SECTION TWO (CONTINUED)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2021 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 54,023,422	$ 8,862,735	$ 62,886,157	$ 1,005,921
Short-Term Investments	1,877,427	1,001,829	2,879,256	81,629
Receivables:				
Accounts	1,231,098	2,884,262	4,115,360	73,144
Taxes (Note 23)	3,669,938		3,669,938	
Federal	4,780,342	1,368,742	6,149,084	2,085
Other Intergovernmental	2,047,018	214,926	2,261,944	2,142
Gifts and Pledges	22	303,398	303,420	36
Investment Trades	17,448	904,817	922,265	
Interest and Dividends	110,830	196,319	307,149	1,824
From Fiduciary Funds	18,813		18,813	
Other Receivables	84,367	679,446	763,813	9,915
Securities Lending Collateral	2,645,321	628,415	3,273,736	
Loans and Contracts	51,214	506,602	557,816	150
Inventories	329,754	298,613	628,367	2,447
Prepaid Items	85,922	288,857	374,779	8,839
Other Current Assets	198,347	627,509	825,856	16,374
Restricted:				
Cash and Cash Equivalents	1,134,499	5,221,007	6,355,506	37,980
Short-Term Investments		643,797	643,797	2,315
Loans and Contracts	160,087	138,112	298,199	6,141
Total Current Assets	72,465,869	24,769,386	97,235,255	1,250,942
Noncurrent Assets:				
Receivables:				
Taxes (Note 23)	85,834		85,834	
Gifts and Pledges		759,501	759,501	10,723
Other Receivables	409,184	163,863	573,047	532
Internal Balances (Note 12)	6,517	(6,517)		
Investments	63,725,616	25,632,264	89,357,880	223,154
Derivative Instruments: (Note 3, 7, 15)				
Investment	4		4	
Hedging		23,085	23,085	
Assets Held in Trust		5,512	5,512	
Loans and Contracts	785,336	12,423,288	13,208,624	1,157
Prepaid Items				3,135
Restricted:				
Cash and Cash Equivalents		154,368	154,368	475
Short-Term Investments		302	302	
Receivables		146,500	146,500	
Investments		65,275,118	65,275,118	618,065
Loans and Contracts	1,586,167	3,011,192	4,597,359	136,512
Other Restricted Assets	110,312	1,804	112,116	
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	41,350,973	6,824,505	48,175,478	8,471
Depreciable or Amortizable, Net	90,571,951	30,178,282	120,750,233	31,733
Intangible Assets:				
Service Concession Arrangements (Note 26)		3,172,805	3,172,805	
Other Noncurrent Assets	49,704	424,341	474,045	155
Total Noncurrent Assets	198,681,598	148,190,213	346,871,811	1,034,112
Total Assets	271,147,467	172,959,599	444,107,066	2,285,054
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	27,877,636	8,591,338	36,468,974	
Total Deferred Outflows of Resources	27,877,636	8,591,338	36,468,974	0

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

Concluded on the following page

Statement of Net Position (concluded)

August 31, 2021 (Amounts in Thousands)

	Primary Government			
LIABILITIES	Governmental Activities	Business-Type Activities	Total	Component Units
Current Liabilities:				
Payables:				
Accounts	$ 8,465,254	$ 2,450,096	$ 10,915,350	$ 357,285
Payroll	840,663	1,219,405	2,060,068	1,313
Tax Refunds (Note 23)	679,067		679,067	
Federal	214	201,790	202,004	
Other Intergovernmental	405,117	3,959	409,076	
Investment Trades	66,842	1,172,299	1,239,141	
Interest	289,434	241,909	531,343	10,060
Annuities		6,006	6,006	31
Notes and Loans (Note 5)	157,184	21,491	178,675	52,165
To Fiduciary Funds	4,863		4,863	
From Restricted Assets (Note 5)		508,174	508,174	
Bonds:				
General Obligation (Note 5, 6)	690,170	297,900	988,070	
Revenue (Note 5, 6)	498,398	2,657,344	3,155,742	7,620
Internal Balances (Note 12)	1,243,480	(1,243,480)		
Short-Term Debt (Note 4)		9,048,469	9,048,469	
Obligations:				
Securities Lending	2,654,647	628,415	3,283,062	
Reverse Repurchase Agreements	11,371		11,371	
Capital Leases (Note 5, 8)	3,949	23,497	27,446	80
Pollution Remediation (Note 5)	46,669		46,669	
Funds Held for Others		54,989	54,989	195,535
Claims and Judgments (Note 5)	39,318	148,042	187,360	
Employees' Compensable Leave (Note 5)	679,427	490,051	1,169,478	1,802
OPEB (Note 11)	997,512	392,604	1,390,116	
Other Current Liabilities	390,834	281,849	672,683	222,551
Unearned Revenue	19,581,291	4,785,520	24,366,811	230,476
Total Current Liabilities	37,745,704	23,390,329	61,136,033	1,078,918
Noncurrent Liabilities:				
Payables:				
Notes and Loans (Note 5)	1,123,123	1,145,033	2,268,156	179,110
From Restricted Assets (Note 5)		1,606,075	1,606,075	223
Bonds:				
General Obligation (Note 5, 6)	13,650,459	3,682,320	17,332,779	
Revenue (Note 5, 6)	4,150,470	34,243,361	38,393,831	31,397
Obligations:				
Capital Leases (Note 5, 8)	4,504	274,198	278,702	202
Pollution Remediation (Note 5)	198,584	1,530	200,114	
Asset Retirement (Note 5)	2,031	33,340	35,371	
Derivative Instruments: (Note 3, 7, 15)				
Investment		62,046	62,046	
Hedging		543,139	543,139	
Assets Held for Others		835,799	835,799	
Claims and Judgments (Note 5)	47,576	51,431	99,007	
Employees' Compensable Leave (Note 5)	306,235	643,182	949,417	1,548
Pension (Note 9)	70,039,356	6,745,751	76,785,107	
OPEB (Note 11)	53,093,762	19,488,732	72,582,494	
Other Noncurrent Liabilities	120,600	720,728	841,328	1,982
Total Noncurrent Liabilities	142,736,700	70,076,665	212,813,365	214,462
Total Liabilities	180,482,404	93,446,994	273,949,398	1,293,380
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	45,789,982	4,412,035	50,202,017	
Total Deferred Inflows of Resources	45,789,982	4,412,035	50,202,017	0
NET POSITION				
Net Investment in Capital Assets	103,334,319	13,828,372	117,162,691	30,350
Restricted for:				
Education	2,238,566	4,455,062	6,693,628	41
Transportation	8,665,085		8,665,085	
Debt Service	375,639	682,310	1,057,949	
Capital Projects	777,416	383,279	1,160,695	
Veterans Land Board Housing Programs		700,111	700,111	
Funds Held as Permanent Investments:				
Nonexpendable	54,790,264	32,592,911	87,383,175	536,404
Expendable	2,605,409	23,304,760	25,910,169	84,979
Other Restricted Net Position	7,695,890	5,456,500	13,152,390	32,457
Unrestricted	(107,729,871)	2,268,603	(105,461,268)	307,443
Total Net Position	$ 72,752,717	$ 83,671,908	$ 156,424,625	$ 991,674

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

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 9,399,446	$ 1,653,507	$ 8,146,094	$
Education	33,975,101	1,313,186	17,056,784	
Teacher Retirement State Contributions	2,766,221			
Health and Human Services	77,473,428	4,754,039	51,919,299	
Public Safety and Corrections	6,250,456	198,470	253,908	
Transportation	6,488,617	3,101,244	4,422,012	55,201
Natural Resources and Recreation	3,727,228	685,407	2,601,630	3,474
Regulatory Services	488,535	646,789	2,820	12
Interest on General Long-Term Debt	148,969			
Total Governmental Activities	140,718,001	12,352,642	84,402,547	58,687
Business-Type Activities:				
General Government	215,119	23,213	84,628	
Education	40,353,505	18,882,552	36,518,566	143,359
Health and Human Services	26,084,927	2,035,190	21,211,553	
Public Safety and Corrections	114,972	128,837		
Transportation	607,473	377,117	9,364	
Natural Resources and Recreation	551,445	34,810	581,660	
Lottery	6,119,219	8,107,877		
Total Business-Type Activities	74,046,660	29,589,596	58,405,771	143,359
Total Primary Government	$ 214,764,661	$ 41,942,238	$ 142,808,318	$ 202,046
COMPONENT UNITS				
Component Units	$ 2,742,172	$ 2,551,214	$ 319,576	$
Total Component Units	$ 2,742,172	$ 2,551,214	$ 319,576	$ 0

Concluded on the following page

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

STATE OF TEXAS

Statement of Activities (concluded)

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
Functions/Programs	Governmental Activities	Business-Type Activities	Total	Component Units
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 400,155	$	$ 400,155	$
Education	(15,605,131)		(15,605,131)	
Teacher Retirement State Contributions	(2,766,221)		(2,766,221)	
Health and Human Services	(20,800,090)		(20,800,090)	
Public Safety and Corrections	(5,798,078)		(5,798,078)	
Transportation	1,089,840		1,089,840	
Natural Resources and Recreation	(436,717)		(436,717)	
Regulatory Services	161,086		161,086	
Interest on General Long-Term Debt	(148,969)		(148,969)	
Total Governmental Activities	(43,904,125)	0	(43,904,125)	0
Business-Type Activities:				
General Government		(107,278)	(107,278)	
Education		15,190,972	15,190,972	
Health and Human Services		(2,838,184)	(2,838,184)	
Public Safety and Corrections		13,865	13,865	
Transportation		(220,992)	(220,992)	
Natural Resources and Recreation		65,025	65,025	
Lottery		1,988,658	1,988,658	
Total Business-Type Activities	0	14,092,066	14,092,066	0
Total Primary Government	(43,904,125)	14,092,066	(29,812,059)	0
COMPONENT UNITS				
Component Units				128,618
Total Component Units	0	0	0	128,618
General Revenues				
Taxes:				
Sales and Use	35,637,046		35,637,046	
Oil and Natural Gas Production	5,253,763		5,253,763	
Motor Vehicle and Manufactured Housing	5,818,216		5,818,216	
Franchise	4,478,917		4,478,917	
Motor Fuels	3,898,839		3,898,839	
Insurance Occupation	2,687,322		2,687,322	
Cigarette and Tobacco	1,397,311		1,397,311	
Other Taxes	2,367,626		2,367,626	
Unrestricted Investment Earnings	1,065,761	195,884	1,261,645	8,689
Settlement of Claims	797,352	3,085	800,437	
Gain on Sale of Capital Assets	28,662	549	29,211	339
Loss on Other Financial Activity	(12,894)		(12,894)	
Other General Revenues	4,274,476	804,660	5,079,136	6,041
Capital Contributions	55	43,489	43,544	
Contributions to Permanent and Term Endowments		380,675	380,675	1,689
Distributions from Permanent Fund Principal (Note 12)	(11,914)		(11,914)	
Extraordinary Items (Note 30)		86,141	86,141	
Transfers - Internal Activities (Note 12)	(1,542,142)	1,542,142		
Total General Revenues, Contributions, Extraordinary Items and Transfers	66,138,396	3,056,625	69,195,021	16,758
Change in Net Position	22,234,271	17,148,691	39,382,962	145,376
Net Position, September 1, 2020	50,571,933	66,533,238	117,105,171	698,843
Restatements (Note 14)	(53,487)	(10,021)	(63,508)	147,455
Net Position, September 1, 2020, as Restated	50,518,446	66,523,217	117,041,663	846,298
Net Position, August 31, 2021	$ 72,752,717	$ 83,671,908	$ 156,424,625	$ 991,674

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

STATE OF TEXAS

Balance Sheet: Governmental Funds

August 31, 2021 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 37,952,514	$ 8,147,402	$ 2,960,527	$ 4,832,832	$ 53,893,275
Short-Term Investments	191,357			384,727	576,084
Receivables:					
Accounts	508,942	202,708	233,771	34,842	980,263
Taxes (Note 23)	3,455,648	224,936		75,188	3,755,772
Federal	4,349,295	403,804		27,242	4,780,341
Other Intergovernmental	1,836,272	210,601		145	2,047,018
Gifts and Pledges				22	22
Investment Trades	8		14,254	1,284	15,546
Interest and Dividends	4,150	5,654	74,956	14,670	99,430
Interfund (Note 12)	8,919				8,919
From Other Funds (Note 12)	693,625	1,729,871	3	433,216	2,856,715
Other Receivables	493,550		2		493,552
Investments	5,188,206	19,966	52,591,071	3,941,444	61,740,687
Securities Lending Collateral			2,622,652		2,622,652
Loans and Contracts	218,847	345,648	56	271,999	836,550
Inventories	179,124	146,852		3,777	329,753
Prepaid Items	85,892		3	26	85,921
Other Assets	158,927			89,123	248,050
Restricted:					
Cash and Cash Equivalents	1,113,407	19,025		2,068	1,134,500
Loans and Contracts	538,053			1,208,201	1,746,254
Other Restricted Assets				110,312	110,312
Total Assets	$ 56,976,736	$ 11,456,467	$ 58,497,295	$ 11,431,118	$ 138,361,616
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 6,163,178	$ 1,495,429	$ 12,968	$ 81,845	$ 7,753,420
Payroll	738,809	92,529	3,135	6,191	840,664
Tax Refunds (Note 23)	679,067				679,067
Federal	214				214
Other Intergovernmental	405,117				405,117
Investment Trades			66,842		66,842
Interfund (Note 12)	210			71	281
To Other Funds (Note 12)	3,965,152	50,587	6	71,320	4,087,065
Obligations:					
Securities Lending			2,632,363		2,632,363
Reverse Repurchase Agreements	11,371				11,371
Other Liabilities	452,838	67,334		10,042	530,214
Unearned Revenue	19,355,716	2,646	140,132	515,453	20,013,947
Total Liabilities	31,771,672	1,708,525	2,855,446	684,922	37,020,565
Deferred Inflows of Resources					
Deferred Inflows of Resources (Note 27)	469,247	121,644	17,843	715,084	1,323,818
Total Deferred Inflows of Resources	469,247	121,644	17,843	715,084	1,323,818
Fund Balances: (Note 13)					
Nonspendable	847,367	146,852	53,783,847	990,195	55,768,261
Restricted	2,139,528	8,507,231	1,840,159	8,908,158	21,395,076
Committed	7,785,860	671,105		200,936	8,657,901
Assigned	12,527	301,110		1,639	315,276
Unassigned	13,950,535			(69,816)	13,880,719
Total Fund Balances	24,735,817	9,626,298	55,624,006	10,031,112	100,017,233
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 56,976,736	$ 11,456,467	$ 58,497,295	$ 11,431,118	$ 138,361,616

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, 2021 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 100,017,233
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	$ 41,350,973	
Capital Assets – Depreciable or Amortizable, Net	90,571,951	
		131,922,924
Reversal of prior year unearned tax revenues recorded in governmental funds but not in the Statement of Net Position.		432,705
Investment derivative instrument asset was reported in the Statement of Net Position to reflect the fair value of derivative instruments.		4
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).		1,323,818
Deferred outflows of resources were reported in the Statement of Net Position to reflect the loss on bond/debt refunding and the impact of pension, OPEB, and asset retirement obligation transactions that are not reported in the funds. (Note 27).		27,877,636
Deferred inflows of resources were reported in the Statement of Net Position to reflect the unamortized up front payments received and capital assets acquired in connection with the Service Concession Arrangements and the impact of pension and OPEB transactions that are not reported in the funds. (Note 26, 27).		(45,789,982)
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, 11 and RSI).		
Claims and Judgments	(86,894)	
Capital Lease Obligations	(8,453)	
Employees' Compensable Leave	(985,662)	
Notes and Loans Payable	(1,280,307)	
General Obligation Bonds Payable	(14,340,629)	
Revenue Bonds Payable	(4,648,868)	
Pollution Remediation Obligation	(245,253)	
Net Pension Liability	(69,809,482)	
Total Pension Liability	(229,874)	
Net OPEB Liability	(48,844,107)	
Total OPEB Liability	(5,247,167)	
Asset Retirement Obligation	(2,031)	
		(145,728,727) [1]
[1] current portion = $3,112,627 and noncurrent portion = $142,616,100		
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.		(270,654)
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.		2,967,760
Net Position of Governmental Activities		$ 72,752,717

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$ 52,171,630	$ 5,609,969	$	$ 4,300,286	$ 62,081,885
Federal	67,082,316	5,152,382		63,994	72,298,692
Licenses, Fees and Permits	3,057,321	1,772,040		921,005	5,750,366
Sales of Goods and Services	4,703,906	62,327	73,925	223,732	5,063,890
Interest and Other Investment Income	529,498	83,719	9,547,466	685,262	10,845,945
Land Income	17,835	20,506	1,173,303	4,826	1,216,470
Settlement of Claims	727,299	43,473	274	185	771,231
Other Revenues	7,254,381	4,265	5,076	68,092	7,331,814
Total Revenues	135,544,186	12,748,681	10,800,044	6,267,382	165,360,293
EXPENDITURES					
Current:					
General Government	4,527,364			325,811	4,853,175
Education	31,327,882		32,117	2,483,168	33,843,167
Employee Benefits	2,620			41,078	43,698
Teacher Retirement State Contributions	2,768,429				2,768,429
Health and Human Services	77,547,241			4,082	77,551,323
Public Safety and Corrections	6,156,867			62,724	6,219,591
Transportation	137,806	3,506,892		157,668	3,802,366
Natural Resources and Recreation	3,626,193		116,967	90,189	3,833,349
Regulatory Services	454,528			26,923	481,451
Capital Outlay	554,858	9,015,348	213	643,477	10,213,896
Debt Service:					
Principal	3,981	122,142		1,020,680	1,146,803
Interest	2			730,578	730,580
Other Financing Fees	16,290	559		4,640	21,489
Total Expenditures	127,124,061	12,644,941	149,297	5,591,018	145,509,317
Excess (Deficiency) of Revenues Over (Under) Expenditures	8,420,125	103,740	10,650,747	676,364	19,850,976
OTHER FINANCING SOURCES (USES)					
Bonds and Notes Issued	260,300			732,101	992,401
Bonds Issued for Refunding				272,385	272,385
Premiums on Bonds Issued				53,902	53,902
Payment to Escrow for Refunding				(295,899)	(295,899)
Sale of Capital Assets	36,416	13,972		2	50,390
Insurance Recoveries	3,764			15	3,779
Distributions from Permanent Fund Principal (Note 12)				(11,914)	(11,914)
Transfer In (Note 12)	11,023,698	1,607,464		4,638,418	17,269,580
Transfer Out (Note 12)	(11,859,155)	(821,836)	(1,701,670)	(4,386,547)	(18,769,208)
Total Other Financing Sources (Uses)	(534,977)	799,600	(1,701,670)	1,002,463	(434,584)
Net Change in Fund Balances	7,885,148	903,340	8,949,077	1,678,827	19,416,392
Fund Balances, September 1, 2020	16,811,378	8,817,479	46,675,581	8,351,757	80,656,195
Restatements (Note 14)	39,291	(94,521)	(652)	528	(55,354)
Fund Balances, September 1, 2020, as Restated	16,850,669	8,722,958	46,674,929	8,352,285	80,600,841
Fund Balances, August 31, 2021	$ 24,735,817	$ 9,626,298	$ 55,624,006	$ 10,031,112	$ 100,017,233

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, 2021 (Amounts in Thousands)

Net Change in Fund Balances		$ 19,416,392
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	10,213,896	
Depreciation Expense (Note 2)	(2,526,079)	
Amortization Expense (Note 2)	(32,054)	
		7,655,763
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.		(21,728)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(3,777,048)
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.		375,805
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	(1,264,786)	
Premiums on Bond Proceeds	(53,902)	
Repayment of Bond and Capital Lease Principal	1,442,702	
		124,014
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(1,500,514)
Transfers of capital assets are not reported in the governmental funds. In addition, resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the Statement of Activities.		
Capital Asset Transfers (Note 2)	(38,413)	
Increase in Revenues	1,954	
Decrease in Expenses	2,149	
Net Change in Transfers	(4,103)	
		(38,413)
Change in Net Position of Governmental Activities		$ 22,234,271

Statement of Net Position: Proprietary Funds

August 31, 2021 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund[1]
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 7,535,306	$ 2,490	$ 150,177	$ 1,174,762	$ 8,862,735	$ 130,149
Short-Term Investments	487,089			514,740	1,001,829	1,301,343
Receivables:						
Accounts	2,217,597	556,575	77,463	32,627	2,884,262	250,836
Federal	1,101,298	253,241		14,203	1,368,742	
Other Intergovernmental	214,926				214,926	
Gifts and Pledges	303,398				303,398	
Investment Trades	904,817				904,817	1,901
Interest and Dividends	94,296	19		102,004	196,319	11,400
Interfund (Note 12)	56,805			215	57,020	
From Other Funds (Note 12)	1,522,587	43,854		405,307	1,971,748	3,545
Other Receivables	670,132			9,314	679,446	
Securities Lending Collateral	588,087			40,328	628,415	22,666
Loans and Contracts	121,817			384,785	506,602	
Inventories	247,627		36,086	14,900	298,613	
Prepaid Items	287,625			1,232	288,857	
Other Current Assets	627,430			79	627,509	
Restricted:						
Cash and Cash Equivalents	1,601,008	1,064,510		2,555,489	5,221,007	
Short-Term Investments	148,862		70,379	424,556	643,797	
Loans and Contracts				138,112	138,112	
Total Current Assets	18,730,707	1,920,689	334,105	5,812,653	26,798,154	1,721,840
Noncurrent Assets:						
Receivables:						
Interfund (Note 12)	1,356,155				1,356,155	
Gifts and Pledges	759,501				759,501	
Other Receivables		163,863			163,863	
Investments	25,054,894			577,370	25,632,264	1,984,930
Derivative Instruments: (Note 3, 7, 15)						
Hedging	17,516			5,569	23,085	
Assets Held in Trust	362			5,150	5,512	
Loans and Contracts	12,382			12,410,906	12,423,288	
Restricted:						
Cash and Cash Equivalents	154,368				154,368	
Short-Term Investments	302				302	
Receivables	70,583			75,917	146,500	
Investments	61,712,114		313,671	3,249,333	65,275,118	
Loans and Contracts	49,347			2,961,845	3,011,192	
Other Restricted Assets	1,804				1,804	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	5,668,929			1,155,576	6,824,505	
Depreciable or Amortizable, Net	28,161,891		1,866	2,014,525	30,178,282	
Intangible Assets:						
Service Concession Arrangements (Note 26)				3,172,805	3,172,805	
Other Noncurrent Assets	424,320			21	424,341	
Total Noncurrent Assets	123,444,468	163,863	315,537	25,629,017	149,552,885	1,984,930
Total Assets	142,175,175	2,084,552	649,642	31,441,670	176,351,039	3,706,770
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 27)	8,139,130			452,208	8,591,338	
Total Deferred Outflows of Resources	8,139,130	0	0	452,208	8,591,338	0
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 2,126,364	$ 167,612	$ 45,454	$ 110,666	$ 2,450,096	$ 711,833
Payroll	1,211,738		2,303	5,364	1,219,405	
Federal	44,587	145,072		12,131	201,790	
Other Intergovernmental	3,959				3,959	
Investment Trades	1,172,299				1,172,299	
Interest	34,903			207,006	241,909	
Annuities			6,006		6,006	

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

Concluded on the following page

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

Statement of Net Position: Proprietary Funds (concluded)

August 31, 2021 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	Activities – Internal Service Fund[1]
LIABILITIES (concluded)						
Current Liabilities:						
Payables:						
Notes and Loans (Note 5)	$ 9,578	$	$	$ 11,913	$ 21,491	$
Interfund (Note 12)	59,141				59,141	
To Other Funds (Note 12)	563,480		118,355	44,312	726,147	4,846
From Restricted Assets (Note 5)	15,933		180,458	311,783	508,174	
Bonds:						
General Obligation (Note 5, 6)	2,802			295,098	297,900	
Revenue (Note 5, 6)	2,352,073			305,271	2,657,344	
Short-Term Debt (Note 4)	2,078,160	6,915,965		54,344	9,048,469	
Obligations:						
Securities Lending	588,087			40,328	628,415	22,284
Capital Leases (Note 5, 8)	23,497				23,497	
Funds Held for Others	54,989				54,989	
Claims and Judgments (Note 5)	148,042				148,042	
Employees' Compensable Leave (Note 5)	484,382		1,597	4,072	490,051	
OPEB (Note 11)	392,604				392,604	
Other Current Liabilities	280,270		1,062	517	281,849	
Unearned Revenue	4,346,049	404,733		34,738	4,785,520	47
Total Current Liabilities	15,992,937	7,633,382	355,235	1,437,543	25,419,097	739,010
Noncurrent Liabilities:						
Payables:						
Notes and Loans (Note 5)	213,499			931,534	1,145,033	
Interfund (Note 12)	1,362,672				1,362,672	
From Restricted Assets (Note 5)	2,532		278,445	1,325,098	1,606,075	
Bonds:						
General Obligation (Note 5, 6)	12,082			3,670,238	3,682,320	
Revenue (Note 5, 6)	17,231,286			17,012,075	34,243,361	
Obligations:						
Capital Leases (Note 5, 8)	274,198				274,198	
Pollution Remediation (Note 5)	1,530				1,530	
Asset Retirement (Note 5)	33,340				33,340	
Derivative Instruments: (Note 3, 7, 15)						
Investment	62,046				62,046	
Hedging	293,361			249,778	543,139	
Assets Held for Others	830,649			5,150	835,799	
Claims and Judgments (Note 5)	51,431				51,431	
Employees' Compensable Leave (Note 5)	640,150		1,563	1,469	643,182	
Pension (Note 9)	6,745,751				6,745,751	
OPEB (Note 11)	19,488,732				19,488,732	
Other Noncurrent Liabilities	396,100			324,628	720,728	
Total Noncurrent Liabilities	47,639,359	0	280,008	23,519,970	71,439,337	0
Total Liabilities	63,632,296	7,633,382	635,243	24,957,513	96,858,434	739,010
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 27)	4,380,006			32,029	4,412,035	
Total Deferred Inflows of Resources	4,380,006	0	0	32,029	4,412,035	0
NET POSITION						
Net Investment in Capital Assets	12,977,223		1,866	849,283	13,828,372	
Restricted for:						
Education	4,455,062				4,455,062	
Debt Service	14,296			668,014	682,310	
Capital Projects	380,180			3,099	383,279	
Veterans Land Board Housing Programs				700,111	700,111	
Funds Held as Permanent Investments:						
Nonexpendable	32,592,684			227	32,592,911	
Expendable	23,304,760				23,304,760	
Other Restricted Net Position			5,000	5,451,500	5,456,500	2,967,760
Unrestricted	8,577,798	(5,548,830)	7,533	(767,898)	2,268,603	
Total Net Position	$ 82,302,003	$ (5,548,830)	$ 14,399	$ 6,904,336	$ 83,671,908	$ 2,967,760

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

[1] 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, 2021 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	Activities – Internal Service Fund[1]
OPERATING REVENUES						
Lottery Collections	$	$	$ 8,107,558	$	$ 8,107,558	$
Unemployment Taxes		2,034,680			2,034,680	
Hospital Revenue – Pledged	19,214,066				19,214,066	
Discounts and Allowances	(11,364,116)				(11,364,116)	
Tuition Revenue	113,824				113,824	
Tuition Revenue – Pledged	7,691,124				7,691,124	
Discounts and Allowances	(2,171,800)				(2,171,800)	
Professional Fees	8,703,477				8,703,477	
Professional Fees – Pledged	31,553				31,553	
Discounts and Allowances	(6,226,014)				(6,226,014)	
Auxiliary Enterprises	3,159				3,159	
Auxiliary Enterprises – Pledged	1,212,260			127,495	1,339,755	
Discounts and Allowances	(86,875)				(86,875)	
Other Sales of Goods and Services	13,906			27,038	40,944	
Other Sales of Goods and Services – Pledged	1,030,031			345,249	1,375,280	
Discounts and Allowances	(9,111)			33,450	24,339	
Interest and Investment Income	693			423,752	424,445	
Interest and Investment Income – Pledged	68			1,122	1,190	
Federal Revenue	2,855,074	21,211,553		71,223	24,137,850	
State Grant Revenue	23,192				23,192	
Premium Revenue						2,767,676
Other Operating Grant Revenue	1,098,521				1,098,521	
Other Operating Grant Revenue – Pledged	1,561,492				1,561,492	
Other Revenues	54,835	644,068	776	198,052	897,731	12,880
Other Revenues – Pledged	665,391				665,391	
Total Operating Revenues	24,414,750	23,890,301	8,108,334	1,227,381	57,640,766	2,780,556
OPERATING EXPENSES						
Cost of Goods Sold	95,319			91,637	186,956	
Salaries and Wages	15,674,606		20,228	53,477	15,748,311	9,358
Payroll Related Costs	5,797,065		7,176	14,294	5,818,535	3,114
Professional Fees and Services	2,540,891		4,988	133,465	2,679,344	1,568
Materials and Supplies	3,798,381		1,148	21,742	3,821,271	1,067
Travel	80,347		103	156	80,606	1
Communication and Utilities	728,342		580	3,215	732,137	525
Repairs and Maintenance	751,464		447	38,367	790,278	742
Rentals and Leases	462,444		6,689	2,267	471,400	65
Printing and Reproduction	49,688		64,480	49	114,217	16
Scholarships	1,836,044				1,836,044	
Lottery Fees and Other Costs			571,120		571,120	
Lottery Prize Payments			5,418,272		5,418,272	
Claims and Judgments	349,143			15,383	364,526	
Employee/Participant Benefit Payments				103,666	103,666	2,495,983
Unemployment Benefit Payments		26,084,927			26,084,927	
Net Change in Pollution Remediation Obligation	507				507	
Net Change in Asset Retirement Obligation	(7,199)				(7,199)	
Depreciation and Amortization	2,766,322		174	129,719	2,896,215	
Bad Debt	1,966		306	21,656	23,928	
Interest	1,035			453,865	454,900	
Other Expenses	4,093,934		23,506	205,008	4,322,448	635
Total Operating Expenses	39,020,299	26,084,927	6,119,217	1,287,966	72,512,409	2,513,074
Operating Income (Loss)	(14,605,549)	(2,194,626)	1,989,117	(60,585)	(14,871,643)	267,482

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

Concluded on the following page

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

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

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund[1]
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
NONOPERATING REVENUES (EXPENSES)						
Federal	$ 9,828,807	$	$	$ 169,794	$ 9,998,601	$
Gifts	826,366			282	826,648	
Gifts – Pledged	167,727				167,727	
Land Income				15	15	
Interest and Investment Income	17,960,835	158	(16,756)	217,921	18,162,158	108,189
Interest and Investment Income – Pledged	1,919,423				1,919,423	
Loan Premium and Fees on Securities Lending						5
Settlement of Claims	2,961			124	3,085	
Depreciation and Amortization				25,351	25,351	
Other Nonoperating Revenues	63,616				63,616	
Other Nonoperating Revenues – Pledged	216,939				216,939	
Investing Activities	(315,397)			(647)	(316,044)	
Borrower Rebates and Agent Fees	(4,314)			(386)	(4,700)	129
Gain (Loss) on Sale of Capital Assets	(27,436)			5	(27,431)	
Claims and Judgments	(234)		2	(1)	(233)	
Interest	(655,437)			(339,899)	(995,336)	
Other Nonoperating Expenses	(189,169)			(24,796)	(213,965)	
Total Nonoperating Revenues (Expenses)	29,794,687	158	(16,754)	47,763	29,825,854	108,323
Income (Loss) Before Capital Contributions, Endowments and Transfers	15,189,138	(2,194,468)	1,972,363	(12,822)	14,954,211	375,805
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	1,121				1,121	
Capital Contributions – Other	185,618			38,523	224,141	
Contributions to Permanent and Term Endowments	380,675				380,675	
Transfer In (Note 12)	8,491,617	374,735		367,922	9,234,274	
Transfer Out (Note 12)	(5,688,522)		(1,998,314)	(45,036)	(7,731,872)	
Other Capital Contributions, Endowments and Transfers	86,141				86,141	
Total Capital Contributions, Endowments and Transfers	3,456,650	374,735	(1,998,314)	361,409	2,194,480	0
Change in Net Position	18,645,788	(1,819,733)	(25,951)	348,587	17,148,691	375,805
Net Position, September 1, 2020	63,666,241	(3,729,097)	40,350	6,555,744	66,533,238	2,591,955
Restatements (Note 14)	(10,026)			5	(10,021)	
Net Position, September 1, 2020, as Restated	63,656,215	(3,729,097)	40,350	6,555,749	66,523,217	2,591,955
Net Position, August 31, 2021	$ 82,302,003	$ (5,548,830)	$ 14,399	$ 6,904,336	$ 83,671,908	$ 2,967,760

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

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

STATE OF TEXAS

Statement of Cash Flows: Proprietary Funds

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds					Governmental Activities-Internal Service Fund[1]
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Proceeds from Customers	$ 10,655,637	$ 2,002,657	$ 8,092,662	$ 545,583	$ 21,296,539	$ 583,462
Proceeds from Tuition and Fees	5,639,629				5,639,629	
Proceeds from Research Grants and Contracts	5,348,344	23,330,296		1,199	28,679,839	
Proceeds from Gifts				75	75	
Proceeds from Loan Programs	849,704			3,165,163	4,014,867	
Proceeds from Auxiliaries	1,218,039				1,218,039	
Proceeds from Other Operating Revenues	1,642,599	654,128		278,262	2,574,989	2,401,580
Payments to Suppliers for Goods and Services	(13,438,245)		(652,369)	(589,820)	(14,680,434)	(13,466)
Payments to Employees	(19,300,340)		(27,225)	(62,713)	(19,390,278)	
Payments for Loans Provided	(821,803)			(2,580,188)	(3,401,991)	
Payments for Lottery Prizes			(5,431,646)		(5,431,646)	
Payments for Unemployment Benefits		(28,479,488)			(28,479,488)	
Payments for Other Operating Expenses	(1,490,431)			(231,773)	(1,722,204)	(2,689,939)
Net Cash Provided (Used) by Operating Activities	(9,696,867)	(2,492,407)	1,981,422	525,788	(9,682,064)	281,637
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				7,604,030	7,604,030	
Proceeds from Gifts	1,077,997				1,077,997	
Proceeds from Endowments	333,575				333,575	
Proceeds from Transfers from Other Funds	7,915,814	869,330		2,191,394	10,976,538	
Proceeds from Interfund Payables				19,960	19,960	
Proceeds from Loan Programs	38,246	3,128,212			3,166,458	
Proceeds from Grant Receipts	10,850,950			158,713	11,009,663	
Proceeds from Other Noncapital Financing Activities	636,194			2,151	638,345	
Payments of Principal on Debt Issuance				(6,875,615)	(6,875,615)	
Payments of Interest				(669,442)	(669,442)	
Payments of Other Costs on Debt Issuance				(2,937)	(2,937)	
Payments for Transfers to Other Funds	(6,372,974)	(496,421)	(1,972,677)	(2,167,950)	(11,010,022)	
Payments for Grant Disbursements	(19,101)			(36,250)	(55,351)	
Payments for Interfund Receivables				(18,315)	(18,315)	
Payments for Other Noncapital Financing Uses	(626,552)		(69,733)	(422,069)	(1,118,354)	
Net Cash Provided (Used) by Noncapital Financing Activities	13,834,149	3,501,121	(2,042,410)	(216,330)	15,076,530	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	23,902			3	23,905	
Proceeds from Debt Issuance	2,610,818				2,610,818	
Proceeds from Federal Grants and Contracts				2,898	2,898	
Proceeds from Gifts	35,379				35,379	
Proceeds from Other Capital and Related Financing Activities	68,274			17	68,291	
Proceeds from Capital Contributions	92,842				92,842	
Payments for Additions to Capital Assets	(3,013,730)		(1,611)	(62,543)	(3,077,884)	
Payments of Principal on Debt Issuance	(2,219,896)			(36,480)	(2,256,376)	
Payments for Capital Leases	(12,744)				(12,744)	
Payments of Interest on Debt Issuance	(750,087)			(101,385)	(851,472)	
Payments of Other Costs on Debt Issuance	(91,786)				(91,786)	
Payments for Interfund Receivables	(6,322)			(40)	(6,362)	
Net Cash Used by Capital and Related Financing Activities	(3,263,350)	0	(1,611)	(197,530)	(3,462,491)	0

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

Concluded on the following page

[1] 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 (concluded)

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds					Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Nonmajor Enterprise Funds	Totals	Activities- Internal Service Fund[1]
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$ 43,753,272	$	$ 70,847	$ 2,627,329	$ 46,451,448	$
Proceeds from Interest and Investment Income	2,361,427	146		420,531	2,782,104	607
Proceeds from Principal Payments on Loans				698,064	698,064	
Payments to Acquire Investments	(45,371,943)			(2,428,478)	(47,800,421)	(245,792)
Payments for Nonprogram Loans Provided				(1,267,172)	(1,267,172)	
Net Cash Provided (Used) by Investing Activities	742,756	146	70,847	50,274	864,023	(245,185)
Net Increase in Cash and Cash Equivalents	1,616,688	1,008,860	8,248	162,202	2,795,998	36,452
Cash and Cash Equivalents, September 1, 2020	7,673,994	58,140	141,929	3,568,275	11,442,338	93,612
Restatements				(226)	(226)	85
Cash and Cash Equivalents, September 1, 2020, as Restated	7,673,994	58,140	141,929	3,568,049	11,442,112	93,697
Cash and Cash Equivalents, August 31, 2021	$ 9,290,682	$ 1,067,000	$ 150,177	$ 3,730,251	$ 14,238,110	$ 130,149
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (14,605,549)	$ (2,194,626)	$ 1,989,117	$ (60,585)	$ (14,871,643)	$ 267,482
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	2,766,322		174	129,719	2,896,215	
Bad Debt Expense	381,231		306	21,656	403,193	
Pension Expense	940,069				940,069	
OPEB Expense	1,661,173				1,661,173	
Operating Income (Loss) and Cash Flow Categories Classification Differences	7,105			9,297	16,402	
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(914,059)	1,640,889	(15,672)	200,916	912,074	9,136
(Increase) Decrease in Due From Other Funds	417			(13,893)	(13,476)	(2,628)
(Increase) Decrease in Inventories	(27,784)		(5,036)	994	(31,826)	
Decrease in Notes Receivables	1,632				1,632	
(Increase) Decrease in Loans and Contracts	28,966			(319,119)	(290,153)	
(Increase) in Other Assets	(171,550)			(21,383)	(192,933)	
Decrease in Deferred Outflows of Resources - Pensions	368,856				368,856	
(Increase) in Deferred Outflows of Resources - OPEB	(1,260,505)				(1,260,505)	
(Increase) in Prepaid Expenses	(26,903)			(268)	(27,171)	
Increase (Decrease) in Payables	174,643	(2,057,819)	12,533	406,839	(1,463,804)	14,015
Increase in Deposits	861			43,162	44,023	
Increase (Decrease) in Due To Other Funds	368,202			(6,385)	361,817	(6,415)
Increase in Unearned Revenue	275,706	119,149		2,003	396,858	47
Increase (Decrease) in Employees' Compensable Leave	65,041			(119)	64,922	
Increase in Benefits Payable	4,236				4,236	
Decrease in Liabilities to Employees for Defined Benefit Pensions	(655,228)				(655,228)	
Increase in Liabilities to Employees for Defined Benefit OPEB	1,462,224				1,462,224	
Increase in Other Liabilities	159,445			132,954	292,399	
Decrease in Deferred Inflows of Resources - Pensions	(253,604)				(253,604)	
Decrease in Deferred Inflows of Resources - OPEB	(440,615)				(440,615)	
Decrease in Asset Retirement Obligations	(7,199)				(7,199)	
Total Adjustments	4,908,682	(297,781)	(7,695)	586,373	5,189,579	14,155
Net Cash Provided (Used) by Operating Activities	$ (9,696,867)	$ (2,492,407)	$ 1,981,422	$ 525,788	$ (9,682,064)	$ 281,637
NONCASH TRANSACTIONS						
Donation of Capital Assets	$ 78,002	$	$	$ 38,523	$ 116,525	$
Net Change in Fair Value of Investments	$ 10,206,586	$	$ (16,752)	$ 171,488	$ 10,361,322	$ 49,799
Borrowing Under Capital Lease Purchase	$ 40,770	$	$	$	$ 40,770	$
Other	$ 123,837	$	$	$ (77,091)	$ 46,746	$

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

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

Statement of Fiduciary Net Position

August 31, 2021 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund[2]	Private-Purpose Trust Funds	Nontrusted External Investment Pool Custodial Funds	Other Custodial Funds
ASSETS					
Cash and Cash Equivalents	$ 3,000,039	$	$ 194,374	$ 2,358	$ 2,018,507
Receivables:					
Accounts	1,223,922				3,566
Taxes	1,861				
Federal	200,684				
Gifts and Pledges					29,287
Investment Trades	3,174,847		2,065	3,970	331
Interest and Dividends	394,593	11,272	313	665	190
From Other Funds (Note 12)	17,893				
Other Receivables			1,189	634	4,470
Investments:					
U.S. Government	34,380,958	12,000,482		219,786	72,460
Corporate Equity	28,738,778		7,649		153
Corporate Obligations	1,983,304	6,185,155	2,603		
Repurchase Agreements		9,322,125			
Foreign Securities	39,676,046		1,782		
Externally Managed	109,840,010			5,891	
Other Investments	30,789,707	2,091,088	4,211,309	325,016	4,332
Securities Lending Collateral	8,553,127			2,929	
Loans and Contracts			839		
Prepaid Items	1,112				
Other Assets	112			428	1,172,910
Restricted:					
Cash and Cash Equivalents			14		32,481
Investments					148,825
Properties, at Cost, Net of Accumulated Depreciation or Amortization	130,807		495		
Total Assets	262,107,800	29,610,122	4,422,632	561,677	3,487,512
LIABILITIES					
Payables:					
Accounts	445,001	924	4,291	268	10,366
Payroll	12,120				
Investment Trades	4,515,173			5,082	603
Interest			141		28
Annuities	85,174				
To Other Funds (Note 12)	31,843				
From Restricted Assets of Non Term Liabilities			933		
Obligations:					
Securities Lending	8,638,542			2,929	
Reverse Repurchase Agreements	8,130,518				
Derivative Instruments:					
Investment				264	
Employees' Compensable Leave	18,900		6		
Other Liabilities	177,461	329	2,198	747	170,317
Unearned Revenue	453		1,109		48
Total Liabilities	22,055,185	1,253	8,678	9,290	181,362
NET POSITION					
Restricted for:					
Pensions	237,345,187				
OPEB[1]	2,675,441				
Held in Trust for Individuals, Organizations and Other Governments	31,987		4,413,954		
Pool Participants		29,608,869		552,387	
Other Purposes					3,306,150
Total Net Position	$ 240,052,615	$ 29,608,869	$ 4,413,954	$ 552,387	$ 3,306,150

[1] Other Post Employment Benefits (OPEB)

[2] 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 accompanying notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund[1]	Private-Purpose Trust Funds	Nontrusted External Investment Pool Custodial Funds	Other Custodial Funds
ADDITIONS					
Contributions:					
Member	$ 4,928,477	$	$	$ 2,573	$ 368
State	4,309,311				
Federal	281,525				58
Other Contributions	2,737,323		319,482		42,004
Total Contributions	12,256,636	0	319,482	2,573	42,430
Investment Income:					
From Investing Activities:					
Net Increase in Fair Value of Investments	37,253,590		754,735	65,435	27,863
Interest, Dividend and Other Investment Income	10,845,322	52,208	60,144	575,226	34,122
Total Investing Income	48,098,912	52,208	814,879	640,661	61,985
Less Investing Activities Expense	286,677	14,924	6,097	81	61,544
Net Income from Investing Activities	47,812,235	37,284	808,782	640,580	441
From Securities Lending Activities:					
Securities Lending Income	33,278				
Less Securities Lending Expense:					
Borrower Rebates[2]	5,632				
Management Fees	6,216				
Net Income from Securities Lending	21,430	0	0	0	0
Total Net Investment Income	47,833,665	37,284	808,782	640,580	441
Capital Share and Individual Account Transactions:					
Net Decrease in Participant Investments	0	(302,607)	0	0	0
Other Additions:					
Settlement of Claims	765				2,294
Transfer In (Note 12)	141,052				59
Other Revenue	5,230		4,014		11,477,045
Total Other Additions	147,047	0	4,014	0	11,479,398
Total Additions	60,237,348	(265,323)	1,132,278	643,153	11,522,269
DEDUCTIONS					
Benefits	16,434,199		299,044		
Refunds of Contributions	579,954			3,712	90
Intergovernmental Payments			75,631		
Settlement of Claims					128,064
Gain on Sale of Capital Assets	7				
Administrative Expenses	97,620		5,124		24,919
Depreciation and Amortization	13,626		39		
Interest Expense					7,324
Transfer Out (Note 12)	141,958		1,927		
Other Deductions	49,440		6,797	685,865	10,808,048
Total Deductions	17,316,804	0	388,562	689,577	10,968,445
INCREASE (DECREASE) IN NET POSITION	42,920,544	(265,323)	743,716	(46,424)	553,824
Net Position, September 1, 2020	197,132,071	29,874,192	3,668,311	538,395	3,132,693
Restatements (Note 14)			1,927	60,416	(380,367)
Net Position, September 1, 2020, as Restated	197,132,071	29,874,192	3,670,238	598,811	2,752,326
Net Position, August 31, 2021	$ 240,052,615	$ 29,608,869	$ 4,413,954	$ 552,387	$ 3,306,150

[1] 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.

[2] 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.

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

STATE OF TEXAS

Notes to Financial Statements

Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the state of Texas were prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state of Texas implemented GASB Statement No. 92, GASB Statement No. 93 and GASB Statement No. 98 in fiscal 2021.

GASB Statement No. 92, *Omnibus 2020,* addresses issues from practitioners identified to enhance comparability and consistency in financial reporting. These issues include:

- reporting reinsurance recoverable amounts by public risk pools (implemented in fiscal 2020)
- applicability of requirements for postemployment benefit arrangements under GASB Statement No. 84, *Fiduciary Activities,*
- measurements of asset retirement obligations (ARO) liabilities in a government acquisition
- reporting of intra-entity transfers of assets between primary governments and a component unit's other postemployment employee benefits (OPEB) plan or defined benefit pension plan
- the effective date of interim financial reporting for leases under GASB Statement No. 87, *Leases,* and Implementation Guide No. 2019-3, *Leases* (superseded by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*)
- terminology used to refer to derivative instruments (implemented in fiscal 2020)
- reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature (implement in fiscal 2022)
- the applicability 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,* as amended, and GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits (implement in fiscal 2022).

GASB Statement No. 93, *Replacement of Interbank Offered Rates,* except paragraphs 11b, 13 and 14 (effective in fiscal 2022), establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBOR) in hedging derivative instruments and leases and identifies appropriate benchmark interest rates for hedging derivative instruments. Paragraph 11b relates to the removal of the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate for hedging derivative instruments, paragraphs 13 and 14 relate to lease modifications.

GASB Statement No. 98, *The Annual Comprehensive Financial Report,* establishes the term annual comprehensive financial report (ACFR), which replaces comprehensive annual financial report (CAFR) in generally accepted accounting principles for state and local governments. The state of Texas implemented early to be effective in fiscal 2021.

The state of Texas implemented in previous years:

- GASB Statement No. 84
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests*
- GASB Implementation Guide No. 2019-1, *Implementation Guidance Update 2019*
- GASB Implementation Guide No. 2019-2, *Fiduciary Activities*.

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.

As 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 colleges 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 format 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 $557.7 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 custodial funds). 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 resouces measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements 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 capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments. Permanent funds are used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** is the primary operating fund for the state and includes transactions for general government, education, employee benefits, teacher retirement state contributions, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services.

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

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

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. 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
- Texas State Technical College
- Midwestern State University
    - MSU will become a member institution of the Texas Tech System beginning in fiscal 2022.

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 in a custodial capacity for individuals, private organizations, other governmental units or other funds meeting the criteria established by GASB Statement No. 84, *Fiduciary Activities*. When assets are held under the terms of a formal trust agreement, either a pension and other employee benefit trust fund, external investment 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 or other employee benefit plans.

External investment trust fund report the external portions of investment pools held in trust 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
- Catastrophic insurance loss relief
- Educational savings plan
- Other funds.

Custodial funds report all other assets, not held in trust, the state holds on behalf of others in a purely custodial capacity. These funds include:

- Educational Custodial Fund
- Economic Development Custodial Fund
- Nontrusted External Investment Pool Custodial Funds
- Other custodial funds.

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 expenditures 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.

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 and employee benefit trust 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 changes 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 Participants*. 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, other intergovernmental and taxes receivable. The major receivables for business-type activities are federal receivables, patient receivables and tuition receivables. Receivables represent amounts due to the state as of Aug. 31, 2021, 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 2021 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, supplemental nutrition assistance program 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 benefit overpayments. 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 2021 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 and 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 accumulated 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 Texas Legislature session 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 consumption and acquisition of net assets by the government that are applicable to future periods.

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 or the agency head/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 deficit 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 such as library books, leasehold improvements and livestock are included in the Other Capital Assets type. 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 as of Aug. 31, 2021, are presented in table 2A.

Capitalization of Assets

Table 2A

August 31, 2021

Capital Asset Type	Capitalization Threshold	Estimated Useful Life
Non-Depreciable and Non-Amortizable Assets		
Land and Land Improvements	$ 0	Not applicable
Infrastructure	0	Not applicable
Construction in Progress	0	Not applicable
Land Use Rights – Permanent	0	Not applicable
Other Capital Assets	0	Not applicable
Depreciable Assets		
Buildings and Building Improvements	100,000	5-30 years
Infrastructure	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	Various	3-22 years
Intangible Capital Assets - Amortizable		
Internally Generated		
Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

Table 2B presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2021. 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. Donated assets are reported at the acquisition value. Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems are capitalized.

Capital Asset Activity

Table 2B: Primary Government - Governmental Activities

August 31, 2021 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/20	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/21
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 16,188,572	$ 5	$ (170)	$ 1,187,660	$ (3,425)	$ 17,372,642
Infrastructure	548	(265)				283
Construction in Progress	20,788,207	6,656	(5,919,068)	8,940,186		23,815,981
Land Use Rights – Permanent	69,514			19,517	(50)	88,981
Other Capital Assets	72,927	9		150		73,086
Total Non-Depreciable and Non-Amortizable Assets	37,119,768	6,405	(5,919,238)	10,147,513	(3,475)	41,350,973
Depreciable Assets						
Buildings and Building Improvements	6,570,629	(7,352)	74,949	1,477	(4,561)	6,635,142
Infrastructure	107,915,484	(912)	5,774,084	966,358	(4,780)	114,650,234
Facilities and Other Improvements	270,478	206	6,125	1,465	(466)	277,808
Furniture and Equipment	1,313,200	(5,232)	398	63,526	(44,934)	1,326,958
Vehicles, Boats and Aircraft	1,595,364	502	69	82,122	(72,498)	1,605,559
Other Capital Assets	158,980		200	2,634	(1,218)	160,596
Total Depreciable Assets at Historical Cost	117,824,135	(12,788)	5,855,825	1,117,582	(128,457)	124,656,297
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(4,833,415)	683		(177,157)	4,260	(5,005,629)
Infrastructure	(24,608,181)	61		(2,155,910)	137	(26,763,893)
Facilities and Other Improvements	(196,763)	130		(6,427)	465	(202,595)
Furniture and Equipment	(1,051,438)	7,857	368	(71,351)	43,353	(1,071,211)
Vehicles, Boats and Aircraft	(968,534)	(46)	(37)	(109,405)	61,730	(1,016,292)
Other Capital Assets	(107,479)	(9)		(5,829)	811	(112,506)
Total Accumulated Depreciation	(31,765,810)	8,676	331	(2,526,079)	110,756	(34,172,126)
Depreciable Assets, Net	86,058,325	(4,112)	5,856,156	(1,408,497)	(17,701)	90,484,171
Intangible Capital Assets – Amortizable						
Computer Software	570,104	(526)	24,669	13,504	(4,048)	603,703
Land Use Rights – Term	892			348	(124)	1,116
Intangible Capital Assets – Term	79,673					79,673
Total Intangible Assets at Historical Cost	650,669	(526)	24,669	13,852	(4,172)	684,492
Less Accumulated Amortization for:						
Computer Software	(502,313)	43		(25,560)	2,338	(525,492)
Land Use Rights – Term	(454)			(184)	124	(514)
Intangible Capital Assets – Term	(64,396)			(6,310)		(70,706)
Total Accumulated Amortization	(567,163)	43	0	(32,054)	2,462	(596,712)
Amortizable Assets, Net	83,506	(483)	24,669	(18,202)	(1,710)	87,780
Governmental Activities Capital Assets, Net	$ 123,261,599	$ 1,810	$ (38,413)	$ 8,720,814	$ (22,886)	$ 131,922,924

Continued on the following page

Capital Asset Activity (continued)

Table 2B: Primary Government - Business-Type Activities

August 31, 2021 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/20	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/21
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 2,377,315	$ (11,485)	$ 727	$ 57,567	$ (3,263)	$ 2,420,861
Construction in Progress	4,012,875	(2,063)	(2,546,133)	1,947,656	(7,020)	3,405,315
Land Use Rights – Permanent	22,917			5	(3)	22,919
Other Capital Assets	918,013		1,171	35,417	(456)	954,145
Other Intangible Capital Assets - Permanent	19,204			2,061		21,265
Total Non-Depreciable and Non-Amortizable Assets	7,350,324	(13,548)	(2,544,235)	2,042,706	(10,742)	6,824,505
Depreciable Assets						
Buildings and Building Improvements	41,330,890	13,068	2,015,570	404,305	(45,617)	43,718,216
Infrastructure	4,424,516		222,299	2,696	(4,638)	4,644,873
Facilities and Other Improvements	3,327,059		200,630	16,214	(4,805)	3,539,098
Furniture and Equipment	7,211,152	189	50,516	599,562	(285,930)	7,575,489
Vehicles, Boats and Aircraft	361,827	9	1,326	21,138	(24,197)	360,103
Other Capital Assets	1,931,792		2,605	65,980	(28,794)	1,971,583
Total Depreciable Assets at Historical Cost	58,587,236	13,266	2,492,946	1,109,895	(393,981)	61,809,362
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(20,010,340)	(8,605)		(1,721,288)	28,062	(21,712,171)
Infrastructure	(1,472,874)			(133,886)	243	(1,606,517)
Facilities and Other Improvements	(1,427,455)			(140,245)	1,799	(1,565,901)
Furniture and Equipment	(5,087,968)	(76)	(363)	(608,255)	234,985	(5,461,677)
Vehicles, Boats and Aircraft	(264,582)	(17)	37	(24,973)	22,536	(266,999)
Other Capital Assets	(1,288,757)			(82,978)	26,885	(1,344,850)
Total Accumulated Depreciation	(29,551,976)	(8,698)	(326)	(2,711,625)	314,510	(31,958,115)
Depreciable Assets, Net	29,035,260	4,568	2,492,620	(1,601,730)	(79,471)	29,851,247
Intangible Capital Assets – Amortizable						
Computer Software	1,730,478		90,029	64,375	(74,298)	1,810,584
Land Use Rights – Term	255					255
Intangible Capital Assets – Term	1,019			415	(734)	700
Total Intangible Assets at Historical Cost	1,731,752	0	90,029	64,790	(75,032)	1,811,539
Less Accumulated Amortization for:						
Computer Software	(1,437,859)	83		(118,291)	72,098	(1,483,969)
Land Use Rights – Term	(255)					(255)
Intangible Capital Assets – Term	(238)			(208)	166	(280)
Total Accumulated Amortization	(1,438,352)	83	0	(118,499)	72,264	(1,484,504)
Amortizable Assets, Net	293,400	83	90,029	(53,709)	(2,768)	327,035
Business Activities Capital Assets, Net	$ 36,678,984	$ (8,897)	$ 38,414	$ 387,267	$ (92,981)	$ 37,002,787

Concluded on the following page

Capital Asset Activity (concluded)

Table 2B: Component Units

August 31, 2021 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/20	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/21
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 2,892	$	$	$ 2,699	$ (1,885)	$ 3,706
Construction in Progress	2,863		(216)	2,118		4,765
Total Non-Depreciable and Non-Amortizable Assets	5,755	0	(216)	4,817	(1,885)	8,471
Depreciable Assets						
Buildings and Building Improvements	20,878			8,878	(6,321)	23,435
Facilities and Other Improvements	414					414
Furniture and Equipment	28,988		216	6,190	(359)	35,035
Vehicles, Boats and Aircraft	7,131			1,950	(790)	8,291
Other Capital Assets	2,123					2,123
Total Depreciable Assets at Historical Cost	59,534	0	216	17,018	(7,470)	69,298
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(7,014)		(11)	(370)		(7,395)
Facilities and Other Improvements	(408)			(3)		(411)
Furniture and Equipment	(23,168)		11	(1,794)	342	(24,609)
Vehicles, Boats and Aircraft	(4,261)			(1,353)	775	(4,839)
Other Capital Assets	(1,411)			(233)		(1,644)
Total Accumulated Depreciation	(36,262)	0	0	(3,753)	1,117	(38,898)
Depreciable Assets, Net	23,272	0	216	13,265	(6,353)	30,400
Intangible Capital Assets – Amortizable						
Computer Software	9,108				(1,563)	7,545
Total Intangible Assets at Historical Cost	9,108	0	0	0	(1,563)	7,545
Less Accumulated Amortization for:						
Computer Software	(7,189)			(586)	1,563	(6,212)
Total Accumulated Amortization	(7,189)	0	0	(586)	1,563	(6,212)
Amortizable Assets, Net	1,919	0	0	(586)	0	1,333
Component Units Capital Assets, Net	$ 30,946	$ 0	$ 0	$ 17,496	$ (8,238)	$ 40,204

Table 2C discloses depreciation and amortization by governmental and business-type activities during fiscal 2021. 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. Assets are depreciated or amortized over their estimated useful life using the straight-line method. The state's highway infrastructure is reported using the depreciation approach.

Capital Asset Depreciation and Amortization Expense

Table 2C: Primary Government
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Services	Governmental Activities	Business-Type Activities
General Government	$ 46,987	$ 351
Education	14,025	2,765,954
Employee Benefits	4	
Health and Human Services	45,873	
Public Safety and Corrections	163,391	112
Transportation	2,242,169	55,846
Natural Resources and Recreation	41,521	7,687
Regulatory Services	4,163	
Lottery		174
Total Depreciation and Amortization Expense	$ 2,558,133	$ 2,830,124

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 36.5 million documents and approximately 41 thousand maps dating back to 1561.

Following the guidelines set in GASB Statement No. 42, *Accounting and Financial Reporting for the Impairment of Capital Assets and for Insurance Recoveries*, a capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The state reports no impairments for fiscal year 2021.

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, contracts written by the Comptroller's office, which are commonly known as covered call options, and other investments specified in statute.

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 2021. 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, 2021, 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 System) reported more than 89.5 percent of the total investment fair value; this does not include the investments held by the Comptroller's office Treasury Pool, TexPool and TexPool Prime. TRS, PSF, ERS, the UT System and the 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 either by the Comptroller, a Federal Reserve Bank, a Federal Home Loan Bank, the Texas Treasury Safekeeping Trust Company, a state depository bank that has been designated as a custodian by the Comptroller, or by a financial institution authorized to exercise fiduciary powers that has been designated as a custodian by the Comptroller. During fiscal 2021, 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, 2021, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.5 billion, $379.5 million and $357 million, respectively. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included in the combined statement of net position as part of the cash and cash equivalents and investment related line items. As of Aug. 31, 2021, the total bank balances for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.6 billion, $376.8 million and $240.9 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, 2021, is presented in table 3A.

Bank Balances Exposed to Custodial Credit Risk

Table 3A

August 31, 2021 (Amounts in Thousands)

Fund Type	Uninsured and Uncollateralized	Uninsured and Collateralized[1]
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 76,646	$
Other Nonmajor Funds	301	
Total Custodial Credit Risk - Governmental Activities	76,947	0
BUSINESS-TYPE ACTIVITIES		
College and Universities	4,193	163,886
Other Nonmajor Funds	(135)	11
Total Custodial Credit Risk - Business-Type Activities	4,058	163,897
Total Custodial Credit Risk - Government and Business-Type Activities	$ 81,005	$ 163,897
FIDUCIARY FUNDS	$ 240,733	$ 0
COMPONENT UNITS	$ 455,987	$ 0

[1] Securities held by the pledging financial institution

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. The bank balances exposed to foreign currency risk as of Aug. 31, 2021, is presented in table 3B.

Bank Balances Exposed to Foreign Currency Risk

Table 3B

August 31, 2021 (Amounts in Thousands)

Foreign Currency	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	$ 351	$ (12,115)
Botswana Pula		7
Brazilian Real	470	15,259
British Pound	164	15,416
Canadian Dollar	4,179	89,700
Chilean Peso	1	24
Chinese Yuan (Offshore)		(2,008)
Chinese Yuan Renminbi	73	4,112
Colombian Peso	377	
Czech Koruna		3,965
Danish Krone	33	527
Egyptian Pound		2
Euro	1,637	39,078
Hong Kong Dollar	270	(19,250)
Hungarian Forint	94	39
Indian Rupee		2,562
Indonesian Rupiah	149	14
Israeli New Shekel	168	183
Japanese Yen	46	29,417
Malaysian Ringgit		1
Mexican Peso	393	(17,822)
New Zealand Dollar		5
Norwegian Krone	1,584	87
Philippine Peso	142	
Polish Zloty	47	451
Qatari Rial	574	
Russian Ruble	4	203
Saudi Riyal		406
Singapore Dollar	308	1,118
South African Rand	178	255
South Korean Won	844	28,295
Swedish Krona	6	1,277
Swiss Franc	315	471
Taiwan Dollar	2,067	3,033
Thai Baht	602	3,864
Turkish Lira	117	(1,214)
United Arab Emirates Dirham	159	4
Total Foreign Currency Risk	$ 15,352	$ 187,366

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:

a. 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.
b. 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.
c. 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 hierarchy 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 classified 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 state 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, 2021. 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 been used historically to determine the selling price of these types of properties by willing parties. Other types of real estate 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 or 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, 2021 are presented in tables 3C, 3D and 3E.

Investments Fair Values

Table 3C: Governmental and Business-Type Activities

August 31, 2021 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 7,119,993	$ 29,858,174	$	$ 36,978,167
U.S. Treasury Strips	200,930			200,930
U.S. Treasury TIPS	2,672,023			2,672,023
U.S. Government Agency Obligations	1,432,512	8,028,046		9,460,558
Corporate Obligations	333,758	5,729,953	37,989	6,101,700
Corporate Asset and Mortgage Backed Securities	32,512	3,827,744	466	3,860,722
Equity	15,369,008	16,227		15,385,235
International Obligations (Govt and Corp)	174	7,204,177	9,517	7,213,868
International Equity	11,498,212	15,324	2,213	11,515,749
International Other Commingled Funds	624,951	4,051	268,975	897,977
Repurchase Agreement	44,344	606,910		651,254
Mutual Funds - Domestic/International	3,388,694	4,291		3,392,985
Fixed Income Money Market and Bond Mutual Fund	10,821,719	3		10,821,722
Other Commingled Funds	4,933,877	173,853	37,190	5,144,920
Commercial Paper	585,813	13,791,869		14,377,682
Invested Collateral	22,669	3,210,739		3,233,408
Securities Lending Collateral Investment Pool	40,328			40,328
Real Estate	12,109	6,001	12,810,909	12,829,019
Derivatives - Domestic/International	97,451	130,514		227,965
Alternative Investments - Domestic/International	117,051	482,629	905,287	1,504,967
Miscellaneous	256,885	164,527	56,565	477,977
Total Investments at Fair Value	59,605,013	73,255,032	14,129,111	146,989,156
INVESTMENTS AT NAV				
Equity				1,110,554
International Equity				188,843
International Other Commingled Funds				7,578,584
Mutual Funds - Domestic/International				232,016
Fixed Income Money Market and Bond Mutual Fund				1,591,926
Other Commingled Funds				4,085,071
Real Estate				3,967,745
Alternative Investments - Domestic/International				57,993,745
Miscellaneous				1,141,952
Total Investments at NAV				77,890,436
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
Repurchase Agreement				3,244,192
Fixed Income Money Market and Bond Mutual Fund				513,145
Other Commingled Funds				183,263
Miscellaneous				128,723
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				4,069,323
Total of Investments - Governmental and Business-Type Activities				$ 228,948,915

Investments Fair Values

Table 3D: Fiduciary Funds

August 31, 2021 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 30,824,306	$ 11,214,882	$	$ 42,039,188
U.S. Treasury Strips		12,525		12,525
U.S. Treasury Tips	6,838	2,949,869		2,956,707
U.S. Government Agency Obligations		4,156,322		4,156,322
Corporate Obligations	2	2,063,793	5,952	2,069,747
Corporate Asset and Mortgage Backed Securities	23,232	283,249	2,659	309,140
Equity	28,761,695	29,487	38	28,791,220
International Obligations (Govt and Corp)		2,939,244	5,472	2,944,716
International Equity	36,937,303	470	36,297	36,974,070
International Other Commingled Funds	11,635		5,441	17,076
Repurchase Agreement		9,322,125		9,322,125
Mutual Funds - Domestic/International	2,447,036			2,447,036
Fixed Income Money Market and Bond Mutual Fund	806,399	1,652		808,051
Other Commingled Funds	603,338	832	925	605,095
Commercial Paper		7,209,919		7,209,919
Invested Collateral	313,734	8,081,820	160,502	8,556,056
Real Estate	1,655,695	33,983	32	1,689,710
Derivatives - Domestic/International	107,842	191,701	35,262	334,805
Alternative Investments - Domestic/International		3,021	989,296	992,317
Miscellaneous	180,358	627	57	181,042
Total Investments at Fair Value	102,679,413	48,495,521	1,241,933	152,416,867
INVESTMENTS AT NAV				
Equity				2,560
International Other Commingled Funds				11,634,978
Mutual Funds - Domestic/International				886,819
Fixed Income Money Market and Bond Mutual Fund				712,824
Other Commingled Funds				6,498,852
Real Estate				10,513
Alternative Investments - Domestic/International				111,845,623
Miscellaneous				8,802,565
Total Investments at NAV				140,394,734
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				33,378
Repurchase Agreement				687,755
Fixed Income Money Market and Bond Mutual Fund				72,043
Miscellaneous				25,808
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				818,984
Total of Investments - Fiduciary Funds				$ 293,630,585

Investments Fair Values

Table 3E: Discrete Component Units

August 31, 2021 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 7,995	$ 171,631	$	$ 179,626
U.S. Government Agency Obligations	24,133	52,391		76,524
Corporate Obligations		14,788		14,788
Corporate Asset and Mortgage Backed Securities		46,807		46,807
Equity	79,683	1		79,684
International Obligations (Govt and Corp)		15,632		15,632
International Equity	35,895			35,895
Mutual Funds - Domestic/International	390,427			390,427
Fixed Income Money Market and Bond Mutual Fund	84,576	19,079		103,655
Other Commingled Funds	14,651	9,608	1,456	25,715
Commercial Paper		83,589		83,589
Real Estate			11,257	11,257
Derivatives - Domestic/International		961		961
Alternative Investments - Domestic/International		34,883	7,565	42,448
Miscellaneous	5,985	14,752	11,335	32,072
Total Investments at Fair Value	643,345	464,122	31,613	1,139,080
INVESTMENTS AT NAV				
Equity				29,562
International Other Commingled Funds				22,121
Real Estate				2,273
Alternative Investments - Domestic/International				25,573
Miscellaneous				278,151
Total Investments at NAV				357,680
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
Repurchase Agreement				100,327
Fixed Income Money Market and Bond Mutual Fund				20,528
Other Commingled Funds				214
Miscellaneous				10,738
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				131,807
Total of Investments - Discrete Components				$ 1,628,567

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 portion of the investment for an amount that is different from the NAV. These investments are exempt from classification within the fair value hierarchy.

TRS, PSF, ERS and the UT System account for 92.8 percent 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:

Employees 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 W. 15th St.
Austin, Texas 78701

The University of Texas System
210 W. 7th St.
Austin, Texas 78701

The investments reported at NAV per share as of Aug. 31, 2021, including unfunded commitments, is presented in table 3F.

Investments Reported at Net Asset Value (NAV)

Table 3F

August 31, 2021 (Amounts in Thousands)

Investment Type	Fair Value	Redemption Frequency	Redemption Notice Period	Unfunded Commitment
Alternative	$ 82,088,753	Daily - Annually	1 - 90 days	$41,482,750
Commingled Funds	30,783,784	Daily - 3yr	1 - 105 days	189,983
Energy, Natural Resources, Infrastructure	4,952,079	Daily	3 days	2,773,985
Fixed Income	3,602,187	Daily	5 days - 90 days	409,882
Hedge Funds	40,761,881	Daily - 3yr	1 day - 2yr	1,508,312
Mutual Funds	3,457,384	Daily - Monthly	1 - 60 days	
Private Equity	35,756,221	Monthly - 5yr	90 days - 1yr	15,003,761
Real Estate	8,276,325	Daily - 5yr	2 days - 1yr	4,733,025
Risk Parity	1,922	N/A	N/A	
U.S. Government Obligations	8,962,314	Monthly	3 days	
Total Investments at Net Asset Value	$218,642,850			$66,101,698

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

Commingled Funds: An external manager pools and invests the funds of several institutional investors. Securities are owned by the overall fund and each investor owns a pro rata share of the fund. The U.S. Securities and Exchange Commission (SEC) does not regulate 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 general 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: U.S. Government obligations are made in an index fund which invests in securities issued by the U.S. Treasury and U.S. Government agencies.

TRS, PSF, ERS, the UT System and VLB 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. The investment type balances for the invested securities lending collateral as of Aug. 31, 2021, is presented in table 3G.

Invested Securities Lending Collateral Fair Value

Table 3G: Governmental and Business-Type Activities

August 31, 2021 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Investments at Fair Value				
U.S. Government Obligations	$	$ 9,997	$	$ 9,997
Corporate Obligations		1,598,746		1,598,746
Corporate Asset and Mortgage Backed Securities		125,113		125,113
International Obligations (Govt and Corp)		109,564		109,564
Repurchase Agreement	22,669	332,385		355,054
Commercial Paper		483,215		483,215
Miscellaneous		551,719		551,719
Total Invested Securities Lending Collateral – Governmental and Business-Type Activities	$ 22,669	$ 3,210,739	$ 0	$ 3,233,408

Concluded on the following page

Invested Securities Lending Collateral Fair Value (concluded)

Table 3G: Fiduciary Funds

August 31, 2021 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Investments at Fair Value				
Corporate Obligations	$	$ 74,991	$	$ 74,991
Corporate Asset and Mortgage Backed Securities		437,819		437,819
Repurchase Agreement	313,734	3,306,187		3,619,921
Commercial Paper		4,262,823	160,502	4,423,325
Miscellaneous				
Total Invested Securities Lending Collateral – Fiduciary Funds	$ 313,734	$ 8,081,820	$ 160,502	$ 8,556,056

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.

The investments exposed to custodial credit risk as of Aug. 31, 2021, is presented in table 3H.

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 the UT System are exposed to investment foreign currency risk. TRS, PSF and ERS do not have an investment policy for managing foreign currency risk. The UT System'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, 2021, is presented in table 3I.

Investments Exposed to Custodial Credit Risk

Table 3H

August 31, 2021 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered:	
	Securities Held by Counterparty	Securities Held by Counterparty's Trust Department Agent[1]
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Obligations	$	$ 1,592,465
Corporate Asset and Mortgage Backed Securities		125,113
Repurchase Agreement		71,173
Commercial Paper		288,542
Miscellaneous		545,359
Subtotal Custodial Credit Risk - Governmental Activities	0	2,622,652
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury Securities	10,269	
U.S. Government Agency Obligations	184	
Corporate Obligations	9,665	
Equity	61,589	
International Obligations	501	
International Equity	2,611	
Fixed Income Money Market and Bond Mutual Fund	13,757	
Other Commingled Funds	1,372	
Miscellaneous	249	
Subtotal Custodial Credit Risk - Business-Type Activities	100,197	0
Total Custodial Credit Risk	$ 100,197	$ 2,622,652

[1] Securities not held in the state's name.

Investments Exposed to Foreign Currency Risk

Table 3I

August 31, 2021 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds				Component Units
Foreign Currency	International Obligations	International Equity	International Other Commingled Funds	Other Investments	International Obligations	International Equity	International Other Commingled Funds	Other Investments	Other Investments
Argentine Peso	$	$	$	$	$	$ 1	$	$	$
Australian Dollar	215,765	326,993	3,437	183,135	331,550	1,179,269	484	99,742	
Botswana Pula						73			
Brazilian Real	95,246	352,459	19,229	19,335	82,839	393,482			
British Pound	202,682	821,012	1,573	388,447	1,167,305	2,939,496	2,312	834,773	430
Canadian Dollar	103,552	540,934	17,673	213,363	4,773	2,272,498	495		
Chilean Peso		9,329	6			17,544			
Chinese Yuan (Offshore)	44								
Chinese Yuan Renminbi	213,863	635,867	83,841		47,012	547,807			
Colombian Peso	98,893	4,224	1,478			3,991			
Czech Koruna		2,897	44			40,029			
Danish Krone	136,288	151,219	30			560,405	242		
Egyptian Pound		2,819	18			1,939			
Euro	461,058	2,028,724	17,761	1,165,280	705,352	7,242,048	802,716	5,800,139	254
Hong Kong Dollar		820,215	1,565			3,642,998	64		
Hungarian Forint	10,735	7,553				59,117			
Indian Rupee	20,251	106,685	107		1	1,534,455	369		
Indonesian Rupiah	128,378	49,890	1		79	222,135			
Israeli New Shekel	63,707	29,803	1			85,402			
Japanese Yen	751,991	1,540,075	6,640	38,872		5,243,602	981		
Kuwaiti Dinar						20,958			
Malaysian Ringgit	118,697	40,671	1,895			86,968			
Mexican Peso	283,306	60,799	(97)		213	383,734			
New Zealand Dollar	11,970	13,691	(8)			28,019			
Nigerian Naira						3			
Norwegian Krone	39,026	36,964	448			381,868	94		
Pakistan Rupee						2,770			
Peruvian Nuevo Sol	15,260	86	10			47			
Philippine Peso		15,016	8			27,840			
Polish Zloty	14,458	31,578	11			133,644			
Qatari Rial		18,475	16			41,726			
Romanian Leu	9,852								
Russian Ruble	32,377	41,604	124			171,514			
Saudi Riyal		3,561				213,634			
Singapore Dollar	117,112	55,281	239			240,995			
South African Rand	125,468	103,418	5,274			399,536			
South Korean Won	210,775	657,539	7,427			1,488,160		32	
Swedish Krona		200,574	104	108,413		837,700	722		
Swiss Franc		583,849	508			1,442,022	537		
Taiwan Dollar		425,349	1,190			1,609,514	237		
Thai Baht		58,989	2			241,953			
Turkish Lira		13,366				27,029			
United Arab Emirates Dirham		26,087	36			64,376			
Total Foreign Currency Risk	$ 3,480,754	$ 9,817,595	$ 170,591	$ 2,116,845	$ 2,339,124	$ 33,830,301	$ 809,253	$ 6,734,686	$ 684

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.

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

The credit quality distribution for securities with credit risk exposure as of Aug. 31, 2021, is presented in table 3J.

Investments Exposed to Credit Risk[1]

Table 3J: Governmental and Business-Type Activities

August 31, 2021 (Amounts in Thousands)

Credit Rating	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	$ 883,332	$ 396,149	$ 2,781,293	$ 2,999,740	$ 277,372	$	$	$ 284,061	$ 7,621,947
AA	13,039,861	2,013,070	236,353	277,927	2,238,912			194,644	18,000,767
A	1,863	2,501,914	176,432	291,634	114,999			59,698	3,146,540
BBB	14,192	2,201,359	194,401	829,896				6,215	3,246,063
BB	901	358,891	8,154	347,464				2,032	717,442
B	308	137,550	9,345	67,634				1,101	215,938
CCC		32,821	11,839	10,176					54,836
CC			1,862						1,862
D		2,458	1,098	355					3,911
AAAf						9,393,255			9,393,255
AAAm						1,694,104			1,694,104
Aaf						206,573			206,573
Af						53,182			53,182
BBBf						122,019			122,019
BBf						50,970			50,970
Bf						76,996			76,996
CCCf						11,763			11,763
A-1							14,434,009		14,434,009
A-3							1,326		1,326
Not Rated	310,123	47,843	565,058	2,389,039	246,477	2,981,368	374,895	5,030,124	11,944,927
Total Credit Risk	$ 14,250,580	$ 7,692,055	$ 3,985,835	$ 7,213,865	$ 2,877,760	$ 14,590,230	$ 14,810,230	$ 5,577,875	$ 70,998,430

[1] 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.

Concluded on the following page

Investments Exposed to Credit Risk[1] (concluded)

Table 3J: Fiduciary Funds and Discrete Component Units

August 31, 2021 (Amounts in Thousands)

Credit Rating	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
FIDUCIARY FUNDS									
AAA	$ 3,126,625	$ 27,037	$ 204,005	$ 565,052	$ 9,839,392	$	$	$ 1,683,850	$ 15,445,961
AA	3,623,331	103,087	8,543	1,410,494	162,632			64	5,308,151
A	7	20,612	14,122	1,311				46	36,098
BBB	49	66,378	5,111	275,457				7,522	354,517
BB	3	1,017,740	10,400	168,490				11,420	1,208,053
B	1	565,286	5,915	224,406				6,203	801,811
CCC		180,890	7,611	53,451					241,952
CC			88						88
C			32						32
D		13,846	349	1,998					16,193
AAAf						530,630			530,630
AAAm						266			266
AAf						7,111			7,111
Af						25,499			25,499
BBBf						34,379			34,379
BBf						297			297
Bf						362			362
CCCf						109			109
A-1							7,212,494		7,212,494
Not Rated	2,760	74,870	52,967	244,056		41,387	436	886,981	1,303,457
Total Credit Risk	$ 6,752,776	$ 2,069,746	$ 309,143	$ 2,944,715	$ 10,002,024	$ 640,040	$ 7,212,930	$ 2,596,086	$ 32,527,460
DISCRETE COMPONENT UNITS									
AAA	$ 21,847	$ 2,060	$ 44,884	$ 15,226	$ 83,406	$	$	$ 219,201	$ 386,624
AA	58,652	7,780		407	12,473			214	79,526
A		700						26,205	26,905
BBB		4,248							4,248
AAAf						45,041			45,041
A-1							83,589		83,589
Not Rated	1,866		1,923		3	35,458		20,158	59,408
Total Credit Risk	$ 82,365	$ 14,788	$ 46,807	$ 15,633	$ 95,882	$ 80,499	$ 83,589	$ 265,778	$ 685,341

[1] 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. The UT System'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. The Comptroller's office limits the amount the Treasury Pool may invest in a single issuer in certain asset classes, tailored to the asset class and issuer's rating. As of Aug. 31, 2021, 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 the UT System 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 Bloomberg Aggregate Bond Index's duration and the duration of the real return portfolio to be consistent with the Bloomberg's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2021, the Bloomberg's Aggregate Bond Index duration was 6.7 years, the Bloomberg's TIPS Index was 7.9 years , the Bloomberg's Capital U.S. Long Treasury Total Return Index was 18.9 years, the Bloomberg's Capital U.S. 1-3 Year Aggregate Total Return index was 1.9 years and the JPM GBI-EM Global Diversified Index was 5.2 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days; bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days or less. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days or less. TRS, ERS and the UT System do not have a formal investment policy for managing interest rate risk.

PSF's investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2021, is presented in table 3K.

Investments Exposed to Interest Rate Risk

Table 3K: Permanent School Fund

August 31, 2021 (Amounts in Thousands)

PSF Investment Type	Fair Value	Effective Weighted Duration Rate
Asset Backed Securities	$ 126,108	2.47
Collateralized Loan Obligations	130,288	0.17
Commercial Mortgage Backed Securities	41,336	6.06
Corporate Obligations	1,599,541	8.78
Non-Agency Mortgage Backed Securities	245,395	3.19
Non-U.S. Government Agency Obligations	65,244	2.77
Non-U.S. Sovereign Government Debt	80,831	7.01
U.S. Government Agency:		
Commercial Mortgage Backed Securities	13,063	2.05
Mortgage Backed Securities	733,302	5.10
Obligations	60,095	4.79
U.S. Taxable Municipal Bonds	85,578	8.28
U.S. Treasury Securities	1,628,435	6.83
Total PSF Fixed Income Portfolio	$ 4,809,216	6.66
Real Return - U.S. Treasury TIPS Portfolio	$ 1,230,906	7.54
Real Return Commodities -		
U.S. Treasury Securities	$ 33,224	0.45
U.S. Treasury Treasuries Portfolio		
U.S. Treasury Securities Treasuries	$ 1,230,495	17.98
Emerging Market Debt Portfolio	$ 2,683,647	5.31
Liquid Investment Type		
Asset Backed Securities	$ 40,132	3.16
Collateralized Loan Obligations	17,483	0.16
Commercial Mortgage Backed Securities	8,825	0.58
Corporate Obligations	243,488	2.93
Non-Agency Mortgage Backed Securities	58,635	5.41
Non-U.S. Government Agency Obligations	21,976	1.21
U.S. Government Agency Obligations	3,063	0.64
U.S. Government Mortgage		
Backed Securities	137,508	5.62
U.S. Taxable Municipal Bonds	13,733	0.76
U.S. Treasury Securities	517,606	1.15
Total Liquid Fixed Income Portfolio	$ 1,062,449	2.42
Core Bond Portfolio Investment Type		
Commercial Mortgage Backed Securities	$ 9,507	5.10
Corporate Obligations	112,480	8.50
U.S. Government Agency Obligations	16,211	3.83
U. S. Government Agency Mortgage		
Backed Securities	108,865	4.48
U.S. Taxable Municipal Securities	12,282	9.20
U. S. Treasury Securities	152,287	6.66
Total Core Fixed Income	$ 411,632	6.51
U. S. Treasury TIPS	$ 210,158	7.58

Information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2021, is presented in table 3L.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

Table 3L: Permanent School Fund

August 31, 2021 (Amounts in Thousands)

Investment Type	Fair Value	Investment Maturities: Less Than One Year	Investment Maturities: Greater Than One Year
Asset Backed Floating Rate Notes	$ 125,112	$ 125,112	$
Commercial Paper	738,972	738,972	
Floating Rate Notes	1,592,465	1,564,413	28,052
Repurchase Agreements	71,173	71,173	
Time Deposits	94,930	94,930	
Total Interest Rate Risk	$ 2,622,652	$ 2,594,600	$ 28,052

TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2021, is presented in table 3M.

Investments Exposed to Interest Rate Risk

Table 3M: Teacher Retirement System of Texas

August 31, 2021 (Amounts in Thousands)

TRS Investment Type	Fair Value	Effective Weighted Duration Rate
U.S. Government Obligations	$ 28,298,715	18.20
U.S. Government STRIPS and TIPS	2,962,394	25.90
U.S. Government Agency Obligations	1,881	4.10
Asset and Mortgage Backed Obligations	14,642	1.30
Corporate Obligations	1	19.50
International Government Obligations	2,333,939	9.90
International Corporate Obligations	1	2.30
Total Interest Rate Risk	$ 33,611,573	16.69

ERS' investments by investment type, fair value and the modified duration rate as of Aug. 31, 2021, is presented in table 3N.

Investments Exposed to Interest Rate Risk

Table 3N: Employees Retirement System of Texas

August 31, 2021 (Amounts in Thousands)

Investment Type	Fair Value	Modified Duration Rate
FIDUCIARY FUNDS		
U.S. Treasury Securities	$ 2,582,263	3.97
U.S. Government Agency Obligations	486,855	4.48
Corporate Obligations	1,908,472	5.25
Corporate Asset and Mortgage Backed Securities	48,807	1.28
International Obligations	387,327	4.12
Real Estate Investment Trust	33,809	4.05
Total Interest Rate Risk - Fiduciary Funds	$ 5,447,533	4.45
PROPRIETARY FUNDS		
U.S. Treasury Securities	$ 1,143,076	3.97
U.S. Government Agency Obligations	215,513	4.48
Corporate Obligations	338,765	5.25
Corporate Asset and Mortgage Backed Securities	16,925	1.20
International Obligations	68,753	4.12
Real Estate Investment Trust	6,001	4.05
Total Interest Rate Risk - Proprietary Funds	$ 1,789,033	4.25

The UT System's investments by investment type, fair value and the modified duration rate as of Aug. 31, 2021, is presented in table 3O.

Investments Exposed to Interest Rate Risk

Table 3O: University of Texas System

August 31, 2021 (Amounts in Thousands)

Investment Type - Investments in Securities	Fair Value	Modified Duration Rate
U.S. Government Guaranteed:		
U.S. Treasury Bills	$ 66,321	0.17
U.S. Treasury Bonds and Notes	1,575,808	6.26
U.S. Treasury Inflation Protected	1,334,620	7.71
U.S. Agency Asset Backed	1,038	0.61
Total U.S. Government Guaranteed	2,977,787	6.77
U.S. Government Non-Guaranteed:		
U.S. Agency	89,249	3.69
U.S. Agency Asset Backed	468,130	3.42
Total U.S. Government Non-Guaranteed	557,379	3.46
Total U.S. Government	3,535,166	6.25
Corporate Obligations:		
Domestic	1,476,215	6.80
Foreign	823,254	3.95
Total Corporate Obligations	2,299,469	5.78
Debt Securities:		
Foreign Government and Provincial Obligations	3,177,817	7.03
Other Debt Securities	17,242	8.94
Total Debt Securities	9,029,694	6.41
Other Investments:		
Other Investment Funds – Debt	140,394	2.32
Fixed Income Money Market Funds	3,149,252	0.29
Total Interest Rate Risk	$ 12,319,340	4.80

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and the UT System may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. As of Aug. 31, 2021, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and the UT System was $2.7 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position, there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying the reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

As of Aug. 31, 2021, the Treasury's aggregate amount of reverse repurchase agreement obligations was $11.4 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $11.4 million. There was no credit exposure during fiscal 2021.

Securities Lending

TRS, PSF, ERS, UT System and the Veterans Land Board (VLB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and the UT System established their own separately managed securities lending programs. 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, the UT System 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. 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 System and VLB if the borrowers fail to return the securities.

TRS, PSF, ERS, UT System and VLB loans are terminable at will. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. The overall securities lending activity as of Aug. 31, 2021, is presented in table 3P.

Securities Lending Activity Summary

Table 3P

August 31, 2021 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral[1]	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value
TRS	$ 9,865,929	$ 1,128,704	$ 8,239,898	$ 8,239,393	$ (505)
ERS	327,754		336,392	336,403	11
PSF	2,925,759	370,705	2,632,363	2,622,652	(9,711)
UT System[1,2]	946,298	383,676	591,016	591,016	
VLB[2]	39,525		40,328	40,328	
Total Securities Lending	$ 14,105,265	$ 1,883,085	$ 11,839,997	$ 11,829,792	$ (10,205)

[1] 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.

[2] UT and VLB 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, 2021.

Investment Derivative Instruments

Derivative instruments 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, 2021, TRS, PSF, the UT System, Texas A&M University System (A&M System), Texas Tech University System (TTU System) 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, 2021, 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, the UT System and the A&M System have exposure to investment foreign currency risk in swaps, options, futures and forwards derivative investments. Derivative investments exposed to foreign currency risk as of Aug. 31, 2021, is presented in table 3Q.

Derivative Investments Exposed to Foreign Currency Risk

Table 3Q

August 31, 2021 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
Foreign Currency	**Swaps**	**Options**	**Futures**	**Forwards**	**Swaps**	**Options**	**Futures**	**Forwards**
Australian Dollar	$ 1,980	$	$	$ 2,625	$	$	$ 51,927	$ 8,020
Brazilian Real		(272)	40	(942)			(551)	(152)
British Pound	(349)	(441)	(294)	1,215	1,329		(8,074)	3,461
Canadian Dollar	(388)		(39)	799			6,181	(2,435)
Chilean Peso				(4,622)				61
Chinese Yuan (Offshore)				(314)				(36)
Chinese Yuan Renminbi				645	1,457			841
Colombian Peso				(1,963)				(17)
Czech Koruna	1			46				229
Danish Krone				1,107				23
Euro	672	(286)	191	485	49,823		10,072	(694)
Hong Kong Dollar			(181)				6,989	14
Hungarian Forint				874				209
Indian Rupee				(394)				157
Indonesian Rupiah				(2,769)				(171)
Israeli New Shekel				(1,517)				(29)
Japanese Yen	26		614	1,160			(7,908)	488
Malaysian Ringgit				(354)				
Mexican Peso	(123)			(1,435)	1,114			280
New Zealand Dollar	(11)			2,089				(1,290)
Norwegian Krone	74			352				1,749
Peruvian Nuevo Sol				1,307				(17)
Philippine Peso				(130)				(373)
Polish Zloty				789				162
Romanian Leu				48				38
Russian Ruble				474				135
Singapore Dollar	(143)			(1,326)			(1,720)	5
South African Rand	143			(2,003)			(624)	(534)
South Korean Won	77			1,154			(3,186)	(21)
Swedish Krona	86			708			(827)	197
Swiss Franc	108			271		55		(640)
Taiwan Dollar				(13)				(93)
Thai Baht				1,595		8		(276)
Turkish Lira				123				300
Total Foreign Currency Risk	$ 2,153	$ (999)	$ 331	$ 84	$ 53,723	$ 63	$ 52,279	$ 9,591

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

TRS' investment policy limits the net market value of all over-the-counter derivative positions, less collateral posted, to an amount not exceeding $500 million for any individual counterparty.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by the UT System in one of its accounts at their custodian bank.

The aggregate fair value of investment derivative instruments in asset positions as of Aug. 31, 2021, was $357.9 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than B using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2021, if all counterparties failed to perform as contracted. This maximum exposure is reduced by $332.3 million of collateral held and by $112.1 million in liabilities included in netting arrangements with those counterparties, resulting in a negative $86.5 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, the UT System and VLB are exposed to interest rate risk on swap transactions. Investments in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 131.3 percent of the Securities Industry and Financial Markets Association (SIFMA) index. Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rates (Euro Interbank Offered Rate (EURIBOR), London Interbank Offered Rate (LIBOR), Stockholm Interbank Offered Rate, Bank Bill Swap Rate or Canadian Dollar Offered Rate) and receipt of 0 to 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 to 8.1 percent. The investment maturities for the state's swap contracts exposed to interest rate risk as of Aug. 31, 2021, is presented in table 3R.

Derivative Investments Exposed to Interest Rate Risk

Table 3R

August 31, 2021 (Amounts in Thousands)

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**11-15**	**More than 15**
Interest Rate Swaps	$111,585	$89,699	$5,345	$16,863	$2,278	$(2,600)

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, 2021, the fair value of various investment funds was $172.4 billion.

Note 4

Short-Term Debt

The Texas Comptroller of Public Accounts (Comptroller's office) is authorized to issue, sell and deliver Tax and Revenue Anticipation Notes (TRAN) on behalf of the state pursuant to the *Texas Government Code*, Chapter 404, Subchapter H. On Aug. 19, 2020, (with an issue date of Sept. 2, 2020) $7.2 billion of state of Texas TRAN, Series 2020 (Series 2020 Notes) were sold to coordinate cash flow for the state for fiscal 2021. Issuance of the Series 2020 Notes enhanced the state's ability to make timely payments of expenditures payable from the general revenue fund. The TRAN matured on Aug. 26, 2021 and bore an interest rate of 4 percent and was priced to yield at .2483 percent as determined by the bids of the initial purchasers.

For fiscal 2022, the Comptroller's office has announced that the state will not issue the state of Texas TRAN.

The Texas Workforce Commission (TWC) received temporary transfers (loans) for $311 million from the Comptroller's office to avoid interest liabilities related to the Cash Management Improvement Act. The loans were repaid in full during fiscal 2021.

In fiscal 2020, the Texas Unemployment Trust Fund became insolvent due to a significant amount of state benefits being paid. The TWC borrowed funds from the United States Treasury, under Title XII of the Social Security Act interest free through Sept. 4, 2021. The amount borrowed totaled $6.9 billion as of Aug. 31, 2021. Under Senate Bill 8 of the 87th Legislature, Third Special Session, $7.2 billion was appropriated to the Comptroller's office from the Coronavirus State Fiscal Recovery Fund existing in the United States Treasury. As of November 2021, the funds were transferred to the Texas Unemployment Trust Fund, at which time the balance was paid in its entirety.

The Texas Department of Housing and Community Affairs (TDHCA) executed an Advances and Security Agreement with the Federal Home Loan Bank of Dallas (FHLB). The maximum aggregate principal amount available for advances under the agreement was $250 million. As of Aug. 31, 2021, $195.7 million was available for use in the line of credit and the balance outstanding was $54.3 million. The TDHCA pledges mortgage loans, plus additional amounts deposited in an escrow account, as collateral for the advances. Terms specified in the debt agreements related to default events include:

- Default in the payment of principal or interest of the advances when such payments become due and payable,
- Failure of the TDHCA to perform any promise or obligation or satisfy any condition or liability,
- Evidence coming to the attention of the FHLB that any representation, statement or warranty made or furnished by the FHLB in connection with any advance, any specification of qualifying collateral or any certification of fair market value that was false in any material respect,
- Issuance of any tax, levy, seizure, attachment, garnishment, levy of execution or other legal process with respect to the collateral,
- Suspension of payment made by the TDHCA to any creditor or any event that results in the acceleration of any of its indebtedness,
- The appointment of a conservator or receiver for the TDHCA under federal bankruptcy laws,
- The sale by the TDHCA of all or material part of its assets,
- The cessation of the TDHCA to be a type of institution that is eligible to become a borrower of FHLB,
- The merger or consolidation or other combination by the TDHCA with any other non-eligible entity and

- FHLB reasonably and in good faith determines that a material adverse change has occurred in the financial condition of the TDHCA and FHLB deems itself insecure even though the TDHCA is not otherwise in default.

The Texas Tech University System issued commercial paper notes for $39 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds. As of Aug. 31, 2021, $19.1 million matured and $48.8 million remained outstanding.

The University of North Texas System issued commercial paper notes for $34.2 million to finance costs of eligible projects and to refinance, renew or refund commercial paper notes, prior encumbered obligations and parity debt, including interest. As of Aug. 31, 2021, $3.2 million matured and $76.1 million remained outstanding.

The Texas State University System issued commercial paper notes for $272.2 million to finance various construction projects. As of Aug. 31, 2021, $340.7 million matured and $26.3 million remained outstanding.

The University of Houston System issued commercial paper notes for $27 million in fiscal 2019 to finance various capital projects. As of Aug. 31, 2021, $7.9 million matured and $35.8 million remained outstanding.

The University of Texas System issued commercial paper notes for $964 million to provide interim financing for capital improvements and to finance capital equipment purchases. As of Aug. 31, 2021, $486.7 million matured and $1.9 billion remained outstanding.

Short-term debt activity as of Aug. 31, 2021, is presented in table 4A.

Short-Term Debt

Table 4A

August 31, 2021 (Amounts in Thousands)

Short-Term Debt Type	Beginning Balance 9/1/20	Issued	Redeemed	Ending Balance 8/31/21
Tax and Revenue Anticipation Notes	$	$ 7,200,000	$ 7,200,000	$
Commercial Paper	1,626,262	1,309,414	857,516	2,078,160
Other Advances (Loans) -				
Direct Borrowings	3,928,554	9,194,911	6,153,156	6,970,309
General Revenue Advances		311,028	311,028	
Total Short-Term Debt	$ 5,554,816	$ 18,015,353	$ 14,521,700	$ 9,048,469

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2021, is presented in table 5A.

Long-Term Liabilities Activity

Table 5A

August 31, 2021 (Amounts in Thousands)

Fund Type	Balance 9/1/20	Restatements /Adjustments[1]	Additions[2]	Reductions	Balance 8/31/21	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	$ 97,141	$	$ 40,968	$ 51,215	$ 86,894	$ 39,318	$ 47,576
Capital Lease Obligations	12,434			3,981	8,453	3,949	4,504
Employees' Compensable Leave	968,108	(2,207)	1,418,036	1,398,275	985,662	679,427	306,235
Notes and Loans Payable	970,053	(4,291)	337,447	344,798	958,411	157,184	801,227
Notes and Loans – Direct Borrowings	313,753		8,143		321,896		321,896
General Obligation Bonds Payable	14,733,189	(64,303)	219,265	830,464	14,057,687	688,184	13,369,503
General Obligation Bonds Payable – Direct Placements	284,927	(1,985)			282,942	1,986	280,956
Revenue Bonds Payable	4,077,876	(43,588)	725,700	261,120	4,498,868	498,398	4,000,470
Revenue Bonds Payable – Direct Placements	150,000				150,000		150,000
Asset Retirement Obligation	1,927		104		2,031		2,031
Pollution Remediation Obligation	253,334		48,911	56,992	245,253	46,669	198,584
Total Governmental Activities	$ 21,862,742	$ (116,374)	$ 2,798,574	$ 2,946,845	$ 21,598,097	$ 2,115,115	$ 19,482,982
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	$ 190,057	$	$ 1,589,938	$ 1,580,522	$ 199,473	$ 148,042	$ 51,431
Capital Lease Obligations	173,094		15,225	9,157	179,162	11,113	168,049
Capital Lease – Direct Borrowings/Placements	90,204		40,770	12,441	118,533	12,384	106,149
Employees' Compensable Leave	1,067,735	(19)	428,192	362,675	1,133,233	490,051	643,182
Notes and Loans Payable	832,001		220,003	210,865	841,139	19,015	822,124
Notes and Loans Payable – Direct Borrowings/Placements	273,615		154,000	102,230	325,385	2,476	322,909
General Obligation Bonds Payable	3,925,489	(6,555)	250,001	269,725	3,899,210	274,940	3,624,270
General Obligation Bonds Payable – Direct Placements	106,815			25,805	81,010	22,960	58,050
Revenue Bonds Payable	35,978,573	(7,797)	2,073,622	1,574,516	36,469,882	2,640,535	33,829,347
Revenue Bonds Payable – Direct Borrowings/Placements	465,085		34,000	68,262	430,823	16,809	414,014
Asset Retirement Obligation	41,351		573	8,584	33,340		33,340
Pollution Remediation Obligation	1,083		507	60	1,530		1,530
Liabilities Payable From Restricted Assets	2,300,333		77,928	264,012	2,114,249	508,174	1,606,075
Total Business-Type Activities	$ 45,445,435	$ (14,371)	$ 4,884,759	$ 4,488,854	$ 45,826,969	$ 4,146,499	$ 41,680,470
COMPONENT UNITS							
Capital Lease Obligations	$ 175	$	$ 243	$ 136	$ 282	$ 80	$ 202
Employees' Compensable Leave	2,768		1,752	1,170	3,350	1,802	1,548
Notes and Loans Payable	2,329		2,054	308	4,075	1,965	2,110
Notes and Loans Payable – Direct Borrowings/Placements	320,452			93,252	227,200	50,200	177,000
Revenue Bonds Payable	59,378	(601)		19,760	39,017	7,620	31,397
Liabilities Payable From Restricted Assets			223		223		223
Total Component Units	$ 385,102	$ (601)	$ 4,272	$ 114,626	$ 274,147	$ 61,667	$ 212,480

[1] Includes current year amortization or premiums and discounts.

[2] Includes current year amortization of accretion of $25.8 million for governmental and $62 million for business-type activities.

Notes and Loans Payable and Notes and Loans Payable–Direct Borrowings/ Placements

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) as part of its governmental activities entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. In fiscal 2021, TxDOT recognized an additional $17.6 million as a long-term liability for pass-through tolls payable related to highway projects constructed under pass-through financing agreements. The outstanding balance as of Aug. 31, 2021 was $584.3 million. See Note 15 for additional information.

TxDOT is party to a financial assistance arrangement with Fort Bend County (County) related to the expansion of Farm to Market Road 1093. The terms of this agreement are such that in return for County funding the costs of the project up-front, TxDOT will reimburse County $4 million per year for 10 years following substantial completion of Westpark Tollway Phase I and opening of the roadway to traffic. Construction on Westpark Tollway Phase I was completed in November 2017. The obligation to make future reimbursements is recognized as contracts payable. The outstanding balance as of Aug. 31, 2021 was $28 million.

In the event that development of the project is terminated by the County prior to opening of the project for revenue operation, TxDOT shall disburse to the County any undisbursed amounts of the financial assistance needed to pay or reimburse costs incurred by the County prior to such termination; provided that such disbursement shall not exceed the aggregate amount of project construction costs incurred prior to such termination.

As of Aug. 31, 2021, two notes and loans payable–direct borrowings agreements are outstanding for TxDOT. The outstanding balance related to governmental activities of $321.9 million contains various provisions resulting from certain events of default with various remedies. In the case of a payment default, interest is charged on the overdue balance at the default rate (an additional 2 percent) until the payment default is cured (overdue balance repaid). In the case of project abandonment, the default rate is charged until the debt is paid in full. In the case of certain bankruptcy related event defaults, the balance becomes secured by a first priority security interest in the trust estate.

As part of its business-type activities, TxDOT issued a bond anticipation note for the purpose of providing funds to pay the costs of extending, expanding and improving the Grand Parkway System. Proceeds from the note will also be used to pay costs of issuance. The outstanding balance as of Aug. 31, 2021 was $626.4 million. This note contains the following events of default:

- If default shall be made in the due and punctual payment of the principal when and as the same shall become due and payable, whether at maturity as expressed, or otherwise,
- If default shall be made in the due and punctual payment of interest when and as such interest shall become due and payable and such failure shall continue for five business days,
- If default shall be made in performance or observance of any other of the covenants, agreements or conditions on its part in the note, the note resolution or in the security agreement contained, and such default shall continue for a period of sixty days after written notice thereof; provided, however, if such default cannot be

cured within the sixty day period but corrective action to cure such default is commenced and diligently pursued until the default is corrected no such event of default shall be deemed to have occurred,

- If there shall occur the dissolution (without a successor being named to assume the rights and obligations) or liquidation or the filing of a voluntary petition in bankruptcy, or adjudication as a bankrupt, or assignment for the benefit of creditors, or the entry into an agreement of composition with creditors, or the approval by a court of competent jurisdiction with creditors, or the approval by a court of competent jurisdiction of a petition applicable in any proceeding for reorganization instituted under the provisions of the Bankruptcy Code, as amended, or under any similar act in any jurisdiction which may now be in effect or hereafter enacted and
- If an order or decree shall be entered, with consent or acquiescence, appointing a receiver or receivers of the system, or any part thereof, or of the rents, fees, charges or other revenues therefrom, or if such order or decree, having been entered without the consent or acquiescence shall not be vacated or discharged or stayed within 90 days after the entry thereof.

Pursuant to the terms of the security agreement, upon the happening and continuance of any event of default specified in the security agreement, the trustee may proceed, and upon the written request of the owners of not less than twenty percent in principal amount of the notes then outstanding thereunder will proceed, subject to the provisions of the security agreement, to protect and enforce its rights and the rights of the owners under Chapter 431, *Texas Transportation Code*, under the security agreement and the note resolution by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board of officer having jurisdiction; either for mandamus or the specific performance of any covenant or agreement contained in the security agreement or in aid or execution of any power granted in the security agreement or for the enforcement of any proper legal or equitable remedy, as the trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights.

The Texas Windstorm Insurance Association (TWIA), a discretely presented component unit, has notes and loans payable–direct placements that are subject to optional make-whole redemption, in whole or in part. The outstanding balance as of Aug. 31, 2021 was $227.2 million. Redemptions are either 100 percent of the principal amount or the sum of the present value of the remaining schedule of principal and interest payments.

Stephen F. Austin State University's (SFA) notes and loans payable–direct placements related to business-type activities as of Aug. 31, 2021 totaled $8 million. In the event of default, the following remedies are available:

- By written notice to SFA, all payments, including future payments, become due,
- The equipment may be repossessed, with SFA remaining liable for any difference between those payments required and any proceeds from the sale or leasing/subleasing of the equipment,
- Lessor may terminate the escrow agreement relating to such lease and apply any proceeds in the escrow fund thereunder to the rental payments due,
- Lessor may take whatever action at law or in equity may appear necessary or desirable to enforce its rights under such lease or the escrow agreement relating thereto or as a secured party in any or all of the equipment subject to such lease or with respect to the related escrow fund and
- The lessor may take one or any combination of the remedies listed above.

The Texas A&M University System (A&M System) notes and loans payable consists of amounts used to make permanent improvements at various institutions within the system, to refund and retire the board's Permanent University Fund commercial paper notes, to provide interim financing for capital improvements and acquisition of equipment and land, to pay interest on the notes, to refund outstanding notes as they mature and to pay the costs of issuing the notes. The outstanding balance as of Aug. 31, 2021 was $195.7 million.

In the event of default or failure to making required note payments, the A&M System will be required to perform all conditions or obligations described in the note agreement. The A&M System is responsible for all reasonable expenses related to the enforcement.

The Revenue Financing System Note (2007 TIPS Project) was issued on July 12, 2007 to fund $4 million of costs for the Texas Institute for Preclinical Studies (TIPS) within the A&M System. The 2007 TIPS Project is structured as a loan with the Office of the Governor, Economic Development and Tourism Division through the Texas Economic Development Bank; all authorized debt has been issued. The loan is secured by a lien on and pledge of the pledged revenues. In the event of default or failure to make required loan payments, the A&M System will be required to perform any conditions or obligations described in the loan agreement. The A&M System is responsible for all reasonable expenses related to the enforcement. The outstanding balance as of Aug. 31, 2021 was $333 thousand.

The Texas Department of Housing and Community Affairs (TDHCA) has one notes and loans payable–direct borrowings in the amount of $10 million and 12 notes and loans payable–direct placements in the amount of $307.1 million as of Aug. 31, 2021 related to business-type activities. TDHCA's notes and loans payable–direct borrowings is a subordinate lien obligation to provide funding for down payment assistance in connection with Texas Homeownership Programs. The TDHCA Series 2016 Issuer Note has a loan agreement with Woodforest National Bank secured by the RMRB Indenture. It contains the following events of default:

- A default in payment of any interest upon the loan when such interest becomes due and payable,
- A default in payment of principal of the loan when such principal becomes due and payable and
- A default in the asset test if the amount calculated pursuant to such test equals an amount less than 102 percent, plus the current outstanding amount of the loan.

The occurrence of any event of default would trigger remedies ranging from demand of immediate payment to the acceleration of the loan causing it to be immediately due and payable.

The TDHCA's notes and loans payable–direct placements were primarily issued to provide funding to nonprofit and for-profit developers of multifamily properties to construct or rehabilitate rental housing and are secured by these assets and their respective revenue. These notes are limited obligations of the TDHCA and are payable solely from the payments received from the assets and guarantors, which secure the notes. They contain the following events of default:

- A default in payment of any interest upon the loan when such interests become due and payable and
- A default in payment of principal of the loan when such principal becomes due and payable.

The occurrence of any event of default would trigger remedies ranging from demand of immediate payment to the acceleration of the loan causing it to be immediately due and payable.

Texas Public Finance Authority (TPFA) notes and loans payable consists of three notes. TPFA Series 2008 general obligation (GO) commercial paper notes were issued to fund up to $1 billion to finance various projects authorized by Senate Bill 2033/Senate Joint Resolution 65, 80th Leg., R.S. (2007) (Texas Constitution, Article III, Sec. 50-g). The proposed constitutional amendment and general obligation bond authorization was approved by voters on November 6, 2007 (Section 50-g). As set out in Section 50-g and its enabling statute (Government Code, Sec. 1232.1116), the TPFA is authorized to issue GO debt to finance projects for various agencies for projects authorized by the Legislature in an appropriations act or other legislation. $59.4 million of Series 2008 commercial paper notes were outstanding as of Aug. 31, 2021.

TPFA revenue commercial paper notes, Series 2019A&B were issued to finance the Master Lease Purchase Program (MLPP) as well as other revenue construction projects as authorized by the Legislature. $26.4 million of Series 2019A&B was outstanding as of Aug. 31, 2021.

TPFA's Cancer Prevention and Research Institute of Texas (CPRIT) Series A and Series B GO commercial paper notes were issues to fund the $3 billion in GO debt authorized by the 80th Legislature to finance cancer research grants (Texas Constitution, Article III, Sec. 67). The constitutional amendment was approved by voters on November 6, 2007. $260.3 million of CPRIT Series A commercial paper notes were outstanding as of Aug. 31, 2021.

Events of default are defined in each TPFA's liquidity agreements with the Texas Comptroller of Public Accounts. Pursuant to contracts, the Comptroller's office is entitled to issue a notice of No Issuance in the event of a default. The liquidity agreements along with applicable amendments are publicly available on TPFA's website: www.tpfa.texas.gov/variablerate.aspx.

University of Texas System (UT System) notes and loans payable provide for financing for the construction of the Moncrief Cancer Center building at Southwestern Medical Center. The note was issued on Aug. 8, 2011 and renewed on Aug. 31, 2021. The outstanding balance as of Aug. 31, 2021 was $19 million.

In the event of a default, the note, including principal and accrued interest, shall bear interest at a default rate of 3 percent per annum above the note rate of 1.79 percent, at the bank's option, upon the occurrence of any default under this note, and continue as an obligation until such overdue amount and such interest shall be paid in full.

Texas State Affordable Housing Corporation notes and loans payable consist of four unsecured notes and four notes secured by mortgage backed securities and note receivable. The total outstanding balance as of Aug. 31, 2021 was $4.1 million.

The events of default for these notes consist of failure of borrower to pay interest or principal when due and failure to use the proceeds as stated. Termination events and subjective acceleration clauses include insolvency and material adverse change in borrower's financial condition, respectively.

Debt service requirements for notes and loans payable and notes and loans payable from direct borrowings and direct placements in long-term liabilities as of Aug. 31, 2021, are presented in tables 5B, 5C and 5D.

Notes and Loans Payable – Debt Service Requirements

Table 5B: Governmental Activities

August 31, 2021 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings Principal	Direct Borrowings Interest	Direct Borrowings Total
2022	$ 157,184	$ 15,126	$ 172,310	$	$ 4,136	$ 4,136
2023	134,170	16,203	150,373		8,341	8,341
2024	109,119	18,741	127,860		8,353	8,353
2025	95,559	17,624	113,183		8,330	8,330
2026	82,181	16,556	98,737		8,341	8,341
2027-2031	212,122	66,947	279,069	20,685	41,046	61,731
2032-2036	86,134	40,505	126,639	55,378	36,519	91,897
2037-2041	86,693	13,716	100,409	96,728	27,387	124,115
2042-2046	6,315	34	6,349	71,709	15,034	86,743
2047-2051				64,812	6,905	71,717
2052-2056				13,983	361	14,344
Subtotal	969,477	205,452	1,174,929	323,295	164,753	488,048
Unamortized Accretion	(11,066)		(11,066)	(1,399)		(1,399)
Total Debt Service Requirements	$ 958,411	$ 205,452	$ 1,163,863	$ 321,896	$ 164,753	$ 486,649

Notes and Loans Payable – Debt Service Requirements

Table 5C: Business-Type Activities

August 31, 2021 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements Principal	Direct Borrowings/Direct Placements Interest	Direct Borrowings/Direct Placements Total
2022	$ 8,482	$ 33,504	$ 41,986	$ 2,476	$ 11,876	$ 14,352
2023	632,938	28,333	661,271	34,247	11,205	45,452
2024	8,735	2,644	11,379	2,346	10,710	13,056
2025	8,864	2,515	11,379	2,455	10,615	13,070
2026	8,995	2,384	11,379	2,568	10,527	13,095
2027 - 2031	47,010	9,881	56,891	22,940	52,028	74,968
2032 - 2036	50,596	6,298	56,894	51,950	45,749	97,699
2037 - 2041	54,452	2,441	56,893	171,403	24,875	196,278
2042 - 2046					5,341	5,341
2047 - 2051					5,341	5,341
2052 - 2056				20,000	4,167	24,167
2057 - 2061				15,000	1,531	16,531
Subtotal	820,072	88,000	908,072	325,385	193,965	519,350
Unamortized Accretion	(21,063)		(21,063)			
Total Debt Service Requirements	$ 799,009	$ 88,000	$ 887,009	$ 325,385	$ 193,965	$ 519,350

Notes and Loans Payable – Debt Service Requirements

Table 5D: Discrete Component Units

August 31, 2021 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements Principal	Direct Borrowings/Direct Placements Interest	Direct Borrowings/Direct Placements Total
2022	$ 1,965	$ 85	$ 2,050	$ 50,200	$ 9,372	$ 59,572
2023	165	71	236	54,400	7,301	61,701
2024	626	39	665	58,900	5,057	63,957
2025	526	26	552	63,700	2,628	66,328
2026	276	18	294			
2027 - 2031	517	3	520			
Total Debt Service Requirements	$ 4,075	$ 242	$ 4,317	$ 227,200	$ 24,358	$ 251,558

Liabilities Payable from Restricted Assets

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.

General Obligation and Revenue Bonds

General obligation bonds and revenue bonds are described in detail in Note 6.

Capital Lease Obligations

Capital lease obligations are described in detail in Note 8.

Claims and Judgements

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.

Employees' Compensable Leave

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.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds payable, revenue bonds payable–direct placements, notes and loans payable, and notes and loans payable–direct borrowings/placements. Pledge future revenues for the fiscal year ended Aug. 31, 2021, is presented in table 5E.

Pledged Future Revenue

Table 5E

August 31, 2021 (Amounts in Thousands)

Description of Debt Issue	Future Pledged Revenue*	Current Year Pledged Revenue	Current Year Principal and Interest Paid	Term of Commitment Fiscal Year Ended	Percentage of Revenue Pledged
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds Payable and					
General Obligation Bonds Payable - Direct Placement	$ 8,838,833	$ 522,949	$ 339,197	2045	100%
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	5,363,796	9,951,790	441,572	2052	100%
Notes and Loans Payable and					
Notes and Loans Payable – Direct Borrowings/Placements	938,915	10,828	10,807	2052	100%
Total Governmental Activities	$ 15,141,544	$ 10,485,567	$ 791,576		
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	$ 62,610,111	$ 23,157,417	$ 2,486,025	2061	100%
Notes and Loans Payable and					
Notes and Loans Payable – Direct Borrowings/Placements	660,819		30,267	2023	99%
Total Business-Type Activities	$ 63,270,930	$ 23,157,417	$ 2,516,292		
COMPONENT UNITS					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	$ 54,386	$ 41,515	$ 21,856	2051	100%
Total Component Units	$ 54,386	$ 41,515	$ 21,856		

* Required for future principal and interest on existing debt.

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 and
- The state has commenced or legally obligated itself to begin cleanup activities.

Under current applicable GAAP 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 United States Environmental Protection Agency (EPA) 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, 2021, there were 264 active state lead sites, with a total estimated pollution remediation obligation of $51.7 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 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 2021 resulted in collections of $248 thousand.

At the end of fiscal 2021, Texas had 70 sites with pollution remediation obligations and federal Superfund programs and zero sites that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2021, is $125.1 million.

TCEQ is responsible for collecting fees for a remediation fund designed to help pay for the cleanup of contaminated dry cleaner sites. The fees are generated from the annual registration of facilities and drop stations, as well as from the sale of perchloroethylene and other dry cleaning solvents. TCEQ receives applications for remediation, and then ranks and prioritizes them for corrective action. Legislation in 2007 established requirements for property owners and preceding property owners who wish to claim benefits from the remediation fund, and authorized a lien against property owners and preceding property owners who fail to pay registration fees due during corrective action. No additional cost recovery is allowed by statute.

The 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. At Aug. 31, 2021, there were 233 active sites, with a total estimated pollution remediation obligation of $52.7 million.

The Railroad Commission of Texas (RRC) 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 RRC 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 RRC has 4 active well plugging projects as of Aug. 31, 2021, with an estimated cost of $1.1 million.

Under *Texas Natural Resource Code*, Section 91.113, the RRC may clean up abandoned oil and gas sites that are causing or are likely to cause the pollution of surface or subsurface water. The RRC has 15 active site remediation projects as of Aug. 31, 2021, with an estimated cost of $2.3 million. Funding for these programs comes from regulatory and permit fees paid by the oil and gas industry.

The RRC 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 and waste disposal regulations at an estimated cost of $10.2 million for fiscal 2021.

The Texas Historical Commission is responsible for the cleanup of asbestos and lead paint at the State Historic Sites the agency oversees during renovation and repair projects. The Historical Commission calculates expected outlays related to this pollution remediation from actual and estimated contracted amounts of the work to be performed. The amount of the estimated pollution remediation liability assumes there will be no major increase in the cost of providing these cleanup services. The current liability, as of Aug. 31, 2021, is $9.4 thousand.

The Texas Tech University System (TTU System) owns a 5,855-acre parcel of land in Carson County, Texas. The land was purchased from the United States of America, acting by and through the General Services Administrator, in 1949 to operate an experimental research farm on a portion of the land. TTU System is a responsible party for pollution remediation activities on this land. The estimated liability is based on an analysis from ARS Aleut Remediation, LLC and factored down by 50 percent for cost reduction measures that would result in cost savings. This amount is subject to cost volatility until such time remediation activities are complete. The land will be considered for remediation if the land is sold, transferred or otherwise utilized in a manner necessitating pollution remediation. The current liability, as of Aug. 31, 2021, is $1.5 million.

Asset Retirement Obligations

GASB Statement No. 83, *Certain Asset Retirement Obligations*, defines an asset retirement obligation (ARO) as a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets recognize a liability based on the guidance in GASB Statement No. 83.

Texas Southern University (TSU) purchased radiation equipment with an ARO. TSU must estimate the new obligation amount using probability weighting and record the initial measurement as deferred outflows of resources ARO and a noncurrent ARO. TSU must assess any relevant factors annually to determine if a significant change in current value has occurred and, if so, record the change in deferred outflows of resources ARO and noncurrent ARO. When the radiation equipment reaches the end of its useful life, the value of the ARO is moved to current ARO. Current ARO is then reduced by the amount of actual expenditures to retire the asset, with an offset to deferred outflows of resources. The estimated remaining useful life of the associated tangible capital assets ranges from 39 to 73 months. The ARO as of Aug. 31, 2021 was $133.5 thousand.

As of Aug. 31, 2021, the University of North Texas System (UNT System) held two radioactive material licenses. The estimated remaining useful life of the associated tangible capital assets is 238 and 154 months, respectively. Licensing of radioactive materials is regulated by the state of Texas *(Texas Administrative Code,* Title 25 Health Services, Part 289 Radiation Control, Subpart 252 Licensing of Radioactive Materials). The UNT System estimated the obligation amount using best-estimate current value based on settlement amount and recorded the initial measurement as deferred outflows of resources and a noncurrent liability. The UNT System will assess the ARO account balances annually for any significant changes in current value and make all necessary adjustments. ARO balances are reduced annually by the amount of actual expenditures to retire the asset. In accordance with the *Texas Administrative Code,* Title 25, Part 289, Subpart 201(C), the UNT System is exempted from posting the financial instruments specifically based upon being a state funded academic facility actively working to reduce the amount of radioactive material authorized on its licenses. The ARO as of Aug. 31, 2021 was $2.6 million.

The A&M System has two nuclear reactors which were placed in service in 1957 and 1965. The U.S. Nuclear Regulatory Commission (NRC) requires a decommissioning plan for the retirement of these assets. The estimated liability for the decommissioning plan is $9.7 million. The estimate was calculated using NRC publications NUREG/CR-1756 and NUREG-1307 Rev. 15, adjusted using the consumer price index inflation calculator. A 25 percent contingency is also included in the estimate. The A&M System also has four radioactive material licenses authorizing the possession and use of radioactive materials. The estimated remaining useful life of the associated tangible capital assets ranges from 12 to 146 months. The A&M System is financially accountable for any decommissioning or decontamination costs as required by the Texas Department of State Health Services (*Texas Administrative Code*, Title 25, Part 1, Chapter 289, Subchapter F, Rule 289.252), and the U.S. Nuclear Regulatory Commission (10 CFR 30.35). The estimated liability related to these licenses is $2.7 million. The total ARO as of Aug. 31, 2021 was $12.4 million.

The UT System liability related to clean-up and decommissioning of items using radiation such as broadscope licenses, cyclotrons and nuclear reactors is reported as an ARO. The liability is measured using best estimates of expected outlays for clean-up and decommissioning costs. The *Texas Administrative Code*, Title 25, Part 1, Chapter 289. Subchapter F, Rule 289.252(gg)(6)(D) allows state licensees to provide financial assurances as necessary and no assets have been restricted for payment of the liability. The estimated remaining useful life of the associated tangible capital assets ranges from 0 to 65 months. The total ARO as of Aug. 31, 2021 was $18.2 million.

Texas Health and Human Services Commission's (HHSC) ARO is related to a sewage treatment plant in Mexia, Texas with an estimated remaining useful life of 7 years. The ARO was calculated using a weighted average methodology. Based on an initial regional assessment, HHSC did not receive enough information to reasonably estimate a weighted average for lab equipment, e.g. x-ray equipment. The ARO as of Aug. 31, 2021 was $2 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 414 bond issues outstanding as of Aug. 31, 2021. Scheduled debt service payments from the general revenue fund for fiscal 2021 totaled $690.4 million.

Information on bond issuances by type of activity as of Aug. 31, 2021, is presented in table 6A.

Information on Bond Issuances
Table 6A
August 31, 2021

Description of Issue	Bond Issues Outstanding: Number	Bond Issues Outstanding: Amount Issued (in Thousands)	Range of Interest Rates: Lowest	Range of Interest Rates: Highest	Maturities: First Year	Maturities: Last Year	First Call Date
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	67	$ 18,348,926	0.18	6.00	2005	2046	05/18/2005
General Obligation Bonds – Direct Placements	1	254,105	5.00	5.00	2031	2036	10/01/2025
Revenue Bonds	14	5,805,850	0.22	5.25	2010	2041	04/01/2018
Revenue Bonds – Direct Placements	1	150,000	variable (var)	var	2032	2032	[1]
Total Governmental Activities	83	24,558,881					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	59	5,284,085	0.23	5.00	2003	2051	03/22/2001
General Obligation Bonds – Direct Placements	3	253,710	var	var	2014	2027	04/01/2014
Revenue Bonds	236	42,431,704	0.12	8.00	1999	2060	03/01/2006
Revenue Bonds – Direct Borrowings/Placements	29	538,291	1.00	8.00	2001	2059	05/01/2001
Total Business-Type Activities	327	48,507,790					
COMPONENT UNITS							
Revenue Bonds	4	263,340	1.65	4.25	2011	2050	12/01/2011
Total Component Units	4	263,340					
Total Bond Issues Outstanding	414	$ 73,330,011					

[1] Bonds are subject to redemption prior to their respective maturities at the option of the Commission.

Changes in Bonds Payable

Table 6B

August 31, 2021 (Amounts in Thousands)

Description of Issue	Balance 9/1/20	Adjustments[1]	Bonds Issued[2]	Bonds Matured or Retired	Bonds Refunded	Balance 8/31/21	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	$ 14,733,189	$ (64,303)	$ 219,265	$ 556,234	$ 274,230	$ 14,057,687	$ 688,184
General Obligation Bonds – Direct Placements	284,927	(1,985)				282,942	1,986
Revenue Bonds	4,077,876	(43,588)	725,700	261,120		4,498,868	498,398
Revenue Bonds – Direct Placements	150,000					150,000	
Total Governmental Activities	19,245,992	(109,876)	944,965	817,354	274,230	18,989,497	1,188,568
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,925,489	(6,554)	250,000	250,040	19,685	3,899,210	274,940
General Obligation Bonds – Direct Placements	106,815			25,805		81,010	22,960
Revenue Bonds	35,978,573	(7,797)	2,073,622	1,106,983	467,533	36,469,882	2,640,535
Revenue Bonds – Direct Borrowings/Placements	465,085		34,000	13,857	54,405	430,823	16,809
Total Business-Type Activities	40,475,962	(14,351)	2,357,622	1,396,685	541,623	40,880,925	2,955,244
COMPONENT UNITS							
Revenue Bonds	59,378	(601)		19,760		39,017	7,620
Total Component Units	59,378	(601)	0	19,760	0	39,017	7,620
Total Changes in Bonds Payable	$ 59,781,332	$ (124,828)	$ 3,302,587	$ 2,233,799	$ 815,853	$ 59,909,439	$ 4,151,432

[1] Includes current year amortization of premiums and discounts.
[2] Includes current year amortization of accretion.

Debt Service Requirements

Table 6C: Governmental Activities

August 31, 2021 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Placements Principal	Direct Placements Interest	Direct Placements Total
GENERAL OBLIGATION BONDS						
2022	$ 590,619	$ 528,185	$ 1,118,804	$	$ 12,705	$ 12,705
2023	612,885	502,062	1,114,947		12,705	12,705
2024	625,200	474,764	1,099,964		12,705	12,705
2025	625,180	446,800	1,071,980		12,705	12,705
2026	635,315	418,155	1,053,470		12,705	12,705
2027 – 2031	3,128,175	1,692,867	4,821,042		63,526	63,526
2032 – 2036	3,133,230	1,053,854	4,187,084	144,120	48,347	192,467
2037 – 2041	2,698,165	428,802	3,126,967	109,985	2,750	112,735
2042 – 2046	1,081,175	73,389	1,154,564			
Subtotal	13,129,944[1]	5,618,878	18,748,822	254,105[1]	178,148	432,253
Premium	929,373		929,373	28,837		28,837
Discount	(1,630)		(1,630)			
Total	$ 14,057,687	$ 5,618,878	$ 19,676,565	$ 282,942	$ 178,148	$ 461,090
REVENUE BONDS						
2022	$ 459,290	$ 176,754	$ 636,044	$	$ 1,141	$ 1,141
2023	319,290	165,050	484,340		1,141	1,141
2024	331,865	150,572	482,437		1,144	1,144
2025	346,175	134,220	480,395		1,141	1,141
2026	361,445	117,644	479,089		1,141	1,141
2027 – 2031	1,661,420	333,507	1,994,927	68,705	5,705	74,410
2032 – 2036	577,650	76,103	653,753	81,295	620	81,915
2037 – 2041	227,810	14,851	242,661			
Subtotal	4,284,945	1,168,701	5,453,646	150,000	12,033	162,033
Premium	213,923		213,923			
Total	$ 4,498,868	$ 1,168,701	$ 5,667,569	$ 150,000	$ 12,033	$ 162,033

[1] Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6D: Business-Type Activities

August 31, 2021 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Placements Principal	Direct Borrowings/Placements Interest	Direct Borrowings/Placements Total
GENERAL OBLIGATION BONDS						
2022	$ 269,045	$ 91,670	$ 360,715	$ 22,960	$ 425	$ 23,385
2023	272,170	85,358	357,528	15,460	320	15,780
2024	268,285	79,203	347,488	15,100	228	15,328
2025	262,585	73,278	335,863	15,770	129	15,899
2026	253,230	67,338	320,568	5,340	65	5,405
2027 – 2031	1,030,240	258,197	1,288,437	6,380	37	6,417
2032 – 2036	699,020	152,851	851,871			
2037 – 2041	511,945	76,293	588,238			
2042 – 2046	228,010	15,689	243,699			
2047 – 2051	27,230	674	27,904			
2052 – 2056	280	1	281			
Subtotal	3,822,040[1]	900,552	4,722,592	81,010[1]	1,204	82,214
Premium	77,170		77,170			
Total	$ 3,899,210	$ 900,552	$ 4,799,762	$ 81,010	$ 1,204	$ 82,214
REVENUE BONDS						
2022	$ 2,443,788	$ 1,284,253	$ 3,728,041	$ 16,807	$ 16,221	$ 33,028
2023	1,106,913	1,243,015	2,349,928	17,240	15,720	32,960
2024	1,130,826	1,212,183	2,343,009	113,554	14,043	127,597
2025	1,189,822	1,179,943	2,369,765	18,296	12,332	30,628
2026	1,187,564	1,132,655	2,320,219	27,024	11,606	38,630
2027 – 2031	5,607,014	4,985,254	10,592,268	65,722	47,554	113,276
2032 – 2036	5,541,616	3,821,471	9,363,087	36,917	36,636	73,553
2037 – 2041	5,890,304	2,701,086	8,591,390	53,383	27,365	80,748
2042 – 2046	4,671,385	1,637,207	6,308,592	31,709	17,751	49,460
2047 – 2051	4,635,615	609,631	5,245,246	26,688	7,387	34,075
2052 – 2056	1,155,782	73,716	1,229,498	12,473	3,734	16,207
2057 – 2061	66,067	5,807	71,874	11,010	1,441	12,451
Subtotal	34,626,696	19,886,221	54,512,917	430,823	211,790	642,613
Accretion	(563,837)		(563,837)			
Premium	2,407,741		2,407,741			
Discount	(718)		(718)			
Total	$ 36,469,882	$ 19,886,221	$ 56,356,103	$ 430,823	$ 211,790	$ 642,613

[1] Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6E: Component Units

August 31, 2021 (Amounts in Thousands)

Year	Principal	Interest	Total
REVENUE BONDS			
2022	$ 7,620	$ 1,020	$ 8,640
2023	605	894	1,499
2024	625	875	1,500
2025	665	856	1,521
2026	680	835	1,515
2027 – 2031	3,855	3,846	7,701
2032 – 2036	3,880	3,399	7,279
2037 – 2041	7,060	2,644	9,704
2042 – 2046	6,470	1,637	8,107
2047 – 2051	6,435	523	6,958
Subtotal	37,895	16,529	54,424
Premium	1,122		1,122
Total	$ 39,017	$ 16,529	$ 55,546

See Note 16 for debt issued subsequent to Aug. 31, 2021.

General Obligation Bonds and General Obligation Bonds - Direct Placements - General Comments

The *Texas Constitution* authorizes the state to issue several types of general obligation bonds and general obligation bonds - direct placements. Each issue of general obligation bonds and general obligation bonds - direct placements 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 and general obligation bond - direct placement 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 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 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 and general obligation bonds - direct placements 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 System) and Texas A&M University System (A&M System). Debt service payments on bonds issued are limited to the $197 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. The amounts of general obligation bonds, other than CABs, authorized but unissued, as of Aug. 31, 2021, is presented in table 6F.

General Obligation Bonds Authorized But Unissued

Table 6F

August 31, 2021 (Amounts in Thousands)

Bond Type	Authorized But Unissued
SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	$ 55,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	1,021,225
Texas Water Development Bonds	5,957,281
College Student Loan Bonds	862,825
Texas Military Value Revolving Loan Fund	200,405
Texas Mobility Bonds	3,565,920
Total Self-Supporting	12,137,656
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,798,137
Water Development Bonds - Economically Distressed Areas Program	200,000
Water Development Bonds - State Participation	200,000
Total Not-Self Supporting	4,362,977
Total General Obligation Bonds	$ 16,500,633

Revenue Bonds and Revenue Bonds - Direct Placements - General Comments

Each series of revenue bonds and revenue bonds - direct placements 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 TDHCA 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.

The UT System and the A&M System issue PUF bonds to build, equip or buy buildings or other permanent improvements. The *Texas Constitution* limits the UT System's and the A&M System'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, 2021, excluding real estate, was $24.7 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is presented in table 6G.

Permanent University Fund Bonds

Table 6G: Business-Type Activities

August 31, 2021 (Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$ 4,932,065	$ 2,307,025	$ 2,625,040
Texas A&M University System	2,466,033	1,389,210	1,076,823
Total Bonds	$ 7,398,098	$ 3,696,235	$ 3,701,863

Miscellaneous college, university revenue bonds and university revenue bonds-direct placements are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds and revenue bonds - direct placements 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 and revenue bonds-direct placements 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 city of Austin's Travis and Williamson counties. The bond obligations are payable from and secured solely by a first and second lien as applicable and pledge of the trust estate.

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 TMD 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, 2021, 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.

Build America Bonds (BABs)

The *American Recovery and Reinvestment Act* (ARRA) of 2009 was implemented in Feb. 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 and the UT System had $3.4 billion and $1.2 billion of direct payment BABs outstanding respectively, as of Aug. 31, 2021.

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

Six state agencies had a total of 76 variable rate bond issues with outstanding balances as of Aug. 31, 2021. 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 and the UT System had outstanding demand bonds as of Aug. 31, 2021.

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. There were no purchased bonds held by liquidity providers under the terms of the various agreements as of Aug. 31, 2021. Details are presented in tables 6H and 6I.

Demand Bonds

Table 6H

August 31, 2021

Description of Bond Issue	Number of Demand Bond Issues	Number of Standby Purchase Agreements[1]	Number of Others[2]	Principal Balance Outstanding (Amounts In Thousands)
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds				
Texas Department of Transportation	1		1	$ 150,000
Office of the Governor	2		2	45,000
Total General Obligation Bonds	3	0	3	195,000
Revenue Bonds				
Texas Department of Transportation	1	1		150,000
Total Revenue Bonds	1	1	0	150,000
Total Governmental Activities	4	1	3	$ 345,000
BUSINESS-TYPE ACTIVITIES				
General Obligation Bonds				
Veterans Land Board	34	34		$ 2,463,635
Total General Obligation Bonds	34	34	0	2,463,635
Revenue Bonds				
University of Texas System	4		4	1,321,085
Texas Department of Housing and Community Affairs	4		4	49,705
Total Revenue Bonds	8	0	8	1,370,790
Total Business-Type Activities	42	34	8	$ 3,834,425

[1] See Demand Bonds - Standby Purchase Agreements table 6I.

[2] In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

Demand Bond – Standby Purchase Agreements

Table 6I

August 31, 2021

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Federal Home Loan Bank of Dallas	2	0.20%	11/01/22
Federal Home Loan Bank of Dallas	1	0.20%	06/27/23
Federal Home Loan Bank of Dallas	1	0.20%	12/18/24
Federal Home Loan Bank of Dallas	1	0.20%	01/09/25
Federal Home Loan Bank of Dallas	1	0.20%	01/13/26
JPMorgan Chase Bank, National Association	1	0.35%	04/10/24
State Street Bank and Trust Company	7	0.32%	11/12/21
State Street Bank and Trust Company	2	0.33%	07/24/23
State Street Bank and Trust Company	7	0.33%	09/25/23
State Street Bank and Trust Company	6	0.33%	11/14/23
State Street Bank and Trust Company	2	0.36%	11/14/25
State Street Public Lending Corporation	1	0.33%	07/24/23
Sumitomo Mitsui Banking Corp	1	0.30%	01/18/22
Sumitomo Mitsui Banking Corp	1	0.3 - 3.0%	04/01/22
T.D. Bank, National Association	1	0.22%	12/18/24
Total Secured Bond Issue Agreements	35		

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. The estimated impact of such an event as of Aug. 31, 2021, is presented in table 6J.

Demand Bonds – Takeout Agreement Provisions

Table 6J: Governmental Activities

August 31, 2021

Description of Bond Issue	Estimated Debt Service[1] (Amounts in Thousands)	Rate	Basis
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue			
Bonds Series 2014B1	$ 174,921	9.50%	Base Rate +2%

[1] 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

Early debt extinguishments for the fiscal year ended 2021, is presented in table 6K. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues

Table 6K

August 31, 2021 (Amounts in Thousands)

Description of Bond	Early Extinguished Debt Issues
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 180,670
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	19,685
Revenue Bonds	
Texas Department of Housing and Community Affairs	175,808
Revenue Bonds – Direct Placements	
Texas Department of Housing and Community Affairs	54,405
Total Bonds	$ 430,568

Refunding

Bonds refunded to lower interest rates or to restructure debt service requirements for cash management purposes for the fiscal year ended 2021, is presented in table 6L.

Refunding Issues

Table 6L

August 31, 2021 (Amounts in Thousands)

Description of Refunding Issue	Types of Refunding	Par Value of Refunding Issue[1]	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain (Loss)
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Higher Education Coordinating Board	Current Refunding	$ 72,385	$ 93,560	$ 2,339	$ 26,406
Total Governmental Activities		72,385	93,560	2,339	26,406
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds					
Stephen F. Austin University	Advanced Refunding	15,935	19,165	2,970	2,917
Texas State University System	Advanced Refunding	32,200	30,105	(10,245)	6,006
University of Houston System	Advanced Refunding	49,545	48,395	9,881	9,047
Texas Department of Housing and Community Affairs	Current Refunding	61,370	71,890	(1,068)	8,680
Texas Southern University	Current Refunding	14,275	17,690	5,822	4,499
University of Texas System	Current Refunding	106,465	115,000	40,688	29,304
Total Business-Type Activities		279,790	302,245	48,048	60,453
Total Refunding Issues		$ 352,175	$ 395,805	$ 50,387	$ 86,859

[1] Other funds totaling approximately $5.8 million were used to refund/defease additional bonds.

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. The amounts of defeased bonds, at par, that remain outstanding for all bond issuers as of Aug. 31, 2021, is presented in table 6M. 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 $172.6 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. GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. Cash defeasance undertaken for cost considerations as of Aug. 31, 2021, is presented in table 6N.

Defeased Bonds Outstanding

Table 6M

August 31, 2021 (Amounts in Thousands)

Description of Bond	Defeased Bonds Outstanding
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Public Finance Authority	$ 172,560
Texas Water Development Board	22,770
Texas Department of Transportation	2,573,835
Revenue Bonds	
Texas Department of Transportation	358,625
Total Governmental Activities	3,127,790
BUSINESS-TYPE ACTIVITIES	
Revenue Bonds	
Texas Department of Transportation	1,784,257
Midwestern State University	42,620
University of North Texas System	39,065
Texas State University System	89,580
University of Houston System	518,310
Texas A&M University System	472,140
University of Texas System	146,955
Revenue Bonds – Direct Placements	
Texas Department of Housing and Community Affairs	23,552
Total Business-Type Activities	3,116,479
Total Defeased Bonds Outstanding	$ 6,244,269

Cash Defeasance

Table 6N

August 31, 2021

Description of Cash Defeasance	Number of Cash Defeasance	(Amounts in Thousands) Cash Defeasance	Placed with Escrow Agent	Cash Flows Required to Service Defeased Debt
BUSINESS-TYPE ACTIVITIES				
Revenue Bonds				
University of North Texas System	1	$ 2,335	$ 4,535	$ 6,632
Total Cash Defeasance	1	$ 2,335	$ 4,535	$ 6,632

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 and revenue bonds - direct placements under *Texas Government Code*, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable-rate or fixed-rate financing to nonprofit borrowers/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. TSAHC finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. TSAHC, the state and any political subdivision thereof are not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2021, there were 23 series of multifamily housing revenue bonds and revenue bonds - direct placements outstanding with an aggregate $350 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued seven series of bonds in the aggregate amount of $3.2 billion that remains outstanding as of Aug. 31, 2021. 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

The debt service requirements of the state's variable-rate, fixed-rate bonds and associated net swap payments were estimated using rates as of Aug. 31, 2021 and are presented in tables 6O and 6P.

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.

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

Table 6O

August 31, 2021 (Amounts in Thousands)

	Variable-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net	Total
2022	$ 257,925	$ 3,219	$ 105,934	$ 367,078
2023	263,420	2,909	99,040	365,369
2024	260,535	2,622	92,229	355,386
2025	265,640	2,318	85,334	353,292
2026	246,405	2,336	79,942	328,683
2027 – 2031	1,066,995	6,580	301,415	1,374,990
2032 – 2036	813,150	3,415	176,258	992,823
2037 – 2041	519,965	2,491	76,981	599,437
2041 – 2046	385,915	1,960	42,412	430,287
2047 – 2051	277,230	823	11,434	289,487
2052 – 2056	280		1	281
Total	$ 4,357,460	$ 28,673	$ 1,070,980	$ 5,457,113

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

Table 6P

August 31, 2021 (Amounts in Thousands)

	Variable-Rate Bonds		Interest Rate	
Year	Principal	Interest	Swaps, Net	Total
2022	$ 1,535	$ 133	$ (18)	$ 1,650
2023	1,635	124	(17)	1,742
2024	1,735	114	(15)	1,834
2025	1,845	103	(14)	1,934
2026	1,955	92	(12)	2,035
2027 – 2031	11,780	263	(36)	12,007
2032 – 2036	2,665	16	(2)	2,679
Total	$ 23,150	$ 845	$ (114)	$ 23,881

Note 7

Derivative Instruments

Derivative instruments 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. Derivative instruments include swap contracts, futures contracts, options, options on futures contracts, forward contracts, stock rights and warrants.

Hedging derivative instruments are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivative instruments primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative instrument 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 derivative instruments 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 derivative instruments.

Summary of Derivative Instrument Activity

The fair value of effective hedging derivative instruments 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 derivative instruments is reported as deferred outflows of resources and deferred inflows of resources. The type of derivative instruments held by entity as Aug. 31, 2021, is presented in table 7A. The state's cumulative derivative instrument activity as of Aug. 31, 2021, is presented in table 7B. The notional amounts are presented in U.S. dollar equivalents.

Derivative Instruments by Entity and Type

Table 7A

August 31, 2021

Type/Entity of Derivative Instruments
Hedging Derivative Instruments
Texas Department of Housing and Community Affairs (TDHCA)
Investment Derivative Instruments
Comptroller - Fiscal (CPA)
Comptroller Treasury - Fiscal (TREAS)
Employees Retirement System of Texas (ERS)
Midwestern State University (MSU)[2]
Office of Consumer Credit Commission (OCCC)
Permanent School Fund (PSF)[1]
Stephen F. Austin State University (SFA)[2]
Teacher Retirement System of Texas (TRS)
Texas A&M University System (A&M System)
Texas Department of Agriculture (TDA)
Texas Historical Commission (THC)
Texas Tech University System (TTU System)
Texas Woman's University (TWU)[2]
Hedging and Investment Derivative Instruments
University of Texas System (UT System)
Veterans Land Board (VLB)

[1] The PSF is jointly managed by the Texas Education Agency and the Texas General Land Office, but issues a separately audited stand-alone annual financial report.

[2] SFA, MSU, and TWU invest funds in A&M System's investment pool which includes investment derivative instruments in the form of forward currency exchange contracts.

Summary of Derivative Instrument Activity

Table 7B

August 31, 2021 (Amounts in Thousands)

Derivative Instrument Type	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
Investment Derivative Instruments			
Futures	$ 109,876	$	$ 531,253
Total Return Swaps	54,290	2,075	271,757
BUSINESS-TYPE ACTIVITIES			
Cash Flow Hedges			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ 243,081	$ (520,054)	$ 4,596,755
Investment Derivative Instruments			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ 2,751	$ 1,006	$ 1,168,733
Pay-Variable Receive-Fixed Interest Rate Swaps	6,887	2,096	523,151
Basis Swaps	134	(89)	23,150
Commodity Swaps			20,909
Credit Default Swaps	6,703	5,728	266,205
Currency Swaps	(55)	(66)	31,333
Equity Swaps	33,279	33,279	1,212,807
Foreign Currency Forward	319	319	7,082,283
Futures	1,670		3,134,059
Inflation	(332)	(332)	42,983
Options	52,849	96,573	1,151,583
Volatility Swaps	129	129	155,615
Total Return Swaps	(41,083)	8,475	565,008
Investment Derivative Instrument Assets			
Pay-Fixed Receive-Variable Interest Rate Swap	$ 10,236	$ 18,210	$ 638,515
Investment Derivative Instrument Liabilities			
Pay-Fixed Receive-Variable Interest Rate Swap	$ 58,986	$ (532)	$ 233,345
FIDUCIARY ACTIVITIES			
Investment Derivative Instruments			
Pay-Fixed Receive-Variable Interest Rate Swap	$ 16	$ 8	$ 5,404
Pay-Variable Receive-Fixed Interest Rate Swap	36	14	2,424
Commodity Swaps			91
Credit Default Swaps	24,688	72,887	1,234,937
Currency Swaps	1	1	142
Equity Swaps	171	171	5,820
Foreign Currency Forward	(3)	(3)	29,707
Forwards Contracts	(15,602)	9,608	(3,503,428)
Futures	1,951,496		22,873,792
Inflation			196
Options	239,633	(3,784)	(12,806)
Volatility Swaps	1	1	700
Interest Rate Swaps	(9,757)	15,648	238,078
Rights	2,359		
Total Return Swaps	858,233	98,734	3,741,739
Warrants	19,210	34,634	1,863
DISCRETE COMPONENT UNITS			
Investment Derivative Instruments			
Total Return Swaps	$ (4,659)	$ 961	$ 64,069

Fair Value Measurement

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 System) has calculated the fair value of the interest rate swaps using a forecast of expected discounted future net cash flows. The UT System 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, *Fair Value Measurement and Application*. All of the UT System's interest rate swaps are classified in Level 2 of the fair value hierarchy. Other swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs and are also classified as Level 2.

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 markets 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. For 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.

Hedging Derivative Instruments

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 derivative instruments are designated as cash flow hedges. In fiscal 2021 all cash flow hedges were 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 derivative instruments as of Aug. 31, 2021, is 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 or United States Federal Funds (USDFF) index rates as noted. Standard & Poor's and Moody's Investors Service credit ratings are disclosed for each swap.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

Table 7C

August 31, 2021 (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 Fund II Bds Ser 2001A-2	$ 18,805	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	22,585	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	11,225	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	22,640	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	16,475	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	17,575	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	19,775	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	19,470	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	22,495	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	23,505	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	24,065	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	24,815	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	25,385	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	26,470	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	46,390	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 3M LIBOR
Vet Bds Ser 2011A	45,845	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 3M LIBOR
Vet Bds Ser 2011B	46,780	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 3M LIBOR
Vet Bds Ser 2011C	47,640	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	47,170	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	61,485	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	67,495	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	101,905	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	21,625	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	24,360	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	795	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	42,765	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	105,740	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	7,915	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	4,600	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	10,980	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	10,525	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	4,850	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	16,585	08/01/2012	12/01/2033	Pay 3.76%; receive 68% of 1M LIBOR

Continued on the following page

[1] PUF stands for permanent university fund and RFS stands for revenue financing system.

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

Table 7C

August 31, 2021 (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 Fund II Bds Ser 2001A-2	N/A	$	BBB+ / A3
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AA- / Aa2
Vet Land Bds Ser 2002	N/A		BBB+ / A1
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2003B	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa2
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+ / Aa3
Vet Hsg Fund II Bds Ser 2007A	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa2
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+ / A1
Vet Bds Ser 2011A	N/A		AA- / Aa2
Vet Bds Ser 2011B	N/A		AA- / Aa2
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+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS > 71%	935 1,020	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	612	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	6M LIBOR >= 7.00%	2,740	A+ / Aa2
Vet Bds Ser 2014A	N/A		A+ / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR > 7.00%	1,442	A+ / Aa2
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+ / Aa2
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+ / Aa2
Vet Land Tax Ref Bds Ser 2014B-3	6M LIBOR >= 7.00%	1,542	A+ / Aa2
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

Continued on the following page

[1] PUF stands for permanent university fund and RFS stands for revenue financing system.

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

Table 7C

August 31, 2021 (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	$ 20,710	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	10,565	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	45,815	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	16,065	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	14,410	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	10,535	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	8,615	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	6,030	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	8,385	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	10,790	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	19,155	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Bds Ser 2014D	71,855	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% of 1M LIBOR
Vet Bds Ser 2015A	91,020	02/11/2015	06/01/2045	Pay 1.51%; receive 68% of 1M LIBOR
VetBds Ser 2015B	96,120	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of 1M LIBOR
VetBds Ser 2016	167,685	12/01/2016	12/01/2046	Pay 1.564%; receive 68% of 1M LIBOR
Vet Bds Ser 2017	185,210	08/01/2017	12/01/2047	Pay 1.175%; receive 68% of 1M LIBOR + 0.085%
Vet Bds Ser 2018	218,175	04/01/2019	12/01/2049	Pay 2.0745%; receive 72% of 1M LIBOR
Vet Bds Ser 2019	233,645	12/01/2019	06/01/2050	Pay 1.851%; receive 65% of USD Fed Funds + 0.24%
Vet Bonds Series 2020	243,160	09/01/2020	12/01/2050	Pay 1.0847%; receive 65% of USD Fed Funds + 0.24%
Vet Bonds Series 2021	247,990	12/01/2021	12/01/2051	Pay 0.649%; receive 66.5% of USD Fed Funds + 0.18%
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	13,775	03/01/2014	09/01/2034	Pay 3.67%; receive 65.5% of LIBOR + .20%
2004D Single Family	10,010	01/01/2005	03/01/2035	Pay 3.08%; receive formula*, currently 100% of 1M LIBOR
2005A Single Family	12,930	08/01/2005	09/01/2036	Pay 4.01%; receive formula*, currently 100% of 1M LIBOR
2007A Single Family	11,945	06/05/2007	09/01/2038	Pay 4.01%; receive formula*, currently 100% of 1M LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS[1]				
RFS Bonds 2007B	160,993	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	160,993	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	169,505	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	169,505	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	103,385	03/18/2008	08/01/2036	Pay 3.900%; receive SIFMA
RFS Bonds 2008B	103,385	03/18/2008	08/01/2036	Pay 3.900%; receive SIFMA
RFS Bonds 2008B	203,320	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA
PUF Bonds 2014A	240,340	06/30/2023	07/01/2041	Pay 0.720%; receive 80% of Fed Funds
RFS Bonds 2016G	250,000	12/01/2016	08/01/2045	Pay 2.000%; receive 100% of $1M LIBOR
RFS Taxable Commercial Paper	250,000	11/01/2020	08/01/2049	Pay 1.576%; receive 100% of $1M LIBOR

[1] PUF stands for permanent university fund and RFS stands for revenue financing system.

Concluded on the following page

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

Table 7C

August 31, 2021 (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	1M LIBOR >= 7.00%	$ 1,992	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	6M LIBOR > 7.00%	1,493	A+ / Aa2
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+ / Aa2
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+ / Aa2
Vet Land Tax Ref Bds Ser 2014C-3	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	466 208	A+ / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,785	BBB+ / A1
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	1,896	A+ / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,075	BBB+ / A1
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+ / Aa2
Vet Bds Ser 2014D	N/A		AA- / Aa2
Vet Bds Ser 2015A	N/A		AA- / Aa2
VetBds Ser 2015B	N/A		A+ / Aa2
VetBds Ser 2016	N/A		A+ / Aa2
Vet Bds Ser 2017	N/A		A+ / Aa3
Vet Bds Ser 2018	N/A		AA- / Aa2
Vet Bds Ser 2019	N/A		A+ / Aa3
Vet Bonds Series 2020	N/A		A+ / Aa3
Vet Bonds Series 2021	N/A		AA- / Aa2
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+ (Stable) / A1 (Stable)
2005A Single Family	N/A		A+ (Positive) / Aa2 (Stable)
2007A Single Family	N/A		A+ (Positive) / Aa2 (Stable)
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS[1]			
RFS Bonds 2007B	N/A		A+ / Aa2
RFS Bonds 2007B	N/A		A+ / Aa2
PUF Bonds 2008A	N/A		A+ / Aa2
PUF Bonds 2008A	N/A		A+ / Aa3
RFS Bonds 2008B	N/A		A+ / Aa2
RFS Bonds 2008B	N/A		BBB+ / A1
RFS Bonds 2008B	N/A		A+ / Aa2
PUF Bonds 2014A	N/A		A+ / Aa3
RFS Bonds 2016G	N/A		A+ / Aa3
RFS Taxable Commercial Paper	N/A		A+ / Aa3

[1] PUF stands for permanent university fund and RFS stands for revenue financing system.

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 necessarily expose the state to credit risk. As of Aug. 31, 2021, the state was not exposed to credit risk because the swaps recorded in the positive position were offset by other swaps with negative fair values.

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

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 derivative instruments with contingent features.

Investment Derivative Instruments

Investment derivative instruments expose the state to certain investment related risks. Note 3 discloses detail about the state's investment derivative instruments.

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 fiscal year ended Aug. 31, 2021, are $511.7 million for primary government, $2.0 million for discrete component units and $5.2 million for fiscal funds.

Rental obligations on noncancelable operating leases as of Aug. 31, 2021, are presented in table 8A.

Noncancelable Operating Lease Obligations

Table 8A

August 31, 2021 (Amounts in Thousands)

	Minimum Future Lease Payments		
Year	Primary Government	Component Units	Fiduciary Funds
2022	$ 370,722	$ 1,728	$ 3,833
2023	315,256	195	2,687
2024	261,372	68	509
2025	214,187	5	445
2026	171,707	2	445
2027 - 2031	412,673		715
2032 - 2036	79,632		
2037 - 2041	44,725		
2042 - 2046	45,914		
2047 - 2051	31,530		
2052 and beyond	9,320		
Total Payments	$ 1,957,038	$ 1,998	$ 8,634

The state leases buildings, equipment and land to outside parties under various operating leases. Rental income related to operating leases for the fiscal year ended Aug. 31, 2021, are $58.2 million for primary government, $612.8 thousand for discrete component units and $41.4 thousand for fiduciary funds. Estimated future lease rental income on noncancelable operating leases as of Aug. 31, 2021, is presented in table 8B.

Noncancelable Operating Lease Rental Income

Table 8B

August 31, 2021 (Amounts in Thousands)

	Minimum Future Lease Rental Income		
Year	Primary Government	Component Units	Fiduciary Funds
2022	$ 58,002	$ 276	$ 41
2023	49,959	30	46
2024	43,931		46
2025	37,039		46
2026	33,992		46
2027 and beyond	824,518		
Total Income	$ 1,047,441	$ 306	$ 225

The carrying value, cost and accumulated depreciation of assets under operating leases as of Aug. 31, 2021 are as follows:

- The carrying value of Permanent School Fund's (PSF) leased assets is $192.0 million. The historical cost of the PSF leased buildings is $11.0 million and related accumulated depreciation is $2.7 million. The historical cost of the PSF leased land is $183.7 million. Depreciation is not recorded on most of the PSF 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. The PSF reported contingent rental revenues in the amount of $214.7 thousand.
- The carrying value of Texas Tech University System's (TTU System) leased assets is $26.7 million. The historical cost of the TTU System leased buildings is $42.1 million and the related accumulated depreciation is $15.7 million. The historical cost of the TTU System leased land is $294.2 thousand.
- The carrying value of University of North Texas System's (UNT System) leased assets is $53.0 million. The historical cost of the UNT System leased buildings is $64.6 million and the related accumulated depreciation is $20.6 million. The historical cost of the UNT System leased infrastructure is $16.6 million and the related accumulated depreciation is $7.6 million.
- The carrying value of Texas A&M University System's (A&M System) leased assets is $128.7 million. The historical cost of the A&M System leased buildings is $201.1 million and related accumulated depreciation is $73.3 million. The historical cost of the A&M System leased land is $876.4 thousand.
- The carrying value of University of Texas System's (UT System) leased assets is $175.5 million. The historical cost of the UT System leased buildings is $245.9 million and related accumulated depreciation is $101.7 million. The historical cost of the UT System leased land is $31.3 million.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, defines debt and establishes additional financial statement note disclosure requirements related to debt obligations of state agencies.

Texas State Technical College (TSTC) entered into long-term leases for financing the purchase of certain capital assets. Such leases are classified as capital leases–direct borrowings for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease. Financing leases are secured by the underlying assets being leased.

UNT System entered into long-term leases for financing the purchase of certain capital assets where lease terms contain bargain purchase options. Such leases are classified as capital leases–direct borrowings for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease.

A&M System has various leases for the purchase of vehicles, software and equipment where the A&M System takes ownership at the end of the lease. These direct financing arrangements are reported as capital leases–direct borrowings. The related assets are capitalized at the present value of future minimum payments. The outstanding capital leases related to equipment and software contain provisions where in the event of default all remaining payments may be declared immediately due or the lessor may repossess the assets. In the case of software, the lessor may render the asset unusable or may proceed with court action to enforce performance. The financing arrangements for capital improvements contain provisions that in the event of default the lessor has the right to take one or any combination of several options. These options include:

- Demand immediate payment for all remaining payments,
- Retake possession of the equipment, or
- Require the A&M System to return the leased asset at the A&M System's expense.

UT System entered into leases which qualify as capital leases–direct borrowings to finance the purchase of capital assets which are capitalized at the present value of future minimum direct borrowing payments.

University of Houston System (UH System) entered into an amended capital lease–direct placements with the City of Pearland, Texas for the use and benefit of the University of Houston–Clear Lake. The lease contains a provision that in the event of default, the UH System will be liable for:

- Damages equal to the total of the cost of recovering the leased premises,
- Cost of removing and storing personal property,
- Unpaid amount earned at the time of lease termination plus interest,
- Present value (discounted at 8 percent per annum) of the balance due for the remainder of the term less the present value of the fair market rental value plus the cost to prepare the premises for occupancy, and
- Any other sum owed under the lease agreement.

The future minimum lease payments as of Aug. 31, 2021, are presented in table 8C.

Future Capital Lease Payments

Table 8C

August 31, 2021 (Amounts in Thousands)

Year	Principal	Interest	Total Future Minimum Lease Payments
PRIMARY GOVERNMENT			
Governmental Activities			
2022	$ 3,949	$	$ 3,949
2023	4,504		4,504
Total Payments[1]	$ 8,453	$ 0	$ 8,453
Business-Type Activities			
2022	$ 11,113	$ 6,469	$ 17,582
2023	12,423	6,638	19,061
2024	13,218	6,160	19,378
2025	13,372	5,640	19,012
2026	12,993	5,099	18,092
2027-2031	77,688	16,586	94,274
2032-2036	38,355	1,837	40,192
Total Payments	$ 179,162	$ 48,429	$ 227,591
Business-Type Activities: Direct Borrowings/Placements			
2022	$ 12,384	$ 4,499	$ 16,883
2023	10,492	4,111	14,603
2024	6,051	3,781	9,832
2025	6,209	3,556	9,765
2026	6,040	3,321	9,361
2027-2031	28,610	13,114	41,724
2032-2036	29,224	7,312	36,536
2037-2041	9,170	3,097	12,267
2042-2046	10,353	1,133	11,486
Total Payments	$ 118,533	$ 43,924	$ 162,457
DISCRETELY PRESENTED COMPONENT UNITS			
2022	$ 80	$ 14	$ 94
2023	84	10	94
2024	75	6	81
2025	43	2	45
Total Payments[2]	$ 282	$ 32	$ 314

[1] There are no principal or interest payments beyond 2023.
[2] There are no principal or interest payments beyond 2025.

The assets recorded under capital leases as of Aug. 31, 2021, are presented in table 8D.

Assets Under Capital Leases
Table 8D
August 31, 2021 (Amounts in Thousands)

	PRIMARY GOVERNMENT	
	Governmental Activities	
Capital Asset Type	Assets under Capital Lease	Accumulated Depreciation
PRIMARY GOVERNMENT		
Governmental Activities		
Furniture and Equipment	$ 33,509	$ (33,347)
Computer Software	1,395	(767)
Total Capital Asset Leases	$ 34,904	$ (34,114)
Business-Type Activities		
Land	$ 11	$
Buildings	292,424	(50,938)
Furniture and Equipment	35,239	(27,923)
Vehicles, Boats, and Aircraft	3,380	(1,493)
Computer Software	17,509	(7,999)
Other Assets	990	(103)
Total Capital Asset Leases	$ 349,553	$ (88,456)
DISCRETELY PRESENTED COMPONENT UNITS		
Furniture and Equipment	$ 550	$ (185)
Total Capital Asset Leases	$ 550	$ (185)

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.

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

For the fiscal year ended Aug. 31, 2021, the state recognized pension expense of $10.7 billion. Of this amount, $7.4 billion was incurred as an employer and $3.3 billion 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.

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, *Accounting and Financial Reporting for Pensions*. The benefit and contribution provisions of the ERS Plans are authorized by state law *(Texas Government Code (TGC)*, Title 8, Subtitle B for the ERS and LECOS Plans; *TGC*, Title 8, Subtitles D and E for the JRS1 and JRS2 Plans, respectively) and may be amended by the Texas 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 Texas 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 the 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 Annual Comprehensive Financial Report (ACFR). ERS's ACFR, information on vesting, tier requirements and other financial data may be obtained at the agency's website: www.ers.texas.gov/about-ers/reports-and-studies.

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 the highest 60 months of compensation. Information on vesting and tier requirements may be obtained from ERS's ACFR.

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 average monthly compensation of the JRS2 Plan varies depending on the retirement date. The monthly benefit for members of the JRS2 Plan retiring prior to Sept. 1, 2019 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. Members retiring on or after Sept. 1, 2019 receive a monthly benefit between 40 percent to 47.7 percent (depending on age) of the salary for the position from which the member retired. An additional 10 percent is paid when a member retires within one year of benefit commencement. Information on vesting and tier requirements may be obtained from ERS's ACFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2020 is presented in table 9A.

Membership Data

Table 9A: Employees Retirement System of Texas

As of Measurement Date of August 31, 2020

Type of Member	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries			
Currently Receiving Benefits	117,996	14,697	484
Terminated Employees Entitled to			
Benefits But Not Yet Receiving Them	134,909	25,511	187
Current Employees			
Vested and Non-Vested	142,062	35,230	570
Total Members	394,967	75,438	1,241

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. House Bill 2384, enacted by the 86th legislative session, increased the contribution rate for the JRS2 Plan from 7.5 percent to 9.5 percent beginning Sept. 1, 2019. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2020 are presented in table 9B.

Required Contribution Rates

Table 9B: Employees Retirement System of Texas

As of Measurement Date of August 31, 2020

Plan	Employee Class	Elected Class Legislator	Elected Class Other
Employer			
ERS	10%	10%	10%
LECOS[1]	1.34%[2]	N/A	N/A
JRS2	15.663%	N/A	N/A
Members			
ERS	9.5%	9.5%	9.5%
LECOS[1]	0.5%	N/A	N/A
JRS2	9.5%	N/A	N/A

[1] Amount contributed is supplemental to amount contributed for the employee class of the ERS Plan.

[2] The 1.34% 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 .84% of payroll.

The state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2020 measurement period were $735.9 million, $22.3 million and $14.2 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, 2014 through Aug. 31, 2019. 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, 2020 measurement date.

Actuarial Methods and Assumptions

Table 9C: Employees Retirement System of Texas

As of Measurement Date of August 31, 2020

Description	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	Aug. 31, 2020	Aug. 31, 2020	Aug. 31, 2020
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	3.62%	2.87%	4.19%
Investment Rate of Return	7.00%	7.00%	7.00%
Inflation	2.30%	2.30%	2.30%
Salary Increase	0.00% to 8.80%	3.75% to 8.75%	2.30% plus follows state judicial tiered salary schedule per *Texas Government Code* 659.012
Cost-of-living Adjustments	None - Employee 2.30% - Elected compounded annually on Sept. 1	None	None
Mortality	The mortality rates for service retirees and beneficiaries are based on the 2020 State Retirees of Texas Mortality Tables with generational mortality improvements projected from the year 2020, which is based on the most recent Ultimate MP scale as published by Retirement Plans Experience Committee of the Society of Actuaries. Rates for male law enforcement and custodial officers are set forward one year.		

Assumptions for Single Discount Rate

Table 9D: Employees Retirement System of Texas

As of Measurement Date of August 31, 2020

Type of Rate	ERS Plan	LECOS Plan	JRS2 Plan
Single Discount Rate	3.62%	2.87%	4.19%
Investment Rate of Return	7.00%	7.00%	7.00%
Municipal Bond Rate[1]	2.33%	2.33%	2.33%
Year Fiduciary Net Position Depleted	2044	2036	2041

[1] The source of the municipal bond rate is Fidelity Index's "20-Year Municipal GO AA Index" rate for Fixed Income Market Data/Yield Curve/Data municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

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, the 20-year municipal bond rate and the year when the fiduciary net positions are projected to be depleted for the ERS, LECOS and JRS2 Plans.

The fiduciary net position for the ERS, LECOS and JRS2 Plans is projected to be depleted in fiscal years 2044, 2036 and 2041, respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal year 2043 for the ERS Plan, fiscal year 2035 for the LECOS Plan and fiscal year 2040 for the JRS2 Plan. The municipal bond rate was applied to all remaining projected benefit payments after fiscal year 2043 for the ERS Plan, after fiscal year 2035 for the LECOS Plan and after fiscal year 2040 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 were no changes made to the state contribution levels in the 86th legislative session and therefore, the projected employer contributions remain at the fiscal 2017 funding level. This contribution level is not considered sound funding. All plans currently have a funding gap that grows each year, as there are not enough projected assets to meet the projected liability. The Board met in May 2020 and adopted new assumption changes. These include lowering the investment rate of return from 7.5 percent to 7 percent; decreasing the inflation rate from 2.5 percent to 2.3 percent; and other changes based on the updated experience study 5 year period from Sept. 1, 2011 through Aug. 31, 2016 to Sept. 1, 2014 through Aug. 31, 2019 including updated mortality rate based on the most recent 2020 State Retirees of Texas tables. There have been no changes to the benefit provisions of the ERS, LECOS or JRS2 plans since the prior measurement date.

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

Target Allocations

Table 9E: Employees Retirement System of Texas

As of Measurement Date of August 31, 2020

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return[2]	Long-Term Expected Portfolio Real Rate of Return[1]
Global Equity	37.00%	8.10%	2.15%
Private Equity	13.00%	11.20%	1.16%
Global Credit	11.00%	5.80%	0.39%
Opportunistic Credit	3.00%	7.80%	0.17%
Real Estate Investment Trust	3.00%	7.60%	0.16%
Infrastructure/Land	7.00%	7.20%	0.34%
Private Real Estate	9.00%	5.70%	0.31%
Fixed Income-Rates	11.00%	1.90%	-0.04%
Absolute Returns	5.00%	5.80%	0.18%
Cash	1.00%	1.80%	-0.03%
Totals	100.00%		4.79%

[1] The expected nominal rate of return of 7.09% is derived by adding expected inflation rate of 2.3% to the long-term expected return rate of 4.79%.

[2] The real rate of return for each asset class is geometric, whereas the overal real rate of return is arithmetic

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.

Sensitivity of Net Pension Liability (NPL) to Changes in Discount Rate

Table 9F: Employees Retirement System of Texas

As of Measurement Date of August 31, 2020 (Amounts in Thousands)

Plan Type	1% Decrease	Current Discount Rate	1% Increase
ERS Plan:			
Discount Rate	2.62%	3.62%	4.62%
NPL	$ 48,372,383	$ 37,990,670	$ 29,625,291
LECOS Plan:			
Discount Rate	1.87%	2.87%	3.87%
NPL	$ 2,448,884	$ 1,915,132	$ 1,498,099
JRS2 Plan:			
Discount Rate	3.19%	4.19%	5.19%
NPL	$ 396,587	$ 304,339	$ 226,535

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 Statement No. 72, *Fair Value Measurement and Application*. More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS's fiscal 2020 ACFR.

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2020. For fiscal 2021 reporting, the measurement date of the state's net pension liability is Aug. 31, 2020. The schedule of changes in the state's net pension liability for the fiscal year ended Aug. 31, 2021 is presented in table 9G.

For the fiscal year ended Aug. 31, 2021, the state recognized pension expense of $5.8 billion, $241.2 million and $86.1 million, respectively, for the ERS, LECOS and JRS2 Plans. At Aug. 31, 2021, the state reported deferred outflows of resources and deferred inflows of resources related to pension from the sources for these plans in table 9H.

Schedule of Changes in Net Pension Liability

Table 9G: Employees Retirement System of Texas

As of Measurement Date of August 31, 2020 (Amounts in Thousands)

Schedule of Changes	ERS Plan	LECOS Plan	JRS2 Plan
Total Pension Liability			
Service Cost	$ 1,827,864	$ 96,690	$ 28,965
Interest on the Total Pension Liability	2,516,723	86,012	35,247
Difference Between Expected and Actual Experience of the Total Pension Liability	510,657	(1,841)	(12,695)
Assumption Changes[1]	6,366,987	158,946	113,895
Benefit Payments and Refunds	(2,621,737)	(86,706)	(32,041)
Net Change in Total Pension Liability	8,600,494	253,101	133,371
Total Pension Liability – Beginning	57,336,383	2,609,355	648,299
Total Pension Liability – Ending	$ 65,936,877	$ 2,862,456	$ 781,670
Plan Fiduciary Net Position			
Contributions – Employer	$ 735,856	$ 22,293	$ 14,186
Contributions – Member	713,985	8,950	8,634
Pension Plan Net Investment Income	1,791,061	61,098	30,632
Benefit Payments and Refunds	(2,621,737)	(86,706)	(32,041)
Pension Plan Administrative Expense	(24,182)	(1,933)	(273)
Net Change in Plan Fiduciary Net Position	594,983	3,702	21,138
Plan Fiduciary Net Position – Beginning	27,351,224	943,622	456,193
Plan Fiduciary Net Position – Ending	$ 27,946,207	$ 947,324	$ 477,331
Net Pension Liability – Beginning	29,985,159	1,665,733	192,106
Net Pension Liability – Ending	$ 37,990,670	$ 1,915,132	$ 304,339

[1] The change in the total pension liability due to the change in the single discount rate is included as an assumption change. Assumption changes for fiscal year 2020 include the impact of the new assumptions adopted by the Board effective Aug. 31, 2020.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9H: Employees Retirement System of Texas

August 31, 2021 (Amounts in Thousands)

	ERS Plan		LECOS Plan		JRS2 Plan	
Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 369,522	$ 236,068	$	$ 43,831	$ 10,524	$ 9,506
Changes of Assumptions	7,912,923	263,624	368,378	57,987	127,794	
Net Difference Between Projected and Actual Investment Return	560,866		19,385		8,988	
Contributions Subsequent to the Measurement Date	739,600		20,294		14,322	
Total	$ 9,582,911	$ 499,692	$ 408,057	$ 101,818	$ 161,628	$ 9,506

Senate Bill (SB) 321 in the 87th legislative session committed to an unfunded liability payment schedule with annual payments addressing the current $14.7 billion unfunded liability within 33 years. Retirement actuaries will calculate the amount of the payments prior to each legislative session. This commitment to paying off the unfunded liability will ensure current and future retirees get the lifelong annuities they earned over their careers. ERS retirement plans will continue to be pre-funded at the existing state and employer contribution rates. SB 321 created a different type of defined benefit retirement structure known as a cash balance benefit. New employees hired after Aug. 31, 2022 will be enrolled as Group 4 in that structure. Features of the new benefit include:

- lower employee contribution rate (6% of pay),
- five-year vesting period,
- state match equal to 150 percent of the account balance at retirement,
- a lifetime annuity in retirement, based on the balance in the employee's account at retirement (including the state match) accrued over their lifetime,
- guaranteed earnings of at least 4 percent annually,
- up to 3 percent per year more in gain-share, when the ERS Trust Fund has investment earnings (or "gain") of more than 4 percent over a five-year average and
- the possibility of annuity increases in retirement when the gain-sharing benefit is achieved.

The $739.6 million, $20.3 million and $14.3 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 fiscal year ending Aug. 31, 2022.

Table 9I presents amounts reported as deferred outflows of resources and deferred 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 of Resources and Deferred Inflows of Resources on Pension Expense[1]

Table 9I: Employees Retirement System of Texas

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

Year	ERS Plan	LECOS Plan	JRS2 Plan
2022	$4,166,795	$66,839	$68,805
2023	3,153,182	101,256	43,091
2024	980,556	99,827	25,260
2025	43,085	18,023	645
2026	0	0	0
Thereafter	0	0	0

[1] Positive amounts indicate increase in pension expense.

During the measurement period of fiscal 2021, ERS's calculated single discount rate increased from 3.62 percent to 7 percent, and from 4.19 percent to 5.27 percent for ERS and JRS2 Plans, respectively; and decreased from 2.87 percent to 2.7 percent for LECOS Plans. This is estimated to decrease the net pension liability for the plans accordingly for fiscal 2022: ERS by $27.4 billion, LECOS by $32.8 million and JRS2 by $160.9 million.

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, 2020.

Membership Data

Table 9J: Judicial Retirement System of Texas Plan One

As of Measurement Date of August 31, 2020

Membership	JRS1 Plan
Retirees and Beneficiaries Currently Receiving Benefits	291
Current Employees Vested and Non-Vested	4
Total Members	295

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 similar to 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 a May 2020 experience study covering the five-year period from Sept. 1, 2014 through Aug. 31, 2019. The discount rate decreased from 2.63 percent as of Aug. 31, 2019 to 2.33 percent as of Aug. 31, 2020. Other assumptions include a decrease in inflation rate, salary increase and cost of living adjustments from 2.5 percent as of Aug. 31, 2019 to 2.3 percent as of Aug. 31, 2020 and a change in mortality tables. Table 9K presents the actuarial methods and assumptions used to measure the total pension liability for the JRS1 Plan as of the Aug. 31, 2020 measurement date. There have been no changes to the benefit provisions of the JRS1 Plan since the prior measurement date.

Actuarial Methods and Assumptions

Table 9K: Judicial Retirement System of Texas Plan One

For the Fiscal Year Ended August 31, 2021

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2020
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate[1]	2.33%
Inflation	2.30%
Salary Increase	2.30%
Mortality:	
Active Members	Pub-2010 General Employees Active Member Mortality table. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2010.
Service Retirees, Beneficiaries and Inactive Members	2020 State Retirees of Texas mortality table. Generational mortality improvements in accordance with the ultimate rates from the scales published through 2019 by Retirement Plans Experience Committee of the Society of Actuaries (Ultimate MP) and projected from the year 2020.
Cost-of-living Adjustments	2.30% compounded annually on Sept. 1

[1] The source of the municipal bond rate is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax exempt municipal bonds as reported in Fidelity Index's 20-Year Municipal GO AA Index.

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 are presented in table 9L.

Sensitivity of Total Pension Liability to Changes in Discount Rate

Table 9L: Judicial Retirement System of Texas Plan One

August 31, 2021 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.33%	2.33%	3.33%
Total Pension Liability	$ 251,454	$ 229,874	$ 211,300

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2020. For fiscal 2021 reporting, the measurement date of the state's total pension liability is Aug. 31, 2020. The schedule of changes in the state's total pension liability for the fiscal year ended Aug. 31, 2021 is presented in table 9M.

Schedule of Changes in Total Pension Liability[1]

Table 9M: Judicial Retirement System of Texas Plan One

As of Measurement Date of August 31, 2020 (Amounts in Thousands)

Schedule of Changes	Total Pension Liability
Service Cost	$ 222
Interest on the Total Pension Liability	6,186
Difference Between Expected and Actual Experience of the Total Pension Liability	(3,862)
Assumption Changes[2]	2,195
Benefit Payments and Refunds	(19,941)
Net Change in Total Pension Liability	(15,200)
Total Pension Liability – Beginning	245,074
Total Pension Liability – Ending	$ 229,874

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

[2] The change in the total pension liability due to the change in the single discount rate is included as an assumption change. Assumption changes for FY2020 include the impact of the new assumptions adopted by the Board effective Aug. 31, 2020.

For the fiscal year ended Aug. 31, 2021, the state recognized pension expense of $4.7 million for the JRS1 Plan. Since the expected remaining service lives is one year, at Aug. 31, 2021, the state did not report deferred outflows of resources and deferred inflows of resources related to pensions for:

- Differences between expected and actual experience and
- Changes of assumptions.

The $18.5 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 fiscal year ending Aug. 31, 2022.

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, junior and community 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 Texas 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.

TRS issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The TRS ACFR may be obtained from their website at www.trs.texas.gov and searching for financial reports.

The state is both an employer and a nonemployer 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 2020 for fiscal 2021 reporting, the amount of the state's contributions recognized by the plan was $691.4 million for the state as an employer and $2.1 billion for the state as a nonemployer 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 2020 are presented in table 9N.

Required Contribution Rates

Table 9N: Teacher Retirement System of Texas Plan

For the Fiscal Year Ended August 31, 2021

Contributor	Rate
Employer	7.50%
Nonemployer Contributing Entity (State)	7.50%
Employees	7.70%

The actuarial valuation was performed as of Aug. 31, 2019. Update procedures were used to roll forward the total pension liability to Aug. 31, 2020. Table 9O presents the actuarial methods and assumptions used to measure the total pension liability for the TRS Plan as of the Aug. 31, 2020 measurement date.

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the three-year period ending Aug. 31, 2017, and adopted in July 2018. The mortality rates were based on tables identified in table 9O.

Actuarial Methods and Assumptions

Table 9O: Teacher Retirement System of Texas Plan

For the Fiscal Year Ended August 31, 2021

Description	
Actuarial Valuation Date	Aug. 31, 2019, rolled forward to Aug. 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.25 %
Long-term Expected Return	7.25 %
Municipal Bond Rate	2.33%[1]
Inflation	2.30 %
Salary Increase	3.05% to 9.05% including inflation
Last year ending Aug. 31 in projection period (100 years)	2119
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

[1] The source of the municipal bond rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's 20-Year Municipal GO AA Index.

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

The discount rate used to measure the total pension liability for the TRS Plan was 7.25 percent as of the end of the measurement year, the same as the discount rate used as of the beginning of the measurement year. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 2.33 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and nonemployer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 8.5 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent over the next several years. This includes a factor for all employer and state contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

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 (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 allocations and best estimates of geometric real rates of return for each major asset class for the TRS Plan's investment portfolio are presented in table 9P.

Target Allocations

Table 9P: Teacher Retirement System of Texas Plan

August 31, 2021

Asset Class	Target Allocation[1]	Long-Term Expected Geometric Real Rate of Return[2]	Expected Contribution to Long Term Portfolio Returns
Global Equity			
U.S.	18.00%	3.90%	0.99%
Non-U.S. Developed	13.00%	5.10%	0.92%
Emerging Markets	9.00%	5.60%	0.83%
Private Equity	14.00%	6.70%	1.41%
Stable Value			
Government Bonds	16.00%	(0.70)%	(0.05)%
Absolute Return	0.00%	1.80%	0.00%
Stable Value Hedge Funds	5.00%	1.90%	0.11%
Real Return			
Real Estate	15.00%	4.60%	1.02%
Energy, Natural Resources and Infrastructure	6.00%	6.00%	0.42%
Commodities	0.00%	0.80%	0.00%
Risk Parity			
Risk Parity	8.00%	3.00%	0.30%
Asset Allocation Leverage			
Cash	2.00%	(1.50)%	(0.03)%
Asset Allocation Leverage	(6.00)%	(1.30)%	0.08%
Inflation Expectation			2.00%
Volatility Drag[3]			(0.67)%
Total	100.00%		7.33%

[1] Target allocations are based on the fiscal year 2020 policy model.

[2] Capital market assumptions come from Aon Hewitt as of Aug. 31, 2020.

[3] The volatility drag results from the conversion between arithmetic and geometric mean returns.

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: Teacher Retirement System of Texas Plan
August 31, 2021 (Amounts in Thousands)

State as:	1% Decrease	Current Discount Rate	1% Increase
Employer			
Discount Rate	6.25%	7.25%	8.25%
NPL	$ 13,839,200	$ 8,974,942	$ 5,022,839
Nonemployer Contributing Entity			
Discount Rate	6.25%	7.25%	8.25%
NPL	$ 42,193,198	$ 27,362,962	$ 15,313,721

The TRS 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 TRS Plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. It is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Measurement, recognition, or disclosure of an asset or liability depends on the aggregation or disaggregation of the unit of account of the asset or liability. 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 TRS Plan's investment policy, assets and fiduciary net position, may be obtained from TRS' fiscal 2020 ACFR.

At Aug. 31, 2021, the state reported a liability of $9.0 billion for its proportionate share of the collective net pension liability as an employer and a liability of $27.4 billion for its proportionate share of the collective net pension liability as a nonemployer contributing entity. The collective net pension liability was measured as of Aug. 31, 2020, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2019, rolled forward to Aug. 31, 2020. The state's proportion decreased from 17.65 percent at Aug. 31, 2019, to 16.76 percent at Aug. 31, 2020, and increased from 49.65 percent to 51.09 percent for its role as an employer and nonemployer 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 nonemployer contributing entity to the plan for the period Sept. 1, 2019 through Aug. 31, 2020.

The state recognized pension expense for its employees' pension and grant expense for the pension of Texas public school district and junior college employees. For the fiscal year ended Aug. 31, 2021, the state recognized pension expense of $1.2 billion and grant expense of $3.3 billion for the TRS Plan. At Aug. 31, 2021, the state reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources for the TRS Plan in table 9R.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9R: Teacher Retirement System of Texas Plan

August 31, 2021 (Amounts in Thousands)

	State as Employer		State as Nonemployer Contributing Entity	
Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 16,388	$ 250,467	$ 49,963	$ 763,628
Changes of assumptions	2,082,506	885,467	6,349,181	2,699,627
Net difference between projected and actual investment return	181,690		553,940	
Change in proportion and contribution difference	1,152,019	966,431	527,541	1,037,162
Contributions subsequent to the measurement date	703,233		2,140,553	
Total	$ 4,135,836	$ 2,102,365	$ 9,621,178	$ 4,500,417

The $703.2 million and $2.1 billion reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as an employer and nonemployer contributing entity, respectively, will be recognized as a reduction in the net pension liability for the fiscal year ending Aug. 31, 2022.

Table 9S presents amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense and grant expense in the following years for the TRS Plan.

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

Table 9S: Teacher Retirement System of Texas Plan

August 31, 2021 (Amounts in Thousands)

Year Ended Aug. 31:	State as Employer (Pension Expense[1])	State as Nonemployer Contributing Entity (Grant Expense[1])
2022	$ 190,483	$ 153,136
2023	569,304	1,269,338
2024	527,443	1,295,579
2025	185,901	433,100
2026	(122,408)	(194,317)
Thereafter	(20,486)	23,371

[1] Positive amounts indicate increase in pension/grant expense; negative amounts indicate decrease in pension/grant expense.

During the measurement period of fiscal 2021, the actuarial assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of Aug. 31, 2020. Although actuarial assumptions remained the same, the TRS Plan's net pension liability is expected to decrease by $28.1 billion for fiscal 2022 due primarily to a $36.4 billion increase in the TRS Plan's fiduciary net position. The state's proportionate share is estimated to decrease $4.7 billion and $14.4 billion for its role as an employer and nonemployer contributing entity, respectively.

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 (*Texas Government Code*, Title 8, Subtitle H) and may be amended by the board. Members are 50 percent vested after the tenth year of service, with the vesting percent increasing 10 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 post-retirement 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: 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, 2020, the Part Two contributions are not required for an adequate contribution arrangement.

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 2020 for fiscal 2021 reporting, the amount of the state's contributions recognized by the TESRS Plan was $1.3 million.

The total pension liability is determined by an actuarial valuation as of Aug. 31, 2020. Table 9T presents the actuarial methods and assumptions used to measure the total pension liability for the TESRS Plan as of the Aug. 31, 2020 measurement date. The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study from 2020 as indicated by Rudd and Wisdom, Inc., TESRS' actuary. The key changes are a reduction in the investment return assumption from 7.75 percent to 7.5 percent; an increase in the assumed termination rates (the rate at which members terminate their membership for causes other than death, disability or retirement before reaching the age of retirement or becoming vested); an increase in the assumed average age at which vested terminated members begin their retirement benefit and a change to a new published mortality table projected generationally. There have been no changes to the benefit provisions since the prior measurement date.

Actuarial Methods and Assumptions

Table 9T: Texas Emergency Services Retirement System Plan
As of August 31, 2020

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2020
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Actuarial Assumptions:	
Discount Rate	7.5%
Investment Rate of Return	7.5%
Inflation	3%
Salary Increase	N/A
Mortality	PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019
Ad Hoc Post-Retirement Benefit Changes	None

The discount rate of 7.5 percent was applied to measure the total pension liability. The discount rate changed from 7.75 percent at Aug. 31, 2019 to 7.5 percent at Aug. 31, 2020. No projection of cash flows was used to determine the discount rate because the Aug. 31, 2020 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability in 30 years using the level dollar amortization method. Because of the 30-year amortization period with the 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 net real 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 net real rates of return by the target asset allocation percentage and by adding expected inflation. In addition, the final 7.5 percent assumption was selected by rounding down.

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

Target Allocations

Table 9U: Texas Emergency Services Retirement System Plan
August 31, 2021

Asset Class	Target Allocations	Long-Term Expected Net Real Rate of Return[1]
Equities:		
Large Cap Domestic	20%	5.83%
Small/Mid Cap Domestic	10%	5.94%
Developed International	15%	6.15%
Emerging Markets	5%	7.25%
Global Infrastructure	5%	6.41%
Real Estate	10%	4.48%
Multi Asset Income	5%	3.84%
Fixed Income	30%	1.99%
Total Allocations	100%	
Weighted Average		4.60%

[1] The above components are weighted to arrive at an average of 4.60%, which is added to the expected inflation of 3.00%, The final rate of 7.50% assumption was selected by rounding down.

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: Texas Emergency Services Retirement System Plan
August 31, 2021 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.50%	7.50%	8.50%
Net Pension Liability	$ 13,848	$ 7,188	$ 2,560

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 immediately 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 in accordance with GASB Statement No. 72, *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 TESRS Plan's investment policy, assets and fiduciary net position may be obtained from the fiscal 2020 audited Annual Financial Report at the website www.tesrs.org/financial-information.

At Aug. 31, 2021, the state reported a liability of $7.2 million for its proportionate share of the collective net pension liability as a nonemployer contributing entity. The collective net pension liability was measured as of Aug. 31, 2020, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2020. The state's proportion as a nonemployer contributing entity decreased from 29.66 percent at Aug. 31, 2019 to 28.51 percent at Aug. 31, 2020. The state's proportion of the collective net pension liability was based on a fiscal 2020 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*.

The state recognized grant expense as a nonemployer contributing entity for the pension of the volunteer emergency services personnel in the state. For the fiscal year ended Aug. 31, 2021, the state recognized grant expense of $1.4 million for the TESRS Plan. At Aug. 31, 2021, the state reported deferred outflows and inflows of resources related to the emergency services personnel's pension from the following TESRS Plan sources in table 9W.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9W: Texas Emergency Services Retirement System Plan

August 31, 2021 (Amounts in Thousands)

	State as Nonemployer Contributing Entity	
Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$	$ 342
Change of Assumptions		12
Net Difference Between Projected and Actual Investment Return	39	
Change in Proportion and Contribution Difference	128	332
Contributions Subsequent to the Measurement Date	1,329	
Total TESRS Plan	$ 1,496	$ 686

The $1.3 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as a nonemployer contributing entity will be recognized as a reduction in the net pension liability for the fiscal year ending Aug. 31, 2022.

Table 9X presents amounts reported as deferred outflows of resources and deferred inflows of resources that will be recognized as grant expense in the following years for the TESRS Plan.

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

Table 9X: Texas Emergency Services Retirement System Plan

August 31, 2021 (Amounts in Thousands)

Year Ended Aug. 31:	State as Nonemployer Contributing Entity (Grant Expense[1])
2022	$(445)
2023	(127)
2024	247
2025	(194)
2026	
Thereafter	

[1] Negative amounts indicate decrease in grant expense; positive amounts indicate increase in grant expense.

Defined Contribution Pension Plan

Optional Retirement Program (ORP)

The state's contributions to the ORP are authorized by *Texas Government Code*, Chapter 830. Full-time faculty and certain other employees 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 (THECB) 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 6.6 percent, respectively, for fiscal 2021. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate of up to 1.9 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no assets in a trust or equivalent arrangement, 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 2021 resulted in participant contributions of $290.9 million and employer contributions of $348.3 million.

As of Aug. 31, 2021, ORP had 36,049 participants. The total participant contributions were $318.9 million and total employer contributions were $378.8 million. Additional information for ORP is included in the fiscal 2021 *ORP Participation Report Summary,* published annually by the THECB. The report is available on the THECB's website at www.highered.texas.gov.

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 System) offers two deferred compensation plans. The first one, for UT System employees, was created in accordance with *Internal Revenue Code*, Section 457(b), where all UT System employees are eligible to participate in UT System'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. The UT System 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 of the UT System. It was established in accordance with *Internal Revenue Code*, Section 457(f). Only physicians hired before Jul. 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 System) offers one deferred compensation plan created in accordance with *Internal Revenue Code*, Section 457(f). It allows the A&M System 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 System employees are eligible to participate in this plan subject to the approval of the A&M System board of regents, chancellor or any chancellor-designated member chief executive officer. The deductions, purchased investments and earnings attributed to the plan are held in trust and belong to the participants. The state of Texas has no liability under the plan beyond the administrative requirements.

Note 11

Postemployment Benefits Other Than Pensions

The state of Texas has two retirement systems and two university systems in its financial reporting entity that administer the state's Other Postemployment Benefit (OPEB) plans in addition to providing pension benefits:

- Employees Retirement System of Texas (ERS),
- Teacher Retirement System of Texas (TRS),
- Texas A&M University System (A&M System) and
- the University of Texas System (UT System).

These two retirement systems and two university systems administer the following four defined benefit OPEB plans:

- ERS - the State Retiree Health Plan (SRHP),
- TRS - the Texas Public School Retired Employees Group Insurance Program (TRS-Care),
- A&M System - the A&M System Retiree Group Insurance Program (A&M Plan) and
- UT System - the UT System Employee Group Insurance Program (UT Plan).

SRHP and TRS-Care are administered through trust, while the A&M Plan and UT Plan are not; and all OPEB plans are operated on a pay-as-you-go basis. These benefits are authorized by statute and contributions are established by the *General Appropriations Act.*

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended Aug. 31, 2021, the state recognized OPEB expense of $638.6 million. Of this amount, $716.4 million was incurred as an employer and negative $77.8 million as a nonemployer contributing entity. The reported deferred outflows of resources and deferred inflows of resources related to OPEB are identified in Note 27.

Employees Retirement System of Texas

The state of Texas contributes to SRHP, a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. ERS's board of trustees administers SRHP.

ERS issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The ERS ACFR may be obtained from their website at www.ers.texas.gov and searching for reports and studies.

Plan Description

SRHP provides postemployment health care, life and dental insurance coverage for participants on a pay-as-you-go basis as authorized by *Texas Insurance Code*, Chapter 1551. The benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the SRHP. Surviving spouses and dependents of retirees are also covered by SRHP. SRHP does not provide automatic cost-of-living adjustments.

Contributors to SRHP include active and retired members, employers, and the state of Texas as the only nonemployer contributing entity. Employers include state of Texas agencies, universities, junior and community colleges, and other entities specified by the Texas Legislature with the state of Texas being the principal participating employer.

Funding Policy

The state is both an employer and a nonemployer contributing entity in SRHP. The state makes contributions to the SRHP for its employees as well as part of the premiums for the junior and community colleges. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contributions. During the measurement period of 2020, for fiscal 2021 reporting, the amount of the state contributions recognized by the SRHP was $670.8 million for the state as employer and $48.1 million for the state as a nonemployer contributing entity. The contribution requirements for the employers of SRHP during the measurement period are presented in table 11A.

Required Contribution Rates – Retiree Health and Basic Life Premium

Table 11A: State Retiree Health Plan
For the Fiscal Year Ended August 31, 2021

Level of Coverage	Employer Monthly Premium Rates
Retiree Only	$ 625
Retiree and Spouse	1,341
Retiree and Children	1,104
Retiree and Family	1,820

Measurement Date

ERS has elected to use a measurement date that is twelve months in advance of the fiscal year, with a measurement date of Aug. 31, 2020 for fiscal year ended Aug. 31, 2021.

Actuarial Methods and Assumptions

The total OPEB liability (TOL) is determined by an annual actuarial valuation. Table 11B presents the actuarial methods and assumptions used to measure the TOL for the SRHP as of the measurement date.

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period Sept. 1, 2014 to Aug. 31, 2019 for state agency members and for the period Sept. 1, 2010 to Aug. 31, 2017 for higher education members. The mortality rates were based on the tables identified in table 11B.

Actuarial Methods and Assumptions

Table 11B: State Retiree Health Plan

For the Fiscal Year Ended August 31, 2021

Description	
Actuarial Valuation Date	Aug. 31, 2020
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Inflation	2.30 %
Discount Rate	2.20%[1]
Salary Increase	2.30% to 9.05% , includes inflation
Annual Healthcare Trend Rates:	
HealthSelect	8.80% for fiscal 2022, 5.25% for fiscal 2023, 5.00% for fiscal 2024, 4.75% for fiscal 2025, 4.60% for fiscal 2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for fiscal 2029 and later years
HealthSelect Medicare Advantage	-53.30% for fiscal 2022, 0.00% for fiscal 2023, 66.67% for fiscal 2024, 24.00% for fiscal 2025, 4.60% for fiscal 2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for fiscal 2029 and later years
Pharmacy	10.00% for fiscal 2022 and 2023, decreasing 100 basis points per year to 5.00% for fiscal 2028 and 4.30% for fiscal 2029 and later years
Ad Hoc Post-Employment Benefit Changes	
Mortality:	
State Agency Members:	
Service Retirees, Survivors and other Inactive Members	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020
Disability Retirees	2020 State Retirees of Texas Mortality table with a 3 year set forward for males and females with minimum rates at all ages of 3.0% for males and 2.5% for females, respectively, and Ultimate MP Projection Scale projected from the year 2020
Active Members	
Higher Education Members:	
Service Retirees, Survivors and other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disability Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014

[1] The source of the municipal bond rate is the Bond Buyer Index of General Obligation Bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends as expected by ERS and the actuaries attesting to the results of the valuation:

a. demographic assumptions including rates of pre-retirement and post-disability mortality for all state agency members; assumed rates of termination and retirement for certain members who are CPO/CO; and assumed salary, aggregate payroll increases and the assumed rate of general inflation have been updated to reflect assumptions recently adopted by ERS's board of trustees,
b. assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on our short-term expectations,
c. percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence,
d. percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends
e. proportion of future retirees assumed to cover dependent children have been updated to reflect recent plan experience and expected trends; moreover, the PCORI fees payable under the ACA have been updated to reflect the IRS Notice 2020-44, and
f. the discount rate assumption was decreased from 2.97 percent to 2.20 percent to utilize the updated yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions adopted since the prior valuation is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect for those HealthSelect retirees and dependents for whom Medicare is not primary. These minor benefit changes are reflected in the following fiscal 2021 Assumed Per Capita Health Benefit Costs.

Other future actuarial methods may differ significantly from the current measurement period due to such factors as the following: plan experience, changes in economic or demographic assumptions, methodology used and changes in plan provisions or applicable laws.

The discount rate used to measure the TOL for SRHP is the municipal bond rate of 2.20 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.97 percent. Projected cash flows into SRHP are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's net OPEB liability (NOL). The results of the analysis are presented in table 11C.

Sensitivity of Net OPEB Liability to Changes in Discount Rate

Table 11C: State Retiree Health Plan
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.20 %	2.20 %	3.20 %
State as Employer	$ 33,516,531	$ 28,199,026	$ 24,033,237
State as Nonemployer Contributing Entity	$ 2,405,216	$ 2,023,621	$ 1,724,675

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the state's NOL. The result of the analysis are presented in table 11D.

Sensitivity of Net OPEB Liability to Changes in Healthcare Cost Trend Rates

Table 11D: State Retiree Health Plan
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Activity	1% Decrease	Current Rate	1% Increase
State as Employer	$ 23,600,730	$ 28,199,026	$ 34,226,912
State as Nonemployer Contributing Entity	$ 1,693,638	$ 2,023,621	$ 2,456,195

Net OPEB Liability, Deferrals and OPEB Expense

The OPEB 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.

At Aug. 31, 2021, the state reported a liability of $28.2 billion for its proportionate share of the collective NOL as an employer, which was comprised of a current portion of $940.6 million and a noncurrent portion of $27.3 billion, and a liability of $2 billion for its proportionate share of the collective NOL as a nonemployer contributing entity, which was comprised of a current portion of $67.5 million and a noncurrent portion of $1.9 billion. The collective NOL was measured as of Aug. 31, 2020, and the TOL used to calculate the NOL was determined by an actuarial valuation as of that date. The state's proportion decreased from 85.41 percent at Aug. 31, 2019, to 85.34 percent at Aug. 31, 2020, and decreased from 6.32 percent to 6.12 percent for its role as employer and nonemployer contributing entity, respectively. The state's proportions of the collective NOL was based on its contributions to the OPEB plan relative to the contributions of all the employers and nonemployer contributing entity to the SRHP for the period Sept. 1, 2019 through Aug. 31, 2020.

The state recognized OPEB expense for its employees' OPEB and grant expense for the OPEB of the junior and community college employees. For the fiscal year ended Aug. 31, 2021, the state recognized OPEB expense of negative $651.8 million and grant expense of $73.5 million for SRHP. At Aug. 31, 2021, the state reported deferred outflows of resources and deferred inflows of resources related to OPEB from the sources in table 11E.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 11E: State Retiree Health Plan
August 31, 2021 (Amounts in Thousands)

	State as Employer		State as Non-Employer Contributing Entity	
Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$	$ 1,102,878	$	$ 79,145
Changes of Assumptions or Other Inputs	1,632,528	6,075,728	117,154	436,007
Net Difference Between Projected and Actual Investment Return	8,416		604	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	1,547,343	2,413,241	302,072	63,964
Contributions Subsequent to the Measurement Date	631,381		49,362	
Total	$ 3,819,668	$ 9,591,847	$ 469,192	$ 579,116

The $631.4 million and $49.4 million reported as deferred outflows of resources resulting from contributions subsequent to the measurement date for the state as employer and nonemployer contributing entity respectively will be recognized as a reduction in the NOL for the fiscal year ending Aug. 31, 2022.

Table 11F presents amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in OPEB expense and grant expense in the following years for SRHP.

During the measurement period of fiscal 2021, the following SRHP changes were updated by ERS. ERS decreased the discount rate from 2.2 percent to 2.14 percent, changed assumed per capita health benefit costs and retiree contribution trends, changed the percentage of current retirees and their spouses not yet eligible for participation in SRHP, changed the proportion of future retirees assumed to cover dependent children in SRHP and the percentage of higher education vested termination members assumed to terminate less than one year before the valuation date. This is expected to increase SRHP's NOL by $2.8 billion for fiscal year 2022 of which the state's proportionate share is estimated to increase $2.4 billion and $173.2 million for its role as employer and non-employer contributing entity, respectively.

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

Table 11F: State Retiree Health Plan
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Year	State as Employer (OPEB Expense)[1]	State as Nonemployer Contributing Entity (Grant Expense)[1]
2022	$ (2,876,929)	$ (86,166)
2023	(2,068,219)	(28,131)
2024	(896,233)	7,943
2025	(314,982)	(29,110)
2026	(247,198)	(23,823)
Thereafter		

[1] Positive amounts indicate increase in OPEB/grant expense; negative amounts indicate decrease in OPEB/grant expense.

Teacher Retirement System of Texas

The state of Texas contributes to TRS-Care, a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation. TRS's board of trustees (Board) administers TRS-Care.

TRS issued a stand-alone audited Annual Comprehensive Financial Report (ACFR). The TRS ACFR may be obtained from their website at www.trs.texas.gov and searching for financial reports.

Plan Description

TRS-Care provides basic and optional group insurance coverage for participants on a pay-as-you-go basis as authorized by *Texas Insurance Code*, Chapter 1575. 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 or non-Medicare participants may pay premiums to participate in one of the two standard insurance plans with more comprehensive benefits. The benefit provisions of TRS-Care are authorized by state law and may be amended by the Board. The Board may adopt rules, plans, procedures and orders reasonably necessary to administer the program, including minimum benefits and financing standards. Retirees must meet certain age and service requirements, have at least 10 years of service at retirement and be a member of the TRS Pension System in order to participate in the TRS-Care plan. The TRS-Care plan does not provide automatic cost-of-living adjustments.

Contributors to TRS-Care include active and retired members, employers, and the state of Texas as the only nonemployer contributing entity. Employers include public schools, educational districts, regional education service centers and open-enrollment charter schools whose employees are members of TRS.

The *General Appropriations Act* passed by the 86th legislative session included funding to maintain TRS-Care premiums at their current level through Aug. 31, 2021. The 86th legislative session also passed Senate Bill 1682 requiring TRS to establish a contingency reserve in the TRS-Care plan's fund equal to 60 days of expenditures. As of the measurement date of Aug. 31, 2020, this amount is estimated at $ 277.5 million.

Funding Policy

The state is a nonemployer contributing entity in TRS-Care per *Texas Insurance Code*, Chapter 1575. There is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding is provided by retiree premiums, state contributions, active members and participating employers based on active member compensation. The Board does not have the authority to set or amend contribution rates. The *Texas Insurance Code*, Chapter 1575, Sections 202-204 establishes the contribution rates, while the *General Appropriations Act* from each legislative session establishes the actual public school contribution rate. Employers are also required to pay a surcharge of $535 per month when employing a retiree of TRS. During the measurement period of 2020, for fiscal 2021 reporting, the amount of the state contributions recognized by the TRS-Care plan was $666.5 million. The contribution requirements for the employers of TRS-Care during the measurement period are presented in table 11G.

Required Contribution Rates – Retiree Healthcare

Table 11G: TRS-Care

For the Fiscal Year Ended August 31, 2021

(Amounts in Thousands)

	Contribution	
Contributor	Rate	Amount
Active Employee	0.65%	$ 243,532
Nonemployer Contributing Entity (State)	1.25%	435,769
Participating Employer	0.75%	280,998
Federal/Private Funding[1]	1.25%	32,562
Total		$ 992,861

[1] Contributions paid from federal funds and private grants are remitted by the employer and paid at the state rate.

A supplemental appropriation was authorized by Senate Bill 1264 passed by the 86th legislative session provided $2.2 million for fiscal 2020 and $3.3 million for fiscal 2021 for consumer protections against medical and health care billing by certain out of network providers. This funding will be received during fiscal 2021.

Measurement Date

TRS has elected to use a measurement date that is twelve months in advance of the fiscal year, with a measurement date of Aug. 31, 2020 for fiscal year ended Aug. 31, 2021.

Actuarial Methods and Assumptions

The actuarial valuation was performed as of Aug. 31, 2019. Update procedures were used to roll forward the total OPEB liability (TOL) to Aug. 31, 2020. Table 11H presents the actuarial methods and assumptions used to measure the TOL for the TRS-Care plan as of the measurement date.

The many actuarial assumptions used in the valuation were primarily based on the results of actuarial experience studies performed by the TRS retirement plan actuary for the three year period ended Aug. 31, 2017 and adopted in July 2018. The mortality rates were based on tables identified in table 11H.

Actuarial Methods and Assumptions

Table 11H: TRS-Care

For the Fiscal Year Ended August 31, 2021

Description	
Actuarial Valuation Date	Aug. 31, 2019, rolled forward to Aug. 31, 2020
Actuarial Cost Method	Individual Entry Age Normal
Actuarial Assumptions:	
Inflation	2.30 %
Discount Rate	2.33%[1]
Aging Factors	Based on plan specific experience
Expenses	Third party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost
Salary Increase	3.05% to 9.05% (includes inflation)
Healthcare Cost and Trend Rate	Initial medical trend rates of 9% for Medicare retirees and 7.3% for non-Medicare retirees. Initial prescription drug trend rate of 9% for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.
Election Rates	Normal Retirement Participation: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad Hoc Post-Employment Benefit Changes	None
Demographic	The rates of mortality, retirement, termination and disability incidence are identical to the assumptions used to value the pension liabilities of TRS. These assumptions were developed in the experience study performed by TRS for the period ending Aug. 31, 2017.
Mortality:	
Post-Retirement	Tables based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published projection scale U-MP
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB

[1] The source of the municipal bond rate is the Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's 20-Year Municipal GO AA Index as of Aug. 31, 2020.

The following assumptions and other inputs have been adopted since the prior valuations to reflect future plan experience as expected by the actuaries attesting to the results of the valuation:

a. The discount rate changed from 2.63 percent as of Aug. 31, 2019 to 2.33 percent as of Aug. 31, 2020 (increased TOL),
b. The participation rate for pre-65 retirees was lowered from 50 to 40 percent (decreased TOL), and
c. The ultimate health care trend assumption was lowered from 4.5 percent to 4.25 percent as a result of the repeal of the Cadillac Tax on high cost employer health care plans in Dec. 2019 (decreased TOL).
d. Other future actuarial methods may differ significantly from the current measurement period due to the following factors: plan experience, changes in economic or demographic assumptions, methodology used and changes in plan provisions or applicable laws.

There were no changes in benefit terms since the prior measurement date.

The discount rate used to measure the TOL for TRS-Care is the municipal bond rate of 2.33 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.63 percent. Projected cash flows into and out of the TRS-Care plan are equal to projected benefit payments out of the TRS-Care plan assumed that members, employers, and nonemployer contributing entities make their contributions at the statutorily required rates. As the TRS-Care plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

Sensitivity analysis was performed on the impact of changes in the discount rate on the net OPEB liability (NOL). The result of the analysis is presented in table 11I for the state's proportionate share.

Sensitivity of Net OPEB Liability to Changes in Discount Rate

Table 11I: TRS-Care

For the Fiscal Year Ended August 31, 2021

(Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.33%	2.33%	3.33%
Balance	$ 26,154,023	$ 21,795,060	$ 18,352,106

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the NOL. The result of the analysis is presented in table 11J for the state's proportionate share.

Sensitivity of Net OPEB Liability to Changes in Healthcare Cost Trend Rates

Table 11J: TRS-Care

For the Fiscal Year Ended August 31, 2021

(Amounts in Thousands)

Activity	1% Decrease	Current Rate	1% Increase
Balance	$ 17,803,772	$ 21,795,060	$ 27,110,892

Net OPEB Liability, Deferrals and OPEB Expense

The TRS-Care plan's fiduciary net position is determined using the economic 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 basis of the plan.

At Aug. 31, 2021, the state reported a liability of $21.8 billion for its proportionate share of the collective NOL as nonemployer contributing entity, with a noncurrent portion of $21.8 billion. The collective NOL was measured as of Aug. 31, 2020 and the TOL used to calculate the collective NOL was determined by an actuarial valuation as of that date. The state's proportion increased from 57.05 percent at Aug. 31, 2019, to 57.33 percent at Aug. 31, 2020. The state's proportion of the collective NOL was based on its contributions to the OPEB plan relative to the contributions of all employers and nonemployer contributing entity to the TRS-Care for the period Sept. 1, 2019 through Aug. 31, 2020.

For the fiscal year ended Aug. 31, 2021, the state recognized grant expense of negative $151.3 million and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources in table 11K for its portion as nonemployer contributing entity to TRS-Care.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 11K: TRS-Care
August 31, 2021 (Amounts in Thousands)

Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 1,141,181	$ 9,974,534
Changes of Assumptions or Other Inputs	1,344,302	5,985,036
Net Difference Between Projected and Actual Investment Return	7,083	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	153,153	597,417
Contributions Subsequent to the Measurement Date	452,858	
Total	$ 3,098,577	$ 16,556,987

The $452.9 million reported as deferred outflows of resources for the TRS-Care plan resulted from contributions subsequent to the measurement date, which will be recognized as a reduction in the NOL for the fiscal year ending Aug. 31, 2022.

Table 11L presents amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in grant expense in the following years for the TRS-Care plan.

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

Table 11L: TRS-Care
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Year	Grand Expense[1]
2022	$ (2,320,186)
2023	(2,321,133)
2024	(2,321,674)
2025	(2,321,525)
2026	(1,739,365)
Thereafter	(2,887,386)

[1] Negative amounts indicate decrease in grant expense.

A&M System and UT System

The state of Texas contributes to two single-employer defined benefit retiree health care and life insurance benefit plans: the A&M Plan and the UT Plan. The A&M System is the administrator of the A&M Plan and the UT System is the administrator of the UT Plan.

The A&M System and the UT System 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:

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

UT System
Controller's Office
210 West 7th Street
Austin, Texas 78701

Plan Descriptions

Each plan provides certain health care and life insurance benefits on a pay-as-you-go basis as authorized by *Texas Insurance Code*, Chapter 1601. The benefit and contribution provisions of each plan are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Substantially all of the employees of the A&M System and the UT System may become eligible for benefits as long as they reach normal retirement age while working for the state. Surviving spouses and dependents of retirees are also covered by the plans. The plans does not provide automatic cost-of-living adjustments and there are no assets accumulated in a trust that meets the criteria in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* paragraph 4. As of the measurement date in table 11M, the following employees were covered by the benefit terms.

Employees Covered by Benefit Terms

Table 11M: A&M System and UT System

For the Fiscal Year Ended August 31, 2021

Type of Member	A&M Plan	UT Plan
Measurement Date	Sep. 1, 2019	Dec. 31, 2019
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	10,659	30,057
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	8,038	11,681
Active Members	24,364	99,474
Total	43,061	141,212

Funding Policy

The state contributes to the cost of each participant's insurance coverage as required by *Texas Insurance Code*, Chapter 1551, Section 310 and 311. The funds are appropriated under the *General Appropriations Act Higher Education Employees Group Insurance Contributions*. During the measurement period of 2020, for fiscal 2021 reporting, the amount of state employer benefit payments recognized by the A&M Plan was $69.1 million and the UT Plan was $188 million. The contribution rates are determined annually by each system based on the recommendations of their Office of Risk Management and Benefits Administration, Office of Employee Benefits and consulting actuary. Contributions rates are determined based on the benefit and administrative costs that are expected to be incurred, the funds appropriated for the plans, and the funding policy established by the Texas Legislature which is revised as necessary to match expected costs with available revenue. The employer does not contribute toward dental, optional life insurance, optional dependent life insurance, vision, AD&D or long term care. The monthly contribution requirements are presented in table 11N.

Required Contribution Rates – Retiree Healthcare and Life Insurance Premium

Table 11N: A&M System and UT System

For the Fiscal Year Ended August 31, 2021

Level of Coverage	A&M Plan	UT Plan
Retiree Only	$ 594	$ 628
Retiree and Spouse	1,156	957
Retiree and Children	984	839
Retiree and Family	1,385	1,170

Measurement Date

The A&M System has elected to use a measurement date that is twelve months in advance of the fiscal year, with a measurement date of Sept. 1, 2020 for fiscal year ended Aug. 31, 2021.

The UT System has elected to use a measurement date that is eight months in advance of the fiscal year, with a measurement date of Dec. 31, 2020 for fiscal year ended Aug. 31, 2021.

Actuarial Methods and Assumptions

The total OPEB liability (TOL) for both plans is determined by a biennial actuarial valuation. Table 11O presents the actuarial methods and assumptions used to measure the TOL as of the measurement dates for the A&M and UT Plans.

The many actuarial assumptions used in the valuations were primarily based on the result of actuarial experience studies performed by the TRS retirement plan actuary as of Aug. 31, 2017 for higher education members. The mortality rates were based on the tables identified in table 11O.

Actuarial Methods and Assumptions

Table 11O - A&M System and UT System

For the Fiscal Year Ended August 31, 2021

Description	A&M Plan	UT Plan
Actuarial Valuation Date	Sep. 1, 2019, rolled forward to Sep. 1, 2020	Dec. 31, 2019, rolled forward to Dec. 31, 2020
Actuarial Assumptions:		
Inflation	2.30 %	2.30 %
Salary Increase	3.05% to 9.05% (includes inflation)	3.05% to 9.05% (includes inflation)
Discount Rate	2.20%[1]	2.12%[1]
Healthcare Cost and Trend Rate	7.50% for fiscal 2022 decreasing 0.50% per year to 5.00% for fiscal 2027, then decreasing to 4.75% for fiscal 2028 and to an ultimate rate of 4.30% for fiscal 2029 and later years	7.50% for fiscal 2022 decreasing 0.50% per year to 5.00% for fiscal 2027, then decreasing to 4.75% for fiscal 2028 and to an ultimate rate of 4.30% for fiscal 2029 and later years
Mortality:		
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disabled Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
Ad Hoc Post-Employment Benefit Changes	None	None

[1] The source of the municipal bond rate is the Bond Buyer Index of General Obligation Bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The only assumption and other input that has been adopted since the prior valuation to reflect plan experience and trends as expected by the A&M and UT Plans as updated for higher education members by the trustees from TRS:

a. the discount rate has changed for the A&M and UT Plans.
b. The discount rate that was used to measure the TOL for each plan is the municipal bond rate of 2.20 percent for the A&M Plan and 2.12 percent for the UT Plan, as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.97 percent and 2.74 percent, respectively.

There were no changes in benefit terms since the prior measurement date.

Sensitivity analysis was performed on the impact of changes in the discount rate on the state's TOL. The results of the analysis are presented in table 11P for the A&M and UT Plans.

Sensitivity of Total OPEB Liability to Changes in Discount Rate

Table 11P: A&M System and UT System
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

University System Plan	1% Decrease	Current Discount Rate	1% Increase
A&M Plan:			
Discount Rate	1.20 %	2.20 %	3.20 %
Balance	$ 5,387,081	$ 4,438,095	$ 3,707,634
UT Plan:			
Discount Rate	1.12 %	2.12 %	3.12 %
Balance	$ 21,573,741	$ 17,516,808	$ 14,444,123

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the state's TOL. The results of the analysis are presented in table 11Q for the A&M and UT Plans.

Sensitivity of Total OPEB Liability to Changes in Healthcare Cost Trend Rates

Table 11Q: A&M System and UT System
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

University System Plan	1% Decrease	Current Rate	1% Increase
A&M Plan	$ 3,613,748	$ 4,438,095	$ 5,549,683
UT Plan	$ 14,017,564	$ 17,516,808	$ 22,319,414

Total OPEB Liability, Deferrals, and OPEB Expense

At Aug. 31, 2021, the state reported a liability of $4.4 billion for the A&M Plan and $17.5 billion for the UT Plan. The A&M Plan's TOL is comprised of a current portion of $91.4 million and a noncurrent portion of $4.3 billion, and the UT Plan's TOL is comprised of a current portion of $290.6 million and a noncurrent portion of $17.2 billion. The collective TOL was measured as of the measurement date for each respective plan. The schedule of changes in the state's TOL for the measurement dates Sept. 1, 2020 and Dec. 31, 2020 are presented in table 11R for the A&M and UT Plans, respectively.

Schedule of Changes in Total OPEB Liability

Table 11R - A&M System and UT System
For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Schedule of Changes	A&M Plan	UT Plan
Measurement Date	Sept. 1, 2020	Dec. 31, 2020
Total OPEB Liability		
Service Cost	$ 149,149	$ 818,274
Interest on the Total OPEB Liability	115,360	417,914
Changes of Assumptions or Other Inputs	473,101	1,940,581
Benefit Payments (Employer)	(69,061)	(187,994)
Net Change in Total OPEB Liability	668,549	2,988,775
Total OPEB Liability – Beginning	3,769,546	14,528,033
Total OPEB Liability – Ending	$ 4,438,095	$ 17,516,808

For the fiscal year ended Aug. 31, 2021, the state recognized OPEB expense of $262.1 million for the A&M Plan and $1.1 billion for the UT Plan, respectively. At Aug. 31, 2021, the state reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources in table 11S for each plan.

The $76.3 million reported as deferred outflows of resources for the A&M Plan and $147.3 million for the UT Plan resulted from transactions subsequent to the measurement date, which will be recognized as a reduction in the TOL for the fiscal year ending Aug. 31, 2022.

Table 11T presents amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in OPEB expense in the following years for each plan.

Amortization Impact of Deferred Outflows of Resources and and Deferred Inflows of Resources on OPEB Expense[1]

Table 11T: A&M System and UT System

For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Year	A&M Plan	UT Plan
2022	$ (2,930)	$ (129,982)
2023	(12,568)	(129,982)
2024	(25,860)	(129,982)
2025	80,828	(68,023)
2026	79,950	69,271
Thereafter	26,076	566,592

[1] Positive amounts indicate an increase in OPEB expense; negative amounts indicate decrease in OPEB expense.

Deferred Outflows of Resources and Deferred Inflows of Resources[1]

Table 11S: A&M System and UT System

August 31, 2021 (Amounts in Thousands)

	A&M Plan		UT Plan	
Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$	$ 111,012	$	$ 171,362
Changes of Assumptions or Other Inputs	873,196	616,688	2,179,821	1,830,565
Transactions Subsequent to the Measurement Date	76,302		147,252	
Total	$ 949,498	$ 727,700	$ 2,327,073	$ 2,001,927

[1] Both plans are a single-employer defined benefit OPEB plan. Due to statute requiring appropriations for funding the plans, the state reports a proportionate share in governmental activities and business-type activities. The change in proportion and contributions are recorded and amortized to expense as in a cost-sharing plan. However, since the amounts net for each plan between deferred outflows of resources and deferred inflows of resources and expense for this type of deferral, the amounts are not included in the above schedule.

Note 12

Interfund Activity and Transactions

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

Reciprocal Interfund Activity

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

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

Nonreciprocal Interfund Activity

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

Certain reclassifications and eliminations are made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units are reported as revenues and expenses, as if they were external transactions, on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions, on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions, on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. These reimbursements are reported in the appropriate expenditure/expense category in the fund responsible for the payment.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the *General Appropriations Act*, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. There is a $1.4 billion receivable for the Texas A&M University System from the University of Texas System from permanent university funds. The earnings will be used for bond payments.

Significant transfers include a $2.2 billion transfer from the property tax relief fund and a $2 billion transfer from the lottery fund to the foundation school fund for educational programs. There is a $1.7 billion transfer from the permanent school fund to the available school fund. The Graduate Medical Education permanent fund transferred $11.9 million to the Texas Higher Education Coordinating Board as directed by the Texas Legislature. There is $1.4 billion due from amount for the state highway fund from the Texas Comptroller of Public Accounts' office related to a November 2014 amendment to Article III, Section 49-g of the *Texas 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 in November 2021.

The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2021, are presented in tables 12A-E.

Interfund Receivables/Payables

Table 12A

August 31, 2021 (Amounts in Thousands)

	Current		Noncurrent		Total	
Fund Type	**Interfund Receivables**	**Interfund Payables**	**Interfund Receivables**	**Interfund Payables**	**Interfund Receivables**	**Interfund Payables**
GOVERNMENTAL FUNDS						
General Fund	$ 2,402	$ 210	$ 6,517	$	$ 8,919	$ 210
Nonmajor Governmental Funds		71				71
Total Governmental Funds	2,402	281	6,517	0	8,919	281
PROPRIETARY FUNDS						
Colleges and Universities	56,805	59,141	1,356,155	1,362,672	1,412,960	1,421,813
Nonmajor Enterprise Funds	215				215	
Total Proprietary Funds	57,020	59,141	1,356,155	1,362,672	1,413,175	1,421,813
Total Interfund Receivables/Payables	$ 59,422	$ 59,422	$ 1,362,672	$ 1,362,672	$ 1,422,094	$ 1,422,094

Due From/Due To

Table 12B

August 31, 2021 (Amounts in Thousands)

Fund Type	Due From Other Funds	Due From Primary Government	Due From Component Unit	Due To Other Funds	Due To Primary Government	Due To Component Unit
GOVERNMENTAL FUNDS						
General Fund	$ 693,625	$	$	$3,965,152	$	$
State Highway Fund	1,729,871			50,587		
Permanent School Fund	3			6		
Nonmajor Governmental Funds	433,216			71,320		
Total Governmental Funds	2,856,715	0	0	4,087,065	0	0
PROPRIETARY FUNDS						
Colleges and Universities	1,522,587			563,480		
Unemployment Trust Fund	43,854					
Lottery Fund				118,355		
Nonmajor Enterprise Funds	405,307			44,312		
Internal Service Fund	3,545			4,846		
Total Proprietary Funds	1,975,293	0	0	730,993	0	0
FIDUCIARY FUNDS						
Pension and Other Employee Benefit Trust Funds	17,893			31,843		
Total Fiduciary Funds	17,893	0	0	31,843	0	0
Total Due From/Due To	$4,849,901	$ 0	$ 0	$4,849,901	$ 0	$ 0

Transfers In/Transfers Out

Table 12C

For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
GOVERNMENTAL FUNDS		
General Fund	$ 11,023,698	$ 11,859,155
State Highway Fund	1,607,464	821,836
Permanent School Fund		1,701,670
Nonmajor Governmental Funds	4,638,418	4,386,547
Total Governmental Funds	17,269,580	18,769,208
PROPRIETARY FUNDS		
Colleges and Universities	8,491,617	5,688,522
Unemployment Trust Fund	374,735	
Lottery Fund		1,998,314
Nonmajor Enterprise Funds	367,922	45,036
Total Proprietary Funds	9,234,274	7,731,872
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	141,052	141,958
Private-Purpose Trust Funds		1,927
Custodial Funds	59	
Total Fiduciary Funds	141,111	143,885
Total Transfers In/Transfers Out	$ 26,644,965	$ 26,644,965

Internal Balances per the Government-wide Financial Statements

Table 12D

August 31, 2021 (Amounts in Thousands)

Internal Balances	Governmental Activities	Business-Type Activities	Total
Noncurrent Assets	$ 6,517	$ (6,517)	$ 0
Current Liabilities	$ 1,243,480	$ (1,243,480)	$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

Table 12E

For the Fiscal Year Ended August 31, 2021
(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$(1,542,142)
Business-Type Activities	$ 1,542,142

Note 13

Classification of Fund Balances/Net Position

A summary of the governmental fund balances by fund type and specific purpose as of Aug. 31, 2021, is presented in table 13A.

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 $13.9 billion governmental funds total unassigned fund balance, $11.6 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 with the remainder transferred to the state highway fund.

The ESF also receives 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 constitutional guidelines by a three-fifths vote of the members present in each house, amounts in the ESF that do not exceed the amount of any unanticipated deficit in a current biennium or anticipated revenue decline during the next biennium. The 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.

The corpus of the permanent school fund (PSF) is classified as nonspendable, and the balance of the PSF is classified as restricted based on provisions in the *Texas Constitution* which limits 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:

- Transfers to the available school fund in accordance with constitutional requirements.
- Expenses of managing the PSF land and investments.
- Guaranteed bond payments in the event of default.

Accordingly, 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 *Texas 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

August 31, 2021 (Amounts in Thousands)

Governmental Fund	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	$ 179,124	$ 146,852	$	$ 3,777	$ 329,753
Long-term Receivables	562,351				562,351
Permanent Principal	20,000		53,783,844	986,417	54,790,261
Prepaid Items	85,892		3	1	85,896
Total Nonspendable	847,367	146,852	53,783,847	990,195	55,768,261
Restricted for:					
Capital Purposes	100,705			627,029	727,734
Debt Service				371,536	371,536
Economic and Consumer Affairs	515,024			1,049,323	1,564,347
Education – Public Schools	425,542		1,840,159	1,214,977	3,480,678
Education – Loan Programs				1,451,117	1,451,117
Environment and Natural Resources - Other	142,988			49,193	192,181
Environment and Natural Resources - Water Programs	422			3,508,701	3,509,123
General Government[1]	103,172			53,613	156,785
Parks and Recreation	268,869			4,300	273,169
Public Health and Welfare – Federal Programs	45,881				45,881
Public Health and Welfare – Public Programs	391,940			138,411	530,351
Public Safety and Criminal Justice	120,969			11,904	132,873
Public Safety and Criminal Justice – Law Enforcement	13,751			9,309	23,060
Regulatory Agencies				19,115	19,115
Transportation – Construction		5,909,540			5,909,540
Transportation – Licensing and Regulation		134,761			134,761
Transportation – Maintenance		336,574			336,574
Transportation – Other	10,265	2,126,356		399,630	2,536,251
Total Restricted	2,139,528	8,507,231	1,840,159	8,908,158	21,395,076

Concluded on the following page

[1] 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

August 31, 2021 (Amounts in Thousands)

Governmental Fund	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Committed to:					
Capital Purposes	$ 4,513	$	$	$	$ 4,513
Economic and Consumer Affairs	802,866				802,866
Education – Public Schools	2,431,684			11,968	2,443,652
Education – Loan Programs	285,341				285,341
Environment and Natural Resources - Other	3,005,444				3,005,444
Environment and Natural Resources Water Programs	66,920				66,920
General Government[1]	490,402			21,370	511,772
Parks and Recreation	134,763				134,763
Public Health and Welfare – Federal Programs	254				254
Public Health and Welfare – Public Programs	377,367				377,367
Public Safety and Criminal Justice	142,066				142,066
Public Safety and Criminal Justice – Corrections	27,442			14,332	41,774
Public Safety and Criminal Justice – Law Enforcement	16,798				16,798
Transportation – Construction		473,686			473,686
Transportation – Maintenance		26,978			26,978
Transportation – Other		170,441		153,266	323,707
Total Committed	7,785,860	671,105	0	200,936	8,657,901
Assigned to:					
Economic and Consumer Affairs	573				573
Education	96				96
Environment and Natural Resources - Other	20				20
General Government[1]	1			1,639	1,640
Public Safety and Criminal Justice – Corrections	103				103
Public Health and Welfare	11,603				11,603
Transportation – Construction		212,533			212,533
Transportation – Maintenance		12,104			12,104
Transportation – Other	131	76,473			76,604
Total Assigned	12,527	301,110	0	1,639	315,276
Unassigned:					
Education	(22,060,562)				(22,060,562)
Environment and Natural Resources	(253,928)				(253,928)
General Government[1]	44,071,796			(69,405)	44,002,391
General Government - ESF	11,611,594				11,611,594
Public Health and Welfare	(13,600,591)			(358)	(13,600,949)
Public Safety and Criminal Justice – Corrections	(5,634,816)			(53)	(5,634,869)
Regulatory Agencies	(171,642)				(171,642)
Transportation	(11,316)				(11,316)
Total Unassigned	13,950,535	0	0	(69,816)	13,880,719
Total Fund Balances – Governmental Funds	$ 24,735,817	$ 9,626,298	$ 55,624,006	$ 10,031,112	$ 100,017,233

[1] 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 2021, 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 for the fiscal year ended 2021, is presented in table 14A and discussed on the following pages.

Restatements to Net Position/Fund Balances

Table 14A

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

Fund Type	Sept. 1, 2020, As Previously Reported	Change in Reporting Entity	Correction of Prior Year Errors	Sep. 1, 2020, As Restated
GOVERNMENT-WIDE ACTIVITIES:				
PRIMARY GOVERNMENT:				
Governmental Activities	$ 50,571,933	$	$ (53,487)	$ 50,518,446
Business-Type Activities	66,533,238		(10,021)	66,523,217
Total Primary Government	$ 117,105,171	$ 0	$ (63,508)	$ 117,041,663
Discrete Component Units	$ 698,843	$ 146,542	$ 913	$ 846,298
FUND FINANCIAL STATEMENTS:				
GOVERNMENTAL FUNDS				
Major Governmental Funds:				
General Fund	$ 16,811,378	$	$ 39,291	$ 16,850,669
State Highway Fund	8,817,479		(94,521)	8,722,958
Permanent School Fund	46,675,581		(652)	46,674,929
Nonmajor Governmental Funds:				
Special Revenue Funds	5,820,729		528	5,821,257
Debt Service Funds	572,278			572,278
Capital Project Funds	513,142			513,142
Permanent Funds	1,445,608			1,445,608
Total Governmental Funds	$ 80,656,195	$ 0	$ (55,354)	$ 80,600,841
PROPRIETARY FUNDS				
Major Enterprise Funds:				
Colleges and Universities	$ 63,666,241	$	$ (10,026)	$ 63,656,215
Unemployment Trust Fund	(3,729,097)			(3,729,097)
Lottery Fund	40,350			40,350
Nonmajor Enterprise Funds	6,555,744		5	6,555,749
Total Proprietary Funds	$ 66,533,238	$ 0	$ (10,021)	$ 66,523,217
Internal Service Fund	$ 2,591,955	$	$	$ 2,591,955
FIDUCIARY FUNDS				
Pension and Other Employee Benefit Trust Funds	$ 197,132,071	$	$	$ 197,132,071
External Investment Trust Funds	29,874,192			29,874,192
Private-Purpose Trust Funds	3,668,311		1,927	3,670,238
Custodial Funds	3,671,088		(319,951)	3,351,137
Total Fiduciary Funds	$ 234,345,662	$ 0	$ (318,024)	$ 234,027,638
Total Reporting Entity[1]	$ 352,149,676	$ 146,542	$ (380,619)	$ 351,915,599

[1] Reporting entity includes primary government, discrete component units and fiduciary funds.

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

Changes in the Reporting Entity

The $146.5 million restatement increase in Discrete Component Units is due to the reporting of the Texas State University Development Foundation and the Emmett and Miriam McCoy College of Business Development Foundation as new discretely presented component units of Texas State University System.

Correction of Prior Year Errors

Government-wide activities: Governmental activities include a restatement decrease of $53.5 million. The General Fund increased by $39.3 million and the Capital Assets Fund by $1.8 million, offset by decreases of $94.5 million in the State Highway Fund. The General Fund primarily included a decrease of $120.7 million due to prior year GASB Statement No. 84 implementation correction restatements and a $162.3 million increase to correct accounting errors in prior periods primarily related to understated revenue.

Business-type activities include a restatement decrease of $10 million, including decreases of $8.9 million to correct errors related to capital assets valuation and of $1.1 million for other prior year correction of errors.

Discrete component units include a restatement increase of $912.8 thousand to correct prior year GASB Statement No. 84 implementation.

Fund Financial Statements-Governmental: The restatements for governmental funds related to the $39.3 million increase in the General Fund primarily include a $157.3 million increase due to the reclassification of unearned federal revenue to prior year revenue recognized, offset by a $120.7 million decrease for prior year GASB Statement No. 84 implementation error corrections.The remaining $2.7 million restatement increase in the General Fund is due to the correction of all other prior year accounting errors. The $94.5 million restatement decrease in the State Highway Fund is due to a correction in the implementation of GASB Implementation Guide 2019-1 by Texas Department of Transportation (TxDOT). The TxDOT restated beginning fund balance and net position for the State Highway Fund and Governmental Activities, respectively, for federal grant revenues that had been recognized during fiscal 2020 with no executed grant agreement in place. The $652 thousand restatement decrease in the Permanent School Fund primarily corrects the net asset value of external funds for an investment that liquidated in a prior period.

The restatements for Other Nonmajor Governmental Funds include a $528 thousand increase in Special Revenue Funds due to a net increase in consumable inventory of $2.6 million offset by a $2.1 million decrease primarily related to a fund type reclassification from fiduciary funds, as well as the correction of other accounting errors.

Fund Financial Statements-Proprietary: The $10 million restatement decrease for Colleges and Universities primarily corrects accounting errors in the prior period including a $9 million decrease for capital assets and accumulated depreciation or amortization, and a $1 million decrease related to student loans. The $5 thousand restatement increase for Other Nonmajor Enterprise Funds primarily includes a correction related to the valuation of capital assets.

Restatements to Change in Net Position

Table 14B

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

Fund Type	Sept. 1, 2019 Net Position, As Restated	Change in Net Position Aug. 31, 2020 As Previously Reported	Change in Reporting Entity	Correction of Prior Year Errors	Change in Net Position Aug. 31, 2020 as Restated	Net Position Sept. 1, 2020 as Restated
GOVERNMENT-WIDE ACTIVITIES:						
PRIMARY GOVERNMENT:						
Governmental Activities	$ 47,051,775	$ 3,520,158	$	$ (53,487)	$ 3,466,671	$ 50,518,446
Business-Type Activities	68,854,700	(2,321,462)		(10,021)	(2,331,483)	66,523,217
Total Primary Government	$ 115,906,475	$ 1,198,696	$ 0	$ (63,508)	$ 1,135,188	$ 117,041,663
Discrete Component Units	$ 569,405	$ 129,438	$ 146,542	$ 913	$ 276,893	$ 846,298

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 $3.1 billion as of Aug. 31, 2021. The Texas Department of Transportation (TxDOT) has equity loan commitments of $9 billion. The $9 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, 2021, 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, 2021, the remaining commitment was $65.8 billion.

Construction and Other Commitments

As of Aug. 31, 2021, TxDOT had contractual commitments of approximately $16.4 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, 2021, the amount of unrealized payables for uncompleted pass-through toll agreements was $11.1 million. In addition, TxDOT has equity grant commitments of $161 million to various local toll project entities.

Midwestern State University has outstanding capital improvements to upgrade its facilities for construction and renovation of $3 million. These projects are at various stages of completion.

The University of North Texas System implemented approximately $283.2 million in capital commitments for construction and renovation of various facilities in numerous stages of development.

The Texas Parks and Wildlife Department had contractual commitments of approximately $164.5 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, 2021, pending litigation filed by taxpayers seeking refunds of state taxes totaled $249.8 million. The protested taxes include sales, franchise, insurance, and other taxes, as well as statutory interest imposed by *Texas Tax Code, Section 112.060(a)*. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refund liabilities.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2021. These claims totaled $260.4 million and include a number of lawsuits and claims 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 $614.4 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 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 authorizing the guarantee of the permanent school fund (PSF). 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 further authorizing the use of PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools designated as charter districts by the commissioner of education. As of Aug. 31, 2021, PSF has a defined guarantee capacity of up to $135.4 billion in school district bonds. In the event of 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, 2021, $92 billion debt in outstanding bond issues was guaranteed by the PSF for 855 school districts and $3.3 billion for 25 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, 2021, none of the school districts or charter districts with PSF 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 Texas 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, 2021, the aggregate fair value of all derivative instruments with collateral provisions was negative $2.2 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. Since the posting requirements were not triggered, TDHCA posted no collateral as of Aug. 31, 2021.

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, 2021, the aggregate fair value of all derivative instruments with these provisions was $100.9 million, and $18.7 million was posted as collateral. TRS has not triggered any events that would require the posting of additional collateral to its counterparties.

Risk Management

As a result of the COVID-19 pandemic, the amount of unemployment benefits paid by the Texas Workforce Commission (TWC) increased from $2.1 billion in fiscal year 2019 to $30.1 billion in fiscal year 2020 and $26.1 billion in fiscal year 2021. Higher benefits resulted not just from increased unemployment, but through new federal unemployment insurance programs, such as the Pandemic Unemployment Assistance (PUA) program, the Federal Pandemic Unemployment Compensation (FPUC) program and the Lost Wages Assistance (LWA) program which provide additional compensation to unemployment claimants. The Pandemic Emergency Unemployment Compensation (PEUC) program and the permanent Extended Benefit (EB) program provided for additional weeks of unemployment benefits after state benefits were no longer available.

Certain requirements of unemployed individuals, including the work search requirement, were waived to expedite payments to claimants. Additionally, the PUA program for self-employed individuals made it difficult for the TWC to confirm claimants' prior earnings. As a result of these factors, the number of fraudulent payments, particularly through identity theft, increased dramatically. The TWC estimates that unemployment benefit payments made to individuals arising from identity theft or imposter fraud claims may have been 1.3 percent of the $26.1 billion unemployment insurance benefit payments made in fiscal 2021 and involved as many as 66 thousand individuals. As the TWC became aware of the extent of the fraud, extensive proactive measures were taken to prevent payments to fraudsters and as a result, the TWC believes that up to 10 percent in additional fraudulent payments were prevented.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued $1.6 billion in new bonds and commercial paper and $1.3 billion in refunding bonds since Aug. 31, 2021, as presented in table 16A. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

Bonds and Commercial Paper Issued/Refunded Subsequent to August 31, 2021

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Single Family Revenue Bonds, Series 2021A	$ 150,000	09/01/21	To fund the purchase of mortgage-backed securities guaranteed as timely payments of principal and interest by Government National Mortgage Association.
Single Family Revenue and Refunding Bonds, Taxable Series 2021B	24,830	09/01/21	To refund Single Family Variable Rate Mortgage Revenue Refunding Bonds, Series 2004B and Single Family Variable Rate Mortgage Revenue Bonds, Series 2004D.
Multifamily Revenue Bonds, Series 2021, Meadowbrook Apartments	30,000	11/23/21	To finance the acquisition, construction, and equipping of multifamily rental housing developments.
Multifamily Revenue Bonds, Series 2021, Park at Kirkstall Apartments	26,750	12/10/21	To finance the acquisition, rehabilitation, and equipping of multifamily rental housing developments.
Multifamily Revenue Notes, Series 2021, Fiji Lofts	23,849	12/10/21	To finance the acquisition, construction, and equipping of multifamily rental housing developments.
TEXAS PUBLIC FINANCE AUTHORITY			
General Obligation Commercial Paper Notes, Taxable Series A, Cancer Prevention and Research Institute of Texas (CPRIT)	87,000	09/28/21	To fund CPRIT's grant awards.
General Obligation and Refunding Bonds, Taxable Series 2021A	665	11/18/21	To fund the Texas Parks and Wildlife and the Texas Department of Public Safety projects.
General Obligation and Refunding Bonds, Taxable Series 2021A	249,135	11/18/21	To refund certain outstanding 2008 General Obligation Commercial Paper Notes and General Obligation Bonds Series 2011 and Series 2014A.
General Obligation and Refunding Bonds, Taxable Series 2021B	126,355	11/18/21	To fund CPRIT's grant awards.
General Obligation and Refunding Bonds, Taxable Series 2021B	455,960	11/18/21	To refund certain outstanding General Obligation Commercial Paper Notes (CPRIT) Series A and General Obligation Refunding Bonds Series 2014B.

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to August 31, 2021 (concluded)

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS WATER DEVELOPMENT BOARD			
General Obligation Water Financial Assistance Bonds, Series 2021A	$ 31,270	09/28/21	To provide financial assistance for projects through the purchase of or entering into political subdivision obligations, and to pay the costs of issuance of the bonds.
General Obligation Water Financial Assistance Bonds, Series 2021B	168,460	09/28/21	To refund series 2011B and 2012C Water Development Fund bonds, and to pay the costs of issuance of the bonds.
General Obligation Water Financial Assistance Bonds, Series 2021C	15,785	09/28/21	To refund series 2010D and 2012B Economically Distressed Areas Program bonds, and to pay the costs of issuance of the bonds.
State Water Implementation Revenue Fund for Texas (SWIRFT) Revenue Bonds, Series 2021	444,735	10/13/21	To provide financial assistance for projects in the State Water Plan through the purchase of or entering into political subdivision obligations, and to pay the costs of issuance of the bonds. As a part of the closing on the bonds, $33.9 million was transferred from the State Water Implementation Fund for Texas to SWIRFT.
State Revolving Fund Revenue Bonds, Series 2021	386,155	11/04/21	To provide financial assistance for projects through the purchase of political subdivision bonds, provide state match requirements, and pay the costs of issuance of the bonds.
TEXAS DEPARTMENT OF TRANSPORTATION			
General Obligation Mobility Fund Put Bonds, Series 2014B	250,000	10/01/21	To convert interest rate from an index floating rate mode to a multi-annual mode.
State Highway Fund First Tier Revenue Bonds, Series 2016B	89,370	10/01/21	To convert interest rate from a variable rate mode to a fixed rate mode.
TEXAS WOMAN'S UNIVERSITY			
Direct Placement, Series 2021B	7,000	09/02/21	To finance the construction of video boards, Quakertown Reflection Space and walking trails on the Denton campus.
TEXAS STATE UNIVERSITY SYSTEM			
Commercial Paper Notes, Tax-Exempt	6,090	09/15/21	To finance capital projects.
Commercial Paper Notes, Tax-Exempt	10,683	11/17/21	To finance capital projects.
Commercial Paper Notes, Tax-Exempt	8,806	01/19/22	To finance capital projects.
TEXAS A&M UNIVERSITY SYSTEM			
Permanent University Fund (PUF) Commercial Paper Notes, Taxable	50,000	10/27/21	To provide interim financing for construction projects and equipment purchase.
UNIVERSITY OF TEXAS SYSTEM			
Revenue Financing System (RFS) Commercial Paper Notes, Taxable Series B	15,000	09/21/21	To finance a variety of capital projects and equipment purchases.
RFS Commercial Paper Notes, Taxable Series B	150,000	10/07/21	To finance a variety of capital projects and equipment purchases.
RFS Commercial Paper Notes, Taxable Series B	15,000	01/21/22	To finance a variety of capital projects and equipment purchases.
PUF Commercial Paper Notes, Taxable Series B	75,000	01/21/22	To finance a variety of capital projects and equipment purchases.
Total Bond and Commercial Paper Issued/Refunded	$ 2,897,898		

Other Subsequent Events

On Nov. 8, 2021, the governor signed into effect Senate Bill 8, 87th Legislature, Third Special Session, appropriating $40.3 million to the General Land Office and the Veterans Land Board from the Coronavirus State Fiscal Recovery Fund. $35 million was appropriated for the purpose of providing funding for HVAC updates, negative pressure COVID-19 wards, and mobile HEPA air filtration units for Texas state veterans homes. $5 million was appropriated to maintain, with Brazoria County, approximately 4,600 feet of beach and dunes along the Bluewater Highway and Beach Access Road Five. $300 thousand was appropriated for the purpose of providing funding for a cost and component analysis of the Coastal Texas Study design elements to be conducted by the Gulf Coast Protection District under an agreement between the office and the district.

On June 16, 2021, the governor signed SB 1232 (87th Legislature, Regular Session), effective Sept. 1, 2021, allowing management of the Texas Permanent School Fund's financial investments function to transition from divisions of the Texas Education Agency and the Texas General Land Office to the Texas Permanent School Fund Corporation (Corporation), a special-purpose governmental corporation governed by a nine-member board of directors, and changes the authority of the School Land Board after Dec. 31, 2022. In November 2021, the State Board of Education approved the Corporation's certificate of formation. The Corporation was legally formed on Dec. 1, 2021.

On Sept. 10, 2021, in accordance with Section 204.123(b) of the Texas Labor Code $104.4 million was transferred by the Texas Workforce Commission (TWC) from the Employment Training Investment Act (ETIA) Holding Fund to the Unemployment Trust Fund Account since the amount in the Unemployment Trust Fund Account was below the statutorily defined floor as computed under Section 204.061 of the Texas Labor Code, that is, one percent of total taxable wages for the four calendar quarters ending June 30, 2021.

Under the CARES Act provisions and subsequent extensions, the federal advances were interest free through Sept. 6, 2021. After that date interest began to accrue at the rate of 2.3 percent per annum. On Sept. 30, 2021, federal fiscal year end, TWC paid $8.9 million in interest. The next interest payment is due on Sept. 30, 2022.

Under SB 8 of the 87th Legislature Session, Third Special Session, $7.2 billion was appropriated to the Texas Comptroller of Public Accounts from funds received by Texas in the Coronavirus State Fiscal Recovery Fund. Funds were appropriated for the purpose of paying back outstanding advances received by the state under Section 1201, Social Security Act (42 U.S.C. Section 1321), also referred to as Title XII advances, and to return the unemployment compensation fund to the statutory floor on Oct. 1, 2021. These funds were transferred to the credit of the unemployment compensation fund on Nov. 22, 2021. TWC used $7 billion to repay the entire amount of the Title XII federal advances for state unemployment benefits, on Nov. 23, 2021, and to restore the Unemployment Compensation trust fund to the statutory floor, as of Oct. 1, 2021. The remaining $266.2 million balance was returned to the Texas Comptroller of Public Accounts, to be returned to the Office of the Governor.

In September 2021, in the Second Special Session of the 87th Texas Legislature, SB 7 approved a one-time supplemental payment for the Teacher Retirement System of Texas (TRS) members who retired on or before December 31, 2020 in the amount of their monthly annuity payment or $2,400, whichever is less. All eligible members will receive an extra annuity check in January 2022. House Bill 5 provides $701 million in direct funding from the state to pay for the one-time payment.

In September 2021, TRS board of trustees voted to authorize the purchase of a new headquarters outside of downtown Austin. With that vote, the board delegated the executive director the authority to move forward in acquiring space to serve TRS members and employees. The purchase is not to exceed $300 million and will be expensed over the next four years. The contract to finalize the purchase of the land and construction of two buildings was completed in November 2021.

HB 1520, enacted by the 87th Legislature, Regular Session allows for the Texas Public Finance Authority (TPFA) to provide a method of financing for self-supporting revenue bonds authorized by the Railroad Commission of Texas whose proceeds would be used to reduce the cost that customers would otherwise experience due to the extraordinary costs that gas utilities incurred during the February 2021 winter storm. The bill authorizes TPFA to create a bankruptcy-remote special purpose entity (i.e., a Texas non-profit corporation) designed to hold financial assets pledged as security for repayment of the bonds. Bonds issued pursuant to HB 1520 would be issued by and would be obligations of the special purpose entity only, not TPFA and not the state of Texas. It is anticipated that the certificate of formation to create the corporation will be filed with the Secretary of State late in November 2021.

On May 31, 2021, Gov. Greg Abbott passed a disaster declaration in regards to border security and launched a statewide response effort known as Operation Lonestar. The Texas Department of Criminal Justice (TDCJ) is assisting the state of Texas in its border security efforts by allowing the use of existing facilities to house confinees who have been detained by law enforcement as a result of border security operations. Although these efforts began in June of fiscal 2021, TDCJ anticipates ongoing participation. To assist in the costs incurred, TDCJ has been granted supplemental appropriations in fiscal 2022 of $23.7 million specifically designated for Operation Lonestar.

Additionally, in relation to Operation Lonestar, TDCJ was directed to transfer $250 million to the Office of the Governor for the construction of a border wall. TDCJ was given authority to utilize fiscal 2023 appropriations to facilitate this transfer, which was completed effective Sept. 1 of fiscal 2022. HB 9 of the 87th Legislature, Special Session granted these funds be returned to TDCJ as supplemental appropriations for fiscal 2023.

TDCJ was directed in the 87th Legislature to reduce appropriations. The amount of $200 million was specified to provide funding for the Gulf Coast Protection District. This reduction will be recognized in fiscal 2022, with anticipation of the funds being returned to TDCJ in the 2022-23 biennium through Federal Funds. TDCJ was also instructed to reduce appropriations in the amount of $340 million, this reduction has not occurred and is contingent upon future federal funding sources. SB 8, 87th Legislature, Third Special Session provides for additional Coronavirus relief funding in the amount of $359.6 billion under the American Rescue Plan Act for the purpose of providing compensation for TDCJ employees.

In October 2021, Stephen F. Austin State University (SFA) launched the public phase of its $100 million capital campaign. The Elevate SFA Campaign, which began its silent phase in September 2015, is expected to reach its goal to coincide with the University's celebration of its 100-year history. As of Oct. 31, 2021, pledges totaled $80 million to the SFA Foundation Inc., a separate 501(c)3 entity.

SB 8 was passed by the Texas Legislature during the Third Special Session from the 87th Legislature. The governor approved SB 8 on Nov. 8, 2021. The bill will appropriate approximately $473 million of federal funds from the Coronavirus State Fiscal Recovery Fund to the Texas Higher Education Coordinating Board (THECB) in fiscal 2022. The bill will fund various THECB initiatives across the state. On Dec. 20, 2021, the Office of the Governor announced that it will be awarding $93.3 million from the Governors Emergency Education Funds II to THECB. The Texas Facilities Commission has sent notice of cancellation to the building owner of termination of THECB's lease with 1200 Anderson Partners that will end on Sept. 30, 2022.

Effective Sept. 1, 2021, the governance, control, management, and property of Midwestern State University (MSU) was transferred from the board of regents of MSU to the board of regents of the Texas Tech University System (TTU System) pursuant to HB 1522. For fiscal 2021, the total assets of MSU were approximately $301 million and total operating budget was approximately $122 million.

The Texas Legislature passed SB 52 during its Third Special Session, authorizing more than $3.3 billion in revenue bonds to colleges and universities across the state to accommodate growth. The legislation allocates $273 million to the University of North Texas System (UNT System), including $113 million to UNT Denton for a science and technology research building, $100 million to UNT Dallas for a Science building, and approximately $60 million to UNT Health Science Center at Fort Worth for campus optimization and space realignment to repurpose outdated space into flexible, multi-purpose rooms more useful for activities requiring skill-based educational components.

The 87th Texas Legislature, Third Special Session approved $339.5 million tuition revenue bonds to fund capital construction projects across the University of Houston System and its four universities: University of Houston, University of Houston-Clear Lake, University of Houston-Downtown and University of Houston Victoria. The funds will be used for construction and renovation of facilities.

The University of Texas at San Antonio (UTSA) has entered into a non-binding letter of intent and is negotiating definitive agreements with the Southwest School of Art (SSA), a Texas nonprofit corporation, to fully integrate SSA's arts programs, assets and resources into a new UTSA school focused on advancing the arts. The University of Texas System board of regents approved this action on Nov. 18, 2021.

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 System), Texas A&M University System (A&M System) 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 the UT System and the A&M System are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas. 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. 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, vision, 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 HMO contracts.

UT System & A&M System

The UT System and the A&M System 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 2021, 1,235 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 administrator, employers or the state.

Changes in Claims Liability Balances

The changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal 2020 and fiscal 2021, are presented in table 17A. Claims and judgment amounts presented in Note 5 are also included in table 17A.

Changes in Claims Liability Balances
Table 17A
August 31, 2021 (Amounts in Thousands)

Year	Beginning Balance	Increases	Decreases	Ending Balance
2020	$ 950,056	$ 4,024,337	$ 3,992,496	$ 981,897
2021	$ 981,897	$ 4,567,220	$ 4,548,374	$ 1,000,743

Of the fiscal 2021 claims liability ending balance, $286.4 million relates to long-term claims liabilities, which are reported in Note 5 and $848.1 million relates to the state's health, life and dental insurance programs and the remainder to miscellaneous claims and judgments, all of which are reported as accounts payable.

Note 18

Contested Taxes

The state may assess a tax liability against one or multiple taxpayers. Taxpayers may petition for a redetermination hearing before an administrative law judge if they wish to contest a tax liability assessed by the state. If the request for a redetermination hearing is received by a specified date, the taxpayer is not obligated to pay the tax liability until 20 days after a final decision is made by the Texas Comptroller of Public Accounts (Comptroller's office) in a redetermination hearing and served on the taxpayer. As of Aug. 31, 2021, there was an estimated $468 million of assessments filed that are currently in the redetermination hearing 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, contested taxes 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, 2021 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.

Texas Private Activity Bond Surface Transportation Corporation (TxPABST) is a legally separate entity that acts on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (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. TxPABST is blended rather than discretely presented because the Texas Transportation Commission (TTC) 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 TTC appoints the members of GPTC's governing board, all of whom must be TxDOT employees. GPTC is blended rather than discretely presented because all members of the board are appointed by the TTC and they have 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.

Employees Retirement System of Texas (ERS) is a legally separate entity established by the Texas 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. ERS is blended rather than discretely presented because 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 Texas Legislature. The Texas Comptroller of Public Accounts (Comptroller's office) is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is blended rather than discretely presented because the Comptroller's office is the single shareholder of the Trust Company and their activities benefit the state. The Trust Company is authorized to manage, disburse, transfer, safe-keep 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 Trust, Inc. (ATI), (formerly known as Alamo Complex Management), is a legally separate entity, established to operate exclusively for the benefit of the Texas General Land Office (GLO). ATI is blended rather than discretely presented because GLO appoints a majority of ATI, has the ability to remove board members at will, has the ability to modify or approve the budget of ATI, has the ability to modify or approve the rates of ATI affecting the revenue of ATI, has the ability to veto, overrule or modify the decisions of ATI's governing body, has the ability to appoint, hire, reassign or dismiss those persons responsible for ATI's day-to-day operations and its ability to unilaterally abolish ATI by ordering ATI to cease operations. ATI is reported for the fiscal year ended June 30, 2021. Information about ATI may be obtained by contacting GLO at 1700 N. Congress Ave. 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. WSD is blended rather than discretely presented because 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. Friends is blended rather than discretely presented because the primary government can appoint and remove board members at will. 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. (TTFI) is a legally separate entity established to financially support and serve the fundraising needs of Texas Tech University System (TTU System). The TTFI is blended rather than discretely presented because TTFI operates exclusively for the benefit of the TTU System and component institutions and there is a fiscal dependency and financial benefit relationship between TTFI and the TTU System. The board of regents has the ability to impose its will on TTFI through its ability to veto, override, or modify the decisions of TTFI and its ability to modify or approve the budget of TTFI. Separate financial statements may be obtained by contacting the TTFI Office of Institutional Advancement, located at 1508 Knoxville Avenue, Suite 315, Lubbock, Texas 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. TTPA is blended rather than discretely presented because the nine-member governing board is appointed by 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 TTU System chancellor, ASU president, ASU faculty senate president and ASU chief financial officer are non-voting ex-officio members on the board of directors. ASUF is blended rather than discretely presented because they operate exclusively for the benefit of ASU. 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 ASUF at 2601 W. Ave N, San Angelo, Texas 76909.

Texas State University Research Foundation (TSURF) is a legally separate entity established to support the mission of Texas State University System (TSU System) 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 System compose the entirety of TSURF's officers and directors. TSURF is blended rather than discretely presented because the TSU System 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, 2021. Separate financial statements may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office at 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 System. 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 System. There is no formal governing board for the Freeman Foundation. TSU System 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. The Freeman Foundation is blended rather than discretely presented because they operate exclusively for TSU System. Separate financial statements are not issued by the Freeman Foundation. Information about the Freeman Foundation may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office at 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Texas A&M Research Foundation (Research Foundation) is included as a blended component unit in the combined financial statements of the Texas A&M University System (A&M System). This determination is based on the close relationship and joint agreements in effect between the Research Foundation and A&M System in regard to research grant/contract administration. Complete financial statements of the Research Foundation may be obtained by contacting their administrative offices at 400 Harvey Mitchell Parkway South, Suite 300, 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). SHSI is blended rather than discretely presented because UTSWMC appoints the three-member governing board of SHSI, has the 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. SW Moncrief is blended rather than discretely presented because the president of UTSWMC appoints its four-member governing board, 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. Moncrief is blended rather than discretely presented because the president of UTSWMC appoints the six-member governing board, 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.

UTMB Healthcare Systems Inc. (Healthcare Systems) is a legally separate entity established to support the University of Texas Medical Branch at Galveston (UTMB). Healthcare Systems is blended rather than discretely presented because its eight-member governing board is appointed by the 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 and Hospitality Shop Inc. (Book Store) is a legally separate entity established to operate the book store for UTMB. Book Store is blended rather than discretely presented because its five-member governing board is appointed by 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 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). UT Physicians is blended rather than discretely presented because UTHSCH appoints its nine-member governing board, 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 7000 Fannin Street, Suite 860, 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). UPG is blended rather than discretely presented because UTHSCSA appoints its five-member governing board consisting of the dean of the School of Medicine and four members elected by the physician practice plan board at 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.

UT Health San Antonio Regional Physicians Network (Corporation) is a legally separate entity established to provide, manage, coordinate and promote accountability for the quality, patient safety, cost and overall patient support for University of Texas Health Science Center at San Antonio. The Corporation is blended rather than discretely presented because it provides primarily all of its services for UTHSCA. The Corporation is governed by a seven-member board. The dean of the school of medicine serves as chair of the board of directors. Separate financial statements may be obtained by contacting the Corporation at 1999 Bryan St., Suite 900, Dallas, Texas 75201-3136.

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 is blended rather than discretely presented because the president of the Cancer Center appoints the nine-member board and has the ability to remove appointed board members at will. Separate financial statements may be obtained by contacting MDAPN at 1515 Holcomb Blvd, Unit 1670, Houston, Texas 77030-4009.

M.D. Anderson Services Corporation (MDASC) is a legally separate entity established to support the Cancer Center. MDASC is blended rather than discretely presented because the president of the Cancer Center appoints the seven-member board of directors and the president may remove appointed board members at will. Separate financial statements may be obtained by contacting MDASC at 1515 Holcomb Blvd, Unit 1670, Houston, Texas 77030-4009.

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). ETQCN is blended rather than discretely presented because its four-member governing board is appointed by 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 U.S. Highway 271, Tyler, Texas 75708-3154.

University of Texas/Texas A&M Investment Management Co. (UTIMCO) is a legally separate entity established to provide investment management services to University of Texas System (UT System) and Texas A&M University System (A&M System). UTIMCO is blended rather than discretely presented because it provides investment management services entirely or almost entirely for the UT System. Its nine-member board consists of at least three members of the UT System board of regents, four members appointed by the UT System board of regents (one of whom may be the chancellor of UT) and two members appointed by the A&M System board of regents. At least three members appointed by the UT System board of regents and at least one member appointed by the A&M System board of regents must have substantial background and expertise in investments. Separate financial statements may be obtained by contacting UTIMCO at 210 West 7th Street, Suite 1700, Austin, Texas 78701.

University of Texas Fine Arts Foundation (Fine Arts) was 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 was blended rather than discretely presented because UT-Austin appointed its three-member governing board, had 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' fiscal year end was Dec. 31, 2020. There was no activity in fiscal year 2020 and cash balances were liquidated during fiscal year 2021 when Fine Arts was dissolved.

University of Texas Communication Foundation (UTCF) is a legally separate entity established to support the UT-Austin College of Communication. UTCF is blended rather than discretely presented because its three-member governing board is appointed by UT-Austin and UT-Austin has the ability to impose its will on 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.

Centro Global de Innovacion y Emprendimiento, A.C., Parque de Investigacion e Innovacion Technologica (CGIE) is a legally separate entity established to promote academic development in engineering, science and business and cultural studies between UT-Austin and Mexico's academic institutions. CGIE is blended rather than discretely presented because UT-Austin appoints its two-member board and UT-Austin is the sole corporate member. CGIE's fiscal year-end is Dec. 31, 2020. Separate financial statements may be obtained by contacting CGIE, A.C., Carlos Ross, Director, at ross@cgie.org.mx.

The University of Texas at Austin–Mexico Institute, A.C. (Mexico Institute) is a legally separate entity established to advance collaborative cross-disciplinary academic and scientific research partnerships in science, technology, engineering and mathematics and scholarly and cultural studies between UT-Austin and Mexico's academic institutions, the public and private sector stakeholders. Mexico Institute is blended rather than discretely presented because its four-member board is appointed by UT-Austin. Mexico Institute's fiscal year-end is Dec. 31, 2020. Separate financial statements may be obtained by contacting UT-Austin Director of Institutional Relations–Mexico, Jorge Rene Pinon, at 2275 Speedway, Austin, Texas 78712.

The Crow Museum of Asian Art–Foundation (CMAA Foundation) is established to support the Crow Museum of Art. Its five-member governing board is appointed by University of Texas Dallas (UT-Dallas). CMAA Foundation is blended rather than discretely presented because CMAA Foundation is organized as a not-for-profit corporation and UT-Dallas is the sole corporate member. CMAA Foundation's fiscal year-end is Dec. 31, 2020. In fiscal year 2021, substantially all assets and operations of CMAA Foundation transferred to UT-Dallas in accordance with a unanimous consent letter executed by the board of directors. Assets distributed to UT-Dallas will be managed in accordance with the memorandum of understanding associated with the 2018 donation of the Crow Museum of Asian Art. CMAA Foundation will continue its corporate existence as deemed advisable by the board of directors. Separate financial statements may be obtained by contacting CMAA Foundation at 2010 Flora Street, Dallas, Texas 75201.

The Crow Museum of Asian Art–Trust (CMAA-Trust) is governed by UT-Dallas as sole trustee. CMAA-Trust is blended rather than discretely presented because CMAA-Trust is organized as a not-for-profit corporation and UT-Dallas is the sole corporate member. CMAA-Trust's fiscal year-end is Dec. 31, 2020. In fiscal year 2021, all assets of CMAA-Trust transferred to UT-Dallas in accordance with a unanimous consent letter executed by the board of directors of the parent foundation. Assets distributed to UT-Dallas will be managed in accordance with the memorandum of understanding associated with the 2018 donation of the Crow Museum of Asian Art. Separate financial statements may be obtained by contacting CMAA-Trust at 2010 Flora Street, Dallas, Texas 75201.

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 Texas 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 Nov. 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, 2021. 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 multifamily 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, 2020. 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; and
- 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 party 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 party 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 919 Congress Ave. Suite 830, Austin, Texas 78701.

Texas Prepaid Tuition Scholarship Foundation (TPTSF) is a legally separate entity 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 (TMPF) is a legally separate entity established to implement the Texas Save and Match Program, which helps families save for college by offering competitive matching scholarships and tuition grants to Texas students who participate in the Texas Tuition Promise Fund. The Comptroller appoints TMPF's governing board and can remove appointed board members at will. The Comptroller also assigns and supervises employees responsible for the day-to-day operations of TMPF. TMPF 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, 2020. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac Expressway, Building A, Austin, Texas 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit organization created by the Texas 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, 2020. Separate financial statements may be obtained by contacting the Stamping Office at 805 Las Cimas Parkway, Suite 150, Austin, Texas 78746-6526.

Texas FAIR Plan Association (TFPA) 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. TFPA is reported for the fiscal year ended Dec. 31, 2020. Separate financial statements may be obtained by contacting TFPA at 5700 South Mopac Expressway, 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 TBWEF's budget, assessment fees and debt, a financial benefit or financial burden does not exist between TBWEF and the primary government. Therefore, the primary government is not financially accountable for the TBWEF. However, based on TBWEF's financial relationship with TDA, omitting TBWEF would result in incomplete financial statements. TBWEF is reported for the fiscal year ended Dec. 31, 2020. 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 Texas 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 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, Texas 78711-3231.

Texas Appraiser Licensing and Certification Board (TALCB) is a legally separate entity statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) to serve the real estate community in Texas. The governor appoints the members of the governing board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TREC is not financially accountable for TALCB, 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 Disaster Relief Fund (TDRF) is a legally separate nonprofit corporation established to help the Office of the Governor (Office) provide disaster relief. The services provided by TDRF assist the Office in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF operates exclusively for charitable, educational, scientific or literary purposes and primarily benefits the citizens of Texas. TDRF's financial statements for the fiscal year ended Dec. 31, 2020, may be obtained by contacting the Office 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 appointed by the governor, with the advice and consent of the Senate. The governor may order the dissolution of THSA at any time he declares that the purpose of THSA has been fulfilled or that THSA is inoperative or abandoned. THSA is reported for the fiscal year ended Sep. 30, 2020. THSA's financial statements may be obtained by contacting THSA at 901 South Mopac Expressway, Bldg. 1, Suite 300, Austin, Texas 78746.

Beacon State Fund (BSF) is a legally separate organization established to support the goals of the Governor's Commission for Women (GCW) in promoting issues affecting the women of Texas through distributing of information, holding media campaign events and supporting community outreach programs, which are consistent with the goals of GCW. The board is elected annually by the current board of directors at its annual meeting. The Office provides reasonable use of its office facilities and personnel. BSF is reported for the fiscal year ended Dec. 31, 2020. Financial statements may be obtained by contacting the Office at P.O. Box 12428, Austin, Texas 78711.

State Agency Council (SAC) is a legally separate organization established to support the goals of GCW by honoring women who have made significant contributions to Texas through their work in state government, providing opportunities for professional development to its state agency representatives and supporting community outreach programs consistent with the goals of GCW. The director of GCW appoints the board and has operational influence on the activities of SAC. Financial statements for SAC may be obtained by contacting GCW 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, facility and other expenses associated with the use of the official residence of the governor of Texas for events and operations. TGMA is closely related to the state of Texas because the Office provides administrative services, including accounting services, to TGMA. TGMA is reported for the fiscal year ended Dec. 31, 2020. Separate financial statements for TGMA may be obtained by contacting the Office 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 ASU, a campus within the 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 System (UNT System), as well as provide funding for the benefit of the UNT System. The majority of endowments supporting the UNT System scholarships and other university programs are owned by UNTF. Therefore, UNTF is closely related to the UNT System, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting UNTF at 1155 Union Circle #311250, Denton, Texas 76203-5017.

University of North Texas Health Science Center Foundation (UNTHSCF) is a legally separate entity established to raise funding for scholarships for students of the University of North Texas Health Science Center (UNTHSC), as well as provide funding for the benefit of UNTHSC. The majority of endowments supporting the UNTHSC scholarships and other university programs are owned by UNTHSCF. Therefore, UNTHSCF is closely related to UNTHSC, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting UNTHSCF at 3500 Camp Bowie Blvd., Fort Worth, Texas 76107-2699.

Texas State University Development Foundation (Development Foundation) is a legally separate entity formed to support the educational, scientific and research mission of Texas State University (TSU). Development Foundation raises and manages endowment funds designated for scholarships and other support of TSU. The 47 member board of trustees is comprised of a cross-section of alumni and notable leaders who assist in the development and support of TSU. Development Foundation is reported for the fiscal year ended Jun. 30, 2021. Separate financial statements may be obtained at the following URL: http://www.ua.txstate.edu/about/development-foundation/Financials/Accountability.html.

Emmett and Miriam McCoy College of Business Development Foundation (McCoy Foundation) is a legally separate entity dedicated exclusively to the support of the McCoy College of Business Administration at TSU. The McCoy Foundation's 10 member board of directors manages its investments and determines McCoy's annual funding to support chairs, professorships, undergraduate scholarships and graduate fellowships, as well as the development of faculty, programs and students. Board composition includes the university president, dean of McCoy College and two employees of the College of Business Administration. Separate financial statements may be obtained at the following URL: https://www.mccoycollegefoundation.org/.

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 Economic Development Corporation (TxEDC) operates as a nonprofit corporation to assist, promote, develop and advance economic development in the state of Texas. TxEDC is no longer reported as a component unit, but is included because a majority of the board is appointed by the Office, but the Office is not financially accountable for TxEDC.

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 Texas Mutual 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 Charitable Trust (Trust) is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University (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 and subject to the governor's approval.

Texas State University System Foundation Inc. (TSUSF) is a nonprofit corporation organized for the purpose of providing financial support for the universities and colleges within the TSU System. TSUSF provides funds for student scholarships and faculty awards and assists the chancellor in performing their duties. TSUFS's seven-member board of directors is appointed by the chairman of the TSU System board of regents.

Operation Game Thief Committee is a nonprofit corporation established to administer the Operation Game Thief Program (The Program). The Program facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's natural or cultural resources and the public safety of persons using those natural or cultural resources. The Program also pays rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the members of the committee.

Parks and Wildlife Foundation of Texas, 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 (TPWD), but TPWD is not financially accountable for the Foundation, nor is the Foundation fiscally dependent on TPWD. The Foundation is governed by a group of trustees, the majority of whom are appointed by the chairman of TPWD.

The Texas Higher Education Foundation (THEF) is a Texas non-profit organization that is organized to support the Texas Higher Education Coordinating Board (THECB) program initiatives. THEF is a legally separate, fiscally independent entity for which THECB appoints a voting majority of the board, but THECB is not financially accountable for, nor can THECB impose its will on THEF. There is no financial benefit or burden relationship between THECB and THEF, therefore, THEF has been classified as a related organization.

River Authorities are political subdivisions created by Texas statute. The *Texas Constitution*, Article XVI, Section 59, authorizes the Texas 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.
- 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
- 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 Antonio 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 $65.3 million. The Plan deficit of $258.1 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 $323.3 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 $420.9 million. The deficit is primarily due to the total expenses exceeding the total revenues by $110.4 million. The largest expense in fiscal 2021 included $65.7 million of amortization and $199.2 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.

Component Units

The **Texas Windstorm Insurance Association**, a discretely presented component unit of the state, reported a deficit of $143.3 million. The deficit is due to significant claim activity from Hurricane Harvey that affected the Texas coast in 2017. The deficit amount was reduced from fiscal 2020 to fiscal 2021.

Note 21

Texas Lawsuits

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 $306.2 million is based on the payments received in December 2021. Tobacco settlement revenues were $443.1 million in fiscal 2020 and $679.6 million in fiscal 2021. As of fiscal 2021, cumulative actual tobacco settlement revenues were $12.1 billion.

During fiscal 2019, the state of Texas brought a lawsuit against certain tobacco manufacturers seeking the court enforcement of the Texas settlement agreement. The lawsuit related to the sale and transfer of four cigarette brand families to a tobacco manufacturer who was not a party to the Texas settlement agreement. The selling and purchasing tobacco manufacturers refused to include sales of the four brand families in the annual payments since the brand families were sold and transferred in 2015. While the state of Texas won the lawsuit, the tobacco manufacturers appealed the outcome. A resolution was reached during fiscal 2021, resulting in additional income totaling $192.4 million. The purchasing tobacco manufacturer also joined the Texas settlement agreement as a party.

Opioid Settlement

During fiscal 2021, the state of Texas and its political subdivisions participated in obtaining final settlement agreements and judgments against multiple companies to resolve legal claims related to the companies' role in the opioid crisis. Currently, Texas' combined share is approximately $1.9 billion as of Feb. 16, 2022. Funding is dependent on the number of subdivisions or local governments that join the settlement agreements and the specific payment schedules in a settlement agreement. The funding must be used to support any of a wide variety of strategies to fight the opioid crisis. Separate provisions exist to compensate attorneys who have pursued opioid litigation on behalf of states and local governments. Future opioid litigation may result in additional settlement agreements or judgments, or suspension and reduction of payments, and each agreement or judgment may have unique terms governing payment timing and duration. Opioid settlement revenues were $30.3 million in fiscal 2021.

The Texas Opioid Abatement Fund Council (council) was created by Senate Bill 1827 of the 87th regular legislative session to ensure that money recovered through the joint efforts of the state and its political subdivisions through statewide opioid settlement agreements and judgments are allocated fairly and spent to remediate the opioid crisis using efficient, cost-effective methods. The council is administratively attached to the Texas Comptroller of Public Accounts (Comptroller's office), which provides the staff and facilities as necessary to assist the council in performing its duties, maintain copies of settlement agreements online and submit annual report of expenditures made by the council to the Legislature. The legislation also created the Opioid Abatement Account (account) as a dedicated account in the General Revenue Fund that is administered by the Comptroller's office and the Opioid Abatement Trust Fund (fund) as a trust fund outside of the state treasury that is administered by the Texas Treasury Safekeeping Trust Company.

Of the money received by the state under a statewide opioid settlement agreement, or resulting from an action by the state against an opioid manufacturer, distributor or any other person in the opioid industry, 15 percent is deposited into the account and 85 percent is deposited into the fund. Requirements related to the allowable uses and distributions of the account and fund, along with the composition and duties of the council, are defined in Subchapter R, as added by the bill, in Chapter 403 of the *Texas Government Code*.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $6.8 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 as of Aug. 31, 2021, are presented in table 22A.

Donor-Restricted Endowments
Table 22A
August 31, 2021 (Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	$6,701,845	Expendable
Term Endowments	132,709	Expendable
Total Endowments	$6,834,554	

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

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

Net appreciation on related investment balances for the University of North Texas Foundation and University of North Texas Health Science Center Foundation, discrete component units of the University of North Texas System, have a combined ending net appreciation balance of $68.7 million. These amounts are not included in table 22A.

Note 23

Taxes Receivable and Tax Refunds Payable

Details by tax type for taxes receivable and tax refunds payable, reported on the governmental funds balance sheet as of Aug. 31, 2021, are presented in tables 23A and 23B.

Taxes Receivable by Tax Type

Table 23A

August 31, 2021 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	$ 1,923,455
Motor Vehicle and Manufactured Housing	128,838
Motor Fuels	7,466
Oil and Natural Gas Production	569,658
Franchise	314,835
Insurance Occupation	297,079
Cigarette and Tobacco	25,420
Other	188,897
Total Taxes Receivable[1]	$ 3,455,648
Liquidity Characteristics:	
Current Taxes Receivable	$ 3,369,814
Noncurrent Taxes Receivable	85,834
Total Taxes Receivable	$ 3,455,648

[1]Total Taxes Receivable General Fund $ 3,455,648

Motor Fuel Taxes Receivable in Other Governmental Funds:	
Current Taxes Receivable:	
State Highway Fund	224,936
Nonmajor Governmental Funds	75,188
Total Taxes Receivable – Balance Sheet – Governmental Funds	$ 3,755,772

Tax Refunds Payable by Tax Type

Table 23B

August 31, 2021 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	$ 131,274
Franchise	547,793
Total Tax Refunds Payable	$ 679,067

Texas franchise tax receivables represent balances due as of Aug. 31, 2021, for business-type activity that occurred in calendar year 2020. The franchise tax payments were due May 17, 2021 and taxpayers were allowed to extend the filing date to November 2021.

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 Internal Revenue Service 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 2021 is not due until May 2022. 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.

Note 24

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is available for eligible former employees and their dependents following both voluntary and involuntary terminations; however, coverage is limited to the benefits in place at the time when employment is terminated. COBRA members are allowed to remain in their eligible insurance program for 18 months (29 months if disabled). Health Maintenance Organization (HMO) participants are eligible for an additional six months, for a maximum of 24 months. Covered dependents are eligible to remain in the program until 36 months, even if the former employee does not continue coverage. COBRA plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2021, the cost to the state was approximately $29.2 million for 4,791 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. Agencies may 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 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 and
- 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 condensed statement of net position for each program as of Aug. 31, 2021, is presented in table 25A. The condensed statement of revenues, expenses and changes in net position for each program for the fiscal year ended 2021, is presented in table 25B. The condensed statement of cash flows for each program as of Aug. 31, 2021, is presented in table 25C.

Condensed Statement of Net Position

Table 25A

August 31, 2021 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
ASSETS		
Current Restricted Assets	$ 56,228	$ 51,827
Noncurrent Restricted Assets	876,192	431,584
Total Assets	932,420	483,411
Deferred Outflows of Resources	2,210	
LIABILITIES		
Current Liabilities	20,782	6,561
Noncurrent Liabilities	694,251	320,011
Total Liabilities	715,033	326,572
NET POSITION		
Restricted	219,597	156,839
Total Net Position	$ 219,597	$ 156,839

Condensed Statement of Revenues, Expenses and Changes in Net Position

Table 25B

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	$ 28,958	$ 10,326
Net Increase in Fair Value	2,746	922
Other Operating Revenues	116,765	11,344
Operating Expenses	(94,908)	(24,809)
Operating Income	53,561	(2,217)
NONOPERATING REVENUES (EXPENSES)		
Transfer In (Out)	189	(290)
Changes in Net Position	53,750	(2,507)
Net Position, September 1, 2020	165,847	159,346
Net Position, August 31, 2021	$ 219,597	$ 156,839

Condensed Statement of Cash Flows

Table 25C

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
NET CASH PROVIDED (USED) BY:		
Operating Activities	$ (14,116)	$ 10,234
Non capital Financing Activities	(81,569)	60,746
Investing Activities	(63,520)	(34,474)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(159,205)	36,506
Cash and Cash Equivalents, September 1, 2020	212,988	14,204
Cash and Cash Equivalents, August 31, 2021	$ 53,783	$ 50,710

Note 26

Service Concession Arrangements

The state of Texas has ten 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 ten 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 to TxDOT once the arrangements have ended.

A general description of each SCA, including status, term and duration, as of Aug. 31, 2021, is presented in table 26A.

Service Concession Arrangements

Table 26A

August 31, 2021

Arrangement Name	Construction Status	Term of Concession	Concession Dates Begin	Concession Dates End
IH 10 Katy Managed Lanes	Complete	46 years	2010	2055[1]
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	Complete	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[1]
Grand Parkway Seg H-I	Under Construction	36 years	2018	2053[1]
SH 288	Complete	52 years	2016	2068
North Tarrant Exp Seg 3C	Under Construction	42 years	2019	2061

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

These arrangements were entered 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 acquisition value with a corresponding entry to deferred inflows of resources. The deferred inflows of resources balance is reduced and revenue is recognized in a systematic and rational 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, 2021, are presented in table 26B.

Service Concession Arrangements – Amounts Recognized in Financial Statements

Table 26B: Governmental Activities

August 31, 2021 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents[1]	Capital Assets	Deferred Inflows of Resources[2]
IH 10 Katy Managed Lanes	$	$ 250,000	$ 184,783
SH 130 Segments 5 and 6	27,551	1,435,580	1,254,738
SH 121 Concession	267,478	1,336,606	2,868,751
North Tarrant Exp Seg 1 and 2-West		2,399,072	1,460,311
North Tarrant Exp Seg 3A and 3B		1,946,325	1,239,188
LBJ/IH-635 Managed Lanes		2,683,026	1,803,620
Grand Parkway Seg D, E, F1, F2, G		2,515,618	2,103,151
SH 288	10,418	1,007,170	931,372
North Tarrant Exp Seg 3C		21,888	
Total	$ 305,447	$13,595,285	$11,845,914

[1] The balance of cash and cash equivalents is the amount of unspent up-front concession payments.
[2] The deferred inflows of resources balance that relates to up-front payments received is recorded in the 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, G, H and I of the Grand Parkway (State Highway 99) until the bonds or other debt secured is fully repaid. GPTC is 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, 2021, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling $161 million and $9 billion, respectively. Payments of these amounts are made subject to executed financial assistance agreements between TxDOT and the applicable public or private entity. The toll equity loan commitment is related to a toll equity loan agreement (TELA) with GPTC. This agreement makes a loan available to be drawn on in the event revenues and certain reserves are insufficient to pay certain debt service or operations and maintenance cost of the toll systems of aforementioned entities. The GPTC's funds financed by a TELA-supported debt are to be used to pay for certain costs relating to the development, construction, operation, maintenance and financing of Segments D (Harris County), E, F1, F2, G, H and I 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 a TELA is equal to the aggregate amount of cost 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, 2021, no drawdowns of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of $3.2 billion for its costs of design, construction and right-of-way acquisition for the fiscal year ended Aug. 31, 2021. This amount is reported as business-type activities.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2021, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements (SCA), bond refunding, pensions, other postemployment benefits other than pensions, government acquisitions, irrevocable split-interest agreements, direct borrowings/placements obligations, asset retirement obligations and various types of revenues earned but not available at the fiscal year-end.

The balances of deferred outflows of resources and deferred inflows of resources for governmental activities, business-type activities and governmental funds as of Aug. 31, 2021, are presented in table 27A.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 27A

August 31, 2021 (Amounts in Thousands)

Fund Type	Deferred Outflows of Resources	Deferred Inflows of Resources
GOVERNMENT-WIDE FINANCIAL STATEMENTS		
Governmental Activities		
Bond/Debt Refunding	$ 227,213	$ 43,634
SCAs (Note 26)		11,845,914
Pensions (Note 9)	21,057,045 [2]	5,917,570
OPEB (Note 11)	6,592,002 [3]	27,267,780
Asset Retirement Obligation	1,376	
Unclaimed Properties		715,084
Total Governmental Activities	$ 27,877,636	$ 45,789,982
Business-Type Activities		
Bond/Debt Refunding	$ 304,534	$ 36,588
Derivative Instruments (Note 7)	543,139 [1]	23,085
Pensions (Note 9)	2,872,585	1,296,914
OPEB (Note 11)	4,846,116 [3]	2,985,661
Split Interest Agreements		69,787
Direct Placements	363	
Government Acquisitions	21,373	
Asset Retirement Obligation	3,228	
Total Business-Type Activities	$ 8,591,338	$ 4,412,035
FUND FINANCIAL STATEMENTS		
Governmental Funds		
Revenue Earned But Not Available	$	$ 1,323,818
Total Governmental Funds	$ 0	$ 1,323,818

[1] The $543,139 fair value for cash flow hedges is all reported as a hedging derivative liability.

[2] The deferred outflows of resources related to governmental activities pension includes $18.5 million in transactions subsequent to measurement date for the JRS1 plan. For more details, see Note 9 text.

[3] The deferred outflows of resources and deferred inflows of resources related to OPEB includes $60.6 million and $ 737.3 million for governmental activities and $713.6 million and $58.6 million for business-type activities, respectively, for the proportionate change between governmental and business-type activities in relation to the A&M and UT plans. For more details, see Note 11 text and table 11S.

Deferred outflows of resources in business-type activities of $543.1 million related to hedging derivatives in a liability position. The hedging derivative liability of $543.1 million and the hedging derivative asset of $23.1 million are disclosed in Note 7.

Deferred outflows of resources in business-type activities of $21.4 million represent the unamortized balance of the excess consideration over the net position acquired in the acquisition of various university assets.

Deferred inflows of resources in governmental activities of $11.8 billion were related to service concession arrangements 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 $227.2 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 2021 in business-type activities for $304.5 million in deferred outflows of resources related to losses.

Deferred inflows of resources in governmental activities of $43.6 million was related to a gain TxDOT and the Texas Higher Education Coordinating Board incurred on a bond refunding transaction. Several universities and TxDOT also reported $36.6 million deferred inflows of resources related to bond refunding gains in business-type activities.

Deferred inflows of resources of $1.3 billion in governmental funds were related to various types of revenues earned but not available within 60 days of fiscal year-end.

The state reported $21.1 billion of deferred outflows of resources and $5.9 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported $2.9 billion of deferred outflows of resources and $1.3 billion of deferred inflows of resources related to pensions in business-type activities. Details of the state's pensions are disclosed in Note 9.

The state reported $6.6 billion of deferred outflows of resources and $27.3 billion of deferred inflows of resources related to OPEB in governmental activities. The state also reported $4.8 billion of deferred outflows of resources and $3 billion of deferred inflows of resources related to OPEB in business-type activities. Details of the state's OPEB are disclosed in Note 11.

The state reported $363 thousand of deferred outflows of resources related to direct placement obligations and $69.8 million of deferred inflows of resources related to split-interest agreements in business-type activities.

In fiscal 2021, the state reported $1.4 million of deferred outflows of resources related to asset retirement obligations in governmental activities and $3.2 million of deferred outflows of resources related to asset retirement obligations in business-type activities. In accordance with GASB Statement No. 84, *Fiduciary Activities,* the state reported $715.1 million in governmental activities in deferred inflows of resources related to special revenue unclaimed property fund.

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 *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. As of Aug. 31, 2021, no school districts or charter school districts have ever defaulted on their guaranteed bond indebtedness and the total principal debt guaranteed by the PSF on bond issues is approximately $95.3 billion.

The Texas Credit Enhancement Program 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 the 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 *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. As of Aug. 31, 2021, no charter schools have ever defaulted on their guaranteed bond indebtedness and $12.4 million of available grant funds have been committed.

Note 29

Tax Abatements

The state of Texas provides tax abatements under the following programs: Agricultural or Timber Programs, Research and Development Tax Credit Programs, Texas Enterprise Zone Programs, Texas Data Center Sales Tax Exemption Program and Certified Rehabilitation of Certified Historic Structures Program. All abatement amounts are based on estimates.

Information related to these programs for the fiscal year ended 2021, is presented in tables 29A-D.

Tax Abatement Programs

Table 29A

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Agricultural and Timber Programs			
Description	**Agricultural Machinery and Equipment**	**Agricultural Products (not covered by blanket exemptions)**	**Timber Products**	**Farm/ Timber Use - Motor Vehicle**
Purpose of program:	Provides exemptions or refunds of state sales and use tax paid for anyone producing agricultural or timber products for sale in the regular course of business			
Tax being abated:	Sales and Use Tax	Sales and Use Tax	Sales and Use Tax	Motor Vehicle Sales and Use Tax
Authority granting abatement:	Texas Tax Code Section 151.316	Texas Tax Code Section 151.316	Texas Tax Code Section 151.3162	Texas Tax Code Section 152.091
Criteria to be eligible:	• Valid Texas Agricultural and Timber Exemption Registration Number • Valid Texas Agricultural Sales and Use Tax Exemption Certificate • Purchaser must be a commercial farmer or rancher engaged in producing agricultural products for sale or entities commonly hired to help with commercial production of agricultural products such as field hands, custom harvesters, crop dusters and veterinarians who make farm and ranch calls • Timber includes seedlings of trees grown for commercial timber and machinery and equipment used in the processing, packing, or marketing of timber products by an original producer if it is from a location operated by the original producer and at least 50 percent of the value of the timber products are from that location			
How taxes are reduced/amount of abatement is determined:	Purchase of qualified items are not subject to the state's sales and use tax of 6.25 percent			
Provision for recapture:	N/A	N/A	N/A	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made		No other commitments are made	
Amount of taxes abated	$ 77,900	$ 315,700	$ 31,751	$ 38,542

Tax Abatement Programs

Table 29B

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

Description	Research and Development Tax Credit Program: Exemptions	Research and Development Tax Credit Program: Credits
Purpose of program:	Provides a sales and use tax exemption or a franchise tax credit; but not both to encourage economic development in Texas, election is not permanent and can be changed	
Tax being abated:	Sales and Use Tax	Franchise Tax
Authority granting abatement:	Texas Tax Code Section 151.3182 Expires Dec. 31, 2026	Texas Tax Code Section 171.654
Criteria to be eligible:	Must be for purchase, lease, rental, storage or use of depreciable tangible personal property directly used in qualified research expenditures	
How taxes are reduced/amount of abatement is determined:	Purchase of qualified items are not subject to the state's sales and use tax of 6.25 percent	• 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 expense in the three preceding tax periods • Unused credits can be carried forward
Provision for recapture:	Whenever the Texas Comptroller of Public Accounts or the registrant cancels or otherwise terminates the registration number, the registrant will be required to pay the tax, penalty and interest due from the date of purchase on all ineligible tax-free purchases.	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made	No other commitments are made
Amount of taxes abated	$ 215,600	$ 350,891

Tax Abatement Programs

Table 29C

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Texas Enterprise Zone Programs	
Description	**Refunds**	**Refunds**
Purpose of program:	Allows local communities to partner with the state to encourage job creation and capital investment in economically distressed areas, local communities can nominate a new or expanding business as an enterprise project	
Tax being abated:	Sales and Use Tax	Hotel Occupancy Tax
Authority granting abatement:	Texas Tax Code Section 151.429	Texas Tax Code Section 151.429
Criteria to be eligible:	• Nominated projects that are approved are eligible to apply for state sales and use tax refunds on qualified expenditures • The nominating community files the application on behalf of the companies receiving the refunds	• A hotel proposed to be constructed by a municipality or a nonprofit municipally sponsored local government corporation created under the *Texas Transportation Corporation Act* , Chapter 431, *Transportation Code* , that is within 1,000 feet of a convention center owned by a municipality having a population of 1,500,000 or more, including shops, parking facilities and any other facilities ancillary to the hotel, *Texas Government Code Section* 2303.003
How taxes are reduced/amount of abatement is determined:	• Level and amount depend on the capital investment and jobs created at the qualified business site • 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 frame • Rebates range from: $25,000 for a project investing $40,000 in capital and creating 10 jobs to $3.75 million for a project investing $250 million in capital and creating 500 or more jobs	• Qualified hotel projects within approved enterprise zones can receive refunds of state sales and use taxes paid or collected and all hotel occupancy taxes collected by the hotel during the first ten years after the project is open for initial occupancy
Provision for recapture:	• Rebate is conditioned on 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 • If the Texas Comptroller of Public Accounts (Comptroller's office) certifies that the level of employment has not been maintained, the Comptroller's office shall assess that portion of the refund made attributable to any such decrease in employment including penalty and interest from the date of the refund	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made	No other commitments are made
Amount of taxes abated	$ 5,198	$ 6,506

Tax Abatement Programs

Table 29D

For the Fiscal Year Ended August 31, 2021 (Amounts in Thousands)

	Other Programs	
Description	**Texas Data Center Program Exemption**	**Certified Rehabilitation of Certified Historic Structures Credit**
Purpose of program:	Provides a sales and use tax exemption on certain goods and services necessary and essential to the operation of single-operator data centers	Earns a franchise tax credit for expenses incurred for the rehabilitation of a certified historic structure in which the entity has an ownership interest
Tax being abated:	Sales and Use Tax	Franchise Tax
Authority granting abatement:	Texas Tax Code Sections 151.359 and 151.3595	Texas Tax Code Section 171.904-171.909
Criteria to be eligible:	• Data center must be single-occupant • Obtain exemption through application • Required to create at least 20 qualifying jobs • Make capital investment of at least $200 million over a five year period beginning on the date the data center is certified by the Texas Comptroller of Public Accounts office as a qualifying data center	• Acquire certificate of eligibility from the Texas Historical Commission • Rehabilitation/certified costs exceed $5,000 in the year the structure is placed in service
How taxes are reduced/amount of abatement is determined:	• Qualified items are not subject to the state's sales and use tax of 6.25 percent at the time of purchase or as a refund	• Amount is limited to 25 percent of the total eligible cost and expenses incurred • May not exceed the amount of franchise tax due • May carry credit forward no more than five years • An entity that has established eligibility may assign or sell credits to another entity
Provision for recapture:	Each entity or person that has their registration number revoked is liable for the state's 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	N/A
Additional commitment by the state other than to reduce taxes:	No other commitments are made	No other commitments are made
Amount of taxes abated	$ 85,505	$ 23,899

Note 30

Extraordinary Items

GASB Statement No. 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*, defines extraordinary items as transactions or other events that are both unusual in nature and infrequent in occurrence.

The Department of Education discharged debt to Historically Black Colleges and Universities (HBCU) that participated in the HBCU Capital Financing Program. The net fund balance of $86.1 million is recognized as an extraordinary item by Texas Southern University for the loan debt forgiveness.