
Section Two (continued)

Management's Discussion and Analysis



Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2015. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2015 report.

Highlights

Government-wide

Net Position

The assets and deferred outflows of resources of the state of Texas exceeded its liabilities and deferred inflows of resources by \$147.7 billion as of Aug. 31, 2015, a decrease of \$27.9 billion or 15.9 percent from fiscal 2014. The majority of the decrease is primarily due to a decrease of \$24.8 billion in unrestricted net position. The net position is comprised of \$82.5 billion in net investment in capital assets, \$75.9 billion in restricted and negative \$10.7 billion in unrestricted.

Fund Level

Governmental Funds

As of Aug. 31, 2015, the state's governmental funds reported a combined ending fund balance of \$64.7 billion, an increase of \$2 billion or 3.2 percent from fiscal 2014, primarily due to an increase in federal revenues and a decrease in tax revenues. The state reported a positive unassigned fund balance of \$11.4 billion in fiscal 2015.

Proprietary Funds

The proprietary funds reported a net position of \$53.4 billion as of Aug. 31, 2015, a decrease of \$2.8 billion or 4.9 percent from fiscal 2014, primarily due to a decrease in interest and investment income.

Long-Term Debt

The state's total bonds outstanding increased by \$3.2 billion or 7.8 percent during fiscal 2015. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During fiscal 2015, the state issued bonds totaling \$8.7 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

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

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

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

The report also includes statistical and economic data.

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

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the

statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

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

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

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

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

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

Governmental Activities

The state's basic services are reported here, including general government; education; employee benefits; teacher retirement state contributions; health and human services; public safety and corrections; transportation; natural resources and recreation; and regulatory services. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

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

Component Units

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

Reporting on the State's Most Significant Funds

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

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

Governmental Funds

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

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

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

Proprietary Funds

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

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

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

Reporting on the State's Fiduciary Responsibilities

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

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

Financial Analysis of the State as a Whole

Net Position

Total assets of the state as of Aug. 31, 2015, were \$270.2 billion, an increase of \$9.9 billion or 3.8 percent. Total liabilities as of Aug. 31, 2015, were \$113.9 billion, an increase of \$33.8 billion or 42.2 percent. Net position was affected by a number of factors. Cash and cash equivalents on the Statement of Net Position increased by \$4.8 billion in governmental activities but decreased by \$67.2 million in business type activities from fiscal 2014. Unrestricted noncurrent investments decreased by \$1.1 billion. The state's bonded indebtedness was \$44.1 billion, which included new issuances of \$8.7 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately \$6.2 billion in bonded debt was retired or refunded. Net position was \$147.7 billion in fiscal 2015, a decrease of \$27.9 billion or 15.9 percent. Of the state's net position, \$82.5 billion was net investment in capital assets, while \$75.9 billion was restricted by the state constitution or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was negative \$10.7 billion. The majority of the net position decrease is primarily due to a decrease of \$24.8 billion in unrestricted net position as an effect of the implementation of GASB Statements No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statements No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Statement of Net Position

August 31, 2015 and 2014 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
ASSETS						
Assets Other Than Capital Assets	\$ 76,761,288	\$ 74,110,983	\$ 73,883,287	\$ 73,306,854	\$ 150,644,575	\$ 147,417,837
Capital Assets	91,006,365	85,693,336	28,546,049	27,158,624	119,552,414	112,851,960
Total Assets	<u>167,767,653</u>	<u>159,804,319</u>	<u>102,429,336</u>	<u>100,465,478</u>	<u>270,196,989</u>	<u>260,269,797</u>
DEFERRED OUTFLOWS OF RESOURCES	4,665,492	76,655	1,260,119	576,569	5,925,611	653,224
LIABILITIES						
Current Liabilities	12,143,525	12,146,740	12,236,632	12,107,507	24,380,157	24,254,247
Noncurrent Liabilities	52,523,681	23,102,244	37,022,613	32,741,159	89,546,294	55,843,403
Total Liabilities	<u>64,667,206</u>	<u>35,248,984</u>	<u>49,259,245</u>	<u>44,848,666</u>	<u>113,926,451</u>	<u>80,097,650</u>
DEFERRED INFLOWS OF RESOURCES	13,479,287	5,226,734	1,009,206	16,063	14,488,493	5,242,797
NET POSITION						
Net Investment in Capital Assets	70,898,289	68,739,464	11,571,493	11,055,379	82,469,782	79,794,843
Restricted	42,674,520	41,659,436	33,218,190	40,020,583	75,892,710	81,680,019
Unrestricted	(19,286,157)	9,006,356	8,631,321	5,101,356	(10,654,836)	14,107,712
Total Net Position	<u>\$ 94,286,652</u>	<u>\$ 119,405,256</u>	<u>\$ 53,421,004</u>	<u>\$ 56,177,318</u>	<u>\$ 147,707,656</u>	<u>\$ 175,582,574</u>

Changes in Net Position

The state's net position as of Aug. 31, 2015 decreased by \$27.9 billion. The state earned program revenues of \$83 billion and general revenues of \$55.1 billion, for total revenues of \$138.1 billion, a decrease of \$6 billion or 4.2 percent from fiscal 2014. The major components of this decrease were tax revenues, which had an increase of \$856.6 million and operating grants and contributions, with a decrease of \$9 billion. Federal revenues increased \$1.7 billion and interest and investment income decreased \$10.5 billion.

The expenses of the state were \$133.7 billion, an increase of \$6.6 billion or 5.2 percent. The expense fluctuations in governmental activities are largely attributable to a \$3.8 billion increase in health and human services and a \$919 million increase in education services. In business-type activities there was a \$1.5 billion increase in education services that was offset by a decrease in health and human services of \$173.6 million.

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

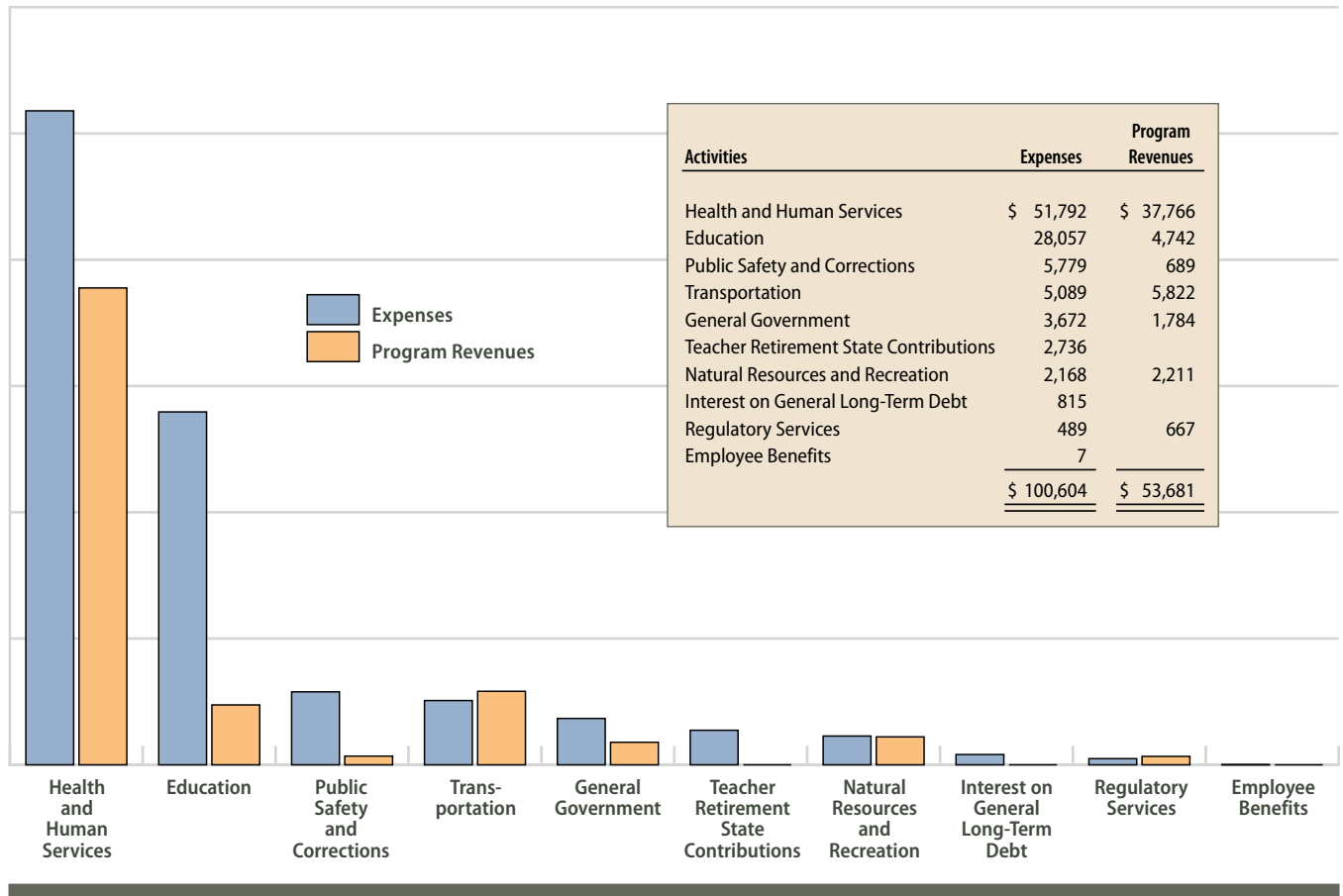
Changes in Net Position

For the Fiscal Years Ended August 31, 2015 and 2014 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program Revenues:						
Charges for Services	\$ 9,878,338	\$ 9,042,614	\$ 21,876,408	\$ 20,503,577	\$ 31,754,746	\$ 29,546,191
Operating Grants and Contributions	43,731,463	46,903,926	7,327,924	13,120,148	51,059,387	60,024,074
Capital Grants and Contributions	71,237	96,802	131,714	522,211	202,951	619,013
Total Program Revenues	<u>53,681,038</u>	<u>56,043,342</u>	<u>29,336,046</u>	<u>34,145,936</u>	<u>83,017,084</u>	<u>90,189,278</u>
General Revenues:						
Taxes	51,773,006	50,916,366			51,773,006	50,916,366
Unrestricted Investment Earnings	153,316	300,423	67,089	165,597	220,405	466,020
Settlement of Claims	590,685	574,082	306	99	590,991	574,181
Gain on Sale of Capital Assets	50,749	1,865	40,440	11,469	91,189	13,334
Gain on Other Financial Activity	22,266	6,708			22,266	6,708
Other General Revenues	2,171,101	1,755,856	186,006	195,964	2,357,107	1,951,820
Total General Revenues	<u>54,761,123</u>	<u>53,555,300</u>	<u>293,841</u>	<u>373,129</u>	<u>55,054,964</u>	<u>53,928,429</u>
Total Revenues	<u>108,442,161</u>	<u>109,598,642</u>	<u>29,629,887</u>	<u>34,519,065</u>	<u>138,072,048</u>	<u>144,117,707</u>
EXPENSES						
General Government	3,672,395	2,967,443	113,069	122,356	3,785,464	3,089,799
Education	28,057,482	27,138,847	26,443,474	24,896,493	54,500,956	52,035,340
Employee Benefits	7,064	399,454			7,064	399,454
Teacher Retirement State Contributions	2,735,913	2,700,533			2,735,913	2,700,533
Health and Human Services	51,792,158	48,015,340	2,585,461	2,759,024	54,377,619	50,774,364
Public Safety and Corrections	5,779,455	5,542,840	98,032	95,749	5,877,487	5,638,589
Transportation	5,088,956	5,223,720	251,897	248,827	5,340,853	5,472,547
Natural Resources and Recreation	2,167,711	1,944,520	279,335	315,963	2,447,046	2,260,483
Regulatory Services	488,780	792,267			488,780	792,267
Interest on General Long-Term Debt	814,564	750,946			814,564	750,946
Lottery			3,296,218	3,164,120	3,296,218	3,164,120
Total Expenses	<u>100,604,478</u>	<u>95,475,910</u>	<u>33,067,486</u>	<u>31,602,532</u>	<u>133,671,964</u>	<u>127,078,442</u>
Excess (Deficiency) Before Contributions and Transfers	<u>7,837,683</u>	<u>14,122,732</u>	<u>(3,437,599)</u>	<u>2,916,533</u>	<u>4,400,084</u>	<u>17,039,265</u>
Capital Contributions	713	(152,616)	3,817		4,530	(152,616)
Contributions to Permanent and Term Endowments			182,754	238,951	182,754	238,951
Transfers	(4,189,320)	(4,130,757)	4,189,320	4,130,757		
Change in Net Position	<u>3,649,076</u>	<u>9,839,359</u>	<u>938,292</u>	<u>7,286,241</u>	<u>4,587,368</u>	<u>17,125,600</u>
Net Position, Beginning Balance	119,405,256	109,740,860	56,177,318	48,888,860	175,582,574	158,629,720
Restatements	(28,767,680)	(174,963)	(3,694,606)	2,217	(32,462,286)	(172,746)
Net Position, Beginning Balance, as Restated	<u>90,637,576</u>	<u>109,565,897</u>	<u>52,482,712</u>	<u>48,891,077</u>	<u>143,120,288</u>	<u>158,456,974</u>
Net Position, Ending Balance	<u>\$ 94,286,652</u>	<u>\$ 119,405,256</u>	<u>\$ 53,421,004</u>	<u>\$ 56,177,318</u>	<u>\$ 147,707,656</u>	<u>\$ 175,582,574</u>

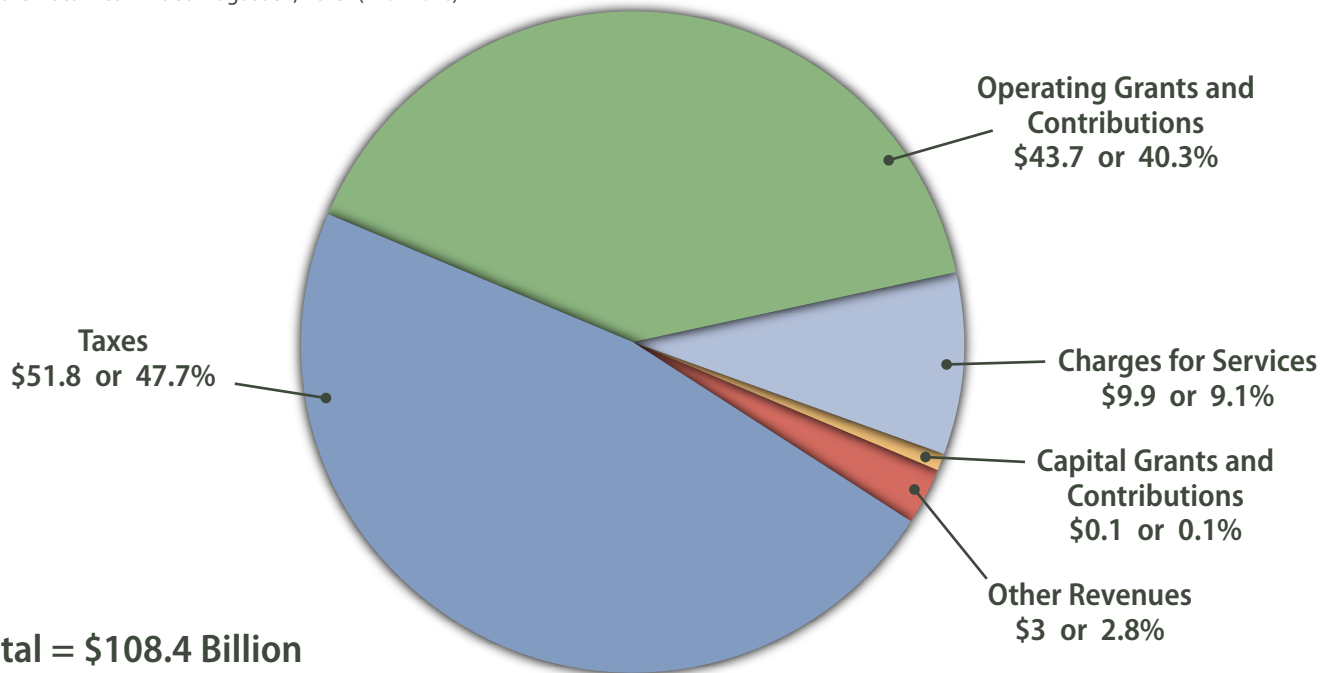
Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2015 (In Millions)



Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2015 (In Billions)*

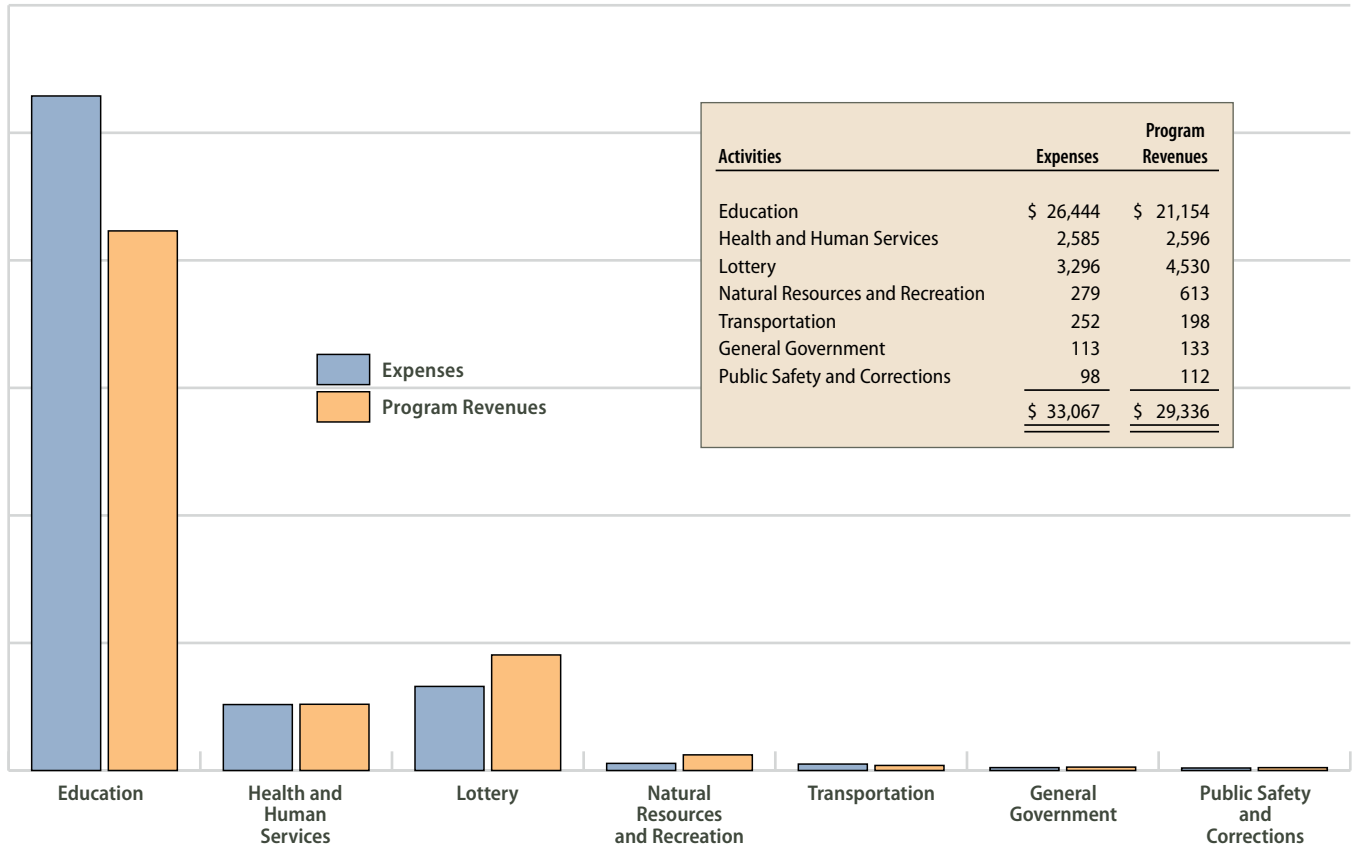


Total = \$108.4 Billion

* Totals may not add due to rounding

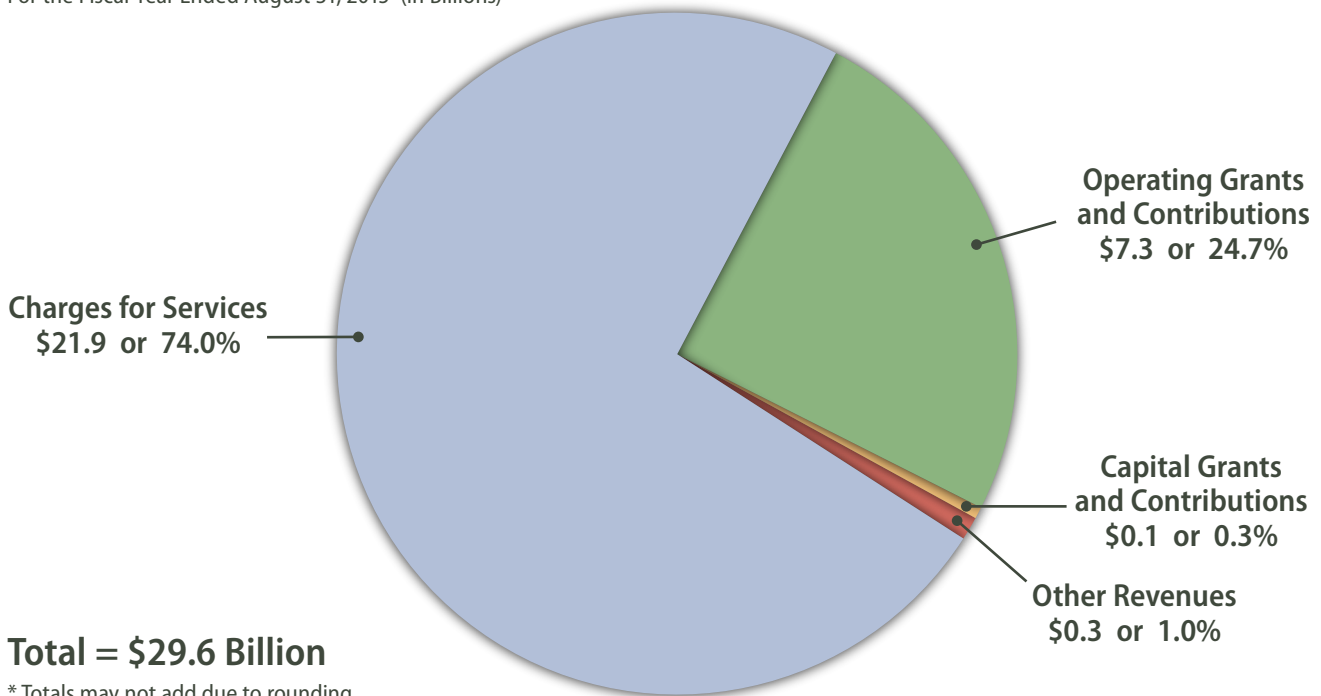
Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2015 (In Millions)



Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2015 (In Billions)*



Governmental Activities

The governmental activities program revenue was \$53.7 billion, including charges for services of \$9.9 billion, operating grants and contributions of \$43.7 billion and capital grants and contributions of \$71.2 million. The largest change, a \$3.2 billion decrease, was for operating grants and contributions. Taxes had increases of \$856.6 million from general revenue sources, with the largest increase in sales tax revenue.

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

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 3,672,395	\$ 1,888,089
Education	28,057,482	23,315,528
Employee Benefits	7,064	6,993
Teacher Retirement State Contributions	2,735,913	2,735,913
Health and Human Services	51,792,158	14,025,880
Public Safety and Corrections	5,779,455	5,090,023
Transportation	5,088,956	(732,758)
Natural Resources and Recreation	2,167,711	(42,880)
Regulatory Services	488,780	(177,912)
Interest on General Long-Term Debt	814,564	814,564
Total	\$ 100,604,478	\$ 46,923,440

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

For the Fiscal Year Ended August 31, 2015 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 113,069	\$ (19,697)
Education	26,443,474	5,289,465
Health and Human Services	2,585,461	(10,771)
Public Safety and Corrections	98,032	(14,223)
Transportation	251,897	54,092
Natural Resources and Recreation	279,335	(333,176)
Lottery	3,296,218	(1,234,250)
Total	\$ 33,067,486	\$ 3,731,440

Governmental activities expenses were \$100.6 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except the transportation function and regulatory services which reported a slight surplus in both. The education function and the health and human services function account for 79.4 percent of governmental activities expenses and 79.4 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

Business-Type Activities

Business-type activities generated program revenue of \$29.3 billion, including charges for services of \$21.9 billion, operating grants and contributions of \$7.3 billion and capital grants and contributions of \$131.7 million. The total expenses for business-type activities were \$33.1 billion. The largest changes occurred in education, with a \$1.5 billion increase for colleges and universities, and in the health and human services function, where there was a decrease of \$173.6 million in health and human services. There was a decrease in net position in the government's business-type activities of \$2.8 billion in comparison to the prior year's increase of \$7.3 billion.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2015, governmental funds reported fund balances of \$64.7 billion. The general fund reported a positive \$17.9 billion fund balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2015, was \$17.9 billion, an increase of \$122.8 million from fiscal 2014, mostly due to an increase in sales of goods and services and other miscellaneous revenues. Tax revenues decreased by \$505.4 million from fiscal 2014.

The state constitution, state statute, and federal rule or bond covenants constrains \$5.7 billion. The unassigned fund balance was \$11.4 billion, which includes \$9.6 billion in the economic stabilization fund, commonly called “the rainy day fund”. Contributing to the higher balance was an increase of \$2.3 billion in federal revenues.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2015, was \$5.3 billion, an increase of \$1.6 billion from \$3.7 billion as of Aug. 31, 2014. Cash and cash equivalents increased \$1.1 billion as transfers in increased by \$2.6 billion as a result of the change to the Texas Constitution by Proposition 1 in the November 2014 election.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2015, totaled \$33.8 billion, a decrease of \$1.1 billion since Aug. 31, 2014. This decrease was primarily attributable to a decrease in valuation of investments of \$1.8 billion. Value in the fund provided \$838.7 million in transfers to provide funding for public education. The PSF also supports the state’s public school system through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2015, a total of \$64 billion in school district bond issues were guaranteed.

Proprietary Funds

Proprietary funds reported net position of \$53.4 billion as of Aug. 31, 2015, a decrease of \$2.8 billion from fiscal 2014. The state’s public colleges and universities hold 88 percent of the reported net position in proprietary funds.

Colleges and Universities

Colleges and universities’ net position as of Aug. 31, 2015, totaled \$47 billion, a decrease of \$3.3 bil-

lion from Aug. 31, 2014. There were decreases of \$5.6 billion in net income before capital contributions, endowments and transfers and \$375.8 million in capital contributions and transfers from fiscal 2014. There was a decrease in interest and investment income of \$5.4 billion due to declining market performance. There also was \$806.7 million collected from land mineral income, such as oil royalties, deposited to the Permanent University Fund (PUF) for the benefit of the University of Texas and Texas A&M University Systems. The PUF’s net position after distributions increased by \$125.1 million from \$17.4 billion in fiscal 2014 to \$17.5 billion in fiscal 2015. This endowment fund contributes to the support of 15 institutions in the University of Texas System and 14 in the Texas A&M University System.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$1.5 billion as of Aug. 31, 2015, an increase of \$264.4 million from \$1.2 billion as of Aug. 31, 2014. During fiscal 2015, unemployment taxes collected decreased \$35.9 million from \$2.5 billion in 2014 while federal contributions decreased \$346.7 million in 2015. Benefits payments dropped \$153.2 million as the unemployment rate averaged 4.4 percent as compared to the U.S. average of 5.5 percent.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state’s foundation school fund. The lottery fund had a net position of \$49.4 million on Aug. 31, 2015, a decrease of 19.1 percent from the \$61.1 million at the end of fiscal 2014. The Commission recorded its highest level of total sales since ticket sales began in 1992 with collections of \$4.5 billion. Transfers to state agencies totaled \$1.2 billion, the twelfth consecutive year overall that revenue transfers exceeded \$1 billion.

Fiduciary Funds

Fiduciary funds reported \$171.3 billion in net position as of Aug. 31, 2015, a decrease of \$4.5 billion from \$175.8 billion in fiscal 2014, a 2.6 percent decrease.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$154.8 billion, a decrease of \$4.8 billion from the \$159.6 billion reported in fiscal 2014. The majority of plan assets are held as investments for the pension funds. Additions from all sources decreased \$21.7 billion from fiscal 2014, while benefit payments increased \$788.6 million. Decreases in additions are due primarily to more unfavorable conditions in the financial markets and legislative increases to state contributions. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was negative 0.27 percent and 0.49 percent, respectively, compared to the previous year's returns of 16.9 and 14.7 percent.

External Investment Trust Fund

The Treasury Safekeeping Trust is the only external investment trust fund. It administers and invests funds belonging to state and local entities as well as providing direct access to services of the Federal Reserve System. The Trust reported a total net position of \$12.9 billion in fiscal 2015, an increase of \$152.2 million from fiscal 2014. The increase in net position is due to an increase in both TexPool and TexPool Prime revenue.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$3.6 billion in fiscal 2015, an increase of \$204 million from fiscal 2014. Additions from all sources of \$636 million exceeded total deductions of \$432 million. The net increase of \$204 million is a decrease of 26.8 percent from the net increase of \$278.5 million in fiscal 2014.

Budgetary Highlights

Variances for the General Fund

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

Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. Accordingly, major revisions were made to both total revenues and expenditures for a net change of \$3.2 billion.

There was a negative \$4.9 billion variance between the actual and final budget revenues. The largest negative revenue variances occurred with taxes, sales of goods and services revenues, which reported a \$3.6 billion and \$1.2 billion difference, respectively.

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

Capital Assets – Net of Depreciation and Amortization

August 31, 2015 and 2014 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land and Land Improvements	\$ 11,601,206	\$ 10,844,164	\$ 1,764,690	\$ 1,737,988	\$ 13,365,896	\$ 12,582,152
Infrastructure	63,674,344	62,496,935	2,771,735	2,785,800	66,446,079	65,282,735
Construction in Progress	12,443,817	9,035,700	3,213,413	3,153,661	15,657,230	12,189,361
Buildings and Building Improvements	2,112,308	2,174,347	16,023,156	15,145,336	18,135,464	17,319,683
Facilities and Other Improvements	59,889	61,597	1,409,548	1,078,053	1,469,437	1,139,650
Furniture and Equipment	289,706	306,637	1,710,112	1,617,537	1,999,818	1,924,174
Vehicles, Boats and Aircraft	427,830	422,771	82,981	79,861	510,811	502,632
Other Capital Assets	201,469	178,161	1,257,624	1,236,098	1,459,093	1,414,259
Intangible Capital Assets, Net	195,796	173,024	312,790	324,290	508,586	497,314
Total Capital Assets	<u>\$ 91,006,365</u>	<u>\$ 85,693,336</u>	<u>\$ 28,546,049</u>	<u>\$ 27,158,624</u>	<u>\$ 119,552,414</u>	<u>\$ 112,851,960</u>

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2015, the state had \$119.6 billion in net capital assets. This total represents an increase of \$6.7 billion in total capital assets or 5.9 percent from fiscal 2014. Included in this amount is an increase to infrastructure of \$2.8 billion and construction in progress of \$3.5 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$2 billion to buildings and building improvements.

To ensure future availability of essential services and to finance capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$28.6 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state.

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

Infrastructure Assets

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

government-wide statement of net position. The state accounts for its system of roads and highways using the depreciation method. Additional detail is also found in Note 2 for capital assets.

Debt Administration

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

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AAA by Standard & Poor's and AAA by Fitch Ratings as of August 2015. During fiscal 2015, Texas' state agencies and institutions of higher education issued \$8.7 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment, and other projects. General obligation debt accounted for \$3.9 billion of state bonds issued in fiscal 2015. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$4.8 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were com-

Outstanding Bonded Debt

August 31, 2015 and 2014 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds Payable	\$ 14,177,418	\$ 12,052,116	\$ 3,954,563	\$ 3,765,126	\$ 18,131,981	\$ 15,817,242
Revenue Bonds Payable	4,490,215	4,661,544	21,466,228	20,403,923	25,956,443	25,065,467
Total Bonds Payable	<u>\$ 18,667,633</u>	<u>\$ 16,713,660</u>	<u>\$ 25,420,791</u>	<u>\$ 24,169,049</u>	<u>\$ 44,088,424</u>	<u>\$ 40,882,709</u>

posed of \$628.7 million in general obligation bonds and \$999.7 million in revenue bonds. Also, \$1.3 billion in general obligation bonds and \$3.3 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2015, was \$18.1 billion. This represents an increase of \$2.3 billion or 14.6 percent from fiscal 2014. An additional \$13.7 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$26 billion, which is an increase of \$891 thousand or 3.6 percent from fiscal 2014. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detailed information on the state's bonded indebtedness.

Economic Condition

Notwithstanding significant retrenchment in the oil, natural gas and related industries over the past year, the Texas economy added 179,300 nonfarm jobs from November 2014 to November 2015, an increase of 1.5 percent. Private sector employment grew by 1.6 percent, while government employment (federal, state, and

local) growth was 1.4 percent. Texas added more new jobs than all other states except California and Florida over those 12 months, and had the second lowest unemployment rate among the 10 most populous states as of November 2015 (4.6 percent, behind Ohio at 4.5 percent). The Texas unemployment rate remained below the national rate in each of the last 12 months, as it has in every month since January 2007. As of November 2015, total nonfarm employment in Texas stood at 11,882,600.

Contacting the State's Financial Management

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