SECTION TWO (CONTINUED)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2020 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 35,208,945	$ 7,243,475	$ 42,452,420	$ 1,118,563
Short-Term Investments	1,607,510	1,024,453	2,631,963	48,807
Receivables:				
Accounts	1,024,257	2,362,387	3,386,644	74,291
Taxes (Note 23)	3,558,814		3,558,814	
Federal	4,217,937	3,126,382	7,344,319	2,314
Other Intergovernmental	1,473,757	123,617	1,597,374	5,133
Gifts and Pledges	213	334,859	335,072	612
Investment Trades	15,841	970,124	985,965	
Interest and Dividends	109,296	211,678	320,974	1,904
From Fiduciary Funds	1,021		1,021	
Other Receivables	103,055	508,745	611,800	21,170
Securities Lending Collateral	1,362,242	510,068	1,872,310	
Loans and Contracts	90,935	513,956	604,891	541
Inventories	314,625	266,799	581,424	4,137
Prepaid Items	2,640	275,602	278,242	8,566
Other Current Assets	232,223	465,862	698,085	109,741
Restricted:				
Cash and Cash Equivalents	70,907	3,978,854	4,049,761	34,284
Short-Term Investments		1,056,311	1,056,311	
Loans and Contracts	136,937	250,964	387,901	1,941
Total Current Assets	49,531,155	23,224,136	72,755,291	1,432,004
Noncurrent Assets:				
Receivables:				
Taxes (Note 23)	50,071		50,071	
Gifts and Pledges		766,823	766,823	12,710
Other Receivables	427,490	66,494	493,984	542
Internal Balances (Note 12)	9,174	(9,174)		
Investments	52,335,712	20,674,224	73,009,936	26,711
Derivative Instruments: (Note 3, 7, 15)				
Investment	20		20	
Hedging		414	414	
Assets Held in Trust		4,727	4,727	
Loans and Contracts	1,323,676	11,860,770	13,184,446	3,579
Prepaid Items				2,967
Restricted:				
Cash and Cash Equivalents		220,009	220,009	184
Short-Term Investments		301	301	
Receivables		198,711	198,711	
Investments	5,561	51,512,340	51,517,901	516,424
Loans and Contracts	1,597,254	3,178,948	4,776,202	34,274
Other Restricted Assets	109,895	3,415	113,310	
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	37,119,768	7,350,324	44,470,092	5,755
Depreciable or Amortizable, Net	86,141,831	29,328,660	115,470,491	25,191
Intangible Assets:				
Service Concession Arrangements (Note 26)		2,876,436	2,876,436	
Other Noncurrent Assets	61,716	390,740	452,456	186
Total Noncurrent Assets	179,182,168	128,424,162	307,606,330	628,523
Total Assets	228,713,323	151,648,298	380,361,621	2,060,527
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	27,619,099	7,945,787	35,564,886	
Total Deferred Outflows of Resources	27,619,099	7,945,787	35,564,886	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, 2020 (Amounts in Thousands)

	Primary Government			
LIABILITIES	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
Current Liabilities:				
Payables:				
Accounts	$ 6,896,413	$ 4,488,774	$ 11,385,187	$ 360,369
Payroll	834,429	1,179,877	2,014,306	540
Tax Refunds (Note 23)	650,261		650,261	
Federal	3,134	20,048	23,182	
Other Intergovernmental	240,277	3,697	243,974	
Investment Trades	67,942	1,592,193	1,660,135	
Interest	285,246	241,373	526,619	14,181
Annuities		6,321	6,321	
Notes and Loans (Note 5)	189,723	44,351	234,074	55,910
To Fiduciary Funds	49,455		49,455	
From Restricted Assets (Note 5)		542,009	542,009	
Bonds:				
General Obligation (Note 5, 6)	824,949	282,400	1,107,349	
Revenue (Note 5, 6)	306,555	2,656,902	2,963,457	1,105
Internal Balances (Note 12)	1,040,557	(1,040,557)		
Short-Term Debt (Note 4)		5,554,816	5,554,816	
Obligations:				
Securities Lending	1,375,938	510,068	1,886,006	
Reverse Repurchase Agreements	15,223		15,223	
Capital Leases (Note 5, 8)	3,981	20,778	24,759	77
Pollution Remediation (Note 5)	46,235	60	46,295	
Asset Retirement (Note 5)		20	20	
Funds Held for Others		42,676	42,676	127,039
Claims and Judgments (Note 5)	39,974	144,235	184,209	
Employees' Compensable Leave (Note 5)	688,304	497,532	1,185,836	1,612
OPEB (Note 11)	1,155,744	349,047	1,504,791	
Other Current Liabilities	426,284	172,758	599,042	229,916
Unearned Revenue	7,674,387	4,358,198	12,032,585	231,540
Total Current Liabilities	22,815,011	21,667,576	44,482,587	1,022,289
Noncurrent Liabilities:				
Payables:				
Notes and Loans (Note 5)	1,094,083	1,061,265	2,155,348	266,871
From Restricted Assets (Note 5)		1,758,324	1,758,324	
Bonds:				
General Obligation (Note 5, 6)	14,193,167	3,749,904	17,943,071	
Revenue (Note 5, 6)	3,921,321	33,786,756	37,708,077	58,273
Obligations:				
Capital Leases (Note 5, 8)	8,453	242,520	250,973	98
Pollution Remediation (Note 5)	207,099	1,023	208,122	
Asset Retirement (Note 5)	1,927	41,331	43,258	
Derivative Instruments: (Note 3, 7, 15)				
Investment		182,210	182,210	
Hedging		763,549	763,549	
Assets Held for Others		709,398	709,398	
Claims and Judgments (Note 5)	57,167	45,822	102,989	
Employees' Compensable Leave (Note 5)	279,804	570,203	850,007	1,156
Pension (Note 9)	60,623,676	6,460,909	67,084,585	
OPEB (Note 11)	59,069,300	16,409,061	75,478,361	
Other Noncurrent Liabilities		529,506	529,506	12,997
Total Noncurrent Liabilities	139,455,997	66,311,781	205,767,778	339,395
Total Liabilities	162,271,008	87,979,357	250,250,365	1,361,684
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	43,489,481	5,081,490	48,570,971	
Total Deferred Inflows of Resources	43,489,481	5,081,490	48,570,971	0
NET POSITION				
Net Investment in Capital Assets	93,692,079	13,648,465	107,340,544	16,044
Restricted for:				
Education	2,256,622	3,926,982	6,183,604	64
Transportation	8,370,103		8,370,103	
Debt Service	352,291	537,687	889,978	
Capital Projects	513,142	670,981	1,184,123	
Veterans Land Board Housing Programs		711,006	711,006	
Funds Held as Permanent Investments:				
Nonexpendable	46,357,257	28,969,465	75,326,722	379,620
Expendable	1,783,932	13,535,159	15,319,091	
Other Restricted Net Position	5,684,966	5,386,289	11,071,255	25,430
Unrestricted	(108,438,459)	(852,796)	(109,291,255)	277,685
Total Net Position	$ 50,571,933	$ 66,533,238	$ 117,105,171	$ 698,843

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, 2020 (Amounts in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 9,948,097	$ 1,416,922	$ 2,606,452	$ 4,733
Education	31,793,760	905,635	6,450,354	
Teacher Retirement State Contributions	2,949,854			
Health and Human Services	63,859,992	5,193,922	43,533,967	
Public Safety and Corrections	6,304,563	198,676	516,021	
Transportation	7,126,211	2,976,759	5,860,971	36,284
Natural Resources and Recreation	2,781,955	641,888	1,737,334	1,929
Regulatory Services	458,795	620,118	2,912	
Interest on General Long-Term Debt	177,588			
Total Governmental Activities	125,400,815	11,953,920	60,708,011	42,946
Business-Type Activities:				
General Government	186,293	34,865	104,180	
Education	36,807,305	17,747,230	14,141,392	152,956
Health and Human Services	30,138,406	1,989,916	21,811,610	
Public Safety and Corrections	106,944	118,243		
Transportation	593,048	403,000	46,998	
Natural Resources and Recreation	534,504	53,064	641,908	1,800
Lottery	5,022,653	6,704,767		
Total Business-Type Activities	73,389,153	27,051,085	36,746,088	154,756
Total Primary Government	$ 198,789,968	$ 39,005,005	$ 97,454,099	$ 197,702
COMPONENT UNITS				
Component Units	$ 2,761,710	$ 2,627,448	$ 246,529	$
Total Component Units	$ 2,761,710	$ 2,627,448	$ 246,529	$ 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, 2019 (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	$ (5,919,990)	$	$ (5,919,990)	$
Education	(24,437,771)		(24,437,771)	
Teacher Retirement State Contributions	(2,949,854)		(2,949,854)	
Health and Human Services	(15,132,103)		(15,132,103)	
Public Safety and Corrections	(5,589,866)		(5,589,866)	
Transportation	1,747,803		1,747,803	
Natural Resources and Recreation	(400,804)		(400,804)	
Regulatory Services	164,235		164,235	
Interest on General Long-Term Debt	(177,588)		(177,588)	
Total Governmental Activities	(52,695,938)	0	(52,695,938)	0
Business-Type Activities:				
General Government		(47,248)	(47,248)	
Education		(4,765,727)	(4,765,727)	
Health and Human Services		(6,336,880)	(6,336,880)	
Public Safety and Corrections		11,299	11,299	
Transportation		(143,050)	(143,050)	
Natural Resources and Recreation		162,268	162,268	
Lottery		1,682,114	1,682,114	
Total Business-Type Activities	0	(9,437,224)	(9,437,224)	0
Total Primary Government	(52,693,982)	(9,437,224)	(62,131,206)	0
COMPONENT UNITS				
Component Units				112,267
Total Component Units	0	0	0	112,267
General Revenues				
Taxes:				
Sales and Use	34,619,223		34,619,223	
Oil and Natural Gas Production	3,928,170		3,928,170	
Motor Vehicle and Manufactured Housing	4,732,137		4,732,137	
Franchise	4,463,412		4,463,412	
Motor Fuels	3,195,268		3,195,268	
Insurance Occupation	2,796,878		2,796,878	
Cigarette and Tobacco	1,306,008		1,306,008	
Other Taxes	2,220,585		2,220,585	
Unrestricted Investment Earnings	1,030,582	178,862	1,209,444	9,800
Settlement of Claims	657,400	4,118	661,518	
Gain on Sale of Capital Assets	20,800	140	20,940	119
Loss on Other Financial Activity	(1,675)		(1,675)	
Other General Revenues	3,573,380	386,140	3,959,520	7,252
Capital Contributions	2,630	21,015	23,645	
Contributions to Permanent and Term Endowments		207,888	207,888	
Distributions from Permanent Fund Principal (Note 12)	(11,801)		(11,801)	
Special Items (Note 30)		698	698	
Transfers - Internal Activities (Note 12)	(6,316,901)	6,316,901		
Total General Revenues, Contributions, Special Items and Transfers	56,216,096	7,115,762	63,331,858	17,171
Change in Net Position	3,520,158	(2,321,462)	1,198,696	129,438
Net Position, September 1, 2019	46,223,170	68,857,260	115,080,430	569,712
Restatements (Note 14)	828,605	(2,560)	826,045	(307)
Net Position, September 1, 2019, as Restated	47,051,775	68,854,700	115,906,475	569,405
Net Position, August 31, 2020	$ 50,571,933	$ 66,533,238	$ 117,105,171	$ 698,843

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2020 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 20,493,519	$ 7,416,297	$ 3,546,354	$ 3,659,163	$ 35,115,333
Short-Term Investments	274,207	8,197		268,598	551,002
Receivables:					
Accounts	434,602	194,551	126,843	8,336	764,332
Taxes (Note 23)	3,602,646	4,676		1,563	3,608,885
Federal	2,615,025	1,571,888		31,023	4,217,936
Other Intergovernmental	1,269,039	204,718			1,473,757
Gifts and Pledges				213	213
Investment Trades			14,147		14,147
Interest and Dividends	8,332	5,750	68,851	14,299	97,232
Interfund (Note 12)	16,182				16,182
From Other Funds (Note 12)	365,447	1,400,250	14	316,329	2,082,040
Other Receivables	530,541		3		530,544
Investments	3,912,978	25,009	43,186,015	3,338,785	50,462,787
Securities Lending Collateral			1,354,076		1,354,076
Loans and Contracts	255,256	678,525	75	480,755	1,414,611
Inventories	170,536	143,717		372	314,625
Prepaid Items	2,120		1	519	2,640
Other Assets	197,410			96,529	293,939
Restricted:					
Cash and Cash Equivalents	57,030	12,001		1,876	70,907
Investments		5,561			5,561
Loans and Contracts	543,720			1,190,471	1,734,191
Other Restricted Assets				109,895	109,895
Total Assets	$ 34,748,590	$ 11,671,140	$ 48,296,379	$ 9,518,726	$ 104,234,835
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 4,388,314	$ 1,708,189	$ 8,218	$ 102,077	$ 6,206,798
Payroll	739,747	85,997	2,622	6,063	834,429
Tax Refunds (Note 23)	650,261				650,261
Federal	3,134				3,134
Other Intergovernmental	240,277				240,277
Investment Trades			63,085	4	63,089
Interfund (Note 12)				1,660	1,660
To Other Funds (Note 12)	3,060,672	29,381	661	75,321	3,166,035
Obligations:					
Securities Lending			1,367,808		1,367,808
Reverse Repurchase Agreements	15,223				15,223
Other Liabilities	392,488	40,508	58	12,065	445,119
Unearned Revenue	7,444,874	5,131	162,223	468,740	8,080,968
Total Liabilities	16,934,990	1,869,206	1,604,675	665,930	21,074,801
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows of Resources (Note 27)	1,002,222	984,455	16,123	501,039	2,503,839
Total Deferred Inflows of Resources	1,002,222	984,455	16,123	501,039	2,503,839
Fund Balances: (Note 13)					
Nonspendable	751,185	143,717	45,524,347	813,801	47,233,050
Restricted	1,753,265	8,220,290	1,151,234	7,371,824	18,496,613
Committed	7,257,094	453,472		163,459	7,874,025
Assigned	10,518			2,673	13,191
Unassigned	7,039,316				7,039,316
Total Fund Balances	16,811,378	8,817,479	46,675,581	8,351,757	80,656,195
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 34,748,590	$ 11,671,140	$ 48,296,379	$ 9,518,726	$ 104,234,835

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, 2020 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 80,656,195
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	$ 37,119,768	
Capital Assets – Depreciable or Amortizable, Net	86,141,831	
		123,261,599
Reversal of prior year unearned tax revenues recorded in governmental funds but not in the Statement of Net Position.		406,580
Investment derivative instrument asset was reported in the Statement of Net Position to reflect the fair value of derivative instruments.		20
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).		2,503,839
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).		27,619,099
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).		(43,489,481)
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	(97,141)	
Capital Lease Obligations	(12,434)	
Employees' Compensable Leave	(968,108)	
Notes and Loans Payable	(1,283,806)	
General Obligation Bonds Payable	(15,018,116)	
Revenue Bonds Payable	(4,227,876)	
Pollution Remediation Obligation	(253,334)	
Net Pension Liability	(60,378,602)	
Total Pension Liability	(245,074)	
Net OPEB Liability	(55,499,271)	
Total OPEB Liability	(4,725,773)	
Asset Retirement Obligation	(1,927)	
		(142,711,462)
[1] current portion = $3,255,465 and noncurrent portion = $139,455,997		
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.		(266,411)
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.		2,591,955
Net Position of Governmental Activities		$ 50,571,933

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2020 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$ 48,085,811	$ 4,880,694	$	$ 3,600,867	$ 56,567,372
Federal	50,949,713	5,196,849		76,190	56,222,752
Licenses, Fees and Permits	2,981,017	1,688,403		845,414	5,514,834
Sales of Goods and Services	4,959,905	82,131	54,347	197,467	5,293,850
Interest and Other Investment Income	728,416	128,721	1,146,395	217,598	2,221,130
Land Income	10,485	18,583	797,301	3,444	829,813
Settlement of Claims	617,387	34,147	475	401	652,410
Other Revenues	6,121,251		1,973	54,461	6,177,685
Total Revenues	114,453,985	12,029,528	2,000,491	4,995,842	133,479,846
EXPENDITURES					
Current:					
General Government	3,379,433			331,809	3,711,242
Education	30,033,172		51,884	1,643,653	31,728,709
Employee Benefits	25,256			21,152	46,408
Teacher Retirement State Contributions	2,949,854				2,949,854
Health and Human Services	63,974,832			6,572	63,981,404
Public Safety and Corrections	6,218,784			65,389	6,284,173
Transportation	46,010	4,233,349		142,434	4,421,793
Natural Resources and Recreation	2,737,032		71,662	54,466	2,863,160
Regulatory Services	442,536			23,155	465,691
Capital Outlay	398,828	8,697,073	54	479,025	9,574,980
Debt Service:					
Principal	3,984	118,227		907,630	1,029,841
Interest	1			869,663	869,664
Other Financing Fees		9,075		8,368	17,443
Total Expenditures	110,209,722	13,057,724	123,600	4,553,316	127,944,362
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,244,263	(1,028,196)	1,876,891	442,526	5,535,484
OTHER FINANCING SOURCES (USES)					
Bonds and Notes Issued	231,300			275,765	507,065
Bonds Issued for Refunding				3,567,200	3,567,200
Premiums on Bonds Issued				256,432	256,432
Payment to Escrow for Refunding				(3,768,001)	(3,768,001)
Sale of Capital Assets	9,763	25,934		1	35,698
Insurance Recoveries	22,780				22,780
Capital Contributions	1,160				1,160
Distributions from Permanent Fund Principal (Note 12)				(11,801)	(11,801)
Transfer In (Note 12)	5,953,500	1,349,799		4,139,935	11,443,234
Transfer Out (Note 12)	(10,690,807)	(792,862)	(1,701,690)	(4,546,247)	(17,731,606)
Total Other Financing Sources (Uses)	(4,472,304)	582,871	(1,701,690)	(86,716)	(5,677,839)
Net Change in Fund Balances	(228,041)	(445,325)	175,201	355,810	(142,355)
Fund Balances, September 1, 2019	16,278,422	9,262,804	46,500,380	7,835,910	79,877,516
Restatements (Note 14)	760,997			160,037	921,034
Fund Balances, September 1, 2019, as Restated	17,039,419	9,262,804	46,500,380	7,995,947	80,798,550
Fund Balances, August 31, 2020	$ 16,811,378	$ 8,817,479	$ 46,675,581	$ 8,351,757	$ 80,656,195

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, 2020 (Amounts in Thousands)

Net Change in Fund Balances		$ (142,355)
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	9,574,980	
Depreciation Expense (Note 2)	(2,520,323)	
Amortization Expense (Note 2)	(46,691)	
		7,007,966
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.		(14,899)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(1,149,988)
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.		558,526
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	(4,074,265)	
Premiums on Bond Proceeds	(256,432)	
Repayment of Bond and Capital Lease Principal	4,797,842	
		467,145
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.		(3,175,933)
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)	(30,304)	
Increase in Revenues	1,473	
Increase in Expenses	(3,247)	
Net Change in Transfers	1,774	
		(30,304)
Change in Net Position of Governmental Activities		$ 3,520,158

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2020 (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	$ 5,767,304	$ 544	$ 141,929	$ 1,333,698	$ 7,243,475	$ 93,612
Short-Term Investments	500,433			524,020	1,024,453	1,056,509
Receivables:						
Accounts	1,926,721	345,985	62,098	27,583	2,362,387	259,925
Federal	878,692	2,226,913		20,777	3,126,382	
Other Intergovernmental	123,617				123,617	
Gifts and Pledges	334,859				334,859	
Investment Trades	970,124				970,124	1,694
Interest and Dividends	89,947	8		121,723	211,678	12,062
Interfund (Note 12)	55,893			180	56,073	
From Other Funds (Note 12)	1,358,369	17,203		81,021	1,456,593	918
Other Receivables	501,859			6,886	508,745	
Securities Lending Collateral	418,832			91,236	510,068	8,167
Loans and Contracts	141,195			372,761	513,956	
Inventories	219,842		31,050	15,907	266,799	
Prepaid Items	274,638			964	275,602	
Other Current Assets	465,841			21	465,862	
Restricted:						
Cash and Cash Equivalents	1,686,681	57,596		2,234,577	3,978,854	
Short-Term Investments	165,450		80,846	810,015	1,056,311	
Loans and Contracts				250,964	250,964	
Total Current Assets	15,880,297	2,648,249	315,923	5,892,333	24,736,802	1,432,887
Noncurrent Assets:						
Receivables:						
Interfund (Note 12)	1,412,960			1,465	1,414,425	
Gifts and Pledges	766,823				766,823	
Other Receivables		66,494			66,494	
Investments	20,268,603			405,621	20,674,224	1,872,926
Derivative Instruments: (Note 3, 7, 15)						
Hedging	414				414	
Assets Held in Trust	362			4,365	4,727	
Loans and Contracts	15,792			11,844,978	11,860,770	
Restricted:						
Cash and Cash Equivalents	220,009				220,009	
Short-Term Investments	301				301	
Receivables	87,415			111,296	198,711	
Investments	48,064,387		377,644	3,070,309	51,512,340	
Loans and Contracts	58,129			3,120,819	3,178,948	
Other Restricted Assets	2,901			514	3,415	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	6,094,107			1,256,217	7,350,324	
Depreciable or Amortizable, Net	27,434,340		430	1,893,890	29,328,660	
Intangible Assets:						
Service Concession Arrangements (Note 26)				2,876,436	2,876,436	
Other Noncurrent Assets	390,697			43	390,740	
Total Noncurrent Assets	104,817,240	66,494	378,074	24,585,953	129,847,761	1,872,926
Total Assets	120,697,537	2,714,743	693,997	30,478,286	154,584,563	3,305,813
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows of Resources (Note 27)	7,385,161			560,626	7,945,787	
Total Deferred Outflows of Resources	7,385,161	0	0	560,626	7,945,787	0
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 1,946,272	$ 2,370,503	$ 19,724	$ 152,275	$ 4,488,774	$ 689,615
Payroll	1,172,978		2,220	4,679	1,179,877	
Federal	20,048				20,048	
Other Intergovernmental	3,697				3,697	
Investment Trades	1,588,016			4,177	1,592,193	4,852
Interest	34,730			206,643	241,373	
Annuities			6,321		6,321	

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, 2020 (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	
LIABILITIES (concluded)						
Current Liabilities:						
Payables:						
Notes and Loans (Note 5)	$ 32,833	$	$	$ 11,518	$ 44,351	$
Interfund (Note 12)	61,355			66	61,421	
To Other Funds (Note 12)	301,776		92,719	16,193	410,688	11,261
From Restricted Assets (Note 5)	37,101		200,858	304,050	542,009	
Bonds:						
General Obligation (Note 5, 6)	2,687			279,713	282,400	
Revenue (Note 5, 6)	2,369,981			286,921	2,656,902	
Short-Term Debt (Note 4)	1,626,262	3,787,753		140,801	5,554,816	
Obligations:						
Securities Lending	418,832			91,236	510,068	8,130
Capital Leases (Note 5, 8)	20,778				20,778	
Pollution Remediation (Note 5)	60				60	
Asset Retirement (Note 5)	20				20	
Funds Held for Others	42,676				42,676	
Claims and Judgments (Note 5)	144,235				144,235	
Employees' Compensable Leave (Note 5)	491,723		1,717	4,092	497,532	
OPEB (Note 11)	349,047				349,047	
Other Current Liabilities	167,387		3,101	2,270	172,758	
Unearned Revenue	4,031,218	285,584		41,396	4,358,198	
Total Current Liabilities	14,863,712	6,443,840	326,660	1,546,030	23,180,242	713,858
Noncurrent Liabilities:						
Payables:						
Notes and Loans (Note 5)	259,624			801,641	1,061,265	
Interfund (Note 12)	1,423,599				1,423,599	
From Restricted Assets (Note 5)	2,233		325,640	1,430,451	1,758,324	
Bonds:						
General Obligation (Note 5, 6)	14,884			3,735,020	3,749,904	
Revenue (Note 5, 6)	17,406,662			16,380,094	33,786,756	
Obligations:						
Capital Leases (Note 5, 8)	242,520				242,520	
Pollution Remediation (Note 5)	1,023				1,023	
Asset Retirement (Note 5)	41,331				41,331	
Derivative Instruments: (Note 3, 7, 15)						
Investment	182,210				182,210	
Hedging	413,075			350,474	763,549	
Assets Held for Others	705,033			4,365	709,398	
Claims and Judgments (Note 5)	45,822				45,822	
Employees' Compensable Leave (Note 5)	567,601		1,347	1,255	570,203	
Pension (Note 9)	6,460,909				6,460,909	
OPEB (Note 11)	16,409,063				16,409,063	
Other Noncurrent Liabilities	323,518			205,986	529,504	
Total Noncurrent Liabilities	44,499,107	0	326,987	22,909,286	67,735,380	0
Total Liabilities	59,362,819	6,443,840	653,647	24,455,316	90,915,622	713,858
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows of Resources (Note 27)	5,053,638			27,852	5,081,490	
Total Deferred Inflows of Resources	5,053,638	0	0	27,852	5,081,490	0
NET POSITION						
Net Investment in Capital Assets	12,827,113		430	820,922	13,648,465	
Restricted for:						
Education	3,926,982				3,926,982	
Debt Service	17,423			520,264	537,687	
Capital Projects	664,240			6,741	670,981	
Veterans Land Board Housing Programs				711,006	711,006	
Funds Held as Permanent Investments:						
Nonexpendable	28,969,238			227	28,969,465	
Expendable	13,535,159				13,535,159	
Other Restricted Net Position			5,000	5,381,289	5,386,289	2,591,955
Unrestricted	3,726,086	(3,729,097)	34,920	(884,705)	(852,796)	
Total Net Position	$ 63,666,241	$ (3,729,097)	$ 40,350	$ 6,555,744	$ 66,533,238	$ 2,591,955

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, 2020 (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	
OPERATING REVENUES						
Lottery Collections	$	$	$ 6,704,415	$	$ 6,704,415	$
Unemployment Taxes		1,989,528			1,989,528	
Hospital Revenue – Pledged	16,709,551				16,709,551	
Discounts and Allowances	(9,720,349)				(9,720,349)	
Tuition Revenue	106,934				106,934	
Tuition Revenue – Pledged	7,422,518				7,422,518	
Discounts and Allowances	(2,063,619)				(2,063,619)	
Professional Fees	7,633,864				7,633,864	
Professional Fees – Pledged	22,492				22,492	
Discounts and Allowances	(5,434,945)				(5,434,945)	
Auxiliary Enterprises	3,802				3,802	
Auxiliary Enterprises – Pledged	1,468,720			116,124	1,584,844	
Discounts and Allowances	(102,644)				(102,644)	
Other Sales of Goods and Services	12,193			28,683	40,876	
Other Sales of Goods and Services – Pledged	989,215			385,569	1,374,784	
Discounts and Allowances	(6,372)			2,019	(4,353)	
Interest and Investment Income	1,571			508,740	510,311	
Interest and Investment Income – Pledged	500			1,910	2,410	
Federal Revenue	2,603,714	21,811,610		72,392	24,487,716	
State Grant Revenue	20,110				20,110	
Premium Revenue						2,765,367
Other Operating Grant Revenue	1,020,690				1,020,690	
Other Operating Grant Revenue – Pledged	1,586,004				1,586,004	
Other Revenues	78,643	252,156	1,201	215,511	547,511	12,066
Other Revenues – Pledged	621,859				621,859	
Total Operating Revenues	22,974,451	24,053,294	6,705,616	1,330,948	55,064,309	2,777,433
OPERATING EXPENSES						
Cost of Goods Sold	95,124			83,002	178,126	
Salaries and Wages	15,222,455		20,437	52,475	15,295,367	8,540
Payroll Related Costs	5,534,680		7,161	14,695	5,556,536	2,900
Professional Fees and Services	1,551,628		4,917	126,141	1,682,686	1,487
Materials and Supplies	4,117,667		1,101	13,154	4,131,922	699
Travel	221,419		111	447	221,977	36
Communication and Utilities	701,826		499	3,149	705,474	476
Repairs and Maintenance	721,891		448	39,970	762,309	593
Rentals and Leases	369,338		6,261	2,197	377,796	206
Printing and Reproduction	60,092		39,293	72	99,457	47
Scholarships	1,503,173				1,503,173	
Lottery Fees and Other Costs			476,387		476,387	
Lottery Prize Payments			4,442,358		4,442,358	
Claims and Judgments	174,298				174,298	
Employee/Participant Benefit Payments				104,389	104,389	2,298,095
Unemployment Benefit Payments		30,138,406			30,138,406	
Net Change in Asset Retirement Obligation	2,746				2,746	
Depreciation and Amortization	2,614,260		162	127,764	2,742,186	
Bad Debt	5,791		398	4,224	10,413	
Interest	956		1	439,269	440,226	
Other Expenses	2,711,951		23,120	168,443	2,903,514	2,166
Total Operating Expenses	35,609,295	30,138,406	5,022,654	1,179,391	71,949,746	2,315,245
Operating Income (Loss)	(12,634,844)	(6,085,112)	1,682,962	151,557	(16,885,437)	462,188

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, 2020 (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]
NONOPERATING REVENUES (EXPENSES)						
Federal	$ 2,054,469	$	$	$ 161,973	$ 2,216,442	$
Gifts	805,309			507	805,816	
Gifts – Pledged	139,753				139,753	
Land Income				14	14	
Interest and Investment Income	4,246,028	34,010	11,778	182,158	4,473,974	95,658
Interest and Investment Income – Pledged	1,512,192				1,512,192	
Loan Premium and Fees on Securities Lending	31				31	132
Settlement of Claims	3,966			152	4,118	449
Depreciation and Amortization				26,641	26,641	
Other Nonoperating Revenues	55,438				55,438	
Other Nonoperating Revenues – Pledged	94,196				94,196	
Investing Activities	(241,122)			(533)	(241,655)	
Borrower Rebates and Agent Fees	(5,416)			768	(4,648)	99
Gain (Loss) on Sale of Capital Assets	(32,334)				(32,334)	
Claims and Judgments	(1,105)			(4)	(1,109)	
Interest	(676,069)			(356,215)	(1,032,284)	
Other Nonoperating Expenses	(99,625)			(52,913)	(152,538)	
Total Nonoperating Revenues (Expenses)	7,855,711	34,010	11,778	(37,452)	7,864,047	96,338
Income (Loss) Before Capital Contributions, Endowments and Transfers	(4,779,133)	(6,051,102)	1,694,740	114,105	(9,021,390)	558,526
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions (Distributions) – Federal	(3,727)				(3,727)	
Capital Contributions – Other	180,583			29,218	209,801	
Contributions to Permanent and Term Endowments	207,888				207,888	
Transfer In (Note 12)	8,853,608			108,803	8,962,411	
Transfer Out (Note 12)	(928,410)		(1,683,729)	(65,004)	(2,677,143)	
Other Capital Contributions, Endowments and Transfers	698				698	
Total Capital Contributions, Endowments and Transfers	8,310,640	0	(1,683,729)	73,017	6,699,928	0
Change in Net Position	3,531,507	(6,051,102)	11,011	187,122	(2,321,462)	558,526
Net Position, September 1, 2019	60,136,981	2,322,005	29,339	6,368,935	68,857,260	2,033,429
Restatements (Note 14)	(2,247)			(313)	(2,560)	
Net Position, September 1, 2019, as Restated	60,134,734	2,322,005	29,339	6,368,622	68,854,700	2,033,429
Net Position, August 31, 2020	$ 63,666,241	$ (3,729,097)	$ 40,350	$ 6,555,744	$ 66,533,238	$ 2,591,955

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, 2020 (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 OPERATING ACTIVITIES						
Proceeds from Customers	$ 9,945,920	$ 2,046,792	$ 6,684,207	$ 606,457	$ 19,283,376	$ 507,705
Proceeds from Tuition and Fees	5,431,280				5,431,280	
Proceeds from Research Grants and Contracts	5,214,942	19,641,038			24,855,980	
Proceeds from Gifts				88	88	
Proceeds from Loan Programs	878,374			3,469,686	4,348,060	
Proceeds from Auxiliaries	1,209,896				1,209,896	
Proceeds from Other Operating Revenues	1,494,157	162,262		246,203	1,902,622	2,346,014
Payments to Suppliers for Goods and Services	(11,178,733)		(562,529)	(476,087)	(12,217,349)	(8,720)
Payments to Employees	(18,534,978)		(27,314)	(62,852)	(18,625,144)	
Payments for Loans Provided	(872,542)			(2,575,503)	(3,448,045)	
Payments for Lottery Prizes			(4,428,591)		(4,428,591)	
Payments for Unemployment Benefits		(27,947,691)			(27,947,691)	
Payments for Other Operating Expenses	(1,836,935)			(231,257)	(2,068,192)	(2,386,819)
Net Cash Provided (Used) by Operating Activities	(8,248,619)	(6,097,599)	1,665,773	976,735	(11,703,710)	458,180
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				8,331,868	8,331,868	
Proceeds from Gifts	845,071				845,071	
Proceeds from Endowments	162,272				162,272	
Proceeds from Transfers from Other Funds	8,516,953			3,329,275	11,846,228	
Proceeds from Interfund Payables				37,535	37,535	
Proceeds from Loan Programs	28,823	3,787,753			3,816,576	
Proceeds from Grant Receipts	3,078,992			159,594	3,238,586	
Proceeds from Other Noncapital Financing Activities	614,334		1,926	41,709	657,969	
Payments of Principal on Debt Issuance				(6,888,129)	(6,888,129)	
Payments of Interest	(2)			(617,619)	(617,621)	
Payments of Other Costs on Debt Issuance				(6,563)	(6,563)	
Payments for Transfers to Other Funds	(2,470,416)	(14,762)	(1,761,475)	(3,280,628)	(7,527,281)	
Payments for Grant Disbursements	(19,693)			(44,877)	(64,570)	
Payments for Interfund Receivables				(37,365)	(37,365)	
Payments for Other Noncapital Financing Uses	(698,338)		(69,943)	(322,003)	(1,090,284)	
Net Cash Provided (Used) by Noncapital Financing Activities	10,057,996	3,772,991	(1,829,492)	702,797	12,704,292	0
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	25,029				25,029	
Proceeds from Debt Issuance	4,075,765				4,075,765	
Proceeds from Federal Grants and Contracts	1,000			1,766	2,766	
Proceeds from Gifts	41,343				41,343	
Proceeds from Other Capital and Related Financing Activities	225,386			12	225,398	
Proceeds from Capital Contributions	131,574				131,574	
Payments for Additions to Capital Assets	(3,512,409)		(166)	(176,189)	(3,688,764)	
Payments of Principal on Debt Issuance	(3,198,693)			(26,715)	(3,225,408)	
Payments for Capital Leases	(14,076)				(14,076)	
Payments of Interest on Debt Issuance	(779,223)			(108,852)	(888,075)	
Payments of Other Costs on Debt Issuance	(297,192)			(7,426)	(304,618)	
Payments for Interfund Receivables	(4,776)			(36)	(4,812)	
Net Cash Used by Capital and Related Financing Activities	(3,306,272)	0	(166)	(317,440)	(3,623,878)	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, 2020 (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	$ 42,750,828	$	$ 69,941	$ 3,295,066	$ 46,115,835	$
Proceeds from Interest and Investment Income	1,915,139	43,498		1,857,111	3,815,748	2,955
Proceeds from Principal Payments on Loans				809,878	809,878	
Payments to Acquire Investments	(42,780,132)		(2,980)	(2,766,281)	(45,549,393)	(506,275)
Payments for Nonprogram Loans Provided				(3,561,179)	(3,561,179)	
Net Cash Provided (Used) by Investing Activities	1,885,835	43,498	66,961	(365,405)	1,630,889	(503,320)
Net Increase (Decrease) in Cash and Cash Equivalents	388,940	(2,281,110)	(96,924)	996,687	(992,407)	(45,140)
Cash and Cash Equivalents, September 1, 2019	7,387,558	2,339,250	238,853	2,571,588	12,537,249	138,752
Restatements	(102,504)				(102,504)	
Cash and Cash Equivalents, September 1, 2019, as Restated	7,285,054	2,339,250	238,853	2,571,588	12,434,745	138,752
Cash and Cash Equivalents, August 31, 2020	$ 7,673,994	$ 58,140	$ 141,929	$ 3,568,275	$ 11,442,338	$ 93,612
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (12,634,844)	$ (6,085,112)	$ 1,682,962	$ 151,557	$ (16,885,437)	$ 462,188
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	2,614,260		162	127,764	2,742,186	
Bad Debt Expense	408,955		398	4,224	413,577	
Pension Expense	1,158,591				1,158,591	
OPEB Expense	1,332,668				1,332,668	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(1,496)			18,568	17,072	
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(372,988)	(2,390,557)	(21,409)	41,197	(2,743,757)	(22,472)
(Increase) Decrease in Due From Other Funds	(9,054)			37,014	27,960	2,740
(Increase) Decrease in Inventories	(19,154)		2,468	(2,900)	(19,586)	
(Increase) in Notes Receivables	(1,675)				(1,675)	
(Increase) Decrease in Loans and Contracts	8,158			(1,018,251)	(1,010,093)	
(Increase) Decrease in Other Assets	(55,535)			93,022	37,487	
Decrease in Deferred Outflows of Resources - Pensions	464,928				464,928	
(Increase) in Deferred Outflows of Resources - OPEB	(139,939)				(139,939)	
(Increase) Decrease in Prepaid Expenses	(18,962)		197	80	(18,685)	
(Increase) Decrease in Payables	137,672	2,294,733	995	(50,737)	2,382,663	36,528
Increase (Decrease) in Deposits	(203)			379,119	378,916	
Increase (Decrease) in Due To Other Funds	56,839			4,833	61,672	(20,770)
Increase (Decrease) in Unearned Revenue	(10,211)	83,337		(37,858)	35,268	(34)
Increase in Employees' Compensable Leave	118,696			266	118,962	
Increase in Benefits Payable	7,557				7,557	
Decrease in Liabilities to Employees for Defined Benefit Pensions	(1,781,560)				(1,781,560)	
Increase in Liabilities to Employees for Defined Benefit OPEB	436,057				436,057	
Increase (Decrease) in Other Liabilities	(263,251)			1,228,837	965,586	
Increase in Deferred Inflows of Resources - Pensions	799,069				799,069	
Decrease in Deferred Inflows of Resources - OPEB	(486,105)				(486,105)	
Increase in Asset Retirement Obligations	2,908				2,908	
Total Adjustments	4,386,225	(12,487)	(17,189)	825,178	5,181,727	(4,008)
Net Cash Provided (Used) by Operating Activities	$ (8,248,619)	$ (6,097,599)	$ 1,665,773	$ 976,735	$ (11,703,710)	$ 458,180
NONCASH TRANSACTIONS						
Donation of Capital Assets	$ 36,966			$ 27,418	$ 64,384	
Net Change in Fair Value of Investments	$ 1,065,817		$ 11,778	$ 135,072	$ 1,212,667	$ 32,731
Borrowing Under Capital Lease Purchase	$ 22,642				$ 22,642	
Long-Term Debt Retirement from Bond Issuance				$ (944,105)	$ (944,105)	
Defeasance of Long-Term Debt				$ (2,026,477)	$ (2,026,477)	
Proceeds of Bond Issuance	$ 121,239			$ 3,141,830	$ 3,263,069	
Other	$ 41,543			$ 71,848	$ 113,391	

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 Fiduciary Net Position

August 31, 2020 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund[2]	Private-Purpose Trust Funds	Custodial Funds
ASSETS				
Cash and Cash Equivalents	$ 2,563,846	$ 2	$ 198,652	$ 1,845,375
Receivables:				
Accounts	1,000,980			4,802
Taxes	956			
Federal	166,127			
Gifts and Pledges				29,115
Investment Trades	2,841,884			4,024
Interest and Dividends	364,064	11,201	307	1,339
From Other Funds (Note 12)	63,103			
Other Receivables			522	3,574
Investments:				
U.S. Government	24,782,450	15,169,602		296,138
Corporate Equity	23,841,682		2,256	153
Corporate Obligations	2,146,382	4,681,295	1,262	
Repurchase Agreements		7,785,226		
Foreign Securities	36,284,999		796	
Externally Managed	86,020,480			6,080
Other Investments	29,068,316	3,007,520	3,480,946	266,524
Securities Lending Collateral	7,280,446			2,002
Loans and Contracts			1,762	
Prepaid Items	2,690			
Other Assets	109			1,214,709
Restricted:				
Cash and Cash Equivalents			14	38,272
Investments				113,650
Properties, at Cost, Net of Accumulated Depreciation or Amortization	110,659		533	
Total Assets	216,539,173	30,654,846	3,687,050	3,825,757
LIABILITIES				
Payables:				
Accounts	352,133	5,927	14,950	11,429
Payroll	14,253			
Investment Trades	4,413,245	774,507		6,274
Interest			132	26
Annuities	41,244			
To Other Funds (Note 12)	14,670			
From Restricted Assets			1,653	
Obligations:				
Securities Lending	7,401,737			2,002
Reverse Repurchase Agreements	7,150,530			
Derivative Instruments:				
Hedging				492
Funds Held for Others	6			84
Employees' Compensable Leave	18,701		5	
Other Liabilities	197	220	856	128,555
Unearned Revenue	386		1,143	5,807
Total Liabilities	19,407,102	780,654	18,739	154,669
NET POSITION				
Restricted for:				
Pensions	194,997,761			
OPEB[1]	2,104,022			
Held in Trust for Individuals, Organizations and Other Governments	30,288		3,668,311	
Pool Participants		29,874,192		538,395
Other Purposes				3,132,693
Total Net Position	$ 197,132,071	$ 29,874,192	$ 3,668,311	$ 3,671,088

[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.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2020 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund[2]	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Member	$ 4,806,828	$	$	$ 4,676
State	4,434,977			
Federal	297,268			216
Other Contributions	2,621,745		278,734	40,838
Total Contributions	12,160,818	0	278,734	45,730
Investment Income:				
From Investing Activities:				
Net Increase in Fair Value of Investments	6,410,612		126,194	18,050
Interest, Dividend and Other Investment Income	6,802,170	356,506	47,908	40,736
Total Investing Income	13,212,782	356,506	174,102	58,786
Less Investing Activities Expense	262,593	13,629	5,108	635
Net Income from Investing Activities	12,950,189	342,877	168,994	58,151
From Securities Lending Activities:				
Securities Lending Income	240,446			
Less Securities Lending Expense:				
Borrower Rebates[1]	190,621			
Management Fees	10,609			
Net Income from Securities Lending	39,216	0	0	0
Total Net Investment Income	12,989,405	342,877	168,994	58,151
Capital Share and Individual Account Transactions:				
Net Increase in Participant Investments	0	4,512,932	0	0
Other Additions:				
Settlement of Claims	1,956			3,811
Transfer In (Note 12)	139,149		3,247	
Other Revenue	12,404		61,170	850,251
Total Other Additions	153,509	0	64,417	854,062
Total Additions	25,303,732	4,855,809	512,145	957,943
DEDUCTIONS				
Benefits	15,594,166		259,510	1,173
Refunds of Contributions	546,550			906
Intergovernmental Payments			73,832	
Settlement of Claims				79,490
Administrative Expenses	94,519		3,498	14,548
Depreciation and Amortization	13,623		39	
Interest Expense				14
Transfer Out (Note 12)	135,659		3,633	
Other Deductions	93,823		292	821,245
Total Deductions	16,478,340	0	340,804	917,376
INCREASE (DECREASE) IN NET POSITION	8,825,392	4,855,809	171,341	40,567
Net Position, September 1, 2019	188,306,679	25,018,383	3,784,720	
Restatements (Note 14)			(287,750)	3,630,521
Net Position, September 1, 2019, as Restated	188,306,679	25,018,383	3,496,970	3,630,521
Net Position, August 31, 2020	$ 197,132,071	$ 29,874,192	$ 3,668,311	$ 3,671,088

[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.

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 implemented the following GASB statements in fiscal 2020.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities focusing on whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria is reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable:

- pension and other employee benefit trust funds
- investment trust funds
- private-purpose trust funds and
- custodial funds.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. GASB Statement No. 90:

- Defines a majority equity interest and specifies that a majority equity interest in a legally separate organization is reported as an investment if a government's holding of the equity interest meets the definition of an investment.
- Establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government must report that organization as a component unit.
- Requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions contained in the following pronouncements by one year:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests*
- GASB Statement No. 91, *Conduit Debt Obligations*
- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
- GASB Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postem-*

ployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)

- GASB Implementation Guide No. 2018-1, *Implementation Guidance Update-2018*
- GASB Implementation Guide No. 2019-1, *Implementation Guidance Update-2019*
- GASB Implementation Guide No. 2019-2, *Fiduciary Activities*

GASB Statement No. 95 also postponed the effective dates of the following pronouncements by 18 months:

- GASB Statement No. 87, *Leases*
- GASB Implementation Guide No. 2019-3, *Leases*

The state of Texas implemented GASB Statement No. 84, GASB Statement No. 90, GASB Implementation Guide No. 2019-1 and GASB Implementation Guide No. 2019-2, in fiscal 2020.

The state of Texas implemented GASB Statement No. 83, GASB Statement No. 88, GASB Statement No. 89, GASB Implementation Guide No. 2018-1 and GASB Implementation Guide No. 2017-3, in previous fiscal years.

Financial Reporting Entity

For financial reporting purposes, the state of Texas includes all agencies, boards, commissions, authorities, institutions of higher education and other organizations that compose its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of:

- General government
- Education
- Employee benefits
- Teacher retirement state contributions
- Health and human services
- Public safety and corrections
- Transportation
- Natural resources and recreation
- Regulatory services

The reporting entity for the state is in accordance with the criteria established by GASB. Note 19 provides a listing and brief summary of the component units and their relationship to the state of Texas. The government-wide financial statements present the balances and activities of the state of Texas (the primary government) and its component units.

The state's public school districts, junior 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 $635.4 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 resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources, and how the state's actual results of activities conform to the budget. A reconciliation between the governmental fund financial statements and the governmental activities column of the government-wide financial statements is presented since a different measurement focus and basis of accounting is used. The reconciliation explains the adjustments required to convert the fund-based financial statements 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
- Midwestern State University
- Texas State Technical College

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

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

The **Lottery Fund** receives fees from external users and uses the fees to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or 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 funds 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.

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, 2020, 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 2020 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 2020 is 2.5 percent based on a 40-year weighted average life expectancy of the assets in service.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net position requires two components - the amount due within one year (current) and the amount due in more than one year (noncurrent).

General long-term liabilities consist of claims and judgments, capital lease obligations, employees' compensable leave and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts are currently amortized over the life of the bonds using the straight-line method. State agencies also have the option of using bonds outstanding or the effective interest method. Bonds payable are reported net of the applicable bond accretion, premium or discount. Gain or loss on refunding is reported as deferred inflows of resources or deferred outflows of resources, respectively, and amortized over a shorter final maturity of the refunded or the refunding bonds. Issuance costs are expensed in the fiscal year in which they were incurred.

In the governmental fund financial statements, bond premiums, discounts and bond issuance costs are recognized during the current fiscal year. The face amount of the debt issued and the related premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Under the federal Fair Labor Standards Act and state laws for nonexempt, nonemergency employees overtime can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours.

Unused overtime is included in the calculation of current and noncurrent liabilities because each employee may be paid for the overtime or use it as compensatory time.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is 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, 2020, are presented in table 2A.

Capitalization of Assets

Table 2A

August 31, 2020

Capital Asset Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Facilities and Other Improvements	100,000	10-60 years
Infrastructure, Depreciable	500,000	10-50 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Library Books, Leasehold Improvements and Livestock)		
Depreciable	Various	3-22 years
Non-Depreciable	0	Not applicable
Internally Generated Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Permanent	0	Not applicable
Other Intangible Capital Assets	100,000	3-15 years
Land Use Rights – Term	100,000	10-60 years

Table 2B on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2020. 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, 2020 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/19	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/20
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 15,142,934	$ 116	$ (2,291)	$ 1,050,890	$ (3,077)	$ 16,188,572
Infrastructure	636	(88)				548
Construction in Progress	19,507,418	(100,848)	(6,820,675)	8,350,590	(148,278)	20,788,207
Land Use Rights – Permanent	66,892			4,022	(1,400)	69,514
Other Capital Assets	72,720	88		119		72,927
Total Non-Depreciable and Non-Amortizable Assets	34,790,600	(100,732)	(6,822,966)	9,405,621	(152,755)	37,119,768
Depreciable Assets						
Buildings and Building Improvements	6,503,339	4,434	103,726	7,323	(48,193)	6,570,629
Infrastructure	101,147,401		6,669,119	103,270	(4,306)	107,915,484
Facilities and Other Improvements	262,213	185	9,157	1,275	(2,352)	270,478
Furniture and Equipment	1,275,364	2,946	855	71,404	(37,369)	1,313,200
Vehicles, Boats and Aircraft	1,479,829	661	89	150,987	(36,202)	1,595,364
Other Capital Assets	156,442		1,188	1,783	(433)	158,980
Total Depreciable Assets at Historical Cost	110,824,588	8,226	6,784,134	336,042	(128,855)	117,824,135
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(4,689,192)	(272)		(181,468)	37,517	(4,833,415)
Infrastructure	(22,464,461)	(15)		(2,144,598)	893	(24,608,181)
Facilities and Other Improvements	(191,768)	(6)		(7,028)	2,039	(196,763)
Furniture and Equipment	(1,014,701)	545	3,351	(77,345)	36,712	(1,051,438)
Vehicles, Boats and Aircraft	(899,412)	(160)	1,853	(103,773)	32,958	(968,534)
Other Capital Assets	(101,636)	(15)		(6,110)	282	(107,479)
Total Accumulated Depreciation	(29,361,170)	77	5,204	(2,520,322)	110,401	(31,765,810)
Depreciable Assets, Net	81,463,418	8,303	6,789,338	(2,184,280)	(18,454)	86,058,325
Intangible Capital Assets – Amortizable						
Computer Software	572,159	1,825	3,223	15,808	(22,911)	570,104
Land Use Rights – Term	16,326				(15,434)	892
Intangible Capital Assets – Term	79,673					79,673
Total Intangible Assets at Historical Cost	668,158	1,825	3,223	15,808	(38,345)	650,669
Less Accumulated Amortization for:						
Computer Software	(484,767)	(1,825)	99	(38,613)	22,793	(502,313)
Land Use Rights – Term	(15,650)			(238)	15,434	(454)
Intangible Capital Assets – Term	(56,555)			(7,841)		(64,396)
Total Accumulated Amortization	(556,972)	(1,825)	99	(46,692)	38,227	(567,163)
Amortizable Assets, Net	111,186	0	3,322	(30,884)	(118)	83,506
Governmental Activities Capital Assets, Net	$ 116,365,204	$ (92,429)	$ (30,306)	$ 7,190,457	$ (171,327)	$ 123,261,599

Continued on the following page

Capital Asset Activity (continued)

Table 2B: Primary Government - Business-Type Activities

August 31, 2020 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/19	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/20
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 2,344,988	$	$ 5,382	$ 28,344	$ (1,399)	$ 2,377,315
Construction in Progress	3,942,271	(7,063)	(2,384,832)	2,467,931	(5,432)	4,012,875
Land Use Rights – Permanent	22,892			25		22,917
Other Capital Assets	896,312		1,530	20,197	(26)	918,013
Other Intangible Capital Assets - Permanent	18,793		411			19,204
Total Non-Depreciable and Non-Amortizable Assets	7,225,256	(7,063)	(2,377,509)	2,516,497	(6,857)	7,350,324
Depreciable Assets						
Buildings and Building Improvements	38,920,788	300	2,073,247	352,631	(16,076)	41,330,890
Infrastructure	4,346,454		68,721	9,731	(390)	4,424,516
Facilities and Other Improvements	3,200,889		113,643	14,817	(2,290)	3,327,059
Furniture and Equipment	6,744,886	(2,058)	60,710	646,660	(239,046)	7,211,152
Vehicles, Boats and Aircraft	336,027	3,118	3,605	35,491	(16,414)	361,827
Other Capital Assets	1,815,495		54,659	91,622	(29,984)	1,931,792
Total Depreciable Assets at Historical Cost	55,364,539	1,360	2,374,585	1,150,952	(304,200)	58,587,236
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(18,411,910)	(132)		(1,601,838)	3,540	(20,010,340)
Infrastructure	(1,340,396)	124		(132,669)	67	(1,472,874)
Facilities and Other Improvements	(1,300,859)			(127,848)	1,252	(1,427,455)
Furniture and Equipment	(4,692,123)	586	(3,351)	(583,396)	190,316	(5,087,968)
Vehicles, Boats and Aircraft	(251,956)	(614)	(1,853)	(25,222)	15,063	(264,582)
Other Capital Assets	(1,236,253)			(79,739)	27,235	(1,288,757)
Total Accumulated Depreciation	(27,233,497)	(36)	(5,204)	(2,550,712)	237,473	(29,551,976)
Depreciable Assets, Net	28,131,042	1,324	2,369,381	(1,399,760)	(66,727)	29,035,260
Intangible Capital Assets – Amortizable						
Computer Software	1,715,361		38,534	41,308	(64,725)	1,730,478
Land Use Rights – Term	255					255
Intangible Capital Assets – Term	2,477			11,492	(12,950)	1,019
Total Intangible Assets at Historical Cost	1,718,093	0	38,534	52,800	(77,675)	1,731,752
Less Accumulated Amortization for:						
Computer Software	(1,376,516)		(100)	(124,907)	63,664	(1,437,859)
Land Use Rights – Term	(243)			(12)		(255)
Intangible Capital Assets – Term	(255)			(1,064)	1,081	(238)
Total Accumulated Amortization	(1,377,014)	0	(100)	(125,983)	64,745	(1,438,352)
Amortizable Assets, Net	341,079	0	38,434	(73,183)	(12,930)	293,400
Business Activities Capital Assets, Net	$ 35,697,377	$ (5,739)	$ 30,306	$ 1,043,554	$ (86,514)	$ 36,678,984

Concluded on the following page

Capital Asset Activity (concluded)

Table 2B: Component Units

August 31, 2020 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/19	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/20
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 3,246	$	$	$ 608	$ (962)	$ 2,892
Construction in Progress	1,392	(436)		2,292	(385)	2,863
Total Non-Depreciable and Non-Amortizable Assets	4,638	(436)	0	2,900	(1,347)	5,755
Depreciable Assets						
Buildings and Building Improvements	17,208			4,001	(331)	20,878
Facilities and Other Improvements	414					414
Furniture and Equipment	28,658			579	(249)	28,988
Vehicles, Boats and Aircraft	6,488			1,905	(1,262)	7,131
Other Capital Assets	2,123					2,123
Total Depreciable Assets at Historical Cost	54,891	0	0	6,485	(1,842)	59,534
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(6,760)	(32)		(262)	40	(7,014)
Facilities and Other Improvements	(404)			(4)		(408)
Furniture and Equipment	(20,832)	32		(2,617)	249	(23,168)
Vehicles, Boats and Aircraft	(3,920)			(1,035)	694	(4,261)
Other Capital Assets	(1,178)			(233)		(1,411)
Total Accumulated Depreciation	(33,094)	0	0	(4,151)	983	(36,262)
Depreciable Assets, Net	21,797	0	0	2,334	(859)	23,272
Intangible Capital Assets – Amortizable						
Computer Software	8,656	436		16		9,108
Total Intangible Assets at Historical Cost	8,656	436	0	16	0	9,108
Less Accumulated Amortization for:						
Computer Software	(6,548)			(641)		(7,189)
Total Accumulated Amortization	(6,548)	0	0	(641)	0	(7,189)
Amortizable Assets, Net	2,108	436	0	(625)	0	1,919
Component Units Capital Assets, Net	$ 28,543	$ 0	$ 0	$ 4,609	$ (2,206)	$ 30,946

Table 2C discloses depreciation and amortization by governmental function and business-type activity during fiscal 2020. 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, 2020

(Amounts in Thousands)

Services	Governmental Activities	Business-Type Activities
General Government	$ 48,378	$ 278
Education	19,069	2,613,803
Employee Benefits	4	
Health and Human Services	49,155	
Public Safety and Corrections	173,785	103
Transportation	2,228,655	54,530
Natural Resources and Recreation	43,367	7,819
Regulatory Services	4,601	
Lottery		162
Total Depreciation and Amortization Expense	$ 2,567,014	$ 2,676,695

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 45 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 Office of the Attorney General (OAG) ceased its development of an internally generated accounting software project, Child Support RISE, after a lengthy review of the project and in consultation with involved principles. An independent assessment yielded results that the OAG did not have any viable or functional code for use or that could be used in a future project. Additionally, funding was removed from the project by the Texas Legislature. General government expenses include this $148.3 million impairment loss.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Texas Comptroller of Public Accounts (Comptroller) Treasury Operations Division (Treasury) by the *Texas Constitution* or by an act of the Texas Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States and its agencies and instrumentalities, bankers' acceptances, commercial paper and contracts written by the Comptroller's office, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2020. 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, 2020, 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 88.8 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 Texas Prepaid Higher Education Tuition Board (TPHETB) make investments following the prudent investor rule. Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2020, 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, 2020, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were $2.1 billion, $475.5 million and $366.6 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, 2020, the total bank balances for governmental and business-type activities, fiduciary funds and discretely presented component units were $2.2 billion, $468.5 million and $254.4 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, 2020, is presented in table 3A.

Bank Balances Exposed to Custodial Credit Risk

Table 3A

August 31, 2020 (Amounts in Thousands)

Fund Type	Uninsured and Uncollateralized	Uninsured and Collateralized[1]
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 56,317	$
	146	
Total Custodial Credit Risk - Governmental Activities	56,463	0
BUSINESS-TYPE ACTIVITIES		
College and Universities	1,913	95,673
	(9)	37
Total Custodial Credit Risk - Business-Type Activities	1,904	95,710
Total Custodial Credit Risk - Government and Business-Type Activities	$ 58,367	$ 95,710
FIDUCIARY FUNDS	$ 327,330	$ 0
COMPONENT UNITS	$ 498,732	$ 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, 2020, is presented in table 3B.

Bank Balances Exposed to Foreign Currency Risk

Table 3B

August 31, 2020 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary Funds
Argentine Peso	$ 11	$ 1
Australian Dollar	190	2,287
Batswana Pula		6
Brazilian Real	146	242
British Pound	716	5,040
Canadian Dollar	589	46,764
Chilean Peso	1	9
Chinese Yuan (Offshore)		(1,892)
Chinese Yuan Renminbi	37	15,523
Colombian Peso	378	
Czech Koruna		3,890
Danish Krone		165
Egyptian Pound		1
Euro	9,261	37,747
Hong Kong Dollar	161	2,048
Hungarian Forint		1
Indian Rupee		4,633
Indonesian Rupiah	93	33
Israel New Shekel	136	5
Japanese Yen	2,814	(261)
Malaysian Ringgit	382	11
Mexican Peso	873	(8)
New Zealand Dollar		7
Norwegian Krone	171	496
Philippine Peso	37	
Polish Zloty	19	114
Qatari Rial	993	
Russian Ruble	(24)	
Saudi Riyal		303
Singapore Dollar	984	682
South African Rand	159	125
South Korean Won	143	563
Swedish Krona	18	653
Swiss Franc	2,041	238
Taiwan Dollar	1,125	1,587
Thai Baht	8	516
Turkish Lira	169	6
United Arab Emirates Dirham	146	52
Total Foreign Currency Risk	$ 21,777	$ 121,587

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, 2020. 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, 2020 are presented in tables 3C, 3D and 3E.

Investments Fair Values

Table 3C: Governmental and Business-Type Activities

August 31, 2020 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 5,887,156	$ 14,768,737	$	$ 20,655,893
U.S. Treasury Strips	222,061			222,061
U.S. Treasury TIPS	1,748,912			1,748,912
U.S. Government Agency Obligations	1,458,590	8,423,962		9,882,552
Corporate Obligations	291,849	6,600,218	28,975	6,921,042
Corporate Asset and Mortgage Backed Securities	715	3,958,212		3,958,927
Equity	11,041,458	210,122	5,833	11,257,413
International Obligations (Govt and Corp)	1,672	5,698,578	5,006	5,705,256
International Equity	9,215,982	2,501	1,837	9,220,320
International Other Commingled Funds	496,374	3,223	216,443	716,040
Repurchase Agreement	44,618	540,195		584,813
Mutual Funds - Domestic/International	2,737,278	13,987		2,751,265
Fixed Income Money Market and Bond Mutual Fund	8,633,389	2,704		8,636,093
Other Commingled Funds	3,835,089	122,284	47,266	4,004,639
Commercial Paper	467,979	8,771,809		9,239,788
Invested Collateral	8,167	1,772,908		1,781,075
Securities Lending Collateral Investment Pool	91,236			91,236
Real Estate	10,232	11,900	10,185,269	10,207,401
Derivatives - Domestic/International	10,341	215,334		225,675
Alternative Investments - Domestic/International	71,577	750,317	608,267	1,430,161
Miscellaneous	301,422	142,812	36,601	480,835
Total Investments at Fair Value	46,576,097	52,009,803	11,135,497	109,721,397
INVESTMENTS AT NAV				
U.S. Treasury Securities				21,946
Equity				849,377
International Equity				154,294
International Other Commingled Funds				5,751,212
Repurchase Agreement				2,517
Mutual Funds - Domestic/International				280,574
Fixed Income Money Market and Bond Mutual Fund				1,287,361
Other Commingled Funds				3,563,326
Real Estate				3,382,576
Alternative Investments - Domestic/International				47,843,054
Miscellaneous				173,705
Total Investments at NAV				63,309,942
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				109,501
U.S. Government Agency Obligations				176,961
Repurchase Agreement				2,674,462
Fixed Income Money Market and Bond Mutual Fund				546,055
Other Commingled Funds				170,395
Miscellaneous				43,559
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				3,720,933
Total of Investments - Governmental and Business-Type Activities				$ 176,752,272

Investments Fair Values

Table 3D: Fiduciary Funds

August 31, 2020 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 22,009,527	$ 9,603,465	$	$ 31,612,992
U.S. Treasury Strips		35,877		35,877
U.S. Treasury Tips	3,903	2,227,276		2,231,179
U.S. Government Agency Obligations		7,514,491		7,514,491
Corporate Obligations	3	2,156,229	444	2,156,676
Corporate Asset and Mortgage Backed Securities	733	342,722		343,455
Equity	23,861,638	14,049	344	23,876,031
International Obligations (Govt and Corp)		2,632,045	110	2,632,155
International Equity	33,819,161	4	2,952	33,822,117
International Other Commingled Funds	7,142		3,811	10,953
Repurchase Agreement		7,785,226		7,785,226
Mutual Funds - Domestic/International	3,341,726			3,341,726
Fixed Income Money Market and Bond Mutual Fund	674,190			674,190
Other Commingled Funds	486,246	1,301	589	488,136
Commercial Paper		5,215,227		5,215,227
Invested Collateral	112,858	7,121,497	48,093	7,282,448
Real Estate	1,075,654	66,928	2,200	1,144,782
Derivatives - Domestic/International	2,580	(34,375)	12,062	(19,733)
Alternative Investments - Domestic/International		3,804	837,651	841,455
Miscellaneous	587,726	5,499	94	593,319
Total Investments at Fair Value	85,983,087	44,691,265	908,350	131,582,702
INVESTMENTS AT NAV				
Equity				1,609
International Other Commingled Funds				6,754,631
Mutual Funds - Domestic/International				439,454
Fixed Income Money Market and Bond Mutual Fund				566,951
Other Commingled Funds				10,085,057
Real Estate				5,195
Alternative Investments - Domestic/International				87,676,665
Miscellaneous				9,437,458
Total Investments at NAV				114,967,020
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				25,616
Repurchase Agreement				634,956
Fixed Income Money Market and Bond Mutual Fund				65,473
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				726,045
Total of Investments - Fiduciary Funds				$ 247,275,767

Investments Fair Values

Table 3E: Discrete Component Units

August 31, 2020 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 22,158	$ 142,594	$	$ 164,752
U.S. Government Agency Obligations	4,587	63,598		68,185
Corporate Obligations		30,787		30,787
Corporate Asset and Mortgage Backed Securities		91,107		91,107
Equity	41,732			41,732
International Obligations (Govt and Corp)		22,002		22,002
International Equity	20,986			20,986
Mutual Funds - Domestic/International	192,045			192,045
Fixed Income Money Market and Bond Mutual Fund	59,004	1,315		60,319
Other Commingled Funds		14,840	80	14,920
Commercial Paper		92,206		92,206
Real Estate			14,713	14,713
Derivatives - Domestic/International		5,967		5,967
Alternative Investments - Domestic/International		43,407	5,995	49,402
Miscellaneous	61,605	2,457	13,989	78,051
Total Investments at Fair Value	402,117	510,280	34,777	947,174
INVESTMENTS AT NAV				
Equity				18,361
International Other Commingled Funds				22,148
Real Estate				2,072
Alternative Investments - Domestic/International				19,973
Miscellaneous				263,697
Total Investments at NAV				326,251
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
Repurchase Agreement				98,797
Fixed Income Money Market and Bond Mutual Fund				13,100
Other Commingled Funds				2,541
Miscellaneous				3,297
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				117,735
Total of Investments - Discrete Components				$ 1,391,160

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 92.6 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
210 W. 7th St.
Austin, Texas 78701

The investments reported at NAV per share as of Aug. 31, 2020, including unfunded commitments, is presented in table 3F.

Investments Reported at Net Asset Value (NAV)

Table 3F

August 31, 2020 (Amounts in Thousands)

Investment Type	Fair Value	Redemption Frequency	Redemption Notice Period	Unfunded Commitment
Alternative	$ 8,258,127	Daily - Annually	1 - 90 days	$ 4,335,586
Commingled Funds	26,985,655	Daily - Annually	1 - 95 days	215,703
Energy, Natural Resources, Infrastructure	11,872,937	Daily	3 days	9,592,594
Fixed Income	12,372,633	Daily	1 day - 90 days	306,319
Hedge Funds	35,129,853	Daily - Annually	1 day - 2yr	1,655,210
Mutual Funds	2,628,450	Daily - Monthly	1 - 60 days	
Private Equity	48,295,567	Monthly - 5yr	2 days - 1yr	28,438,780
Real Estate	28,697,909	Daily - 5yr	2 days - 1yr	19,088,747
Risk Parity	4,146,835	Monthly	5 days	
U.S. Government Obligations	215,248	Daily - Monthly	3 days	
Total Investments at Net Asset Value	$178,603,214			$63,632,939

Alternative: These investments are externally managed and invest in multiple types of assets and securities, which may include hedge funds, private equity and the other types described 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, 2020, is presented in table 3G.

Invested Securities Lending Collateral Fair Value

Table 3G: Governmental and Business-Type Activities

August 31, 2020 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Investments at Fair Value				
U.S. Government Obligations	$	$ 17,623	$	$ 17,623
Corporate Obligations		554,114		554,114
Corporate Asset and Mortgage Backed Securities		259,946		259,946
International Obligations (Govt and Corp)		67,971		67,971
Repurchase Agreement	8,167	494,121		502,288
Commercial Paper		172,523		172,523
Miscellaneous		206,609		206,609
Total Invested Securities Lending Collateral – Governmental and Business-Type Activities	$ 8,167	$ 1,772,907	$ 0	$ 1,781,074

Concluded on the following page

Invested Securities Lending Collateral Fair Value (concluded)

Table 3G: Fiduciary Funds

August 31, 2020 (Amounts in Thousands)

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Investments at Fair Value				
Corporate Obligations	$	$ 922,923	$	$ 922,923
Corporate Asset and Mortgage Backed Securities		851,786	48,093	899,879
Repurchase Agreement	112,858	3,633,725		3,746,583
Commercial Paper		1,301,188		1,301,188
Miscellaneous		411,875		411,875
Total Invested Securities Lending Collateral – Fiduciary Funds	$ 112,858	$ 7,121,497	$ 48,093	$ 7,282,448

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, 2020, is presented in table 3H.

Investments Exposed to Custodial Credit Risk

Table 3H

August 31, 2020 (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	$	$ 522,297
Corporate Asset and Mortgage Backed Securities		259,946
Repurchase Agreement		241,571
Commercial Paper		135,695
Miscellaneous		194,567
Subtotal Custodial Credit Risk - Governmental Activities	0	1,354,076
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury Securities	3,125	
U.S. Government Agency Obligations	4,494	
Corporate Obligations	7,881	
Equity	51,782	
International Equity	2,227	
Fixed Income Money Market and Bond Mutual Fund	25,034	
Other Commingled Funds	1,371	
Miscellaneous	402	
Subtotal Custodial Credit Risk - Business-Type Activities	96,316	0
Total Custodial Credit Risk	$ 96,316	$ 1,354,076

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

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, 2020, is presented in table 3I.

Investments Exposed to Foreign Currency Risk

Table 3I

August 31, 2020 (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	$ 95	$	$	$	$	$ 3	$	$	$
Australian Dollar	126,371	239,028	757	148,475	371,920	1,071,237	435	75,108	
Botswana Pula						51			
Brazilian Real	74,748	346,430	41,843		95	412,060			
British Pound	142,409	619,038	1,123	226,515	945,503	2,600,082	1,314	738,548	236
Canadian Dollar	153,050	363,274	10,746	188,164	47	1,990,046	462		
Chilean Peso		8,898				17,250			
Chinese Yuan (Offshore)	51								
Chinese Yuan Renminbi	75,186	870,223	65,481		3	525,113			
Colombian Peso	89,578	3,565	6			5,525			
Czech Koruna		2,241	174			15,530			
Danish Krone	109,074	93,504	26			406,522	222		
Egyptian Pound		5,946	2,172			7,597			
Euro	557,852	1,413,136	17,243	819,765	555,821	6,340,539	743,296	4,373,587	189
Hong Kong Dollar		687,678	312			4,011,614	246		
Hungarian Forint		5,516	72			47,783			
Indian Rupee	1	60,534	822			1,119,678	47		
Indonesian Rupiah	88,241	38,707	279		27	239,852			
Israeli New Shekel	2,282	19,236	437			50,453			
Japanese Yen	435,233	1,338,560	5,880			4,831,948	815		
Malaysian Ringgit	86,910	37,604	110			113,332			
Mexican Peso	291,419	49,067	153		68,811	315,813			
New Zealand Dollar	3,163	12,992	2			40,057			
Nigerian Naira						4			
Norwegian Krone	15,877	41,357	1			312,334			
Pakistan Rupee						16,718			
Peruvian Nuevo Sol	13,480	86				66			
Philippine Peso		12,469	8			35,951			
Polish Zloty	25,345	16,054	223			92,156			
Qatari Rial		15,198	33			38,047			
Romanian Leu	16,710								
Russian Ruble	8,947	30,471	61			148,491			
Saudi Riyal						119,951			
Singapore Dollar	121,495	37,601	34			150,938			

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Investments Exposed to Foreign Currency Risk (concluded)

Table 3I

August 31, 2020 (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**
South African Rand	$ 62,417	$ 90,615	$ 3,059	$	$	$ 385,481	$	$	$
South Korean Won	12,466	499,695	7,782			1,434,781		33	
Swedish Krona		134,796	159	16,729		510,027	469		
Swiss Franc		425,075	(238)			1,597,801	789		
Taiwan Dollar		306,571	701			1,435,380	267		
Thai Baht		38,509				206,173			
Turkish Lira		30,793	21			61,026			
United Arab Emirates Dirham		20,680	75			34,888			
Total Foreign Currency Risk	$ 2,512,400	$ 7,915,147	$ 159,557	$ 1,399,648	$ 1,942,227	$ 30,742,298	$ 748,362	$ 5,187,276	$ 425

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, 2020, is presented in table 3J.

Investments Exposed to Credit Risk[1]

Table 3J: Governmental and Business-Type Activities

August 31, 2020 (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	$ 1,950,472	$ 723,309	$ 3,426,147	$ 2,504,447	$ 314,919	$	$	$ 307,667	$ 9,226,961
AA	11,683,870	1,899,371	127,403	260,839	1,596,130			178,417	15,746,030
A	198,858	2,249,393	128,979	293,287	114,999			122,680	3,108,196
BBB	8,719	2,062,356	275,744	813,289				52,264	3,212,372
BB	1,593	319,838	85,595	247,718				33,480	688,224
B	933	114,052	2,771	50,319				57,427	225,502
CCC		32,778	10,102	21,181				9,319	73,380
CC			653						653
D		29	13	1,786					1,828
AAAf						8,629,974			8,629,974
AAAm						1,987,781			1,987,781
Aaf						51,788			51,788
Af						3,799			3,799
BBBf						3,031			3,031
BBf						550			550
Bf						121			121
A-1							8,936,036		8,936,036
Not Rated	237,367	41,039	161,465	1,511,390	552,087	1,267,692	310,404	3,966,507	8,047,951
Total Credit Risk	$ 14,081,812	$ 7,442,165	$ 4,218,872	$ 5,704,256	$ 2,578,135	$ 11,944,736	$ 9,246,440	$ 4,727,761	$ 59,944,177

[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, 2020 (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	$ 2,570,402	$ 42,750	$ 233,305	$ 134,351	$ 519,267	$	$	$ 533,187	$ 4,033,262
AA	7,545,864	95,116	8,385	5,545	7,879,455			2,756,920	18,291,285
A	9	51,308	17,231	1,132				155,372	225,052
BBB	957	184,686	11,789	85,767				42,788	325,987
BB	5	976,310	4,356	257,736				17,152	1,255,559
B	13	558,538	10,771	189,195				26,388	784,905
CCC		189,790	13,836	131,274				9,497	344,397
CC			1,308						1,308
C			32						32
D		181	964	11,752					12,897
AAAf						178,597			178,597
AAAm						136			136
A-1							5,215,227		5,215,227
Not Rated	5,856	57,997	41,477	1,815,403		26,286	425	560,172	2,507,616
Total Credit Risk	$ 10,123,106	$ 2,156,676	$ 343,454	$ 2,632,155	$ 8,398,722	$ 205,019	$ 5,215,652	$ 4,101,476	$ 33,176,260
DISCRETE COMPONENT UNITS									
AAA	$ 2,527	$ 6,781	$ 91,107	$ 21,231	$ 82,016	$	$	$ 245,148	$ 448,810
AA	74,086	14,900		771	15,038			2,541	107,336
A		5,688						58,380	64,068
BBB		3,416							3,416
AAAf						40,272			40,272
A-1							92,206		92,206
Not Rated	11,851				1	11,948		5,606	29,406
Total Credit Risk	$ 88,464	$ 30,785	$ 91,107	$ 22,002	$ 97,055	$ 52,220	$ 92,206	$ 311,675	$ 785,514

[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, 2020, 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 Barclay Aggregate Bond Index's duration and the duration of the real return portfolio to be consistent with the Barclay's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2020, the Barclay's Aggregate Bond Index duration was 6.1 years, the Barclay's TIPS Index was 8 years , the Barclays's Capital U.S. Long Treasury Total Return Index was 19.4 years, the Barclay's Capital U.S. 1-3 Year Aggregate Total Return index was 1.6 years and the JPM GBI-EM Global Diversified Index was 5.4 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, 2020, is presented in table 3K.

Investments Exposed to Interest Rate Risk

Table 3K: Permanent School Fund

August 31, 2020 (Amounts in Thousands)

PSF Investment Type	Fair Value	Effective Weighted Duration Rate
Asset Backed Securities	$ 40,152	5.51
Collateralized Loan Obligations	309,810	0.06
Commercial Mortgage Backed Securities	23,996	1.09
Corporate Obligations	1,207,113	7.89
Non-Agency Mortgage Backed Securities	115,414	3.90
Non-U.S. Government Agency Obligations	119,894	3.60
Non-U.S. Sovereign Government Debt	68,262	7.68
U.S. Government Agency:		
Commercial Mortgage Backed Securities	13,127	2.91
Mortgage Backed Securities	532,235	3.49
Obligations	66,954	3.51
U.S. Taxable Municipal Bonds	65,556	8.15
U.S. Treasury Securities	1,544,140	7.00
U.S. Treasury TIPS	17,365	1.28
Total PSF Fixed Income Portfolio	$ 4,124,018	5.99
Real Return - U.S. Treasury TIPS Portfolio	$ 1,060,887	7.73
Real Return Commodities -		
U.S. Treasury Securities	$ 20,168	0.44
U.S. Treasury Treasuries Portfolio		
U.S. Treasury Securities Treasuries	$ 894,010	18.61
Emerging Market Debt Portfolio	$ 2,450,698	6.37
Liquid Investment Type		
Asset Backed Securities	$ 129,312	1.23
Commercial Mortgage Backed Securities	6,677	0.50
Corporate Obligations	359,352	1.98
Non-Agency Mortgage Backed Securities	38,673	3.71
Non-U.S. Government Agency Obligations	47,975	1.81
U.S. Government Agency Obligations	10,000	0.67
U.S. Government Mortgage		
Backed Securities	119,004	4.19
U.S. Taxable Municipal Bonds	12,976	1.04
U.S. Treasury Securities	652,783	1.80
Total Liquid Fixed Income Portfolio	$ 1,376,752	2.03

Information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2020, is presented in table 3L.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

Table 3L: Permanent School Fund

August 31, 2020 (Amounts in Thousands)

Investment Type	Fair Value	Investment Maturities: Less Than One Year	Investment Maturities: Greater Than One Year
Asset Backed Floating Rate Notes	$ 259,946	$ 137,985	$ 121,961
Commercial Paper	306,662	306,662	
Floating Rate Notes	522,297	522,297	
Repurchase Agreements	241,571	241,571	
Time Deposits	23,600	23,600	
Total Interest Rate Risk	$ 1,354,076	$ 1,232,115	$ 121,961

TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2020, is presented in table 3M.

Investments Exposed to Interest Rate Risk

Table 3M: Teacher Retirement System of Texas

August 31, 2020 (Amounts in Thousands)

TRS Investment Type	Fair Value	Effective Weighted Duration Rate
U.S. Government Obligations	$ 19,394,911	18.50
U.S. Government STRIPS and TIPS	2,263,153	25.60
U.S. Government Agency Obligations	14,731	(4.00)
Asset and Mortgage Backed Obligations	100,814	1.10
Corporate Obligations	63,040	14.60
International Government Obligations	1,948,433	9.80
International Corporate Obligations	27,655	4.60
Total Interest Rate Risk	$ 23,812,737	18.35

ERS' investments by investment type, fair value and the modified duration rate as of Aug. 31, 2020, is presented in table 3N.

Investments Exposed to Interest Rate Risk

Table 3N: Employees Retirement System of Texas

August 31, 2020 (Amounts in Thousands)

Investment Type	Fair Value	Modified Duration Rate
FIDUCIARY FUNDS		
U.S. Treasury Securities	$ 2,603,676	4.11
U.S. Government Agency Obligations	485,509	3.44
Corporate Obligations	1,895,039	4.64
Corporate Asset and Mortgage Backed Securities	48,691	1.83
International Obligations	503,948	4.00
Real Estate Investment Trust	62,504	3.90
Total Interest Rate Risk - Fiduciary Funds	$ 5,599,367	4.20
PROPRIETARY FUNDS		
U.S. Treasury Securities	$ 1,066,824	4.11
U.S. Government Agency Obligations	198,931	3.44
Corporate Obligations	305,768	4.64
Corporate Asset and Mortgage Backed Securities	18,263	1.88
International Obligations	81,313	4.00
Real Estate Investment Trust	10,085	3.90
Total Interest Rate Risk - Proprietary Funds	$ 1,681,184	4.09

The UT System's investments by investment type, fair value and the modified duration rate as of Aug. 31, 2020, is presented in table 3O.

Investments Exposed to Interest Rate Risk

Table 3O: University of Texas System

August 31, 2020 (Amounts in Thousands)

Investment Type - Investments in Securities	Fair Value	Modified Duration Rate
U.S. Government Guaranteed:		
U.S. Treasury Bills	$ 64	0.00
U.S. Treasury Bonds and Notes	590,852	3.67
U.S. Treasury Inflation Protected	657,178	8.50
U.S. Agency Asset Backed	36,944	3.75
Total U.S. Government Guaranteed	1,285,038	6.14
U.S. Government Non-Guaranteed:		
U.S. Agency	230,615	2.41
U.S. Agency Asset Backed	729,290	2.98
Total U.S. Government Non-Guaranteed	959,905	2.84
Total U.S. Government	2,244,943	4.73
Corporate Obligations:		
Domestic	1,685,844	8.68
Foreign	621,722	4.36
Total Corporate Obligations	2,307,566	7.52
Debt Securities:		
Foreign Government and Provincial Obligations	2,315,521	7.32
Other Debt Securities	15,526	9.14
Total Debt Securities	6,883,556	6.55
Other Investments:		
Other Investment Funds – Debt	237,736	5.50
Fixed Income Money Market Funds	2,738,512	0.29
Total Interest Rate Risk	$ 9,859,804	4.78

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, 2020, 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 $2.6 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, 2020, the Treasury's aggregate amount of reverse repurchase agreement obligations was $15.2 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $15.3 million. There was no credit exposure during fiscal 2020.

Securities Lending

TRS, PSF, ERS, UT 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 and VLB if the borrowers fail to return the securities.

TRS, PSF, ERS, UT 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, 2020, is presented in table 3P.

Securities Lending Activity Summary

Table 3P

August 31, 2020 (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	$ 8,472,750	$ 843,500	$ 7,165,995	$ 7,167,588	$ 1,593
ERS	117,658		121,019	121,025	6
PSF	1,522,711	204,856	1,367,808	1,354,076	(13,732)
UT[1,2]	638,836	234,499	420,834	420,834	
VLB[2]	93,765		91,236	91,236	
Total Securities Lending	$ 10,845,720	$ 1,282,855	$ 9,166,892	$ 9,154,759	$ (12,133)

[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, 2020.

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, 2020, 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, 2020, 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, 2020, is presented in table 3Q.

Derivative Investments Exposed to Foreign Currency Risk

Table 3Q

August 31, 2020 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds			
Foreign Currency	**Swaps**	**Options**	**Futures**	**Forwards**	**Swaps**	**Options**	**Futures**	**Forwards**
Australian Dollar	$ 110	$	$ 545	$ (3,520)	$	$ 41	$ (5,911)	$ (28,715)
Brazilian Real		(196)	(110)	404			(1,227)	(3,897)
British Pound	(2,967)		1,469	(3,236)			(17,644)	(68,558)
Canadian Dollar	3,568	(184)	(641)	(2,215)			12,029	4,857
Chilean Peso				877				241
Chinese Yuan (Offshore)								1,779
Chinese Yuan Renminbi	25			(2,534)				(2)
Colombian Peso				1,234				97
Czech Koruna	58			1,942				(1,214)
Danish Krone				(6,024)				24
Egyptian Pound				(11)				
Euro	1,532	(274)	(2,944)	(17,039)	14,327	7	28,741	(63,276)
Hong Kong Dollar				(18)			(7,687)	(6)
Hungarian Forint				(140)				(496)
Indian Rupee								47
Indonesian Rupiah				(140)				414
Israeli New Shekel	436			(56)				137
Japanese Yen	(469)		(15)	9,134			1,041	(2,578)
Malaysian Ringgit				(94)				
Mexican Peso	(20)			(4,113)				213
New Zealand Dollar				(1,802)				(4,503)
Norwegian Krone				7,504				6,559
Peruvian Nuevo Sol				(51)				(10)
Philippine Peso								(76)
Polish Zloty	116			1,453				686
Romanian Leu				(354)				
Russian Ruble				(200)				(71)
Singapore Dollar				(1,744)			(1,189)	(118)
South African Rand	176			(2,003)			1,296	(542)
South Korean Won	517			129			2,831	(24)
Swedish Krona	125			7,222			85	2,480
Swiss Franc	(2)			(2,191)				(7,731)
Taiwan Dollar				31				(10)
Thai Baht				(315)		9		(66)
Turkish Lira				27			(26)	1,285
Total Foreign Currency Risk	$ 3,205	$ (654)	$ (1,696)	$ (17,843)	$ 14,327	$ 57	$ 12,339	$ (163,074)

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, 2020, was $434.4 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would have been recognized as of Aug. 31, 2020, if all counterparties failed to perform as contracted. This maximum exposure is reduced by $286.1 million of collateral held and by $264.6 million in liabilities included in netting arrangements with those counterparties, resulting in a negative $116.3 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 Securities Industry and Financial Markets Association (SIFMA). 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 3.5 percent. Investments in pay-fixed, receive-variable interest rate swaps ranged from receipt of various foreign currency rates (EURIBOR, LIBOR, Mexican Interbank Rate, Johannesburg Interbank Agreed Rate or Canadian Dollar Offered Rate) and payment of 0 to 8.1 percent. The investment maturities for the state's swap contracts exposed to interest rate risk as of Aug. 31, 2020, is presented in table 3R.

Derivative Investments Exposed to Interest Rate Risk

Table 3R

August 31, 2020 (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	$109,680	$113,329	$(8,568)	$5,116	$1,652	$(1,849)

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, 2020, the fair value of various investment funds was $137.9 billion.

Note 4

Short-Term Debt

On Aug. 19, 2020, (with an issue date of Sept. 2, 2020) $7.2 billion of state of Texas Tax and Revenue Anticipation Notes, 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. On Aug. 19, 2020, good faith funds in the amount of $72 million were received. The Series 2020 Notes bore interest at 4 percent and were priced to yield .25 percent. The remaining proceeds plus the premium balance of $7.4 billion was received on Sept. 2, 2020.

On Aug. 21, 2019 (with an issue date of Sept. 4, 2019), $8 billion of state of Texas Tax and Revenue Anticipation Notes, Series 2019 (Series 2019 Notes) were sold for the purpose of coordinating the cash flow of the state for fiscal 2020. Issuance of the Series 2019 Notes also enhanced the state's ability to make timely payments of expenditures payable from the general revenue fund. The Series 2019 Notes matured on Aug. 27, 2020, bore an interest rate of 4 percent and was priced to yield at 1.3 percent as determined by the bids of the initial purchasers.

The Texas Workforce Commission (TWC) received temporary transfers (loans) for $296.3 million from the Texas Comptroller of Public Accounts to avoid interest liabilities related to the Cash Management Improvement Act. The loans were repaid in full during fiscal 2020. 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 Mar. 14, 2021. The amount borrowed totaled $3.8 billion as of Aug. 31, 2020. Under Title XII, if a state fails to repay the outstanding Federal Title XII advance by Nov. 10 of the year in which a second Jan. 1 has passed, then all taxable employers in that state will be subject to a reduced credit on their federal unemployment tax of .3 percent. The reduced credit will increase by .3 percent for each Jan. 1 that is passed without full repayment by Nov. 10 of subsequent years. The increased federal taxes collected from the reduced federal credits will be applied against the Title XII debt.

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, 2020, $109.2 million was available for use in the line of credit and the balance outstanding was $140.8 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.
- 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 $44.5 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds, and $66.3 million matured. As of Aug. 31, 2020, $29 million was remaining at the end of the fiscal year.

The University of North Texas System issued commercial paper notes for $26.1 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, 2020, $30.2 million matured and $45.1 million remained outstanding.

The Texas State University System issued commercial paper notes for $556.4 million to finance various construction projects. As of Aug. 31, 2020, $586.6 million matured and $94.8 million remained outstanding.

The University of Houston System issued commercial paper notes for $27 million in the prior fiscal year to finance various capital projects. As of Aug. 31, 2020, $51.3 million matured and $43.7 million remained outstanding.

The University of Texas System issued commercial paper notes for $810.4 million to provide interim financing for capital improvements and to finance capital equipment purchases. As of Aug. 31, 2020, $887.2 million matured and $1.4 billion remained outstanding.

Short-term debt activity as of Aug. 31, 2020, is presented in table 4A.

Short-Term Debt

Table 4A

August 31, 2020 (Amounts in Thousands)

	Beginning Balance 9/1/19	Issued	Redeemed	Ending Balance 8/31/20
Tax and Revenue Anticipation Notes	$	$ 8,000,000	$ 8,000,000	$
Commercial Paper	1,810,449	1,437,421	1,621,608	1,626,262
Other Advances (Loans) -				
Direct Borrowings	134,330	10,064,381	6,270,157	3,928,554
General Revenue Advances		296,336	296,336	
Total Short-Term Debt	$ 1,944,779	$ 19,798,138	$ 16,188,101	$ 5,554,816

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2020, is presented in table 5A.

Long-Term Liabilities Activity

Table 5A

August 31, 2020 (Amounts in Thousands)

Fund Type	Balance 9/1/19	Restatements /Adjustments[1]	Additions[2]	Reductions	Balance 8/31/20	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	$ 100,339	$	$ 41,651	$ 44,849	$ 97,141	$ 39,974	$ 57,167
Capital Lease Obligations	16,443			4,009	12,434	3,981	8,453
Employees' Compensable Leave	880,524	672	1,343,195	1,256,283	968,108	688,304	279,804
Notes and Loans Payable	1,018,823	(2,378)	351,940	398,332	970,053	189,723	780,330
Notes and Loans - Direct Borrowings	301,946		11,807		313,753		313,753
General Obligation Bonds Payable	14,975,560	(299,417)	3,405,150	3,348,104	14,733,189	822,963	13,910,226
General Obligation Bonds Payable – Direct Placements	286,913	(1,986)			284,927	1,986	282,941
Revenue Bonds Payable	4,356,052	(9,426)	341,425	610,175	4,077,876	306,555	3,771,321
Revenue Bonds Payable – Direct Placements	150,000				150,000		150,000
Asset Retirement Obligation	1,900		27		1,927		1,927
Pollution Remediation Obligation	280,406		69,051	96,123	253,334	46,235	207,099
Total Governmental Activities	$ 22,368,906	$ (312,535)	$ 5,564,246	$ 5,757,875	$ 21,862,742	$ 2,099,721	$ 19,763,021
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	$ 194,252	$	$ 1,325,530	$ 1,329,725	$ 190,057	$ 144,235	$ 45,822
Capital Lease Obligations	162,541		19,421	8,868	173,094	8,399	164,695
Capital Lease – Direct Borrowings/Placements	99,804		3,220	12,820	90,204	12,379	77,825
Employees' Compensable Leave	947,123		492,435	371,823	1,067,735	497,532	570,203
Notes and Loans Payable	1,020,302	(102,391)	60,000	145,910	832,001	37,092	794,909
Notes and Loans Payable – Direct Borrowings/Placements	1,048,147	91,860	85,754	952,146	273,615	7,259	266,356
General Obligation Bonds Payable	3,978,259	(9,875)	250,000	292,895	3,925,489	256,595	3,668,894
General Obligation Bonds Payable – Direct Placements	138,825			32,010	106,815	25,805	81,010
Revenue Bonds Payable	32,347,966	319,330	7,062,106	3,750,829	35,978,573	2,642,572	33,336,001
Revenue Bonds Payable – Direct Borrowings/Placements	511,897		50,000	96,812	465,085	14,330	450,755
Asset Retirement Obligation	41,710		53	412	41,351	20	41,331
Pollution Remediation Obligation	1,023		60		1,083	60	1,023
Liabilities Payable From Restricted Assets	2,411,185		193,418	304,270	2,300,333	542,009	1,758,324
Total Business-Type Activities	$ 42,903,034	$ 298,924	$ 9,541,997	$ 7,298,520	$ 45,445,435	$ 4,188,287	$ 41,257,148
COMPONENT UNITS							
Capital Lease Obligations	$ 38	$	$ 307	$ 170	$ 175	$ 77	$ 98
Employees' Compensable Leave	2,869	(224)	984	861	2,768	1,612	1,156
Notes and Loans Payable	5,538	(3,352)	199	56	2,329	58	2,271
Notes and Loans Payable – Direct Borrowings/Placements	368,500	3,352	13,408	64,808	320,452	55,852	264,600
Revenue Bonds Payable	67,142	(149)		7,615	59,378	1,105	58,273
Total Component Units	$ 444,087	$ (373)	$ 14,898	$ 73,510	$ 385,102	$ 58,704	$ 326,398

[1] Includes current year amortization or premiums and discounts

[2] Includes current year amortization of accretion of $36 million for governmental and $58.3 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 2020, TxDOT recognized an additional $15.3 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, 2020 was $681.2 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, 2020 was $40 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, 2020, two notes and loans payable - direct borrowings agreements are outstanding for TxDOT. The outstanding balance related to governmental activities of $313.8 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, 2020 was $636.9 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.
- 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, 2020 was $318.6 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.

Texas State Technical College's (TSTC) notes and loans payable - direct borrowings of $1.1 million, consist of an amount used to finance a portion of the renovation costs of the 11-1 hangar at the TSTC Waco airport. The debt is secured by all the revenues derived from the airport and two certificates of deposits amounting to $511 thousand. In the event of a default, the overdue amount, including principal and accrued interest, shall bear interest at a default rate and continue as an obligation until such overdue amount and such interest shall be paid in full. In such an event, TSTC will also have to pay all reasonable out of pocket expenses and internal charges in connection with the collection and enforcement of agreement documents.

Stephen F. Austin State University's (SFA) notes and loans payable - direct placements related to business-type activities as of Aug. 31, 2020 totaled $8.7 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.
- 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, 2020 was $176.1 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, 2020 was $667 thousand.

The Texas Department of Housing and Community Affairs (TDHCA) has four notes and loans payable - direct borrowings in the amount of $22 million and six notes and loans payable - direct placements in the amount of $154.2 million as of Aug. 31, 2020 related to business-type activities. TDHCA's notes and loans payable - direct borrowings are subordinate lien obligations 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 and the TDHCA Series 2018 Issuer Notes with Woodforest National Bank, Tolleson Private Bank and Hancock Whitney Bank secured by the Single Family Indenture. They contain 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.
- A default in the asset test if the amount calculated pursuant to such test equals an amount less than 102 percent for the TDHCA Series 2016 Issuer Note and 105 percent for the TDHCA Series 2018 Issuer Notes, 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.
- 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.

As of Aug. 31, 2020, two notes and loans payable - direct borrowings are outstanding for Texas Southern University (TSU). On Sept. 27, 2012, pursuant to the board resolution made on July 6, 2012, TSU secured financing to construct new student housing, consisting of 800 beds, to be located on the eastside of the campus at Wheeler and Sampson streets. The financing of this project is through the U.S. Department of Education's Historically Black Colleges and Universities loan program initiative. The amount of the loan is not to exceed $55 million. The total amount of proceeds advanced under this loan is $53.6 million. The outstanding balance as of Aug. 31, 2020 was $42 million.

On Sept. 26, 2011, pursuant to the board resolution made in June 2011, TSU acquired the University Courtyard apartments from the Houston Student Housing, L.L.C. The acquisition was financed through U.S Department of Education's Historical Black Colleges and Universities loan program initiative. The loan amount was $64.2 million. The outstanding balance as of Aug. 31, 2020 was $44.9 million.

Events of default in both loans for TSU include: failure to make payments when due, failure to perform other terms or conditions, failure to make payments in the amount of $100 thousand or more, abandonment of the project for more than 30 days, or failure to substantially complete the project. The loan agreement may be terminated and any loan funds which have been provided up until the event of default as well as the accrued interest from the date the funds were received will be immediately due and payable to the lender.

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 Authority 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. $62 million of Series 2008 commercial paper notes were outstanding as of Aug. 31, 2020.

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. $26.9 million of Series 2019A&B was outstanding as of Aug. 31, 2020.

TPFA revenue commercial paper notes, Series 2016A (taxable) and Series 2016B (tax-exempt) were issued to finance a $767.7 million capital construction appropriation made to the Texas Facilities Commission (TFC) in the General Appropriations Act for the 2016-2017 biennium (H.B.1, 84th Legislature, Regular Session, Article 1, pg. I-45, Rider 19 (2015)). On

Jan. 9, 2020, the TPFA board approved an amendment to the resolution to increase the size of the program to $1.2 billion to finance the $475.2 million of projects authorized by H.B. 1, 86th Legislature, Regular Session, Article I, pg. I-46, Rider 16 (2019). On July 11, 2019, the board approved an increase to the liquidity facility for Series 2016A&B from $175 million to $200 million. As of Aug. 31, 2020, $160 million of Series 2016B was outstanding.

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. 28, 2019. The outstanding balance as of Aug. 31, 2020 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 2.5 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 three unsecured notes and three notes secured by mortgage backed securities and note receivable. The total outstanding balance as of Aug. 31, 2020 was $2.3 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.

Texas Boll Weevil Eradication Foundation, Inc, a discretely presented component unit, notes and loans payable - direct borrowings consist of amounts to finance notes to eradication zones for multiple programs. The total outstanding balance as of Aug. 31, 2020 was $1.9 million.

In the event of default, outstanding amounts including an option of 4 percent interest on outstanding principal amounts, become immediately due without demand if the borrower is unable to make the payment. The borrower is required to notify the government in writing of any significant actions such as anticipated default on the loan and being named as a defendant in any litigation. The borrower is also required to submit any reports requested by the government regarding the note.

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, 2020, are presented in tables 5B, 5C and 5D.

Notes and Loans Payable – Debt Service Requirements

Table 5B: Governmental Activities

August 31, 2020 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings Principal	Direct Borrowings Interest	Direct Borrowings Total
2021	$ 189,723	$ 12,464	$ 202,187	$	$	$
2022	148,579	10,702	159,281		4,136	4,136
2023	124,997	10,112	135,109		8,341	8,341
2024	95,791	10,071	105,862		8,352	8,352
2025	86,748	9,419	96,167		8,329	8,329
2026 - 2030	229,908	37,736	267,644	13,460	41,394	54,854
2031 - 2035	59,411	22,390	81,801	48,708	37,766	86,474
2036 - 2040	56,940	7,074	64,014	87,310	29,655	116,965
2041 - 2045	2,358	2	2,360	83,021	17,170	100,191
2046 - 2050				63,183	8,536	71,719
2051 - 2055				27,613	1,073	28,686
Subtotal	994,455	119,970	1,114,425	323,295	164,752	488,047
Unamortized Accretion	(24,402)		(24,402)	(9,542)		(9,542)
Total Debt Service Requirements	$ 970,053	$ 119,970	$ 1,090,023	$ 313,753	$ 164,752	$ 478,505

Notes and Loans Payable - Debt Service Requirements

Table 5C: Business-Type Activities

August 31, 2020 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements Principal	Direct Borrowings/Direct Placements Interest	Direct Borrowings/Direct Placements Total
2021	$ 26,560	$ 33,509	$ 60,069	$ 7,259	$ 7,776	$ 15,035
2022	7,680	32,913	40,593	7,630	7,718	15,348
2023	613,130	27,747	640,877	35,610	7,212	42,822
2024	7,925	2,403	10,328	7,720	6,806	14,526
2025	8,050	2,278	10,328	19,954	6,622	26,576
2026 - 2030	42,180	9,455	51,635	52,834	28,309	81,143
2031 - 2035	45,590	6,039	51,629	71,331	19,986	91,317
2036 - 2040	49,291	2,346	51,637	71,277	4,794	76,071
Subtotal	800,406	116,690	917,096	273,615	89,223	362,838
Unamortized Accretion	31,595		31,595			
Total Debt Service Requirements	$ 832,001	$ 116,690	$ 948,691	$ 273,615	$ 89,223	$ 362,838

Notes and Loans Payable - Debt Service Requirements

Table 5D: Discrete Component Units

August 31, 2020 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements Principal	Direct Borrowings/Direct Placements Interest	Direct Borrowings/Direct Placements Total
2021	$ 58	$ 86	$ 144	$ 55,852	$ 26,285	$ 82,137
2022	511	78	589	58,500	21,830	80,330
2023	65	68	133	63,300	17,003	80,303
2024	626	37	663	68,600	11,781	80,381
2025	526	23	549	74,200	6,122	80,322
2026 - 2030	543	18	561			
Total Debt Service Requirements	$ 2,329	$ 310	$ 2,639	$ 320,452	$ 83,021	$ 403,473

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, 2020, is presented in table 5E.

Pledged Future Revenue

Table 5E

August 31, 2020 (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	$ 9,183,074	$ 472,993	$ 372,510	2045	100%
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	5,161,575	9,397,252	449,190	2052	100%
Notes and Loans Payable and					
Notes and Loans Payable – Direct Borrowings/Placements	767,606	13,057	32,415	2052	100%
Total Governmental Activities	$ 15,112,255	$ 9,883,302	$ 854,115		
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	$ 55,234,207	$ 22,023,510	$ 2,299,668	2060	95%
Notes and Loans Payable and					
Notes and Loans Payable – Direct Borrowings/Placements	691,086		30,268	2023	94%
Total Business-Type Activities	$ 55,925,293	$ 22,023,510	$ 2,329,936		
COMPONENT UNITS					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	$ 93,882	$ 16,122	$ 9,667	2050	100%
Total Component Units	$ 93,882	$ 16,122	$ 9,667		

* 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.
- 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, 2020, there were 287 active state lead sites, with a total estimated pollution remediation obligation of $60.1 million.

The TCEQ Superfund Section (Section) includes the State Superfund, Federal Superfund, Superfund Site Discovery and Assessment (SSDAP) and the Preliminary Assessment/Site Inspection (PA/SI) Programs. On behalf of TCEQ, the Section identifies, ranks, and addresses sites contaminated with hazardous substances, which no parties are willing to address through a permit, corrective action, voluntary cleanup or enforcement program. These sites are identified through referral from internal and external groups such as TCEQ Enforcement, TCEQ Regional Offices, TCEQ Water Supply Division, public complaints and the 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 2020 resulted in collections of $853.4 thousand.

At the end of fiscal 2020, Texas had 68 sites with pollution remediation obligations and federal Superfund programs and two sites that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2020, is $125.6 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, 2020, there were 227 active sites, with a total estimated pollution remediation obligation of $51.1 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 22 active well plugging projects as of Aug. 31, 2020, with an estimated cost of $4 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 22 active site remediation projects as of Aug. 31, 2020, with an estimated cost of $2.4 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, waste disposal regulations and state non-LPST cleanup requirements at an estimated cost of $6 million for fiscal 2020.

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 0 to 65 months. The ARO as of Aug. 31, 2020 was $133.5 thousand.

As of Aug. 31, 2020, 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 250 and 160 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, 2020 was $2.5 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 0 to 48 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, 2020 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) exempts state licensees from providing financial assurances 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 77 months. The total ARO as of Aug. 31, 2020 was $26.3 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 8 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, 2020 was $1.9 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 417 bond issues outstanding as of Aug. 31, 2020. Scheduled debt service payments from the general revenue fund for fiscal 2020 totaled $707.6 million.

Information on bond issuances by type of activity as of Aug. 31, 2020, is presented in table 6A.

Information on Bond Issuances
Table 6A
August 31, 2020

	Bond Issues Outstanding		Range of Interest Rates		Maturities		First
Description of Issue	Number	Amount Issued (in Thousands)	Lowest	Highest	First Year	Last Year	Call Date
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	70	$ 18,539,771	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	12	5,080,150	1.00	5.25	2010	2039	04/01/2018
Revenue Bonds – Direct Placements	1	150,000	var	var	2032	2032	[1]
Total Governmental Activities	84	24,024,026					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	59	5,066,300	0.23	5.00	2003	2050	03/22/2001
General Obligation Bonds – Direct Placements	3	253,710	var	var	2014	2027	04/01/2014
Revenue Bonds	234	41,288,674	0.12	8.00	1999	2060	03/01/2006
Revenue Bonds – Direct Borrowings/Placements	33	567,266	1.00	15.00	2001	2059	05/01/2001
Total Business-Type Activities	329	47,175,950					
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	417	$ 71,463,316					

[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, 2020 (Amounts in Thousands)

Description of Issue	Balance 9/1/19	Adjustments[1]	Bonds Issued[2]	Bonds Matured or Retired	Bonds Refunded	Balance 8/31/20	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	$ 14,975,560	$ (299,417)	$ 3,405,150	$ 532,069	$ 2,816,035	$ 14,733,189	$ 822,963
General Obligation Bonds – Direct Placements	286,913	(1,986)				284,927	1,986
Revenue Bonds	4,356,052	(9,426)	341,425	251,550	358,625	4,077,876	306,555
Revenue Bonds – Direct Placements	150,000					150,000	
Total Governmental Activities	19,768,525	(310,829)	3,746,575	783,619	3,174,660	19,245,992	1,131,504
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,978,259	(9,875)	250,000	229,875	63,020	3,925,489	256,595
General Obligation Bonds – Direct Placements	138,825			32,010		106,815	25,805
Revenue Bonds	32,347,966	319,330	7,062,106	1,002,298	2,748,531	35,978,573	2,642,572
Revenue Bonds – Direct Borrowings/Placements	511,897		50,000	18,714	78,098	465,085	14,330
Total Business-Type Activities	36,976,947	309,455	7,362,106	1,282,897	2,889,649	40,475,962	2,939,302
COMPONENT UNITS							
Revenue Bonds	67,142	(149)		7,615		59,378	1,105
Total Component Units	67,142	(149)	0	7,615	0	59,378	1,105
Total Changes in Bonds Payable	$ 56,812,614	$ (1,523)	$ 11,108,681	$ 2,074,131	$ 6,064,309	$ 59,781,332	$ 4,071,911

[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, 2020 (Amounts in Thousands)

				Direct Placements		
Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
GENERAL OBLIGATION BONDS						
2021	$ 720,439	$ 538,706	$ 1,259,145	$	$ 12,705	$ 12,705
2022	614,884	530,471	1,145,355		12,705	12,705
2023	636,005	504,355	1,140,360		12,705	12,705
2024	655,605	475,997	1,131,602		12,705	12,705
2025	651,470	446,604	1,098,074		12,705	12,705
2026 – 2030	3,153,570	1,809,665	4,963,235		63,527	63,527
2031 – 2035	3,120,855	1,166,644	4,287,499	89,810	54,195	144,005
2036 – 2040	2,836,610	543,619	3,380,229	164,295	9,607	173,902
2041 – 2045	1,310,905	105,513	1,416,418			
2046 – 2050	40,800	1,837	42,637			
Subtotal	13,741,143 [1]	6,123,411	19,864,554	254,105 [1]	190,854	444,959
Premium	993,759		993,759	30,822		30,822
Discount	(1,713)		(1,713)			
Total	$ 14,733,189	$ 6,123,411	$ 20,856,600	$ 284,927	$ 190,854	$ 475,781
REVENUE BONDS						
2021	$ 261,120	$ 172,504	$ 433,624		$ 1,216	$ 1,216
2022	275,450	163,366	438,816		1,216	1,216
2023	285,175	151,983	437,158		1,216	1,216
2024	297,475	137,862	435,337		1,220	1,220
2025	311,505	121,911	433,416		1,216	1,216
2026 – 2030	1,751,135	368,148	2,119,283		6,086	6,086
2031 – 2035	587,590	57,313	644,903	150,000	1,878	151,878
2036 – 2040	50,915	4,073	54,988			
Subtotal	3,820,365	1,177,160	4,997,525	150,000	14,048	164,048
Premium	257,511		257,511			
Total	$ 4,077,876	$ 1,177,160	$ 5,255,036	$ 150,000	$ 14,048	$ 164,048

[1] Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6D: Business-Type Activities

August 31, 2020 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Placements Principal	Direct Borrowings/Placements Interest	Direct Borrowings/Placements Total
GENERAL OBLIGATION BONDS						
2021	$ 250,040	$ 98,885	$ 348,925	$ 25,805	$ 618	$ 26,423
2022	261,520	92,380	353,900	22,960	472	23,432
2023	256,460	86,341	342,801	15,460	352	15,812
2024	249,985	80,067	330,052	15,100	251	15,351
2025	244,550	73,940	318,490	15,770	142	15,912
2026 – 2030	1,034,295	282,739	1,317,034	11,720	112	11,832
2031 – 2035	727,535	168,744	896,279			
2036 – 2040	489,310	89,759	579,069			
2041 – 2045	298,195	23,645	321,840			
2046 – 2050	29,525	957	30,482			
2051 – 2055	350	2	352			
Subtotal	3,841,765 [1]	997,459	4,839,224	106,815 [1]	1,947	108,762
Premium	83,724		83,724			
Discount						
Total	$ 3,925,489	$ 997,459	$ 4,922,948	$ 106,815	$ 1,947	$ 108,762
REVENUE BONDS						
2021	$ 2,450,163	$ 1,284,800	$ 3,734,963	$ 14,330	$ 18,097	$ 32,427
2022	1,105,216	1,237,814	2,343,030	17,480	17,733	35,213
2023	1,082,898	1,197,729	2,280,627	17,956	17,185	35,141
2024	1,105,080	1,167,329	2,272,409	102,323	15,702	118,025
2025	1,115,281	1,135,695	2,250,976	19,122	14,180	33,302
2026 – 2030	5,451,944	5,007,398	10,459,342	87,298	59,157	146,455
2031 – 2035	5,267,859	3,898,754	9,166,613	41,465	45,067	86,532
2036 – 2040	5,688,887	2,798,529	8,487,416	92,971	28,041	121,012
2041 – 2045	4,347,250	1,734,743	6,081,993	30,052	16,637	46,689
2046 – 2050	4,931,381	753,225	5,684,606	29,222	6,114	35,336
2051 – 2055	1,528,965	113,895	1,642,860	10,021	2,093	12,114
2056 – 2060	114,695	9,300	123,995	2,845	286	3,131
Subtotal	34,189,619	20,339,211	54,528,830	465,085	240,292	705,377
Accretion	(625,865)		(625,865)			
Premium	2,415,685		2,415,685			
Discount	(866)		(866)			
Total	$ 35,978,573	$ 20,339,211	$ 56,317,784	$ 465,085	$ 240,292	$ 705,377

[1] Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6E: Component Units

August 31, 2020 (Amounts in Thousands)

Year	Principal	Interest	Total
REVENUE BONDS			
2021	$ 1,105	$ 2,069	$ 3,174
2022	1,155	2,031	3,186
2023	1,175	1,989	3,164
2024	1,235	1,945	3,180
2025	1,320	1,897	3,217
2026 – 2030	7,525	8,680	16,205
2031 – 2035	8,845	7,330	16,175
2036 – 2040	13,280	5,597	18,877
2041 – 2045	10,660	3,368	14,028
2046 – 2050	11,355	1,321	12,676
Subtotal	57,655	36,227	93,882
Premium	1,723		1,723
Total	$ 59,378	$ 36,227	$ 95,605

See Note 5 for additional disclosures regarding general obligation bonds - direct placements and revenue bonds - direct placements. See Note 16 for debt issued subsequent to Aug. 31, 2020.

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, 2020, is presented in table 6F.

General Obligation Bonds Authorized But Unissued

Table 6F

August 31, 2020 (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	1,054,535
Texas Water Development Bonds	5,951,486
College Student Loan Bonds	927,740
Texas Military Value Revolving Loan Fund	200,405
Total Self-Supporting	8,664,166
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	4,067,837
Water Development Bonds - EDAP	200,000
Water Development Bonds - State Participation	200,000
Total Not-Self Supporting	4,632,677
Total General Obligation Bonds	$ 13,296,843

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, 2020, excluding real estate, was $20.8 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, 2020 (Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$ 4,165,122	$ 2,363,190	$ 1,801,932
Texas A&M University System	2,082,561	1,358,415	724,146
Total Bonds	$ 6,247,683	$ 3,721,605	$ 2,526,078

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, 2020, 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 $3.5 billion and $1.2 billion of direct payment BABs outstanding respectively, as of Aug. 31, 2020.

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 78 variable rate bond issues with outstanding balances as of Aug. 31, 2020. 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, 2020.

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, 2020. Details are presented in tables 6H and 6I.

Demand Bonds

Table 6H

August 31, 2020

Description of Bond Issue	Number of Demand Bond Issues	Number of Standby Purchase Agreements[1]	Number of Other[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	3	0	195,000
Revenue Bonds				
Texas Department of Transportation	1	1		150,000
Total Revenue Bonds	1	1	0	150,000
Total Governmental Activities	4	4	0	$ 345,000
BUSINESS-TYPE ACTIVITIES				
General Obligation Bonds				
Veterans Land Board	33	33		$ 2,363,415
Total General Obligation Bonds	33	33	0	2,363,415
Revenue Bonds				
University of Texas System	4		4	1,349,140
Texas Department of Housing and Community Affairs	4	4		60,420
Total Revenue Bonds	8	4	4	1,409,560
Total Business-Type Activities	41	37	4	$ 3,772,975

[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, 2020

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
JPMorgan Chase Bank, National Association	1	0.35%	04/10/24
T.D. Bank, N.A.	1	0.22%	12/18/24
State Street Bank and Trust Company	1	0.32%	11/12/20
State Street Bank and Trust Company	6	0.32%	11/12/21
State Street Bank and Trust Company	2	0.33%	07/24/23
State Street Lending Corporation	1	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
Sumitomo Mitsui Banking Corp	1	0.30%	01/18/22
Sumitomo Mitsui Banking Corp	1	0.3 - 3.0%	04/01/22
U.S. Bank National Association	2	0.29%	05/17/21
Total Counterparties	36		

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, 2020, is presented in table 6J.

Demand Bonds – Takeout Agreement Provisions

Table 6J: Governmental Activities

August 31, 2020

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	$ 174,908	9.50%	2.00%

[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 2020, 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, 2020 (Amounts in Thousands)

Description of Bond	Early Extinguished Debt Issues
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 34,410
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	48,065
Veterans Land Board	14,955
Revenue Bonds	
Texas Department of Housing and Community Affairs	118,046
Revenue Bonds – Direct Placements	
Texas Department of Housing and Community Affairs	19,930
Total Bonds	$ 235,406

Refunding

Bonds refunded to lower interest rates or to restructure debt service requirements for cash management purposes for the fiscal year ended 2020, is presented in table 6L.

Refunding Issues

Table 6L

August 31, 2020 (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 Public Finance Authority	Advanced Refunding	$ 119,750	$ 120,525	$ 14,004	$ 11,284
Texas Department of Transportation	Advanced Refunding	2,770,475	2,573,835	645,789	430,190
Texas Higher Education Coordinating Board	Current Refunding	73,340	87,265	2,182	23,672
Revenue Bonds					
Texas Department of Transportation	Advanced Refunding	341,425	358,625	84,028	67,112
Total Governmental Activities		3,304,990	3,140,250	746,003	532,258
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds					
Texas Department of Transportation	Advanced Refunding	1,972,570	1,752,300	609,469	385,845
Texas Tech University System	Advanced Refunding	105,510	98,105	(7,405)	16,179
University of North Texas System	Advanced Refunding	40,480	36,730	4,919	4,737
Texas State University System	Advanced Refunding	149,480	138,390	25,102	14,685
University of Houston System	Advanced Refunding	140,090	147,210	32,913	26,952
Texas Department of Housing and Community Affairs	Current Refunding	12,560	12,560	1,552	1,318
Texas Department of Transportation	Current Refunding	179,475	225,000	75,913	25,593
University of North Texas System	Current Refunding	18,806	19,790	1,463	1,446
Texas State University System	Current Refunding	62,450	72,465	22,649	13,770
University of Texas System	Current Refunding	99,311	127,935	50,540	35,139
Revenue Bonds - Direct Placements					
University of North Texas System	Current Refunding	40,669	49,280	2,561	2,618
Total Business-Type Activities		2,821,401	2,679,765	819,676	528,282
Total Refunding Issues		$ 6,126,391	$ 5,820,015	$ 1,565,679	$ 1,060,540

[1] Other funds totaling approximately $21.4 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, 2020, 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 $262.8 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, 2020, is presented in table 6N.

Defeased Bonds Outstanding

Table 6M

August 31, 2020 (Amounts in Thousands)

Description of Bond	Defeased Bonds Outstanding
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Public Finance Authority	$ 262,785
Texas Water Development Board	9,415
Texas Department of Transportation	2,573,835
Revenue Bonds	
Texas Department of Transportation	358,625
Total Governmental Activities	3,204,660
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Veterans Land Board	15,500
Revenue Bonds	
Texas Department of Community Affairs	12,560
Texas Department of Transportation	1,792,768
Midwestern State University	45,065
Texas Tech University System	98,105
University of North Texas System	39,680
Texas State University System	138,390
University of Houston System	469,915
Texas A&M University System	535,960
University of Texas System	146,955
Revenue Bonds – Direct Placements	
Texas Department of Housing and Community Affairs	42,675
Total Business-Type Activities	3,337,573
Total Defeased Bonds Outstanding	$ 6,542,233

Cash Defeasance

Table 6N

August 31, 2020

	Number of Cash Defeasance	(Amounts in Thousands) Cash Defeasance	Placed with Escrow Agent	Required to Service Defeased Debt
BUSINESS-TYPE ACTIVITIES				
Revenue Bonds – Direct Placements				
Texas Department of Housing and Community Affairs	1	8,764	9,669	9,669
University of North Texas System	1	2,950	4,535	6,632
Total Cash Defeasance	2	$ 11,714	$ 14,204	$ 16,301

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, 2020, there were 17 series of multifamily housing revenue bonds and revenue bonds - direct placements outstanding with an aggregate $276 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued six series of bonds in the aggregate amount of $3.2 billion that remains outstanding as of Aug. 31, 2020. 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, 2020 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, 2020 (Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2021	$ 224,835	$ 6,459	$ 107,416	$ 338,710
2022	252,350	5,834	101,281	359,465
2023	247,130	5,320	94,452	346,902
2024	239,355	4,827	87,700	331,882
2025	243,930	4,329	80,914	329,173
2026 – 2030	1,006,400	14,418	304,845	1,325,663
2031 – 2035	816,170	8,490	182,873	1,007,533
2036 – 2040	630,675	3,877	74,346	708,898
2040 – 2045	405,225	1,971	30,161	437,357
2046 – 2050	29,525	19	560	30,104
2051 – 2055	350		3	353
Total	$ 4,095,945	$ 55,544	$ 1,064,551	$ 5,216,040

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

Table 6P

August 31, 2020 (Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2021	$ 1,445	$ 157	$ (8)	$ 1,594
2022	1,535	147	(8)	1,674
2023	1,635	136	(7)	1,764
2024	1,735	125	(7)	1,853
2025	1,845	114	(6)	1,953
2026 – 2030	11,085	365	(20)	11,430
2031 – 2035	5,315	44	(3)	5,356
Total	$ 24,595	$ 1,088	$ (59)	$ 25,624

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, 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 Instruments 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, 2020, is presented in table 7A. The state's cumulative derivative instruments activity as of Aug. 31, 2020, 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, 2020

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)
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, 2020 (Amounts in Thousands)

Derivative Instrument Type	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
Investment Derivative Instruments			
Futures	$ (937)	$	$ 317,443
Total Return Swaps	30,189	10,018	278,705
BUSINESS-TYPE ACTIVITIES			
Cash Flow Hedges			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (156,287)	$ (763,135)	$ 4,583,765
Investment Derivative Instruments			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (63,738)	$ (39,347)	$ 2,518,261
Pay-Variable Receive-Fixed Interest Rate Swaps	(17,710)	(17,710)	544,067
Basis Swaps	(51)	(97)	24,595
Credit Default Swaps	(499)	(1,190)	62,718
Currency Swaps	(10)	(10)	24,588
Equity Swaps	49,263	50,524	1,238,812
Fixed Income Swaps	528	528	50,000
Foreign Currency Forward	(17,784)	(17,794)	6,606,614
Futures	776		1,779,867
Inflation	(134)	(134)	24,066
Options	(2,387)	13,927	731,948
Volatility Swaps	350	350	32,250
Total Return Swaps	68,921	49,175	307,596
FIDUCIARY ACTIVITIES			
Investment Derivative Instruments			
Credit Default Swaps	$ (180,317)	$ 14,648	$ 661,110
Forwards Contracts	(255,352)	(163,075)	(2,663,121)
Futures	832,457		19,310,894
Options	(182,470)	(17,743)	(28,543)
Interest Rate Swaps	5,549	5,898	(98,333)
Rights	1,712	81	306
Total Return Swaps	284,019	125,175	3,640,703
Warrants	12,775	14,611	20,914
DISCRETE COMPONENT UNITS			
Investment Derivative Instruments			
Total Return Swaps	$ 8,276	$ 5,967	$ 36,935

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. With regard to the swap associated with Vet Land Tax Ref Bonds Series 2000 (now a part of state of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding), the knock-out is permanent once the option is taken at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps and the fair values of the swaps include the effects of the knock-outs.

Texas Department of Housing and Community Affairs (TDHCA) adopted the income approach from GASB Statement No. 72 in the fair value measurement of their derivative instruments. Using observable inputs of interest rate markets and municipal bond yields, the fair value measurement is based on the present value of future implied cash flows reflective of nonperformance risk. All TDHCA's derivative instruments are classified in Level 2 of the fair value hierarchy.

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 2020 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, 2020, 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, 2020 (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	$ 19,610	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	23,030	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	11,915	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	22,845	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	18,040	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	19,185	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	21,465	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	21,130	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	24,005	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	25,135	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	25,585	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	26,560	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	26,960	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	28,050	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	49,175	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 3M LIBOR
Vet Bds Ser 2011A	48,695	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 3M LIBOR
Vet Bds Ser 2011B	49,680	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 3M LIBOR
Vet Bds Ser 2011C	50,595	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	50,245	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	65,830	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	71,530	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	108,320	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	24,875	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	2,990	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	45,530	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	112,270	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	4,250	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	9,595	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	0	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6,000	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	13,350	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	5,350	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	11,935	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	7,050	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	17,315	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, 2020 (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+ / A3
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+ / A3
Vet Bds Ser 2011A	N/A		BBB+ / A3
Vet Bds Ser 2011B	N/A		BBB+ / A3
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%;	2,652	A+ / Aa2
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,018	
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%;	935	A+ / Aa2
	SIFMA/5Y ISDA CMS > 71%	1,020	
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%	4,470	AA- / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR >= 7.00%	1,442	A+ / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2014B-1 & B-2	1M LIBOR >= 7.00%	2,594	A+ / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	1M LIBOR >= 7.00%;	484	A+ / Aa2
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	267	
Vet Hsg Fund I/II Tax Ref Bds Ser 2014B-1 & C-2	1M LIBOR >= 7.00%;	1,367	A+ / Aa2
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	567	
Vet Land Tax Ref Bds Ser 2014B-3	1M LIBOR >= 7.00%	2,700	AA- / Aa2
Vet Land Tax Ref Bds Ser 2014B-3	6M LIBOR >= 7.00%	1,542	A+ / 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, 2020 (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	$ 23,960	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	11,790	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	48,595	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	19,600	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	16,110	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	11,290	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	11,310	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	8,180	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	10,460	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	12,440	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	21,375	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Bds Ser 2014D	76,355	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% of 1M LIBOR
Vet Bds Ser 2015A	96,520	02/11/2015	06/01/2045	Pay 1.51%; receive 68% of 1M LIBOR
Vet Bds Ser 2015B	101,770	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of 1M LIBOR
Vet Bds Ser 2016	186,240	12/01/2016	12/01/2046	Pay 1.564%; receive 68% of 1M LIBOR
Vet Bds Ser 2017	205,720	08/01/2017	12/01/2047	Pay 1.175%; receive 68% of 1M LIBOR + 0.085%
Vet Bds Ser 2018	236,175	04/01/2019	12/01/2049	Pay 2.0745%; receive 72% of 1M LIBOR
Vet Bds Ser 2019	246,190	12/01/2019	06/01/2050	Pay 1.851%; receive 65% of USD Fed Funds + 0.24%
Vet Bds Ser 2020	249,850	09/01/2020	12/01/2050	Pay 1.0851%; receive 65% of USD Fed Funds + 0.24%
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	14,895	03/01/2014	09/01/2034	Pay 3.67%; receive 65.5% of LIBOR + .20%
2004D Single Family	10,885	01/01/2005	03/01/2035	Pay 3.08%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
2005A Single Family	16,285	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
2007A Single Family	15,835	06/05/2007	09/01/2038	Pay 4.01%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS[1]				
RFS Bonds 2007B	161,745	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	161,745	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	172,845	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	172,845	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	107,375	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	107,375	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	215,210	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA
PUF Bonds 2014A	240,340	06/30/2023	07/01/2041	Pay 0.72%; 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 Bonds 2020D	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, 2020 (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%;	2,355	A+ / Aa2
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,427	
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%;	466	A+ / Aa2
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	208	
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,785	BBB+ / A3
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	1,896	A+ / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,075	BBB+ / A3
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	886	AA- / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	2,725	A+ / Aa2
Vet Bds Ser 2014D	N/A		AA- / Aa2
Vet Bds Ser 2015A	N/A		BBB+ / A3
Vet Bds Ser 2015B	N/A		A+ / Aa2
Vet Bds 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 Bds Ser 2020	N/A		A+ / Aa3
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A		AA- / Aa2
2004D Single Family	N/A		A+ / A1
2005A Single Family	N/A		A+ / Aa2
2007A Single Family	N/A		A+ / Aa2
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+ / A3
RFS Bonds 2008B	N/A		A+ / Aa2
PUF Bonds 2014A	N/A		A+ / Aa3
RFS Bonds 2016G	N/A		A+ / Aa3
RFS Bonds 2020D	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 expose the state to credit risk. As of Aug. 31, 2020, 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 swap associated with the Vet Land Tax Ref Bonds Series 2000 (now a part of state of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) provides the counterparty with the option to terminate the swap under certain conditions.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed-rate and the state would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets. At termination, if the fair value of the swap is negative, the state would owe the counterparty a termination payment equal to the swap's negative fair value; however, if the fair value of the swap is positive, the counterparty would owe the state a termination payment equal to the swap's positive fair value.

Several swap agreements include optional early termination provisions granting the state the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative 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. However, in the case of the swap associated with the Vet Land Tax Ref Bonds Series 2000 (now a part of state of Texas Veterans Bonds, Taxable Refunding Series 2014B-3 attributable to bond refunding) the state will be subject to rollover risk if the counterparty exercises the option to terminate the swap contract.

Market-access Risk: Each swap associated with underlying variable-rate debt subject to tender at the option of the bondholder is subject to market-access risk. In the event the state is unable to remarket its variable-rate bonds, the state may choose to refund the variable-rate bonds with fixed-rate bonds and optionally terminate the related interest rate swap agreements. If an early termination event occurs, the state could be required to pay or to receive a substantial termination payment.

Swap Payments and Associated Debt

Aggregate debt service requirements of the state's variable-rate debt and net receipts/payments on associated hedging derivative instruments are disclosed in Note 6.

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Standard & Poor's and Moody's Investor Service. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Note 15 discloses detail about 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, 2020, are $502.9 million for primary government, $1.9 million for discrete component units and $4.8 million for fiduciary funds. Rental obligations on noncancelable operating leases as of Aug. 31, 2020, is presented in table 8A.

Noncancelable Operating Lease Obligations

Table 8A

August 31, 2020 (Amounts in Thousands)

	Minimum Future Lease Payments		
Year	Primary Government	Component Units	Fiduciary Funds
2021	$ 376,508	$ 1,557	$ 2,746
2022	313,069	1,590	1,135
2023	248,468	281	567
2024	201,859	2	430
2025	160,698		340
2026 - 2030	399,703		781
2031 - 2035	65,248		
2036 - 2040	43,472		
2041 - 2045	42,588		
2046 - 2050	33,449		
2051 and beyond	9,395		
Total Payments	$ 1,894,457	$ 3,430	$ 5,999

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, 2020, are $61.4 million for primary government, $577 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, 2020, is presented in table 8B.

Noncancelable Operating Lease Rental Income

Table 8B

August 31, 2020 (Amounts in Thousands)

Year	Primary Government	Minimum Future Lease Rental Income Component Units	Fiduciary Funds
2021	$ 53,269	$ 274	$ 41
2022	44,417	38	46
2023	41,994	31	46
2024	35,996		46
2025	31,012		46
2026 and beyond	1,095,993		218
Total Income	$ 1,302,681	$ 343	$ 443

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

As of Aug. 31, 2020, the carrying value of the Permanent School Fund's (PSF) leased assets is $209.2 million. The historical cost of the PSF leased buildings is $11 million and related accumulated depreciation is $2.3 million. The historical cost of the PSF leased land is $200.4 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 $270.9 thousand.

As of Aug. 31, 2020, the carrying value of the Texas Tech University System's (TTU System) leased assets is $28.7 million. The historical cost of the TTU System leased buildings is $42.1 million and the related accumulated depreciation is $13.7 million. The historical cost of the TTU System leased land is $294.2 thousand.

As of Aug. 31, 2020, the carrying value of the University of North Texas System's (UNT System) leased assets is $43.8 million. The historical cost of the UNT System leased buildings is $47.6 million and the related accumulated depreciation is $13.3 million. The historical cost of the UNT System leased infrastructure is $16.5 million and the related accumulated depreciation is $7 million.

As of Aug. 31, 2020, the carrying value of the Texas A&M University System's (A&M System) leased assets is $95.3 million. The historical cost of the A&M System leased buildings is $158.3 million and related accumulated depreciation is $63.9 million. The historical cost of the A&M System leased land is $876.4 thousand.

As of Aug. 31, 2020, the carrying value of the University of Texas System's (UT System) leased assets is $179.2 million. The historical cost of the UT System leased buildings is $240.6 million and related accumulated depreciation is $87.8 million. The historical cost of the UT System leased land is $26.4 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.

The 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.

In fiscal 2018, the TTU System entered into a direct borrowing agreement for a capital lease with TCF Equipment Finance (TCF) for turf maintenance equipment to be used at the Rawls Golf Course, which is collateralized by this equipment. In the event of default, TCF has the option to:

- declare outstanding and future payments due immediately,
- assess related interest and payment collection costs,
- require the return of the equipment and/or
- accelerate payments on or terminate any other agreements with the TTU System.

The TTU System may only terminate early without liability for future payments upon the occurrence of a non-appropriation event and would surrender its right to the equipment and any related proceeds.

The 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.

The 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.

The 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.

The University of Houston System (UH System) entered into a 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,
- the cost of removing and storing personal property,
- the unpaid amount earned at the time of lease termination plus interest,
- the 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, 2020, is presented in table 8C.

Future Capital Lease Payments

Table 8C

August 31, 2020 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2021	$ 3,981	$ 7	$ 3,988	$ 8,399	$ 6,996	$ 15,395	$ 77	$ 9	$ 86
2022	3,949		3,949	8,795	6,722	15,517	31	5	36
2023	4,504		4,504	10,361	6,365	16,726	33	3	36
2024				10,865	5,932	16,797	34	2	36
2025				11,353	5,470	16,823			
2026-2030				68,575	19,291	87,866			
2031-2035				54,746	3,834	58,580			
Total Payments	$12,434	$ 7	$ 12,441	$173,094	$54,610	$227,704	$ 175	$ 19	$ 194

Business-Type Activities: Direct Borrowings

Table 8C

August 31, 2020 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2021	$	$	$	$ 11,820	$ 3,108	$ 14,928	$	$	$
2022				9,304	2,804	12,108			
2023				7,256	2,510	9,766			
2024				4,026	2,238	6,264			
2025				4,200	2,081	6,281			
2026-2030				20,885	7,915	28,800			
2031-2035				25,255	3,620	28,875			
2036-2040				2,337	90	2,427			
Total Payments	$ 0	$ 0	$ 0	$ 85,083	$24,366	$109,449	$ 0	$ 0	$ 0

Business-Type Activities: Direct Placements

Table 8C

August 31, 2020 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2021	$	$	$	$ 559	$ 198	$ 757	$	$	$
2022				564	173	737			
2023				568	148	716			
2024				571	124	695			
2025				570	99	669			
2026-2030				2,289	174	2,463			
Total Payments	$ 0	$ 0	$ 0	$ 5,121	$ 916	$ 6,037	$ 0	$ 0	$ 0

The assets recorded under capital leases as of Aug. 31, 2020, is presented in table 8D.

Assets Under Capital Leases
Table 8D
August 31, 2020 (Amounts in Thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities			
Type	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	$	$	$ 11	$	$	$
Buildings			235,930	(35,451)		
Furniture and Equipment	33,701	(32,073)	50,304	(31,502)	307	(82)
Vehicles, Boats, and Aircraft			3,021	(1,077)		
Computer Software	1,395	(488)	11,571	(5,374)		
Other Assets			27,899			
Total Capital Asset Leases	$ 35,096	$(32,561)	$ 328,736	$(73,404)	$ 307	$ (82)

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, 2020, the state recognized pension expense of $10.7 billion. Of this amount, $6.7 billion was incurred as an employer and $4 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*, Title 8, Subtitle B for the ERS and LECOS Plans and *Texas Government Code*, Title 8, Subtitle E for the JRS2 Plan) 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 Comprehensive Annual Financial Report (CAFR). ERS's CAFR, 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 CAFR.

Judicial Retirement System of Texas Plan Two (JRS2 Plan)

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

The average monthly compensation of the JRS2 Plan may vary 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. As a result of House Bill (HB) 2384 passed by the 86th legislative session, 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. HB 2384 also increases the contribution rate for the JRS2 Plan from 7.5 percent to 9.5 percent after Aug. 31, 2019. Information on vesting and tier requirements may be obtained from ERS's CAFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2019 is presented in table 9A.

Membership Data

Table 9A: Employees Retirement System of Texas

As of Measurement Date of August 31, 2019

	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries			
Currently Receiving Benefits	115,155	13,981	472
Terminated Employees Entitled to			
Benefits But Not Yet Receiving Them	125,935	22,207	187
Current Employees			
Vested and Non-Vested	141,865	36,296	573
Total Members	382,955	72,484	1,232

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2019 are presented in table 9B.

Required Contribution Rates

Table 9B: Employees Retirement System of Texas

As of Measurement Date of August 31, 2019

		Elected Class	
Plan	**Employee Class**	**Legislator**	**Other**
Employer			
ERS	10%	10%	10%
LECOS[1]	1.54%[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	7.5%	N/A	N/A

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

[2] The 1.54% consists of 0.5% of member payroll and a portion of court costs collected under Local Government Code, Section 133.102. The contribution from the court costs equals approximately 1.04% of payroll.

The state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2019 measurement period were $712.6 million, $25.9 million and $13.1 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, 2011 through Aug. 31, 2016. 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, 2019 measurement date.

The fiduciary net position for the ERS, LECOS and JRS2 Plans is projected to be depleted in fiscal years 2047, 2037 and 2045, respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal year 2046 for the ERS Plan, fiscal year 2036 for the LECOS Plan and fiscal year 2044 for the JRS2 Plan. The municipal bond rate was applied to all remaining projected benefit payments after fiscal year 2046 for the ERS Plan, after fiscal year 2036 for the LECOS Plan and after fiscal year 2044 for the JRS2 Plan.

Actuarial Methods and Assumptions

Table 9C: Employees Retirement System of Texas

As of Measurement Date of August 31, 2019

Description	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	Aug. 31, 2019	Aug. 31, 2019	Aug. 31, 2019
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	4.42%	3.29%	5.45%
Investment Rate of Return	7.5%	7.5%	7.5%
Inflation	2.5%	2.5%	2.5%
Salary Increase	0% to 9.5%	4.5% to 9.5%	3%
Cost-of-living Adjustments	None - Employee 2.5% - Elected compounded annually on Sept. 1	None	None
Mortality	The mortality rates for service retirees and beneficiaries are based on the 2017 State Retirees of Texas Mortality Tables with generational mortality improvements projected from the year 2017, 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.		

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.

Assumptions for Single Discount Rate

Table 9D: Employees Retirement System of Texas

As of Measurement Date of August 31, 2019

Type of Rate	ERS Plan	LECOS Plan	JRS2 Plan
Single Discount Rate	4.42%	3.29%	5.45%
Investment Rate of Return	7.50%	7.50%	7.50%
Municipal Bond Rate[1]	2.63%	2.63%	2.63%
Year Fiduciary Net Position Depleted	2047	2037	2045

[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.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five-year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of the Texas Legislature’s commitment to increase funding for the pension funds. Senate Bill 1459 in the 83rd legislative session established proportional decreases to the employee contribution if the state contribution decreases. House Bill 9 in the 84th legislative session kept those provisions and increased state contribution rates. There were no changes made to the 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 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, 2019

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return[1]
Global Equity	50%	7.82%	3.91%
Global Credit	11%	5.20%	0.57%
Opportunistic Credit	3%	6.50%	0.20%
Intermediate Treasuries	11%	2.60%	0.29%
Real Estate	12%	7.50%	0.90%
Infrastructure	7%	7.00%	0.49%
Hedge Funds	5%	6.20%	0.31%
Cash	1%	2.40%	0.02%
Totals	100%	N/A	6.69%

[1] The expected arithmetic nominal rate of return of 9.19% is derived by adding expected inflation rate of 2.5% to the long-term expected return rate of 6.69%.

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[1]

Table 9F: Employees Retirement System of Texas

As of Measurement Date of August 31, 2019 (Amounts in Thousands)

Plan Type	1% Decrease	Current Discount Rate	1% Increase
ERS Plan:			
Discount Rate	3.42%	4.42%	5.42%
NPL	$ 38,393,840	$ 29,985,159	$ 23,133,905
LECOS Plan:			
Discount Rate	2.29%	3.29%	4.29%
NPL	$ 2,131,716	$ 1,665,733	$ 1,298,659
JRS2 Plan:			
Discount Rate	4.45%	5.45%	6.45%
NPL	$ 262,668	$ 192,106	$ 132,115

[1] Positive amounts indicate the pension plan's fiduciary net position (FNP) is projected to be insufficient to make projected benefit payments, whereas negative amounts indicate the FNP is sufficient to make projected benefit payments.

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 2019 CAFR.

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2019. For fiscal 2020 reporting, the measurement date of the state's net pension liability is Aug. 31, 2019. The schedule of changes in the state's net pension liability for the fiscal year ended Aug. 31, 2020 is presented in table 9G.

Schedule of Changes in Net Pension Liability

Table 9G: Employees Retirement System of Texas

As of Measurement Date of August 31, 2019 (Amounts in Thousands)

Schedule of Changes	ERS Plan	LECOS Plan	JRS2 Plan
Total Pension Liability			
Service Cost	$ 1,346,986	$ 71,926	$ 16,415
Interest on the Total Pension Liability	2,694,084	96,086	36,104
Changes of Benefit Terms			(1,019)
Difference Between Expected and Actual Experience of the Total Pension Liability	(578,195)	(54,148)	26,592
Assumption Changes[1]	8,469,458	427,818	111,656
Benefit Payments and Refunds	(2,540,262)	(82,250)	(29,220)
Net Change in Total Pension Liability	9,392,071	459,432	160,528
Total Pension Liability – Beginning	47,944,312	2,149,923	487,771
Total Pension Liability – Ending	$ 57,336,383	$ 2,609,355	$ 648,299
Plan Fiduciary Net Position			
Contributions – Employer	$ 712,648	$ 25,864	$ 13,100
Contributions – Member	694,789	9,098	6,463
Pension Plan Net Investment Income	758,467	26,250	12,832
Benefit Payments and Refunds	(2,540,262)	(82,250)	(29,220)
Pension Plan Administrative Expense	(27,752)	(2,167)	(363)
Net Change in Plan Fiduciary Net Position	(402,110)	(23,205)	2,812
Plan Fiduciary Net Position – Beginning	27,753,334	966,827	453,381
Plan Fiduciary Net Position – Ending	$ 27,351,224	$ 943,622	$ 456,193
Net Pension Liability – Beginning	20,190,978	1,183,096	34,390
Net Pension Liability – Ending	$ 29,985,159	$ 1,665,733	$ 192,106

[1] The change in the total pension liability due to the change in the single discount rate is included as an assumption change.

House Bill 2384 restructured the compensation and retirement benefits for State judges. In addition to this legislation impacting members of the JRS2, this restructuring impacted the compensation used to determine benefits upon retirement for Elected Class members in ERS Plan. There were no other changes to the plan provisions of the ERS, LECOS, or JRS2 Plans during the past year.

For the fiscal year ended Aug. 31, 2020, the state recognized pension expense of $4.7 billion, $229.4 million and $48.7 million, respectively, for the ERS, LECOS and JRS2 Plans. At Aug. 31, 2020, the state reported deferred outflows of resources and deferred inflows of resources related to pension from the sources for these plans in table 9H.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9H: Employees Retirement System of Texas
August 31, 2020 (Amounts in Thousands)

	ERS Plan		LECOS Plan		JRS2 Plan	
	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	$ 47,004	$ 407,131	$	$ 66,321	$ 19,184	$ 612
Changes of Assumptions	6,121,758	836,721	410,813	105,747	77,923	6,963
Net Difference Between Projected and Actual Investment Return	486,434		16,723		7,907	
Contributions Subsequent to the Measurement Date	735,903		22,294		14,186	
Total	$ 7,391,099	$ 1,243,852	$ 449,830	$ 172,068	$ 119,200	$ 7,575

The $735.9 million, $22.3 million and $14.2 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, 2021.

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, 2020 (Amounts in Thousands)

Year	ERS Plan	LECOS Plan	JRS2 Plan
2021	$2,052,353	$97,500	$36,503
2022	2,058,351	30,188	41,245
2023	1,044,738	64,605	15,531
2024	255,902	63,176	4,159
2025	0	0	0
Thereafter	0	0	0

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

During the measurement period of fiscal 2020, ERS's calculated single discount rate decreased from 4.42 percent to 3.62 percent, from 3.29 percent to 2.87 percent and from 5.45 percent to 4.19 percent for ERS, LECOS and JRS2 Plans, respectively. This is estimated to increase the net pension liability for the plans accordingly for fiscal 2021: ERS by $8 billion, LECOS by $249.4 million and JRS2 by $112.2 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, 2019.

Membership Data

Table 9J: Judicial Retirement System of Texas Plan One
As of Measurement Date of August 31, 2019

Membership	JRS1 Plan
Retirees and Beneficiaries Currently Receiving Benefits	317
Current Employees Vested and Non-Vested	3
Total Members	320

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 an experience study covering the five-year period from Sept. 1, 2011 through Aug. 31, 2016. Table 9K presents the actuarial methods and assumptions used to measure the total pension liability for the JRS1 Plan as of the Aug. 31, 2019 measurement date.

Actuarial Methods and Assumptions

Table 9K: Judicial Retirement System of Texas Plan One

For the Fiscal Year Ended August 31, 2020

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate[1]	2.63 %
Inflation	2.5 %
Salary Increase	2.5 %
Mortality:	
Active Members	RP-2014 Active Member Mortality table. Generational mortality improvements in accordance with the ultimate rates from scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries (Scale U-MP) and projected from the year 2014.
Service Retirees, Beneficiaries and Inactive Members	2017 State Retirees of Texas mortality table. Generational mortality improvements in accordance with Scale U-MP and projected from the year 2017.
Cost-of-living Adjustments	2.50% 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.

House Bill (HB) 2384, in the 86th legislative session, restructured the compensation and retirement benefits for state judges, changing the assumption for long-term salary increases and cost-of-living adjustments from 2.75% to 2.5%. HB 2384 also removed the provision for future disability retirement benefits for current JRS1 Plan active members. This provision has no impact on the JRS1 Plan, since all active members are eligible for service retirement.

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, 2020 (Amounts in Thousands)

	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.63%	2.63%	3.63%
Total Pension Liability	$ 268,406	$ 245,074	$ 225,047

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2019. For fiscal 2020 reporting, the measurement date of the state's total pension liability is Aug. 31, 2019. The schedule of changes in the state's total pension liability for the fiscal year ended Aug. 31, 2020 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, 2019 (Amounts in Thousands)

Schedule of Changes	Total Pension Liability
Service Cost	$ 319
Interest on the Total Pension Liability	9,032
Difference Between Expected and Actual Experience of the Total Pension Liability	(15,327)
Assumption Changes[2]	17,173
Benefit Payments and Refunds	(21,479)
Net Change in Total Pension Liability	(10,282)
Total Pension Liability – Beginning	255,356
Total Pension Liability – Ending	$ 245,074

[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.

For the fiscal year ended Aug. 31, 2020, the state recognized pension expense of $11.2 million for the JRS1 Plan. Since the expected remaining service lives is one year, at Aug. 31, 2020, 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 $19.9 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, 2021.

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 Comprehensive Annual Financial Report (CAFR). The TRS CAFR may be obtained from their website at www.trs.state.tx.us 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 2019 for fiscal

2020 reporting, the amount of the state's contributions recognized by the plan was $618 million for the state as an employer and $1.7 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 2019 are presented in table 9N.

Required Contribution Rates

Table 9N: Teacher Retirement System of Texas Plan

For the Fiscal Year Ended August 31, 2020

Contributor	Rate
Employer	6.8%
Nonemployer Contributing Entity (State)	6.8%
Employees	7.7%

The actuarial valuation was performed as of Aug. 31, 2018. Update procedures were used to roll forward the total pension liability to Aug. 31, 2019. Table 9O presents the actuarial methods and assumptions used to measure the total pension liability for the TRS Plan as of the Aug. 31, 2019 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, 2020

Description	
Actuarial Valuation Date	Aug. 31, 2018, rolled forward to Aug. 31, 2019
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	2.63%[1]
Inflation	2.30 %
Salary Increase	3.05% to 9.05% including inflation
Last year ending Aug. 31 in projection period (100 years)	2116
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.

The following assumptions and other inputs have been adopted since the prior valuations and significantly decreased the net pension liability:

d. Total pension liability as of Aug. 31, 2019 was developed using a roll forward method of the Aug. 31, 2018 valuation,

e. Discount rate changed from 6.907 percent as of Aug. 31, 2018, to 7.25 percent as of Aug. 31, 2019,

f. The enactment of Senate Bill 3 by the 2019 legislative session impacted future salaries by giving eligible active members a $2,700 increase in fiscal year 2020 in addition to the salary increases expected.

There have been no changes 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; as of the beginning of the measurement year, the discount rate was 6.907 percent. 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 2.63 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and non-employer 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, 2020

Asset Class	New Target Allocation[1]	Long-Term Expected Geometric Real Rate of Return[2]	Fiscal Year 2019 Target Allocation[3]
Global Equity			
U.S.	18%	6.4%	18%
Non-U.S. Developed	13%	6.3%	13%
Emerging Markets	9%	7.3%	9%
Directional Hedge Funds	0%	0.0%	4%
Private Equity	14%	8.4%	13%
Stable Value			
U.S. Treasury[4]	16%	3.1%	11%
Absolute Return	0%	0.0%	0%
Stable Value Hedge Funds	5%	4.5%	4%
Cash	0%	0.0%	0%
Real Return			
Global Inflation Linked Bonds[4]	0%	0.0%	3%
Real Estate	15%	8.5%	14%
Energy, Natural Resources and Infrastructure	6%	7.3%	5%
Commodities	0%	0.0%	0%
Risk Parity			
Risk Parity	8%	5.8%/6.5%[5]	5%
Asset Allocation Leverage Cash	2%	2.5%	1%
Asset Allocation Leverage	(6)%	2.7%	0%
Total	100%		100%

[1] New target allocations are based on the Strategic Asset Allocation dated Oct. 1, 2019.
[2] 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.1%.
[3] Fiscal year 2019 target allocation based on the Strategic Asset Allocation dated Oct. 1, 2018.
[4] New target allocation groups government bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds.
[5] 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility.

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, 2020 (Amounts in Thousands)

State as:	1% Decrease	Current Discount Rate	1% Increase
Employer			
Discount Rate	6.25%	7.25%	8.25%
NPL	$ 14,106,010	$ 9,176,758	$ 5,183,112
Nonemployer Contributing Entity			
Discount Rate	6.25%	7.25%	8.25%
NPL	$ 39,675,790	$ 25,811,347	$ 14,578,472

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 2019 CAFR.

At Aug. 31, 2020, the state reported a liability of $9.2 billion for its proportionate share of the collective net pension liability as an employer and a liability of $25.8 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, 2019, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2018, rolled forward to Aug. 31, 2019. The state's proportion increased from 16.42 percent at Aug. 31, 2018, to 17.65 percent at Aug. 31, 2019, and decreased from 50.96 percent to 49.65 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, 2018 through Aug. 31, 2019.

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, 2020, the state recognized pension expense of $1.7 billion and grant expense of $4.1 billion for the TRS Plan. At Aug. 31, 2020, 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, 2020 (Amounts in Thousands)

	State as Employer		State as Non-Employer Contributing Entity	
TRS Plan	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ 38,551	$ 318,632	$ 108,431	$ 896,211
Changes of assumptions	2,847,081	1,176,549	8,007,947	3,309,263
Net difference between projected and actual investment return	92,145		259,176	
Change in proportion and contribution difference	1,291,364	716,282		1,558,331
Contributions subsequent to the measurement date	683,487		2,107,999	
Total	$ 4,952,628	$ 2,211,463	$ 10,483,553	$ 5,763,805

The $683.5 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, 2021.

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, 2020 (Amounts in Thousands)

Year Ended Aug. 31:	State as Employer (Pension Expense[1])	State as Nonemployer Contributing Entity (Grant Expense[1])
2021	$ 335,220	$ 249,449
2022	260,423	33,411
2023	654,383	1,125,330
2024	611,540	1,153,145
2025	253,950	316,409
Thereafter	(57,838)	(265,994)

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

During the measurement period of fiscal 2020, 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, 2019. Although actuarial assumptions remained the same, the TRS Plan's net pension liability is expected to increase by $1.6 billion for fiscal 2021 of which the state's proportionate share is estimated to increase $278 million and $782 million 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 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, 2018, 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 2019 for fiscal 2020 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, 2018, rolled forward to Aug. 31 2019. Table 9T presents the actuarial methods and assumptions used to measure the total pension liability for the TESRS Plan as of the Aug. 31, 2019 measurement date. The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study from 2008 as indicated by Rudd and Wisdom, Inc., TESRS' actuary. There has been no change of actuarial methods and benefit terms since the prior measurement date.

Actuarial Methods and Assumptions

Table 9T: Texas Emergency Services Retirement System Plan

As of August 31, 2018

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Actuarial Assumptions:	
Discount Rate	7.75%
Investment Rate of Return	7.75%
Inflation	3%
Salary Increase	N/A
Mortality	RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA.
Ad Hoc Post-Retirement Benefit Changes	None

The discount rate of 7.75 percent was applied to measure the total pension liability. There has been no change in the discount rate since the prior measurement date. No projection of cash flows was used to determine the discount rate because the Aug. 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, TESRS Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on the TESRS Plan investments was applied to all periods of projected benefit payments without incorporating the municipal bond rate.

The long-term expected 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 7.75 percent assumption reflected a reduction of 0.26 percent for adverse deviation.

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, 2020

Asset Class	Target Allocations	Long-Term Expected Net Real Rate of Return[1]
Equities		
Large Cap Domestic	32%	5.81%
Small Cap Domestic	15%	5.92%
Developed International	15%	6.21%
Emerging Markets	5%	7.18%
Master Limited Partnership	5%	7.61%
Real Estate	5%	4.46%
Fixed Income	23%	1.61%
Total Allocations	100%	

[1] The above components are weighted to arrive at an average of 5.01%, which is added to the expected inflation of 3.00%, followed by a reduction of 0.26% for adverse deviation to arrive at the final rate of 7.75%.

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, 2020 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.75%	7.75%	8.75%
Net Pension Liability	$ 14,944	$ 8,408	$ 4,033

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 2019 audited Annual Financial Report at the website www.tesrs.org/financial-information.

At Aug. 31, 2020, the state reported a liability of $8.4 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, 2019, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2018. Update procedures were used to roll forward the total pension liability to the measurement date of Aug. 31, 2019. The state's proportion as a nonemployer contributing entity increased from 27.75 percent at Aug. 31, 2018 to 29.66 percent at Aug. 31, 2019. The state's proportion of the collective net pension liability was based on a fiscal 2019 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, 2020, the state recognized grant expense of $1.4 million for the TESRS Plan. At Aug. 31, 2020, 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, 2020 (Amounts in Thousands)

	State as Non-Employer Contributing Entity	
Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$	$ 10
Change of Assumptions		
Net Difference Between Projected and Actual Investment Return	1,083	
Change in Proportion and Contribution Difference	233	562
Contributions Subsequent to the Measurement Date	1,329	
Total	$ 2,645	$ 572

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, 2021.

Table 9X presents amounts reported as deferred outflows of resources and deferred inflows of resources related to the emergency services personnel's pension 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, 2020 (Amounts in Thousands)

Year Ended Aug. 31:	State as Non-Employer Contributing Entity (Grant Expense[1])
2021	$(144)
2022	140
2023	289
2024	459
2025	
Thereafter	

[1] Negative amounts indicate decrease 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 2020. 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 2020 resulted in participant contributions of $288.3 million and employer contributions of $344.9 million.

As of Aug. 31, 2020, ORP had 36,714 participants. The total participant contributions were $317.7 million and total employer contributions were $376.6 million. Additional information for ORP is included in the fiscal 2020 *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'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 unit 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, 2020, the state recognized OPEB expense of $1.5 billion. Of this amount, $718.8 million was incurred as an employer and $825.4 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 Comprehensive Annual Financial Report (CAFR). The ERS CAFR 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 2019, for fiscal 2020 reporting, the amount of the state contributions recognized by the SRHP was $360 million for the state as employer and $26.6 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, 2020

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, 2019 for fiscal year ended Aug. 31, 2020.

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, 2011 to Aug. 31, 2016 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, 2020

Description	
Actuarial Valuation Date	Aug. 31, 2019
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	2.50 %
Discount Rate	2.97%[1]
Salary Increase	2.50% to 9.50% , includes inflation
Annual Healthcare Trend Rates:	
HealthSelect	7.30% for fiscal 2021, 7.40% for fiscal 2022, 7.00% for fiscal 2023, decreasing 0.50% per year to an ultimate rate of 4.50% for fiscal 2028 and later years
HealthSelect Medicare Advantage	10.80% for fiscal 2021, 7.40% for fiscal 2022, 7.00% for fiscal 2023, decreasing 0.50% per year to an ultimate rate of 4.50% for fiscal 2028 and later years
Ad Hoc Post-Employment Benefit Changes	None
Mortality:	
State Agency Members:	
Service Retirees, Survivors and other Inactive Members	2017 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 2017
Disabled Retirees	RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014
Active Members	RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014
Higher Education Members:	
Service Retirees, Survivors and other Inactive Members	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
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. assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on our short-term expectations,

b. 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,

c. 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
d. percentage of future retirees and future retirees' spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends, and
e. the discount rate assumption was decreased from 3.96 percent to 2.97 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 2020 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 2.97 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 3.96 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, 2020
(Amounts in Thousands)

Plan Type	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.97 %	2.97 %	3.97 %
State as Employer	$ 35,224,886	$ 29,518,613	$ 25,127,842
State as Nonemployer Contributing Entity	$ 2,605,073	$ 2,183,063	$ 1,858,342

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, 2020
(Amounts in Thousands)

Activity	1% Decrease	Current Rate	1% Increase
State as Employer	$ 24,786,518	$ 29,518,613	$ 35,702,377
State as Nonemployer Contributing Entity	$ 1,833,099	$ 2,183,063	$ 2,640,387

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, 2020, the state reported a liability of $29.5 billion for its proportionate share of the collective NOL as an employer, which was comprised of a current portion of $935.6 million and a noncurrent portion of $28.6 billion, and a liability of $2.2 billion for its proportionate share of the collective NOL as a nonemployer contributing entity, which was comprised of a current portion of $69.2 million and a noncurrent portion of $2.1 billion. The collective NOL was measured as of Aug. 31, 2019, and the TOL used to calculate the NOL was determined by an actuarial valuation as of that date. The state's proportion decreased from 85.44 percent at Aug. 31, 2018, to 85.41 percent at Aug. 31, 2019, and increased from 6.14 percent to 6.32 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, 2018 through Aug. 31, 2019.

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, 2020, the state recognized OPEB expense of negative $270.1 million and grant expense of $114.2 million for SRHP. At Aug. 31, 2020, 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, 2020 (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	$	$ 768,101	$	$ 56,805
Changes of Assumptions or Other Inputs	2,100,682	6,596,291	155,357	487,832
Net Difference Between Projected and Actual Investment Return	12,136		898	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	2,005,323	3,105,330	413,805	
Contributions Subsequent to the Measurement Date	614,312		48,140	
Total	$ 4,732,453	$ 10,469,722	$ 618,200	$ 544,637

The $614.3 million and $48.1 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, 2021.

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.

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, 2020

(Amounts in Thousands)

Year	State as Employer (OPEB Expense)[1]	State as Nonemployer Contributing Entity (Grant Expense)[1]
2021	$ (2,341,395)	$ (38,980)
2022	(2,341,395)	(38,980)
2023	(1,532,023)	20,878
2024	(359,173)	59,327
2025	222,405	23,176
Thereafter		

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

During the measurement period of fiscal 2020, the following SRHP changes were updated by ERS. ERS decreased the discount rate from 2.97 percent to 2.2 percent, changed demographic assumptions, 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 and changed the proportion of future retirees assumed to cover dependent children in SRHP. This is expected to decrease SRHP's NOL by $1.5 billion for fiscal year 2021 of which the state's proportionate share is estimated to decrease $1.3 billion and $95.9 million for its role as employer and non-employer contributing entity, respectively.

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 Comprehensive Annual Financial Report (CAFR). The TRS CAFR may be obtained from their website at www.trs.state.tx.us 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.

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 school districts based upon public school district payroll. 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 2019, for fiscal 2020 reporting, the amount of the state contributions recognized by the TRS-Care plan was $478.6 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, 2020
(Amounts in Thousands)

	Contribution	
Contributor	**Rate**	**Amount**
Active Employee	0.65%	$ 227,338
Nonemployer Contributing Entity (State)	1.25%	404,937
Participating Employer	0.75%	262,310
Federal/Private Funding[1]	1.25%	32,253
Total		$ 926,838

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

A supplemental appropriation was received in fiscal 2019 for $73.6 million, which was re-appropriated from amounts received by the pension and TRS-Care funds in excess of the state's actual obligation and then transferred to the TRS-Care fund.

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, 2019 for fiscal year ended Aug. 31, 2020.

Actuarial Methods and Assumptions

The actuarial valuation was performed as of Aug. 31, 2018. Update procedures were used to roll forward the total OPEB liability (TOL) to Aug. 31, 2019. 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, 2020

Description	
Actuarial Valuation Date	Aug. 31, 2018, rolled forward to Aug. 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Actuarial Assumptions:	
Inflation	2.30 %
Discount Rate	2.63%[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 10.25% for Medicare retirees and 7.50% for non-Medicare retirees. Initial prescription drug trend rate of 10.25% for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 13 years.
Election Rates	Normal Retirement Participation: 65% participation prior to age 65 and 50% 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, 2019.

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 3.69 percent as of Aug. 31, 2018 to 2.63 percent as of Aug. 31, 2019 (increased TOL),

b. The participation rate for pre-65 retirees was lowered from 70 to 65 percent; the participation rate for post-65 retirees was lowered from 75 to 50 percent; 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65; there was no lapse assumption in the prior valuation (decreased TOL),

c. The trend rates were reset to better reflect the TRS-Care plan's anticipated experience (increased TOL), and

d. The percentage of retirees who are assumed to have two-person coverage was lowered from 20 to 15 percent; in addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 to 10 percent (decreased TOL).

The impact of the Cadillac Tax has been calculated as a portion of the trend assumption returning in fiscal 2023. Results indicated that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long-term trend rate assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include the following:

a. 2018 thresholds of $850 and $2,292 were indexed annually by 2.3 percent,

b. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax and

c. No special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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 2.63 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 3.96 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, 2020

(Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.63%	2.63%	3.63%
Balance	$ 32,578,222	$ 26,983,897	$ 22,607,451

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, 2020

(Amounts in Thousands)

Activity	1% Decrease	Current Rate	1% Increase
Balance	$ 22,012,516	$ 26,983,897	$ 33,643,264

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, 2020, the state reported a liability of $27 billion for its proportionate share of the collective NOL as nonemployer contributing entity, which was comprised of a current portion of $161.8 million and a noncurrent portion of $26.8 billion. The collective NOL was measured as of Aug. 31, 2019 and the TOL used to calculate the collective NOL was determined by an actuarial valuation as of that date. The state's proportion decreased from 57.43 percent at Aug. 31, 2018, to 57.05 percent at Aug. 31, 2019. 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 TRS-Care for the period Sept. 1, 2018 through Aug. 31, 2019.

For the fiscal year ended Aug. 31, 2020, the state recognized grant expense of $711.2 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, 2020 (Amounts in Thousands)

Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 1,323,789	$ 4,415,629
Changes of Assumptions or Other Inputs	1,498,745	7,258,006
Net Difference Between Projected and Actual Investment Return	2,911	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	39	692,180
Contributions Subsequent to the Measurement Date	666,526	
Total	$ 3,492,010	$ 12,365,815

The $666.5 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, 2021.

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, 2020

(Amounts in Thousands)

Year	Grand Expense[1]
2021	$ (1,583,618)
2022	(1,583,618)
2023	(1,584,560)
2024	(1,585,099)
2025	(1,584,950)
Thereafter	(1,618,486)

[1] Negative amounts indicate decrease in grant expense.

During the measurement period of fiscal 2020, the following TRS-Care plan changes were updated by TRS. TRS decreased the discount rate from 2.63 percent to 2.33 percent, decreased the participation rate for post-65 retirees from 50 percent to 40 percent and decreased the ultimate health care trend assumption from 4.5 percent to 4.25 percent. This is expected to decrease TRS-Care's NOL by $9.3 billion for fiscal year 2021 of which the state's proportionate share is estimated to decrease $5.3 billion for its role as non-employer contributing entity.

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, 2020

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 2019, for fiscal 2020 reporting, the amount of state employer benefit payments recognized by the A&M Plan was $70 million and the UT Plan was $191.3 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, 2020

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, 2019 for fiscal year ended Aug. 31, 2020.

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, 2019 for fiscal year ended Aug. 31, 2020.

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, 2020

Description	A&M Plan	UT Plan
Actuarial Valuation Date	Sep. 1, 2019	Dec. 31, 2019
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	2.97%[1]	2.74%[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 following assumptions and other inputs have 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. Demographic assumptions (including rates of retirement, disability, termination, mortality, assumed salary increases, retiree marriage status, dependents, tobacco use, and plan coverage longevity),
b. Economic assumptions (including assumed expenses, assumed Per Capita Health Benefit Costs, assumed Health Benefit Costs, retiree contribution and expense trends, Patient-Centered Outcome Research Institute fees payable, and assumed inflation), and
c. the discount rate has changed for the A&M and UT Plans.

The discount rate that was used to measure the TOL for each plan is the municipal bond rate of 2.97 percent for the A&M Plan and 2.74 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 3.96 percent and 4.10 percent, respectively.

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, 2020
(Amounts in Thousands)

University System Plan	1% Decrease	Current Discount Rate	1% Increase
A&M Plan:			
Discount Rate	1.97 %	2.97 %	3.97 %
Balance	$ 4,578,736	$ 3,769,546	$ 3,154,757
UT Plan:			
Discount Rate	1.74 %	2.74 %	3.74 %
Balance	$ 17,719,036	$ 14,528,033	$ 12,088,519

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, 2020
(Amounts in Thousands)

University System Plan	1% Decrease	Current Rate	1% Increase
A&M Plan	$ 3,147,835	$ 3,769,546	$ 4,593,053
UT Plan	$ 11,860,858	$ 14,528,033	$ 18,125,174

Total OPEB Liability, Deferrals, and OPEB Expense

At Aug. 31, 2020, the state reported a liability of $3.8 billion for the A&M Plan and $14.6 billion for the UT Plan. The A&M Plan's TOL is comprised of a current portion of $80.5 million and a noncurrent portion of $3.7 billion, and the UT Plan's TOL is comprised of a current portion of $257.7 million and a noncurrent portion of $14.3 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, 2019 and Dec. 31, 2019 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, 2020
(Amounts in Thousands)

Schedule of Changes	A&M Plan	UT Plan
Measurement Date	Sept. 1, 2019	Dec. 31, 2019
Total OPEB Liability		
Service Cost	$ 127,112	$ 593,495
Interest on the Total OPEB Liability	137,392	556,673
Changes of Benefit Terms		
Difference Between Expected and Actual Experience	(111,380)	(112,255)
Changes of Assumptions or Other Inputs	309,034	601,825
Benefit Payments (Employer)	(70,025)	(191,309)
Other Changes		
Net Change in Total OPEB Liability	392,133	1,448,429
Total OPEB Liability – Beginning	3,377,413	13,079,604
Total OPEB Liability – Ending	$ 3,769,546	$ 14,528,033

For the fiscal year ended Aug. 31, 2020, the state recognized OPEB expense of $187.6 million for the A&M Plan and $801.2 million for the UT Plan, respectively. At Aug. 31, 2020, 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.

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

Table 11S: A&M System and UT System

August 31, 2020 (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	$	$ 143,953	$	$ 207,566
Changes of Assumptions or or Other Inputs	662,374	848,955	529,922	2,215,025
Transactions Subsequent to the Measurement Date	69,586		124,924	
Total	$ 731,960	$ 992,908	$ 654,846	$ 2,422,591

[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.

The $69.6 million reported as deferred outflows of resources for the A&M Plan and $124.9 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, 2021.

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, 2020
(Amounts in Thousands)

Year	A&M Plan	UT Plan
2021	$ (77,434)	$ (348,762)
2022	(77,434)	(348,762)
2023	(87,072)	(348,762)
2024	(100,364)	(348,762)
2025	6,324	(286,803)
Thereafter	5,446	(210,817)

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

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 $1.5 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 $2.1 billion transfer from the property tax relief fund and a $1.7 billion transfer from the lottery fund to the foundation school fund for educational programs. There is a $1.1 billion transfer from the permanent school fund to the available school fund. The Graduate Medical Education permanent fund transferred $11.8 million to the Texas Higher Education Coordinating Board as directed by the Texas Legislature. There is $1.1 billion due from amount for the state highway fund from the The Texas Comptroller of Public Accounts' office related to a November 2014 amendment to Article III 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 2020.

The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2020, are presented in tables 12A-E.

Interfund Receivables/Payables

Table 12A

August 31, 2020 (Amounts in Thousands)

	Current		Noncurrent		Total	
Fund Type	**Interfund Receivables**	**Interfund Payables**	**Interfund Receivables**	**Interfund Payables**	**Interfund Receivables**	**Interfund Payables**
Governmental Funds						
General Fund	$ 5,543	$	$ 10,639	$	$ 16,182	$
Nonmajor Governmental Funds		195		1,465		1,660
Total Governmental Funds	5,543	195	10,639	1,465	16,182	1,660
Proprietary Funds						
Colleges and Universities	55,893	61,355	1,412,960	1,423,599	1,468,853	1,484,954
Nonmajor Enterprise Funds	180	66	1,465		1,645	66
Total Proprietary Funds	56,073	61,421	1,414,425	1,423,599	1,470,498	1,485,020
Total Interfund Receivables/Payables	$ 61,616	$ 61,616	$1,425,064	$1,425,064	$1,486,680	$1,486,680

Due From/Due To

Table 12B

August 31, 2020 (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	$ 365,447	$	$	$3,060,672	$	$
State Highway Fund	1,400,250			29,381		
Permanent School Fund	14			661		
Nonmajor Governmental Funds	316,329			75,321		
Total Governmental Funds	2,082,040	0	0	3,166,035	0	0
PROPRIETARY FUNDS						
Colleges and Universities	1,358,369			301,776		
Unemployment Trust Fund	17,203					
Lottery Fund				92,719		
Nonmajor Enterprise Funds	81,021			16,193		
Internal Service Fund	918			11,261		
Total Proprietary Funds	1,457,511	0	0	421,949	0	0
FIDUCIARY FUNDS						
Pension and Other Employee Benefit Trust Funds	63,103			14,670		
Total Fiduciary Funds	63,103	0	0	14,670	0	0
Total Due From/Due To	$3,602,654	$ 0	$ 0	$3,602,654	$ 0	$ 0

Transfers In/Transfers Out

Table 12C

For the Fiscal Year Ended August 31, 2020
(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
GOVERNMENTAL FUNDS		
General Fund	$ 5,953,500	$ 10,690,807
State Highway Fund	1,349,799	792,862
Permanent School Fund		1,701,690
Nonmajor Governmental Funds	4,139,935	4,546,247
Total Governmental Funds	11,443,234	17,731,606
PROPRIETARY FUNDS		
Colleges and Universities	8,853,608	928,410
Lottery Fund		1,683,729
Nonmajor Enterprise Funds	108,803	65,004
Total Proprietary Funds	8,962,411	2,677,143
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	139,149	135,659
Private-Purpose Trust Funds	3,247	3,633
Total Fiduciary Funds	142,396	139,292
Total Transfers In/Transfers Out	$ 20,548,041	$ 20,548,041

Internal Balances per the Government-wide Financial Statements

Table 12D

August 31, 2020 (Amounts in Thousands)

Internal Balances	Governmental Activities	Business-Type Activities	Total
Noncurrent Assets	$ 9,174	$ (9,174)	$ 0
Current Liabilities	$ 1,040,557	$ (1,040,557)	$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

Table 12E

For the Fiscal Year Ended August 31, 2020
(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$(6,316,901)
Business-Type Activities	$ 6,316,901

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, 2020, 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 $7.0 billion governmental funds total unassigned fund balance, $11.3 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, 2020 (Amounts in Thousands)

Governmental Fund Nonspendable for:	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Inventory	$ 170,536	$ 143,717		$ 372	$ 314,625
Long-term Receivables	558,557				558,557
Permanent Principal	20,000		45,524,347	812,910	46,357,257
Prepaid Items	2,092			519	2,611
Total Nonspendable	751,185	143,717	45,524,347	813,801	47,233,050
Restricted for:					
Capital Purposes	66,725			322,530	389,255
Debt Service				364,445	364,445
Economic and Consumer Affairs	512,360			53,450	565,810
Education – Public Schools	654,903		1,151,234	962,788	2,768,925
Education – Loan Programs				1,343,103	1,343,103
Environment and Natural Resources - Other	89,328			46,747	136,075
Environment and Natural Resources - Water Programs	422			3,673,049	3,673,471
General Government[1]	118,402			65,911	184,313
Parks and Recreation	127,584			7,013	134,597
Public Health and Welfare – Federal Programs	55,921				55,921
Public Health and Welfare – Public Programs	63,870			39,203	103,073
Public Safety and Criminal Justice	43,110			98,154	141,264
Public Safety and Criminal Justice – Corrections				119	119
Public Safety and Criminal Justice – Law Enforcement	10,468			9,699	20,167
Regulatory Agencies				17,979	17,979
Transportation – Construction		5,251,876			5,251,876
Transportation – Licensing and Regulation		130,400			130,400
Transportation – Maintenance		515,083			515,083
Transportation – Other	10,172	2,322,931		367,634	2,700,737
Total Restricted	1,753,265	8,220,290	1,151,234	7,371,824	18,496,613

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, 2020 (Amounts in Thousands)

Governmental Fund Committed to:	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Capital Purposes	$ 13,997	$	$	$	$ 13,997
Economic and Consumer Affairs	1,004,823				1,004,823
Education – Public Schools	1,892,960			11,913	1,904,873
Education – Loan Programs	299,938				299,938
Environment and Natural Resources - Other	2,806,851				2,806,851
Environment and Natural Resources Water Programs	63,198				63,198
General Government[1]	472,266			19,148	491,414
Parks and Recreation	176,348				176,348
Public Health and Welfare – Federal Programs	254				254
Public Health and Welfare – Public Programs	340,684				340,684
Public Safety and Criminal Justice	166,315			9,553	175,868
Public Safety and Criminal Justice – Corrections	999			9,551	10,550
Public Safety and Criminal Justice – Law Enforcement	18,461				18,461
Transportation – Construction		294,389			294,389
Transportation – Maintenance		28,873			28,873
Transportation – Other		130,210		113,294	243,504
Total Committed	7,257,094	453,472	0	163,459	7,874,025
Assigned to:					
Economic and Consumer Affairs	31				31
Education	86				86
Environment and Natural Resources - Other	1,240				1,240
General Government[1]	9,100			2,673	11,773
Public Health and Welfare	61				61
Total Assigned	10,518	0	0	2,673	13,191
Unassigned:					
Education	(24,916,389)				(24,916,389)
Environment and Natural Resources	(376,083)				(376,083)
General Government[1]	40,742,772				40,742,772
General Government - ESF	11,257,622				11,257,622
Public Health and Welfare	(13,659,735)				(13,659,735)
Public Safety and Corrections	(5,706,655)				(5,706,655)
Regulatory Agencies	(300,703)				(300,703)
Transportation	(1,513)				(1,513)
Total Unassigned	7,039,316	0	0	0	7,039,316
Total Fund Balances – Governmental Funds	$ 16,811,378	$ 8,817,479	$ 46,675,581	$ 8,351,757	$ 80,656,195

[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 2020, 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 2020, 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, 2020 (Amounts in Thousands)

Fund Type	September 1, 2019, As Previously Reported	GASB Statement No. 84	Correction of Prior Year Errors	September 1, 2019, As Restated
GOVERNMENT-WIDE ACTIVITIES:				
PRIMARY GOVERNMENT:				
Governmental Activities	$ 46,223,170	$ 836,071	$ (7,466)	$ 47,051,775
Business-Type Activities	68,857,260	(4,350)	1,790	68,854,700
Total Primary Government	$ 115,080,430	$ 831,721	$ (5,676)	$ 115,906,475
Discrete Component Units	$ 569,712	$	$ (307)	$ 569,405
FUND FINANCIAL STATEMENTS:				
GOVERNMENTAL FUNDS				
Major Governmental Funds:				
General Fund	$ 16,278,422	$ 675,007	$ 85,990	$ 17,039,419
State Highway Fund	9,262,804			9,262,804
Permanent School Fund	46,500,380			46,500,380
Nonmajor Governmental Funds:				
Special Revenue Funds	5,095,142	161,064	80,988	5,337,194
Debt Service Funds	673,217			673,217
Capital Project Funds	528,216			528,216
Permanent Funds	1,539,335		(82,015)	1,457,320
Total Governmental Funds	$ 79,877,516	$ 836,071	$ 84,963	$ 80,798,550
PROPRIETARY FUNDS				
Major Enterprise Funds:				
Colleges and Universities	$ 60,136,981	$ (4,350)	$ 2,103	$ 60,134,734
Unemployment Trust Fund	2,322,005			2,322,005
Lottery Fund	29,339			29,339
Nonmajor Enterprise Funds	6,368,935		(313)	6,368,622
Total Proprietary Funds	$ 68,857,260	$ (4,350)	$ 1,790	$ 68,854,700
Internal Service Fund	$ 2,033,429	$	$	$ 2,033,429
FIDUCIARY FUNDS				
Pension and Other Employee Benefit Trust Funds	$ 188,306,679	$	$	$ 188,306,679
External Investment Trust Funds	25,018,383			25,018,383
Private-Purpose Trust Funds	3,784,720	(287,750)		3,496,970
Custodial Funds		3,630,521		3,630,521
Total Fiduciary Funds	$ 217,109,782	$ 3,342,771	$ 0	$ 220,452,553
Total Reporting Entity[1]	$ 332,759,924	$ 4,174,492	$ (5,983)	$ 336,928,433

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

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

GASB Pronouncements and Related Items

The $4.2 billion restatement increase is to record the effect of the implementation of GASB Statement No. 84, *Fiduciary Activities.* The objective of the statement relates to accounting and financial reporting for fiduciary activities. The following adjustments were made to the Custodial Funds for an increase of $3.2 billion, an increase to the Special Revenue Funds for $161.1 million, an increase to the General Fund for $675 million and a decrease to Private-Purpose Trust Funds of $287.8 million.

Also, as a result of the implementation, activities previously reported by Colleges and Universities as agency fund increased the Custodial Funds balance in the amount of $429.2 million and activities within Colleges and Universities decreased $4.4 million.

Correction of Prior Year Errors

Government-wide activities: Governmental activities include a restatement decrease of $7.5 million. Capital assets fund decreased $92.4 million and offset by increases of $86.0 million to the general fund. The general fund included a $94.2 million increase for construction in process (CIP) projects related to funds from the Economic Stabilization Fund that were appropriated to Texas Health and Human Services agency. The remaining restatements primarily include decreases of $8.2 million to correct accounting errors in the prior period related to overstated grant revenue.

Business-type activities include restatement increase of $1.8 million which include an increase of $1.5 million to correct accounting errors related to unrecorded deposits and $476 thousand to capital assets and accumulated depreciation or amortization. The remaining restatements primarily include decreases of $234.1 thousand to correct accounting errors in the prior period related understated receivables offset by valuation adjustment to restricted investments.

Discrete component units include restatement decrease of $306.8 thousand to correct accounting errors in the prior period due to accounting for capital lease liabilities and deferred rent.

Fund Financial Statements-Governmental: The restatements for governmental funds of $86 million increase in the general fund, primarily include $94.2 million in reclassification from the capital projects fund and the $8.2 million decrease due to overstatement of grant revenues from prior year.

The restatements for other nonmajor governmental funds include a $81 million increase in special revenue funds is due to a change related to fund type classification of $81.6 million.The amount is offset by the $81.6 million decrease in the permanent funds.

Fund Financial Statements-Proprietary: The restatements for colleges and universities of $2.1 million increase primarily include correction of accounting errors in the prior period related to a $1.5 million increase for unrecorded deposits. The restatement for other nonmajor enterprise funds of $313.1 thousand decrease primarily include a correction of accounting errors in the prior period related to valuation of restricted investments.

Restatements to Change in Net Position

Table 14B

For the Fiscal Year Ended August 31, 2020 (Amounts in Thousands)

Fund Type	Sept. 1, 2019 Previously Reported	Change in Net Position Aug. 31, 2019 As Previously Reported	GASB Statement No. 84	Correction of Prior Year Errors	Change in Net Position Aug. 31, 2019 as Restated	Net Position Sept. 1, 2019 as Restated
GOVERNMENT-WIDE ACTIVITIES:						
PRIMARY GOVERNMENT:						
Governmental Activities	$ 33,350,325	$ 12,872,845	$ 836,071	$ (7,466)	$ 13,701,450	$ 47,051,775
Business-Type Activities	66,507,270	2,349,990	(4,350)	1,790	2,347,430	68,854,700
Total Primary Government	$ 99,857,595	$ 15,222,835	$ 831,721	$ (5,676)	$ 16,048,880	$ 115,906,475
Discrete Component Units	$ 198,109	$ 371,603	$	$ (307)	$ 371,296	$ 569,405

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, 2020. The Texas Department of Transportation (TxDOT) has equity loan commitments of $9.2 billion. The $9.2 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, 2020, 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, 2020, the remaining commitment was $63.2 billion.

Construction and Other Commitments

As of Aug. 31, 2020, TxDOT had contractual commitments of approximately $16.7 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2020, the amount of unrealized payables for uncompleted pass-through toll agreements was $24.4 million. In addition, TxDOT has equity grant commitments of $172 million to various local toll project entities.

Midwestern State University has outstanding capital improvements to upgrade its facilities for construction and renovation of $5 million. These projects are at various stages of completion.

The University of North Texas System initiated approximately $460.2 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 $115.8 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, 2020, pending litigation filed by taxpayers seeking refunds of state taxes totaled $195 million. The protested taxes include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2020. These claims totaled $81.4 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 $654.9 million.

Federal Assistance

The state receives federal financial assistance subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state but is considered immaterial to its overall financial condition.

The Office of the Attorney General and the Texas Health and Human Services Commission's Office of Inspector General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the open case list) and may represent a corresponding potential liability for the federal share of these payments - about 55 to 60 percent of that total.

An actual liability is realized only after a completed investigation substantiates an overpayment and the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Guaranteed Debt

In 1983, Texas voters approved a constitutional amendment that establishes the guarantee of the permanent school fund (PSF). As of Aug. 31, 2020, PSF has a defined capacity of up to $128.2 billion in school district bonds. Approval by the state of Texas attorney general is required for each bond issuance and on approval by the Texas commissioner of education, bonds properly issued by a school district are fully guaranteed by the PSF. In 2011, legislation was enacted authorizing the use of PSF to guarantee revenue bonds issued for the benefit of certain open-enrollment charter schools designated as charter districts by the commissioner of education. In the event of 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, 2020, $87.8 billion debt in outstanding bond issues was guaranteed by the PSF for 852 school districts and $2.5 billion for 20 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, 2020, none of the school districts or charter districts with guaranteed debt have defaulted on the debt.

Arbitrage

Rebatable arbitrage is defined by *Internal Revenue Code*, Section 148, as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and institutions of higher education responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Derivatives with Contingent Features

All of the 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, 2020, the aggregate fair value of all derivative instruments with collateral provisions was negative $4.8 million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2020.

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, 2020, the aggregate fair value of all derivative instruments with these provisions was negative $71.6 million, and $66 million was posted as collateral. TRS has not triggered any events that would require the posting of additional collateral to its counterparties.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued $1.7 billion in new bonds and commercial paper and $342.4 million in refunding bonds since Aug. 31, 2020, 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, 2020

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS AFFORDABLE HOUSING CORPORATION			
Multifamily Housing Revenue Notes, Series 2021, Fawn Ridge Apartments	$ 14,340	01/29/21	To fund rehabilitation and construction of multifamily affordable housing.
Multifamily Housing Revenue Bonds, Series 2020, Shady Oaks Manor Apartments	13,050	10/06/20	To fund rehabilitation and construction of multifamily affordable housing.
GENERAL LAND OFFICE AND VETERANS' LAND BOARD			
General Obligation Bonds, Series 2021	250,000	01/13/21	To augment the Veterans' Housing Assistance Fund II.
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Junior Lien Single Family Revenue Bonds, Taxable Series 2020	12,000	09/16/20	To refund Series 2018 Issuer Notes.
Junior Lien Single Family Revenue Bonds, Taxable Series 2020	18,000	09/16/20	To make and acquire second lien mortgage loans.
Multifamily Revenue Notes, Series 2020, Vermillion Apartments	28,000	09/03/20	To finance the acquisition, rehabilitation and equipping of multifamily rental housing developments.
Multifamily Revenue Notes, Series 2020, Granada Terrace Apartments	16,000	10/07/20	To finance the acquisition, rehabilitation and equipping of multifamily rental housing developments.
Multifamily Revenue Bonds, Series 2020, Fish Pond at Corpus Christi Apartments	10,000	11/04/20	To finance the acquisition, rehabilitation and equipping of multifamily rental housing developments.
Multifamily Notes, Series 2020, Legacy Riverside Senior Living Community	40,000	12/21/20	To finance the acquisition, rehabilitation and equipping of multifamily rental housing developments.
Multifamily Revenue Bonds, Series 2021, Montage Apartments	35,000	01/27/21	To finance the acquisition, rehabilitation 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)	75,000	09/10/20	To fund CPRIT's grant awards.
General Obligation Commercial Paper Notes, Taxable Series A, CPRIT	59,000	01/14/21	To fund CPRIT's grant awards.
Revenue Commercial Paper Notes, Series 2016B	39,000	11/12/20	To fund various projects of Texas Facilities Commission (TFC).
Revenue Commercial Paper Notes, Series 2016A	1,000	11/12/20	To fund various projects of TFC.
Lease Revenue Bonds, Taxable Series 2020	200,000	12/23/20	To fund various projects of TFC.
Refunding Bonds, Taxable Series 2020	1,000	12/23/20	To refund Revenue Commercial Paper Notes, Taxable Series 2016A.
Refunding Bonds, Taxable Series 2020	199,000	12/23/20	To refund Revenue Commercial Paper Notes, Tax-Exempt Series 2016B.
General Obligation Commercial Paper Notes, Series 2008	700	01/05/21	To fund Health and Human Services Commission's deferred maintenance.
General Obligation Commercial Paper Notes, Series 2008	5,200	02/02/21	To fund Texas Department of Public Safety's deferred maintenance.
TEXAS WATER DEVELOPMENT BOARD			
State Water Implementation Revenue Fund for Texas Revenue Bonds, Series 2020	628,515	10/08/20	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.
STEPHEN F. AUSTIN STATE UNIVERSITY			
Revenue Financing System (RFS) Refunding Bonds	15,935	10/08/20	To refund Bonds Series 2010.

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to August 31, 2020 (concluded)

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS STATE UNIVERSITY SYSTEM			
Commercial Paper Notes, Tax-Exempt	$ 2,700	09/08/20	To finance capital projects.
Commercial Paper Notes, Tax-Exempt	801	12/02/20	To finance capital projects.
Bonds, Tax-Exempt Series 2021A	82,241	02/02/21	To refund a portion of the outstanding commercial paper notes and pay the costs of issuing the bonds.
Bonds, Tax-Exempt Series 2021A	1,464	02/02/21	To finance capital projects.
Bonds, Taxable Series 2021B	32,200	02/02/21	To refund a portion of the outstanding commercial paper notes and pay the costs of issuing the bonds.
TEXAS A&M UNIVERSITY SYSTEM			
Permanent University Fund Commercial Paper Notes, Taxable	50,000	09/30/20	To provide financing for construction projects and equipment purchase.
RFS Commercial Paper Notes	60,000	10/06/20	To provide interim financing for construction projects.
RFS Commercial Paper Notes, Taxable	30,000	10/06/20	To provide interim financing for construction projects.
UNIVERSITY OF TEXAS SYSTEM			
PUF Commercial Paper Notes, Taxable Series B	75,000	02/19/21	To finance a variety of capital projects and equipment purchases.
Total Bond and Commercial Paper Issued/Refunded	$ 1,995,146		

Other Subsequent Events

On Sept. 21, 2020, in accordance with Section 204.123(b) of the Texas Labor Code, $374.7 million was transferred by Texas Workforce Commission (TWC) from the Employment Training Investment Act Holding Fund to the Unemployment Trust Fund Account. The amount in the Unemployment Trust Fund Account was below the statutorily defined floor of one percent of total taxable wages for the four calendar quarters ending June 30, 2020, as computed under Section 201.061 of the Texas Labor Code.

Due to the significant amount of state benefits paid as a result of the COVID-19 pandemic, the Texas Unemployment Trust Fund became insolvent on June 9, 2020. The TWC then began borrowing funds from the United States Treasury, under Title XII of the Social Security Act interest free through March 14, 2021. At Aug. 31, 2020, the amount borrowed totaled $3.8 billion and projects to have borrowed $6.4 billion as of Feb. 15, 2021.

On Sept. 28, 2020, the Texas Public Finance Authority Charter School Finance Corporation was awarded a Charter School Program grant for credit enhancement for charter school facilities by the U.S. Department of Education and in the amount of $10 million.

On Nov. 16, 2020, the Texas Department of Transportation's (TxDOT) service concession project SH 288 opened to traffic. During fiscal 2021, TxDOT will record the approximately $1.1 billion acquisition value of the capital assets associated with the project with a corresponding entry to deferred inflow of resources. The project will be operated by Blueridge Transportation Group, LLC until the end of the concession term in 2068.

On Nov. 19, 2020, TxDOT received a $70 million loan pay-off from the Central Texas Regional Mobility Authority (CTRMA) for the US 183S – Bergstrom Expressway project. Of the amount received, $34.9 million fully reduced CTRMA's outstanding State Infrastructure Bank loan, $34.9 million fully reduced

CTRMA's outstanding State Highway Fund project loan, and the remainder was recognized as interest.

On July 2, 2020, the State Board of Education adopted the long-term strategic asset allocation of the Permanent School Fund which included the liquidation of assets held in the risk parity investment strategy. Approximately half of the assets held in this investment strategy were redeemed and reallocated prior to Aug. 31, 2020, while the remaining assets totaling approximately $1.2 billion were redeemed and reallocated in full on Oct. 5, 2020.

The Texas Higher Education Coordinating Board received $71.5 million from the Governor's Emergency Education Relief (GEER) fund in October of 2020. GEER funding will be used to support three key initiatives: emergency educational aid for Texas students, online learning support and improvements to the state's education, and workforce data infrastructure.

Texas A&M University System is contractually obligated to pay approximately $20 million to Regions Bank in February 2021. This payment will be applied towards the Texas A&M Hotel debt payment that is due on April 1, 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, 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 2020, 1,231 entities participated in the program. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal 2019 and fiscal 2020, 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, 2020 (Amounts in Thousands)

Year	Beginning Balance[1]	Increases	Decreases	Ending Balance
2019	$ 920,907	$ 3,907,707	$ 3,878,558	$ 950,056
2020	$ 950,056	$ 4,024,337	$ 3,992,496	$ 981,897

[1] 2019 beginning balance includes a decrease of $1,000 due to a restatement.

Of the fiscal 2020 claims liability ending balance, $287.2 million relates to long-term claims liabilities, which are reported in Note 5. Of the fiscal 2020 claims liability ending balance, $802.4 million relates to the state's health, life and dental insurance programs, and the remainder to miscellaneous claims and judgments, all of which are reported as accounts payable.

Note 18

Contested Taxes

The state may assess a claim against one or multiple taxpayers for a tax liability. Taxpayers may petition for a 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, 2020, there was an estimated $548.3 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, 2020 unless indicated otherwise.

Blended Component Units

The state is financially accountable for the following legally separate entities. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state, or the component units' debts are expected to be repaid entirely or almost entirely with the resources of the state. The component units' financial data is blended in the appropriate funds within the financial statements.

Employees Retirement System of Texas (ERS) is a legally separate entity established by the 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 and budget approval process. 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, 2020. Information about ATI may be obtained by contacting GLO at 1700 N. Congress Ave. Austin, Texas 78701.

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.

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, 2020. 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 (TAMRF) is a legally separate entity established to facilitate research and development within the Texas A&M University System (A&M System). TAMRF is blended rather than discretely presented because of the close relationship and joint agreements in effect between TAMRF and A&M System in regard to research grant/contract administration. Complete financial statements of TAMRF may be obtained by contacting TAMRF 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 five-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 of Texas System Medical Foundation (Medical Foundation) is a legally separate entity established to support the medical residency programs at UTHSCH. Medical Foundation is blended rather than discretely presented because UTHSCH appoints its three-member governing board, its ability to impose its will on the Medical Foundation through its ability to modify or approve the budget of the Medical Foundation and its ability to appoint, hire, reassign or dismiss those responsible for the Medical Foundation's day-to-day operations. Separate financial statements may be obtained by contacting the Medical Foundation at 7000 Fannin St., Suite 860, Houston, Texas 77030. Medical Foundation was dissolved on Aug. 13, 2020.

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 consists of the dean of the School of Medicine and four members elected by the physician practice plan board (physicians) 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 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

M.D. Anderson Services Corporation (MDASC) is a legally separate entity established to support the Cancer Center. 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 7007 Bertner Avenue, Suite 10.3212, Houston, Texas 77030.

East Texas Quality Care Network (ETQCN) is a legally separate entity established to provide agency nursing services to the University of Texas Health Science Center at Tyler (UTHSCT). 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 US 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) is a legally separate entity established to acquire the Suida-Manning Art Collection for the University of Texas at Austin (UT-Austin) Blanton Museum of Art. Fine Arts is blended rather than discretely presented because UT-Austin appoints its three-member governing board, has the ability to impose its will on Fine Arts through its ability to remove appointed board members at will, its ability to modify or approve Fine Arts' budget, its ability to veto, overrule or modify the decisions of Fine Arts and unilaterally abolish Fine Arts. Fine Arts' fiscal year end is Dec. 31, 2019. Separate financial statements may be obtained by contacting UT-Austin at Main Building, P.O. Box T, Austin, Texas 78713.

University of Texas Communication Foundation (UTCF) is a legally separate entity established to support the UT-Austin College of Communication. 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 the UTCF through its ability to remove appointed board members at will, its ability to modify or approve the UTCF's budget, its ability to veto, overrule or modify the decisions of UTCF and unilaterally abolish UTCF. Separate financial statements may be obtained by contacting UT-Austin at P.O. Box 7322, Austin, Texas 78713.

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, 2019. 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, 2019. 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, 2019. Separate financial statements may be obtained by contacting the Crow Museum of Asian Art, 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, 2019. 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, 2020. 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, Inc., 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, 2019. 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, 2019. 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 unincorporated 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, 2019. 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, 2019. 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 the TBWEF's budget, assessment fees and debt, a financial benefit or financial burden does not exist between the TBWEF and the primary government. Therefore, the primary government is not financially accountable for the TBWEF. However, based on the TBWEF's financial relationship with the TDA, omitting the TBWEF would result in incomplete financial statements. The TBWEF is reported for the fiscal year ended Dec. 31, 2019. 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 the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, 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. The TDRF's financial statements for the fiscal year ended Dec. 31, 2019, 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 the THSA at any time he declares that the purpose of the THSA has been fulfilled or that the THSA is inoperative or abandoned. THSA is reported for the fiscal year ended Sep. 30, 2019. 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 on 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 the 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. The BSF is reported for the fiscal year ended Dec. 31, 2019. 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 the 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 the SAC. SAC is reported for the fiscal year ended Dec. 31, 2019. Financial statements for the SAC may be obtained by contacting the 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, 2019. 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 the UNTF. Therefore, the 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 the 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 the UNTHSCF. Therefore, the 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 the UNTHSCF at 3500 Camp Bowie Blvd., Fort Worth, Texas 76107-2699.

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 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 colleges and universities within the TSU System. The TSUSF provides funds for student scholarships and faculty awards and assists the chancellor in performing their duties. The 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 the TPWD is not financially accountable for the Foundation, nor is the Foundation fiscally dependent on the TPWD. The Foundation is governed by a group of trustees, the majority of whom are appointed by the chairman of the TPWD.

The Texas Higher Education Foundation (THEF), formerly known as the College for all Texans, is established to support the Texas Higher Education Coordinating Board (THECB) program initiatives. THECB is unable to impose its will on THEF and there is no financial benefit or burden relationship between THECB and THEF.

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 $283.1 million. The Plan deficit of $483.4 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 $200.3 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 $310.5 million. The deficit is primarily due to the total expenses exceeding the total revenues by $108.4 million. The largest expense in fiscal 2020 included $65 million of amortization and $209 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 $172.5 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 2019 to fiscal 2020.

Note 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total $15.3 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the agreed inflation adjustment and any other court-ordered factors. A revenue accrual of $280.1 million is based on the payments received in December 2020. Tobacco settlement revenues were $453 million in fiscal 2019 and $443.1 million in fiscal 2020. As of fiscal 2020, cumulative actual tobacco settlement revenues were $11.4 billion.

During fiscal 2019, the state of Texas filed an additional lawsuit against certain tobacco manufacturers seeking the court enforcement of the settlement agreement. The lawsuit relates to the sale of four cigarette brands, whose sales have not been included in the annual payments since 2015. While the state of Texas won the lawsuit, the tobacco manufacturers have appealed the outcome. The outcome of this appeal cannot presently be determined, however, favorable ruling based on other states' outcomes could result in significant additional income, totaling $222 million.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $3.9 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported as of Aug. 31, 2020, are presented in table 22A.

Donor-Restricted Endowments

Table 22A

August 31, 2020 (Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	$3,866,611	Expendable
Term Endowments	52,579	Expendable
	$3,919,190	

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 $39.4 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 balance sheet - governmental funds as of Aug. 31, 2020, are presented in tables 23A and 23B.

Taxes Receivable by Tax Type

Table 23A

August 31, 2020 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	$ 2,340,286
Motor Vehicle and Manufactured Housing	43,474
Motor Fuels	134
Oil and Natural Gas Production	368,159
Franchise	305,172
Insurance Occupation	309,400
Cigarette and Tobacco	25,414
Other	210,607
Total Taxes Receivable[1]	$ 3,602,646
Liquidity Characteristics:	
Current Taxes Receivable	$ 3,552,575
Noncurrent Taxes Receivable	50,071
Total Taxes Receivable	$ 3,602,646

[1]Total Taxes Receivable General Fund	$ 3,602,646
Motor Fuel Taxes Receivable in Other Governmental Funds:	
Current Taxes Receivable:	
State Highway Fund	4,676
Nonmajor Governmental Funds	1,563
Total Taxes Receivable – Balance Sheet – Governmental Funds	$ 3,608,885

Tax Refunds Payable by Tax Type

Table 23B

August 31, 2020 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	$ 163,033
Franchise	487,228
Total Tax Refunds Payable	$ 650,261

Texas franchise tax receivables represent balances due as of Aug. 31, 2020, for business-type activity that occurred in calendar year 2019. The franchise tax payments were due May 15, 2020; and taxpayers were allowed to extend the filing date to November 2020. However, in response to the COVID-19 pandemic, the due date was automatically extended to July 15, 2020 and taxpayers were allowed to extend the filing date to January 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 federal 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 2020 is not due until May 2021. 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 provided for both voluntary and involuntary terminations. COBRA members are allowed to remain in their eligible insurance program for 18 or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2020, the cost to the state was approximately $28 million for 3,838 COBRA participants.

For the fully-insured health maintenance organization health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Health Care Related Termination Benefits

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

- 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, 2020, is presented in table 25A. The condensed statement of revenues, expenses and changes in net position for each program for the fiscal year ended 2020, is presented in table 25B. The condensed statement of cash flows for each program as of Aug. 31, 2020, is presented in table 25C.

Condensed Statement of Net Position

Table 25A

August 31, 2020 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
ASSETS		
Current Restricted Assets	$ 215,170	$ 15,230
Noncurrent Restricted Assets	723,814	399,728
Total Assets	938,984	414,958
Deferred Outflows of Resources	4,783	
LIABILITIES		
Current Liabilities	16,456	7,887
Noncurrent Liabilities	761,464	247,725
Total Liabilities	777,920	255,612
NET POSITION		
Restricted	165,847	159,346
Total Net Position	$ 165,847	$ 159,346

Condensed Statement of Revenues, Expenses and Changes in Net Position

Table 25B

August 31, 2020 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	$ 26,624	$ 15,453
Net Increase in Fair Value	21,031	5,465
Other Operating Revenues	5,086	98,675
Operating Expenses	(29,735)	(62,907)
Operating Income	23,006	56,686
NONOPERATING REVENUES (EXPENSES)		
Transfer In	5	258
Changes in Net Position	23,011	56,944
Net Position, September 1, 2019	142,836	102,402
Net Position, August 31, 2020	$ 165,847	$ 159,346

Condensed Statement of Cash Flows

Table 25C

August 31, 2020 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
NET CASH PROVIDED (USED) BY:		
Operating Activities	$ (4,320)	$ (16,542)
Noncapital Financing Activities	117,077	(26,979)
Investing Activities	74,131	38,958
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	186,888	(4,563)
Cash and Cash Equivalents, September 1, 2019	26,100	18,767
Cash and Cash Equivalents, August 31, 2020	$ 212,988	$ 14,204

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, 2020, is presented in table 26A.

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, 2020, are presented in table 26B.

Service Concession Arrangements

Table 26A

August 31, 2020

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	Under Construction	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.
- Shift the majority of the financial risk to the operator.

Service Concession Arrangements – Amounts Recognized in Financial Statements

Table 26B: Governmental Activities

August 31, 2020 (Amounts in Thousands)

Arrangement Name	Cash and Cash Equivalents[1]	Capital Assets	Deferred Inflows of Resources[2]
IH 10 Katy Managed Lanes	$	$ 250,000	$ 190,218
SH 130 Segments 5 and 6	28,500	1,435,246	1,285,342
SH 121 Concession	288,561	1,336,606	2,946,284
North Tarrant Exp Seg 1 and 2-West		2,398,085	1,497,755
North Tarrant Exp Seg 3A and 3B		1,853,902	1,225,071
LBJ/IH-635 Managed Lanes		2,678,291	1,848,710
Grand Parkway Seg D, E, F1, F2, G		2,492,845	2,146,102
SH 288	11,110	64,827	25,479
North Tarrant Exp Seg 3C		6,663	
Total	$ 328,171	$12,516,465	$11,164,961

[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 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, 2020, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling $172 million and $9.2 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 the 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, 2020, no drawdowns of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of $2.9 billion for its costs of design, construction and right-of-way acquisition for the fiscal year ended Aug. 31, 2020. This amount is reported as business-type activities.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2020, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements, bond refunding, pensions, 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, 2020, are presented in table 27A.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 27A

August 31, 2020 (Amounts in Thousands)

Fund Type	Deferred Outflows of Resources		Deferred Inflows of Resources
GOVERNMENT-WIDE FINANCIAL STATEMENTS			
Governmental Activities			
Bond/Debt Refunding	$ 257,652		$ 50,909
SCAs (Note 26)			11,164,961
Pensions (Note 9)	20,177,456	2	7,848,817
OPEB (Note 11)	7,182,490	3	23,923,756
Asset Retirement Obligation	1,501		
Unclaimed Properties			501,038
Total Governmental Activities	$ 27,619,099		$ 43,489,481
Business-Type Activities			
Bond/Debt Refunding	$ 325,059		$ 37,972
Derivatives (Note 7)	763,549	1	414
Pensions (Note 9)	3,241,440	2	1,550,518
OPEB (Note 11)	3,585,612	3	3,426,275
Split Interest Agreements			65,147
Direct Placements	424		1,164
Government Acquisitions	25,664		
Asset Retirement Obligation	4,039		
Total Business-Type Activities	$ 7,945,787		$ 5,081,490
FUND FINANCIAL STATEMENTS			
Governmental Funds			
Revenue Earned But Not Available	$		$ 2,503,838
Total Governmental Funds	$ 0		$ 2,503,838

[1] The $763,549 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 $19.9 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 or resources related to OPEB includes $538.6 million and $554.4 million, 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 $763.6 million related to hedging derivatives in a liability position. The hedging derivative liability of $763.6 million and the hedging derivative asset of $414 thousand are disclosed in Note 7.

Deferred outflows of resources in business-type activities of $25.7 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 $11.2 billion were related to service concession arrangements (SCA) entered into by the Texas Department of Transportation (TxDOT) with non-state entities. This amount reflects the unamortized balance of up-front concession payments received and capital improvements acquired from these entities. Details of the state's SCA are disclosed in Note 26.

Deferred outflows of resources of $257.7 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 2020 in business-type activities for $325.1 million in deferred outflows of resources related to losses.

Deferred inflows of resources in governmental activities of $50.9 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 $38.0 million deferred inflows of resources related to bond refunding gains in business-type activities.

Deferred inflows of resources of $2.5 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 $20.2 billion of deferred outflows of resources and $7.8 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported $3.2 billion of deferred outflows of resources and $1.6 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 $7.2 billion of deferred outflows of resources and $23.9 billion of deferred inflows of resources related to OPEB in governmental activities.

The state also reported $3.6 billion of deferred outflows of resources and $3.4 billion of deferred inflows of resources related to OPEB in business-type activities. Details of the state's OPEB are disclosed in Note 11 in fiscal 2020.

The state reported $424 thousand of deferred outflows of resources and $1.2 million of deferred inflows of resources related to direct placement obligations and $65.1 million of deferred inflows of resources related to split-interest agreements in business-type activities.

In fiscal 2020, the state reported $1.5 million of deferred outflows of resources related to asset retirement obligations in governmental activities and $4 million of deferred outflows of resources related to asset retirement obligations in business-type activities. The state implemented GASB Statement No. 84, *Fiduciary Activities,* in fiscal 2020. Thus, the state reported $501 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 the *Texas Education Code*, Title 2, Subtitle I, Chapter 45 provides for the guarantee of school district bonds by the permanent school fund (PSF). The PSF is also authorized for use to guarantee revenue bonds issued for certain open-enrollment charter schools designated by the commissioner of education. In the event of default by a school district or charter school district, funds may be withheld from state money payable to the district or school in an amount necessary for payment of principal and/or interest. Guarantees extend through maturity dates of the bonds. At this date, no school districts or charter school districts have defaulted on their guaranteed bond indebtedness. As of Aug. 31, 2020, the total principal debt guaranteed by the PSF on bond issues is approximately $90.3 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 the *Texas Education Code*. TPFA provides administrative and staff support for CSFC. Reimbursement periods commence on the date of a guarantee payment and end 12 months following such payment. Borrowers will reimburse CSFC within the guarantee period by making level monthly principal repayments for each guaranty period during the reimbursement period. Guarantees extend through maturity dates of the bonds. At this date, no charter schools have defaulted on their guaranteed bond indebtedness. As of Aug. 31, 2020, $10.1 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 2020, is presented in tables 29A-D.

Tax Abatement Programs

Table 29A

For the Fiscal Year Ended August 31, 2020 (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:	Provide 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	$ 76,300	$ 347,800	$ 31,059	$ 37,787

Tax Abatement Programs

Table 29B

For the Fiscal Year Ended August 31, 2020 (Amounts in Thousands)

	Research and Development Tax Credit Program	
Description	**Exemptions**	**Credits**
Purpose of Program:	Provide 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 Comptroller 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	$ 204,400	$ 329,467

Tax Abatement Programs

Table 29C

For the Fiscal Year Ended August 31, 2020 (Amounts in Thousands)

Description	Texas Enterprise Zone Programs	
	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	$ 5,746	$ 6,749

Tax Abatement Programs

Table 29D

For the Fiscal Year Ended August 31, 2020 (Amounts in Thousands)

	Other Programs	
Description	**Texas Data Center Program Exemption**	**Certified Rehabilitation of Certified Historic Structures Credit**
Purpose of Program:	Sales and use tax exemption on certain goods and services necessary and essential to the operation of single-operator data centers.	Earn 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 Comptroller's 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 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	$ 86,264	$ 27,098

Note 30

Special Items

GASB Statement No.34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*, defines special items as significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. GASB Statement No.69, *Government Combinations and Disposals of Government Operations*, requires the transferee governments to recognize the net fund balance of an operation it receives as a special item in the statement of revenues, expenditures and changes in fund balances in the period in which the transfer occurs. The El Paso Public Television Foundation transferred the operation of a noncommercial educational television broadcast station KCOS to the Texas Tech University System (TTU System). The net fund balance of $698 thousand is recognized as a special item by TTU System for the transfer of operation.