
SECTION TWO

FINANCIAL SECTION



Lisa R. Collier,
CPA, CFE, CIDA,
State Auditor

Independent Auditor's Report

The Honorable Greg Abbott, Governor
The Honorable Glenn Hegar, Comptroller of Public Accounts
The Honorable Dan Patrick, Lieutenant Governor
The Honorable Dade Phelan, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

Report on the Audit of the Financial Statements


Opinions

We have audited the consolidated financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Texas (State), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

In our opinion, based on our audits and the reports of the other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of August 31, 2023, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the following entities:

- The Texas Department of Transportation, a component of the State of Texas, which is included in the governmental and proprietary funds. The Texas Department of Transportation constitutes 99.9 percent of the expenditures for the State Highway Fund, a major governmental fund. The Texas Department of Transportation also constitutes 57.7 percent of the assets of the governmental activities.
- The University of Texas System, a component of the State of Texas, which constitutes 72.8 percent of the assets of the Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 59.8 percent of the assets of the business-type activities.
- The Texas Lottery Commission, a component of the State of Texas, whose Lottery Fund is a major enterprise fund that constitutes 21.0 percent of the operating revenues of the business-type activities.

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- The Employees Retirement System of Texas, a component of the State of Texas, which constitutes 14.4 percent of the assets of the Pension and Other Employee Benefit Trust Funds, a major fiduciary fund. The Employees Retirement System of Texas also constitutes 12.0 percent of the assets of the fiduciary activities.
- The Texas Treasury Safekeeping Trust Company, a component of the State of Texas, which constitutes 100 percent of the assets of the External Investment Trust Fund, a major fiduciary fund. The Texas Treasury Safekeeping Trust Company also constitutes 13.3 percent of the assets of the fiduciary activities.

The statements listed above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Investments with Values That Are Not Readily Determined

As discussed in Note 3, the consolidated financial statements include investments valued at approximately \$153.6 billion as of August 31, 2023, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

Permanent School Fund

As discussed in Notes 1 and 14, on September 1, 2022, the Texas Permanent School Fund Corporation was recognized as a legally separate, special purpose governmental corporation reported as a discreetly presented component unit of the State. Due to its formation, it was necessary for the State to restate its beginning net position by \$42.3 billion in governmental activities on the government-wide statement of activities and its beginning fund balance by the same amount in the Permanent School Fund opinion unit on the governmental funds statement of revenues, expenditures, and changes in fund balances. This change was required due to the

transfer of beginning asset and liability balances belonging to the Permanent School Fund from the Texas Education Agency to the Texas Permanent School Fund Corporation.

The remaining balances and activities reported in the Permanent School Fund opinion unit in the governmental funds statements represents activities and operations for land, mineral and royalty interests, and real property holdings managed by the Texas General Land Office in support of the Permanent School Fund. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State’s internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements; and
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis, the budgetary comparison schedules, the schedules of pension liability, and the schedules of OPEB liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State’s basic financial statements. The combining financial statements and schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional

procedures in accordance with GAAS. In our opinion, the combining financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the State's internal control over financial reporting and compliance.



Lisa R. Collier, CPA, CFE, CIDA
State Auditor

February 22, 2024