u>401,109</u>
Business-Type Activities Capital Assets, Net	<u>\$ 29,908,475</u>	<u>\$ (1,709)</u>	<u>\$ 4,962</u>	<u>\$ 1,610,324</u>	<u>\$ (230,386)</u>	<u>\$ 31,291,666</u>

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

Education	\$ 2,194,361
Transportation	54,403
Lottery	229
Other Business-Type Activities	5,831
Total	<u>\$ 2,254,824</u>

Concluded on the following page

Capital Asset Activity (concluded)

Table 2B

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/17
	Balance 9/1/16	Adjustments	Reclassifications	Additions	Deletions	
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 386		\$ 5,760	\$ 300	\$ (1,799)	\$ 4,647
Construction in Progress	456			261		717
Total Non-Depreciable & Non-Amortizable Assets	<u>842</u>	<u>0</u>	<u>5,760</u>	<u>561</u>	<u>(1,799)</u>	<u>5,364</u>
Depreciable Assets						
Buildings and Building Improvements	18,931		(5,760)	1,061		14,232
Facilities and Other Improvements	401			6		407
Furniture and Equipment	35,271	(5,895)		208	(562)	29,022
Vehicles, Boats and Aircraft	5,053			1,458	(1,386)	5,125
Other Capital Assets	1,938					1,938
Total Depreciable Assets at Historical Cost	<u>61,594</u>	<u>(5,895)</u>	<u>(5,760)</u>	<u>2,733</u>	<u>(1,948)</u>	<u>50,724</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(6,157)			(204)		(6,361)
Facilities and Other Improvements	(397)			(1)		(398)
Furniture and Equipment	(20,201)	5,497		(3,111)	552	(17,263)
Vehicles, Boats and Aircraft	(2,729)			(958)	1,060	(2,627)
Other Capital Assets	(438)	(258)		(179)		(875)
Total Accumulated Depreciation	<u>(29,922)</u>	<u>5,239</u>	<u>0</u>	<u>(4,453)</u>	<u>1,612</u>	<u>(27,524)</u>
Depreciable Assets, Net	<u>31,672</u>	<u>(656)</u>	<u>(5,760)</u>	<u>(1,720)</u>	<u>(336)</u>	<u>23,200</u>
Intangible Capital Assets – Amortizable						
Computer Software	424	5,895		275	(301)	6,293
Total Intangible Assets at Historical Cost	<u>424</u>	<u>5,895</u>	<u>0</u>	<u>275</u>	<u>(301)</u>	<u>6,293</u>
Less Accumulated Amortization for:						
Computer Software	(274)	(5,239)		(713)	300	(5,926)
Total Accumulated Amortization	<u>(274)</u>	<u>(5,239)</u>	<u>0</u>	<u>(713)</u>	<u>300</u>	<u>(5,926)</u>
Amortizable Assets, Net	<u>150</u>	<u>656</u>	<u>0</u>	<u>(438)</u>	<u>(1)</u>	<u>367</u>
Component Units Capital Assets, Net	<u>\$ 32,664</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (1,597)</u>	<u>\$ (2,136)</u>	<u>\$ 28,931</u>

The state's capitalization policy regarding works of art and historical treasures states 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 that are:

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

- 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 more than 35.5 million documents and approximately 45 thousand maps, dating back to 1561.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Texas Comptroller of Public Accounts (Comptroller) Treasury Operations Division (Treasury) by the Texas Constitution or by an act of the Texas 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 2017. 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, 2017, 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 more than 89.3 percent of the total investment fair value; this does not include the investments held by the Texas Comptroller's Treasury Pool. 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 2017, 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 and PSF 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:

Texas Treasury Safekeeping Trust Company
208 E. 10th St., 4th floor
Austin, Texas 78701.

Deposits

As of Aug. 31, 2017, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were \$ 1.1 billion, \$297.2 million and \$180.8 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, 2017, the total bank balances for governmental and business-type activities, fiduciary funds and discretely presented component units were \$1.1 billion, \$286.8 million and \$173.1 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. The bank balances exposed to custodial credit risk as of Aug. 31, 2017, are presented in table 3A.

Bank Balances Exposed to Custodial Credit Risk		
Table 3A		
August 31, 2017 (Amounts in Thousands)		
	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	\$ 5,262	\$ 0
Total Governmental Activities	5,262	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	7,776	67,423
Total Business-Type Activities	7,776	67,423
Total Governmental and Business-Type Activities	\$ 13,038	\$ 67,423
FIDUCIARY FUNDS	\$ 129,697	\$ 0
COMPONENT UNITS	\$ 554,916	\$ 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. Table 3B presents the bank balances exposed to foreign currency risk as of Aug. 31, 2017.

Bank Balances Exposed to Foreign Currency Risk

Table 3B

August 31, 2017 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	\$ 446	\$ 6,420
Bangladeshi Taka		75
Botswana Pula		45
Brazilian Real	59	3,732
British Pound	240	3,951
Canadian Dollar	94	8,673
Chilean Peso		97
Colombian Peso		98
Croatian Kuna		168
Czech Koruna		249
Danish Krone	1	71
Egyptian Pound		157
Euro	336	46,391
Ghanaian New Cedi		160
Hong Kong Dollar	218	11,896
Hungarian Forint		27
Indian Rupee		2,774
Indonesian Rupiah		157
Israeli New Shekel	17	133
Japanese Yen	18	27,738
Jordanian Dinar		52
Kenyan Shilling		175
Kuwaiti Dinar		117
Malaysian Ringgit		186
Mauritius Rupee		111
Mexican Peso	13	347
Moroccan Dirham		158
New Zealand Dollar	1	269
Nigerian Naira		259
Norwegian Kroner		78
Omani Rial		222
Pakistani Rupee		98
Peruvian Nuevo Sol		75
Philippine Peso		170
Polish Zloty		383
Qatar Riyal	523	5
Romanian New Lei		308

Concluded on the following page

Bank Balances Exposed to Foreign Currency Risk (concluded)

Table 3B

August 31, 2017 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Singapore Dollar	\$ 25	\$ 708
South African Rand	97	889
South Korean Won	12	925
Sri Lankan Rupee		64
Swedish Krona	25	166
Swiss Franc	3	1,524
Taiwan Dollar	3,923	4,703
Thai Baht	56	602
Tunisian Dinar		73
Turkish Lira	1	137
United Arab Emirates Dirham		108
Vietnamese Dong		493
Total	<u>\$6,108</u>	<u>\$126,417</u>

Investments

The state's investments are recorded at fair value and have been categorized based upon a fair value hierarchy in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

In accordance with GASB Statement No. 72, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which may be in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment to consider both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used to value certain securities without relying exclusively on quoted

prices for those securities by comparing them to benchmark or comparable securities.

2. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount. These techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models, binomial or lattice models that incorporate present value techniques and the multi-period excess earnings method.
3. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset or its current replacement cost. From the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace and other characteristics particular to the transaction.

GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hier-

archy under GASB Statement No. 72 are described below:

- Level 1 inputs – Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. An active market is defined as a market where transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs – Inputs, other than quoted prices in active markets that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- Level 3 Inputs – Inputs are unobservable inputs and should be used only if relevant Level 1 and Level 2 inputs are not available. The state may use their own data or assumptions to develop unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

The state has some investments that are not subject to GASB Statement No. 72. Investments not measured at fair value include money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less. These investments are reported at amortized cost.

U.S. treasury securities, equity securities, fixed income money market and bond mutual funds classi-

fied in Level 1 are valued using prices quoted in active markets for those securities.

Debt and debt derivative securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices. Index linked debt securities are valued by multiplying the external market price feed by the applicable day’s index ratio. Level 2 debt securities also have non-proprietary information from multiple independent sources that were readily available to market participants who are known to be actively involved in the market. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities.

Level 3 debt securities use proprietary information or single source pricing. Value of equity securities classified in Level 3 is based on last trade data that is 30 days or more before the fiscal year-end or not qualified to be reported in Level 1, Level 2 or at Net Asset Value (NAV). Real assets classified in Level 3 are real estate investments generally valued using the income approach by internal manager reviews or independent external appraisers, except for the lands with interest in oil and gas described below.

The fair value of the PSF and permanent university fund (PUF) lands’ interest in oil and gas is based on a third party reserve study of proved reserves. The present value of the royalty cash flows is calculated by applying a 10 percent discount rate to future expected production volumes of oil and gas based on the price of oil and gas on Aug. 31, 2017. A percentage of probable and possible reserves of oil and gas are included in the fair value estimate. The PSF and PUF lands’ surface interests are reported at the price per acre from the American Society of Farm Managers and Rural Appraisers. The PSF and PUF lands are categorized as Level 3 in the

fair value hierarchy. The remaining minerals, the trust minerals, because of size, distribution and limited production histories are valued at three times the previous

12 months revenue. This measure has historically been used to determine the selling price of these types of properties by willing parties. Other types of real estate

Investments Fair Values Governmental & Business-Type Activities

Table 3C

August 31, 2017 (Amounts in Thousands)

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	\$ 3,383,257	\$ 4,068,497	\$	\$ 7,451,754
U.S. Treasury Strips	294,316			294,316
U.S. Treasury TIPS	1,072,854	192,651		1,265,505
U.S. Government Agency Obligations	898,714	5,218,966		6,117,680
Corporate Obligations	72,934	3,869,652	1,535	3,944,121
Corporate Asset and Mortgage Backed Securities	4,133	3,227,551		3,231,684
Equity	10,070,965	2,201		10,073,166
International Obligations (Govt and Corp)	2	5,580,251		5,580,253
International Equity	4,235,504	5,673		4,241,177
International Other Commingled Funds	8,060	67,061		75,121
Repurchase Agreement	1,631,387	355,536		1,986,923
Mutual Funds – Domestic/International	949,030	41,377	1,039	991,446
Fixed Income Money Market and Bond Mutual Fund	6,022,028	190,897		6,212,925
Other Commingled Funds	235,796	51,145	68,496	355,437
Commercial Paper	346,131	7,649,002		7,995,133
Invested Collateral	18,348	3,348,479		3,366,827
Securities Lending Collateral Investment Pool	105,378			105,378
Real Estate	15	2,068	8,929,938	8,932,021
Derivatives – Domestic/International	9,064	162,741		171,805
Externally Managed Investments – Domestic/International	5,538,945	113,474	419,535	6,071,954
Miscellaneous	3,215,585	102,128	13,407	3,331,120
Total Investments at Fair Value	<u>38,112,446</u>	<u>34,249,350</u>	<u>9,433,950</u>	<u>81,795,746</u>
INVESTMENTS AT NAV				
U.S. Government Agency Obligations				51,530
Equity				113,559
International Obligations (Govt and Corp)				27,018
International Equity				123,484
International Other Commingled Funds				3,398,744
Repurchase Agreement				56,238
Mutual Funds – Domestic/International				282,379
Fixed Income Money Market and Bond Mutual Fund				514,203
Other Commingled Funds				4,413,110
Real Estate				2,489,212
Externally Managed Investments – Domestic/International				41,832,447
Miscellaneous				49,432
Total Investments at NAV				<u>53,351,356</u>
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				167,125
U.S. Government Agency Obligations				688,230
Repurchase Agreement				716,273
Fixed Income Money Market and Bond Mutual Fund				1,313,704
Other Commingled Funds				326,741
Miscellaneous				26,183
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				<u>3,238,256</u>
Total of Investments – Governmental & Business-Type Activities				<u>\$ 138,385,358</u>

holdings are reported by one of the following methods of valuation: the latest available appraised amount as determined by an independent state certified or other licensed appraiser, tax assessments used for real estate

investments with values that are not significant or by any other generally accepted industry standard. The fair values of investments as of Aug. 31, 2017, are presented in tables 3C, 3D and 3E.

Investments Fair Values Fiduciary Funds

Table 3D

August 31, 2017 (Amounts in Thousands)

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	\$ 17,743,626	\$ 1,350,211	\$	\$ 19,093,837
U.S. Treasury Strips		12,402		12,402
U.S. Treasury TIPS		6,254,955		6,254,955
U.S. Government Agency Obligations	2,045	11,287,153		11,289,198
Corporate Obligations	58,367	1,325,182	561	1,384,110
Corporate Asset and Mortgage Backed Securities		476,225		476,225
Equity	27,143,670	42,237	117	27,186,024
International Obligations (Govt and Corp)		1,500,422		1,500,422
International Equity	34,750,693		6,928	34,757,621
Repurchase Agreement	180,496	3,848,742		4,029,238
Mutual Funds - Domestic/International	1,159		80	1,239
Fixed Income Money Market and Bond Mutual Fund	220,170	158,973		379,143
Other Commingled Funds	431,056			431,056
Commercial Paper		3,242,134		3,242,134
Invested Collateral	6,431,608	11,734,849		18,166,457
Real Estate	980,144	37,056		1,017,200
Derivatives - Domestic/International	(49,676)	21,792		(27,884)
Externally Managed Investments - Domestic/International	10,037	2,782	926,561	939,380
Miscellaneous	832,387	6,219		838,606
Total Investments at Fair Value	<u>88,735,782</u>	<u>41,301,334</u>	<u>934,247</u>	<u>130,971,363</u>
INVESTMENTS AT NAV				
Equity				9,926
International Other Commingled Funds				5,299,068
Mutual Funds - Domestic/International				1,267,026
Fixed Income Money Market and Bond Mutual Fund				729,037
Other Commingled Funds				5,883,127
Externally Managed Investments - Domestic/International				67,984,525
Miscellaneous				<u>3,910,167</u>
Total Investments at NAV				<u>85,082,876</u>
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				44,194
U.S. Treasury Strips				14,922
U.S. Government Agency Obligations				7,960
Repurchase Agreement				965,610
Fixed Income Money Market and Bond Mutual Fund				20,852
Invested Collateral				14,176
Miscellaneous				<u>2,375</u>
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				<u>1,070,089</u>
Total of Investments - Fiduciary Funds				<u>\$ 217,124,328</u>

Investments Fair Values Discrete Components

Table 3E

August 31, 2017 (Amounts in Thousands)

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	\$ 6,481	\$ 58,740	\$	\$ 65,221
U.S. Treasury Tips		2,875		2,875
U.S. Government Agency Obligations	3,445	53,790		57,235
Corporate Obligations		22,137		22,137
Corporate Asset and Mortgage Backed Securities		85,543		85,543
Equity	14,033	40		14,073
International Obligations (Govt and Corp)		35,357		35,357
International Other Commingled Funds		25,718		25,718
Repurchase Agreement	24,346			24,346
Mutual Funds - Domestic/International	171,629		14	171,643
Fixed Income Money Market and Bond Mutual Fund	10,254	47,394		57,648
Other Commingled Funds		15,414		15,414
Commercial Paper		117,561		117,561
Real Estate			6,844	6,844
Derivatives - Domestic/International		624		624
Externally Managed Investments - Domestic/International	2,455	26,159	26,711	55,325
Miscellaneous	551,008	482		551,490
Total Investments at Fair Value	<u>783,651</u>	<u>491,834</u>	<u>33,569</u>	<u>1,309,054</u>
INVESTMENTS AT NAV				
International Obligations (Govt and Corp)				3,432
Real Estate				5,856
Externally Managed Investments - Domestic/International				96,467
Total Investments at NAV				<u>105,755</u>
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
Repurchase Agreement				552,443
Fixed Income Money Market and Bond Mutual Fund				13,196
Other Commingled Funds				99
Miscellaneous				7,845
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				<u>573,583</u>
Total of Investments - Discrete Components				<u>\$ 1,988,392</u>

The state utilizes the NAV per share as a method for determining fair value for certain investments in equity, repurchase agreements, commingled funds, mutual funds, real estate, fixed income money market and externally managed investment. These investments calculate the NAV consistent with the Financial Accounting Standards Board's (FASB) measurement principles for investment companies and the state does not intend to sell all or a portion of the investment for an amount that is different from the NAV. These invest-

ments are exempt from classification within the fair value hierarchy.

TRS, PSF, ERS and UT account for 88.9% of the value reported at NAV. For more detailed information about the redemption frequency, redemption notice period, related unfunded commitments, redemption restrictions and the significant investment strategies of these agencies pertaining to their investments reported at NAV, please refer to the individual financial statements of the agency by contacting:

Employment Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711

Teacher Retirement System of Texas
1000 Red River St.
Austin, Texas 78701

Texas Permanent School Fund
400 West 15th St.
Austin, Texas 78701

The University of Texas
601 Colorado St.
Austin, TX 78701

The investments measured at NAV per share as of Aug. 31, 2017, including unfunded commitments, are presented in table 3F.

Securities are owned by the overall fund and each investor owns a pro rata share of the fund. The Security Exchange Commission (SEC) does not oversee commingled funds.

Energy, Natural Resources and Infrastructure:

Energy, natural resources and infrastructure funds are also referred to as real assets. Real assets are physical assets that have value due to their substance and properties. Real assets include precious metals, commodities, agricultural land, machinery and oil.

Fixed Income: Fixed income investments generally pay a return on a fixed schedule, though the amount of the payments can vary. These investments include private fixed income funds and bonds issues by countries in emerging markets.

Hedge Funds: Hedge funds may be broadly defined as pooled funds that are not registered with the SEC, are typically available only to institutional investors or individuals with a high net worth and use advanced trading

strategies such as leverage, derivatives, short selling and arbitrage.

Mutual Funds:

Similar to commingled funds, the funds of multiple investors are pooled by the external manager. The investors own shares of the fund but do not own the individual securities. The public, as well as institutional investors can invest in mutual

funds. In contrast with commingled funds, mutual funds are regulated by the SEC.

Private Equity: Private equity funds are privately managed investment pools, typically organized as limited partnerships. They are managed by the fund's gen-

Investments Reported at Net Asset Value (NAV)

Table 3F
August 31, 2017 (Amounts in Thousands)

INVESTMENT TYPE	Fair Value	Redemption Frequency	Redemption Notice Period	Unfunded Commitment
Alternative	\$ 26,027,111	Daily - Annually	1 - 90 days	\$11,062,450
Commingled Funds	18,226,676	Daily - Annually	1 - 184 days	390,247
Energy, Natural Resources, Infrastructure	7,946,991	Daily - 4yr	1 day - 1yr	5,767,739
Fixed Income	3,052,783	Daily - Monthly	1 - 90 days	317,217
Hedge funds	31,146,203	Daily - 5yr	1 day - 2yr	1,191,549
Mutual Funds	4,516,146	Daily - Monthly	1 - 60 days	
Private Equity	35,814,643	Monthly - 5yr	45 days - 1yr	22,067,219
Real Estate	5,750,624	4yr - 5yr	2 days - 1yr	2,796,865
Risk Parity	6,007,280	Daily - Monthly	1 - 15 days	
U.S. Government Obligations	51,530	N/A	N/A	
Total Investments at Fair Value	<u>\$138,539,987</u>			<u>\$43,593,286</u>

Alternative: These investments are externally managed and invest in multiple types of assets and securities, which may include hedge funds, private equity, and the other types described below.

Commingled Funds: An external manager pools and invests the funds of several institutional investors.

eral partners who typically make long-term investments in private companies and who may take a controlling interest with the aim of increasing the value of these companies, often by helping to manage the companies. Private equity fund strategies include venture capital investments and leveraged buyouts among others.

Real Estate: Includes real estate held for investment directly or through investment vehicles such as private investment funds, which are limited partnerships that invest in real estate. Such investments are designed to produce high current income and/or capital gains through appreciation in the underlying real estate.

Risk Parity: Risk parity is a portfolio allocation strategy based on targeting risk levels across the various components of an investment portfolio. The risk parity approach to asset allocation allows investors to target specific levels of risk and to divide that risk equally across the entire investment portfolio in order to achieve optimal portfolio diversification for each individual investor. Risk parity strategies are in contrast to traditional allocation methods that are based on holding a certain percentage of investment classes, such as 60 percent stocks and 40 percent bonds, within one's investment portfolio.

U.S. Government Obligations: These investments are made in an index fund which invests in securi-

ties issued by the U.S. Treasury and U.S. Government Agencies.

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, 2017, the investment type balances for the invested securities lending cash collateral are presented in table 3G.

Invested Securities Lending Collateral Fair Value

Table 3G
August 31, 2017 (Amounts in Thousands)

Governmental and Business-Type Activities	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	\$	\$ 9,676	\$	\$ 9,676
U.S. Government Agency Obligations		55,043		55,043
Corporate Obligations		1,925,046		1,925,046
Corporate Asset and Mortgage Backed Securities		362,723		362,723
Equity		601		601
International Obligations (Govt and Corp)		152,540		152,540
Repurchase Agreement	18,348	258,037		276,385
Commercial Paper		161,586		161,586
Miscellaneous		423,227		423,227
Total Investments at Fair Value	\$ 18,348	\$3,348,479	\$ 0	\$ 3,366,827
Fiduciary Funds				
INVESTMENTS AT FAIR VALUE				
Repurchase Agreement	\$6,343,562	\$ 639,400	\$	\$ 6,982,962
Commercial Paper	88,046	11,095,449		11,183,495
Total Investments at Fair Value	6,431,608	11,734,849	0	18,166,457
INVESTMENTS AT AMORTIZED COST OR NOT SUBJECT TO GASB 72				
Miscellaneous				14,176
Total Investment at amortized cost or not subject to GASB 72				14,176
Total of Investments - Fiduciary Funds				\$18,180,633

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, 2017, the investments exposed to custodial credit risk are presented in the table 3H.

Investments Exposed to Custodial Credit Risk		
Table 3H		
August 31, 2017 (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		
U.S. Government Agency Obligations	\$	\$ 55,043
Corporate Obligations		1,868,852
Corporate Asset and Mortgage Backed Securities		362,723
Repurchase Agreement		91,326
Commercial Paper		40,474
Miscellaneous		427,470
Total Governmental Activities	<u>0</u>	<u>2,845,888</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury Securities	3,698	
U.S. Government Agency Obligations	3,665	
Corporate Obligations	6,253	
Equity	36,526	
International Equity	5,644	
Fixed Income and Bond Mutual Fund	79,190	
Other Proprietary Funds		
Repurchase Agreement	15,020	
Total Business-Type Activities	<u>149,996</u>	<u>0</u>
Total Governmental and Business-Type Activities	<u>\$ 149,996</u>	<u>\$ 2,845,888</u>

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT are exposed to investment foreign currency risk. TRS, PSF and ERS do not have an investment policy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

The investments exposed to foreign currency risk as of Aug. 31, 2017, are presented on table 3I.

Investments Exposed to Foreign Currency Risk

Table 31

August 31, 2017 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
	International				International			
	International Obligations	International Equity	Other Commingled Funds	Other Investments	International Obligations	International Equity	Other Commingled Funds	Other Investments
Argentine Peso	\$	\$	\$ 1,168	\$ 772	\$	\$ 38	\$	\$
Australian Dollar	246,531	46,411	(834)	317,582	181,321	909,721	358	29,370
Bangladeshi Taka						8,991		
Botswana Pula						3,010		
Brazilian Real	178,658	439,005	46,999	105,517	21,723	856,416		
British Pound	129,168	215,713	85,705	716,323	367,703	3,226,820	2,714	504,154
Canadian Dollar	55,867	88,763	484	626,013	497	1,427,609	762	
CFA Franc	13,536							
Chilean Peso		1,537	8	16,556		81,291		
Chinese Yuan (Offshore)			(19,784)					
Chinese Yuan Renminbi		406,832	26,957	8,612		639	167	
Colombian Peso	38,024	382	2,813	6,900		26,629		
Croatian Kuna						6,024		
Czech Koruna	678	9,421	(47)	2,869		39,231		
Danish Krone	113,589	9,018	(2,803)	70,398		466,839	815	
Egyptian Pound	328	18,343	484	2,541		34,367		
Euro	413,425	390,773	30,933	1,659,257	311,448	6,367,093	641,730	2,734,604
Ghanaian New Cedi						2,129		
Hong Kong Dollar		198,814	(5)	415,316		3,698,615		
Hungarian Forint	14,159	1,492	(96)	4,784		117,790		
Indian Rupee	1	86,431	6,247	1,768	93	1,063,186	461	
Indonesian Rupiah	54,909	34,555	1,854	31,494		423,638		
Israeli New Shekel		25,031	(20)	9,502		39,621		
Japanese Yen	281,271	412,105	(3,417)	869,040	4,630	4,742,396	1,586	
Jordanian Dinar						5,218		
Kazakhstani Tenge			116					
Kenyan Shilling						6,755		
Kuwaiti Dinar						15,472		
Malaysian Ringgit	124,806	33,511	1,142	35,973		212,765		
Mauritius Rupee						6,117		
Mexican Peso	269,573	125,116	2,664	54,568		412,506		
Moroccan Dirham		3,382				5,811		
New Zealand Dollar	123,829		4,022	6,327	3,362	26,590		
Nigerian Naira				289		4,811		
Norwegian Kroner	30,078		6,701	25,975		399,171		
Omani Rial						4,973		
Pakistan Rupee				603		40,444		
Peruvian Nuevo Sol	30,750		514			2,919		
Philippine Peso		11,695	214	15,161		104,956		
Polish Zloty	178,174	2,707	(2,560)	17,853		165,388		
Qatar Riyal		5,855	193	8,642		22,531		
Romanian New Lei	5,609					8,164		
Russian Ruble	323		1,101	33,568		48,070		
Singapore Dollar	95,444	28,929	(1,162)	49,474		164,082		
South African Rand	94,962	45,068	2,361	92,633	6,064	759,733	120	
South Korean Won		446,604	14,418	195,163		1,807,416		
Sri Lankan Rupee						5,083		
Swedish Krona	40,377	22,845	4,677	107,513		287,283	357	
Swiss Franc		62,022	416	309,098		1,139,300	1,519	
Taiwan Dollar		143,772	3,465	163,673		1,135,184		
Thai Baht	16,981	43,478	1,179	29,848		269,158	150	
Tunisian Dinar						2,297		
Turkish Lira	12,060	16,689	2,375	19,510		245,822		
United Arab Emirates Dirham		44,611	193	9,127		42,902		
Uruguayan Peso	70		103					
Venezuelan Boliviar Fuerte				10,387				
Vietnamese Dong		10,305				6,007		
Total	\$2,563,180	\$3,431,215	\$218,778	\$6,050,629	\$896,841	\$30,899,021	\$650,739	\$3,268,128

Concluded on the following page

Investments Exposed to Foreign Currency Risk (concluded)

Table 3I

August 31, 2017 (Amounts in Thousands)

	Component Unit		
	International		Other Investments
	International Obligations	Other Commingled Funds	
Argentine Peso	\$	\$	\$ 98
Australian Dollar		122	
Bangladeshi Taka			
Botswana Pula			
Brazilian Real	710	114	1,039
British Pound		123	
Canadian Dollar			
CFA Franc	1,719		
Chilean Peso			
Chinese Yuan (Offshore)			
Chinese Yuan Renminbi		545	1,094
Colombian Peso	796		102
Croatian Kuna			
Czech Koruna			71
Danish Krone		85	
Egyptian Pound			104
Euro		397	1,026
Ghanaian New Cedi			
Hong Kong Dollar		63	411
Hungarian Forint			
Indian Rupee		294	225
Indonesian Rupiah		50	165
Israeli New Shekel			
Japanese Yen		246	
Jordanian Dinar			
Kazakhstani Tenge			
Kenyan Shilling			
Kuwaiti Dinar			
Malaysian Ringgit		54	803
Mauritius Rupee			
Mexican Peso		27	723
Moroccan Dirham			
New Zealand Dollar			
Nigerian Naira			37
Norwegian Kroner			
Omani Rial			
Pakistan Rupee			77
Peruvian Nuevo Sol	206		
Philippine Peso			
Polish Zloty			
Qatar Riyal			
Romanian New Lei			
Russian Ruble			245
Singapore Dollar			
South African Rand		46	281
South Korean Won		349	
Sri Lankan Rupee			
Swedish Krona			
Swiss Franc		49	
Taiwan Dollar		320	637
Thai Baht		110	104
Tunisian Dinar			
Turkish Lira		52	305
United Arab Emirates Dirham			118
Uruguayan Peso			
Venezuelan Bolivar Fuerte			1,319
Vietnamese Dong			
Total	<u>\$ 3,431</u>	<u>\$ 3,046</u>	<u>\$ 8,984</u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk ratings are assigned by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. The net market value of all over-the-counter derivative positions, less collateral posted, may not exceed \$500 million and all over-the-counter derivative positions without collateral may not exceed 5 percent of the total market value of the fund. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio. A securities lending agent must be an organization rated A or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that non-cash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio.

UT's investment policy has no requirements or limitations for investment ratings.

As of Aug. 31, 2017, the credit quality distribution for securities with credit risk exposure is presented on table 3J.

Investments Exposed to Credit Risk*

Table 3J

August 31, 2017 (Amounts in Thousands)

	Governmental and Business-Type Activities								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 2,163,564	\$ 35,133	\$ 2,513,065	\$ 2,649,839	\$ 457,890	\$	\$	\$ 309,051	\$ 8,128,542
AA	7,008,524	1,764,341	85,814	339,502	2,015,738			120,254	11,334,173
A	161,510	2,198,766	36,289	661,118	114,999			71,243	3,243,925
BBB	10,608	1,439,069	249,597	388,146				776	2,088,196
BB		119,436	2,625	170,062				35,326	327,449
B		68,291	1,911	19,315					89,517
CCC		3,885	7,499	2,305					13,689
CC			481						481
C		73							73
D			3,875					1,620	5,495
AAAf						6,830,265			6,830,265
AAAf						1,456,622			1,456,622
Af						28,827			28,827
BBBf						24,555			24,555
BBf						33,829			33,829
Bf						39,926			39,926
CCCf						6,684			6,684
A-1							8,116,946		8,116,946
A-2							28		28
A-3							287,304		287,304
Not Rated	222,116	185,087	693,250	1,375,609	244,523	1,844,801	346,131	6,981,354	11,892,871
Total	\$ 9,566,322	\$ 5,814,081	\$ 3,594,406	\$ 5,605,896	\$ 2,833,150	\$ 10,265,509	\$ 8,750,409	\$ 7,519,624	\$ 53,949,397

	Fiduciary Funds								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 10,285,019	\$ 24,185	\$ 209,874	\$ 205,224	\$ 4,807,889	\$	\$	\$ 844,805	\$ 16,376,996
AA	4,301,875	97,541	29,019	3,362	181,641			174	4,613,612
A	37,841	36,768	3,938	8,981				252,824	340,352
BBB		99,742	5,546	32,463				17	137,768
BB		594,372	13,127	210,107				37,056	854,662
B		392,380	30,851	132,431				5	555,667
CCC		40,089	29,778	37,601					107,468
CC			1,483						1,483
C		1,444							1,444
D			9,804						9,804
AAAf						361,185			361,185
AAAf						5,884			5,884
Af						36,542			36,542
BBBf						17,524			17,524
A-1							3,242,134		3,242,134
Not Rated	14,693	94,642	142,806	870,252		775,391	402	347,242	2,245,428
Total	\$ 14,639,428	\$ 1,381,163	\$ 476,226	\$ 1,500,421	\$ 4,989,530	\$ 1,196,526	\$ 3,242,536	\$ 1,482,123	\$ 28,907,953

Concluded on the following page

Investments Exposed to Credit Risk* (concluded)

Table 3J

August 31, 2017 (Amounts in Thousands)

	Component Units								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 6,410	\$	\$ 77,364	\$ 34,548	\$ 535,802	\$	\$	\$ 512,679	\$ 1,166,803
AA	55,347	16,315	61		40,172			99	111,994
A	1,978	3,794		809					6,581
AAAf						32,821			32,821
A-1							111,776		111,776
A-2							5,784		5,784
Not Rated		2,029	8,118	3,432	7	84,234		8,982	106,802
Total	\$ 63,735	\$ 22,138	\$ 85,543	\$ 38,789	\$ 575,981	\$ 117,055	\$ 117,560	\$ 521,760	\$ 1,542,561

* Credit risk exposure for investments may be less than their fair values due to classification differences. The total fair value of investments is appropriately greater than the credit risk exposure. Invested collateral reported in fair value is reported by investment type for credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. UT's investment policy states that no more than 5 percent of its cumulative market value of fixed income securities may be invested in a single issuer. PSF's policy precludes exceeding 2.5 percent, ERS employs a limit of 3 percent, TRS sets the limit at 5 percent and the Comptroller's Office does not place a limit on the amount the Treasury Pool may invest in any one issuer. As of Aug. 31, 2017, 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, 2017, the Barclay's Aggregate Bond Index duration was 5.93 years and the Barclay's TIPS Index was 5.98 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits (60 days), bankers' acceptances (45 days), reverse repurchase agreements (180 days) and floating rate securities (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, 2017, PSF's investments by investment type, fair value and the effective weighted duration rate are presented in the table 3K.

Investments Exposed to Interest Rate Risk		
Table 3K		
August 31, 2017 (Amounts in Thousands)		
PSF Investment Type	Fair Value	Effective Weighted Duration Rate
Asset Backed Securities	\$ 33,778	1.01
Collateralized Loan Obligations	212,431	0.19
Commercial Mortgage Backed Securities	78,861	4.79
Corporate Obligations	1,006,751	8.31
Non Agency Mortgage Backed Securities	120,003	4.36
Non U.S. Government Agency Obligations	85,962	3.19
Sovereign Government Debt	78,616	7.51
U.S. Government Agency Commercial Mortgage Backed Securities	46,553	4.27
U.S. Government Agency Mortgage Backed Securities	135,370	4.78
U.S. Government Agency Obligations	735,841	4.18
U.S. Taxable Municipal Bonds	83,600	9.13
U.S. Treasury Securities	1,510,002	6.24
U.S. Treasury TIPS	35,156	6.16
Total	<u>\$ 4,162,924</u>	5.70
U.S. Treasury TIPS	\$ 959,056	5.88
Emerging Market Debt	<u>2,289,188</u>	5.17
Total Real Return	<u>\$ 7,411,168</u>	

Table 3L provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2017.

Invested Securities Lending Collateral Exposed to Interest Rate Risk			
Table 3L			
August 31, 2017 (Amounts in Thousands)			
PSF Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
U.S. Government Agency Obligations	\$ 55,043	\$ 55,043	\$
Asset Backed Floating Rate Notes	362,723	189,523	173,200
Certificates of Deposit	53,700	53,700	
Commercial Paper	40,474	40,474	
Floating Rate Notes	1,868,852	1,806,199	62,653
Repurchase Agreements	91,326	91,326	
Time Deposits	<u>373,770</u>	<u>373,770</u>	
Total	<u>\$ 2,845,888</u>	<u>\$ 2,610,035</u>	<u>\$ 235,853</u>

Table 3M presents TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2017.

Investments Exposed to Interest Rate Risk		
Table 3M		
August 31, 2017 (Amounts in Thousands)		
TRS Investment Type	Fair Value	Effective Weighted Duration Rate
U.S. Treasury Securities	\$ 14,440,954	17.90
U.S. Government STRIPS and TIPS	6,250,320	5.46
U.S. Government Agency Obligations	8,595	4.75
Asset and Mortgage Backed Obligations	132,861	1.53
Corporate Obligations	7,983	0.03
International Government Obligations	900,937	8.31
International Corporate Obligations	93	7.37
Total	<u>\$ 21,741,743</u>	13.82

As of Aug. 31, 2017, ERS' investments by investment type, fair value and the modified duration rate are presented in table 3N.

Investments Exposed to Interest Rate Risk				
Table 3N				
August 31, 2017 (Amounts in Thousands)				
ERS Investment Type	Fair Value		Modified Duration Rate	
	Fiduciary Funds	Proprietary Fund	Fiduciary Funds	Proprietary Fund
U.S. Treasury Securities	\$ 3,288,461	\$ 321,271	3.68	3.94
U.S. Government Agency Obligations	537,173	56,485	4.26	4.26
Corporate Obligations	1,173,574	61,637	4.62	4.58
Corporate Asset and Mortgage Backed Securities	119,289	12,367	2.68	2.71
International Obligations	389,873	20,317	4.21	4.21
Real Estate Investment Trust	37,056	1,931	5.47	5.47
Money Market and Bond Fund	451,445	296,605	0.08	0.08
Total	<u>\$ 5,996,871</u>	<u>\$ 770,613</u>	3.67	2.52

As of Aug. 31, 2017, UT's investments by investment type, fair value and the modified duration rate are presented in table 30.

could reduce or eliminate the stream of income that would have been received. As of Aug. 31, 2017, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$1.8 billion.

Investments Exposed to Interest Rate Risk		
Table 30		
August 31, 2017 (Amounts in Thousands)		
UT Investment Type	Fair Value	Modified Duration Rate
INVESTMENTS IN SECURITIES		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 787,129	6.69
U.S. Treasury Inflation Protected	32,726	5.65
U.S. Agency Asset Backed	16,328	3.46
Total U.S. Government Guaranteed	<u>836,183</u>	6.59
U.S. Government Non-Guaranteed:		
U.S. Agency	3,794	0.06
U.S. Agency Asset Backed	<u>142,123</u>	5.48
Total U.S. Government Non-Guaranteed	<u>145,917</u>	5.34
Total U.S. Government	<u>982,100</u>	6.40
Corporate Obligations:		
Domestic	803,272	6.06
Foreign	<u>504,635</u>	6.71
Total Corporate Obligations	<u>1,307,907</u>	6.31
Foreign Government and Provincial Obligations	2,342,656	4.36
Other Debt Securities	<u>17,329</u>	15.64
Total Debt Securities	<u>2,359,985</u>	
Total U.S. Government, Corporate and Debt Securities	<u>4,649,992</u>	5.38
Other Investment Funds – Debt	33,198	6.80
Fixed Income Money Market Funds	<u>2,466,331</u>	0.26
Total Investments Exposed	<u>\$ 7,149,521</u>	3.62

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

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 affects 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

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, 2017, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$35.8 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$36.0 million. There was no credit exposure during fiscal 2017.

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 fiscal 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, 2017, is summarized in table 3P.

Securities Lending Activity Summary

Table 3P

August 31, 2017 (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	\$ 17,698,026	\$ 431,287	\$ 17,637,063	\$ 17,654,071	\$ 17,008
ERS	530,409		542,839	544,910	2,071
PSF	3,234,900	454,344	2,880,372	2,845,888	(34,484)
UT**	632,813	162,007	490,906	490,906	
VLB**	103,383		105,378	105,378	
TPHETB**	11,479		11,685	11,685	
Total	<u>\$ 22,211,010</u>	<u>\$ 1,047,638</u>	<u>\$ 21,668,243</u>	<u>\$ 21,652,838</u>	<u>\$ (15,405)</u>

* Non-cash collateral received for securities lending activities is not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** UT, VLB and TPHETB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2016.

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, 2017, TRS, PSE, 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, 2017, swap investments were interest rate, credit default, commodity, equity and total return swaps.

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, 2017, derivative investments exposed to foreign currency risk are presented in table 3Q.

Derivative Investments Exposed to Foreign Currency Risk

Table 3Q

August 31, 2017 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
	Swaps	Options	Futures	Forwards	Swaps	Options	Futures	Forwards
Australian Dollar	\$ (19)		\$ (5)	\$ (2,037)	\$ 180			\$ (7,558)
Brazilian Real		(1,771)		(1,549)		8		58
British Pound	84,059			(1,637)	1,692			(4,903)
Canadian Dollar	(140)	(28)	(33)	394				2,391
Chilean Peso								(1,467)
Chinese Yuan Renminbi				(107)				384
Chinese Yuan (Offshore)				(19,783)				(129)
Colombian Peso								(364)
Czech Koruna				(47)	269			11,735
Danish Krone				(3,474)				(57)
Euro	373	(974)	1	6,650	15,569			(58,223)
Hong Kong Dollar				157	440			1
Hungarian Forint				(96)				(325)
Indian Rupee				1,006				87
Indonesian Rupiah				24				(38)
Israeli New Shekel				(21)				(293)
Japanese Yen	(830)		(6)	(12,113)	417			(845)
Malaysian Ringgit				(37)				75
Mexican Peso	(116)			(236)				960
Moroccan Dirham							2	
New Zealand Dollar	168			3,792				(212)
Norwegian Kroner				6,541				913
Peruvian Nuevo Sol				8				
Philippine Peso								(18)
Polish Zloty				(2,578)				111
Romanian New Lei								4
Russian Ruble				175				719
Singapore Dollar				(1,162)				(24)
South African Rand	69			(1,535)				(844)
South Korean Won	(129)			82	392			269
Swedish Krona	(215)			4,743			138	1,083
Swiss Franc				32				(742)
Taiwan Dollar				(558)	(897)			86
Thai Baht				18				(59)
Turkish Lira				1,373			7	4,621
Total	<u>\$ 83,220</u>	<u>\$ (2,773)</u>	<u>\$ (43)</u>	<u>\$ (21,975)</u>	<u>\$ 18,062</u>	<u>\$ 8</u>	<u>\$ 147</u>	<u>\$ (52,604)</u>

Credit Risk: TRS and UT instituted policies to mitigate counterparty credit risk for investment derivatives by having master netting agreements and collateral posting arrangements. TRS and UT negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS' investment policy limits the net market value of all over-the-counter derivative positions, less collat-

eral 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 its custodian bank.

The aggregate fair value of investment derivative instruments in asset positions as of Aug. 31, 2017, was \$230.5 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, 2017, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$92.4 million of collateral held and by \$227.1 million in liabilities included in netting arrangements with those counterparties, resulting in a negative \$89 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 and 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 94.35 to 100 percent of 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, Stockholm Interbank Rate, Bank Bill Swap Rate or Canadian Dollar Offered Rate) and receipt of 0.3 to 3.5 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR, LIBOR,

Mexican Interbank Rate, Johannesburg Interbank Agreed Rate or Canadian Dollar Offered Rate) and payment of 0.0 to 8.5 percent. As of Aug. 31, 2017, the investment maturities for the state's swap contracts exposed to interest rate risk are presented in table 3R.

Derivative Investments Exposed to Interest Rate Risk

Table 3R

August 31, 2017 (Amounts in Thousands)

Investment Type	Investment Maturities (in years)					
	Fair Value	Less Than 1	1-5	6-10	11-15	More than 15
Interest Rate Swaps	\$(1,758)	\$2,372	\$(1,424)	\$(91)	\$383	\$(2,998)

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, 2017, the fair value of various investment funds was \$117 billion.

Note 4

Short-Term Debt

On Aug. 22, 2017, (with an issue date of Sept. 1, 2017) \$5.4 billion of state of Texas Tax and Revenue Anticipation Notes, Series 2017 (Series 2017 Notes), were sold to coordinate cash flow for the state for fiscal 2018. Issuance of the Series 2017 Notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. On Aug. 22, 2017, good faith funds in the amount of \$54 million were received. The Series 2017 Notes bore interest at 4 percent and were priced to yield 0.9638 percent. The balance of the \$5.4 billion was received on Sept. 1, 2017.

The Texas Department of Housing and Community Affairs (Department) executed an advance and security agreement with the Federal Home Loan Bank of Dallas for \$1.1 billion to fund the purchase of the Department's program loans, and \$81.1 million was remaining at fiscal year-end.

Texas Tech University System issued commercial paper notes for \$46.8 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds, and \$33.8 million matured.

The University of North Texas System issued commercial paper notes for \$44.6 million to finance project costs of eligible projects and to refinance, renew or refund commercial paper notes, prior encumbered obligations and parity debt, including interest, and \$39.5 million matured.

Texas State University System issued commercial paper notes for \$12.5 million to finance various construction projects, and \$2.6 million matured.

The University of Houston System issued commercial paper notes for \$58.8 million to finance various capital projects, and \$64.5 million matured.

The University of Texas System issued commercial paper notes for \$738.9 million to provide interim financing for capital improvements and to finance capital equipment purchases, and \$1 billion matured.

Short-term debt activity for the fiscal year ended Aug. 31, 2017, is presented in table 4A.

Short-Term Debt				
Table 4A				
For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)				
	Beginning Balance 9/1/16	Issued	Redeemed	Ending Balance 8/31/17
Commercial Paper	\$ 957,159	\$ 901,603	\$ 1,167,255	\$ 691,507
Other Advances (Loans)		1,057,575	976,392	81,183
	<u>\$ 957,159</u>	<u>\$ 1,959,178</u>	<u>\$ 2,143,647</u>	<u>\$ 772,690</u>

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2017, is presented in table 5A.

Long-Term Liabilities Activity							
Table 5A							
For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)							
	Balance 9/1/16	Restatements /Adjustments*	Additions**	Reductions	Balance 8/31/17	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	\$ 118,846	\$	\$ 43,747	\$ 55,970	\$ 106,623	\$ 45,171	\$ 61,452
Capital Lease Obligations	27,044	86		4,047	23,083	4,023	19,060
Employees' Compensable Leave	856,576	1,779	1,140,430	1,135,109	863,676	607,814	255,862
Notes and Loans Payable	1,422,907		497,169	547,920	1,372,156	203,421	1,168,735
General Obligation Bonds Payable	15,059,808	155,579	2,069,530	1,401,385	15,883,532	626,992	15,256,540
Revenue Bonds Payable	4,290,384	62,804	690,580	266,300	4,777,468	281,957	4,495,511
Pollution Remediation Obligation	261,067		54,543	61,370	254,240	40,824	213,416
Governmental Activities Long-Term Liabilities	<u>\$ 22,036,632</u>	<u>\$ 220,248</u>	<u>\$ 4,495,999</u>	<u>\$ 3,472,101</u>	<u>\$23,280,778</u>	<u>\$ 1,810,202</u>	<u>\$21,470,576</u>
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	\$ 156,466	\$	\$ 1,244,226	\$ 1,218,295	\$ 182,397	\$ 130,866	\$ 51,531
Capital Lease Obligations	70,457	3,148	12,868	13,389	73,084	12,146	60,938
Employees' Compensable Leave	859,515		338,560	319,661	878,414	461,725	416,689
Notes and Loans Payable	2,195,247	(17,012)	2,071,010	1,925,735	2,323,510	41,715	2,281,795
General Obligation Bonds Payable	4,329,815	838	325,350	292,695	4,363,308	235,825	4,127,483
Revenue Bonds Payable	23,410,697	376,232	5,260,724	3,026,883	26,020,770	2,440,944	23,579,826
Pollution Remediation Obligation	1,023				1,023		1,023
Liabilities Payable From Restricted Assets	2,925,887		161,179	319,112	2,767,954	532,108	2,235,846
Business-Type Activities Long-Term Liabilities	<u>\$ 33,949,107</u>	<u>\$ 363,206</u>	<u>\$ 9,413,917</u>	<u>\$ 7,115,770</u>	<u>\$36,610,460</u>	<u>\$ 3,855,329</u>	<u>\$32,755,131</u>
COMPONENT UNITS							
Capital Lease Obligations	\$ 175	\$	\$	\$ 44	\$ 131	\$ 46	\$ 85
Employees' Compensable Leave	2,638		1,293	1,275	2,656	1,580	1,076
Notes and Loans Payable	16,088		5,272	9,481	11,879	3,039	8,840
Revenue Bonds Payable	81,658	(3,935)		30,274	47,449	10,473	36,976
Component Units Long-Term Liabilities	<u>\$ 100,559</u>	<u>\$ (3,935)</u>	<u>\$ 6,565</u>	<u>\$ 41,074</u>	<u>\$ 62,115</u>	<u>\$ 15,138</u>	<u>\$ 46,977</u>

* Includes current year amortization of premiums and discounts.
 ** Includes current year amortization of accretion of \$38.1 million for Governmental and \$71.3 million for Business-Type Activities.
 An additional \$13.5 million in bond issuances were reclassified and not depicted as other financing sources related to long-term debt for Governmental Activities.

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 Texas Legislature before being paid. Claims are paid from governmental funds. Workers' compensation claims are usually paid from the same funding source(s) from which the employees' salary or wage compensation was paid.

Notes and Loans Payable Debt Service Requirements Governmental Activities

Table 5B
(Amounts in Thousands)

Year	Principal	Interest	Total
2018	\$ 203,421	\$ 2,870	\$ 206,291
2019	181,913	2,826	184,739
2020	182,251	2,413	184,664
2021	158,454	2,009	160,463
2022	131,029	1,629	132,658
2023 - 2027	356,794	47,543	404,337
2028 - 2032	56,392	44,479	100,871
2033 - 2037	64,103	37,364	101,467
2038 - 2042	97,848	26,167	124,015
2043 - 2047	71,709	14,094	85,803
2048 - 2052	78,796	6,249	85,045
Total Requirements	1,582,710	187,643	1,770,353
Unamortized Accretion	(210,554)		(210,554)
Total Requirements	<u>\$1,372,156</u>	<u>\$ 187,643</u>	<u>\$1,559,799</u>

Notes and Loans Payable Debt Service Requirements Business-Type Activities

Table 5C
(Amounts in Thousands)

Year	Principal	Interest	Total
2018	\$ 41,715	\$ 39,110	\$ 80,825
2019	60,643	45,043	105,686
2020	17,077	44,323	61,400
2021	16,926	78,592	95,518
2022	17,391	78,185	95,576
2023 - 2027	142,325	383,948	526,273
2028 - 2032	115,121	364,651	479,772
2033 - 2037	191,511	340,371	531,882
2038 - 2042	96,871	317,281	414,152
2043 - 2047	1,229,924	248,170	1,478,094
2048 - 2052	478,540	37,470	516,010
Total Requirements	2,408,044	1,977,144	4,385,188
Unamortized Accretion	(84,534)		(84,534)
Total Requirements	<u>\$2,323,510</u>	<u>\$1,977,144</u>	<u>\$4,300,654</u>

Notes and Loans Payable Debt Service Requirements Component Units

Table 5D
(Amounts in Thousands)

Year	Principal	Interest	Total
2018	\$ 3,039	\$ 142	\$ 3,181
2019	3,053	111	3,164
2020	1,555	95	1,650
2021	2,411	88	2,499
2022	561	66	627
2023 - 2027	1,260	120	1,380
Total Requirements	<u>\$ 11,879</u>	<u>\$ 622</u>	<u>\$ 12,501</u>

Capital lease obligations are described in detail in Note 8.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from, the same funding source(s) from which the employees' 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 2017, TxDOT recognized an additional \$30 million as a long-term liability for pass-through toll payables related to highway projects constructed under pass-through financing agreements. At Aug. 31, 2017, there was a pass-through toll payable of \$1 billion. See Note 15 for additional details.

At Aug. 31, 2017, the University of Texas System (UT) included \$929.1 million in commercial paper outstanding as notes and loans payable as they were refunded through the issuance of long-term bonds in September, October and November 2017. Interest associated with this refinancing totaled \$908.9 million and is included in the debt service requirements for business-type activities table 5C. \$158 thousand in principal and \$25.4 million in interest is included as amounts due within one year.

Debt service requirements for notes and loans payable in the long-term liabilities are presented in tables 5B, 5C, and 5D.

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 begin 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.

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 projections to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. For sites without available budget projections, estimated costs were provided for the Superfund phases of investigation and cleanup, based on staff experience with similar sites.

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, 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.

TCEQ calculates expected outlays related to this pollution remediation by establishing the average cost of cleanup and multiplying that cost by the number of active sites, plus direct salaries and benefits for the duration of the cleanup. This methodology is based upon

historical experience in estimating these cleanups. At Aug. 31, 2017, there were 309 active state lead sites, with a total estimated pollution remediation obligation of \$64.1 million.

The TCEQ Superfund Section (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 2017 resulted in collections of \$230 thousand.

At the end of fiscal 2017, Texas had 67 sites with pollution remediation obligations in the state and federal Superfund programs and two sites that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2017, is \$133.2 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 prop-

erty 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 pollution remediation obligation is measured by the national average cleanup cost, as calculated by the State Coalition for Remediation of Drycleaners. Direct salary and benefit costs are added to the national average and the total cost is multiplied by the number of active sites. The amount of the estimated pollution remediation assumes that there will be no major increases in the cost of providing these cleanup services. At Aug. 31, 2017, there were 205 active sites, with a total estimated pollution remediation obligation of \$45.4 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 Railroad Commission of Texas (Commission) currently has three areas of remediation: abandoned oil and gas wells, oil and gas sites and mines. Under Texas Natural Resource Code, Section 89.043, the Commission may plug abandoned wells if the wells have not been properly plugged or need replugging and the responsible party cannot be found or is not financially able to plug the well, or if the wells will cause or are likely to cause a serious threat of pollution or injury to the public health. The Commission has 15 active well plugging projects as of Aug. 31, 2017, with an estimated cost of \$2.8 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 four active site remediation projects as of Aug. 31, 2017, with an estimated cost of \$205 thousand. 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 two projects on-going as of Aug. 31, 2017, with an estimated cost of \$584 thousand.

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.

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. Historical cost averages were used to calculate the estimated pollution remediation obligation liabilities. The areas of remediation include compliance with asbestos regulations, lead based paint regulations, Federal Safe Drinking Water Act, state LPST cleanup requirements, Occupational Safety and Health Administration Health and Safety Plan requirements, waste disposal regulations and state non-LPST cleanup requirements at an estimated cost of \$5.9 million for fiscal 2017.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 431 bond issues outstanding as of Aug. 31, 2017. Scheduled debt service payments from the general revenue fund for fiscal 2017 totaled \$673.3 million.

Information on Bond Issuances							
Table 6A							
August 31, 2017							
Description of Issue	Bond Issues Outstanding		Range of Interest Rates		Maturities		First Call Date
	Number	Amount Issued (in Thousands)	Lowest	Highest	First Year	Last Year	
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	74	\$17,456,210	0.18	6.07	2005	2046	05-18-2005
Revenue Bonds	15	4,695,755	1.00	5.33	2008	2034	02-01-2017
Governmental Activities Total	<u>89</u>	<u>22,151,965</u>					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	71	5,218,665	0.23	5.25	1999	2047	04-28-1999
Revenue Bonds	266	30,526,513	0.12	15.00	1999	2054	05-04-1995
Business-Type Activities Total	<u>337</u>	<u>35,745,178</u>					
COMPONENT UNITS							
Revenue Bonds	<u>5</u>	<u>270,385</u>	2.70	6.10	2007	2041	11-01-2008
Total	<u>431</u>	<u>\$58,167,528</u>					

Changes in Bonds Payable

Table 6B

For the Fiscal Year Ended August 31, 2017 (Amounts in Thousands)

	Bonds Outstanding 9/1/16	Adjustments *	Bonds Issued**	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/17	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	\$ 15,059,808	\$ 155,579	\$ 2,069,530	\$ 459,175	\$ 942,210	\$ 15,883,532	\$ 626,992
Revenue Bonds	4,290,384	62,804	690,580	166,300	100,000	4,777,468	281,957
Governmental Activities Total	<u>19,350,192</u>	<u>218,383</u>	<u>2,760,110</u>	<u>625,475</u>	<u>1,042,210</u>	<u>20,661,000</u>	<u>908,949</u>
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	4,329,815	838	325,350	219,375	73,320	4,363,308	235,825
Revenue Bonds	23,410,697	376,232	5,260,724	1,069,204	1,957,679	26,020,770	2,440,944
Business-Type Activities Total	<u>27,740,512</u>	<u>377,070</u>	<u>5,586,074</u>	<u>1,288,579</u>	<u>2,030,999</u>	<u>30,384,078</u>	<u>2,676,769</u>
COMPONENT UNITS							
Revenue Bonds	81,658	(3,935)		30,274		47,449	10,473
	<u>81,658</u>	<u>(3,935)</u>	<u>0</u>	<u>30,274</u>	<u>0</u>	<u>47,449</u>	<u>10,473</u>
Total	<u>\$47,172,362</u>	<u>\$591,518</u>	<u>\$8,346,184</u>	<u>\$1,944,328</u>	<u>\$3,073,209</u>	<u>\$51,092,527</u>	<u>\$3,596,191</u>

* Includes current year amortization of premiums and discounts.

** Includes current year amortization of accretion.

Debt Service Requirements

Table 6C

(Amounts in Thousands)

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 512,730	\$ 665,309	\$ 1,178,039	\$ 234,005	\$ 207,030	\$ 441,035
2019	533,595	641,217	1,174,812	234,685	196,560	431,245
2020	506,580	618,451	1,125,031	241,540	185,137	426,677
2021	527,270	595,484	1,122,754	251,120	172,936	424,056
2022	539,865	570,856	1,110,721	262,725	160,947	423,672
2023 – 2027	2,866,675	2,457,514	5,324,189	1,496,520	605,318	2,101,838
2028 – 2032	2,989,085	1,753,410	4,742,495	1,400,005	218,572	1,618,577
2033 – 2037	2,936,840	1,070,715	4,007,555	338,165	25,568	363,733
2038 – 2042	2,223,415	411,010	2,634,425			
2043 – 2047	770,050	61,732	831,782			
	<u>14,406,105 *</u>	<u>8,845,698</u>	<u>23,251,803</u>	<u>4,458,765 *</u>	<u>1,772,068</u>	<u>6,230,833</u>
Premium	1,477,792		1,477,792	318,703		318,703
Discount	(365)		(365)			
Total	<u>\$15,883,532</u>	<u>\$8,845,698</u>	<u>\$24,729,230</u>	<u>\$ 4,777,468</u>	<u>\$ 1,772,068</u>	<u>\$ 6,549,536</u>

Concluded on the following page

Debt Service Requirements (concluded)

Table 6C

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 229,380	\$ 102,322	\$ 331,702	\$ 2,283,537	\$ 981,970	\$ 3,265,507
2019	254,455	96,882	351,337	872,967	948,717	1,821,684
2020	260,180	91,348	351,528	884,704	914,064	1,798,768
2021	251,815	85,994	337,809	916,967	878,405	1,795,372
2022	241,825	80,783	322,608	924,669	841,925	1,766,594
2023 – 2027	1,145,035	320,359	1,465,394	4,676,895	3,728,347	8,405,242
2028 – 2032	778,720	205,044	983,764	3,978,069	2,882,535	6,860,604
2033 – 2037	570,330	120,925	691,255	3,707,009	2,044,107	5,751,116
2038 – 2042	408,860	50,380	459,240	3,590,574	1,248,882	4,839,456
2043 – 2047	122,600	6,610	129,210	1,624,249	630,369	2,254,618
2048 – 2052	270	1	271	1,140,688	283,946	1,424,634
2053 – 2057				430,449	16,485	446,934
	<u>4,263,470</u> *	<u>1,160,648</u>	<u>5,424,118</u>	<u>25,030,777</u> *	<u>15,399,752</u>	<u>40,430,529</u>
Accretion				(564,798)		(564,798)
Premium	99,838		99,838	1,572,246		1,572,246
Discount				(17,785)		(17,785)
Total	<u>\$ 4,363,308</u>	<u>\$ 1,160,648</u>	<u>\$ 5,523,956</u>	<u>\$26,020,440</u>	<u>\$15,399,752</u>	<u>\$41,420,192</u>
COMPONENT UNITS						
Year	Principal	Interest	Total			
2018	\$ 8,535	\$ 1,259	\$ 9,794			
2019	870	1,190	2,060			
2020	930	1,156	2,086			
2021	920	1,118	2,038			
2022	1,005	1,078	2,083			
2023 – 2027	5,645	4,651	10,296			
2028 – 2032	7,385	3,301	10,686			
2033 – 2037	9,720	2,127	11,847			
2038 – 2042	10,320	681	11,001			
	<u>45,330</u>	<u>16,561</u>	<u>61,891</u>			
Premium	2,119		2,119			
Total	<u>\$ 47,449</u>	<u>\$ 16,561</u>	<u>\$ 64,010</u>			

* 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 (TPFA), the Texas Water Development Board (TWDB), the Constitutional Appropriation Bonds (CABs) 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 (TPWD)** 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.

TPFA 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 TPFA is also authorized to issue general obligation bonds to assist local government economic development projects and the Texas Military Value Revolving Loan Fund (TMVRLF). The bonds are payable from state appropriations.

TWDB 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 (VLB)** 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 (TxDOT)**, prior to Jan. 1, 2015, through the Texas mobility fund, issued 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 provided 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. After Jan. 1, 2015,

TxDOT may only issue debt to refund existing debt in certain circumstances. 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.

CABs are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund (PUF), which is dedicated to the University of Texas System (UT) and Texas A&M University System (A&M). 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 (EDTO)**, 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 EDTO, 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, 2017, the amounts of general obligation bonds, other than CABs, authorized but unissued, are presented in table 6D.

General Obligation Bonds Authorized But Unissued

Table 6D

(Amounts in Thousands)

SELF-SUPPORTING

Texas Agricultural Finance Authority Bonds	\$ 55,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,116,689
Texas Water Development Bonds	5,973,405
College Student Loan Bonds	1,115,275
Texas Military Value Revolving Loan Fund	200,405
Total	<u>8,935,774</u>

NOT SELF-SUPPORTING

Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	1,779,437
Texas Water Development Bonds - Economically Distressed Areas Program	53,492
Total	<u>1,997,769</u>

Total General Obligation Bonds	<u><u>\$10,933,543</u></u>
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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 **VLB** 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 (TDHCA)** 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.

TWDB issues bonds for 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.

UT and A&M issue **PUF** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits UT's and A&M's PUF debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of PUF assets, excluding real estate. Revenue from investments of the PUF is pledged to secure the payment of principal and interest. The cost value of PUF assets as of Aug. 31, 2017, excluding real estate, was \$16.3 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented in table 6E.

Permanent University Fund Bonds

Table 6E

(Amounts in Thousands)

	<u>Legal Debt Limits</u>	<u>Actual Bonds Payable</u>	<u>Authorized But Unissued</u>
University of Texas System	\$ 3,269,051	\$ 2,214,035	\$ 1,055,016
Texas A&M University System	<u>1,634,525</u>	<u>877,200</u>	<u>757,325</u>
Total	<u><u>\$ 4,903,576</u></u>	<u><u>\$ 3,091,235</u></u>	<u><u>\$ 1,812,341</u></u>

Miscellaneous College and University Revenue

Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the pledged revenue of the respective institutions and are not an obligation of the state of Texas.

TxDOT 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. All bonds were retired by end of year.

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 (TMD)**, previously named the Adjutant General's Department, assumed the Texas Military Facilities Commission's (TMFC) responsibilities on Sept. 1, 2007. The TMFC's title to facilities, rental and other income pledged to the bonds was transferred to the TPFA. Title will pass to TPFA 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 TMD. As of Aug. 31, 2017, the bond obligations were still outstanding.

TPFA 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.

TPWD issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments, funded by state appropriations, made by the TPWD to the TPFA.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds. Table 6F provides information on pledged revenue and pledged future revenue for the state's revenue bonds.

Pledged Future Revenue				
Table 6F				
(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	\$ 10,601,120	\$ 6,230,833	\$ 40,430,529	\$ 61,891
Current Year Pledged Revenue	470,178	8,217,643	18,159,904	34,096
Current Year Principal and Interest Paid	340,997	364,004	1,867,755	32,792
Term of Commitment Fiscal Year Ending August 31,	2045	2034	2054	2042
Percentage of Revenue Pledged	100%	100%	89%	100%

Build America Bonds (BABs)

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 BABs was created. Authority to issue BABs expired on Dec. 31, 2010.

TxDOT, UT, the TPFA and the University of Houston System (UOH) had \$3.5 billion, \$1.6 billion, \$181.8 million and \$76.0 million of direct payment BABs outstanding, respectively, as of Aug. 31, 2017.

Under the Budget Control Act of 2011, across-the-board sequestration took effect on March 1, 2013. This resulted in the 35 percent federal subsidy for BABs interest payments being reduced by the applicable federal sequestration reduction rate.

Variable Rate Bonds

Seven state agencies had a total of 80 variable rate bond issues with outstanding balances as of Aug. 31, 2017. 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 VLB, TDHCA, TxDOT, UOH and UT had outstanding demand bonds as of Aug. 31, 2017.

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, 2017, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in tables 6G and 6H.

	Number of		Principal Balance Outstanding (In Thousands)
	Demand Bond Issues	Standby Purchase Agreements	
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds			
Texas Department of Transportation	1	1 (a)	\$ 150,000
Office of the Governor	2	2 (a)	45,000
Total	<u>3</u>	<u>3</u>	<u>195,000</u>
Revenue Bonds			
Texas Department of Transportation	1	1 (a)	150,000
Total	<u>1</u>	<u>1</u>	<u>150,000</u>
Governmental Activities Total	<u>4</u>	<u>4</u>	<u>\$ 345,000</u>
BUSINESS-TYPE ACTIVITIES			
General Obligation Bonds			
Veterans Land Board	6	6 (a)	\$ 769,065
Total	<u>6</u>	<u>6</u>	<u>769,065</u>
Revenue Bonds			
University of Texas System	4		1,431,500
Texas Department of Housing and Community Affairs	5	5 (a)	106,710
University of Houston System	1		345
Total	<u>10</u>	<u>5</u>	<u>1,538,555</u>
Business-Type Activities Total	<u>16</u>	<u>11</u>	<u>\$ 2,307,620</u>

(a) – See Demand Bonds - Standby Purchase Agreements table 6H.
(b) – In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

Demand Bond – Standby Purchase Agreements

Table 6H

August 31, 2017

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Bank of Tokyo-Mitsubishi UFJ	1	0.35%	09/04/18
Landesbank Hessen-Thuringen Girozentrale	1	0.32%	12/31/19
Landesbank Hessen-Thuringen Girozentrale	1	0.28%	01/20/21
Mizuho Bank, LTD.	1	0.34%	07/19/19
State Street Bank and Trust Company	1	0.35%	09/07/18
Sumitomo Mitsui Banking Corp	1	0.30%	01/18/22
Sumitomo Mitsui Banking Corp	1	0.30 - 3.00%	04/01/22
Texas Comptroller of Public Accounts*	6	0.12%	08/31/19
U.S. Bank National Association	2	0.25%	06/01/18
Total	<u>15</u>		

* Treasury Operations Division of the Texas Comptroller of Public Accounts

Takeout agreements are used by TxDOT to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. Table 6I provides the estimated impact of such an event.

Demand Bonds – Takeout Agreement Provisions

Table 6I

August 31, 2017

GOVERNMENTAL ACTIVITIES	Estimated Debt Service (In Thousands)	Rate	Basis
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2014B1	\$ 174,921 (a)	9.50%	2.00%

(a) – Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

Table 6J presents early debt extinguishments in fiscal 2017. The source of funds used for the extinguishments included loan repayments and other available funds.

Refunding

Table 6K summarizes bonds refunded during fiscal 2017 to lower interest rates or to restructure debt service requirements for cash management purposes.

Early Extinguished Debt Issues

Table 6J

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

General Obligation Bonds	
Office of the Governor (TMVRLP)	\$ 7,260
Texas Water Development Board	9,355
Governmental Activities Total	\$ 16,615

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds	
Texas Water Development Board	\$ 22,400
Revenue Bonds	
Texas Department of Housing and Community Affairs	205,233
Texas Water Development Board	422,340
Texas Workforce Commission	88,935
University of Houston System	905
Business-Type Activities Total	\$ 739,813

Refunding Issues

Table 6K

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue*	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain (Loss)
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Department of Transportation	Advanced Refunding	\$ 474,135	\$ 536,210	\$ 101,761	\$ 56,586
Texas Department of Transportation	Current Refunding	296,020	347,795	72,927	41,218
Office of the Governor (TMVRLP)	Current Refunding	25,420	25,490	9,976	5,681
Texas Water Development Board	Current Refunding	13,520	16,100	3,463	2,836
Revenue Bonds					
Texas Department of Transportation	Current Refunding	89,370	100,000	**	**
Governmental Activities Total		<u>898,465</u>	<u>1,025,595</u>	<u>188,127</u>	<u>106,321</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	48,755	50,920	13,586	6,291
Revenue Bonds					
Texas Department of Transportation	Current Refunding	190,955	190,730	***	***
Texas Tech University System	Advanced Refunding	81,110	75,430	(5,680)	4,809
University of Texas System	Advanced Refunding	159,240	170,440	18,010	15,557
University of Texas System	Current Refunding	258,835	298,210	62,613	51,817
Texas A&M University System	Advanced Refunding	114,589	121,350	14,824	12,307
University of Houston System	Advanced Refunding	93,460	101,565	14,323	10,021
University of North Texas System	Advanced Refunding	118,305	115,595	(10,048)	7,115
Stephen F. Austin State University	Advanced Refunding	21,497	24,245	3,451	3,043
Texas Department of Housing and Community Affairs	Current Refunding	29,610	29,610	10,740	10,414
Texas State University System	Advanced Refunding	76,215	80,055	7,982	(6,895)
Midwestern State University	Advanced Refunding	33,465	33,035	3,454	2,726
Business-Type Activities Total		<u>1,226,036</u>	<u>1,291,185</u>	<u>133,255</u>	<u>117,205</u>
Total		<u>\$ 2,124,501</u>	<u>\$ 2,316,780</u>	<u>\$ 321,382</u>	<u>\$ 223,526</u>

* Other funds totaling approximately \$31.6 million were used to refund/defuse additional bonds.

** Mode change from variable rate to another mode, no gain (loss) on transaction.

*** Mode change from variable rate to another mode, no gain (loss) on transaction. Includes \$107.2 million refunded with agency notes payable.

Defeased Bonds

Texas defeases 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, 2017, the amounts of defeased bonds, at par, that remain outstanding for all bond issuers are presented in table 6L. Also included are various bond issues defeased by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company). Funds placed in the Trust Company to defease \$214.7 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements.

Defeased Bonds Outstanding

Table 6L

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

General Obligation Bonds	
Texas Department of Transportation	\$ 990,870
Texas Public Finance Authority	214,655
Texas Water Development Board	9,355
Revenue Bonds	
Texas Department of Transportation	45,500
Governmental Activities Total	<u>1,260,380</u>

BUSINESS-TYPE ACTIVITIES

General Obligation Bonds	
Texas Water Development Board	27,665
Veterans Land Board	15,500
Revenue Bonds	
University of Texas System	271,268
Texas A&M University System	656,540
Texas Department of Transportation	80,375
Texas State University System	162,315
University of Houston System	169,090
Texas Tech University System	75,430
Texas Department of Housing and Community Affairs	25,000
University of North Texas System	120,130
Midwestern State University	50,630
Texas State Technical College	20,440
Business-Type Activities Total	<u>1,674,383</u>

Total	<u>\$2,934,763</u>
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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 Govern-

ment 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 non-profit 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, 2017, there were 14 series of multifamily housing revenue bonds outstanding with an aggregate \$183 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued four series of bonds in the aggregate amount of \$1.6 billion that remains outstanding as of Aug. 31, 2017. The proceeds were loaned to LBJ Infrastructure Group LLC, NTE Mobility Partners LLC, NTE Mobility Partners Segments 3 LLC and Blueridge Transportation Group, 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, TxDOT or the state of Texas. Remaining bond authority has expired.

Conduit bond debt for the TDHCA (multifamily housing bonds) 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, 2017, the debt service requirements of the state's variable-rate, fixed-rate bonds and associated net swap payments were estimated and are presented in tables 6M, 6N and 6O.

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

Table 6M
(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2018	\$ 184,255	\$ 42,418	\$ 84,129	\$ 310,802
2019	198,455	40,119	79,700	318,274
2020	196,095	37,731	75,198	309,024
2021	188,085	35,394	70,925	294,404
2022	197,905	33,178	66,883	297,966
2023 – 2027	917,595	133,780	268,953	1,320,328
2028 – 2032	805,925	86,308	167,116	1,059,349
2033 – 2037	694,945	49,148	83,873	827,966
2038 – 2042	298,915	22,319	19,553	340,787
2043 – 2047	302,085	9,053	6,416	317,554
2048 – 2052	270	1		271
Total	<u>\$ 3,984,530</u>	<u>\$ 489,449</u>	<u>\$ 922,746</u>	<u>\$ 5,396,725</u>

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

Table 6N
(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2018	\$ 1,205	\$ 482	\$ (54)	\$ 1,633
2019	1,280	461	(52)	1,689
2020	1,365	438	(49)	1,754
2021	1,445	413	(46)	1,812
2022	1,535	388	(44)	1,879
2023 – 2027	9,250	1,490	(168)	10,572
2028 – 2032	10,995	568	(64)	11,499
2033 – 2037	1,370	12	(1)	1,381
Total	<u>\$ 28,445</u>	<u>\$ 4,252</u>	<u>\$ (478)</u>	<u>\$ 32,219</u>

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

Table 60
(Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2018	\$	\$ 1,760	\$ (194)	\$ 1,566
2019		1,760	(194)	1,566
2020		1,761	(194)	1,567
2021		1,760	(194)	1,566
2022		1,761	(194)	1,567
2023 – 2027	31,630	2,703	(291)	34,042
Total	\$ 31,630	\$ 11,505	\$ (1,261)	\$ 41,874

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.

The state implemented GASB Statement No. 72, *Fair Value Measurement and Application*, in fiscal year 2016. It requires the use of appropriate valuation techniques for which sufficient data are available to measure fair value and that maximize the use of relevant observable inputs while minimizing the use of unobservable inputs. Valuation techniques consistent with the market approach, cost approach, or income approach should be used to measure fair value.

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 type of derivative instruments held by entity is shown in table 7A. The state's cumulative derivative activity as of Aug. 31, 2017, is summarized in table 7B. The notional amounts are presented in U.S. dollar equivalents.

Derivative Instruments by Entity and Type

Table 7A

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
Texas Woman's University (TWU) ** 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.

** Stephen F. Austin, Midwestern State University, and Texas Woman's University invest funds in Texas A&M University System's investment pool which includes investment derivatives in the form of forward currency exchange contracts.

Summary of Derivative Activity

Table 7B
(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
<i>Investment Derivatives</i>			
Futures	\$ 3,863	\$	\$ 20,108
BUSINESS-TYPE ACTIVITIES			
<i>Cash Flow Hedges</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ (13,442)	\$(464,116) *	\$3,983,675
<i>Investment Derivatives</i>			
Pay-Fixed Receive-Variable Interest Rate Swaps	\$ 968	\$ 975	\$ 788,944
Pay-Variable Receive-Fixed Interest Rate Swaps	1,275	(4,787)	923,932
Basis Swaps	21,505	15,232	1,593,303
Commodity Swaps	(156)	(156)	5,047
Credit Default Swaps	(135)	1,776	163,584
Currency Swaps	3,674	3,674	175,412
Equity Swaps	(3,868)	(3,868)	91,187
Foreign Currency Forward	(21,987)	(21,987)	4,667,810
Futures	11,898		1,389,122
Options	19,028	11,972	1,022,818
Rate Lock	(2,877)	(2,877)	318,500
Total Return Swaps	(1,369)	379	(243,598)
FIDUCIARY ACTIVITIES			
<i>Investment Derivatives</i>			
Credit Default Swaps	\$ 18,183	\$ 20,909	\$ 482,055
Forwards Contracts	(54,563)	(52,603)	(1,988,070)
Futures	341,299		6,440,220
Options	21,641	(1,313)	(1,598)
Pay-Fixed Receive-Variable Interest Rate Swaps	7,157	(581)	(422,649)
Pay-Variable Receive-Fixed Interest Rate Swaps	(5,360)		
Rights	4,817	147	693
Total Return Swaps	(65,391)	(403)	(150,383)
Warrants	774	5,961	818
DISCRETE COMPONENT UNITS			
<i>Investment Derivatives</i>			
Futures	\$ 1,200	\$	\$ 15,093
Options	2,101	576	468
Total Return Swaps	(174)	48	(30,940)

* Of the net \$464,116 fair value for cash flow hedges, \$14,565 is reported as a hedging derivative asset and \$478,681 is reported as a hedging derivative liability.

Fair Value

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods.

The University of Texas System (UT) has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows. UT continued to use the zero-coupon method in determining the fair values of their effective interest rate swaps, but

also considered the nonperformance risk of the parties, as required by GASB Statement No. 72. All UT's interest rate swaps are classified in Level 2 of the fair value hierarchy.

The Veteran Land Board's (VLB) fair value measurements of its swap transactions were calculated by an independent third-party swap advisory consultant using the Income Approach, as described in GASB Statement No. 72. Using observable inputs from interest rate mar-

kets and credit default swap prices, the fair value measurements are determined based upon the present value of future implied cash flows. Since the inputs to these fair value measurements are observable from market data sources, they constitute Level 2 measurements, as described in GASB Statement No. 72.

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 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding), 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) adopted the Income Approach from GASB Statement No. 72 in the fair value measurement of their derivative instruments. Using observable inputs of interest rate markets and municipal bond yields, the fair value measurement is based on the present value of future implied cash flows reflective of nonperformance risk. All TDHCA's derivative instruments are classified in Level 2 of the fair value hierarchy.

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, 2017, are presented in table 7C. 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

Table 7C

(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	\$	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	7,135	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	24,265	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	13,820	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,405	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	23,015	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	24,255	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	26,775	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	26,375	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	28,715	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	30,200	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	30,375	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	32,025	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	31,990	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	33,120	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	57,855	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Bds Ser 2011A	57,655	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 1M LIBOR
Vet Bds Ser 2011B	58,840	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 1M LIBOR
Vet Bds Ser 2011C	59,945	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	60,065	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	80,300	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	85,295	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	128,785	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	33,495	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	25,290	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	8,610	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	54,195	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	133,125	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	24,345	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	14,025	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	21,610	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	9,800	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	18,015	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	19,300	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	15,470	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	12,880	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	19,255	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	32,560	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	14,990	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	55,815	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR

* PUF stands for permanent university fund and RFS stands for revenue financing system.

Continued on the following page

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

Table 7C

(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	\$	BBB+ / Baa1
Vet Land Ref Bds Ser '99A	N/A		BBB+ / Baa1
Vet Hsg Fund II Bds Ser 2001A-2	N/A		BBB+ / Baa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AA- / Aa2
Vet Land Bds Ser 2002	N/A		BBB+ / A3
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		AA- / Aa2
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2006A	N/A		AA / Aa3
Vet Hsg Fund II Bds Ser 2006D	N/A		A+ / A1
Vet Hsg Fund II Bds Ser 2007A	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2008A	N/A		AA / Aa3
Vet Hsg Fund II Bds Ser 2008B	N/A		AA- / Aa2
Vet Bds Ser 2010C	N/A		BBB+ / A3
Vet Bds Ser 2011A	N/A		A- / Baa2
Vet Bds Ser 2011B	N/A		A- / Baa2
Vet Bds Ser 2011C	N/A		AA- / Aa2
Vet Bds Ser 2012A	N/A		AA- / Aa2
Vet Bds Ser 2012B	N/A		AA- / Aa2
Vet Bds Ser 2013A	N/A		AA- / Aa2
Vet Bds Ser 2013B	N/A		AA- / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,652 1,018	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS > 71%	935 1,020	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	612	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	2,740	A+ / Aa3
Vet Bds Ser 2014A	N/A		AA- / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR > 7.00%	4,470	AA- / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR >= 7.00%	1,442	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	1M LIBOR >= 7.00%	2,594	A+ / Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	484 267	A+ / Aa3
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,367 567	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014B-3	1M LIBOR >= 7.00%	2,700	AA- / 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	AA- / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	1M LIBOR >= 7.00%	579	AA / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%	1,992	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	6M LIBOR >= 7.00%	1,493	A+ / Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,355 1,427	A+ / Aa3

* PUF stands for permanent university fund and RFS stands for revenue financing system.

Continued on the following page

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

Table 7C

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS (concluded)				
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	\$ 30,950	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	20,595	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	13,315	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	18,435	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	13,850	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	15,955	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	16,915	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	27,125	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Bds Ser 2014D	90,760	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% of 1M LIBOR
Vet Bds Ser 2015A	114,060	02/11/2015	06/01/2045	Pay 1.51%; receive 68% of 1M LIBOR
Vet Bds Ser 2015B	119,160	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of 1M LIBOR
Vet Bds Ser 2016	242,375	12/01/2016	12/01/2046	Pay 1.564%; receive 68% of 1M LIBOR
Vet Bds Ser 2017	249,690	08/01/2017	12/01/2047	Pay 1.175%; receive 68% of 1M LIBOR + 0.085%
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	27,020	03/01/2014	09/01/2034	Pay 3.67%; receive 65.5% of LIBOR + .20%
2004D Single Family	18,920	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	25,675	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
2007A Single Family	30,385	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	163,843	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	163,843	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	182,183	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	182,183	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	119,905	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	119,905	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	249,640	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA
RFS Bonds 2016G	250,000	12/01/2016	08/01/2045	Pay 2.000%; receive 100% of 1M LIBOR

* 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, 2017, the state was not exposed to credit

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

Table 7C
(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 (concluded)			
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	N/A		AA- / Aa2
Vet Land Tax Ref Bds Ser 2014C-3	6M LIBOR >= 7.00%	\$ 1,931	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-3	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	466 208	A+ / Aa3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,785	BBB+ / A3
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	BBB+ / A3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	886	AA- / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	2,725	A+ / Aa3
Vet Bds Ser 2014D	N/A		AA- / Aa2
Vet Bds Ser 2015A	N/A		A- / Baa2
Vet Bds Ser 2015B	N/A		AA- / Aa2
Vet Bds Ser 2016	N/A		AA- / Aa2
Vet Bds Ser 2017	N/A		A+ / A1
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 (Review Upgrade)/A1 (Stable)
2005A Single Family	N/A		A+ (Stable)/ Aa3 (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		Aa2/AA-
RFS Bonds 2007B	N/A		Aa3/A+
PUF Bonds 2008A	N/A		Aa2/AA-
PUF Bonds 2008A	N/A		A1/A+
RFS Bonds 2008B	N/A		Aa3/A+
RFS Bonds 2008B	N/A		A3/BBB+
RFS Bonds 2008B	N/A		Aa3/A+
RFS Bonds 2016G	N/A		A1/A+

* PUF stands for permanent university fund and RFS stands for revenue financing system.

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 amortization 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 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) 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. At termination, if the fair value of the swap is negative, the state would owe the counterparty a termination payment equal to the swap's negative fair value; however, if the fair value of the swap is positive, the counterparty would owe the state a termination payment equal to the swap's positive 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 2000 (now a part of State of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) 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 Standard & Poor's and Moody's Investor Service. 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 Texas 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, 2017, are \$419.4 million for the primary government, \$2.3 million for discrete component units and \$3.3 million for fiduciary funds. Table 8A presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2017.

Noncancelable Operating Lease Obligations			
Table 8A			
August 31, 2017 (Amounts in Thousands)			
Year	Minimum Future Lease Payments		
	Primary Government	Component Units	Fiduciary Funds
2018	\$ 331,892	\$ 1,748	\$ 2,275
2019	284,181	1,718	1,926
2020	220,780	1,670	1,876
2021	181,703	1,580	1,082
2022	142,385	1,439	173
2023-2027	315,940	1,052	
2028-2032	24,781		
2033-2037	9,458		
2038-2042	10,289		
2043-2047	12,333		
2048 and beyond	63		
Total	<u>\$ 1,533,805</u>	<u>\$ 9,207</u>	<u>\$ 7,332</u>

Additionally, the permanent school fund (PSF), the University of Texas System (UT), the Texas A&M University System (A&M) and the Texas Tech University System (Tech) have leased buildings, equipment and land to outside parties under various operating leases.

Table 8B presents estimated future lease rental income on noncancelable operating leases as of Aug. 31, 2017.

Noncancelable Operating Lease Rental Income			
Table 8B			
August 31, 2017 (Amounts in Thousands)			
Year	Minimum Future Lease Rental Income		
	Primary Government	Component Units	Fiduciary Funds
2018	\$ 43,446	\$ 418	\$ 42
2019	35,799	33	42
2020	33,000		41
2021	29,343		41
2022	27,633		46
2023 and beyond	334,834		440
Total	<u>\$ 504,055</u>	<u>\$ 451</u>	<u>\$ 652</u>

The carrying value of PSF's leased assets is \$257.8 million. The historical cost of PSF's leased buildings is \$11 million and related accumulated depreciation is \$833 thousand. The historical cost of PSF's leased land is \$247.6 million. Depreciation is not recorded on most of PSF's assets because they are held for investment purposes in a permanent fund. Real estate investments are reappraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2017, PSF reported contingent rental revenues in the amount of \$979 thousand.

As of Aug. 31, 2017, the carrying value of UT's leased assets is \$111.5 million. The historical cost of UT's leased buildings is \$165.8 million and related accumulated depreciation is \$68.7 million. The historical cost of UT's leased land is \$14.4 million. UT reported contingent rental revenues of \$387 thousand.

As of Aug. 31, 2017, the carrying value of A&M's leased assets is \$62.9 million. The historical cost of A&M's leased buildings is \$105 million and related accumulated depreciation is \$43.5 million. The historical cost of A&M's leased equipment is \$87 thousand and related accumulated depreciation is \$84 thousand. The historical cost of A&M's leased land is \$1.4 million.

As of Aug. 31, 2017, the carrying value of Tech's leased assets is \$41.9 million. The historical cost of Tech's leased buildings is \$62.2 million and the related accumulated depreciation is \$20.6 million. The historical cost of Tech's leased land is \$291 thousand.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are record-

ed 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.

Table 8C is a summary of the future minimum lease payments for capital leases.

Year	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities			Principal	Interest	Total Future Minimum Lease Payments
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments			
2018	\$ 4,023	\$ 10	\$ 4,033	\$12,146	\$ 2,503	\$14,649	\$ 46	\$ 7	\$ 53
2019	3,677	9	3,686	9,728	2,717	12,445	47	4	51
2020	3,648	7	3,655	6,328	2,086	8,414	38	2	40
2021	3,632	7	3,639	5,031	1,854	6,885			
2022	3,600		3,600	3,741	1,683	5,424			
2023-2027	4,503		4,503	12,992	6,588	19,580			
2028-2032				14,855	3,552	18,407			
2033-2037				8,263	478	8,741			
Total	<u>\$23,083</u>	<u>\$ 33</u>	<u>\$23,116</u>	<u>\$73,084</u>	<u>\$21,461</u>	<u>\$94,545</u>	<u>\$ 131</u>	<u>\$ 13</u>	<u>\$ 144</u>

Table 8D presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2017.

Type	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities		Assets under Capital Lease	Accumulated Depreciation
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation		
Land	\$	\$	\$ 11	\$	\$	\$
Buildings			50,386	(9,435)		
Furniture and Equipment	35,454	(19,303)	44,025	(18,147)	241	(44)
Vehicles, Boats, Aircraft	83	(14)	634	(128)		
Computer Software	1,036	(604)	9,652	(2,760)		
Other Assets			2,015			
Total	<u>\$ 36,573</u>	<u>\$(19,921)</u>	<u>\$106,723</u>	<u>\$(30,470)</u>	<u>\$ 241</u>	<u>\$(44)</u>

Note 9

Retirement Plans

Defined Benefit Pension Plans

The state of Texas has three retirement systems in its financial reporting entity – Employees Retirement System of Texas (ERS), Teacher Retirement System of Texas (TRS), and Texas Emergency Services Retirement System (TESRS). These three retirement systems administer the following six defined benefit pension plans:

- ERS – the Employees Retirement System of Texas Plan (ERS Plan), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan), the Judicial Retirement System of Texas Plan One (JRS1 Plan) and Judicial Retirement System of Texas Plan Two (JRS2 Plan);
- TRS – the Teacher Retirement System of Texas Plan (TRS Plan); and
- TESRS – the Texas Emergency Services Retirement System Plan (TESRS Plan).

ERS, LECOS, JRS2, TRS and TESRS Plans are administered through trust; JRS1 Plan is operated on a pay-as-you-go basis.

The state implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, in fiscal 2015. The implementation of GASB Statement No. 68 impacts the reporting of the ERS, LECOS, JRS2, TRS and TESRS Plans which are administered through trust. In fiscal year 2017, the state implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The implementation of GASB Statement No. 73 affects the disclosure of the JRS1 Plan. JRS1 Plan has no plan assets and is not set up under trust or equivalent arrangements. In fiscal

2017, the state implemented GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*, with paragraph 7 not applicable to the state of Texas pension plans. The implementation of GASB Statement No. 82 insignificantly impacts the state of Texas pension plans.

Employees Retirement System of Texas (ERS)

The board of trustees of ERS is the administrator of the ERS, LECOS, JRS1 and JRS2 Plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. Each of these four plans is considered a single employer defined benefit plan under GASB Statement No. 68. The benefit and contribution provisions of the ERS Plans are authorized by state law and may be amended by the Legislature.

Employees Retirement System of Texas Plan (ERS Plan)

In addition to the state of Texas, the ERS Plan includes employers that are component units of the state. ERS 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. Pension activity for the ERS Plan is reported in governmental activities in the state's basic financial statements. Additionally, due to immateriality, separate disclosure for the State Bar of Texas is not presented.

The ERS Plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who are included in the coverage of TRS, JRS1 and JRS2 Plans. Elected class includes elected state officials not included in the coverage of the JRS1 and JRS2 Plans, members of the Legislature and district and criminal district attorneys.

The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before Aug. 31, 2009, 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 average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class 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.

ERS issues a stand-alone audited Comprehensive Annual Financial Report (CAFR). Information on vesting and tier requirements may be obtained from ERS' CAFR:

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS Plan)

The LECOS Plan provides a supplemental retirement benefit to some employees in the ERS employee class.

The LECOS Plan covers custodial officers who are certified in accordance with the statutory requirements as having a normal job assignment that requires

frequent or infrequent regularly planned contact with inmates managed by hiring institutions. The plan also covers law enforcement officers who have been commissioned by the Commission on Law Enforcement Officer Standards and Education. The monthly benefit amount payable to LECOS Plan members is equal to the excess of total benefit over the regular benefit payable to the same members under the ERS Plan.

Total monthly standard annuity of the LECOS Plan members 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 number of years of service credit. The average monthly compensation of the LECOS Plan members may vary depending on the hire date. For members hired on or before Aug. 31, 2009, 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 average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of highest 60 months of compensation. Information on vesting and tier requirements may be obtained from ERS' CAFR.

Judicial Retirement System of Texas Plan Two (JRS2 Plan)

The JRS2 Plan covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, District Courts and certain commissioners to a court who first became members after Aug. 31, 1985.

The monthly benefit for members of the JRS2 Plan 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. Information on vesting and tier requirements may be obtained from ERS' CAFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2016 is presented in table 9A.

Employees Retirement System's Membership			
Table 9A			
	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries			
Currently Receiving Benefits	103,758	11,515	331
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	108,873	15,203	166
Current Employees			
Vested and Non-Vested	146,390	39,066	548
Total Members	359,021	65,784	1,045

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2016 are presented in table 9B.

Required Contribution Rates						
Table 9B						
Plan	Employer			Members		
	Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
ERS	10.0%	10.0%	10.0%	9.5%	9.5%	9.5%
LECOS*	1.6%**	N/A	N/A	0.5%	N/A	N/A
JRS2	15.663%	N/A	N/A	7.2%	N/A	N/A

* Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.
 ** The 1.6% consists of 0.5% 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 1.1% of payroll.

The state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2016 measurement period were \$686.8 million, \$27.5 million and \$12.4 million respectively.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the

five-year period from Sept. 1, 2006 through Aug. 31, 2011. Additionally, the actuarial valuation as of Aug. 31, 2016, incorporates the most significant across-the-board pay increases budgeted by the state Legislature for the fiscal 2016 - 2017 biennium. Table 9C presents the actuarial methods and assumptions used to measure the total pension liability for the ERS, LECOS and JRS2 Plans as of the Aug. 31, 2016, measurement date.

Actuarial Methods and Assumptions

Table 9C

	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	August 31, 2016	August 31, 2016	August 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Actuarial Assumptions:			
Discount Rate	5.73%	3.69%	6.53%
Investment Rate of Return	8.0%	8.0%	8.0%
Inflation	3.5%	3.5%	3.5%
Salary Increase	0% to 11.5%	5% to 11.5%	3.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected compounded annually on Sept. 1	None	None

Table 9D presents the single blended rate applied to measure the total pension liability, the long-term expected rate of return on pension plan investments and the 20-year municipal bond rate for the ERS, LECOS and JRS2 Plans.

Assumptions for Single Discount Rate

Table 9D

	ERS Plan	LECOS Plan	JRS2 Plan
Single discount rate	5.73%	3.69%	6.53%
Investment rate of return	8.00%	8.00%	8.00%
Municipal bond rate*	2.84%	2.84%	2.84%
Year fiduciary net position depleted	2050	2035	2045

* The source of the municipal bond rate is the Federal Reserve Statistical Release H. 15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality.

The fiduciary net position for the ERS, LECOS and JRS2 Plans is projected to be depleted in fiscal 2050, 2035 and 2045 respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal 2049 for the ERS Plan, fiscal 2034 for the LECOS Plan and fiscal 2044 for the JRS2 Plan. The municipal bond rate was applied to all remaining projected benefit payments

after fiscal 2049 for the ERS Plan, after fiscal 2034 for the LECOS Plan and after fiscal 2044 for the JRS2 Plan.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of the Legislature's commitment to increase funding for the pension funds. The Legislature passed House Bill No. 9 in the 84th legislative session during fiscal 2015 to increase the member contribution rates for fiscal 2016 and 2017. The state contribution rates also increased as a result of this legislative session. The Legislature also maintained some changes made by Senate Bill No. 1459 in the 83rd legislative session. Considering these above events, the projected employer contributions are based on fiscal 2016 funding level.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on

investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the ERS, LECOS and JRS2 Plans' investment portfolio are presented in table 9E.

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real of Return
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
Total	100%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis for the ERS, LECOS and JRS2 Plans are presented in table 9F.

	1% Decrease	Current Discount Rate	1% Increase
ERS Plan			
Discount Rate	4.73%	5.73%	6.73%
NPL	\$ 25,445,335	\$ 19,756,977	\$ 15,011,936
LECOS Plan			
Discount Rate	2.69%	3.69%	4.69%
NPL	\$ 1,723,378	\$ 1,353,753	\$ 1,057,973
JRS2 Plan			
Discount Rate	5.53%	6.53%	7.53%
NPL	\$ 155,036	\$ 105,362	\$ 62,709

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statements No. 31 and 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2016 CAFR.

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2016. For fiscal 2017 reporting, the measurement date of the state's net pension liability is Aug. 31, 2016. The schedule of changes in the state's net pension liability for the fiscal year ending Aug. 31, 2017 is presented on table 9G.

Schedule of Changes in Net Pension Liability

Table 9G

As of Measurement Date of August 31, 2016
(Amounts in Thousands)

	ERS Plan	LECOS Plan	JRS2 Plan
Total Pension Liability			
Service Cost	\$ 1,146,791	\$ 71,429	\$ 19,429
Interest on the Total Pension Liability	2,522,625	88,410	30,980
Difference between Expected and Actual			
Experience of the Total Pension Liability	133,557	(21,657)	(5,833)
Assumption Changes*	5,301,965	375,371	23,396
Benefit Payments and Refunds	(2,147,307)	(64,540)	(21,154)
Net Change in Total Pension Liability	<u>6,957,631</u>	<u>449,013</u>	<u>46,818</u>
Total Pension Liability – Beginning	<u>37,264,926</u>	<u>1,764,789</u>	<u>439,664</u>
Total Pension Liability – Ending	<u>\$44,222,557</u>	<u>\$2,213,802</u>	<u>\$486,482</u>
Plan Fiduciary Net Position			
Contributions – Employer	\$ 686,763	\$ 27,497	\$ 12,374
Contributions – Member	674,678	9,539	5,754
Pension Plan Net Investment Income	1,273,413	44,831	19,862
Benefit Payments and Refunds	(2,147,307)	(64,540)	(21,155)
Pension Plan Administrative Expense	(20,449)	(1,421)	(225)
Net Change in Plan Fiduciary Net Position	<u>467,098</u>	<u>15,906</u>	<u>16,610</u>
Plan Fiduciary Net Position – Beginning	<u>23,998,482</u>	<u>844,143</u>	<u>364,510</u>
Plan Fiduciary Net Position – Ending	<u>\$24,465,580</u>	<u>\$ 860,049</u>	<u>\$381,120</u>
Net Pension Liability – Beginning	<u>13,266,444</u>	<u>920,646</u>	<u>75,154</u>
Net Pension Liability – Ending	<u>\$19,756,977</u>	<u>\$1,353,753</u>	<u>\$105,362</u>

* The change in the total pension liability due to the change in the single discount is included as an assumption change.

The change of discount rate is the assumption change during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date.

For the fiscal year ending Aug. 31, 2017, the state recognized pension expense of \$2.2 billion, \$190.0

million and \$23.9 million respectively for the ERS, LECOS and JRS2 Plans. At Aug. 31, 2017, the state reported deferred outflows of resources and deferred inflows of resources from the sources for these plans in table 9H.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9H

(Amounts in Thousands)

	ERS Plan		LECOS Plan		JRS2 Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 92,208	\$ 127,346	\$	\$ 55,859	\$	\$ 9,136
Changes of assumptions	3,752,726	1,299,250	418,429		33,830	6,084
Net difference between projected and actual investment return	1,046,698		37,099		16,064	
Contributions subsequent to the measurement date	700,078		26,583		12,495	
Total	<u>\$5,591,710</u>	<u>\$1,426,596</u>	<u>\$ 482,111</u>	<u>\$ 55,859</u>	<u>\$ 62,389</u>	<u>\$ 15,220</u>

The \$700.1 million, \$26.6 million and \$12.5 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the ERS, LECOS and JRS2 Plans respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2018.

Table 9I presents amounts reported as deferred outflows and inflows of resources related to pensions that will be recognized in pension expense in the following years for the ERS, LECOS and JRS2 Plans.

Amortization Impact of Deferred Outflows and Inflows of Resources on Pension Expense*

Table 9I
(Amounts in Thousands)
Year ended August 31:

	ERS Plan	LECOS Plan	JRS2 Plan
2018	\$ 812,445	\$104,669	\$8,631
2019	1,639,312	104,669	13,232
2020	890,437	115,919	10,977
2021	122,842	74,411	1,834
2022	-	-	-
Thereafter	-	-	-

* Positive amounts indicate increase in pension expense; negative amounts indicate decrease in pension expense.

Judicial Retirement System of Texas Plan One (JRS1 Plan)

The JRS1 Plan is a single-employer defined benefit pension plan that is not administered through trust.

The JRS1 Plan covers the same kind of membership as the JRS2 Plan except JRS1 Plan members began membership prior to Sept. 1, 1985.

As a result of new judicial officers participating in the JRS2 Plan, the JRS1 Plan membership continues to decrease. Table 9J presents the membership for the JRS1 Plan as of Aug. 31, 2016.

Judicial Retirement System of Texas Plan One (JRS1 Plan)'s Membership

Table 9J

	JRS1 Plan
Retirees and Beneficiaries	
Currently Receiving Benefits	374
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	2
Current Employees	
Vested and Non-Vested	10
Total Members	<u>386</u>

Members are required to contribute a percentage of their monthly gross compensation 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 statutorily established like the other ERS Plans.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied in the actuarial valuations were based on an experience study covering the five-year period from Sept. 1, 2006 through Aug. 31, 2011. Table 9K presents the actuarial methods and assumptions used to measure the total pension liability for the JRS1 Plan as of the Aug. 31, 2016, measurement date.

Actuarial Methods and Assumptions

Table 9K

	JRS1 Plan
Actuarial Valuation Date	August 31, 2016
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate*	2.84%
Inflation	3.5%
Salary Increase	3.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	3.5% compounded annually on Sept. 1

* the discount rate is a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's total pension liability. The results of the analysis for the JRS1 Plan is presented in table 9L.

Sensitivity of Total Pension Liability to Changes in Discount Rate			
Table 9L			
(Amounts in Thousands)			
	1% Decrease	Current Discount Rate	1% Increase
JRS1 Plan			
Discount Rate	1.84%	2.84%	3.84%
TPL	\$ 360,895	\$ 328,044	\$ 299,981

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2016. For fiscal 2017 reporting, the measurement date of the state's total pension liability is Aug. 31, 2016. The schedule of changes in the state's total pension liability for the fiscal year ending Aug. 31, 2017 is presented on table 9M.

Schedule of Changes in Total Pension Liability *	
Table 9M	
As of Measurement Date of August 31, 2016	
(Amounts in Thousands)	
	<u>JRS1 Plan</u>
Total Pension Liability	
Service Cost	\$ 357
Interest on the Total Pension Liability	11,265
Difference between Expected and Actual Experience of the Total Pension Liability	5,488
Assumption Changes**	26,760
Benefit Payments and Refunds	(25,536)
Net Change in Total Pension Liability	<u>18,334</u>
Total Pension Liability – Beginning	<u>309,710</u>
Total Pension Liability – Ending	<u><u>\$ 328,044</u></u>

* There are no assets accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 73 to pay related benefits.

** The change in the total pension liability due to the change in the single discount is included as an assumption change.

For the fiscal year ending Aug. 31, 2017, the state recognized pension expense of \$43.9 million for the

JRS1 Plan. Since the expected remaining service lives is one year, at Aug. 31, 2017, the state did not report deferred outflows of resources and deferred inflows of resources related to pensions for (1) Differences between expected and actual experience; and (2) Changes of assumptions.

The \$24.3 million reported as deferred outflows of resources resulting from transactions subsequent to the measurement date for the JRS1 Plan will be recognized as a reduction in the total pension liability for the year ending Aug. 31, 2018.

Teacher Retirement System of Texas (TRS)

Teacher Retirement System of Texas Plan (TRS Plan)

TRS is the administrator of the TRS plan, a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation.

The employers of the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, community and junior colleges. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard workload and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before Aug. 31, 2005, and meet certain

criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost of living adjustments (COLAs).

TRS issued a stand-alone audited Comprehensive Annual Financial Report (CAFR). The TRS CAFR may be obtained from:

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

The state is both an employer and a non-employer contributing entity under the TRS Plan. The state makes contributions to the plan for its employees as well as the employees of the Texas public school districts. During the measurement period of 2016 for fiscal 2017 reporting, the amount of the state's contributions recognized by the plan was \$473 million for the state as an employer and \$1.7 billion for the state as a non-employer contributing entity. Similar to the ERS, LECOS and JRS2 Plans, the contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period of fiscal 2016 are presented in table 9N.

Required Contribution Rates	
Table 9N	
	<u>TRS Plan</u>
Contribution Rates	
Employer	6.8%
Non-Employer Contributing Entity (State)	6.8%
Employees	7.2%

The total pension liability is determined by an annual actuarial valuation. Table 9O presents the actuarial methods and assumptions used to measure the total pension liability as of the Aug. 31, 2016 measurement date.

Actuarial Methods and Assumptions

Table 9O

	<u>TRS Plan</u>
Actuarial Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Actuarial Assumptions:	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Mortality	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the four-year period ending Aug. 31, 2014, and adopted in Sept. 2015. The active mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females. The Post-Retirement mortality rates were based on the 2015 TRS Healthy Pensioner Mortality Tables.

There have been no changes to the benefit provisions of the plan since the prior measurement date.

The discount rate of 8.00 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. The projected cash flows into and out of the pension plan assumed that members, employers and non-employer contributing entity make their contributions at the statutorily required rates. Under this assumption, the pension plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current plan members. Therefore, the 8.00 percent long-term expected rate of return on pension plan investments was used as the discount rate without incorporating the municipal bond rate.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of invest-

ment portfolio, target allocation, real rate of return on investments and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class for the plan's investment portfolio are presented in table 9P.

Target Allocations		
TRS Plan		
Table 9P		
Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18%	4.6%
Non-U.S. Developed	13%	5.1%
Emerging Markets	9%	5.9%
Directional Hedge Funds	4%	3.2%
Private Equity	13%	7.0%
Stable Value		
U.S. Treasury	11%	0.7%
Absolute Return	0%	1.8%
Stable Value Hedge Funds	4%	3.0%
Cash	1%	(0.2)%
Real Return		
Global Inflation Linked Bonds	3%	0.9%
Real Assets	16%	5.1%
Energy and Natural Resources	3%	6.6%
Commodities	0%	1.2%
Risk Parity		
Risk Parity	5%	6.7%
Total	<u>100%</u>	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in the table 9Q.

Sensitivity of Net Pension Liability to Changes in Discount Rate

Table 9Q

(Amounts in Thousands)

TRS Plan		
State as Employer		
Current		
1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
\$ 8,690,420	\$ 5,615,188	\$ 3,006,770
State as Non-Employer Contributing Entity		
Current		
1% Decrease (7%)	Discount Rate (8%)	1% Increase (9%)
\$ 30,843,444	\$ 19,929,042	\$ 10,671,423

The pension plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TRS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach and the income approach. More detailed information on the plan's investment policy, assets and fiduciary net position, may be obtained from TRS' fiscal 2016 CAFR.

At Aug. 31, 2017, the state reported a liability of \$5.6 billion for its proportionate share of the collective net pension liability as an employer and a liability of \$19.9 billion for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2016, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The state's proportion increased from 14.11 percent at Aug. 31, 2015, to 14.86 percent at Aug. 31, 2016, and decreased from 53.75 percent to 52.74 percent for its role as an employer and non-employer contributing entity respectively. The

state's proportions of the collective net pension liability were based on its contributions to the pension plan relative to the contributions of all the employers and non-employer contributing entity to the plan for the period Sept. 1, 2015 through Aug. 31, 2016.

The state recognized pension expense for its employees' pension and grant expense for the pen-

sion of Texas public school district and junior college employees. For the year ending Aug. 31, 2017, the state recognized pension expense of \$589 million and grant expense of \$2.1 billion. At Aug. 31, 2017, the state reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources in table 9R.

Deferred Outflows and Deferred Inflows of Resources

Table 9R

(Amounts in Thousands)

TRS Plan	State as Employer		State as Non-Employer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 88,045	\$ 167,666	\$ 312,484	\$ 595,070
Changes of assumptions	171,141	155,646	607,401	552,407
Net difference between projected and actual investment return	475,483		1,687,550	
Change in proportion and contribution difference	259,581	692,540		1,784,092
Contributions subsequent to the measurement date	495,500		1,697,963	
Total	<u>\$ 1,489,750</u> *	<u>\$ 1,015,852</u> **	<u>\$ 4,305,398</u>	<u>\$ 2,931,569</u>

* The state's proportionate share of deferred outflows of resources as an employer consists of \$291,658 reported in governmental activity and \$1,198,091 reported in business-type activity.

** The state's proportionate share of deferred inflows of resources as an employer consists of \$389,957 reported in governmental activity and \$625,895 reported in business-type activity.

Amortization Impact of Deferred Outflows and Inflows of Resources on Pension/Grant Expense

Table 9S

(Amounts in Thousands)

Year Ended August 31:

	TRS Plan	
	State as Employer Pension Expense*	State as Non-Employer Contributing Entity Grant Expense*
2018	\$ (47,641)	\$ (191,318)
2019	(47,641)	(191,318)
2020	255,645	885,084
2021	(70,942)	(274,047)
2022	(132,178)	(505,061)
Thereafter	21,156	(47,474)

* Positive amounts indicate increase in pension or grant expense; negative amounts indicate decrease in pension or grant expense.

The \$495 million and \$1.7 billion reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as an employer and non-employer contributing entity respectively will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2018.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense and grant expense as follows in table 9S.

Texas Emergency Services Retirement System (TESRS)

Texas Emergency Services Retirement System plan (TESRS Plan)

TESRS is an agency of the state of Texas and the administrator of the TESRS Plan, a cost-sharing multiple-employer defined benefit pension plan with a special funding situation.

The TESRS Plan provides pension benefits for emergency services personnel who serve without significant monetary remuneration through participating fire or emergency services departments within the state. The TESRS Plan provides pension benefits to members with vested service and their beneficiaries as well as death and disability benefits to active volunteer fire fighters and first responders. The benefit and contribution provisions of the TESRS Plan are set by the TESRS board authorized by state law and may be amended by the board. Members are 50 percent vested after the tenth year of service, with the vesting percent increasing 10.00 percent for each of the next five years of service. For a vested member, the monthly pension benefit equals the member's vested percent multiplied by six times the average monthly contribution of the governing body (of the participating department) over the member's years of qualified service. For years of service in excess of 15 years, the monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic postretirement benefit changes.

Contribution provisions are composed of two parts: Part One contributions and Part Two contributions. Part One contributions are determined by the TESRS Board of Trustees and Part Two contributions are actuarially determined.

Part One contributions: Contributions are made by the governing bodies for the participating departments. The governing bodies of each participating

department are required to make contributions for each month a member performs emergency services for the department. The contributions from the governing bodies are at a minimum rate of \$36 per member and there is no limit to the maximum rate. Individuals who are members of the TESRS Plan are not required, nor allowed, to make contributions. The state is required to contribute an amount necessary to make the system "actuarially sound" each year, which may not exceed one-third of the total contributions made by participating governing bodies in a particular year.

Part Two contributions: In case the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation, an actuarially determined contribution not to exceed 15 percent of the Part One contributions is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of Aug. 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning Sept. 1, 2017.

The state of Texas is not an employer of the members under the TESRS Plan. However, the state makes contributions directly to the TESRS Plan for members of the participating fire or emergency services departments in the state. During the measurement period of 2016 for fiscal 2017 reporting, the amount of the state's contributions recognized by the plan was \$1.6 million.

The total pension liability is determined by an actuarial valuation as of Aug. 31, 2016. Table 9T presents the actuarial methods and assumptions used to measure the total pension liability as of the Aug. 31, 2016 measurement date.

Actuarial Methods and Assumptions

Table 9T

	TESRS Plan
Actuarial Valuation Date	August 31, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Actuarial Assumptions:	
Discount Rate	7.75%
Investment Rate of Return	7.75%
Inflation	3.00%
Salary Increase	N/A
Mortality	RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.
Ad Hoc Post-Retirement Benefit Changes	None

The discount rate of 7.75 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. No projection of cash flows was used to determine the discount rate because the Aug. 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, TESRS Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on the TESRS Plan investments was applied to all periods of projected benefit payments without incorporating the municipal bond rate.

The long-term expected rate of return on the TESRS Plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target

asset allocation percentage and by adding expected inflation. In addition, the final 7.75 percent assumption reflected a reduction of 0.22 percent for adverse deviation.

The target allocation and expected arithmetic real rates of return for each major asset class for the TESRS Plan's investment portfolio are presented in table 9U.

Target Allocation

TESRS Plan

Table 9U

Asset Class	Target Allocation	Long-Term Expected Arithmetic Net Real Rate of Return
Equities		
Large cap domestic	32%	5.7%
Small cap domestic	10%	6.0%
Developed International	21%	6.2%
Emerging markets	6%	7.2%
Master limited partnership	5%	7.6%
Fixed income		
Domestic	21%	1.6%
International	5%	1.8%
Cash	0%	0.0%
Total	<u>100%</u>	

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net pension liability. The results of the analysis are presented in table 9V.

Sensitivity of Net Pension Liability to Changes in Discount Rate

Table 9V

(Amounts in Thousands)

TESRS Plan

1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
\$ 17,048	\$ 10,070	\$ 5,623

The TESRS Plan's fiduciary net position is determined using economic resources measurement focus and accrual basis of accounting, which is the same basis used by TESRS. Contributions are recognized imme-

diately upon billing, reflecting actual participation in the member fire department during the prior quarter. Benefits are recognized when due and payable in accordance with the terms of the plan. Investments of the TESRS Plan are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, determines the fair values for the individual investments. More detailed information on the plan's investment policy, assets, and fiduciary net position may be obtained from the fiscal 2016 audited Annual Financial Report for TESRS:

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

At Aug. 31, 2017, the state reported a liability of \$10.1 million for its proportionate share of the collective net pension liability as a non-employer contributing entity. The collective net pension liability was measured as of Aug. 31, 2016, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2016. The state's proportion as a non-employer contributing entity decreased from 34.66 percent at Aug. 31, 2015 to 34.57 percent at Aug. 31, 2016. The state's proportion of the collective net pension liability was based on a fiscal 2016 schedule of contributions consisting of Part One contributions by the contributing fire and/or emergency services department members and the appropriated "maximum state contributions" as defined in the Texas Emergency Services Retirement System Act.

There has been no change of actuarial methods and benefit terms since the prior measurement date. The actuarial assumptions for mortality is based on RP – 2000 Combined Healthy Lives Mortality Tables for

males and for females projected to 2024 by scale AA in the measurement date as of Aug. 31, 2016.

The state recognized grant expense as a non-employer contributing entity for the pension of the volunteer emergency services personnel in the state. For the year ending Aug. 31, 2017, the state recognized grant expense of \$2.0 million. At Aug. 31, 2017, the state reported deferred outflows of resources and deferred inflows of resources related to the emergency services personnel's pension from the following sources in table 9W.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9W
(Amounts in Thousands)

	TESRS Plan	
	State as Non-Employer Contributing Entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 16	\$
Change of assumptions	214	
Net difference between projected and actual investment return	1,907	
Change in proportion and contribution difference	21	186
Contributions subsequent to the measurement date	1,584	
Total	<u>\$ 3,742</u>	<u>\$ 186</u>

The \$1.6 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as a non-employer contributing entity will be recognized as a reduction in the net pension liability for the year ending Aug. 31, 2018.

Amounts reported as deferred outflows and inflows of resources related to the emergency services personnel's pension will be recognized in grant expense in table 9X.

Amortization Impact of Deferred Outflows and Deferred Inflows of Resources on Grant Expense

Table 9X

(Amounts in Thousands)

Year ended August 31:

	TESRS Plan State as Non-Employer Contributing Entity Grant Expense
2018	\$458
2019	511
2020	868
2021	134
Thereafter	

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended Aug. 31, 2017, the state recognized pension expense of \$5.1 billion. Of this amount, \$2.1 billion is incurred as a non-employer contributing entity. The reported deferred outflows of resources and deferred inflows of resources related to pensions are identified in Note 27.

Defined Contribution Pension Plan

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 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 retirement 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 6.60 percent, respectively, for fiscal 2017. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 1.90 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 some two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2017 resulted in participant contributions of \$265.4 million and employer contributions of \$318.7 million.

As of Aug. 31, 2017, ORP had 37,615 participants. The total participant contributions were \$293.2 million and total employer contributions were \$353.4 million. Additional information for ORP is included in the fiscal 2017 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board (THECB). The report is available on THECB's website at www.theccb.state.tx.us/orp. The report can also be obtained from:

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

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 two deferred compensation plans. The first one, for UT employees, was created in accordance with Internal Revenue Code, Section 457(b), where 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. The second one, Physician Referral Service Supplemental Retirement Plan (SRP)/Retirement Benefit Plan (RBP), was created for physicians of the University of Texas M.D. Anderson Cancer Center (M.D. Anderson), a component unit of UT. It was established in accordance with Internal Revenue Code, Section 457(f). Only physicians hired before July 1, 1986, participate in the SRP. The remainder of eligible employees participates in the RBP. Assets of the SRP/RBP remain subject to the claims of the general creditors of M.D. Anderson.

The Texas A&M University System (A&M) offers a deferred compensation plan created in accordance with Internal Revenue Code, Section 457(f). It allows A&M to defer income for eligible participants without regard to

the amount deferred or an adverse impact on other retirement plans in which the participant is enrolled. All A&M employees are eligible to participate in this plan subject to the approval of the A&M board of regents, chancellor or any chancellor-designated member chief executive officer.

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), 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 Employees Retirement System of Texas (ERS) and Teacher Retirement System of Texas (TRS) implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal 2017. However, the state continues to follow GASB Statement No. 45 until the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal 2018. 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 University of Texas System Employee

Group Insurance Program (UT Plan) and Texas A&M University 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 publicly 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
 Controller's Office
 210 West 7th Street
 Austin, Texas 78701

Texas A&M University System
 301 Tarrow Street
 College Station, Texas 77840-7896

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 University 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 University 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 estab-

lished 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 table 11A.

Three-Year Trend Information

Table 11A
 (Amounts in Thousands)

Fiscal Year Ended	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/17	\$ 182,510	\$ 915,730	19.9%	\$5,380,651
8/31/16	197,816	860,270	23.0%	4,647,431
8/31/15	185,328	810,956	22.9%	3,984,976
A&M Plan				
8/31/17	\$ 74,423	\$ 241,975	30.8%	\$1,285,351
8/31/16	64,215	198,140	32.4%	1,117,799
8/31/15	62,620	186,728	33.5%	983,874

For the fiscal year ended Aug. 31, 2017, 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 table 11B. 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

Table 11B
 For the Fiscal Year Ended August 31, 2017

Level of Coverage	UT Plan		A&M Plan	
	Employer	Plan Member	Employer	Plan Member*
Retiree Only	\$ 598	\$	\$ 594	\$
Retiree/Spouse	912	258	875	281
Retiree/Children	799	269	789	195
Retiree/Family	1,114	507	989	395

* 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 Statement No. 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. Table 11C presents the components of the annual OPEB cost for the UT and A&M plans for fiscal 2017 and the net OPEB obligation for these two plans as of Aug. 31, 2017.

Annual OPEB Cost and Net OPEB Obligation		
Table 11C		
(Amounts in Thousands)		
	UT Plan	A&M Plan
Annual Required Contribution (ARC)	\$ 851,254	\$ 221,649
Interest on Net OPEB Obligation	278,846	78,245
Adjustment to ARC	(214,370)	(57,919)
Annual OPEB Cost	<u>915,730</u>	<u>241,975</u>
Employer Contributions Made	<u>(182,510)</u>	<u>(74,423)</u>
Increase in Net OPEB Obligation	<u>733,220</u>	<u>167,552</u>
Net OPEB Obligation, September 1, 2016	<u>4,647,431</u>	<u>1,117,799</u>
Net OPEB Obligation, August 31, 2017	<u>\$5,380,651</u>	<u>\$1,285,351</u>

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2017, based on UT's valuation as of Dec. 31, 2015 and A&M's valuation as of Sept. 1, 2016 valid for fiscal 2017 reporting, is presented in table 11D.

Funded Status

Table 11D

(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2015	Sept. 1, 2016
Actuarial Value of Plan Assets	\$	\$
Actuarial Accrued Liability (AAL)	<u>8,584,045</u>	<u>2,548,478</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 8,584,045</u>	<u>\$ 2,548,478</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	\$ 5,948,245	\$ 1,607,611
UAAL as a Percentage of Covered Payroll	144.3%	158.5%

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. The amounts which determine the funded status of the plan and the ARC 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 the 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 tech-

niques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. Table 11E provides additional detail on the actuarial methods and assumptions used in the UT and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

Table 11E

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2015	Sept. 1, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay	Level Percent of Pay
Amortization Period	30 years, Open	30 years, Open
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Projected Salary Increases	4.5% to 10.5%	4.5% to 10.5%
Investment Rate of Return	6.00%	7.00%
Includes Inflation at	3.50%	3.50%
Health Care Trend Rates	7% in fiscal 2017 Increasing to 8.00% in fiscal 2018 and declining to 5.5% in fiscal 2024	8% in fiscal 2018 and declining to 5.5% in fiscal 2023
Mortality Tables ¹	TRS tables ²	TRS tables ²

1. As most of the UT and A&M group insurance program OPEB plan members participate in the Teacher Retirement System (TRS) retirement plan, the mortality tables used by TRS retirement plan that reflects TRS specific experience was adopted for UT and A&M service retirees and UT disability retirees.
2. For UT and A&M service retirees, tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 were used. For disability retirees, same mortality tables for service retirees but using a three-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members were used.

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 61 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.

Plan Description

Retirees of state agencies, institutions of higher education including the University of Texas Medical Branch Correctional Managed Care program and the University of Texas Mental Sciences Institute of the University of Texas Health Science Center at Houston (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. Table 11F 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

Table 11F

For the Fiscal Year Ended August 31, 2017

Level of Coverage	ERS SRHP	
	Employer	Plan Member
Retiree Only	\$ 617	\$
Retiree/Spouse	971	354
Retiree/Children	854	237
Retiree/Family	1,208	590

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2017, the state contributed \$837 million to SRHP, which equaled the required contribution as established by the Legislature. In fiscal 2016 and fiscal 2015, the state contributed \$576 million and \$549 million, respectively. These contributions also equaled the contribution required by the Legislature.

Funded Status and Funding Progress

The funded status of ERS as of Aug. 31, 2017, based on ERS’s valuation as of Aug. 31, 2017, is presented in table 11G.

Funded Status

Table 11G

(Amounts in Thousands)

	ERS SRHP*
Actuarial Valuation Date	Aug. 31, 2017
Actuarial Value of Plan Assets	\$ 709,783
Actuarial Accrued Liability (AAL)	<u>29,720,305</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 29,010,522</u>
Funded Ratio (actuarial value of plan assets/AAL)	2.4%
Covered Payroll (active plan members)	\$ 11,745,310
UAAL as a Percentage of Covered Payroll	247.0%

* The values represented in ERS SRHP are for the entire cost-sharing OPEB plan administrators by ERS, in which the state is a participating employer.

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. The amount which determine the funded status of the plan is 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. The actuarial accrued liability 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 ERS valuation includes techniques designed to reduce short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. Table 11H provides additional detail on the actuarial methods and assumptions used in ERS valuation.

Summary of Actuarial Methods and Assumptions	
Table 11H	
	ERS SRHP
Actuarial Valuation Date	Aug. 31, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Amortization Period	30 years, Open
Asset Valuation Method	Market
Actuarial Assumptions:	
Projected Salary Increases	2.5% to 9.5%
Investment Rate of Return	4.50%
Includes Inflation at	2.50%
Health Care Trend Rates	8.5% in Fiscal 2019 and declining to 4.5% in Fiscal 2027

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 1,217 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 2017 contributions to the TRS-Care OPEB plan are presented in table 11I.

Schedule of Contributions from the Employers and Other Contributing Entities

Table 11I

For the Fiscal Year Ended August 31, 2017
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	\$ 180,416
On Behalf From State	303,760
On Behalf From Federal Government	24,303
	<u>\$ 508,479</u>

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 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976, which became effective September 1, 2017:

- Creates the TRS-Standard plan that provides a zero cost for generic prescriptions for certain maintenance drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Creates the TRS-Care Medicare Advantage Plan for Medicare-eligible participants, which will maintain similar benefits as current TRS-Care Medicare Advantage level 2 plan; and maintain Medicare Part D plan for prescription drug benefits.
- Eliminates the statutory requirement for TRS to provide a zero premium health benefit.

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. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. The three-year history of state, active employee and school districts is presented in table 11J.

Three-Year Trend Information			
Table 11J			
Fiscal Year Ended	State	Active Employee	School Districts
TRS-Care			
8/31/17	1.00%	0.65%	0.55%
8/31/16	1.00	0.65	0.55
8/31/15	1.00	0.65	0.55

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.

Funded Status and Funding Progress

The funded status of TRS-Care as of Aug. 31, 2017, based on TRS-Care's valuation as of Aug. 31, 2017, is presented in table 11K.

Funded Status

Table 11K

(Amounts in Thousands)

	TRS-Care*
Actuarial Valuation Date	Aug. 31, 2017
Actuarial Value of Plan Assets	\$ 399,536
Actuarial Accrued Liability (AAL)	43,885,785
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 43,486,249</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.9%
Covered Payroll (active plan members)	\$ 32,806,335
UAAL as a Percentage of Covered Payroll	132.6%

* The values represented in TRS-Care are for the entire cost-sharing OPEB plan administrators by TRS, in which the state is an on-behalf contributor.

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. The amount which determine the funded status of the plan is 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. The actuarial accrued liability 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 TRS-Care valuation are based on past experience and often modified for projected changes in conditions. Table

11L provides additional detail on the actuarial methods and assumptions used in TRS-Care valuation.

Summary of Actuarial Methods and Assumptions

Table 11L

	TRS-Care
Actuarial Valuation Date	Aug. 31, 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Projected Salary Increases	3.5% to 9.5%
Investment Rate of Return	3.42%
Includes Inflation at	2.50%
Health Care Trend Rates	7.0% for non-Medicare, 10.0% for Medicare retirees and 12.0% for prescriptions for all retirees in Fiscal 2019 and declining to 4.5% in Fiscal 2029
Mortality Tables	Active - RP-2014 tables ¹ Retiree - TRS tables ²

1. The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB.

2. The retirees mortality rates for healthy lives were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables, with full generational mortality using Scale BB.

Medicare Part D

In fiscal 2017, 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. Table 11M presents Medicare Part D receipts from the federal government as reported by the OPEB administrators in fiscal 2017.

Medicare Part D Receipts

Table 11M

For the Fiscal Year Ended August 31, 2017
(Amounts in Thousands)

UT Plan	\$ 19,500
A&M Plan	4,728
ERS SRHP	73,120
TRS-Care	38,335
	<u>\$ 135,683</u>

Note 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity with a requirement for repayment. These loans are reported as interfund receivables/payables and are classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as due from/due to. Activity occurring within the same fund is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as transfers-internal activities.

Certain reclassifications and eliminations are made between the fund financial statements and the govern-

ment-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 gen-

eral 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 \$24 million. There is also a \$976.5 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 \$1.4 billion transfer from the property tax relief fund and a \$1.3 billion transfer from the lottery fund to the foundation school fund for educational programs. There is also a \$1 billion transfer from the permanent school fund to the available school fund.

There is also \$734.4 million due from amount for the state highway fund from the Comptroller's office related to a November 2014 amendment to Article 3 of the Constitution. Under the amendment, a portion of the funds collected and deposited in the general revenue fund are transferred equally to the economic stabilization fund and the state highway fund. The funds were transferred to the state highway fund on Nov. 29, 2017.

The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2017, is presented in tables 12A-E.

Interfund Receivables/Payables						
Table 12A						
(Amounts in Thousands)						
Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
GOVERNMENTAL FUNDS						
General Fund	\$ 6,679	\$ 15	\$ 17,570	\$	\$ 24,249	\$ 15
Nonmajor Governmental Funds		207		2,125		2,332
	<u>6,679</u>	<u>222</u>	<u>17,570</u>	<u>2,125</u>	<u>24,249</u>	<u>2,347</u>
PROPRIETARY FUNDS						
Colleges and Universities	84,930	91,299	891,586	909,011	976,516	1,000,310
Nonmajor Enterprise Funds	160	248	1,980		2,140	248
	<u>85,090</u>	<u>91,547</u>	<u>893,566</u>	<u>909,011</u>	<u>978,656</u>	<u>1,000,558</u>
Total	<u>\$ 91,769</u>	<u>\$ 91,769</u>	<u>\$ 911,136</u>	<u>\$ 911,136</u>	<u>\$1,002,905</u>	<u>\$1,002,905</u>

Due From/Due To

Table 12B

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
GOVERNMENTAL FUNDS						
General Fund	\$ 196,476	\$	\$ 1,000	\$2,264,233	\$	\$ 176
State Highway Fund	979,693			3,760		
Permanent School Fund	5			36		
Nonmajor Governmental Funds	153,535			72,428		
	<u>1,329,709</u>	<u>0</u>	<u>1,000</u>	<u>2,340,457</u>	<u>0</u>	<u>176</u>
PROPRIETARY FUNDS						
Colleges and Universities	1,087,335			36,065		
Unemployment Trust Fund	4,207					
Lottery Fund				160,604		
Nonmajor Enterprise Funds	38,396			8,546		
Internal Service Fund	2,843			331,404		
	<u>1,132,781</u>	<u>0</u>	<u>0</u>	<u>536,619</u>	<u>0</u>	<u>0</u>
FIDUCIARY FUNDS						
Agency Funds				934		
Pension and Other Employee Benefit Trust Funds	428,426			13,286		
Private-Purpose Trust Funds	380					
	<u>428,806</u>	<u>0</u>	<u>0</u>	<u>14,220</u>	<u>0</u>	<u>0</u>
DISCRETELY PRESENTED COMPONENT UNITS						
	<u>0</u>	<u>176</u>	<u>0</u>	<u>0</u>	<u>1,000</u>	<u>0</u>
Total	<u>\$2,891,296</u>	<u>\$ 176</u>	<u>\$ 1,000</u>	<u>\$2,891,296</u>	<u>\$ 1,000</u>	<u>\$ 176</u>

Transfers In/Out

Table 12C

(Amounts in Thousands)

Fund Type	Transfers In	Transfers Out
	Other Funds	Other Funds
GOVERNMENTAL FUNDS		
General Fund	\$ 3,083,132	\$ 7,879,077
State Highway Fund	943,558	532,259
Permanent School Fund		1,056,412
Nonmajor Governmental Funds	2,345,437	2,238,237
	<u>6,372,127</u>	<u>11,705,985</u>
PROPRIETARY FUNDS		
Colleges and Universities	6,878,819	424,127
Lottery Fund		1,333,968
Nonmajor Enterprise Funds	84,495	55,116
Unemployment Trust Fund	189,071	
	<u>7,152,385</u>	<u>1,813,211</u>
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	117,236	115,717
Private-Purpose Trust Funds	380	7,215
	<u>117,616</u>	<u>122,932</u>
Total	<u>\$13,642,128</u>	<u>\$13,642,128</u>

Internal Balances per the Government-wide Financial Statements

Table 12D

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances	\$ 15,445	\$ (15,445)	\$ 0
CURRENT LIABILITIES			
Internal Balances	\$ 918,266	\$ (918,266)	\$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

Table 12E

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (5,345,718)
Business-Type Activities	\$ 5,345,718

Note 13

Classification of Fund Balances/ Net Position

Table 13A on the following pages presents a summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2017.

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 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 reported by the governmental function assigned to the agency.

Of the \$5.6 billion governmental funds total unassigned fund balance, \$11 billion is for the economic stabilization fund (ESF). The ESF was authorized by the Texas Constitution, Article III, Section 49g. This authorized a transfer to the ESF within 90 days after the end of the fiscal year. In November of each year, a transfer is made from the general revenue fund equal to 75 percent of the excess of the prior fiscal year net collections for oil and natural gas production taxes over 1987 collections. The transfer amount of each production tax is calculated separately and must be in excess of the 1987 threshold. An amendment to the Texas Constitution, passed in November 2014, amended the transfer to include the state highway fund. As of fiscal

2015, the ESF receives at least one-half of the 75 percent transferred and the remainder is transferred to the state highway fund.

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 Texas Legislature may appropriate within the statutory guidelines by a three-fifths vote of the members present in each house, amounts in the ESF that do not exceed the amount of any unanticipated deficit in a current biennium or anticipated revenue decline during the next biennium. The Texas 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.

In previous years, the corpus of the permanent school fund (PSF) was classified as nonspendable, and the balance of the PSF was classified as restricted based on provisions in the Texas Constitution which limit the use of the PSF to the support of public free schools. The Texas Constitution, Article 7 describes the fund as permanent, specifically describes how the PSF may be spent and explicitly restricts the Texas Legislature from appropriating any part of the PSF to any other purpose. The Texas Constitution allows the PSF to be spent on 1) transfers to the available school fund in accordance with Constitutional requirements, 2) expenses of managing the PSF land and investments, and 3) guaranteed bond payments in the event of default. Accordingly, in the current year and going forward, to the extent that these conditions exist, the portion of the fund balance that is spendable is classified as restricted based on Constitutional provisions that limit the use of the PSF to these purposes. The remainder of the fund balance is classified as nonspendable, in alignment with the PSF's permanent nature as described in the Constitution.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Per GASB Statement No. 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.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned

Table 13A

(Amounts in Thousands)

	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	\$ 236,954	\$ 153,869	\$ 100	\$ 324	\$ 391,247
Long-term Receivables	458,976				458,976
Permanent Principal			40,083,621	861,045	40,944,666
Prepaid Items	2,256				2,256
Total Nonspendable	<u>698,186</u>	<u>153,869</u>	<u>40,083,721</u>	<u>861,369</u>	<u>41,797,145</u>
Restricted:					
Capital Purposes	88,408			745,503	833,911
Debt Service				323,052	323,052
Economic and Consumer Affairs	506,490			48,038	554,528
Education – Public Schools	186,218		1,334,246	941,766	2,462,230
Education – Loan Programs				1,148,119	1,148,119
Environment and Natural Resources – Other	23			2,754,766	2,754,789
General Government*	201,418			285,230	486,648
Parks and Recreation	36,744			5,510	42,254
Public Health and Welfare – Federal Programs	14,095				14,095
Public Health and Welfare – Public Programs	56,857			24,010	80,867
Public Safety and Criminal Justice	55,308			43,113	98,421
Public Safety and Criminal Justice – Corrections				141	141
Public Safety and Criminal Justice – Law Enforcement	12,329			10,332	22,661
Transportation – Construction		1,808,625			1,808,625
Transportation – Licensing and Regulation		117,858			117,858
Transportation – Maintenance		172,022			172,022
Transportation – Other	8,140	981,291		910,381	1,899,812
Total Restricted	<u>1,166,030</u>	<u>3,079,796</u>	<u>1,334,246</u>	<u>7,239,961</u>	<u>12,820,033</u>

Concluded on the following page

* 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.

Governmental Fund Balances – Nonspendable, Restricted, Committed, Assigned and Unassigned (concluded)

Table 13A

(Amounts in Thousands)

	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Committed:					
Capital Purposes	\$ 11,892	\$	\$	\$	\$ 11,892
Economic and Consumer Affairs	684,453			5,628	690,081
Education – Public Schools	84,523			9,819	94,342
Education – Loan Programs	364,606				364,606
Environment and Natural Resources – Other	2,260,901				2,260,901
General Government*	424,455			24,599	449,054
Parks and Recreation	92,836				92,836
Public Health and Welfare – Federal Programs	255				255
Public Health and Welfare – Public Programs	410,377				410,377
Public Safety and Criminal Justice	188,881			9,366	198,247
Public Safety and Criminal Justice – Corrections				34,871	34,871
Public Safety and Criminal Justice – Law Enforcement	22,035				22,035
Transportation – Construction		566,065			566,065
Transportation – Maintenance		53,840			53,840
Transportation – Other		307,126		24,888	332,014
Total Committed	<u>4,545,214</u>	<u>927,031</u>	<u>0</u>	<u>109,171</u>	<u>5,581,416</u>
Assigned:					
Economic and Consumer Affairs	216				216
General Government*	50,664			2,795	53,459
Transportation – Construction		535,366			535,366
Transportation – Maintenance		50,919			50,919
Transportation – Other		290,468			290,468
Total Assigned	<u>50,880</u>	<u>876,753</u>	<u>0</u>	<u>2,795</u>	<u>930,428</u>
Unassigned:					
Economic and Consumer Affairs	12,224				12,224
Education	115,056				115,056
Environment and Natural Resources	39,640			(11,171)	28,469
General Government*	(6,113,638)			1,733	(6,111,905)
General Government - ESF	11,043,163				11,043,163
Public Health and Welfare	139,594				139,594
Public Safety and Corrections	286,477				286,477
Transportation	35,452				35,452
Total Unassigned	<u>5,557,968</u>	<u>0</u>	<u>0</u>	<u>(9,438)</u>	<u>5,548,530</u>
Total Fund Balances – Governmental Funds	<u>\$12,018,278</u>	<u>\$ 5,037,449</u>	<u>\$41,417,967</u>	<u>\$ 8,203,858</u>	<u>\$66,677,552</u>

* General Government is tasked with the collection of revenues that benefit the state overall and has expenditures that are not restricted to carry out specific programs or purposes. Included in the classification are the fund balances of state agencies that are semi-independent and do not receive appropriations for operating purposes.

Note 14

Restatement of Beginning Balances

During fiscal 2017, 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 table 14A and discussed on the following page.

Restatements to Net Position/Fund Balances

Table 14A
(Amounts in Thousands)

	September 1, 2016, As Previously Reported	GASB Statement No. 73	Change in Reporting Entity	Correction of Prior Year Errors	September 1, 2016, As Restated
GOVERNMENT-WIDE ACTIVITIES:					
PRIMARY GOVERNMENT:					
Governmental Activities	\$ 98,744,452	\$ (245,609)	\$	\$ (523,043)	\$ 97,975,800
Business-Type Activities	60,647,997		10,898	(24,410)	60,634,485
Total Primary Government	<u>\$ 159,392,449</u>	<u>\$ (245,609)</u>	<u>\$ 10,898</u>	<u>\$ (547,453)</u>	<u>\$ 158,610,285</u>
Discrete Component Units	<u>\$ 571,685</u>	<u>\$</u>	<u>\$</u>	<u>\$ 584</u>	<u>\$ 572,269</u>
FUND FINANCIAL STATEMENTS:					
GOVERNMENTAL FUNDS					
Major Governmental Funds:					
General Fund	\$ 14,671,967	\$	\$	\$ (2,135)	\$ 14,669,832
State Highway Fund	5,052,817			(493)	5,052,324
Permanent School Fund	37,263,929			(620)	37,263,309
Nonmajor Governmental Funds:					
Special Revenue Funds	4,294,671			15	4,294,686
Debt Service Funds	845,506				845,506
Capital Project Funds	1,302,847			(170)	1,302,677
Permanent Funds	1,366,388				1,366,388
Total Governmental Funds	<u>\$ 64,798,125</u>	<u>\$</u>	<u>\$</u>	<u>\$ (3,403)</u>	<u>\$ 64,794,722</u>
PROPRIETARY FUNDS					
Major Enterprise Funds:					
Colleges and Universities	\$ 54,511,165	\$	\$ 10,898	\$ (24,388)	\$ 54,497,675
Unemployment Trust Fund	982,497				982,497
Lottery Fund	71,749				71,749
Nonmajor Enterprise Funds	<u>5,082,586</u>	<u></u>	<u></u>	<u>(22)</u>	<u>5,082,564</u>
Total Proprietary Funds	<u>\$ 60,647,997</u>	<u>\$</u>	<u>\$ 10,898</u>	<u>\$ (24,410)</u>	<u>\$ 60,634,485</u>
Internal Service Fund	\$ 498,874			\$ (502,259)	\$ (3,385)
FIDUCIARY FUNDS					
Pension and Other Employee Benefit Trust Funds	\$ 160,461,543	\$	\$	\$ 502,259	\$ 160,963,802
External Investment Trust Funds	14,288,338				14,288,338
Private-Purpose Trust Funds	<u>3,572,961</u>	<u></u>	<u></u>	<u></u>	<u>3,572,961</u>
Total Fiduciary Funds	<u>\$ 178,322,842</u>	<u>\$</u>	<u>\$</u>	<u>\$ 502,259</u>	<u>\$ 178,825,101</u>
Total Reporting Entity *	<u>\$ 338,286,976</u>	<u>\$ (245,609)</u>	<u>\$ 10,898</u>	<u>\$ (44,610)</u>	<u>\$ 338,007,655</u>

* Reporting entity includes primary government, discrete component units and fiduciary funds.

Restatements are grouped in table 14A by the following types of activity:

GASB Pronouncements and Related Items

The \$245.6 million restatement decrease is to record the effect of the implementation of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The restatement amount includes three separate transactions: the closing of the liability balance belonging to the prior methodology, the initial balance of the new methodology and the inclusion of the matching deferred inflows of resources and the deferred outflows of resources. Additional details concerning the change in methodology can be found in Note 9 Retirement Plans.

Changes in the Reporting Entity

The \$10.9 million restatement increase in Colleges and Universities is to record Texas Tech Law School Foundation as a blended component unit of Texas Tech University System.

Correction of Prior Year Errors

Government-wide activities

Governmental activities include a restatement decrease of \$17.7 million for adjustments to capital assets and accumulated depreciation or amortization. The remaining restatements primarily include decreases of \$505.3 million to correct accounting errors in the prior period related to the elimination of a due from/due to other funds related to implicit rate subsidies,

accounts payables, land conveyances, distributions from partnerships, reclassification of expenditures and a capital lease payment.

Business-type activities include a restatement decrease of \$8.6 million for adjustments to capital assets and accumulated depreciation or amortization. The remaining restatements primarily include decreases of \$15.8 million to correct accounting errors in the prior period related to the change in reporting endowment gift pledges, state benefits refund, reclassifying an operating lease to capital lease, unrecorded sales tax liability, understated payroll related costs and overstated bad debt expense. Discrete component units include restatement increase of \$584 thousand to correct accounting errors in the prior period related to the recognition of expense and accounts payable.

Fund Financial Statements-Governmental

The restatements for governmental funds of \$2.1 million decrease in the general fund, \$493 thousand decrease in the state highway fund and \$620 thousand decrease in the permanent school fund primarily include correction of accounting errors in the prior period related to accounts payables and distribution from partnerships.

The restatements for other nonmajor governmental funds of \$15 thousand increase in special revenue funds and \$170 thousand decrease in capital projects funds primarily include correction of accounting errors in the prior period for retainage payables related to construction projects, bond issuance costs and reclassification of expenditures.

Fund Financial Statements-Proprietary

The restatements for colleges and universities of \$24.4 million decrease primarily include correction of accounting errors in the prior period related to capital assets, accumulated depreciation or amortization, adjusting loan balances, funds held for others, change in reporting endowment gift pledges, state benefits refund, reclassifying an operating lease to capital lease, unrecorded sales tax liability, understated payroll related costs and overstated bad debt expense and deferred revenue. The other nonmajor enterprise funds primarily include \$22 thousand restatement decrease to correct accounting errors in the prior period

related to capital assets, accumulated depreciation or amortization and accounts payable. The internal service fund \$502.3 million restatement decrease is to correct accounting errors in the prior period for the elimination of a due from/due to other funds related to implicit rate subsidies.

Fund Financial Statements-Fiduciary

The restatement for the pension and other employee benefit trust funds of \$502.3 million increase is a correction of accounting errors in the prior period for the elimination of a due from/due to other funds related to implicit rate subsidies.

Restatements to Change in Net Position

Table 14B
(Amounts in Thousands)

	Sept. 1, 2015 Previously Reported	Change in Net Position Aug. 31, 2016 As Previously Reported	GASB Statement No. 73	Change in Reporting Entity	Correction of Prior Year Errors	Change in Net Position Aug. 31, 2016 as Restated	Net Position Sept. 1, 2016 as Restated
GOVERNMENT-WIDE ACTIVITIES:							
PRIMARY GOVERNMENT:							
Governmental Activities	\$ 96,376,005	\$ 2,368,447	\$ (245,609)	\$	\$ (523,043)	\$ 1,599,795	\$ 97,975,800
Business-Type Activities	58,684,236	1,963,761		10,898	(24,410)	1,950,249	60,634,485
Total Primary Government	<u>\$ 155,060,241</u>	<u>\$ 4,332,208</u>	<u>\$ (245,609)</u>	<u>\$ 10,898</u>	<u>\$ (547,453)</u>	<u>\$ 3,550,044</u>	<u>\$ 158,610,285</u>
Discrete Component Units	<u>\$ 593,563</u>	<u>\$ (21,878)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 584</u>	<u>\$ (21,294)</u>	<u>\$ 572,269</u>

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 of \$4.8 billion as of Aug. 31, 2017. The Texas Department of Transportation (TxDOT) has equity loan commitments of \$15.3 billion. Of this amount, \$5.8 billion is related to North Texas Tollway Authority for State Highway 161 Project in Dallas. The remaining \$9.5 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 Houston area.

Investment Funds

As of Aug. 31, 2017, state agencies, public employee retirement systems and institutions of higher education have 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, 2017, the remaining commitment was \$43.1 billion.

Construction and Other Commitments

As of Aug. 31, 2017, TxDOT had contractual commitments of approximately \$10.9 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, 2017, the amount of unrealized payables for uncompleted pass-through toll agreements was \$144.2 million. In addition, TxDOT has equity grant commitments of \$202.4 million to various local toll project entities.

The University of North Texas system initiated approximately \$408 million in capital commitments for construction and renovation of various facilities in numerous stages of development.

Texas Parks and Wildlife Department had contractual commitments of approximately \$99 million for facilities and other improvements, building replacements, building maintenance and repairs, infrastructure and infrastructure maintenance and repairs.

Contingencies

Protested Tax Payments

As of Aug. 31, 2017, pending litigation filed by taxpayers seeking refunds of state taxes totaled \$240.1 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse rulings 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, 2017. These claims totaled \$197.7 million and include a number of lawsuits and claims that may be significant to individual state agencies. Although the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Additionally, TxDOT filed cases exercising eminent domain for \$410.9 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, Texas voters approved a constitutional amendment that establishes the guarantee of the permanent school fund (PSF) for a defined capacity of up to \$111.9 billion in school district bonds as of Aug. 31, 2017. Approval by the state of Texas attorney general is required for each bond issuance and on approval by the Texas commissioner of education, bonds properly issued by a school district are fully guaranteed by the PSF. In 2011, legislation was enacted authorizing the use of PSF to guarantee revenue bonds issued for the benefit of certain open-enrollment charter schools designated as charter districts by the commissioner of education. In the event of a default by a school district or charter district, the PSF 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, 2017, \$72.9 billion debt in outstanding bond issues was guaranteed by the permanent school fund for 843 school districts and \$1.4 billion for 15 charter districts within the state. Under statute, payments by the PSF 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, 2017, none of the school districts or charter districts with guaranteed debt have defaulted on the debt.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield

on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Derivatives with Contingent Features

All of the Department of Housing and Community Affairs' (TDHCA) hedging 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, 2017, the aggregate fair value of all derivative instruments with collateral provisions was negative \$9.9 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, 2017.

The Teacher Retirement System of Texas (TRS) derivative investments include provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. As of Aug. 31, 2017, the aggregate fair value of all derivative instruments with these provisions was negative \$54.4 million. If the collateral posting thresholds of all these investment derivative instruments did not exist, TRS would be required to post the aggregate amount of \$72.7 million in collateral to its counterparties. TRS has posted \$12.7 million of collateral as of Aug. 31, 2017.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued \$2.7 billion in new bonds and commercial paper and \$1.8 billion in refunding bonds since Aug. 31, 2017, as presented in table 16A. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Other Subsequent Events

On Sept. 1, 2017, House Bill 2578 of the 85th legislative session became effective, eliminating the license fee to conduct charitable bingo and resulting in refunds exceeding \$1.3 million to over 700 conductors.

On Sept. 26, 2017 and Oct. 23, 2017, Texas Department of Insurance transmitted in total \$742.8 million of the Catastrophe Reserve Fund Trust to the Texas Windstorm Insurance Association to cover losses and damages resulting from Hurricane Harvey.

On Nov. 1, 2017, the toll equity loan agreement, dated as of April 1, 2011, between the Texas Department of Transportation (TxDOT) and the North Texas Tollway Authority terminated in accordance with its terms. TxDOT has no further obligations under such agreement.

The Health Science Center of the University of North Texas System reached an agreement with the National Institute of Health (NIH) to repay \$13 million due to non-compliance with certain regulatory and/or sponsor-imposed obligations on NIH-funded research projects.

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2017

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Multifamily Revenue Bonds, MF Series 2017 Casa Brendan Apartments	\$ 5,000	10/17/17	To fund the acquisition, construction and equipping of multifamily rental housing developments.
Multifamily Revenue Bonds, MF Series 2017 Nuestro Hogar Apartments	5,700	10/17/17	To fund the acquisition, construction and equipping of multifamily rental housing developments.
Multifamily Revenue Bonds, MF Series 2017 Casa Inc. Apartments	24,000	10/17/17	To fund the acquisition, construction and equipping of multifamily rental housing developments.
Multifamily Revenue Bonds, MF Series 2017 Emli at Liberty Crossing Apartments	17,600	10/20/17	To fund the acquisition, construction and equipping of multifamily rental housing developments.
Multifamily Revenue Bonds, MF Series 2018 Vista on Gessner Apartments	50,000	02/05/18	To fund the acquisition, construction and equipping of multifamily rental housing developments.
TEXAS PUBLIC FINANCE AUTHORITY			
Texas Historical Commission Project, Lease Revenue Refunding Bonds, Taxable Series 2017	4,085	09/13/17	To refund certain outstanding bonds of the state to provide debt service savings.
General Obligation Refunding Bonds, Taxable Series 2017B	21,070	09/13/17	To refund certain outstanding bonds of the state to provide debt service savings.
TFC Revenue Notes, Series 2016A	10,000	09/21/17	To fund TFC construction projects.
General Obligation CPRIT Series A (Taxable)	68,200	09/28/17	To fund CPRIT's grant awards.
Master Lease Purchase Program Notes, Series 2003	800	09/28/17	To fund equipment purchases.
TFC Revenue Notes, Series 2016A	27,000	10/03/17	To fund TFC construction projects.
General Obligation Commercial Paper Notes, Series 2008	5,250	10/20/17	To fund various projects of multiple agencies.
Master Lease Purchase Program Notes, Series 2003	200	01/03/18	To fund equipment purchases.
TEXAS WATER DEVELOPMENT BOARD			
State Water Implementation Revenue Fund, Texas Revenue Bonds, Series 2017A and Taxable Series 2017B	1,065,905	10/12/17	To provide financial assistance through the purchase of or entering into political subdivision obligations and to pay the costs of issuance of the bonds.
Water Financial Assistance and Refunding Bonds, Series 2018A	61,280	01/26/18	To refund certain outstanding bonds of the state, to provide state matching funds for federal state revolving funds, to provide financial assistance through the purchase of political subdivision obligations and to pay the costs of issuance.
TEXAS HIGHER EDUCATION COORDINATING BOARD			
State of Texas General Obligation Bonds, Series 2017	170,614	12/28/17	To fund ongoing student loan program which provides low interest loans to eligible Texas college students.
TEXAS TECH UNIVERSITY SYSTEM			
Revenue Financing System Commercial Paper Notes Tax-Exempt and Taxable, Series A	22,500	10/24/17	To reimburse incurred expenditures and acquire new proceeds to fund new construction, renovation and additions across university system campuses.
UNIVERSITY OF HOUSTON SYSTEM			
Consolidated Revenue and Refunding Bonds, Series 2017-C	320,635	12/21/17	To refund commercial paper that was issued to finance various construction projects and to provide additional financing for capital projects.

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to Aug. 31, 2017 (concluded)

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS A&M UNIVERSITY SYSTEM			
Permanent University Fund Taxable Commercial Paper Notes	\$ 69,350	09/07/17	To provide interim financing for construction projects.
Revenue Financing System Taxable Commercial Paper Notes	59,600	09/07/17	To provide interim financing for construction projects.
Permanent University Fund Bonds, Series 2017A	90,365	10/31/17	To refund outstanding commercial paper notes and certain outstanding bonds and to pay the costs of issuance.
Permanent University Fund Bonds, Taxable Series 2017B	310,515	10/31/17	To provide construction funds for eligible projects, to refund portion of outstanding taxable commercial paper notes and certain outstanding bonds and to pay the costs of issuance.
Revenue Financing System Bonds, Taxable Series 2017D	158,680	12/20/17	To refund outstanding commercial paper notes and to pay the costs of issuance.
Revenue Financing System Bonds, Series 2017E	341,995	12/20/17	To provide construction funds for eligible projects, to refund certain outstanding bonds and to pay the costs of issuance.
Permanent University Fund Taxable Commercial Paper Notes	54,000	01/24/18	To provide interim financing for construction projects.
Revenue Financing System Commercial Paper Notes	65,000	01/25/18	To provide interim financing for construction projects.
Revenue Financing System Taxable Commercial Paper Notes	30,000	01/25/18	To provide interim financing for construction projects.
UNIVERSITY OF TEXAS SYSTEM			
Revenue Financing System Taxable Commercial Paper Notes, Series B	75,000	09/07/17	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Bonds, Taxable Series 2017A	350,815	09/14/17	To refund principal amount of Revenue Financing System Commercial Paper Notes, Series B and to pay the costs of issuance.
Revenue Financing System Bonds, Series 2017B	265,490	10/24/17	To refund principal amount of Revenue Financing System Commercial Paper Notes, Series A and Series B and to pay the costs of issuance.
Permanent University Fund Bonds, Taxable Series 2017A	302,640	11/14/17	To refund principal amount of Permanent University Fund Taxable Commercial Paper Notes, Series A and Taxable Series B and to pay the costs of issuance.
Permanent University Fund Commercial Paper Notes, Series A	100,000	11/21/17	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Taxable Commercial Paper Notes, Series B	25,000	11/21/17	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Refunding Bonds, Series 2017C	258,465	12/07/17	To refund principal amount of Revenue Financing System Bonds Series 2009D, 2012A and Series 2012B and to pay the costs of issuance.
Revenue Financing System Taxable Commercial Paper Notes, Series B	20,000	12/20/17	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Revenue Financing System Commercial Paper Notes, Series A	11,639	01/22/18	To finance a variety of capital projects and equipment purchases at various University of Texas System institutions.
Total Bond and Commercial Paper Issued/Refunded	<u>\$ 4,468,393</u>		

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 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 Employees 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 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 2017, 1,093 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

Table 17A presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal 2017 and fiscal 2016. Claims and judgment amounts presented in Note 5 are also included in table 17A.

	Beginning Balance	Increases	Decreases	Ending Balance
2017	\$ 871,236	\$ 3,944,881	\$ 3,893,422	\$ 922,695
2016	\$ 820,194	\$ 3,832,798	\$ 3,781,756	\$ 871,236

Of the fiscal 2017 claims liability ending balance, \$289 million relates to long-term claims liabilities, which are reported in Note 5. \$729.5 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 make a determination on a taxpayer’s tax obligation and liability. Taxpayers may petition for a redetermination hearing before an administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a redetermination hearing is received by a specified date, the taxpayer does not have to pay the tax until 20 days after a final decision is made by the Comptroller’s office in redetermination hearing and served on the taxpayer. As of Aug. 31, 2017, there was an estimated \$1 billion of assessments filed that are currently in the redetermination hearings process. Collectability of these assessments is dependent upon the Comptroller’s office decision in the redetermination hearing. These assessments are not recognized as tax revenue until after a Comptroller’s office decision becomes 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 discrete 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, 2017 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.

GASB Statement No. 80 Disclosure

The state implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units — an amendment of GASB Statement No. 14*, in fiscal 2017. It amends the blending requirements for the financial statement presentation of component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. None of the state's existing discretely presented component units meets the criteria of GASB Statement No. 80. The implementation of GASB Statement No. 80 had no effect on the state's net position or changes in net position for the years ended Aug. 31, 2017.

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 six-member board is composed of three elected members and three members who are appointed respectively by the governor, the speaker of the Texas House of Representatives, and the chief justice of the Supreme Court of Texas. The state of Texas has the ability to impose its will upon ERS through its legislative and 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.

Alamo Complex Management (ACM) is a legally separate entity established to operate exclusively for the benefit of The Alamo Endowment, a discretely presented component unit of the Texas General Land Office (GLO). ACM has contracted with The Alamo Endowment for the preservation, management, education, maintenance, operation and restoration of the Alamo Complex. The GLO appoints the voting majority of the ACM. GLO is able to impose its will on ACM through its ability to remove board members at will, its ability to modify or approve the budget of ACM, its ability to modify or approve the rates or fees affecting revenues of ACM, its ability to veto, overrule or modify the deci-

sions of ACM's governing body, its ability to appoint, hire, reassign or dismiss those persons responsible for ACM's day-to-day operations, and its ability to unilaterally abolish ACM by ordering ACM to cease operations. ACM is reported for the fiscal year ended June 30, 2017. Information about ACM may be obtained by contacting GLO at 1700 N. Congress Ave. Austin, TX 78701.

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. TxPABST does not issue separate financial statements. Information about TxPABST may be obtained by contacting TxPABST at 125 East 11th Street, Austin, Texas 78701.

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 members of GPTC's governing board, all of whom must be TxDOT employees, and the Commission has the ability to remove appointed board members at will. The financial activity of GPTC is reported in the financial statements of TxDOT. Information about GPTC

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 offenders 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 has the power to appoint and remove the majority of the Friends board of trustees. 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 the TTUS Office of Institutional Advancement, located at 1508 Knoxville Avenue, Suite 315, Lubbock, TX 79409.

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) and TTUHSC at El Paso. 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.

The Angelo State University Foundation (ASUF) is a legally separate nonprofit organization created exclusively to provide financial assistance to Angelo State University (ASU) primarily from gifts and earnings on endowed funds. There is no appointment of board members. The Texas Tech University System Chancellor, Angelo State University President, Angelo Faculty Senate President and ASU Chief Financial Officer are non-voting ex-officio members on the board of Directors. ASUF is closely related to ASU. Failure to include the financial information of ASUF would result in misleading financial statements. Separate financial statements may be obtained by contacting the Angelo State University Foundation at 2601 W. Ave N, San Angelo, TX 76909.

The Texas Tech Law School Foundation (TTLSF) is a legally separate, nonprofit organization established exclusively to provide financial assistance for professorships and scholarships within the Texas Tech University (TTU) School of Law, primarily from gifts and endowment earnings. The TTU Dean of the School of Law is an ex officio, permanent voting trustee of the board. TTLSF is closely related to TTU; failure to include the financial information of the foundation would result in misleading financial statements. Separate financial statements may be obtained by contacting the Texas Tech Law School Foundation at 1802 Hartford Avenue, Lubbock, Texas 79409.

Texas State University (TSU) Research Foundation (TSURF) is a legally separate entity established to support the mission of TSU and its objectives of promoting higher education, conducting research, providing public service and assisting in economic development in Texas. The key business officers of TSU compose the entirety of TSURF's officers and directors. TSU is able to impose its will on TSURF through 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, 2017. Separate financial statements may be obtained by contacting TSU, Director of Accounting, General Accounting Office, 601 University Drive, JCK 589, 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 TSU. 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 TSU. There is no formal governing board for the Freeman Foundation. TSU 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 TSU, 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 TSU, Director of Accounting, General Accounting Office, 601 University Drive, JCK 589, 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). TAMRF is included as a blended component unit in the combined financial statement of A&M. This determination is based on the close relationship and joint agreements in effect between TAMRF and A&M in regard to research grant/contract administration. Complete financial statements for TAMRF may be obtained from their administrative offices at 400 Harvey Mitchell Parkway South, Suite 100, College Station, Texas 77845.

U.T. 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.

U.T. 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 (UT). Failure to include the financial information of the SPMF would result in misleading financial statements. The SPMF is reported for the fiscal year ended Dec. 31, 2016. Separate financial statements may be obtained by contacting the SPMF at 5909 Harry Hines Boulevard, Dallas, Texas 75390. SPMF was dissolved on Sept. 30, 2016.

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. Separate financial statements may be obtained by contacting the Book Store at 301 University Boulevard, Galveston, Texas 77555.

Medical Branch Innovations, Inc., (MBII) is a blended rather than discretely presented because it operates exclusively in support of the education, clinical, and research missions of UTMB. Its three-member board is appointed by UTMB. Separate financial statements may be obtained by contacting MBII 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 6431 Fannin Street, Suite JLL 475, Houston, Texas 77030.

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 JLL 310, Houston, Texas 77030.

University Physicians Group (UPG) is a legally separate entity established to provide health care education and research activity services 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 physician practice plan board (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 8431 Fredericksburg Road, San Antonio, Texas 78229.

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 nine-member board is appointed by the president of the Cancer Center. The president may remove appointed board members at will. Separate financial statements may be obtained by contacting MDAPN at 7007 Bertner Avenue, Suite 10.3212, 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 UT board of regents. The president may remove appointed board members at will. Separate financial statements may be obtained by contacting MDASC at 7007 Bertner Avenue, Suite 10.3212, 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 gov-

erning 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 11937 US Highway 271, Tyler, Texas 75708.

University of Texas/Texas A&M Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to UT and A&M. UTIMCO's nine-member board consists of three members of the UT board of regents, four members appointed by the UT board of regents (one of whom may be the Chancellor of UT) and two members appointed by the A&M board of regents. At least three members appointed by the UT board of regents and at least one member appointed by the A&M board of regents must have substantial background and expertise in investments. The corporation is blended rather than discretely presented because it provides investment management services entirely or almost entirely to UT. 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. Separate financial statements may be obtained by contacting UT-Austin at Main Building, P.O. Box T, Austin, Texas 78713.

University of Texas Communication Foundation (UTCF) 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 UTCF through its ability to remove appointed board members at will, its ability to modify or approve the UTCF's budget, its ability to veto, overrule or modify the decisions of UTCF and unilaterally abolish UTCF. 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.

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. TRS has a blended component unit, Teacher Retirement Investment Company of Texas Ltd. (TRICOT). It is a private company limited by shares in the United Kingdom that began operating in November 2015. TRICOT was formed for the purpose of opening a London investment office to increase investment opportunities for the TRS portfolio. TRICOT serves the pension trust fund. 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, 2017. 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 provides single and multi-family loans to low and moderate 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 2200 East Martin Luther King Jr. Blvd., Austin, Texas 78702.

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, 2016. 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 two party states, Texas 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 state is 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 state. The financial statements of the Commission may be obtained by contacting the Commission at 505 West 15th Street, Austin, Texas 78701.

Texas Prepaid Tuition Scholarship Foundation (TPTSF) is a legally separate entity that was created to provide prepaid tuition scholarships to students meeting economic or academic requirements. TPTSF is a direct-support organization of the Texas Guaranteed Tuition Plan and is authorized by the Texas Education Code. TPTSF 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 serves as the executive director of the board and assigns and supervises employees responsible for the day-to-day operations of TPTSF. TPTSF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Educational Opportunities and Investments Division at 111 E. 17th Street, Austin, Texas 78774.

Texas Match the Promise Foundation (TMPPF) 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 Comptrol-

ler appoints TMPPF'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 TMPPF. TMPPF does not issue separate financial statements. Information may be obtained by contacting the Texas Comptroller of Public Accounts, Educational Opportunities and Investments Division 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, 2016. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac, Building A, 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, 2016. 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, 2016. Financial statements may be obtained by contacting the Texas Health Reinsurance System, c/o Pool Administrators Inc., 628 Hebron Ave. Suite 100, Glastonbury, CT 06033

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, 2016. 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, 2016. 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. TAFA is governed by a board of directors composed of the Commissioner of Agriculture, Deputy Commissioner of Agriculture-Designee, the Director of the Institute for International Agribusiness studies at Prairie View A&M University, and nine members appointed by the Commissioner of Agriculture. The commissioner of TDA administers TAFA with the assistance of the board of directors. 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 three 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. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Tx 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, 2016. Separate financial statements may be obtained by contacting TED Corp. at P.O. Box 684702, Austin, Texas 78768.

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, 2016. 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. THSA is reported for the fiscal year ended Sept. 30, 2016. THSA's financial statements may be obtained by contacting THSA at 5900 Southwest Parkway, Bldg. 2, Suite 201, Austin, Texas 78735.

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, 2016. Financial statements may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

State Agency Council (SAC) 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. SAC also provides opportunities for professional development to its state agency representatives and supports community outreach programs consistent with the goals of GCW. The director of GCW appoints the board and has operational influence on the activities of the corporation. Financial statements for the SAC may be obtained by contacting the GCW at P.O. Box 12428, Austin, Texas 78711.

Film Texas Fund (FTF) 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 FTF and FTF supports its own mission in promoting the film industry in Texas. Due to the FTF's close financial relationship with the OGTFC, omitting FTF would result in misleading financial statements. FTF is reported for the fiscal year ended Dec. 31, 2016. Financial statements for FTF 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, 2016. 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 (TTU System). The TTU System 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 ben-

efit 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.

The Alamo Endowment (TAE) is a legally separate entity established to provide resources and support for the preservation and maintenance of the Alamo Complex. The Texas General Land Office (GLO) appoints the voting majority of TAE and can impose its will through its ability to remove board members at will. GLO can also impose its will through its ability to appoint, hire, reassign or dismiss those persons responsible for the day-to-day operations of TAE. TAE is reported for the fiscal year ended June 30, 2017. Separate financial statements may be obtained by contacting TAE at P.O. Box 2099, San Antonio, TX 78297.

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 commissioner of insurance regulates this entity to the same extent as a private mutual insurance company. The governor, with the advice and consent of the Senate, appoints five of the nine members of Texas Mutual's board of directors.

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.

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.

Midwestern State University (MSU) Charitable Trust (Trust) is a nonprofit organization with the sole purpose of educational and other activities of MSU. 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 MSU 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 TSU 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

TSU system board of regents, which is appointed by the governor.

Operation Game Thief Committee is a nonprofit corporation 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 of Foundation, Inc. (Foundation) is a legally separate nonprofit organization established to manage and conserve the natural and cultural resources of Texas and to provide hunting, fishing and outdoor recreation opportunities for the use and enjoyment of present and future generations. The Foundation provides private support to the Texas Parks and Wildlife Department (Department), but the Department is not financially accountable for the Foundation, nor is the Foundation fiscally dependent on the Department. The Foundation is governed by a group of trustees, the majority of whom are appointed by the chairman of the Department.

The College for All Texans (CFAT) Foundation is a Texas non-profit organization that is organized to support The Higher Education Coordinating Board (THECB) program initiatives. THECB is unable to impose its will on CFAT and there is no financial benefit or burden relationship between THECB and CFAT.

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 River Municipal Water Authority

Note 20

Deficit Fund Balances/Net Position of Individual Nonmajor Funds

Proprietary Funds

The **Texas Prepaid Tuition Plans**, that consist of the Texas Guaranteed Tuition Plan (Plan) and the Texas Tuition Promise Fund (TTPF), reported a deficit of \$501.2 million. The Plan deficit of \$613.8 million 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 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 TTPF had a surplus of \$112.6 million. The TTPF surplus cannot be used to offset the Plan's deficit.

The **Grand Parkway Transportation Corporation** (GPTC), a blended component unit of the Texas Department of Transportation, reported a deficit of \$80.1 million. The deficit is primarily due to the total expenses exceeding the total revenues by \$56.8 million. The largest expenses in fiscal 2017 included \$63.9 million of amortization and \$137.1 million of interest. Interest was capitalized as intangible assets prior to substantial completion of the five segments of the System in March 2016. Starting April 2016, interest was reported as expense. Amortization of intangible assets began in fiscal 2016.

The **Fair Access to Insurance Requirements Plan Association** (Association), a discretely presented component unit of the State, reported a deficit of \$14.2 million. The deficit can be attributed to higher than normal claims activity. The Association can, with the approval of the Commissioner, issue public securities or assess member companies at any time there is a deficit.

It has been decided not to assess at this time and it is anticipated to reduce this deficit through positive operations in the future.

The **Texas Parks and Wildlife Department Projects Funds** reported a deficit of \$9.4 million. The deficit is due to the Department recording estimates to account for unencumbered activity such as salaries, travel and utilities in effort to reserve funds for these purposes in accordance with Accounting Policy Statement 018 (APS 018), *Encumbrance Report and Lapsing of Appropriations*.

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 \$15.3 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 agreed inflation adjustment and any other court-ordered factors. A revenue accrual of \$297.8 million is based on the payments received in December 2017. Tobacco settlement revenues were \$480.2 million in fiscal 2016 and \$476.5 million in fiscal 2017. As of fiscal 2017, cumulative actual tobacco settlement revenues were \$10 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$3 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 table 22A.

Donor-Restricted Endowments

Table 22A
(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	\$2,992,922	Expendable
Term Endowments	47,311	Expendable
	<u>\$3,040,233</u>	

True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Non-expendable funds are those required to be retained in perpetuity.

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

Net appreciation on related investment balances for the Robert G. Carr and Nona K. Carr Scholarship Foundation and the University of North Texas Foundation, discrete component units of the Texas Tech University System and the University of North Texas System, respectively, have a combined ending net appreciation balance of \$15 million. These amounts are not included in table 22A.

Note 23

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported on the balance sheet – governmental funds, are detailed by tax type in the tables 23A and 23B.

Texas franchise tax receivables represent balances due as of Aug. 31, 2017, for business-type activity that occurred in calendar year 2016. The franchise tax payments were due May 15, 2017; however, taxpayers were allowed to extend the filing date to November 2017.

Franchise taxes are considered earned when the business-type activity occurs. Franchise tax applies to certain for-profit entities doing business or chartered in Texas and is based on the total revenue, that is, income reported to the federal IRS with various deductions, limitations, and exceptions. There are no required quarterly estimated payments under this tax. Annual franchise tax reports and tax payments are due May 15 unless it falls on a weekend or holiday then the next business day. Generally the tax earned during the first eight months of calendar year 2017 is not due until May 2018. 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

Table 23A

August 31, 2017 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	\$1,623,877
Motor Vehicle and Manufactured Housing	116,153
Motor Fuels	7,759
Oil and Natural Gas Production	392,397
Franchise	149,415
Insurance Occupation	243,176
Cigarette and Tobacco	24,257
Other	229,388
Total Taxes Receivable*	<u>\$2,786,422</u>
Liquidity Characteristics:	
Current Taxes Receivable	\$2,779,299
Noncurrent Taxes Receivable	7,123
Total Taxes Receivable	<u>\$2,786,422</u>
* Total Taxes Receivable General Fund \$ 2,786,422	
Motor Fuel Taxes Receivable in Other Governmental Funds:	
Current Taxes Receivable:	
State Highway Fund	266,370
Nonmajor Governmental Funds	89,036
Noncurrent Taxes Receivable:	
State Highway Fund	636
Nonmajor Governmental Funds	212
Total Taxes Receivable – Balance Sheet – Governmental Funds	<u>\$ 3,142,676</u>

Tax Refunds Payable by Tax Type

Table 23B

August 31, 2017 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	\$ 116,955
Franchise	453,692
Total Tax Refunds Payable	<u>\$ 570,647</u>

Note 24

Termination Benefits

Health Care Related Termination Benefits

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

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

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2017, the cost to the state was approximately \$27.5 million for 1,907 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.

Non-Health Care Related Termination Benefits

Generally, state employees are not awarded severance pay. Institutions of higher education and agencies with specific statutory authority may offer voluntary or involuntary termination payments for separation. In addition to termination payments, agencies may also offer career counseling and outplacement services.

Note 25

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 as a segment. These following 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

Table 25A

August 31, 2017 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds	Collateralized Home Mortgage Revenue Bond Funds
ASSETS			
Current Restricted Assets	\$ 28,501	\$ 17,325	\$ 15
Noncurrent Restricted Assets	446,545	240,063	2,778
Total Assets	<u>475,046</u>	<u>257,388</u>	<u>2,793</u>
Deferred Outflows of Resources	9,902		
LIABILITIES			
Current Liabilities	4,693	5,468	7
Noncurrent Liabilities	385,280	153,705	1,008
Total Liabilities	<u>389,973</u>	<u>159,173</u>	<u>1,015</u>
NET POSITION			
Restricted	94,975	98,215	1,778
Total Net Position	<u>\$ 94,975</u>	<u>\$ 98,215</u>	<u>\$ 1,778</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Table 25B

For the Fiscal Year Ended August 31, 2017 (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	\$ 17,588	\$ 8,533	\$ 203
Net Decrease in Fair Value	(2,927)	(7,353)	(91)
Other Operating Revenues	177	6,311	
Operating Expenses	(18,415)	(16,934)	(108)
Operating Income	<u>(3,577)</u>	<u>(9,443)</u>	<u>4</u>
NONOPERATING REVENUES (EXPENSES)			
Transfer In (Out)	(1,118)	(2,549)	
Changes in Net Position	<u>(4,695)</u>	<u>(11,992)</u>	<u>4</u>
Net Position, September 1, 2016	99,670	110,207	1,774
Net Position, August 31, 2017	<u>\$ 94,975</u>	<u>\$ 98,215</u>	<u>\$ 1,778</u>

Condensed Statement of Cash Flows

Table 25C

For the Fiscal Year Ended August 31, 2017 (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	\$ (9,018)	\$ (19,050)	\$ (15)
Noncapital Financing Activities	22,427	(33,900)	(797)
Investing Activities	<u>(27,229)</u>	<u>44,513</u>	<u>751</u>
NET INCREASE (DECREASE) IN			
CASH AND CASH EQUIVALENTS	<u>(13,820)</u>	<u>(8,437)</u>	<u>(61)</u>
Cash and Cash Equivalents, September 1, 2016	40,377	25,008	62
Cash and Cash Equivalents, August 31, 2017	<u>\$ 26,557</u>	<u>\$ 16,571</u>	<u>\$ 1</u>

Note 26

Service Concession Arrangements

The state of Texas has eight 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 table 26A.

These arrangements were entered into 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; and
- 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, 2017, are presented in tables 26A and 26B.

Service Concession Arrangements

Table 26A

August 31, 2017

Arrangement Name	Construction Status	Term of Concession	Concession Dates	
			Begin	End
IH 10 "Katy Managed Lanes"	Complete	46 years	2010	2055*
SH 130 Segments 5 and 6	Complete	50 years	2012	2062
SH 121 Concession	Complete	50 years	2009	2059
North Tarrant Exp Seg 1 and 2-West	Complete	52 years	2009	2061
North Tarrant Exp Seg 3A and 3B	Under Construction	52 years	2009	2061
LBJ/IH-635 Managed Lanes	Complete	52 years	2009	2061
Grand Parkway Seg D, E, F1, F2, G	Complete	40 years	2013	2053*
SH 288	Under Construction	52 years	2016	2068

* Estimated. Concession period extends until Harris County/Grand Parkway Transportation Corporation is fully reimbursed for cost of construction and debt service.

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

Table 26B

August 31, 2017 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents*	Capital Assets	Deferred Inflows of Resources**
IH 10 "Katy Managed Lanes"	\$	\$	\$ 206,522
SH 130 Segments 5 and 6	61,094	1,439,612	1,376,630
SH 121 Concession	532,887	1,336,604	3,178,886
North Tarrant Exp Seg 1 and 2-West		2,395,438	1,610,087
North Tarrant Exp Seg 3A and 3B		365,631	
LBJ/IH-635 Managed Lanes		2,664,459	1,983,982
Grand Parkway Seg D, E, F1, F2, G		2,453,495	2,300,445
SH 288	15,479	22,641	25,479
	<u>\$609,460</u>	<u>\$10,677,880</u>	<u>\$10,682,031</u>

* The balance of cash and cash equivalents is the amount of unspent up-front concession payments.

** The deferred inflows of resources balance that relates to up-front payments received is recorded in governmental fund financials as other financing sources in the year received.

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) and 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, 2017, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling \$202.4 million and \$15.3 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, \$5.8 billion is related to a toll equity loan agreement (TELA) with the North Texas Tollway Authority and \$9.5 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) and E, F1, F2 and G (State Highway 99) 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, 2017, no draw-downs of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of \$2.4 billion for its costs of design, construction and right-of-way acquisition for the year ended Aug. 31, 2017. This amount is reported as business-type activities.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2017, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements, bond refunding, pensions, the acquisition of Texas Wesleyan University School of Law (TWUSL) by Texas A&M University (A&M), and various types of revenues earned, but not available at fiscal year-end.

Table 27A presents the balances of deferred outflows of resources and deferred inflows of resources as of Aug. 31, 2017 for governmental activities, business-type activities and governmental funds.

Deferred outflows of resources in business-type activities of \$481.8 million was composed of \$478.7 million related to hedging derivatives in a liability position and \$3.1 million related to an unamortized interest rate lock termination payment. The interest rate lock termination payment was made by the University of Texas in connection with its 2016A bond issuance. The hedging derivative liability of \$478.7 million and the hedging derivative asset of \$14.6 million are disclosed in Note 7.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 27A

August 31, 2017 (Amounts in Thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Government-wide Financial Statements		
<i>Governmental Activities</i>		
Bond/Debt refunding	\$ 198,143	\$ 3,563
SCAs (Note 26)		10,682,031
Pensions (Note 9)	10,761,289	4,819,386
Total	<u>\$10,959,432</u>	<u>\$15,504,980</u>
<i>Business-Type Activities</i>		
Bond/Debt refunding	\$ 133,548	\$ 10,791
Derivatives (Note 7)	481,807 *	14,565
Pensions (Note 9)	1,198,091	625,895
Government Acquisitions	23,374	
Total	<u>\$ 1,836,820</u>	<u>\$ 651,251</u>
Fund Financial Statements		
<i>Governmental Funds</i>		
Revenue Earned But Not Available	\$	\$ 622,354
Total	<u>\$ 0</u>	<u>\$ 622,354</u>

* The \$481,807 of deferred outflows of resources is composed of \$478,681 related to hedging derivatives in a liability and \$3,126 related to unamortized interest rate lock termination payment.

Deferred outflows of resources in business-type activities of \$23.4 million represent the unamortized balance of the excess consideration provided by A&M over the net position acquired in the acquisition of TWUSL. The acquisition was finalized on Aug. 13, 2013, with no contingent consideration arrangements.

Deferred inflows of resources in governmental activities of \$10.7 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 SCA are disclosed in Note 26.

Deferred outflows of resources of \$198.1 million in governmental activities were related to losses TxDOT and Texas Public Finance Authority incurred in bond refunding transactions. TxDOT and several universities

also had bond refunding transactions in fiscal 2017 in business-type activities for \$133.5 million in deferred outflows of resources related to losses.

Deferred inflows of resources in governmental activities of \$3.6 million was related to a gain TxDOT incurred on a bond refunding transaction. Several universities also reported \$10.8 million deferred inflows of resources related to bond refunding gains in business-type activities.

Deferred inflows of resources of \$622.4 million in governmental funds were related to various types of revenues earned, but not available within 60 days of fiscal year-end.

The State implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* in fiscal 2015. The State implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* in fiscal 2017. As a result, in fiscal 2017, the state reported \$10.8 billion of deferred outflows of resources and \$4.8 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported \$1.2 billion of deferred outflows of resources and \$625.9 million of deferred inflows of resources related to pensions in business-type activities. Details of the state's pensions are disclosed in Note 9.

Note 28

Nonexchange Financial Guarantees

The state of Texas has two active programs that extend nonexchange financial guarantees to other entities.

Article VII, Section 5 of the Texas Constitution and 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 district, 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 school districts have defaulted on their guaranteed bond indebtedness. As of Aug. 31, 2017, the total principal debt guaranteed by the PSF on bond issues is approximately \$74.3 billion.

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, in which the directors are appointed by the Texas Public Finance Authority (TPFA) in consultation with the commissioner of education and subject to the approval of the governor 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 12 months following such payment. Borrowers will reimburse CSFC 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, 2017, \$4.4 million of available grant funds have been committed.

Note 29

Tax Abatements

Facts and Assumptions

The state of Texas provides tax abatements under the following programs: agriculture or timber programs, Research and Development Tax Credit Program (R&DTCP), Texas Data Center Sales Tax Exemption Program (TDCSTEP), Texas Enterprise Zone Program (TEZP) and Certified Rehabilitation of Certified Historic Structures Program (CRCHSP).

The state of Texas operates **agriculture or timber programs** that provide exemptions or refunds of state sales and use taxes paid for anyone producing agricultural or timber products for sale in the regular course of business. Producers are required to apply for an agricultural and timber registration number from the Texas Comptroller of Public Accounts (Comptroller). These registration numbers are issued for four years and are used to purchase certain items used exclusively to produce agricultural and timber products for resale tax free. Purchases of qualified items are not subject to the state's sales and use tax of 6.25 percent. These programs are established under Texas Tax Code Sections 151.316, 151.3162 and 152.091. Motor vehicle sales and use taxes are exempted for registered producers on machines, trailers and semi-trailers used primarily for farming, ranching or timber operations. Amounts reported are estimated based on information reported to the U.S. Department of Agriculture and the Comptroller's office and adjusted for historical and forecasted annual rates of growth of Texas Agricultural Gross Domestic State Product. No other commitments are made by the state as part of these arrangements.

The **R&DTCP** encourages economic development in Texas related to research and development. Established in Texas Tax Code Sections 151.3182 and 171.654, the R&DTCP allows a person engaged in qualified research to claim either a sales and use tax exemption on the

purchase, lease, rental, storage or use of depreciable tangible personal property directly used in qualified research or a franchise tax credit on qualified research expenditures. A person cannot claim both the sales and use tax exemption and the franchise tax credit for the same period. The election to claim the sales and use tax exemption or take the franchise tax credit is not permanent and can be changed. Participants are required to register with the Comptroller's office as a research and development entity and are issued a Texas Qualified Research Registration Number. The franchise tax credit is generally equal to 5 percent of the difference between the qualified research expenses in the reporting year and 50 percent of the average qualified research expenses in the three preceding tax periods. Unused credits can be carried forward. Estimates for the amount of sales and use tax exempted through the R&DTCP are developed by the Comptroller's office by adjusting data reported to the National Science Foundation on funds spent for business research and development by companies in Texas for expenses exempt under other portions of state tax law and for expected growth. The legislation establishing the sales and use tax exemption and franchise tax credit for the R&DTCP expires Dec. 31, 2026. No other commitments are made by the state as part of these arrangements.

The **TDCSTEP** allows certified single-occupant data centers to be exempt from paying state sales and use tax on certain goods and services necessary and essential to the operation of a data center. The TDCSTEP is established under Texas Tax Code, Sections 151.359 and 151.3595. The exemptions equal the state sales and use tax rate of 6.25 percent on qualified purchases, are administered as an exemption of the tax liability at time of purchase or as a refund, and last for 10 to 15 years based on the amount of capital investment done by the data center within the first five years after certification. The data center owner, operator or occupant of a data center obtains exemptions through

application and require that the data center creates at least 20 qualifying jobs and make or agree to make capital investments of at least 200 million in the applicant data center over a five year period beginning on the date the data center is certified by the Comptroller's office as a qualifying data center. The Comptroller's office will review job information annually until it is verified that each qualifying job has been retained at least five years. If the qualifying owner, operator or occupant of a qualifying data center fails to meet one or more of the certification requirements, the Comptroller's office will terminate the data center's certification and revoke all related qualifying owner, operator or occupant registration numbers. Each person who has his or her registration number revoked is liable for the state sales and use tax, including penalty and interest from the date of purchase, on all tax-free purchases made under the qualified data center exemption. The Comptroller's office will audit each qualifying data center at its five-year anniversary to verify that terms of the agreement have been met. No other commitments are made by the state as part of these arrangements.

The **TEZP** allows local communities to partner with the state of Texas to encourage job creation and capital investment in economically distressed areas. Local communities can nominate a new or expanding business as an "enterprise project". Approved projects are eligible to apply for state sales and use tax refunds on qualified expenditures. The level and amount of refund depends on the capital investment and jobs created at the qualified business site. The program is established under Texas Tax Code, Chapter 151.429 and administered by the Office of the Governor. The abatements last from one to five years, in addition to a 90-day window prior to the application date. Employment and capital investment commitments must be incurred and met within this time period. Rebates can range from \$25,000 for a project investing \$40,000 in capital and creating 10 jobs, up to \$3.75 million for a

project investing \$250 million in capital and creating 500 or more jobs. Generally small projects can receive a maximum refund of \$2,500 per job created, larger projects can receive a maximum refund of \$5,000 per job created, and the largest jobs can receive \$7,500 per job created. The nominating community files the TEZP application on behalf of the companies receiving the refunds. The refund provided by this program is conditioned on the enterprise project maintaining at least the same level of employment of qualified employees as existed at the time it qualified for the refund for a period of three years from that date. The Comptroller's office shall annually certify whether that level of employment of qualified employees has been maintained. On certifying that such level has not been maintained, the Comptroller's office shall assess that portion of the refund attributable to any such decrease in employment, including penalty and interest from the date of the refund. In addition to these rebates, qualified hotel projects within approved enterprise zones can receive refunds of state sales and use taxes paid or collected by the hotel during the first ten years after the project is open for initial occupancy. The hotel can also receive a refund of all hotel occupancy taxes collected for the first 10 years after the project is open for initial occupancy. No other commitments are made by the state as part of these arrangements.

The **CRCHSP** allows an entity to earn a franchise tax credit for expenses incurred for the rehabilitation of a certified historic structure in which the entity has an ownership interest, in the year during which the structure is placed in service after the rehabilitation and the certified cost and expenses incurred exceed \$5,000. The program is established in Texas Tax Code Section 171.904-171.909. In order to earn credits, the entity must acquire a certificate of eligibility from the Texas Historical Commission. The amount of credit is limited to 25 percent of the total eligible cost and expenses incurred. The amount of the credit claimed may not

exceed the amount of franchise tax due that tax period. An entity may carry unused credits forward no more than five years. An entity that has established eligibility may assign or sell credits to another entity. No other commitments are made by the state as part of these arrangements.

Information relevant to the disclosure of these programs for the fiscal year ended Aug. 31, 2017, is in table 29A.

Tax Abatement Programs		
Table 29A		
(In Thousands)		
Tax Exemptions for Agriculture		
Agricultural Machinery and Equipment	Sales and Use Tax	\$113,900
Agricultural Products Not Covered by Blanket Exemptions	Sales and Use Tax	91,099
Timber Products	Sales and Use Tax	30,849
Farm or Timber Use Motor Vehicle	Motor Vehicle Sales Tax	33,795
Research and Development Tax Credit Program		
Credits	Franchise Tax	170,566
Exemptions	Sales and Use Tax	149,100
Texas Data Center Program		
	Sales and Use Tax	78,379
Texas Enterprise Zone Program		
Refunds	Sales and Use Tax	55,139
Refunds	Hotel Occupancy Tax	10,393
Certified Rehabilitation of Certified Historic Structures		
	Franchise Tax	36,596

The state is not subject to tax abatements created by governments at the federal or local level.