SECTION TWO (CONTINUED)

Basic Financial Statements

Statement of Net Position

August 31, 2022 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 62,662,625	$ 10,064,244	$ 72,726,869	$ 1,452,460
Short-Term Investments	2,247,956	1,287,279	3,535,235	72,512
Receivables:				
Accounts	1,241,788	3,105,760	4,347,548	99,562
Taxes (Note 23)	6,152,109		6,152,109	
Federal	7,302,577	1,131,753	8,434,330	2,213
Leases (Note 5,8)	1,164	29,475	30,639	101
Other Intergovernmental	1,466,658	284,561	1,751,219	3,761
Gifts and Pledges	40	358,785	358,825	6
Investment Trades	77,571	367,058	444,629	
Interest and Dividends	163,121	200,535	363,656	1,377
From Fiduciary Funds	24,962		24,962	
Other Receivables	195,064	818,333	1,013,397	6,523
Securities Lending Collateral	3,763,306	988,092	4,751,398	
Loans and Contracts	145,708	534,698	680,406	165
Inventories	364,950	342,080	707,030	4,143
Prepaid Items	9,474	292,869	302,343	7,965
Other Current Assets	190,125	678,006	868,131	14,204
Restricted:				
Cash and Cash Equivalents	1,121,664	6,676,396	7,798,060	31,219
Short-Term Investments		250,399	250,399	
Loans and Contracts	154,204	144,314	298,518	29,297
Total Current Assets	87,285,066	27,554,637	114,839,703	1,725,508
Noncurrent Assets:				
Receivables:				
Taxes (Note 23)	1,217		1,217	
Leases	4,745	390,354	395,099	121
Gifts and Pledges	(3,055)	837,360	834,305	7,991
Other Receivables	419,791	157,939	577,730	508
Internal Balances (Note 12)	15,016	(15,016)		
Investments	67,140,818	25,108,066	92,248,884	214,087
Derivative Instruments: (Note 3, 7, 15)				
Investment	(6)		(6)	
Hedging		201,427	201,427	
Assets Held in Trust		7,122	7,122	
Loans and Contracts	716,130	13,070,600	13,786,730	992
Prepaid Items		1,802	1,802	1,031
Restricted:				
Cash and Cash Equivalents		186,920	186,920	299
Short-Term Investments		301	301	
Receivables		164,699	164,699	
Investments		64,334,548	64,334,548	575,459
Loans and Contracts	1,568,509	3,363,104	4,931,613	200,964
Other Restricted Assets	107,754	168	107,922	
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	43,877,846	6,958,239	50,836,085	5,394
Depreciable or Amortizable, Net	96,659,460	31,504,426	128,163,886	48,523
Intangible Assets:				
Service Concession Arrangements (Note 26)		3,226,308	3,226,308	
Other Noncurrent Assets	41,649	561,934	603,583	132
Total Noncurrent Assets	210,549,874	150,060,301	360,610,175	1,055,501
Total Assets	297,834,940	177,614,938	475,449,878	2,781,009
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources (Note 27)	21,806,304	8,523,774	30,330,078	
Total Deferred Outflows of Resources	21,806,304	8,523,774	30,330,078	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, 2022 (Amounts in Thousands)

	Primary Government			
LIABILITIES	Governmental Activities	Business-Type Activities	Total	Component Units
Current Liabilities:				
Payables:				
Accounts	$ 11,236,152	$ 2,573,742	$ 13,809,894	$ 328,045
Payroll	869,936	1,337,739	2,207,675	916
Tax Refunds (Note 23)	1,020,695		1,020,695	
Federal	3,765	233,856	237,621	
Other Intergovernmental	670,576	4,625	675,201	
Investment Trades	149,641	769,241	918,882	
Interest	280,471	249,005	529,476	7,637
Annuities		4,998	4,998	
Notes and Loans (Note 5)	157,714	858,457	1,016,171	54,549
To Fiduciary Funds	22,768		22,768	
From Restricted Assets (Note 5)		512,823	512,823	
Bonds:				
General Obligation (Note 5, 6)	728,218	282,776	1,010,994	
Revenue (Note 5, 6)	351,342	2,631,696	2,983,038	385
Internal Balances (Note 12)	1,172,043	(1,172,043)		
Short-Term Debt (Note 4)		2,070,416	2,070,416	
Obligations:				
Securities Lending	3,767,285	988,092	4,755,377	
Reverse Repurchase Agreements	5,221		5,221	
Pollution Remediation (Note 5)	45,170		45,170	
Asset Retirement (Note 5)		20	20	
Right to Use Leases (Note 5, 8)	174,761	139,371	314,132	503
Funds Held for Others		60,182	60,182	177,847
Claims and Judgments (Note 5)	42,930	192,854	235,784	
Employees' Compensable Leave (Note 5)	691,752	522,631	1,214,383	1,859
OPEB (Note 11)	820,198	381,687	1,201,885	
Other Current Liabilities	503,725	362,650	866,375	130,174
Unearned Revenue	8,911,786	4,901,863	13,813,649	246,611
Total Current Liabilities	31,626,149	17,906,681	49,532,830	948,526
Noncurrent Liabilities:				
Payables:				
Notes and Loans (Note 5)	931,570	1,142,288	2,073,858	124,788
From Restricted Assets (Note 5)		1,401,243	1,401,243	204
Bonds:				
General Obligation (Note 5, 6)	13,508,465	3,659,472	17,167,937	
Revenue (Note 5, 6)	3,949,128	35,448,100	39,397,228	18,400
Obligations:				
Pollution Remediation (Note 5)	195,521	1,530	197,051	
Asset Retirement (Note 5)	2,198	35,182	37,380	
Right to Use Leases (Note 5,8)	624,242	1,068,031	1,692,273	
Derivative Instruments: (Note 3, 7, 15)				
Investment		183,197	183,197	
Hedging		137,255	137,255	
Assets Held for Others		142,784	142,784	
Claims and Judgments (Note 5)	39,686	52,330	92,016	
Employees' Compensable Leave (Note 5)	310,542	643,569	954,111	1,698
Pension (Note 9)	26,617,873	4,265,992	30,883,865	
OPEB (Note 11)	56,035,505	20,429,045	76,464,550	
Other Noncurrent Liabilities	123,437	693,839	817,276	1,234
Total Noncurrent Liabilities	102,338,167	69,303,857	171,642,024	146,324
Total Liabilities	133,964,316	87,210,538	221,174,854	1,094,850
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources (Note 27)	72,288,283	6,931,927	79,220,210	508
Total Deferred Inflows of Resources	72,288,283	6,931,927	79,220,210	508
NET POSITION				
Net Investment in Capital Assets	110,800,734	13,654,730	124,455,464	40,047
Restricted for:				
Education	2,383,738	4,241,342	6,625,080	60
Transportation	11,039,805		11,039,805	
Debt Service	345,035	699,430	1,044,465	
Capital Projects	658,695	1,001,427	1,660,122	
Veterans Land Board Housing Programs		688,643	688,643	
Unemployment Trust Fund		2,209,171	2,209,171	
Funds Held as Permanent Investments:				
Nonexpendable	56,088,109	37,568,201	93,656,310	522,351
Expendable	2,548,650	18,598,669	21,147,319	54,025
Other Restricted Net Position	7,468,627	5,457,994	12,926,621	32,905
Unrestricted	(77,944,748)	7,876,640	(70,068,108)	1,036,263
Total Net Position	$ 113,388,645	$ 91,996,247	$ 205,384,892	$ 1,685,651

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, 2022 (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	$ (2,612,809) [1]	$ 1,645,948	$ 13,479,532	$ 23
Education	41,640,966	2,230,745	16,156,499	
Teacher Retirement State Contributions	4,266,932			
Health and Human Services	87,732,567	6,599,795	62,014,390	
Public Safety and Corrections	7,682,429	207,524	158,721	
Transportation	7,731,490	3,108,815	4,664,381	58,860
Natural Resources and Recreation	3,572,620	850,305	2,419,210	4,070
Regulatory Services	506,166	705,972	2,947	
Interest on General Long-Term Debt	147,235			
Total Governmental Activities	150,667,596	15,349,104	98,895,680	62,953
Business-Type Activities:				
General Government	297,264	46,406	(8,971)	
Education	40,335,100	21,021,477	13,007,382	272,484
Health and Human Services	1,993,906	2,506,756	207,266	
Public Safety and Corrections	132,361	139,409		
Transportation	710,006	519,231	(11,362)	
Natural Resources and Recreation	539,464	36,953	554,615	
Lottery	6,187,899	8,297,288		
Total Business-Type Activities	50,196,000	32,567,520	13,748,930	272,484
Total Primary Government	$ 200,863,596	$ 47,916,624	$ 112,644,610	$ 335,437
COMPONENT UNITS				
Component Units	$ 2,711,233	$ 2,552,022	$ 822,004	$
Total Component Units	$ 2,711,233	$ 2,552,022	$ 822,004	$ 0

Concluded on the following page

[1] Negative expense is due to the state's retirement plans expense caused by changes in assumptions, for more details see Note 9 and Note 11.

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, 2022 (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	$ 17,738,312	$	$ 17,738,312	$
Education	(23,253,722)		(23,253,722)	
Teacher Retirement State Contributions	(4,266,932)		(4,266,932)	
Health and Human Services	(19,118,382)		(19,118,382)	
Public Safety and Corrections	(7,316,184)		(7,316,184)	
Transportation	100,566		100,566	
Natural Resources and Recreation	(299,035)		(299,035)	
Regulatory Services	202,753		202,753	
Interest on General Long-Term Debt	(147,235)		(147,235)	
Total Governmental Activities	(36,359,859)	0	(36,359,859)	0
Business-Type Activities:				
General Government		(259,829)	(259,829)	
Education		(6,154,208)	(6,154,208)	
Health and Human Services		720,116	720,116	
Public Safety and Corrections		7,048	7,048	
Transportation		(202,137)	(202,137)	
Natural Resources and Recreation		52,104	52,104	
Lottery		2,109,389	2,109,389	
Total Business-Type Activities	0	(3,727,517)	(3,727,517)	0
Total Primary Government	(36,359,859)	(3,727,517)	(40,087,376)	0
COMPONENT UNITS				
Component Units				662,793
Total Component Units	0	0	0	662,793
General Revenues				
Taxes:				
Sales and Use	44,342,160		44,342,160	
Oil and Natural Gas Production	11,525,864		11,525,864	
Motor Vehicle and Manufactured Housing	6,441,219		6,441,219	
Franchise	5,668,415		5,668,415	
Motor Fuels	3,791,079		3,791,079	
Insurance Occupation	3,165,238		3,165,238	
Cigarette and Tobacco	1,209,789		1,209,789	
Other Taxes	3,399,978		3,399,978	
Unrestricted Investment Earnings	(177,703)	(148,182)	(325,885)	2,507
Settlement of Claims	647,729	2,425	650,154	
Gain on Sale of Capital Assets	5,983	18,442	24,425	989
Loss on Other Financial Activity	(5,436)		(5,436)	
Other General Revenues	6,197,723	360,334	6,558,057	13,323
Capital Contributions	2,473	95,804	98,277	
Contributions to Permanent and Term Endowments		410,448	410,448	13,715
Distributions from Permanent Fund Principal (Note 12)	(15,457)		(15,457)	
Transfers - Internal Activities (Note 12)	(9,708,156)	9,708,156		
Total General Revenues, Contributions, Extraordinary Items and Transfers	76,490,898	10,447,427	86,938,325	30,534
Change in Net Position	40,131,039	6,719,910	46,850,949	693,327
Net Position, September 1, 2021	72,752,717	83,671,908	156,424,625	991,674
Restatements (Note 14)	504,889	1,604,429	2,109,318	650
Net Position, September 1, 2021, as Restated	73,257,606	85,276,337	158,533,943	992,324
Net Position, August 31, 2022	$ 113,388,645	$ 91,996,247	$ 205,384,892	$ 1,685,651

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

STATE OF TEXAS

Statement of Net Position: Governmental Funds

August 31, 2022 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 47,717,915	$ 8,894,237	$ 2,517,032	$ 3,450,088	$ 62,579,272
Short-Term Investments	211,932	28,378		454,839	695,149
Receivables:					
Accounts	448,048	195,088	322,615	16,218	981,969
Taxes (Note 23)	5,846,772	229,735		76,819	6,153,326
Federal	6,770,084	479,212		53,281	7,302,577
Leases (Note 8)	4,437	1,472			5,909
Other Intergovernmental	1,281,850	182,808		2,000	1,466,658
Gifts and Pledges				40	40
Investment Trades			73,652		73,652
Interest and Dividends	20,421	5,353	106,351	17,489	149,614
Interfund (Note 12)	16,877			19	16,896
From Other Funds (Note 12)	452,334	3,918,043	2	429,401	4,799,780
Other Receivables	614,854		1		614,855
Investments	7,141,473	41,743	54,206,291	3,868,439	65,257,946
Securities Lending Collateral			3,730,432		3,730,432
Loans and Contracts	202,111	314,824	44	344,860	861,839
Inventories	219,584	144,050		1,315	364,949
Prepaid Items	9,439			34	9,473
Other Assets	134,669			94,051	228,720
Restricted:					
Cash and Cash Equivalents	1,103,970	15,517		2,177	1,121,664
Loans and Contracts	518,923			1,203,790	1,722,713
Other Restricted Assets				107,754	107,754
Total Assets	$ 72,715,693	$ 14,450,460	$ 60,956,420	$ 10,122,614	$ 158,245,187
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 8,991,407	$ 1,496,969	$ 13,531	$ 79,115	$ 10,581,022
Payroll	770,030	90,412	2,935	6,559	869,936
Tax Refunds (Note 23)	1,020,695				1,020,695
Federal	3,765				3,765
Other Intergovernmental	670,576				670,576
Investment Trades			149,641		149,641
Interfund (Note 12)	17			33	50
To Other Funds (Note 12)	5,910,914	36,458	61	11,957	5,959,390
Obligations:					
Securities Lending			3,734,875		3,734,875
Reverse Repurchase Agreements	5,221				5,221
Other Liabilities	522,436	110,565		13,524	646,525
Unearned Revenue	8,653,572	1,614	217,703	453,267	9,326,156
Total Liabilities	26,548,633	1,736,018	4,118,746	564,455	32,967,852
Deferred Inflows of Resources					
Deferred Inflows of Resources (Note 27)	1,035,526	162,056	27,011	682,373	1,906,966
Total Deferred Inflows of Resources	1,035,526	162,056	27,011	682,373	1,906,966
Fund Balances: (Note 13)					
Nonspendable	724,827	144,050	55,025,239	1,044,218	56,938,334
Restricted	2,909,108	10,853,380	1,785,424	7,695,881	23,243,793
Committed	7,379,588	631,840		297,929	8,309,357
Assigned	40,876	923,116			963,992
Unassigned	34,077,135			(162,242)	33,914,893
Total Fund Balances	45,131,534	12,552,386	56,810,663	8,875,786	123,370,369
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 72,715,693	$ 14,450,460	$ 60,956,420	$ 10,122,614	$ 158,245,187

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, 2022 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 123,370,369
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	$ 43,877,846	
Capital Assets – Depreciable or Amortizable, Net	96,659,460	
		140,537,306
Reversal of prior year unearned tax revenues recorded in governmental funds but not in the Statement of Net Position.		414,369
Investment derivative instrument asset was reported in the Statement of Net Position to reflect the fair value of derivative instruments.		(6)
Deferred inflows of resources represent revenues the state earned after fiscal year-end but not available to pay current year's expenditures, therefore, the revenues are deferred in the funds, but not reported in the Statement of Net Position. (Note 27).		1,906,966
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).		21,806,304
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).		(72,288,283)
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	(82,616)	
Right to Use Lease Obligations	(799,003)	
Employees' Compensable Leave	(1,002,294)	
Notes and Loans Payable	(1,089,284)	
General Obligation Bonds Payable	(14,236,683)	
Revenue Bonds Payable	(4,300,470)	
Pollution Remediation Obligation	(240,691)	
Net Pension Liability	(26,399,647)	
Total Pension Liability	(218,226)	
Net OPEB Liability	(51,479,519)	
Total OPEB Liability	(5,376,184)	
Asset Retirement Obligation	(2,198)	
		(105,226,815) [1]
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.		(261,107)
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.		3,129,542
Net Position of Governmental Activities		$ 113,388,645

[1] current portion = $3,012,085 and noncurrent portion = $102,214,730

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$ 68,473,610	$ 5,815,403	$	$ 4,696,794	$ 78,985,807
Federal	89,359,509	4,429,060		63,235	93,851,804
Licenses, Fees and Permits	3,420,459	1,819,543		824,290	6,064,292
Sales of Goods and Services	6,394,044	15,177	103,364	251,708	6,764,293
Interest and Other Investment Income	(122,684)	54,310	1,303,926	211,221	1,446,773
Land Income	18,471	30,446	2,073,361	7,511	2,129,789
Settlement of Claims	628,287	36,949	686	146	666,068
Other Revenues	9,640,028	1,724	10,567	88,142	9,740,461
Total Revenues	177,811,724	12,202,612	3,491,904	6,143,047	199,649,287
EXPENDITURES					
Current:					
General Government	5,533,602	7,797		348,206	5,889,605
Education	38,779,945		40,584	2,687,603	41,508,132
Employee Benefits	20,082			38,661	58,743
Teacher Retirement State Contributions	4,266,932				4,266,932
Health and Human Services	87,623,570			2,312	87,625,882
Public Safety and Corrections	7,454,700			65,452	7,520,152
Transportation	163,528	4,561,693		171,309	4,896,530
Natural Resources and Recreation	3,385,845		117,738	147,790	3,651,373
Regulatory Services	463,519			26,004	489,523
Capital Outlay	1,770,422	7,920,974	3,539	424,890	10,119,825
Debt Service:					
Principal	182,758	74,018	1,038	964,704	1,222,518
Interest	1	380		745,488	745,869
Other Financing Fees	12,318	1,521		3,878	17,717
Total Expenditures	149,657,222	12,566,383	162,899	5,626,297	168,012,801
Excess (Deficiency) of Revenues Over (Under) Expenditures	28,154,502	(363,771)	3,329,005	516,750	31,636,486
OTHER FINANCING SOURCES (USES)					
Bonds and Notes Issued	292,865			213,112	505,977
Bonds Issued for Refunding				685,945	685,945
Premiums on Bonds Issued	5,235			52,489	57,724
Payment to Escrow for Refunding				(705,095)	(705,095)
Increase in Obligation for Capital Leases	936,236	16,002	3,363	4,187	959,788
Sale of Capital Assets	12,054	3,833		5	15,892
Insurance Recoveries	3,962			21	3,983
Capital Contributions	2,172				2,172
Distributions from Permanent Fund Principal (Note 12)				(15,457)	(15,457)
Transfer In (Note 12)	10,215,549	4,026,052		3,936,660	18,178,261
Transfer Out (Note 12)	(19,101,174)	(752,932)	(2,145,708)	(5,893,222)	(27,893,036)
Total Other Financing Sources (Uses)	(7,633,101)	3,292,955	(2,142,345)	(1,721,355)	(8,203,846)
Net Change in Fund Balances	20,521,401	2,929,184	1,186,660	(1,204,605)	23,432,640
Fund Balances, September 1, 2021	24,735,817	9,626,298	55,624,006	10,031,111	100,017,232
Restatements (Note 14)	(125,684)	(3,096)	(3)	49,280	(79,503)
Fund Balances, September 1, 2021, as Restated	24,610,133	9,623,202	55,624,003	10,080,391	99,937,729
Fund Balances, August 31, 2022	$ 45,131,534	$ 12,552,386	$ 56,810,663	$ 8,875,786	$ 123,370,369

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, 2022 (Amounts in Thousands)

Net Change in Fund Balances		$ 23,432,640
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	10,119,826	
Depreciation Expense (Note 2)	(2,674,389)	
Amortization Expense (Note 2)	(230,566)	
		7,214,871
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net position.		(9,910)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(1,775,842)
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.		161,782
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the Statement of Net Position. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position.		
Bonds and Notes Issued	(1,191,922)	
Premiums on Bond Proceeds	(57,724)	
Increase in Obligations Under Right to Use Leases	(959,788)	
Repayment of Bond and Capital Lease Principal	1,927,589	
		(281,845)
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.		11,392,920
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)	(3,577)	
Increase in Revenues		
Decrease in Expenses	(10,194)	
Net Change in Transfers	10,194	
		(3,577)
Change in Net Position of Governmental Activities		$ 40,131,039

Statement of Net Position: Proprietary Funds

August 31, 2022 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds	Totals	Activities – Internal Service Fund[1]
ASSETS							
Current Assets:							
Cash and Cash Equivalents	$ 8,584,316	$ 1,317	$ 229,448	$ 658,844	$ 590,319	$ 10,064,244	$ 83,355
Short-Term Investments	437,496			849,783		1,287,279	1,552,806
Receivables:							
Accounts	2,548,549	448,168	31,782		77,261	3,105,760	259,822
Federal	1,073,060	41,604		3,578	13,511	1,131,753	
Leases (Note 5,8)	29,475					29,475	
Other Intergovernmental	284,561					284,561	
Gifts and Pledges	358,785					358,785	
Investment Trades	367,058					367,058	3,919
Interest and Dividends	102,841	122		78,462	19,110	200,535	13,506
Interfund (Note 12)	57,946					57,946	
From Other Funds (Note 12)	1,473,668	7,968			120,333	1,601,969	3,546
Other Receivables	800,643				17,690	818,333	
Securities Lending Collateral	988,092					988,092	32,871
Loans and Contracts	119,015			394,611	21,072	534,698	
Inventories	285,457		47,756		8,867	342,080	
Prepaid Items	291,580				1,289	292,869	
Other Current Assets	677,919				87	678,006	
Restricted:							
Cash and Cash Equivalents	1,240,779	2,283,474			3,152,143	6,676,396	
Short-Term Investments	163,027		58,614		28,758	250,399	
Loans and Contracts					144,314	144,314	
Total Current Assets	19,884,267	2,782,653	367,600	1,985,278	4,194,754	29,214,552	1,949,825
Noncurrent Assets:							
Receivables:							
Leases	390,354					390,354	
Interfund (Note 12)	1,423,210					1,423,210	
Gifts and Pledges	837,360					837,360	
Other Receivables		157,939				157,939	
Investments	24,572,718			248,837	286,511	25,108,066	1,882,872
Derivative Instruments: (Note 3, 7, 15)							
Hedging	125,007				76,420	201,427	
Assets Held in Trust	362				6,760	7,122	
Loans and Contracts	9,627			13,020,997	39,976	13,070,600	
Prepaid Items	1,802					1,802	
Restricted:							
Cash and Cash Equivalents	186,920					186,920	
Short-Term Investments	301					301	
Receivables	76,147				88,552	164,699	
Investments	61,328,463		238,599		2,767,486	64,334,548	
Loans and Contracts	44,801				3,318,303	3,363,104	
Other Restricted Assets					168	168	
Capital Assets: (Note 2)							
Non-Depreciable or Non-Amortizable	5,938,154				1,020,085	6,958,239	
Depreciable or Amortizable, Net	29,403,335		4,051		2,097,040	31,504,426	
Intangible Assets:							
Service Concession Arrangements (Note 26)					3,226,308	3,226,308	
Other Noncurrent Assets	561,913				21	561,934	
Total Noncurrent Assets	124,900,474	157,939	242,650	13,269,834	12,927,630	151,498,527	1,882,872
Total Assets	144,784,741	2,940,592	610,250	15,255,112	17,122,384	180,713,079	3,832,697
DEFERRED OUTFLOWS OF RESOURCES							
Deferred Outflows of Resources (Note 27)	8,279,325				244,449	8,523,774	
Total Deferred Outflows of Resources	8,279,325	0	0	0	244,449	8,523,774	0
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	2,377,855	63,462	44,565		87,860	2,573,742	655,131
Payroll	1,329,723		2,355		5,661	1,337,739	
Federal	35,472	198,384				233,856	
Other Intergovernmental	4,625					4,625	
Investment Trades	769,241					769,241	

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

Concluded on the following page

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

Statement of Net Position: Proprietary Funds (concluded)

August 31, 2022 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds	Totals	Activities – Internal Service Fund[1]
LIABILITIES (concluded)							
Current Liabilities:							
Payables:							
Interest	$ 34,019	$	$ 2	$ 117,218	$ 97,766	$ 249,005	$
Annuities			4,998			4,998	
Notes and Loans (Note 5)	208,918				649,539	858,457	
Interfund (Note 12)	59,773				3	59,776	
To Other Funds (Note 12)	278,994		122,600	4,269	22,234	428,097	15,614
From Restricted Assets (Note 5)	20,891		209,514		282,418	512,823	
Bonds:							
General Obligation (Note 5, 6)	2,922			40,389	239,465	282,776	
Revenue (Note 5, 6)	2,279,336			227,976	124,384	2,631,696	
Short-Term Debt (Note 4)	2,010,235				60,181	2,070,416	
Obligations:							
Securities Lending	988,092					988,092	32,410
Asset Retirement (Note 5)	20					20	
Right to Use Leases (Note 5, 8)	138,636		443		292	139,371	
Funds Held for Others	60,182					60,182	
Claims and Judgments (Note 5)	192,854					192,854	
Employees' Compensable Leave (Note 5)	516,968		1,730		3,933	522,631	
OPEB (Note 11)	381,687					381,687	
Other Current Liabilities	351,664		1,093		9,893	362,650	
Unearned Revenue	4,398,756	469,575			33,532	4,901,863	
Total Current Liabilities	16,440,863	731,421	387,300	389,852	1,617,161	19,566,597	703,155
Noncurrent Liabilities:							
Payables:							
Notes and Loans (Note 5)	773,037				369,251	1,142,288	
Interfund (Note 12)	1,438,226					1,438,226	
From Restricted Assets (Note 5)	4,100		240,561		1,156,582	1,401,243	
Bonds:							
General Obligation (Note 5, 6)	9,159			896,333	2,753,980	3,659,472	
Revenue (Note 5, 6)	17,055,001			8,624,801	9,768,298	35,448,100	
Obligations:							
Pollution Remediation (Note 5)	1,530					1,530	
Asset Retirement (Note 5)	35,182					35,182	
Right to Use Leases (Note 5, 8)	1,066,417		1,614			1,068,031	
Derivative Instruments: (Note 3, 7, 15)							
Investment	183,197					183,197	
Hedging	87,511				49,744	137,255	
Assets Held for Others	136,024				6,760	142,784	
Claims and Judgments (Note 5)	52,330					52,330	
Employees' Compensable Leave (Note 5)	640,376		1,580		1,613	643,569	
Pension (Note 9)	4,265,992					4,265,992	
OPEB (Note 11)	20,429,045					20,429,045	
Other Noncurrent Liabilities	451,801				242,038	693,839	
Total Noncurrent Liabilities	46,628,928	0	243,755	9,521,134	14,348,266	70,742,083	0
Total Liabilities	63,069,791	731,421	631,055	9,910,986	15,965,427	90,308,680	703,155
DEFERRED INFLOWS OF RESOURCES							
Deferred Inflows of Resources (Note 27)	6,830,440				101,487	6,931,927	
Total Deferred Inflows of Resources	6,830,440	0	0	0	101,487	6,931,927	0
NET POSITION							
Net Investment in Capital Assets	12,828,820		1,994		823,916	13,654,730	
Restricted for:							
Education	4,241,342					4,241,342	
Debt Service	17,088				682,342	699,430	
Capital Projects	994,610				6,817	1,001,427	
Unemployment Trust Fund		2,209,171				2,209,171	
Veterans Land Board Housing Programs					688,643	688,643	
Funds Held as Permanent Investments:							
Nonexpendable	37,567,974				227	37,568,201	
Expendable	18,598,669					18,598,669	
Other Restricted Net Position			5,000	5,344,126	108,868	5,457,994	2,967,760
Unrestricted	8,915,332		(27,799)		(1,010,894)	7,876,639	161,782
Total Net Position	$ 83,163,835	$ 2,209,171	$ (20,805)	$ 5,344,126	$ 1,299,919	$ 91,996,246	$ 3,129,542

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

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

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

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental Activities – Internal Service Fund[1]
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds	Totals	
OPERATING REVENUES							
Lottery Collections	$	$	$ 8,297,288	$	$	$ 8,297,288	$
Unemployment Taxes		2,506,232				2,506,232	
Hospital Revenue – Pledged	21,614,042					21,614,042	
Discounts and Allowances	(12,876,923)					(12,876,923)	
Tuition Revenue	116,775					116,775	
Tuition Revenue – Pledged	8,037,528					8,037,528	
Discounts and Allowances	(2,240,632)					(2,240,632)	
Professional Fees	9,510,875					9,510,875	
Professional Fees – Pledged	32,853					32,853	
Discounts and Allowances	(6,868,530)					(6,868,530)	
Auxiliary Enterprises	4,513					4,513	
Auxiliary Enterprises – Pledged	1,747,891				138,476	1,886,367	
Discounts and Allowances	(119,179)					(119,179)	
Other Sales of Goods and Services	15,477				55,453	70,930	
Other Sales of Goods and Services – Pledged	1,142,890				537,665	1,680,555	
Discounts and Allowances	(8,512)				(23,691)	(32,203)	
Interest and Investment Income	737			256,355	54,238	311,330	
Interest and Investment Income – Pledged	290			1,322		1,612	
Federal Revenue	3,067,814	207,266			83,443	3,358,523	
State Grant Revenue	26,465					26,465	
Premium Revenue							2,774,937
Other Operating Grant Revenue	1,157,988					1,157,988	
Other Operating Grant Revenue – Pledged	1,646,598					1,646,598	
Other Revenues	256,289	105,749	902	11,553	173,989	548,482	366
Other Revenues – Pledged	755,597					755,597	
Total Operating Revenues	27,020,846	2,819,247	8,298,190	269,230	1,019,573	39,427,086	2,775,303
OPERATING EXPENSES							
Cost of Goods Sold	127,076				109,959	237,035	
Salaries and Wages	16,726,589		20,793	5,480	49,490	16,802,352	7,531
Payroll Related Costs	5,334,117		7,319	968	13,499	5,355,903	2,295
Professional Fees and Services	2,153,281		5,496	8,757	179,512	2,347,046	952
Materials and Supplies	4,113,596		1,298	62	11,467	4,126,423	439
Travel	255,463		231	25	472	256,191	19
Communication and Utilities	753,899		574	43	3,479	757,995	1,277
Repairs and Maintenance	870,694		739	1	36,360	907,794	589
Rentals and Leases	310,472		7,314	58	2,911	320,755	189
Printing and Reproduction	61,544		46,400	4	120	108,068	29
Scholarships	1,892,461					1,892,461	
Lottery Fees and Other Costs			588,181			588,181	
Lottery Prize Payments			5,599,718			5,599,718	
Claims and Judgments	522,596				16,095	538,691	
Employee/Participant Benefit Payments					(31,893)	(31,893)	2,461,451
Unemployment Benefit Payments		1,965,193				1,965,193	
Net Change in Asset Retirement Obligation	1,558					1,558	
Depreciation and Amortization	2,914,414		660		181,574	3,096,648	
Bad Debt	5,951		173		629	6,753	
Interest	327			308,756	137,422	446,505	
Other Operating Expenses	3,226,356		18,051	288	194,329	3,439,024	521
Total Operating Expenses	39,270,394	1,965,193	6,296,947	324,442	905,425	48,762,401	2,475,292
Operating Income (Loss)	(12,249,548)	854,054	2,001,243	(55,212)	114,148	(9,335,315)	300,011

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

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

Concluded on the following page

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

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						Governmental Activities –
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds	Totals	Internal Service Fund[1]
NONOPERATING REVENUES (EXPENSES)							
Federal	$ 6,191,975	$	$	$ 125,829	$ 23,446	$ 6,341,250	$
Gifts	916,009				646	916,655	
Gifts – Pledged	193,845					193,845	
Land Income	151				15	166	
Interest and Investment Income	(1,256,788)	14,269	(37,992)		(137,793)	(1,418,304)	(138,455)
Interest and Investment Income – Pledged	887,752					887,752	
Loan Premium and Fees on Securities Lending							230
Settlement of Claims	2,351				80	2,431	
Depreciation and Amortization					25,351	25,351	
Other Nonoperating Revenues	(61,953)				1	(61,952)	
Other Nonoperating Revenues – Pledged	121,647					121,647	
Investing Activities	(269,022)				(667)	(269,689)	
Borrower Rebates and Agent Fees	(1,907)				87	(1,820)	
Gain (Loss) on Sale of Capital Assets	(7,140)		(10)		4	(7,146)	
Claims and Judgments	(254)		(6)			(260)	
Interest	(672,617)	(28,714)	(22)		(341,093)	(1,042,446)	
Other Nonoperating Expenses	(87,992)			(28,966)	(928)	(114,398)	(4)
Total Nonoperating Revenues (Expenses)	5,956,057	(14,445)	(38,030)	96,863	(430,851)	5,569,594	(138,229)
Income (Loss) Before Capital Contributions, Endowments and Transfers	(6,293,491)	839,609	1,963,213	41,651	(316,703)	(3,765,721)	161,782
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS							
Capital Contributions – Federal	932					932	
Capital Contributions – Other	366,920				4,013	370,933	
Contributions to Permanent and Term Endowments	410,448					410,448	
Transfer In (Note 12)	8,073,803	7,083,736		34,611	25,676	15,217,826	
Transfer Out (Note 12)	(3,466,843)		(1,998,417)	(12,890)	(36,358)	(5,514,508)	
Total Capital Contributions, Endowments and Transfers	5,385,260	7,083,736	(1,998,417)	21,721	(6,669)	10,485,631	0
Change in Net Position	(908,231)	7,923,345	(35,204)	63,372	(323,372)	6,719,910	161,782
Net Position, September 1, 2021	82,302,003	(5,548,830)	14,399	5,280,754	1,623,581	83,671,907	2,967,760
Restatements (Note 14)	1,770,063	(165,344)			(290)	1,604,429	
Net Position, September 1, 2021, as Restated	84,072,066	(5,714,174)	14,399	5,280,754	1,623,291	85,276,336	2,967,760
Net Position, August 31, 2022	$ 83,163,835	$ 2,209,171	$ (20,805)	$ 5,344,126	$ 1,299,919	$ 91,996,246	$ 3,129,542

[1] Employees life, accident and health insurance benefits fund is the only internal service 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 Cash Flows: Proprietary Funds

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds						Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds	Totals	Activities-Internal Service Fund[1]
CASH FLOWS FROM OPERATING ACTIVITIES							
Proceeds from Customers	$ 11,847,073	$ 2,631,223	$ 8,343,696	$	$ 685,922	$ 23,507,914	$ 566,678
Proceeds from Tuition and Fees	5,948,535					5,948,535	
Proceeds from Research Grants and Contracts	5,894,208	306,682				6,200,890	
Proceeds from Gifts					38	38	
Proceeds from Loan Programs	849,067				2,117,722	2,966,789	
Proceeds from Auxiliaries	1,630,851					1,630,851	
Proceeds from Other Operating Revenues	1,806,582	171,572			239,247	2,217,401	2,443,872
Payments to Suppliers for Goods and Services	(9,847,915)		(680,844)	(920)	(680,106)	(11,209,785)	(4,010)
Payments to Employees	(20,532,166)		(27,909)	(6,548)	(55,646)	(20,622,269)	
Payments for Loans Provided	(841,788)				(2,212,183)	(3,053,971)	
Payments for Lottery Prizes			(5,561,866)			(5,561,866)	
Payments for Unemployment Benefits		(2,075,733)				(2,075,733)	
Payments for Other Operating Expenses	(5,121,868)				(237,737)	(5,359,605)	(2,754,272)
Net Cash Provided (Used) by Operating Activities	(8,367,421)	1,033,744	2,073,077	(7,468)	(142,743)	(5,410,811)	252,268
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Proceeds from Debt Issuance				1,369,973	6,158,134	7,528,107	
Proceeds from State Appropriations	489					489	
Proceeds from Gifts	1,100,664				608	1,101,272	
Proceeds from Endowments	310,608					310,608	
Proceeds from Transfers from Other Funds	8,383,470	7,094,799		2,527,700	301,262	18,307,231	
Proceeds from Interfund Payables				2,461		2,461	
Proceeds from Loan Programs	67,106					67,106	
Proceeds from Grant Receipts	6,151,261			125,276	30	6,276,567	
Proceeds from Other Noncapital Financing Activities	689,189		1,976		5,951	697,116	
Payments of Principal on Debt Issuance		(6,915,965)		(351,549)	(5,604,262)	(12,871,776)	
Payments of Interest		(8,952)		(373,608)	(315,532)	(698,092)	
Payments of Other Costs on Debt Issuance				(3,351)	(6,128)	(9,479)	
Payments for Transfers to Other Funds	(4,233,595)		(1,994,171)	(2,493,091)	(46,667)	(8,767,524)	
Payments for Grant Disbursements	(21,049)			(40,815)		(61,864)	
Payments for Interfund Receivables				(2,461)		(2,461)	
Payments for Other Noncapital Financing Uses	(538,591)		(60,358)	(59)	(177,526)	(776,534)	
Net Cash Provided (Used) by Noncapital Financing Activities	11,909,552	169,882	(2,052,553)	760,476	315,870	11,103,227	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Sale of Capital Assets	40,172				192	40,364	
Proceeds from Debt Issuance	2,958,113					2,958,113	
Proceeds from Federal Grants and Contracts					5,711	5,711	
Proceeds from State Grants and Contracts	903					903	
Proceeds from Gifts	54,084					54,084	
Proceeds from Other Capital and Related Financing Activities	144,551				15	144,566	
Proceeds from Capital Contributions	138,397					138,397	
Proceeds from Interfund Payables	10,000					10,000	
Payments for Additions to Capital Assets	(3,663,195)		(363)		(21,449)	(3,685,007)	
Payments of Principal on Debt Issuance	(2,115,831)				(45,350)	(2,161,181)	
Payments for Capital Leases	(6,957)					(6,957)	
Payments for Right to Use Leases	(145,918)		(455)		(484)	(146,857)	
Payments of Interest on Debt Issuance	(755,471)				(101,385)	(856,856)	
Payments of Other Costs on Debt Issuance	(69,828)					(69,828)	
Payments for Interfund Receivables	(5,443)				(131)	(5,574)	
Net Cash Used by Capital and Related Financing Activities	(3,416,423)	0	(818)	0	(162,881)	(3,580,122)	0

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

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

Concluded on the following page

Statement of Cash Flows: Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Business-Type Activities-Enterprise Funds						Governmental
	Colleges and Universities	Unemployment Trust Fund	Lottery Fund	Water Development Board Funds	Nonmajor Enterprise Funds	Totals	Activities-Internal Service Fund[1]
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from Sale of Investments	$ 46,972,487	$	$ 61,541	$	$ 1,607,169	$ 48,641,197	$
Proceeds from Interest and Investment Income	3,522,705	14,166		293,514	217,722	4,048,107	638
Proceeds from Principal Payments on Loans				717,880	427	718,307	
Payments to Acquire Investments	(49,870,445)		(1,976)	(344,704)	(1,195,191)	(51,412,316)	(299,700)
Payments for Nonprogram Loans Provided				(1,322,379)		(1,322,379)	
Net Cash Provided (Used) by Investing Activities	624,747	14,166	59,565	(655,689)	630,127	672,916	(299,062)
Net Increase in Cash and Cash Equivalents	750,455	1,217,792	79,271	97,319	640,373	2,785,210	(46,794)
Cash and Cash Equivalents, September 1, 2021	9,280,370	1,066,999	150,177	561,525	3,168,728	14,227,799	130,149
Restatements	(18,810)				(66,639)	(85,449)	
Cash and Cash Equivalents, September 1, 2021, as Restated	9,261,560	1,066,999	150,177	561,525	3,102,089	14,142,350	130,149
Cash and Cash Equivalents, August 31, 2022	$ 10,012,015	$ 2,284,791	$ 229,448	$ 658,844	$ 3,742,462	$ 16,927,560	$ 83,355
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES							
Operating Income (Loss)	$ (12,249,548)	$ 854,054	$ 2,001,243	$ (55,212)	$ 114,148	$ (9,335,315)	$ 300,011
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:							
Depreciation and Amortization	2,914,414		660		181,574	3,096,648	
Bad Debt Expense	527,303		173		629	528,105	
Pension Expense	233,789					233,789	
OPEB Expense	1,847,521					1,847,521	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(1,234)				224,741	223,507	
Changes in Assets and Liabilities:							
(Increase) Decrease in Receivables	(958,952)	185,855	45,505	26,025	(79,894)	(781,461)	(8,985)
(Increase) Decrease in Due From Other Funds	(14,192)			19,440	28,526	33,774	(11,900)
(Increase) Decrease in Inventories	(28,350)		(11,670)		6,046	(33,974)	
Increase in Notes Receivables	(2,396)					(2,396)	
(Increase) Decrease in Loans and Contracts	14,879			(683,082)	(459,691)	(1,127,894)	
(Increase) Decrease in Other Assets	(85,400)				18,839	(66,561)	
Decrease in Deferred Outflows of Resources - Pensions	544,619					544,619	
Increase in Deferred Outflows of Resources - OPEB	(1,127,571)					(1,127,571)	
Decrease in Prepaid Expenses	(8,488)				(57)	(8,545)	
Increase (Decrease) in Payables	392,928	(71,008)	37,166	1,037,225	(186,650)	1,209,661	(49,478)
Decrease in Deposits	(432)			(328,516)		(328,948)	
Increase (Decrease) in Due To Other Funds	(251,624)			(23,348)	(2,097)	(277,069)	22,668
Increase (Decrease) in Unearned Revenue	156,276	64,843			2,029	223,148	(47)
Increase (Decrease) in Employees' Compensable Leave	32,696				(172)	32,524	
Increase in Benefits Payable	1,939				125	2,064	
Decrease in Liabilities to Employees for Defined Benefit Pensions	(3,739,905)					(3,739,905)	
Decrease in Liabilities to Employees for Defined Benefit OPEB	1,468,050					1,468,050	
Increase (Decrease) in Other Liabilities	27,578				9,161	36,739	(1)
Increase in Deferred Inflows of Resources - Pensions	2,539,344					2,539,344	
Decrease in Deferred Inflows of Resources - OPEB	(609,822)					(609,822)	
Increase in Asset Retirement Obligations	1,558					1,558	
Increase in RTU Lease Obligations	7,599					7,599	
Total Adjustments	3,882,127	179,690	71,834	47,744	(256,891)	3,924,504	(47,743)
Net Cash Provided (Used) by Operating Activities	$ (8,367,421)	$ 1,033,744	$ 2,073,077	$ (7,468)	$ (142,743)	$ (5,410,811)	$ 252,268
NONCASH TRANSACTIONS							
Donation of Capital Assets	$ 99,060	$	$	$	$ 4,013	$ 103,073	$
Net Change in Fair Value of Investments	$ (6,582,581)	$	$ (37,991)	$ (26,938)	$ (344,528)	$ (6,992,038)	$ (206,656)
Other	$ 58,709	$	$ (32)	$	$ (58,591)	$ 86	$
Borrowing Under Lease Purchase	$ 390,326	$	$	$	$ 288	$ 390,614	$

[1] Employees life, accident and health insurance benefits fund is the only internal service 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 Fiduciary Net Position

August 31, 2022 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund[2]	Private-Purpose Trust Funds	Nontrusted External Investment Pool Custodial Funds	Other Custodial Funds
ASSETS					
Cash and Cash Equivalents	$ 4,004,920	$	$ 292,122	$ 8	$ 2,173,642
Receivables:					
Accounts	1,033,541				5,302
Taxes	2,334				
Federal	219,681				
Gifts and Pledges					41,935
Investment Trades	3,692,183		(1)	1,505	503
Interest and Dividends	420,960	42,182	1,214	1,375	261
From Other Funds (Note 12)	54,486				
Other Receivables			689	1,757	4,980
Investments:					
U.S. Government	30,678,772	13,523,053		229,685	48,694
Corporate Equity	23,858,849		5,610		153
Corporate Obligations	1,743,251	8,348,158	3,796		
Repurchase Agreements		8,248,643			
Foreign Securities	31,791,930		2,229		
Externally Managed	113,682,952			5,038	
Other Investments	26,690,531	2,307,095	4,119,543	294,327	3,034
Securities Lending Collateral	7,190,457			4,334	
Loans and Contracts			1,161		
Prepaid Items	1,649				499,941
Other Assets	99			626	1,046,292
Restricted:					
Cash and Cash Equivalents			14		34,559
Investments					139,476
Properties, at Cost, Net of Accumulated Depreciation or Amortization	241,074		456		
Total Assets	245,307,669	32,469,131	4,426,833	538,655	3,998,772
LIABILITIES					
Payables:					
Accounts	447,903	64,727	1,391	312	9,054
Payroll	9,475		24		
Investment Trades	4,019,123			2,987	812
Interest	4		1,076		26
Annuities	273,747				
To Other Funds (Note 12)	56,678				
From Restricted Assets			1,209		
Obligations:					
Securities Lending	7,196,169			4,334	
Reverse Repurchase Agreements	11,969,838				
Right to Use Leases (Note 5, 8)	5,586				
Derivative Instruments:					
Investment				726	
Employees' Compensable Leave	20,375		7		
Other Liabilities	186	51,125	1,481	418	77,867
Unearned Revenue	762		1,542		545
Total Liabilities	23,999,846	115,852	6,730	8,777	88,306
NET POSITION					
Restricted for:					
Pensions	217,985,935				
OPEB[1]	3,281,056				
Held in Trust for Individuals, Organizations and Other Governments	40,828		4,420,107		
Pool Participants		32,353,280		530,581	
Other Purposes				(705)	3,910,466
Total Net Position	$ 221,307,819	$ 32,353,280	$ 4,420,107	$ 529,876	$ 3,910,466

[1] Other Post Employment Benefits (OPEB)

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

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

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund[1]	Private-Purpose Trust Funds	Nontrusted External Investment Pool Custodial Funds	Other Custodial Funds
ADDITIONS					
Contributions:					
Member	$ 5,297,092	$	$	$ 2,828	$ 700
State	5,624,347				
Federal	254,124		4,022		63
Other Contributions	3,192,202		1,407,926		67,286
Total Contributions	14,367,765	0	1,411,948	2,828	68,049
Investment Income:					
From Investing Activities:					
Net Increase in Fair Value of Investments	(27,301,188)		(129,498)	(46,096)	(20,607)
Interest, Dividend and Other Investment Income	13,443,445	207,060	117,920	5,909	9,564
Total Investing Income	(13,857,743)	207,060	(11,578)	(40,187)	(11,043)
Less Investing Activities Expense	298,051	14,929	4,657	83	106,309
Net Income from Investing Activities	(14,155,794)	192,131	(16,235)	(40,270)	(117,352)
From Securities Lending Activities:					
Securities Lending Income	76,575				
Less Securities Lending Expense:					
Borrower Rebates[1]	44,410				
Management Fees	6,243				
Net Income from Securities Lending	25,922	0	0	0	0
Total Net Investment Income	(14,129,872)	192,131	(16,235)	(40,270)	(117,352)
Capital Share and Individual Account Transactions:					
Net Increase in Participant Investments	0	2,552,280	0	0	0
Other Additions:					
Settlement of Claims			73,255		3,541
Transfer In (Note 12)	149,998		10,000		774
Other Revenue	35,126		4,412	322,050	13,359,326
Total Other Additions	185,124	0	87,667	322,050	13,363,641
Total Additions	423,017	2,744,411	1,483,380	284,608	13,314,338
DEDUCTIONS					
Benefits	18,135,455		1,389,712		156
Refunds of Contributions	749,690			4,543	240
Intergovernmental Payments			83,520		
Settlement of Claims					42,828
Administrative Expenses	102,542		5,704		12,151
Depreciation and Amortization	19,551		39		
Interest Expense	20				3,041
Transfer Out (Note 12)	148,735				580
Other Deductions	11,535		298	256,579	12,650,922
Total Deductions	19,167,528	0	1,479,273	261,122	12,709,918
INCREASE (DECREASE) IN NET POSITION	(18,744,511)	2,744,411	4,107	23,486	604,420
Net Position, September 1, 2021	240,052,615	29,608,869	4,413,954	552,387	3,306,149
Restatements (Note 14)	(285)		2,046	(45,997)	(104)
Net Position, September 1, 2021, as Restated	240,052,330	29,608,869	4,416,000	506,390	3,306,046
Net Position, August 31, 2022	$ 221,307,819	$ 32,353,280	$ 4,420,107	$ 529,876	$ 3,910,466

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

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

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

STATE OF TEXAS

Notes to Financial Statements

Note 1

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the state of Texas were prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The state of Texas implemented the following GASB statements in fiscal 2022.

GASB Statement No. 87, *Leases,* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The effective date of financial reporting for leases under GASB Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases* was fiscal years beginning after December 15, 2019. However, it was superseded by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, until the fiscal years beginning after June 15, 2021. GASB Statement No. 87, *Leases,* requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows and outflows of resources. A lessee recognizes a lease liability and an intangible right-to-use lease asset and a lessor recognizes a lease receivable and a deferred inflow of resources. Since there were lease contracts in place, GASB Statement No. 87, *Leases,* instructs that leases be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation or of the earliest period restated. For more information on lease accounting see Note 8, *Leases*.

GASB Statement No. 93, *Replacement of Interbank Offered Rates,* paragraphs 11b, 13 and 14, were implemented in fiscal 2022, however, GASB Statement No. 99 paragraph 26 superseded paragraph 11b, see below for more details. These paragraphs respectively refer to:

- The provisions of a lease contract may be amended while the contract is in effect. Amendments modify the provisions of the lease contract.
- If variable payments of a lease contract depend on an Interbank Offered Rate (IBOR), an amendment of the contract solely to replace the IBOR with another rate by either changing the rate or adding or changing fallback provisions related to the rate, is not a lease modification.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32,* requires that for the purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined compensation pension plan, a defined contribution OPEB plan or an other employee benefit plan (for example, certain Internal Revenue Code Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. This statement also requires that the financial burden criterion in paragraph 7 of GASB Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of GASB Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of GASB Statement No. 74, *Financial Reporting for Post Employment Benefit Plans Other than Pension Plans,* respectively.

GASB Statement No. 97 requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and clarifies that GASB Statement No. 84, as amended, should be applied to all arrangements organized under IRC

Section 457 to determine whether those arrangements should be reported as fiduciary activities. GASB Statement No. 97 supersedes the remaining provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* as amended, regarding investment valuation requirements for Section 457 plans. As a result, all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. For more information, see Note 9, *Retirement Plans* and Note 10*, Deferred Compensation.*

GASB Statement No. 99, *Omnibus 2022,* was issued April 2022 and has staggered implementation dates. The following requirements were effective upon issuance:

- Extension of period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt. The LIBOR may be utilized until it is no longer published
- Accounting for the distributions of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions
- Pledges of future revenues when resources are not received by the pledging government
- Clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* as amended, related to the focus of the government-wide financial statements
- Terminology updates related to certain provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

The state of Texas implemented in the previous year:

- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates,* except paragraphs 11b, 13 and 14 (effective in fiscal 2022)
- GASB Statement No. 98, *The Annual Comprehensive Financial Report.*

Financial Reporting Entity

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

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

As the reporting entity for the state is in accordance with the criteria established by GASB, Note 19, *Component Units and Related Organizations*, 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)
- 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 $529.1 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. Therefore, they are 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. It will actively become its own state agency in fiscal 2023. (Texas Permanent School Fund Corporation - Agency 706)

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 System
- Texas Southern University
- Texas State Technical College
- Stephen F. Austin State University
  - SFA's Board of Regents voted in November 2022 to become a member institution of the University of Texas System. The Texas Legislature is expected to approve the transition in the session beginning January 2023.

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.

The **Texas Water Development Board Funds** are the total of the eight funds listed below:

- Rural Water Assistance Fund - provides financial assistance to rural political subdivisions for water projects.
- Agricultural Water Conservation Fund - holds bond proceeds and activity of loans for agricultural water conservation projects.
- Texas Water Development Fund II - holds proceeds from the sale of bonds for the self-supporting general obligation bonds. Reports loans, grants and costs to administer the Development Fund and State Participation programs.
- Texas Water Development Fund II Clearance Fund - holds balances during the year that are to be transferred to the interest and sinking fund to pay debt service.
- Texas Water Development Fund II Interest and Sinking Fund - receives transfers from the program fund and clearance fund for payment of debt service on outstanding bonds.
- Local Funds - local funds held outside the treasury for purposes of the following programs:
  - State Water Implementation Revenue Fund
  - Clean Water State Revolving Fund
  - Drinking Water State Revolving Fund

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 private-purpose trust funds.

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

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

Component Units

All component units of the state of Texas are reported as nonmajor component units. The combining statement of net position - component units and the combining statement of activities - component units are discretely presented.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

Basis of Accounting, Measurement Focus and Financial Statement Presentation

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent, are reported. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which partially amended GASB Statement No. 33.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally only current assets and current liabilities are included on the statement of net position. 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

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. Investments are reported at fair value in the statement of net position or other statements of net financial position with exceptions. 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, 2022, 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 2022 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, *Taxes Receivable and Tax Refunds Payable,* for more details.

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, *Interfund Activity and Transactions,* 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, *Capital Assets,* 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.

At the commencement of the lease term , a lessee will recognize a lease liability and an intangible right-to-use lease asset, which is a capital asset. GASB Statement No. 87, *Leases*, provides for the reporting of "Intangible Right to Use (IRTU) Assets". IRTU assets are reported in Note 2, *Capital Assets,* and additional details in Note 8, *Leases*.

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 2022 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, lease obligations, employees' compensable leave and other noncurrent liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net position. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities.

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

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

Employees' Compensable Leave Balances

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

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

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

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from the date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. In 2009, the 81st Texas Legislature session passed House Bill 2559, which does not allow employees hired on or after Sept. 1, 2009, to apply unused sick or annual leave as service credit to meet retirement eligibility. State employees hired before Sept. 1, 2009, are entitled to service credit in the retirement system for unused sick or annual leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave was not determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Lease Obligations

A lease liability is measured at the present value of payments, based on a contract, to be made during the lease term. The state, as a lessee, will reduce the lease liability as payments are made and recognize an outflow of resources for interest on the liability. The lease liability is bifurcated into current and noncurrent portions. Note 8, *Leases,* provides details for 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 statement of net position 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, *Bonded Indebtedness,* 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, *Deferred Outflows of Resources and Deferred Inflows of Resources,* provides more details.

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. The Permanent University Fund is restricted based on enabling legislation. The state's Economic Stabilization (rainy day) Fund is restricted by a constitutional amendment and subsequent 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, such as the state's expendable endowment funds. 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. For more information on restricted net position, see the MD&A section and the statement of net position.

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, *Classification of Fund Balances/Net Position,* 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, *Interfund Activity and Transactions,* provides details.

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, *Risk Management,* 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 state of Texas implemented GASB Statement No. 87, Leases for fiscal year 2022. Intangible right-to-use (RTU) assets have a value of the initial measurement of the lease liability plus lease payments made at or before the commencement of the lease term, less any incentives received from the lessor at or before the commencement of the lease term plus initial indirect costs that are ancillary charges to place the lease asset in service. More information can be found in Note 8–Leases. The capitalization thresholds and estimated useful lives of the state's various categories of capital assets as of Aug. 31, 2022, are presented in table 2A.

Capitalization of Assets

Table 2A

August 31, 2022

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

Table 2B presents the composition of the state's capital and intangible RTU assets, adjustments, reclassifications, additions and deletions during fiscal 2022. The adjustments column includes assets not previously reported, accounting errors, the transition balances of intangible RTU leases as a result of GASB Statement No. 87 implementation 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, new intangible RTU leases, depreciation and amortization. The deletions column includes assets removed and intangible RTU leases removed due to early termination 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, 2022 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/21	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/22
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 17,372,642	$ 25	$ 699	$ 1,150,508	$ (1,055)	$ 18,522,819
Infrastructure	283					283
Construction in Progress	23,815,981	3,807	(6,702,309)	8,073,210		25,190,689
Land Use Rights – Permanent	88,981	1		2,060	(172)	90,870
Other Capital Assets	73,086			100		73,186
Total Non-Depreciable and Non-Amortizable Assets	41,350,973	3,833	(6,701,610)	9,225,878	(1,227)	43,877,847
Depreciable Assets						
Buildings and Building Improvements	6,635,142	13,908	533,372	9,964	(12,803)	7,179,583
Infrastructure	114,650,234	2,082	6,025,290	1,066,794	(523)	121,743,877
Facilities and Other Improvements	277,808	2,395	6,646	688		287,537
Furniture and Equipment	1,326,958	230	2,212	92,586	(47,221)	1,374,765
Vehicles, Boats and Aircraft	1,605,559	(1,007)	1,213	95,002	(63,835)	1,636,932
Other Capital Assets	160,596	308	129	4,516	(4,693)	160,856
Total Depreciable Assets at Historical Cost	124,656,297	17,916	6,568,862	1,269,550	(129,075)	132,383,550
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,005,629)	(885)		(181,173)	11,084	(5,176,603)
Infrastructure	(26,763,893)	(44)		(2,300,487)	13	(29,064,411)
Facilities and Other Improvements	(202,595)	(149)		(6,360)		(209,104)
Furniture and Equipment	(1,071,211)	4,535	119	(74,658)	45,309	(1,095,906)
Vehicles, Boats and Aircraft	(1,016,292)	(226)	(881)	(106,121)	57,099	(1,066,421)
Other Capital Assets	(112,506)	(1)		(5,590)	4,452	(113,645)
Total Accumulated Depreciation	(34,172,126)	3,230	(762)	(2,674,389)	117,957	(36,726,090)
Depreciable Assets, Net	90,484,171	21,146	6,568,100	(1,404,839)	(11,118)	95,657,460
Intangible Capital Assets – Amortizable						
Computer Software	603,703	25,798	129,917	8,992	(2,731)	765,679
Land Use Rights – Term	1,116				(768)	348
Intangible Capital Assets – Term	79,673					79,673
Total Intangible Assets at Historical Cost	684,492	25,798	129,917	8,992	(3,499)	845,700
Less Accumulated Amortization for:						
Computer Software	(525,492)	(4,473)		(35,602)	2,700	(562,867)
Land Use Rights – Term	(514)			(380)	768	(126)
Intangible Capital Assets – Term	(70,706)			(4,629)		(75,335)
Total Accumulated Amortization	(596,712)	(4,473)	0	(40,611)	3,468	(638,328)
Amortizable Assets, Net	87,780	21,325	129,917	(31,619)	(31)	207,372

Continued on the following page

Capital Asset Activity (continued)

Table 2B: Primary Government - Business-Type Activities

August 31, 2022 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/21	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/22
Intangible Right-to-Use (RTU) Assets - Amortizable						
Land and Land Improvements	$	$ 3,579	$	$	$	$ 3,579
Buildings and Building Improvements		22,011		944,914		966,925
Equipment		2,042		14,896	(175)	16,763
Total Amortizable Intangible RTU Assets	0	27,632	0	959,810	(175)	987,267
Less Accumulated Amortization for:						
Land and Land Improvements		(39)		(1,220)		(1,259)
Buildings and Building Improvements		(2,816)		(184,599)		(187,415)
Equipment				(4,136)	168	(3,968)
Total Accumulated Amortization RTU Assets	0	(2,855)	0	(189,955)	168	(192,642)
Amortizable RTU Assets, Net	0	24,777	0	769,855	(7)	794,625
Governmental Activities Capital Assets, Net	$ 131,922,924	$ 71,081	$ (3,593)	$ 8,559,275	$ (12,383)	$ 140,537,304
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 2,420,861	$	$ 1,267	$ 166,600	$ (2,487)	$ 2,586,241
Construction in Progress	3,405,315	(24,388)	(2,081,809)	1,986,286	(2,107)	3,283,297
Land Use Rights – Permanent	22,919				(1)	22,918
Other Capital Assets	954,145		1,803	91,601	(3,031)	1,044,518
Other Intangible Capital Assets - Permanent	21,265					21,265
Total Non-Depreciable and Non-Amortizable Assets	6,824,505	(24,388)	(2,078,739)	2,244,487	(7,626)	6,958,239
Depreciable Assets						
Buildings and Building Improvements	43,718,216	(160,120)	1,669,014	326,279	(47,208)	45,506,181
Infrastructure	4,644,873		237,405	10,409	(2,223)	4,890,464
Facilities and Other Improvements	3,539,098		67,337	18,120	(31,599)	3,592,956
Furniture and Equipment	7,575,489	(11,680)	40,128	618,309	(253,016)	7,969,230
Vehicles, Boats and Aircraft	360,103	(1,963)	200	22,618	(12,831)	368,127
Other Capital Assets	1,971,583	17	40,410	86,715	(37,579)	2,061,146
Total Depreciable Assets at Historical Cost	61,809,362	(173,746)	2,054,494	1,082,450	(384,456)	64,388,104
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(21,712,171)	31,081		(1,707,261)	31,851	(23,356,500)
Infrastructure	(1,606,517)			(141,269)	1,299	(1,746,487)
Facilities and Other Improvements	(1,565,901)			(140,596)	31,434	(1,675,063)
Furniture and Equipment	(5,461,677)	9,471	739	(601,414)	211,357	(5,841,524)
Vehicles, Boats and Aircraft	(266,999)	784	34	(24,356)	12,060	(278,477)
Other Capital Assets	(1,344,850)			(82,891)	26,815	(1,400,926)
Total Accumulated Depreciation	(31,958,115)	41,336	773	(2,697,787)	314,816	(34,298,977)
Depreciable Assets, Net	29,851,247	(132,410)	2,055,267	(1,615,337)	(69,640)	30,089,127
Intangible Capital Assets – Amortizable						
Computer Software	1,810,584	(83)	27,076	28,403	(138,258)	1,727,722
Land Use Rights – Term	255					255
Intangible Capital Assets – Term	700					700
Total Intangible Assets at Historical Cost	1,811,539	(83)	27,076	28,403	(138,258)	1,728,677
Less Accumulated Amortization for:						
Computer Software	(1,483,969)	83		(134,403)	134,610	(1,483,679)
Land Use Rights – Term	(255)					(255)
Intangible Capital Assets – Term	(280)			(140)		(420)
Total Accumulated Amortization	(1,484,504)	83	0	(134,543)	134,610	(1,484,354)
Amortizable Assets, Net	327,035	0	27,076	(106,140)	(3,648)	244,323

Concluded on the following page

Capital Asset Activity (concluded)

Table 2B: Component Units

August 31, 2022 (Amounts in Thousands)

Capital Asset Type	Balance 9/1/21	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/22
Intangible Right-to-Use (RTU) Assets - Amortizable						
Land and Land Improvements	$	$ 85,615	$	$ 4,286	$	$ 89,901
Buildings and Building Improvements		880,939		379,690	(18,590)	1,242,039
Infrastructure		1,486		229		1,715
Equipment		71,985		33,505	(21,084)	84,406
Total Amortizable Intangible RTU Assets	0	1,040,025	0	417,710	(39,674)	1,418,061
Less Accumulated Amortization for:						
Land and Land Improvements		(1,494)		(1,757)		(3,251)
Buildings and Building Improvements		(89,203)		(128,979)	13,919	(204,263)
Infrastructure		(192)		(202)		(394)
Equipment		(27,194)		(28,939)	16,954	(39,179)
Total Accumulated Amortization Intangible RTU Assets	0	(118,083)	0	(159,877)	30,873	(247,087)
Amortizable Intangible RTU Assets, Net	0	921,942	0	257,833	(8,801)	1,170,974
Business Activities Capital Assets, Net	$ 37,002,787	$ 765,144	$ 3,604	$ 780,843	$ (89,715)	$ 38,462,663
Non-Depreciable and Non-Amortizable Assets						
Land and Land Improvements	$ 3,706	$	$	$ 1,178	$ (320)	$ 4,564
Construction in Progress	4,765	(802)		3,098	(6,231)	830
Total Non-Depreciable and Non-Amortizable Assets	8,471	(802)	0	4,276	(6,551)	5,394
Depreciable Assets						
Buildings and Building Improvements	23,435			2,885	(196)	26,124
Facilities and Other Improvements	414					414
Furniture and Equipment	35,035	802		9,150	(115)	44,872
Vehicles, Boats and Aircraft	8,291			3,085	(1,942)	9,434
Other Capital Assets	2,123					2,123
Total Depreciable Assets at Historical Cost	69,298	802	0	15,120	(2,253)	82,967
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(7,395)			(531)	39	(7,887)
Facilities and Other Improvements	(411)			(2)		(413)
Furniture and Equipment	(24,609)			(1,444)	115	(25,938)
Vehicles, Boats and Aircraft	(4,839)			(1,629)	1,480	(4,988)
Other Capital Assets	(1,644)			(232)		(1,876)
Total Accumulated Depreciation	(38,898)	0	0	(3,838)	1,634	(41,102)
Depreciable Assets, Net	30,400	802	0	11,282	(619)	41,865
Intangible Capital Assets – Amortizable						
Computer Software	7,545			6,232		13,777
Total Intangible Assets at Historical Cost	7,545	0	0	6,232	0	13,777
Less Accumulated Amortization for:						
Computer Software	(6,212)			(1,400)		(7,612)
Total Accumulated Amortization	(6,212)	0	0	(1,400)	0	(7,612)
Amortizable Assets, Net	1,333	0	0	4,832	0	6,165
Intangible Right to Use (RTU) Assets - Amortizable						
Buildings and Building Improvements				1,802		1,802
Total Amortizable RTU Assets	0	0	0	1,802	0	1,802
Less Accumulated Amortization for:						
Buildings and Building Improvements				(1,309)		(1,309)
Total Accumulated Amortization RTU Assets	0	0	0	(1,309)	0	(1,309)
Amortizable RTU Assets, Net	0	0	0	493	0	493
Component Units Capital Assets, Net	$ 40,204	$ 0	$ 0	$ 20,883	$ (7,170)	$ 53,917

Table 2C discloses depreciation and amortization by governmental and business-type activities during fiscal 2022. 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 and intangible RTU assets are amortized. Assets are depreciated or amortized over their estimated useful life using the straight-line method. Intangible RTU assets are amortized over the shorter of the lease term or the useful life of the underlying asset. 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, 2022

(Amounts in Thousands)

Services	Governmental Activities	Business-Type Activities
General Government	$ 72,402	$ 412
Education	15,616	2,914,048
Employee Benefits	3	
Health and Human Services	159,356	
Public Safety and Corrections	198,326	547
Transportation	2,396,613	69,046
Natural Resources and Recreation	52,888	7,494
Regulatory Services	9,751	
Lottery		660
Total Depreciation and Amortization Expense	$ 2,904,955	$ 2,992,207

The state's capitalization policy regarding works of art and historical treasures states that capitalization is encouraged, but not required for works of art and historical treasures that meet certain conditions. Works of art and historical treasures not required to be capitalized are those that are:

- Held for public exhibition, education or research in furtherance of public service rather than for financial gain,
- Protected, kept unencumbered, cared for and preserved; and/or
- Subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection.

Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes more than 36.5 million documents and approximately 41 thousand maps dating back to 1561.

Following the guidelines set in GASB Statement No. 42, *Accounting and Financial Reporting for the Impairment of Capital Assets and for Insurance Recoveries*, the Texas Department of Transportation (TxDOT) has reported a significant and unexpected change in the manner or expected duration of the Texas Back Office system (TxBOS), a system designed to provide software, hosting, implementation and data migration for tolls collected through TxTag. Although TxBOS will continue to be in use, both the historical value and the service life have been reduced. The impairment of $2.6 million is reported as a program expense in business type activities on the government-wide statement of activities.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

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

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2022. 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, 2022, 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 87.6 percent of the total investment fair value; this does not include the investments held by the Comptroller's office Treasury Pool, TexPool and TexPool Prime. TRS, PSF, ERS, the UT System and the Texas Prepaid Higher Education Tuition Board (TPHETB) make investments following the prudent investor rule. Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held either by the Comptroller, a Federal Reserve Bank, a Federal Home Loan Bank, the Texas Treasury Safekeeping Trust Company, a state depository bank that has been designated as a custodian by the Comptroller, or by a financial institution authorized to exercise fiduciary powers that has been designated as a custodian by the Comptroller. During fiscal 2022, 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, 2022, the carrying amounts of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.1 billion, $618.7 million and $336.6 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, 2022, the total bank balances for governmental and business-type activities, fiduciary funds and discretely presented component units were $1.2 billion, $599.1 million and $324.4 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, 2022, is presented in table 3A.

Bank Balances Exposed to Custodial Credit Risk

Table 3A

August 31, 2022 (Amounts in Thousands)

Fund Type	Uninsured and Uncollateralized	Uninsured and Collateralized[1]
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 3,409	$
Other Nonmajor Funds	2,754	
Total Custodial Credit Risk - Governmental Activities	6,163	0
BUSINESS-TYPE ACTIVITIES		
College and Universities	2,004	59,853
Other Nonmajor Funds		11
Total Custodial Credit Risk - Business-Type Activities	2,004	59,864
Total Custodial Credit Risk - Government and Business-Type Activities	$ 8,167	$ 59,864
FIDUCIARY FUNDS	$ 520,481	$ 0
COMPONENT UNITS	$ 476,739	$ 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, 2022, is presented in table 3B.

Bank Balances Exposed to Foreign Currency Risk

Table 3B

August 31, 2022 (Amounts in Thousands)

Foreign Currency	Governmental and Business-Type Activities	Fiduciary Funds
Australian Dollar	$ 368	$ 16,630
Botswana Pula		12
Brazilian Real	2,506	13,799
British Pound	1,442	2,015
Canadian Dollar	541	39,436
Chilean Peso	8	35
Chinese Yuan (Offshore)		(1,880)
Chinese Yuan Renminbi	1,277	5,888
Czech Koruna		3,503
Danish Krone	15	5,567
Euro	766	104,869
Hong Kong Dollar	940	11,843
Hungarian Forint	69	13
Indian Rupee		1,060
Indonesian Rupiah	404	47
Israeli New Shekel	450	3,323
Kuwaiti Dinar		4
Japanese Yen	1,351	13,126
Malaysian Ringgit	105	13
Mexican Peso	1,115	(15,182)
New Zealand Dollar	20	637
Norwegian Krone	130	2,104
Philippine Peso	94	
Polish Zloty	39	211
Qatari Rial	474	
Russian Ruble	4	487
Saudi Riyal		834
Singapore Dollar	70	3,789
South African Rand	150	309
South Korean Won	455	32,185
Swedish Krona	614	10,121
Swiss Franc	1,257	17,101
Taiwan Dollar	2,855	1,819
Thai Baht	44	654
Turkish Lira	627	30
United Arab Emirates Dirham	159	4
Total Foreign Currency Risk	$ 18,349	$ 274,406

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 instrument 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 instrument 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, 2022. 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, 2022 are presented in tables 3C, 3D and 3E.

Investments Fair Values

Table 3C: Governmental and Business-Type Activities

August 31, 2022 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 7,797,022	$ 24,349,275	$	$ 32,146,297
U.S. Treasury Strips	162,095			162,095
U.S. Treasury TIPS	2,479,515			2,479,515
U.S. Government Agency Obligations	1,594,391	9,913,800		11,508,191
Corporate Obligations	314,358	6,162,327	22,237	6,498,922
Corporate Asset and Mortgage Backed Securities	29,758	5,628,077		5,657,835
Equity	13,572,567	10,416		13,582,983
International Obligations (Govt and Corp)	11,928	5,136,216	21,162	5,169,306
International Equity	9,642,771	12,722		9,655,493
International Other Commingled Funds	441,823	3,201	242,401	687,425
Repurchase Agreement		793,616		793,616
Mutual Funds - Domestic/International	9,706,855	4,036		9,710,891
Fixed Income Money Market and Bond Mutual Fund	11,817,580	(4)		11,817,576
Other Commingled Funds	8,313,471	123,518	24,457	8,461,446
Commercial Paper	685,357	15,848,949		16,534,306
Invested Collateral		4,718,524		4,718,524
Real Estate	8,804	4,282	18,276,527	18,289,613
Derivatives - Domestic/International	31,335	158,147		189,482
Alternative Investments - Domestic/International	68,754	363,707	827,467	1,259,928
Miscellaneous	417,192	127,282	73,591	618,065
Total Investments at Fair Value	67,095,576	73,358,091	19,487,842	159,941,509
INVESTMENTS AT NAV				
Equity				1,097,284
International Equity				167,012
International Other Commingled Funds				6,401,485
Mutual Funds - Domestic/International				227,300
Fixed Income Money Market and Bond Mutual Fund				1,842,002
Other Commingled Funds				4,236,313
Real Estate				4,682,597
Invested Collateral				32,874
Alternative Investments - Domestic/International				58,048,434
Miscellaneous				1,150,565
Total Investments at NAV				77,885,866
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				8,490
U.S. Government Agency Obligations				19,888
Repurchase Agreement				3,929,987
Fixed Income Money Market and Bond Mutual Fund				333,707
Other Commingled Funds				162,833
Derivatives - Domestic/International				2
Alternative Investments - Domestic/International				41
Miscellaneous				85,028
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				4,539,976
Total of Investments - Governmental and Business-Type Activities				$ 242,367,351

Investments Fair Values

Table 3D: Fiduciary Funds

August 31, 2022 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 27,903,659	$ 5,615,174	$	$ 33,518,833
U.S. Treasury Strips		9,660		9,660
U.S. Treasury Tips	6,638	2,047,287		2,053,925
U.S. Government Agency Obligations		11,340,378		11,340,378
Corporate Obligations	1	1,919,393	8,611	1,928,005
Corporate Asset and Mortgage Backed Securities	5,949	414,150	32	420,131
Equity	23,828,722	25,016	43,354	23,897,092
International Obligations (Govt and Corp)		2,125,368	454	2,125,822
International Equity	29,913,783	474	4,929	29,919,186
International Other Commingled Funds	8,046		5,304	13,350
Repurchase Agreement	6,943	8,249,698		8,256,641
Mutual Funds - Domestic/International	3,211,053			3,211,053
Fixed Income Money Market and Bond Mutual Fund	807,315	1,438		808,753
Other Commingled Funds	474,558	530	598	475,686
Commercial Paper		9,605,622		9,605,622
Invested Collateral		6,701,234	260,998	6,962,232
Real Estate	1,126,916	25,093	43	1,152,052
Domestic/International	(87,672)	(118,511)	11,058	(195,125)
Alternative Investments - Domestic/International		2,642	964,769	967,411
Miscellaneous	442,149	478	75	442,702
Total Investments at Fair Value	87,648,060	47,965,124	1,300,225	136,913,409
INVESTMENTS AT NAV				
Equity				2,857
International Other Commingled Funds				9,806,900
Mutual Funds - Domestic/International				757,616
Fixed Income Money Market and Bond Mutual Fund				651,363
Other Commingled Funds				5,667,974
Invested Collateral				232,559
Real Estate				29,468,093
Alternative Investments - Domestic/International				83,502,327
Miscellaneous				11,137,456
Total Investments at NAV				141,227,145
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
U.S. Treasury Securities				33,425
Repurchase Agreement				767,022
Fixed Income Money Market and Bond Mutual Fund				64,010
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				864,457
Total of Investments - Fiduciary Funds				$ 279,005,011

Investments Fair Values

Table 3E: Discrete Component Units

August 31, 2022 (Amounts in Thousands)

Investment Type	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
INVESTMENTS AT FAIR VALUE				
U.S. Treasury Securities	$ 13,791	$ 285,843	$	$ 299,634
U.S. Government Agency Obligations	33,713	81,974		115,687
Corporate Obligations	251	33,822		34,073
Corporate Asset and Mortgage Backed Securities		81,175		81,175
Equity	91,293	1	7,132	98,426
International Obligations (Govt and Corp)		32,539		32,539
International Equity	43,313			43,313
Mutual Funds - Domestic/International	332,627			332,627
Fixed Income Money Market and Bond Mutual Fund	179,395	22,540		201,935
Other Commingled Funds	339	6,308	69	6,716
Commercial Paper		191,417		191,417
Real Estate			18,437	18,437
Domestic/International		(2,452)		(2,452)
Alternative Investments - Domestic/International		31,445	7,803	39,248
Miscellaneous	6,021	16,730	11	22,762
Total Investments at Fair Value	700,743	781,342	33,452	1,515,537
INVESTMENTS AT NAV				
Equity				34,008
International Other Commingled Funds				16,111
Real Estate				2,328
Alternative Investments - Domestic/International				22,794
Miscellaneous				332,230
Total Investments at NAV				407,471
INVESTMENTS AT AMORTIZED COSTS OR NOT SUBJECT TO GASB STATEMENT NO. 72				
Repurchase Agreement				103,913
Miscellaneous				12,462
Total Investments at Amortized Costs or not subject to GASB Statement No. 72				116,375
Total of Investments - Discrete Components				$ 2,039,383

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

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

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

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

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

The investments reported at NAV per share as of Aug. 31, 2022, including unfunded commitments, is presented in table 3F.

Investments Reported at Net Asset Value (NAV)

Table 3F

August 31, 2022 (Amounts in Thousands)

Investment Type	Fair Value	Redemption Frequency	Redemption Notice Period	Unfunded Commitment
Alternative	$ 15,901,220	Daily - Annually	1 - 180 days	$ 3,914,208
Commingled Funds	27,283,761	Daily - 3yr	1 - 105 days	258,885
Energy, Natural Resources, Infrastructure	17,700,807	Daily	3 days	8,781,876
Fixed Income	2,229,472	Daily	1 days - 90 days	768,095
Hedge Funds	39,595,991	Daily - 3yr	1 day - 1.75yrs	1,904,495
Mutual Funds	3,551,456	Daily - Monthly	1 - 60 days	
Private Equity	69,246,752	Monthly - 5yr	45 days - 1yr	31,582,405
Real Estate	39,843,484	Daily - 5yr	2 days - 1yr	20,297,651
Risk Parity	4,062,331	N/A	N/A	
U.S. Government Obligations	105,208	Monthly	3 days	
Total Investments at Net Asset Value	$219,520,482			$67,507,615

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

Commingled Funds: An external manager pools and invests the funds of several institutional investors. Securities are owned by the overall fund and each investor owns a pro rata share of the fund. The U.S. Securities and Exchange Commission (SEC) does not regulate commingled funds.

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

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

Hedge Funds: Hedge funds may be broadly defined as pooled funds that are not registered with the SEC, are typically available only to institutional investors or individuals with a high net worth and use advanced trading strategies such as leverage, derivative instruments, 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, 2022, is presented in table 3G.

Invested Securities Lending Collateral Fair Value

Table 3G: Governmental and Business-Type Activities

August 31, 2022 (Amounts in Thousands)

	Fair Value Hierarchy			
Investments at Fair Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Corporate Obligations	$	$ 2,770,764	$	$ 2,770,764
Corporate Asset and Mortgage Backed Securities		41,301		41,301
International Obligations (Govt and Corp)		255,375		255,375
Repurchase Agreement		949,704		949,704
Commercial Paper		172,604		172,604
Miscellaneous		528,776		528,776
Total Investments at Fair Value	$ 0	$ 4,718,524	$ 0	$ 4,718,524
Investments At NAV				
Repurchase Agreement				$ 32,874
Total Invested Securities Lending Collateral - Governmental and Business-Type Activities				$ 4,751,398

Concluded on the following page

Invested Securities Lending Collateral Fair Value (concluded)

Table 3G: Fiduciary Funds

August 31, 2022 (Amounts in Thousands)

Investments at Fair Value	Fair Value Hierarchy Level 1	Level 2	Level 3	Total
Corporate Obligations	$	$ 130,004	$	$ 130,004
Corporate Asset and Mortgage Backed Securities		399,674		399,674
Repurchase Agreement		2,552,352		2,552,352
Commercial Paper		3,619,204	110,000	3,729,204
Miscellaneous			150,998	150,998
Total Investments at Fair Value	$ 0	$ 6,701,234	$ 260,998	$ 6,962,232
Investments At NAV				
Repurchase Agreement				$ 232,559
Total Invested Securities Lending Collateral - Fiduciary Funds				$ 7,194,791

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, 2022, is presented in table 3H.

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

The investments exposed to foreign currency risk as of Aug. 31, 2022, is presented in table 3I.

Investments Exposed to Custodial Credit Risk

Table 3H

August 31, 2022 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered: Securities Held by Counterparty	Securities Held by Counterparty's Trust Department or Agent[1]
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Obligations	$	$ 2,733,389
Corporate Asset and Mortgage Backed Securities		41,301
Repurchase Agreement		401,262
Miscellaneous		554,480
Subtotal Custodial Credit Risk - Governmental Activities	0	3,730,432
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
U.S. Treasury Securities	86,713	
Equity	8,711	
Subtotal Custodial Credit Risk - Business-Type Activities	95,424	0
Total Custodial Credit Risk	$ 95,424	$ 3,730,432

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

Investments Exposed to Foreign Currency Risk

Table 3I

August 31, 2022 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds				Component Units
Foreign Currency	**International Obligations**	**International Equity**	**International Other Commingled Funds**	**Other Investments**	**International Obligations**	**International Equity**	**International Other Commingled Funds**	**Other Investments**	**Other Investments**
Argentine Peso	$	$	$	$	$	$ 1	$	$	$
Australian Dollar	69,150	306,010	2,855	165,062	239,683	1,128,860	335	104,440	
Botswana Pula						87			
Brazilian Real	72,333	328,673	7,150	6,356	4,412	391,745			
British Pound	121,730	848,990	(5,356)	449,226	808,294	2,810,213	1,907	851,539	627
Canadian Dollar	83,349	542,062	(4,183)	197,446	52	1,932,276	558		
Chilean Peso		9,610	17			21,940			
Chinese Yuan (Offshore)	25								
Chinese Yuan Renminbi	65,595	255,316	5,493		2	344,936			
Colombian Peso	70,876	3,216	380			4,105			
Czech Koruna	7,468	2,624	(86)			25,217			
Danish Krone	24,925	140,735	111			454,288	333		
Dominican Republic Peso						5			
Egyptian Pound		1,850	1			3,143			
Euro	263,971	1,568,169	(1,667)	1,326,718	469,926	4,787,831	687,038	4,971,646	74
Hong Kong Dollar		642,441	1,620			2,799,947	58		
Hungarian Forint	6,261	4,022				4,831			
Indian Rupee	1	49,015	577		1	1,687,825	415		
Indonesian Rupiah	29,436	63,600	1,322		61	402,627			
Israeli New Shekel	27,828	21,598	19			113,814			
Japanese Yen	397,540	1,195,300	13,553	29,582		4,369,224	763		
Kazakhstan Tenge						3			
Kuwaiti Dinar						66,879			
Malaysian Ringgit	27,857	33,811	1,336			66,740			
Mexican Peso	186,957	43,079	(228)		157	387,261			
Moroccan Dirham						2			
New Zealand Dollar	10,959	9,604	(673)			33,076			
Nigerian Naira						5			
Norwegian Krone	36,044	46,474	192			275,845			
Omani Rial						3			
Pakistan Rupee						1			
Panamanian Balboa						10			
Peruvian Nuevo Sol	10,976	123				33			
Philippine Peso		15,699	4			25,093			
Polish Zloty	31,256	16,398	6			125,090			
Qatari Rial		25,501	8			80,271			
Romanian Leu	7,436								
Russian Ruble	9,426	4							
Saudi Riyal		80,322				393,562			
Singapore Dollar	48,061	59,099	398			260,308			
South African Rand	58,361	68,580	2,922			373,104			
South Korean Won	102,939	430,970	5,868			1,149,745		28	
Sri Lankan Rupee						2			
Swedish Krona		147,207	(111)	52,544		446,280	630		
Swiss Franc		490,588	(2,632)			1,190,132	302		
Taiwan Dollar		563,701	1,538			1,318,447	157		
Thai Baht		55,924	318			232,006			
Turkish Lira		7,824				29,926			
United Arab Emirates Dirham		28,183	10			104,179			
Uruguayan Peso						1			
Vietnamese Dong						5			
Total Foreign Currency Risk	$ 1,770,760	$ 8,106,322	$ 30,762	$ 2,226,934	$ 1,522,588	$ 27,840,924	$ 692,496	$ 5,927,653	$ 701

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 derivative instruments, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. The net fair value of all over-the-counter derivative instrument positions, less collateral posted, may not exceed $500 million and all over-the-counter derivative instrument positions without collateral may not exceed 5 percent of the total fair value of the fund. Repurchase agreements may not exceed 5 percent of the fair 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 fair 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, 2022, is presented in table 3J.

Investments Exposed to Credit Risk[1]

Table 3J: Governmental and Business-Type Activities

August 31, 2022 (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	$ 1,036,901	$ 160,086	$ 3,894,471	$ 2,709,623	$ 240,076	$	$	$ 453,010	$ 8,494,167
AA	13,986,187	2,777,618	178,292	161,841	2,667,657			74,559	19,846,154
A	15,522	3,090,680	138,950	161,695				16,838	3,423,685
BBB	8,586	1,688,800	152,312	421,464				3,407	2,274,569
BB	2,516	699,935	6,481	198,781				4,287	912,000
B	134	653,324	10,518	63,602					727,578
CCC		103,238	7,839	8,949					120,026
CC		744	1,416						2,160
C		3,239							3,239
D		618	1,040	250					1,908
AAAf						15,776,006			15,776,006
AAAm						2,721,953			2,721,953
Aaf						207,621			207,621
Af						48,697			48,697
BBBf						74,175			74,175
BBf						67,082			67,082
Bf						78,701			78,701
CCCf						11,610			11,610
A-1							16,405,578		16,405,578
A-3							1,623		1,623
Not Rated	80,750	56,694	1,307,818	1,249,550	983,131	8,245,356		694,666	12,617,965
Total Credit Risk	$ 15,130,596	$ 9,234,976	$ 5,699,137	$ 4,975,755	$ 3,890,864	$ 27,231,201	$ 16,407,201	$ 1,246,767	$ 83,816,497

[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, 2022 (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	$ 8,381	$ 10,647	$ 305,026	$ 467,097	$ 556,752	$	$	$ 329,194	$ 1,677,097
AA	14,224,270	172,640	5,157	963,953	8,458,914			1,527,728	25,352,662
A	4	26,476	6,521	931				6,385	40,317
BBB	50	82,636	2,819	172,458				31	257,994
BB	10	891,717	275	180,940				25,093	1,098,035
B	1	607,674	701	191,903					800,279
CCC		83,695	26	49,584					133,305
CC			7						7
C			32						32
D		3,619	5	1,464					5,088
AAAf						1,070,283			1,070,283
AAAm						8,315			8,315
Af						24,409			24,409
BBBf						31,494			31,494
BBf						9,235			9,235
Bf						14,547			14,547
CCCf						4,607			4,607
A-1							9,608,397		9,608,397
Not Rated	20,133	48,901	99,563	82,517	1,056	33,775		803,896	1,089,841
Total Credit Risk	$ 14,252,849	$ 1,928,005	$ 420,132	$ 2,110,847	$ 9,016,722	$ 1,196,665	$ 9,608,397	$ 2,692,327	$ 41,225,944
DISCRETE COMPONENT UNITS									
AAA	$ 30,382	$ 1,522	$ 68,782	$ 29,566	$ 69,002			$ 262,980	$ 462,234
AA	94,702	24,746		813	30,340				150,601
A		2,422						26,207	28,629
BBB		5,132							5,132
AAAf						125,755			125,755
A-1							191,417		191,417
Not Rated	6,080	251	12,394		6	137,028	41	24,780	180,580
Total Credit Risk	$ 131,164	$ 34,073	$ 81,176	$ 30,379	$ 99,348	$ 262,783	$ 191,458	$ 313,967	$ 1,144,348

[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 fair 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, 2022, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and the UT System use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option-adjusted measure of an instrument's sensitivity to changes in interest rates. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio to be consistent with the Bloomberg Aggregate Bond Index's duration and the duration of the real return portfolio to be consistent with the Bloomberg's Capital U.S. Treasury Inflation Protected Securities (TIPS) Index. As of Aug. 31, 2022, the Bloomberg's Aggregate Bond Index duration was 6.4 years, the Bloomberg's TIPS Index was 5.5 years , the Bloomberg's Capital U.S. Long Treasury Total Return Index was 17 years, the Bloomberg's Capital U.S. 1-3 Year Aggregate Total Return index was 1.9 years and the JPM GBI-EM Global Diversified Index was 5 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, 2022, is presented in table 3K.

Investments Exposed to Interest Rate Risk

Table 3K: Permanent School Fund

August 31, 2022 (Amounts in Thousands)

PSF Investment Type	Fair Value	Effective Weighted Duration Rate
Asset Backed Securities	$ 20,084	3.03
Collateralized Loan Obligations	112,602	0.06
Commercial Mortgage Backed Securities	54,574	4.36
Corporate Obligations	1,208,609	7.66
Non-Agency Mortgage Backed Securities	250,385	8.73
Non-U.S. Government Agency Obligations	30,115	3.03
Non-U.S. Sovereign Government Debt	63,967	7.13
U.S. Government Agency:		
Commercial Mortgage Backed Securities	35,419	2.81
Mortgage Backed Securities	691,467	6.84
Obligations	97,794	5.81
U.S. Taxable Municipal Bonds	69,683	7.33
U.S. Treasury Securities	1,883,880	6.60
Total PSF Fixed Income Portfolio	$ 4,518,579	6.78
Real Return - U.S. Treasury TIPS Portfolio	$ 700,574	5.80
Real Return Securities - U.S. Treasury Securities	$ 53,922	11.11
Real Return Commodities - U.S. Treasury Securities	$ 73,685	0.60
U.S. Treasury Treasuries Portfolio U.S. Treasury Securities Treasuries	$ 1,132,475	16.83
High Yield Bonds	$ 1,037,738	4.46
Emerging Market Debt Portfolio	$ 1,192,326	5.06

Concluded on the following page

Investments Exposed to Interest Rate Risk (concluded)

Table 3K: Permanent School Fund

August 31, 2022 (Amounts in Thousands)

PSF Investment Type	Fair Value	Effective Weighted Duration Rate
Liquid Investment Type		
Asset Backed Securities	$ 22,634	2.54
Collateralized Loan Obligations	15,391	0.09
Commercial Mortgage Backed Securities	7,946	2.09
Corporate Obligations	222,396	2.33
Non-Agency Mortgage Backed Securities	29,099	7.96
Non-U.S. Government Agency Obligations	8,799	1.03
U.S. Government Agency Obligations	4,899	11.05
U.S. Government Mortgage Backed Securities	36,592	7.37
U.S. Taxable Municipal Bonds	3,761	0.82
U.S. Treasury Securities	364,160	0.91
Total Liquid Fixed Income Portfolio	$ 715,677	2.08
Core Bond Portfolio Investment Type		
Commercial Mortgage Backed Securities	$ 7,568	4.57
Corporate Obligations	120,223	7.46
U.S. Government Agency Obligations	20,513	3.53
U. S. Government Agency Mortgage Backed Securities	114,913	6.19
U.S. Taxable Municipal Securities	13,800	8.40
U. S. Treasury Securities	226,797	5.87
Total Core Fixed Income	$ 503,814	6.28
U. S. Treasury TIPS	$ 190,843	6.24

Information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type as of Aug. 31, 2022, is presented in table 3L.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

Table 3L: Permanent School Fund

August 31, 2022 (Amounts in Thousands)

		Investment Maturities	
Investment Type	Fair Value	Less Than One Year	Greater Than One Year
Asset Backed Floating Rate Notes	$ 41,301	$ 1,833	$ 39,468
Certificates of Deposit	8,650	8,650	
Floating Rate Notes	2,733,389	2,725,807	7,582
Repurchase Agreements	401,262	401,262	
Time Deposits	545,830	545,830	
Total Interest Rate Risk	$ 3,730,432	$ 3,683,382	$ 47,050

TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2022, is presented in table 3M.

Investments Exposed to Interest Rate Risk

Table 3M: Teacher Retirement System of Texas

August 31, 2022 (Amounts in Thousands)

TRS Investment Type	Fair Value	Effective Weighted Duration Rate
U.S. Government Obligations	$ 24,224,368	17.00
U.S. Government STRIPS and TIPS	2,056,947	7.05
International Government Obligations	1,517,893	9.40
International Corporate Obligations	1	1.70
Total Interest Rate Risk	$ 27,799,209	15.85

ERS' investments by investment type, fair value and the modified duration rate as of Aug. 31, 2022, is presented in table 3N.

Investments Exposed to Interest Rate Risk

Table 3N: Employees Retirement System of Texas

August 31, 2022 (Amounts in Thousands)

Investment Type	Fair Value	Modified Duration Rate
FIDUCIARY FUNDS		
U.S. Treasury Securities	$ 2,903,000	4.66
U.S. Government Agency Obligations	732,617	5.74
Corporate Obligations	1,709,703	3.53
Corporate Asset and Mortgage Backed Securities	22,771	3.50
International Obligations	371,282	2.91
Real Estate Investment Trust	25,093	3.02
Money Market and Bond Fund	28,226	4.61
Total Interest Rate Risk - Fiduciary Funds	$ 5,792,692	4.34
PROPRIETARY FUNDS		
U.S. Treasury Securities	$ 1,074,112	4.66
U.S. Government Agency Obligations	271,069	5.74
Corporate Obligations	291,763	3.53
Corporate Asset and Mortgage Backed Securities	7,489	3.14
International Obligations	63,360	2.91
Real Estate Investment Trust	4,282	3.02
Money Market and Bond Fund	4,817	4.61
Total Interest Rate Risk - Proprietary Funds	$ 1,716,892	4.56

The UT System's investments by investment type, fair value and the modified duration rate as of Aug. 31, 2022, is presented in table 3O.

Investments Exposed to Interest Rate Risk

Table 3O: University of Texas System

August 31, 2022 (Amounts in Thousands)

Investment Type - Investments in Securities	Fair Value	Modified Duration Rate
U.S. Government Guaranteed:		
U.S. Treasury Bills	$ 9,499	0.18
U.S. Treasury Bonds and Notes	1,922,123	11.26
U.S. Treasury Inflation Protected	1,605,785	7.10
U.S. Agency Asset Backed	676	0.65
Total U.S. Government Guaranteed	3,538,083	9.34
U.S. Government Non-Guaranteed:		
U.S. Agency	55,790	7.03
U.S. Agency Asset Backed	247,117	7.34
Total U.S. Government Non-Guaranteed	302,907	7.28
Total U.S. Government	3,840,990	9.17
Corporate Obligations:		
Domestic	762,633	5.43
Foreign	392,473	2.89
Total Corporate Obligations	1,155,106	4.57
Debt Securities:		
Foreign Government and Provincial Obligations	1,604,521	6.47
Other Debt Securities	11,674	6.15
Total Debt Securities	6,612,291	7.71
Other Investments:		
Other Investment Funds – Debt	148,649	1.65
Fixed Income Money Market Funds	3,354,917	0.33
Reverse Repurchase Agreements	257,900	0.00
Total Interest Rate Risk	$ 10,373,757	5.04

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, 2022, 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 $1.9 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, 2022, the Treasury's aggregate amount of reverse repurchase agreement obligations was $5.2 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $5.2 million. There was no credit exposure during fiscal 2022.

Securities Lending

TRS, PSF, ERS, UT System and the Veterans Land Board (VLB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and the UT System established their own separately managed securities lending programs. VLB participates in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. TRS, ERS, the UT System and VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities. However, the required percentage is 102 percent for foreign securities denominated and payable in U.S. dollars. There is a simultaneous agreement to return the collateral for the same securities in the future.

The custodians of the securities are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify TRS, PSF, ERS, UT System and VLB if the borrowers fail to return the securities.

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

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. The overall securities lending activity as of Aug. 31, 2022, is presented in table 3P.

Securities Lending Activity Summary

Table 3P

August 31, 2022 (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	$ 7,748,304	$ 752,868	$ 6,962,586	$ 6,957,898	$ (4,688)
ERS	258,690		264,791	265,433	642
PSF	3,633,562	107,854	3,734,875	3,730,432	(4,443)
UT System[1,2]	1,075,165	123,809	992,426	992,425	(1)
Total Securities Lending	$ 12,715,721	$ 984,531	$ 11,954,678	$ 11,946,188	$ (8,490)

[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 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, 2022.

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 instrument levels and types are monitored to ensure that portfolio derivative instruments 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, 2022, TRS, PSF, the UT System, Texas A&M University System (A&M System), Texas Tech University System (TTU System) and VLB held investment derivative instruments (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 fair 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, 2022, 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 derivative instruments 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 investment derivative instruments. Investment derivative instruments exposed to foreign currency risk as of Aug. 31, 2022, is presented in table 3Q.

Investment Derivative Instruments Exposed to Foreign Currency Risk

Table 3Q

August 31, 2022 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary Funds		
Foreign Currency	Swaps	Options	Futures	Forwards	Swaps	Futures	Forwards
Argentine Peso							
Australian Dollar	1,815		53	3,207	467	7,346	(1,917)
Brazilian Real		(236)	(4)	(3,344)	87	(1,161)	(178)
British Pound	(11,524)	(38)	1,097	6,220	(816)	(13,976)	22,702
Canadian Dollar	(5,362)		315	1,248		(10,497)	499
Chilean Peso				635			(349)
Chinese Yuan (Offshore)							1,068
Chinese Yuan Renminbi	253			3,313	2,158		503
Colombian Peso				323			842
Czech Koruna	(116)			343			170
Danish Krone				387			7
Euro	(40,129)	(1,025)	3,092	6,709	(11,699)	(44,631)	24,891
Hong Kong Dollar					2,622	(2,590)	9
Hungarian Forint				(647)			(138)
Indian Rupee	183			(6)			161
Indonesian Rupiah				(50)			53
Israeli New Shekel				(49)			(152)
Japanese Yen	(143)		(82)	31,152		905	(1,171)
Malaysian Ringgit	455			1,396			
Mexican Peso	(261)			(936)	(11,332)		1,109
New Zealand Dollar	(875)			2,557			357
Norwegian Krone				(166)			(1,069)
Peruvian Nuevo Sol				(394)			
Philippine Peso				83			160
Polish Zloty				220			(169)
Romanian Leu				238			39
Singapore Dollar	(146)			188		(1,401)	(12)
South African Rand	19			2,013		(567)	(514)
South Korean Won	(1,284)			4,359		(8,964)	(321)
Swedish Krona	(196)			(1,677)		(4,987)	(827)
Swiss Franc	(4,033)			285			(554)
Taiwan Dollar				10			556
Thai Baht	316			1,066			(2,246)
Turkish Lira				(22)			(53)
Total Foreign Currency Risk	$ (61,028)	$ (1,299)	$ 4,471	$ 58,661	$ (18,513)	$ (80,523)	$ 43,456

Credit Risk: TRS and the UT System instituted policies to mitigate counterparty credit risk for investment derivative instruments 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 fair value of all over-the-counter 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, 2022, was $315.3 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, 2022, if all counterparties failed to perform as contracted. This maximum exposure is reduced by $260.8 million of collateral held and by $229.6 million in liabilities included in netting arrangements with those counterparties, resulting in a negative $175.1 million net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, the UT System and VLB are exposed to interest rate risk on swap transactions. Investments in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 131.3 percent of the Securities Industry and Financial Markets Association (SIFMA) index. Investments in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rates (Euro Interbank Offered Rate (EURIBOR), London Interbank Offered Rate (LIBOR), Stockholm Interbank Offered Rate, Bank Bill Swap Rate or Canadian Dollar Offered Rate) and receipt of 0 to 7 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 percent. The investment maturities for the state's swap contracts exposed to interest rate risk as of Aug. 31, 2022, is presented in table 3R.

Investment Derivative Instruments Exposed to Interest Rate Risk

Table 3R

August 31, 2022 (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	$(109,690,443)	$(15,099,860)	$(26,449,995)	$(35,800,535)	$(35,324,744)	$2,984,691

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, 2022, the fair value of various investment funds was $143.8 billion.

Note 4

Short-Term Debt

The Texas Workforce Commission (TWC) received temporary transfers (loans) for $304.9 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 2022.

In fiscal 2020, the Texas Unemployment Trust Fund became insolvent due to a significant amount of state benefits being paid. The TWC borrowed funds from the United States Treasury, under Title XII of the Social Security Act interest free through Sept. 6, 2021. The amount borrowed totaled $6.9 billion as of Aug. 31, 2021. The entire loan was paid off by November 24, 2021.

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, 2022, $189.8 million was available for use in the line of credit and the balance outstanding was $60.2 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 value that was false in any material respect,
- Issuance of any tax, levy, seizure, attachment, garnishment, levy of execution or other legal process with respect to the collateral,
- Suspension of payment made by the TDHCA to any creditor or any event that results in the acceleration of any of its indebtedness,
- The appointment of a conservator or receiver for the TDHCA under federal bankruptcy laws,
- The sale by the TDHCA of all or material part of its assets,
- The cessation of the TDHCA to be a type of institution that is eligible to become a borrower of FHLB,
- The merger or consolidation or other combination by the TDHCA with any other non-eligible entity and
- FHLB reasonably and in good faith determines that a material adverse change has occurred in the financial condition of the TDHCA and FHLB deems itself insecure even though the TDHCA is not otherwise in default.

The Texas Tech University System issued commercial paper notes for $27.1 million to serve as an interim financing source for long-term construction projects in advance of issuing authorized bonds. As of Aug. 31, 2022, $75.9 million remained outstanding.

The University of North Texas System issued commercial paper notes for $37.1 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, 2022, $92.7 million matured and $20.5 million remained outstanding.

The Texas State University System issued commercial paper notes for $378.4 million to finance various construction projects. As of Aug. 31, 2022, $314.4 million matured and $90.3 million remained outstanding.

The University of Houston System issued commercial paper notes for $13.4 million in fiscal 2022 to finance various capital projects. As of Aug. 31, 2022, $14.5 million matured and $34.7 million remained outstanding.

The University of Texas System issued commercial paper notes for $883.4 million to provide interim financing for capital improvements and to finance capital equipment purchases. As of Aug. 31, 2022, $985.7 million matured and $1.8 billion remained outstanding.

Short-term debt activity as of Aug. 31, 2022, is presented in table 4A.

Short-Term Debt

Table 4A

August 31, 2022 (Amounts in Thousands)

Short-Term Debt Type	Beginning Balance 9/1/21	Issued	Redeemed	Ending Balance 8/31/22
Commercial Paper	$ 2,078,160	$ 1,339,379	$ 1,407,304	$ 2,010,235
Other Advances (Loans) -				
Direct Borrowings	6,970,309	5,106,389	12,016,517	60,181
General Revenue Advances		304,862	304,862	
Total Short-Term Debt	$ 9,048,469	$ 6,750,630	$ 13,728,683	$ 2,070,416

Note 5

Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended Aug. 31, 2022, is presented in table 5A.

Long-Term Liabilities Activity

Table 5A

August 31, 2022 (Amounts in Thousands)

Fund Type	Balance 9/1/21	Restatements /Adjustments[1]	Additions[2]	Reductions	Balance 8/31/22	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES							
Claims and Judgments	$ 86,894	$	$ 37,709	$ 41,987	$ 82,616	$ 42,930	$ 39,686
Capital Lease Obligations	8,453	(8,453)					
RTU Lease Obligations[3]		17,243	846,405	64,645	799,003	174,761	624,242
Employees' Compensable Leave	985,662	(4,158)	1,556,812	1,536,022	1,002,294	691,752	310,542
Notes and Loans Payable	958,411	7,028	284,940	484,391	765,988	157,714	608,274
Notes and Loans – Direct Borrowings/Placements	321,896	1	1,399		323,296		323,296
General Obligation Bonds Payable	14,057,687	(75,796)	953,440	979,604	13,955,727	726,232	13,229,495
General Obligation Bonds Payable – Direct Placements	282,942	(1,986)			280,956	1,986	278,970
Revenue Bonds Payable	4,498,868	110,892		309,290	4,300,470	351,342	3,949,128
Revenue Bonds Payable – Direct Borrowings/Placements	150,000	(150,000)					
Asset Retirement Obligation	2,031		167		2,198		2,198
Pollution Remediation Obligation	245,253	1	68,495	73,058	240,691	45,170	195,521
Total Governmental Activities	$ 21,598,097	$ (105,228)	$ 3,749,367	$ 3,488,997	$ 21,753,239	$ 2,191,887	$ 19,561,352
BUSINESS-TYPE ACTIVITIES							
Claims and Judgments	$ 199,473	$	$ 1,757,522	$ 1,711,810	$ 245,185	$ 192,854	$ 52,331
Capital Lease Obligations	179,162	(179,162)					
Capital Lease – Direct Borrowings/Placements	118,533	(118,533)					
RTU Lease Obligations[3]		942,492	401,894	136,984	1,207,402	139,371	1,068,031
Employees' Compensable Leave	1,133,233		506,934	473,967	1,166,200	522,631	643,569
Notes and Loans Payable	841,139		702,700	69,499	1,474,340	811,637	662,703
Notes and Loans Payable – Direct Borrowings/Placements	325,385	48,422	170,072	17,476	526,403	46,819	479,584
General Obligation Bonds Payable	3,899,210	854	698,315	714,181	3,884,198	267,316	3,616,882
General Obligation Bonds Payable – Direct Placements	81,010			22,960	58,050	15,460	42,590
Revenue Bonds Payable	36,469,882	(127,381)	2,561,019	1,514,874	37,388,646	2,614,112	34,774,534
Revenue Bonds Payable – Direct Borrowings/Placements	430,823	225,000	104,190	68,863	691,150	17,582	673,568
Asset Retirement Obligation	33,340		1,862		35,202	20	35,182
Pollution Remediation Obligation	1,530				1,530		1,530
Liabilities Payable From Restricted Assets	2,114,249		77,275	277,457	1,914,067	512,824	1,401,243
Total Business-Type Activities	$ 45,826,969	$ 791,692	$ 6,981,783	$ 5,008,071	$ 48,592,373	$ 5,140,626	$ 43,451,747
COMPONENT UNITS							
Capital Lease Obligations	$ 282	$ (282)	$	$	$	$	$
RTU Lease Obligations[3]			1,802	1,299	503	503	
Employees' Compensable Leave	3,350		1,067	860	3,557	1,859	1,698
Notes and Loans Payable	4,075	282	125	2,145	2,337	149	2,188
Notes and Loans Payable – Direct Borrowings/Placements	227,200		4,200	54,400	177,000	54,400	122,600
Revenue Bonds Payable	39,017	(567)		19,665	18,785	385	18,400
Liabilities Payable From Restricted Assets	223			19	204		204
Total Component Units	$ 274,147	$ (567)	$ 7,194	$ 78,388	$ 202,386	$ 57,296	$ 145,090

[1] Includes current year amortization for premiums and discounts. An additional $28.9 million in bond issuances were reclassified and not depicted as other financing sources related to long-term debt.

[2] Includes current year amortization of accretion of $12.5 million for governmental and $63.4 million for business-type activities. An additional $28.9 million in bond issuances were reclassified and not depicted as other financing sources related to long-term debt.

[3] RTU Lease Obligations have no beginning balances because of the implementation of GASB Statement No. 87, Leases.

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 2022, TxDOT recognized an additional $11.1 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, 2022 was $528.9 million. See Note 15, *Commitments and Contingencies,* 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, 2022 was $24 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, 2022, two notes and loans payable - direct borrowings agreements are outstanding for TxDOT. The outstanding balance related to governmental activities of $323.3 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, 2022 was $615.9 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 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, 2022 was $177 million. Redemptions are either 100 percent of the principal amount or the sum of the present value of the remaining schedule of principal and interest payments.

Stephen F. Austin State University's (SFA) notes and loans payable - direct placements related to business-type activities as of Aug. 31, 2022 totaled $7.2 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, 2022 was $421.8 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, 2022 was paid in full.

The Texas Department of Housing and Community Affairs (TDHCA) has one notes and loans payable - direct borrowings in the amount of $10 million and 12 notes and loans payable - direct placements in the amount of $392.9 million as of Aug. 31, 2022 related to business-type activities. TDHCA's notes and loans payable - direct borrowings is a subordinate lien obligation to provide funding for down payment assistance in connection with Texas Homeownership Programs. The TDHCA Series 2016 Issuer Note has a loan agreement with Woodforest National Bank secured by the RMRB Indenture. It contains the following events of default:

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

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

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

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

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

Texas Public Finance Authority (TPFA) notes and loans payable consists of three notes. TPFA Series 2008 general obligation (GO) commercial paper notes were issued to fund up to $1 billion to finance various projects authorized by Senate Bill 2033/Senate Joint Resolution 65, 80th Leg., R.S. (2007) (Texas Constitution, Article III, Sec. 50-g). The proposed constitutional amendment and general obligation bond authorization was approved by voters on November 6, 2007 (Section 50-g). As set out in Section 50-g and its enabling statute (Government Code, Sec. 1232.1116), the TPFA is authorized to issue GO debt to finance projects for various agencies for projects authorized by the Legislature in an appropriations act or other legislation. None of Series 2008 commercial paper notes were outstanding as of Aug. 31, 2022.

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. $41.7 million of Series 2019A&B was outstanding as of Aug. 31, 2022.

TPFA's Cancer Prevention and Research Institute of Texas (CPRIT) Series A and Series B GO commercial paper notes were issues to fund the $3 billion in GO debt authorized by the 80th Legislature to finance cancer research grants (Texas Constitution, Article III, Sec. 67). The constitutional amendment was approved by voters on November 6, 2007. $66.3 million of CPRIT Series A commercial paper notes were outstanding as of Aug. 31, 2022.

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

University of Texas System (UT System) notes and loans payable provide for financing for the construction of the Moncrief Cancer Center building at Southwestern Medical Center. The note was issued on Aug. 8, 2011 and renewed on Aug. 31, 2021. The outstanding balance as of Aug. 31, 2022 was $436.7 million.

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

Texas State Affordable Housing Corporation notes and loans payable consist of 6 unsecured notes and 4 notes secured by mortgage backed securities and note receivable. The total outstanding balance as of Aug. 31, 2022 was $2.1 million.

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

Debt service requirements for notes and loans payable and notes and loans payable from direct borrowings and direct placements in long-term liabilities as of Aug. 31, 2022, are presented in tables 5B, 5C and 5D.

Notes and Loans Payable – Debt Service Requirements

Table 5B: Governmental Activities

August 31, 2022 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings Principal	Direct Borrowings Interest	Direct Borrowings Total
2023	$ 157,714	$ 12,586	$ 170,300	$	$ 8,341	$ 8,341
2024	114,528	11,984	126,512		8,353	8,353
2025	90,810	11,514	102,324		8,330	8,330
2026	82,187	12,083	94,270		8,341	8,341
2027	104,723	49,991	154,714	823	8,341	9,164
2028-2032	151,320	32,099	183,419	28,399	40,523	68,922
2033-2037	52,786	13,546	66,332	62,534	35,070	97,604
2038-2042	11,920	487	12,407	106,521	24,900	131,421
2043-2047				58,534	13,184	71,718
2048-2052				66,485	5,233	71,718
Subtotal	765,988	144,290	910,278	323,296	160,616	483,912
Unamortized Accretion						
Total Debt Service Requirements	$ 765,988	$ 144,290	$ 910,278	$ 323,296	$ 160,616	$ 483,912

Notes and Loans Payable – Debt Service Requirements

Table 5C: Business-Type Activities

August 31, 2022 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements Principal	Direct Borrowings/Direct Placements Interest	Direct Borrowings/Direct Placements Total
2023	$ 811,637	$ 34,679	$ 846,316	$ 46,819	$ 20,818	$ 67,637
2024	9,306	8,551	17,857	10,652	19,924	30,576
2025	9,631	8,226	17,857	20,890	19,589	40,479
2026	9,966	7,890	17,856	11,188	18,720	29,908
2027	10,312	7,542	17,854	21,255	19,243	40,498
2028-2032	57,222	32,053	89,275	43,888	86,535	130,423
2033-2037	67,927	21,346	89,273	109,706	72,668	182,374
2038-2042	80,639	8,634	89,273	194,756	33,232	227,988
2043-2047				8,399	10,493	18,892
2048-2052					9,762	9,762
2053-2057				20,000	8,037	28,037
2058-2062	417,700		417,700	38,850	1,742	40,592
Subtotal	1,474,340	128,921	1,603,261	526,403	320,763	847,166
Unamortized Accretion						
Total Debt Service Requirements	$ 1,474,340	$ 128,921	$ 1,603,261	$ 526,403	$ 320,763	$ 847,166

Notes and Loans Payable – Debt Service Requirements

Table 5D: Discrete Component Units

August 31, 2022 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Direct Placements Principal	Direct Borrowings/Direct Placements Interest	Direct Borrowings/Direct Placements Total
2023	$ 149	$ 82	$ 231	$ 54,400	$ 7,301	$ 61,701
2024	826	46	872	58,900	5,057	63,957
2025	568	28	596	63,700	2,628	66,328
2026	277	17	294			
2027	517	2	519			
Total Debt Service Requirements	$ 2,337	$ 175	$ 2,512	$ 177,000	$ 14,986	$ 191,986

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, *Bonded Indebtedness*.

Lease Obligations and Financing Contracts

GASB Statement No. 87, *Leases,* effective fiscal year 2022, establishes a single model for lease accounting based on the principal that leases are financings of the right to use an underlying asset. These underlying assets are presented in Note 2, *Capital Assets.* The single model eliminated the distinction between these two types of leases. Under GASB Statement No. 87, a lessee is required to recognize a right-to-use (RTU) lease obligation and an intangible RTU lease asset. The RTU lease obligations are presented in Table 5A. For more information on leases, see Note 8, *Leases.*

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain termination options is now reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor. These financing agreements are now considered to be long-term liabilities and reported in Note 5.

Several state universities have entered into long-term financing contracts for the purchase of certain capital assets. Such contracts are classified as notes and loans payable - direct borrowing for accounting purposes and are recorded at the present value of the future minimum payments. These financing contracts are secured by the underlying assets. These universities include Texas State Technical College (TSTC), the University of Houston system (UH System), the Texas A&M University System (A&M System) and the University of Texas System (UT System).

TSTC entered into long-term contracts for financing the purchase of certain capital assets. Such contracts are classified and notes and loans payable - direct borrowing for accounting purposes and are recorded at the present value of the future minimum payments at the inception of the contract. Financing contracts are secured by the underlying asset.

A&M System has various contracts to purchase vehicles, software and equipment where the system takes ownership at the end of the contract. These direct borrowing arrangements are capitalized at the present value of future minimum payments. The outstanding contracts related to equipment and software contain provisions where in the event of default all remaining payments may be declared immediately due or the seller may repossess the assets. In the case of software, the seller 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 seller 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 A&M System to return the asset at the system's expense.

UT System entered into long-term contracts for financing the purchase of certain capital assets. Such contracts are classified as notes and loans payable - direct borrowings for accounting purposes. They are recorded at the present value of the future minimum payments at the inception of the contract.

The University of Houston System (UH System) entered into a direct placement financing agreement with the City of Pearland, Texas for the use and benefit of UH-Clear Lake. The contract contains provisions in case of default, UH System will be liable for:

- Damages equal to the total of the cost of recovering the contracted premises
- Cost of removing and storing personal property
- Unpaid amount earned at the time of contract termination plus interest
- Present value (discounted at 8 percent per annum) of the balance due for the remainder of the contract 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 contract.

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. For more information, see Note 17, *Risk Management.*

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, 2022, is presented in Table 5E.

Pledged Future Revenue

Table 5E

August 31, 2022 (Amounts in Thousands)

Description of Debt Issue	Future Pledged Revenue*	Current Year Pledged Revenue	Current Year Principal and Interest Paid	Term of Commitment Fiscal Year Ended	Percentage of Revenue Pledged
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds Payable and					
General Obligation Bonds Payable - Direct Placement	$ 8,653,704	$ 509,390	$ 378,405	2044	100%
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	4,274,632	9,226,477	486,420	2052	100%
Notes and Loans Payable and					
Notes and Loans Payable – Direct Borrowings/Placements	1,106,314	5,920	5,994	2052	100%
Total Governmental Activities	$ 14,034,650	$ 9,741,787	$ 870,819		
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	$ 56,456,483	$ 24,594,965	$ 2,571,553	2062	100%
Notes and Loans Payable and					
Notes and Loans Payable – Direct Borrowings/Placements	630,552		25,222	2023	99%
Total Business-Type Activities	$ 57,087,035	$ 24,594,965	$ 2,596,775		
COMPONENT UNITS					
Revenue Bonds Payable and					
Revenue Bonds Payable – Direct Placements	$ 27,281	$ 25,783	$ 20,840	2052	100%
Total Component Units	$ 27,281	$ 25,783	$ 20,840		

* 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, 2022, there were 246 active state lead sites, with a total estimated pollution remediation obligation of $51.4 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 year 2022 resulted in collections of $70.8 thousand.

At the end of fiscal year 2022, Texas had 70 sites with pollution remediation obligations and federal Superfund programs and zero sites that required an immediate response or removal action. The current total Superfund liability, as of Aug. 31, 2022, is $122.8 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, 2022, there were 237 active sites, with a total estimated pollution remediation obligation of $53.4 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 13 active well plugging projects as of Aug. 31, 2022, with an estimated cost of $645.3 thousand.

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 13 active site remediation projects as of Aug. 31, 2022, with an estimated cost of $599.5 thousand. Funding for these programs comes from regulatory and permit fees paid by the oil and gas industry.

The RRC enters into contracts with third parties for abandoned site remediation and abandoned well plugging. These contracts are used to estimate the amount of the plugging and pollution remediation obligation.

TxDOT is responsible for the cleanup and remediation of several polluted sites. Regulatory requirements established by federal and state law obligate TxDOT to perform these pollution remediation activities. Historical cost averages were used to calculate the estimated pollution remediation obligation liabilities. The areas of remediation include compliance with asbestos regulations, lead based paint regulations, *Federal Safe Drinking Water Act*, state LPST cleanup requirements, Occupational Safety and Health Administration Health and Safety Plan requirements and waste disposal regulations at an estimated cost of $8.2 million for fiscal year 2022.

The Texas Historical Commission is responsible for the cleanup of asbestos and lead paint at the State Historic Sites the agency oversees during renovation and repair projects. The Historical Commission calculates expected outlays related to this pollution remediation from actual and estimated contracted amounts of the work to be performed. The amount of the estimated pollution remediation liability assumes there will be no major increase in the cost of providing these cleanup services. There is no current liability as of Aug. 31, 2022.

The Texas Tech University System (TTU System) owns a 5,855-acre parcel of land in Carson County, Texas. The land was purchased from the United States of America, acting by and through the General Services Administrator, in 1949 to operate an experimental research farm on a portion of the land. TTU System is a responsible party for pollution remediation activities on this land. The estimated liability is based on an analysis from ARS Aleut Remediation, LLC and factored down by 50 percent for cost reduction measures that would result in cost savings. This amount is subject to cost volatility until such time remediation activities are complete. The land will be considered for remediation if the land is sold, transferred or otherwise utilized in a manner necessitating pollution remediation. The current liability, as of Aug. 31, 2022, is $1.5 million.

Asset Retirement Obligations

GASB Statement No. 83, *Certain Asset Retirement Obligations*, defines an asset retirement obligation

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

Texas Southern University (TSU) purchased radiation equipment with an ARO. TSU must estimate the new obligation amount using probability weighting and record the initial measurement as deferred outflows of resources ARO and a noncurrent ARO. TSU must assess any relevant factors annually to determine if a significant change in current value has occurred and, if so, record the change in deferred outflows of resources ARO and noncurrent ARO. When the radiation equipment reaches the end of its useful life, the value of the ARO is moved to current ARO. Current ARO is then reduced by the amount of actual expenditures to retire the asset, with an offset to deferred outflows of resources. The estimated remaining useful life of the associated tangible capital assets ranges from 27 to 61 months. The ARO as of Aug. 31, 2022 was $429 thousand.

As of Aug. 31, 2022, 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 226 and 142 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, 2022 was $2.8 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 11 to 134 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, 2022 was $12.4 million.

The UT System liability related to clean-up and decommissioning of items using radiation such as broadscope licenses, cyclotrons and nuclear reactors is reported as an ARO. The liability is measured using best estimates of expected outlays for clean-up and decommissioning costs. The *Texas Administrative Code*, Title 25, Part 1, Chapter 289. Subchapter F, Rule 289.252(gg)(6)(D) allows state licensees to provide financial assurances as necessary and no assets have been restricted for payment of the liability. The estimated remaining useful life of the associated tangible capital assets ranges from 0 to 53 months. The total ARO as of Aug. 31, 2022 was $19.5 million.

Texas Health and Human Services Commission's (HHSC) ARO is related to a sewage treatment plant in Mexia, Texas with an estimated remaining useful life of 7 years. The ARO was calculated using a weighted average methodology. Based on an initial regional assessment, HHSC did not receive enough information to reasonably estimate a weighted average for lab equipment, e.g. x-ray equipment. The ARO as of Aug. 31, 2022 was $2.2 million.

Note 6

Bonded Indebtedness

Description of Bond Issues

The state of Texas had 402 bond issues outstanding as of Aug. 31, 2022. Scheduled debt service payments from the general revenue fund for fiscal 2022 totaled $695.4 million.

Information on bond issuances by type of activity as of Aug. 31, 2022, is presented in table 6A.

Information on Bond Issuances

Table 6A

August 31, 2022

	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	62	$ 17,699,876	0.18	6.00	2005	2046	05/18/2005
General Obligation Bonds – Direct Placements	1	254,105	5.00	5.00	2031	2036	10/01/2025
Revenue Bonds	14	5,921,435	0.22	5.25	2010	2041	04/01/2018
Total Governmental Activities	77	23,875,416					
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	56	5,373,975	0.23	5.00	2003	2053	03/22/2001
General Obligation Bonds – Direct Placements	3	253,710	var	var	2014	2027	04/01/2014
Revenue Bonds	234	43,942,258	0.04	6.75	1999	2060	03/01/2006
Revenue Bonds – Direct Borrowings/Placements	29	801,301	1.70	8.00	2001	2061	05/01/2001
Total Business-Type Activities	322	50,371,244					
COMPONENT UNITS							
Revenue Bonds	3	199,340	1.65	4.25	2011	2050	12/01/2011
Total Component Units	3	199,340					
Total Bond Issues Outstanding	402	$ 74,446,000					

Changes in Bonds Payable

Table 6B

August 31, 2022 (Amounts in Thousands)

Description of Issue	Balance 9/1/21	Adjustments[1]	Bonds Issued[2]	Bonds Matured or Retired	Bonds Refunded	Balance 8/31/22	Due Within One Year
GOVERNMENTAL ACTIVITIES							
General Obligation Bonds	$ 14,057,687	$ (75,796)	$ 953,440	$ 590,659	$ 388,945	$ 13,955,727	$ 726,232
General Obligation Bonds – Direct Placements	282,942	(1,986)				280,956	1,986
Revenue Bonds	4,498,868	110,892		309,290		4,300,470	351,342
Revenue Bonds – Direct Placements	150,000	(150,000)					
Total Governmental Activities	18,989,497	(116,890)	953,440	899,949	388,945	18,537,153	1,079,560
BUSINESS-TYPE ACTIVITIES							
General Obligation Bonds	3,899,210	853	698,315	264,470	449,710	3,884,198	267,316
General Obligation Bonds – Direct Placements	81,010			22,960		58,050	15,460
Revenue Bonds	36,469,882	(127,380)	2,561,019	1,176,749	338,125	37,388,647	2,614,113
Revenue Bonds – Direct Borrowings/Placements	430,823	224,995	104,192	17,610	51,251	691,149	17,581
Total Business-Type Activities	40,880,925	98,468	3,363,526	1,481,789	839,086	42,022,044	2,914,470
COMPONENT UNITS							
Revenue Bonds	39,017	(567)		19,665		18,785	385
Total Component Units	39,017	(567)	0	19,665	0	18,785	385
Total Changes in Bonds Payable	$ 59,909,439	$ (18,989)	$ 4,316,966	$ 2,401,403	$ 1,228,031	$ 60,577,982	$ 3,994,415

[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, 2022 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Placements Principal	Direct Placements Interest	Direct Placements Total
General Obligation Bonds						
2023	$ 628,955	$ 522,894	$ 1,151,849	$	$ 12,705	$ 12,705
2024	645,825	496,237	1,142,062		12,705	12,705
2025	648,175	468,722	1,116,897		12,705	12,705
2026	660,880	439,447	1,100,327		12,705	12,705
2027	572,750	417,572	990,322		12,705	12,705
2028 – 2032	3,321,895	1,683,179	5,005,074	25,270	62,895	88,165
2033 – 2037	3,224,280	1,028,255	4,252,535	228,835	39,023	267,858
2038 – 2042	2,605,560	373,041	2,978,601			
2043 – 2047	795,460	47,928	843,388			
Subtotal	13,103,780[1]	5,477,275	18,581,055	254,105[1]	165,443	419,548
Premium	853,297		853,297	26,850		26,850
Discount	(1,349)		(1,349)			
Total	$ 13,955,728	$ 5,477,275	$ 19,433,003	$ 280,955	$ 165,443	$ 446,398
Revenue Bonds						
2023	$ 319,290	$ 166,080	$ 485,370	$	$	$
2024	331,865	151,607	483,472			
2025	346,175	135,245	481,420			
2026	361,445	119,611	481,056			
2027	374,445	107,039	481,484			
2028 – 2032	1,636,195	280,204	1,916,399			
2033 – 2037	579,675	56,277	635,952			
2038 – 2042	176,565	9,016	185,581			
Subtotal	4,125,655	1,025,079	5,150,734	0	0	0
Premium	174,815		174,815			
Total	$ 4,300,470	$ 1,025,079	$ 5,325,549	$ 0	$ 0	$ 0

[1] Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6D: Business-Type Activities

August 31, 2022 (Amounts in Thousands)

Year	Principal	Interest	Total	Direct Borrowings/Placements Principal	Direct Borrowings/Placements Interest	Direct Borrowings/Placements Total
General Obligation Bonds						
2023	$ 261,945	$ 100,589	$ 362,534	$ 15,460	$ 3,065	$ 18,525
2024	271,400	92,742	364,142	15,100	2,196	17,296
2025	275,940	85,656	361,596	15,770	1,238	17,008
2026	270,000	78,252	348,252	5,340	626	5,966
2027	250,500	71,182	321,682	4,560	314	4,874
2028 – 2032	1,004,880	267,666	1,272,546	1,820	59	1,879
2033 – 2037	697,820	156,406	854,226			
2038 – 2042	525,875	74,967	600,842			
2043 – 2047	219,290	14,835	234,125			
2048 – 2052	27,700	920	28,620			
2053 – 2057	825	11	836			
Subtotal	3,806,175[1]	943,226	4,749,401	58,050[1]	7,498	65,548
Premium	78,023		78,023			
Total	$ 3,884,198	$ 943,226	$ 4,827,424	$ 58,050	$ 7,498	$ 65,548
Revenue Bonds						
2023	$ 2,414,752	$ 1,331,121	$ 3,745,873	$ 17,581	$ 22,244	$ 39,825
2024	1,173,293	1,297,182	2,470,475	113,856	20,596	134,452
2025	1,243,235	1,263,090	2,506,325	18,573	18,889	37,462
2026	1,264,821	1,213,190	2,478,011	27,453	18,185	45,638
2027	1,148,015	1,162,580	2,310,595	20,741	17,334	38,075
2028 – 2032	5,990,918	5,106,138	11,097,056	48,903	78,265	127,168
2033 – 2037	5,936,838	3,853,101	9,789,939	29,797	69,512	99,309
2038 – 2042	6,042,376	2,641,383	8,683,759	324,388	55,519	379,907
2043 – 2047	5,263,646	1,586,143	6,849,789	28,065	18,815	46,880
2048 – 2052	4,103,395	527,012	4,630,407	10,668	12,716	23,384
2053 – 2057	773,170	48,966	822,136	11,594	9,500	21,094
2058 – 2062	29,942	3,030	32,972	39,530	6,423	45,953
Subtotal	35,384,401	20,032,936	55,417,337	691,149	347,998	1,039,147
Accretion	(500,392)		(500,392)			
Premium	2,505,326		2,505,326			
Discount	(686)		(686)			
Total	$ 37,388,649	$ 20,032,936	$ 57,421,585	$ 691,149	$ 347,998	$ 1,039,147

[1] Includes accretion adjustments on deep discount bonds.

Debt Service Requirements

Table 6E: Component Units

August 31, 2022 (Amounts in Thousands)

Year	Principal	Interest	Total
Revenue Bonds			
2023	$ 385	$ 547	$ 932
2024	400	534	934
2025	420	521	941
2026	440	507	947
2027	455	492	947
2028 – 2032	2,450	2,231	4,681
2033 – 2037	3,080	1,916	4,996
2038 – 2042	4,380	1,357	5,737
2043 – 2047	3,575	775	4,350
2048 – 2052	2,645	171	2,816
Subtotal	18,230	9,051	27,281
Premium	555		555
Total	$ 18,785	$ 9,051	$ 27,836

See Note 16 for debt issued subsequent to Aug. 31, 2022.

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 $196.9 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, 2022, is presented in table 6F.

General Obligation Bonds – Authorized But Unissued

Table 6F

August 31, 2022 (Amounts in Thousands)

Bond Type	Authorized But Unissued
SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	$ 230,000
Farm and Ranch Loan Bonds	300,000
Veterans Land and Housing Bonds	1,006,555
Texas Water Development Bonds	5,819,999
College Student Loan Bonds	861,205
Texas Military Value Revolving Loan Fund	200,405
Texas Mobility Bonds	3,565,920
Total Self-Supporting	11,984,084
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,493,127
Water Development Bonds - Economically Distressed Areas Program	200,000
Water Development Bonds - State Participation	200,000
Total Not-Self Supporting	4,057,967
Total General Obligation Bonds	$ 16,042,051

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. For more information on pledged revenues, also see Note 5, *Long-Term Liabilities.*

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, 2022, excluding real estate, was $27.3 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, 2022 (Amounts in Thousands)

University System	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$ 5,451,175	$ 2,248,090	$ 3,203,085
Texas A&M University System	2,725,588	1,337,180	1,388,408
Total Bonds	$ 8,176,763	$ 3,585,270	$ 4,591,493

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, 2022, the bond obligations were still outstanding.

TPFA issues bonds to finance the acquisition of real property and to construct, equip or renovate buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, collected primarily from occupant-agency rentals.

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

Build America Bonds (BABs)

The *American Recovery and Reinvestment Act* (ARRA) of 2009 was implemented in Feb. 2009. As part of this federal legislation, a new bond program called BABs was created. Authority to issue BABs expired on Dec. 31, 2010.

TxDOT and the UT System had $3.4 billion and $1.2 billion of direct payment BABs outstanding respectively, as of Aug. 31, 2022.

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 69 variable rate bond issues with outstanding balances as of Aug. 31, 2022. 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, 2022.

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, 2022. Details are presented in tables 6H and 6I.

Demand Bonds

Table 6H

August 31, 2022

Description of Bond Issue	Number of Demand Bond Issues	Number of Standby Purchase Agreements[1]	Number of Others[2]	Principal Balance Outstanding (Amounts In Thousands)
GOVERNMENTAL ACTIVITIES				
General Obligation Bonds				
Texas Department of Transportation	1		1	$ 150,000
Office of the Governor	2		2	45,000
Total General Obligation Bonds	3	0	3	195,000
Revenue Bonds				
Texas Department of Transportation	1	1		300,000
Total Revenue Bonds	1	1	0	300,000
Total Governmental Activities	4	1	3	$ 495,000
BUSINESS-TYPE ACTIVITIES				
General Obligation Bonds				
Veterans Land Board	35	35		$ 2,543,660
Total General Obligation Bonds	35	35	0	2,543,660
Revenue Bonds				
University of Texas System	4		4	1,274,660
Texas Department of Housing and Community Affairs	2		2	17,850
Total Revenue Bonds	6	0	6	1,292,510
Total Business-Type Activities	41	35	6	$ 3,836,170

[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, 2022

Counterparties	Number of Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Federal Home Loan Bank of Dallas	2	0.20%	11/01/27
Federal Home Loan Bank of Dallas	1	0.20%	06/27/23
Federal Home Loan Bank of Dallas	1	0.20%	12/18/24
Federal Home Loan Bank of Dallas	1	0.20%	01/09/25
Federal Home Loan Bank of Dallas	1	0.20%	01/13/26
JPMorgan Chase Bank, National Association	1	0.35%	04/10/24
State Street Bank and Trust Company	7	0.32%	11/11/26
State Street Bank and Trust Company	2	0.33%	07/24/23
State Street Bank and Trust Company	7	0.33%	09/25/23
State Street Bank and Trust Company	6	0.33%	11/14/23
State Street Bank and Trust Company	2	0.36%	11/14/25
State Street Public Lending Corporation	1	0.33%	07/24/23
Sumitomo Mitsui Banking Corp	1	0.2 - 2.3%	10/01/26
Sumitomo Mitsui Banking Corp	1	0.30%	01/15/27
Sumitomo Mitsui Banking Corp	1	0.30%	06/28/27
T.D. Bank, National Association	1	0.22%	12/18/24
Total Secured Bond Issue Agreements	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, 2022, is presented in table 6J.

Demand Bonds – Takeout Agreement Provisions

Table 6J: Governmental Activities

August 31, 2022

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 2014-B[1]	$ 349,868	9.50%	Base Rate +2%

[1] Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

Early debt extinguishments for the fiscal year ended 2022, 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, 2022 (Amounts in Thousands)

Description of Bond	Early Extinguished Debt Issues
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 28,740
Texas Higher Education Coordinating Board	29,345
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	34,110
Revenue Bonds	
Texas Department of Housing and Community Affairs	187,620
Revenue Bonds – Direct Placements	
Texas Department of Housing and Community Affairs	51,251
Total Bonds	$ 331,066

Refunding

Bonds refunded to lower interest rates or to restructure debt service requirements for cash management purposes for the fiscal year ended 2022, is presented in table 6L.

Refunding Issues

Table 6L

August 31, 2022 (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	Current Refunding	$ 70,900	$ 74,015	$ 8,931	$ 8,329
Texas Public Finance Authority	Advanced Refunding	223,545	224,405	15,906	14,140
Texas Water Development Board	Current Refunding	29,010	32,440	3,531	2,984
Total Governmental Activities		323,455	330,860	28,368	25,453
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Texas Water Development Board	Current Refunding	323,180	343,120	45,018	36,505
Revenue Bonds					
University of Houston System	Advanced Refunding	16,690	18,160	1,453	1,335
Texas Department of Housing and Community Affairs	Current Refunding	24,830	24,830	3,407	5,429
Texas State Technical College	Current Refunding	18,935	18,740	3,501	2,967
University of Texas System	Current Refunding	82,465	88,775	24,940	18,825
Total Business-Type Activities		466,100	493,625	78,319	65,061
Total Refunding Issues		$ 789,555	$ 824,485	$ 106,687	$ 90,514

[1] Other funds totaling approximately $4.3 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, 2022, 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 $224.4 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.. There were no cash defeasances in fiscal 2022.

Defeased Bonds Outstanding

Table 6M

August 31, 2022 (Amounts in Thousands)

Description of Bond	Defeased Bonds Outstanding
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Public Finance Authority	$ 224,405
Texas Water Development Board	7,440
Texas Department of Transportation	1,827,575
Revenue Bonds	
Texas Department of Transportation	358,625
Total Governmental Activities	2,418,045
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	66,820
Revenue Bonds	
Texas Department of Transportation	1,314,068
Texas Tech University System	39,835
Texas State University System	89,580
University of Houston System	18,160
Texas A&M University System	470,685
Texas Department of Housing and Community Affairs	14,980
Revenue Bonds – Direct Placements	
Texas Department of Housing and Community Affairs	38,616
Total Business-Type Activities	2,052,744
Total Defeased Bonds Outstanding	$ 4,470,789

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, 2022, there were 24 series of multifamily housing revenue bonds and revenue bonds - direct placements outstanding with an aggregate $369.6 million principal amount payable.

The Texas Private Activity Bond Surface Transportation Corporation (TxPABST), a blended component unit of the state, issued seven series of bonds in the aggregate amount of $3.2 billion that remains outstanding as of Aug. 31, 2022. 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 derivative instruments. The aggregate debt service requirements and associated net swap payments are detailed in this note. See Note 7, *Derivative Instruments,* for additional information.

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, 2022 and are presented in tables 6N and 6O.

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 6N

August 31, 2022 (Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2023	$ 262,595	$ 69,541	$ 34,418	$ 366,554
2024	272,310	68,753	35,854	376,917
2025	283,500	63,940	32,734	380,174
2026	261,735	59,097	29,406	350,238
2027	253,550	54,602	26,327	334,479
2028-2032	1,093,905	214,504	90,083	1,398,492
2033-2037	827,540	137,559	34,070	999,169
2038-2042	413,255	80,665	(9,282)	484,638
2043-2047	368,885	50,152	(13,280)	405,757
2048-2052	277,700	11,553	(4,185)	285,068
2053-2057	825	8	9	842
Total	$ 4,315,800	$ 810,374	$ 256,154	$ 5,382,328

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

Table 6O

August 31, 2022 (Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2023	$ 1,635	$ 598	$ (75)	$ 2,158
2024	1,735	549	(69)	2,215
2025	1,845	498	(63)	2,280
2026	1,955	443	(56)	2,342
2027	2,080	385	(48)	2,417
2028-2032	12,365	846	(107)	13,104
Total	$ 21,615	$ 3,319	$ (418)	$ 24,516

Note 7

Derivative Instruments

Derivative instruments are financial instruments whose values are derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivative instruments include swap contracts, futures contracts, options, options on futures contracts, forward contracts, stock rights and warrants.

Hedging derivative instruments are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivative instruments primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative instrument contracts enable the state to issue bonds at a cost less than what the state would have paid to issue conventional fixed rate debt.

Investment derivative instruments are entered into with the intention of managing transaction risk, reducing interest cost, or reducing currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivative instruments.

Summary of Derivative Instrument Activity

The fair value of effective hedging derivative instruments is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivative instruments is reported as deferred outflows of resources and deferred inflows of resources. The type of derivative instruments held by entity as Aug. 31, 2022, is presented in table 7A. The state's cumulative derivative instrument activity as of Aug. 31, 2022, 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, 2022

Type/Entity of Derivative Instruments
Hedging Derivative Instruments
Texas Department of Housing and Community Affairs (TDHCA)
Investment Derivative Instruments
Comptroller - Fiscal (CPA)
Comptroller Treasury - Fiscal (TREAS)
Employees Retirement System of Texas (ERS)
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 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, 2022 (Amounts in Thousands)

Derivative Instrument Type	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
Investment Derivative Instruments			
Futures	$ 108,272	$ 208	$ 838,476
Total Return Swaps	(41,442)	(2,710)	290,439
BUSINESS-TYPE ACTIVITIES			
Cash Flow Hedges			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ 509,528	$ (12,534)	$ 2,640,480
Interest Rate Swaps	71,137	76,707	1,915,630
Investment Derivative Instruments			
Pay-Fixed Receive-Variable Interest Rate Swaps	$ (82,556)	$ (83,476)	$ 1,613,514
Pay-Variable Receive-Fixed Interest Rate Swaps	37,808	38,462	1,111,301
Basis Swaps	(42)	(128)	21,615
Commodity Swaps	(152)	(152)	70,977
Credit Default Swaps	1,475	2,009	188,407
Currency Swaps	(162)	(226)	30,362
Equity Swaps	(28,398)	(28,398)	987,320
Fixed Income Swaps	630	630	6,426
Foreign Currency Forward	58,613	58,613	4,556,317
Futures	(996)	6,411	3,899,369
Inflation	(1,448)	(1,867)	8,924
Options	20,034	18,178	906,087
Volatility Swaps	(182)	(182)	141,052
Total Return Swaps	(31,096)	(22,579)	516,137
Investment Derivative Instrument Assets			
Pay-Fixed Receive-Variable Interest Rate Swap	$ 9,460	$ 27,670	$ 631,590
Investment Derivative Instrument Liabilities			
Pay-Fixed Receive-Variable Interest Rate Swap	$ (442)	$ (974)	$ 206,010
FIDUCIARY ACTIVITIES			
Investment Derivative Instruments			
Pay-Fixed Receive-Variable Interest Rate Swap	$ (332)	$ (336)	$ 6,263
Pay-Variable Receive-Fixed Interest Rate Swap	136	138	3,985
Commodity Swaps	(1)	(1)	283
Credit Default Swaps	(127,464)	(45,393)	929,154
Currency Swaps	(1)	(2)	117
Equity Swaps	(115)	(115)	3,850
Fixed Income Swaps	2	2	26
Foreign Currency Forward	247	247	19,205
Forwards Contracts	484,257	43,461	6,019,684
Futures	(1,835,923)	(87,779)	14,964,636
Inflation	(6)	(7)	36
Options	(2,430)	(40,510)	(16,934)
Volatility Swaps	(1)	(1)	537
Interest Rate Swaps	(15,387)	(9,087)	568,170
Rights	1,516		
Total Return Swaps	(271,578)	(67,529)	7,236,333
Warrants	(27,401)	11,059	782
DISCRETE COMPONENT UNITS			
Investment Derivative Instruments			
Total Return Swaps	$ (3,377)	$ (2,452)	$ 56,045

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 Veterans Land Board's (VLB) fair value measurements of its swap transactions were calculated by an independent third-party swap advisory consultant using the income approach, as described in GASB Statement No. 72. Using observable inputs from interest rate markets and credit default swap prices, the fair value measurements are determined based upon the present value of future implied cash flows. Since the inputs to these fair value measurements are observable from market data sources, they constitute Level 2 measurements, as described in GASB Statement No. 72.

Several of VLB's effective interest rate swaps contain a provision for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. For swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps and the fair values of the swaps include the effects of the knock-outs.

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

Hedging Derivative Instruments

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. The state's interest rate swaps are contractual agreements 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 2022 all, except one, 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.

The VLB is a party to one pay-variable, receive-variable rate bond issue. The swap is a LIBOR-to-SIFMA basis swap, and effectively coverts the variable rate on the associated taxable variable-rate bond issue from a LIBOR (taxable) based rate to a SIFMA (tax-exempt) based rate. This swap is expected to generate an effective lower borrowing cost over the life of the swap.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivative instruments as of Aug. 31, 2022, are presented in table 7C. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap 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, 2022 (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	$ 17,350	03/22/2001	12/01/2029	Pay 4.259%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	21,995	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	10,500	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	22,425	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003A	14,950	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	16,000	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2004B	18,115	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	17,850	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	21,005	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006D	21,905	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	22,565	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	23,110	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	23,840	03/26/2008	12/01/2038	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	24,925	09/11/2008	12/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Bds Ser 2010C	43,655	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 3M LIBOR
Vet Bds Ser 2011A	43,065	03/09/2011	06/01/2041	Pay 2.675%; receive 68% of 3M LIBOR
Vet Bds Ser 2011B	43,955	08/25/2011	12/01/2041	Pay 2.367%; receive 68% of 3M LIBOR
Vet Bds Ser 2011C	44,765	12/15/2011	06/01/2042	Pay 1.917%; receive 68% of 3M LIBOR
Vet Bds Ser 2012A	44,180	05/23/2012	12/01/2042	Pay 1.692%; receive 68% of 3M LIBOR
Vet Bds Ser 2012B	57,345	11/01/2012	12/01/2042	Pay 1.447%; receive 68% of 3M LIBOR
Vet Bds Ser 2013A	63,660	03/20/2013	06/01/2043	Pay 1.7%; receive 68% of 3M LIBOR
Vet Bds Ser 2013B	95,685	08/22/2013	12/01/2043	Pay 2.145%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2013C	18,175	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	39,825	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Bds Ser 2014A	99,405	03/03/2014	06/01/2044	Pay 2.179%; receive 68% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6,125	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	3,200	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	8,925	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014B-3	8,980	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	2,505	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2014C-1	15,810	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, 2022 (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	$	A/A2
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AA- / Aa2
Vet Land Bds Ser 2002	N/A		A-/A1
Vet Hsg Fund II Bds Ser 2002A-2	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2003A	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2003B	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2004B	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2005A	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2006A	N/A		AA / Aa3
Vet Hsg Fund II Bds Ser 2006D	N/A		A+ / Aa3
Vet Hsg Fund II Bds Ser 2007A	N/A		AA- / Aa2
Vet Hsg Fund II Bds Ser 2007B	N/A		A+ / Aa2
Vet Hsg Fund II Bds Ser 2008A	N/A		AA / Aa3
Vet Hsg Fund II Bds Ser 2008B	N/A		AA- / Aa2
Vet Bds Ser 2010C	N/A		A-/A1
Vet Bds Ser 2011A	N/A		AA- / Aa2
Vet Bds Ser 2011B	N/A		AA- / Aa2
Vet Bds Ser 2011C	N/A		AA- / Aa2
Vet Bds Ser 2012A	N/A		AA- / Aa2
Vet Bds Ser 2012B	N/A		AA- / Aa2
Vet Bds Ser 2013A	N/A		AA- / Aa2
Vet Bds Ser 2013B	N/A		AA- / Aa2
Vet Hsg Fund II Tax Ref Bds Ser 2013C	1M LIBOR >= 7.00%;	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%	2,740	A+ / Aa2
Vet Bds Ser 2014A	N/A		A+ / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	6M LIBOR > 7.00%	1,442	A+ / Aa2
Vet Hsg Fund I Tax Ref Bds Ser 2014B-1	1M LIBOR >= 7.00%;	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	567	
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

[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, 2022 (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	$ 17,245	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	9,245	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	42,875	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2014C-2	13,550	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	12,590	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-3	9,735	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	3,735	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	6,180	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	9,050	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Land Tax Ref Bds Ser 2014C-4	16,770	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Bds Ser 2014D	67,500	09/10/2014	06/01/2045	Pay 1.9395%; receive 68% of 1M LIBOR
Vet Bds Ser 2015A	85,690	02/11/2015	06/01/2045	Pay 1.51%; receive 68% of 1M LIBOR
Vet Bds Ser 2015B	90,640	07/22/2015	06/01/2046	Pay 1.771%; receive 68% of 1M LIBOR
Vet Bds Ser 2016	150,750	12/01/2016	12/01/2046	Pay 1.564%; receive 68% of 1M LIBOR
Vet Bds Ser 2017	166,510	08/01/2017	12/01/2047	Pay 1.175%; receive 68% of 1M LIBOR + 0.085%
Vet Bds Ser 2018	197,475	04/01/2019	12/01/2049	Pay 2.0745%; receive 72% of 1M LIBOR
Vet Bds Ser 2019	214,790	12/01/2019	06/01/2050	Pay 1.851%; receive 65% of USD Fed Funds + 0.24%
Vet Bonds Series 2020	228,210	09/01/2020	12/01/2050	Pay 1.0847%; receive 65% of USD Fed Funds + 0.24%
Vet Bonds Series 2021	242,475	12/01/2021	12/01/2051	Pay 0.649%; receive 66.5% of USD Fed Funds + 0.18%
Vet Bonds Series 2022	248,090	06/01/2023	06/01/2053	Pay 2.0143%; receive 65% of USD Fed Funds + 0.24%
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Land Tax Ref Bds Ser 2014C-3	21,615	08/05/2002	12/01/2032	Pay 131.25% of SIFMA; receive 100% of 1M LIBOR
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2005A Single Family	9,515	08/01/2005	09/01/2036	Pay 4.01%; the lesser of (the greater of 65% of 1M LIBOR and 56% of 1M LIBOR + .45%) and 1M LIBOR; receive currently 100% of 1M LIBOR
2007A Single Family	8,335	06/05/2007	09/01/2038	Pay 4.013%; the lesser of (the greater of 65% of 1M LIBOR and 56% of 1M LIBOR + .45%) and 1M LIBOR; receive currently 100% of 1M LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS[1]				
RFS Bonds 2007B	151,553	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	151,553	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
PUF Bonds 2008A	166,043	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	166,043	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2008B	99,205	03/18/2008	08/01/2036	Pay 3.900%; receive SIFMA
RFS Bonds 2008B	99,205	03/18/2008	08/01/2036	Pay 3.900%; receive SIFMA
RFS Bonds 2008B	191,060	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA
PUF Bonds 2014A	240,340	06/30/2023	07/01/2041	Pay 0.720%; receive 80% of Fed Funds
RFS Bonds 2016G	250,000	12/01/2016	08/01/2045	Pay 2.000%; receive 100% of $1M LIBOR
RFS Taxable Commercial Paper	250,000	11/01/2020	08/01/2049	Pay 1.576%; receive 100% of $1M LIBOR

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

Concluded on the following page

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

Table 7C

August 31, 2022 (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	1M LIBOR >= 7.00%	1,896	A+ / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	2,075	A-/A1
Vet Land Tax Ref Bds Ser 2014C-4	6M LIBOR >= 7.00%	886	AA- / Aa2
Vet Land Tax Ref Bds Ser 2014C-4	1M LIBOR >= 7.00%	2,725	A+ / Aa2
Vet Bds Ser 2014D	N/A		AA- / Aa2
Vet Bds Ser 2015A	N/A		AA- / Aa2
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 Bonds Series 2020	N/A		A+ / Aa3
Vet Bonds Series 2021	N/A		AA- / Aa2
Vet Bonds Series 2022	N/A		AA- / Aa2
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Land Tax Ref Bds Ser 2014C-3	N/A		A-/A1
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
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		A-/A1
RFS Bonds 2008B	N/A		A+ / Aa2
PUF Bonds 2014A	N/A		A+ / Aa3
RFS Bonds 2016G	N/A		A+ / Aa3
RFS Taxable Commercial Paper	N/A		A+ / Aa3

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

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not necessarily expose the state to credit risk. As of Aug. 31, 2022, the state was not exposed to credit risk because the swaps recorded in the positive fair value 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. On the pay-variable, receive variable or pay-variable, receive-fixed interest rate swaps, LIBOR and SIFMA may not change in the same proportions. This will cause the swap to be a less effective hedge.

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. On the pay-variable, receive-variable swaps and the pay-variable, receive-fixed swaps the state will be exposed to basis risk should LIBOR and SIFMA rates converge. The swap agreements provide options for early termination.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events.

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

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

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative instrument contract and the underlying hedged bonds. The maturity dates of the state's effective interest rate swaps were designed to extend to the maturity dates of the underlying bonds.

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

Swap Payments and Associated Debt

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

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, *Commitments and Contingencies,* discloses detail about derivative instruments with contingent features.

Investment Derivative Instruments

Investment derivative instruments expose the state to certain investment related risks. Note 3, *Deposits, Investments and Repurchase Agreements,* discloses detail about the state's investment derivative instruments.

Note 8

Leases

GASB Statement No. 87, Leases, effective fiscal year 2022, establishes a single model for lease accounting based on the principal that leases are financings of the right to use an underlying asset. This single model eliminates the distinction between operating and capital leases. Under GASB Statement No. 87, a lessee is required to recognize a right-to-use lease obligation and an intangible right-to-use (RTU) lease asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. The intangible RTU asset is amortized over the shorter of the lease term or the asset's life and the lease liability is reduced by payments of principal and interest. A lessor records receipts from the lessees as a reduction of the receivable and interest revenue, while the deferred inflow of resources is amortized over the life of the lease. The underlying asset is also depreciated over its useful life. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the earliest period presented.

Limited exceptions to the single approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. GASB Statement No. 87 does not apply to the following:

- Leases of intangible assets, including rights to explore for or to exploit natural resources such as oil, gas, minerals and similar nonregenerative resources; licensing contracts for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and licensing contracts for computer software,
- Leases of biological assets, including timber, living plants and living animals,
- Leases of inventory,
- Contracts that meet the definition of a service concession arrangement in paragraph 4 of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*,
- Leases in which the underlying asset is financed with outstanding conduit debt, unless both the underlying asset and conduit debt are reported by the lessor or

- Supply contracts, such as power purchase agreements.

The Texas Comptroller of Public Accounts (Comptroller's office) has established a materiality threshold of $100 thousand for leases capitalization. The lease liability was measured based upon the stated interest rate, when available, or the incremental borrowing rate, determined to be the quarterly average of Treasury Constant Maturities as reported by the Federal Reserve.

State as Lessee

The state of Texas has entered into agreements to lease (as lessee) certain buildings and building improvements, land and other improvements, infrastructure and equipment. Although lease terms vary, most leases are subject to biennial appropriation from the Texas Legislature to continue the lease obligation. The agreements to lease qualify as other than short-term leases; therefore, they have been recorded at the present value of the future minimum lease payments. The value of the RTU assets and their accumulated amortization may be found in Note 2, Capital Assets.

As of Aug. 31, 2022, the net RTU assets and corresponding lease liabilities associated with future lease payments reported on the statement of net position totaled $2 billion each. For fiscal year 2022, the total cash payments for RTU assets were $349.1 million. The principal and interest expenses for the next five years and beyond are presented in Table 8A.

Right to Use (RTU) Lease Obligations

Table 8A

August 31, 2022 (Amounts in Thousands)

	Minimum Future RTU Lease Payments		
	Principal	**Interest**	**Total**
PRIMARY GOVERNMENT			
Governmental			
2023	$ 174,761	$ 8,277	$ 183,038
2024	152,722	6,848	159,570
2025	127,845	5,446	133,291
2026	107,636	4,166	111,802
2027	81,984	3,099	85,084
2028 - 2032	131,018	6,438	137,455
2033 - 2037	12,758	2,171	14,929
2038 - 2042	3,217	1,297	4,514
2043 - 2047	3,431	813	4,245
2048 - 2052	3,631	261	3,891
Total Payments	$ 799,003	$ 38,816	$ 837,819
CY Variable Payments	2,062		
Business Type			
2023	$ 139,371	$ 14,978	$ 154,350
2024	124,244	13,623	137,867
2025	113,704	12,395	126,099
2026	105,346	11,217	116,563
2027	97,974	10,065	108,039
2028 - 2032	352,931	35,167	388,098
2033 - 2037	140,951	18,365	159,316
2038 - 2042	49,771	11,769	61,540
2043 - 2047	22,255	9,234	31,489
2048 - 2052	60,855	70,415	131,269
Total Payments	$ 1,207,402	$ 207,228	$ 1,414,630
CY Variable Payments	3,416		
Component Units			
2023	$ 503	$	$ 503
Total Payments	$ 503	$ 0	$ 503
Fiduciary Funds			
2023	$ 2,974	$ 23	$ 2,997
2024	772	38	811
2025	501	20	521
2026	507	14	521
2027	450	8	458
2028 - 2032	383	6	388
Total Payments	$ 5,587	$ 109	$ 5,696
CY Variable Payments	1,830		

Some of the state's long-term leases are classified as finance-type leases if the contract transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain a termination option. See Note 5, Long-Term Liabilities, for disclosures relating to finance-type leases.

Five agencies account for 84.6 percent of the lease liability for the primary government. These are the University of Texas System, Texas Health and Human Services Commission, the Texas A&M University System, Texas Department of Criminal Justice and Texas Department of Public Safety.

The University of Texas System (UT System) entered various leases for land, buildings, equipment and infrastructure. The agreements have terms that will expire in various years through 2117. In fiscal 2022, UT System has lease payments of $123.4 million. UT System accounts for 47.9 percent of the lease liability for the primary government.

Texas Health and Human Services Commission (HHSC) is part of multiple real estate leases which they share with Texas Department of Family and Protective Services (DFPS), Texas Department of State Health Service (DSHS) and Texas Workforce Commission (TWC). In fiscal 2022, HHSC has lease payments of $97.2 million. HHSC accounts for 18.8 percent of the primary government's lease liability.

The Texas A&M University System (A&M System) signed lease contracts for land, buildings, space, equipment, vehicles and others. These arrangements range in terms up to 2047. For fiscal 2022, the total lease payments were $14.9 million. The A&M System accounts for 8 percent of the primary government's lease liability.

Texas Department of Criminal Justice (TDCJ) entered various leases for buildings and equipment. These agreements range in terms up to 2032. In fiscal 2022, the total lease payments were $19 million. TDCJ accounts for 5.3 percent of the primary government's lease liability.

Texas Department of Public Safety (DPS) signed lease contracts for building space. These agreements range in terms up to 2052. In fiscal 2022, the total lease payments were $15.9 million. DPS accounts for 4.6 percent of the primary government's lease liability.

Some agencies had variable lease payments. These agencies were UT System and Texas Department of Transportation.

Variable payments based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance; therefore, these payments are not included in the RTU assets or lease liabilities. These variable lease payments are derived from a percentage of sales or use of the lease assets. The UT System recognized $3.4 million as expenses from these variable payments for the year ended Aug. 31, 2022. These payments accounted for 62.2 percent of the primary government's variable payments.

Texas Department of Transportation (TxDOT) had variable payments in the amount of $1.9 million or 34.9 percent of the primary government's variable payments.

Some agencies had subleases or leases which had not commenced. These agencies were UT System and A&M System.

The UT System subleases certain portions of various RTU building assets to third parties. Since UT System is both a lessee and a lessor in these sublease arrangements, the lessor transactions are included with the lessor disclosures, separately from the lessee transactions related to the original leases which are included in the lessee disclosures (Table 8A). There were no residual value guarantees as part of the sublease agreements.

The A&M System subleases certain portions of RTU buildings to third parties. The net value of the subleases RTU buildings is $7.8 million. These sublease arrangements result in lease receivables of $2.4 million.

The UT System entered additional leases that have not yet commenced as of Aug. 31, 2022, including leases for buildings and equipment, with both fixed and variable payments required. Terms range from 2023 to 2041 with a total future commitment of $41.8 million.

The A&M System has entered into five additional building leases which have not yet commenced as of Aug. 31, 2022. For these future leases, the value of the RTU assets is $717 thousand.

TTU System has a lease-leaseback arrangement with a community public television station. KCOS leases office space and broadcasting facilities from El Paso Community College (ECC). As a requirement of the lease, TTU System leases back to ECC exclusive rights to broadcast on a certain sub channel and access on the premises to do so at no cost to ECC for the duration of the lease term.

State as Lessor

As a lessor, the state recognized a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held for investment, certain regulated leases, short-term leases and leases that transfer ownership of the underlying asset. The asset underlying the lease was not derecognized. The lease receivable was measured at the present value of the lease payments expected to be received during the lease term. Interest revenue was recognized on the lease receivable and an inflow of resources was recognized in a systematic and rational manner over the term of the lease.

The state has entered into agreements to lease (as lessor) certain buildings and other capital assets to outside parties. The agreements to lease terms will expire in various years through 2064. In fiscal 2022, the primary government's total lease income was $47.3 million and total variable lease income was $3.9 million. Five university systems account for 95.6 percent of these lease receivables. They are UT System (58.5 percent), A&M System (25.3 percent), UNT System (5.5 percent), TTU (3.9 percent) and University of Houston System (2.4 percent).

The UT system has entered into agreements to lease (as lessor) certain buildings and other capital assets to outside parties. The agreements have lease terms that will expire in various years through 2042. In fiscal 2022, the total RTU lease income was $32.2 million.

The UT System also entered into some leases which call for payments that are partially or completely variable; therefore, they were not included in lease receivables or deferred inflow of resources. These variable lease payments are derived from a percentage of sales or use of the leased asset. The UT System recognized a total of $2.3 million as revenue from these variable payments for the year ended Aug. 31, 2022.

The A&M System has entered into agreements to lease (as lessor) certain buildings and land to third parties. The agreements to lease have terms that will expire in various years through 2064. Total lease receivables are $108 million. In fiscal 2022, the total lease income was $5.4 million.

The A&M System also had four leases which call for payments that are completely variable and were not included in lease receivables or deferred inflows of resources. These variable payments were derived from a percentage of sales, facility or classroom usage or the amount of net cash flow. Total revenue recognized due to variable payments was $1.6 million for the year ended Aug. 31, 2022.

Regulated Leases

Certain regulated leases are subject to external laws, regulations or legal rulings and meet the following requirements:

- Lease rates cannot exceed a reasonable amount, with reasonableness being subject to determination by an external regulator,
- Lease rates should be similar for lessees that are similarly situated and

- The lessor cannot deny potential lessees the right to enter leases if facilities are available, provided that the lessee's use of the facilities complies with generally applicable use restrictions.

For certain lease agreements related to airport gates and aprons, specific terms are regulated by the Federal Aviation Administration (FAA). The A&M System entered into various lease agreements to grant the right to use these airport gates and aprons to third parties in accordance with the provisions set by the FAA. This is the only regulated lease for the state.

The lease revenue related to these regulated agreements amounted to $353 thousand for the year ended Aug. 31, 2022. This amount includes exclusive and joint use of the terminal building space. Currently there is a holdover provision in place that allows tenancy to continue month-to-month until a new contract is established, or the tenant may terminate with 30 days written notice.

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, 2022, the state recognized negative pension expense of $1.71 billion. Of this amount, negative $1.76 billion was incurred as an employer and $50.8 million as a non-employer contributing entity. The reported deferred outflows of resources and deferred inflows of resources related to pensions are identified in Note 27.

Employees Retirement System of Texas (ERS)

The board of trustees of ERS is the administrator of the ERS, LECOS, JRS1 and JRS2 Plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. Each of these four plans is considered a single employer defined benefit plan under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The benefit and contribution provisions of the ERS Plans are authorized by state law *(Texas Government Code (TGC)*, Title 8, Subtitle B for the ERS and LECOS Plans; *TGC*, Title 8, Subtitles D and E for the JRS1 and JRS2 Plans, respectively) and may be amended by the Texas Legislature.

Employees Retirement System of Texas Plan (ERS Plan)

In addition to the state of Texas, the ERS Plan includes employers that are component units of the state. ERS and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS Plan. Pension activity for the ERS Plan is reported in governmental activities in the state's basic financial statements. Additionally, due to immateriality, separate disclosure for the State Bar of Texas is not presented.

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

The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3 percent of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of the highest 60 months of compensation.

The monthly standard annuity of the elected class equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

ERS issues a stand-alone audited Annual Comprehensive Financial Report (ACFR). ERS's ACFR, information on vesting, tier requirements and other financial data may be obtained at the agency's website: **www.ers.texas.gov/about-ers/reports-and-studies**.

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

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

The LECOS Plan covers custodial officers who are certified in accordance with the statutory requirements as having a normal job assignment that requires frequent or infrequent regularly planned contact with inmates managed by hiring institutions. The plan also covers law enforcement officers who have been commissioned by the Commission on Law Enforcement Officer Standards and Education. The monthly benefit amount payable to LECOS Plan members is equal to the excess of total benefit over the regular benefit payable to the same members under the ERS Plan.

Total monthly standard annuity of the LECOS Plan members equals the statutory percentage of 2.3 percent from the ERS Plan plus an additional 0.5 percent from the LECOS Plan of the average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the LECOS Plan members may vary depending on the hire date. For members hired on or before Aug. 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after Sept. 1, 2009 and before Sept. 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after Sept. 1, 2013, the average monthly compensation is the average of the highest 60 months of compensation. Information on vesting and tier requirements may be obtained from ERS's ACFR.

Judicial Retirement System of Texas Plan Two (JRS2 Plan)

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

The average monthly compensation of the JRS2 Plan varies depending on the retirement date. The monthly benefit for members of the JRS2 Plan retiring prior to Sept. 1, 2019 is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement. Members retiring on or after Sept. 1, 2019 receive a monthly benefit between 40 percent to 47.7 percent (depending on age) of the salary for the position from which the member retired. An additional 10 percent is paid when a member retires within one year of benefit commencement. Information on vesting and tier requirements may be obtained from ERS's ACFR.

The membership data for the ERS, LECOS and JRS2 Plans as of the measurement date of Aug. 31, 2021 is presented in table 9A.

Membership Data

Table 9A: Employees Retirement System of Texas

As of Measurement Date of August 31, 2021

Type of Member	ERS Plan	LECOS Plan	JRS2 Plan
Retirees and Beneficiaries			
Currently Receiving Benefits	120,294	15,343	528
Terminated Employees Entitled to			
Benefits But Not Yet Receiving Them	145,050	29,626	192
Current Employees			
Vested and Non-Vested	136,726	32,498	584
Total Members	402,070	77,467	1,304

The contribution rates for the state and the members are based on a percentage of the monthly gross compensation for each member. There have been no changes to the contribution rate since House Bill 2384, enacted by the 86th legislative session. The contribution requirements for the ERS, LECOS and JRS2 Plans for the measurement period of fiscal 2021 are presented in table 9B.

Required Contribution Rates

Table 9B: Employees Retirement System of Texas

As of Measurement Date of August 31, 2021

Plan	Employee Class	Elected Class: Legislator	Elected Class: Other
Employer			
ERS	10%	10%	10%
LECOS[1]	1.28%[2]	N/A	N/A
JRS2	15.663%	N/A	N/A
Members			
ERS	9.5%	9.5%	9.5%
LECOS[1]	0.5%	N/A	N/A
JRS2	9.5%	N/A	N/A

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

[2] The 1.28% 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 .78% of payroll.

The state's contributions recognized by the ERS, LECOS and JRS2 Plans during the fiscal 2021 measurement period were $739.6 million, $20.3 million and $14.3 million, respectively.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from Sept. 1, 2014 through Aug. 31, 2019. Table 9C presents the actuarial methods and assumptions used to measure the total pension liability for the ERS, LECOS and JRS2 Plans as of the Aug. 31, 2021 measurement date.

Actuarial Methods and Assumptions

Table 9C: Employees Retirement System of Texas

As of Measurement Date of August 31, 2021

Description	ERS Plan	LECOS Plan	JRS2 Plan
Actuarial Valuation Date	Aug. 31, 2021	Aug. 31, 2021	Aug. 31, 2021
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll, plus Level Dollar Legacy Payment	Level Percent of Payroll, Open	Level Percent of Payroll, Open
Actuarial Assumptions:			
Discount Rate	7.00%	2.70%	5.27%
Investment Rate of Return	7.00%	7.00%	7.00%
Inflation	2.30%	2.30%	2.30%
Salary Increase	0% to 8.80%	3.75% to 8.75%	2.30% plus follows state judicial tiered salary schedule per Texas Government *Code* 659.012
Cost-of-living Adjustments	None - Employee[1] 2.30% - Elected compounded annually on Sept. 1	None	None
Mortality	The mortality rates for service retirees and beneficiaries are based on the 2020 State Retirees of Texas Mortality Tables with generational mortality improvements projected from the year 2020, which is based on the most recent Ultimate MP scale as published by Retirement Plans Experience Committee of the Society of Actuaries. Rates for male law enforcement and custodial officers are set forward one year.		

[1] Per TGC 814.604, the actuarial accrued liability includes a one-time permanent monthly annuity increase for a limited group of retirees in January 2025, when the funding period requirement is assumed to be met.

Assumptions for Single Discount Rate

Table 9D: Employees Retirement System of Texas

As of Measurement Date of August 31, 2021

Type of Rate	ERS Plan	LECOS Plan	JRS2 Plan
Single Discount Rate	7.00%	2.70%	5.27%
Investment Rate of Return	7.00%	7.00%	7.00%
Municipal Bond Rate[1]	1.95%	1.95%	1.95%
Year Fiduciary Net Position Depleted	N/A[2]	2040	2051

[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.

[2] The current contribution structure is expected to eliminate the unfunded actuarial accrued liability (UAAL) in 33 years based on current benefit provisions and actuarial assumptions. Therefore, the municipal bond rate and depletion year do not apply to the ERS Plan.

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

The fiduciary net position for the LECOS and JRS2 Plans is projected to be depleted in fiscal years 2040 and 2051, respectively. As a result, the long-term expected investment rate of return was applied to projected benefit payments through fiscal year 2039 for the LECOS Plan and fiscal year 2050 for the JRS2 Plan. The municipal bond rate was applied to all remaining projected benefit payments after fiscal year 2039 for the LECOS Plan and after fiscal year 2050 for the JRS2 Plan.

Senate Bill (SB) 321, enacted during the 87th Legislative Session, changed the funding structure of the ERS Plan from a fixed contribution rate structure to an actuarially determined structure by introducing a new level dollar contribution structure called legacy payments. These amounts are calculated for each biennium to fully amortize the unfunded actuarial accrued liability (UAAL) before the end of fiscal 2054 and are in addition to the member and state percentage of payroll contributions. As a result, the municipal bond rate and depletion year do not apply to the ERS Plan.

Due to these changes, the UAAL decreased from $14.7 billion as of Aug. 31, 2020 to $14.1 billion as of Aug. 31, 2021. This is the first year to year decrease in the UAAL since 2007. The passage of SB 321 indicates that the legislature is committed to funding the state pension obligations.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five-year period as of the measurement date, adjusted on consideration of subsequent events. There were no changes made to the state contribution levels in the 87th legislative session and therefore, the projected employer contributions remain at the fiscal 2017 funding level. This contribution level is not considered sound funding for the LECOS and JRS2 Plans.

Assumptions reflected as of the measurement date of Aug. 31, 2021 were last updated at the May 2020 Board meeting. These include a long-term rate of return assumption of 7 percent after considering the long-term expected return from the building block method; an analysis of long-term expected return performed by the Board investment consultant; and analyses and recommendations of the Board pension actuary. There have been no changes to the benefit provisions of the ERS, LECOS or JRS2 plans since the prior measurement date for employees hired before Sept. 1, 2022.

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, 2021

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

[1] The real rate of return for each asset class is geometric, whereas the overall real rate of return is arithmetic.

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

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

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

Table 9F: Employees Retirement System of Texas

As of Measurement Date of August 31, 2021 (Amounts in Thousands)

Plan Type	1% Decrease	Current Discount Rate	1% Increase
ERS Plan:			
Discount Rate	6.00%	7.00%	8.00%
NPL	$ 15,868,657	$ 10,575,443	$ 6,169,639
LECOS Plan:			
Discount Rate	1.70%	2.70%	3.70%
NPL	$ 2,443,864	$ 1,882,355	$ 1,444,133
JRS2 Plan:			
Discount Rate	4.27%	5.27%	6.27%
NPL	$ 222,841	$ 143,428	$ 75,919

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 2021 ACFR.

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2021. For fiscal 2022 reporting, the measurement date of the state's net pension liability is Aug. 31, 2021. The schedule of changes in the state's net pension liability for the fiscal year ended Aug. 31, 2022 is presented in table 9G.

For the fiscal year ended Aug. 31, 2022, the state recognized pension expense of negative $2.2 billion, $148.8 million and $55.8 million, respectively, for the ERS, LECOS and JRS2 Plans. Negative pension expense for the ERS Plan is due to recognition of deferred outflows resulting from differences between expected between expected and actual experience, from differences between projected and actual earnings on investments and from changes in assumptions as the ERS Plan has changed from a contribution rate structure to an actuarially determined structure. At Aug. 31, 2022, the state reported deferred outflows of resources and deferred inflows of resources related to pension from the sources for these plans in table 9H.

Schedule of Changes in Net Pension Liability

Table 9G: Employees Retirement System of Texas

As of Measurement Date of August 31, 2021 (Amounts in Thousands)

Schedule of Changes	ERS Plan	LECOS Plan	JRS2 Plan
Total Pension Liability			
Service Cost	$ 2,146,247	$ 91,246	$ 37,434
Interest on the Total Pension Liability	2,376,688	82,146	32,800
Difference Between Expected and Actual Experience of the Total Pension Liability	(747,551)	(27,962)	(1,793)
Assumption Changes[1]	(22,817,318)	82,179	(86,361)
Benefit Payments and Refunds	(2,711,256)	(91,669)	(35,142)
Net Change in Total Pension Liability	(21,753,190)	135,940	(53,062)
Total Pension Liability – Beginning	65,936,877	2,862,456	781,670
Total Pension Liability – Ending	$ 44,183,687	$ 2,998,396	$ 728,608
Plan Fiduciary Net Position			
Contributions – Employer	$ 739,573	$ 20,294	$ 14,322
Contributions – Member	718,357	9,078	8,759
Pension Plan Net Investment Income	6,937,215	232,795	120,145
Benefit Payments and Refunds	(2,711,256)	(91,669)	(35,142)
Pension Plan Administrative Expense	(21,852)	(1,781)	(235)
Net Change in Plan Fiduciary Net Position	5,662,037	168,717	107,849
Plan Fiduciary Net Position – Beginning	27,946,207	947,324	477,331
Plan Fiduciary Net Position – Ending	$ 33,608,244	$ 1,116,041	$ 585,180
Net Pension Liability – Beginning	37,990,670	1,915,132	304,339
Net Pension Liability – Ending	$ 10,575,443	$ 1,882,355	$ 143,428

[1] The change in the total pension liability due to the change in the single discount rate is included as an assumption change; as well as changes due to moving from a fixed contribution rate structure to an actuarially determined structure.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9H: Employees Retirement System of Texas
August 31, 2022 (Amounts in Thousands)

	ERS Plan		LECOS Plan		JRS2 Plan	
Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 203,956	$ 581,115	$	$ 45,457	$ 2,491	$ 7,241
Changes of Assumptions	3,495,158	15,753,133	302,779	16,558	63,770	62,570
Net Difference Between Projected and Actual Investment Return		3,477,776		116,147		61,052
Contributions Subsequent to the Measurement Date	1,259,883		21,428		14,385	
Total	$ 4,958,997	$ 19,812,024	$ 324,207	$ 178,162	$ 80,646	$ 130,863

The $1.3 billion, $21.4 million and $14.4 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, 2023. The amounts for ERS and LECOS Plans include legacy payments of $516.9 million and $.5 million, respectively.

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, 2022 (Amounts in Thousands)

Year	ERS Plan	LECOS Plan	JRS2 Plan
2023	$(5,147,565)	$81,237	$ 1,374
2024	(7,320,191)	79,807	(16,458)
2025	(2,640,031)	(2,682)	(32,087)
2026	(1,005,122)	(33,745)	(17,432)
2027			
Thereafter			

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

During the measurement period of fiscal 2022, ERS's calculated single discount rate remained 7 percent, and increased from 2.7 percent to 4.45 percent and from 5.27 percent to 5.77 percent for the LECOS and JRS2 Plans, respectively. For fiscal 2023 the net pension liability will increase for the ERS and JRS2 Plans by an estimated $3.3 billion and $10.4 million, respectively, mainly due to challenging market conditions; net pension liability will decrease by an estimated $522 million for the LECOS Plan.

Employees hired after Aug. 31, 2022 will be enrolled in a defined benefit retirement structure known as a cash balance benefit instead of the ERS or the LECOS Plans. Features of the new benefit include:

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

- the possibility of annuity increases in retirement when the gain-sharing benefit is achieved.

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, 2021.

Membership Data

Table 9J: Judicial Retirement System of Texas Plan One
As of Measurement Date of August 31, 2021

Membership	JRS1 Plan
Retirees and Beneficiaries Currently Receiving Benefits	277
Current Employees Vested and Non-Vested	2
Total Members	279

Members are required to contribute a percentage of their monthly gross compensation to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are statutorily established similar to the other ERS Plans.

The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied in the actuarial valuations were based on a May 2020 experience study covering the five-year period from Sept. 1, 2014 through Aug. 31, 2019. The discount rate decreased from 2.33 percent as of Aug. 31, 2020 to 1.95 percent as of Aug. 31, 2021. There were no other changes in assumptions. Table 9K presents the actuarial methods and assumptions used to measure the total pension liability for the JRS1 Plan as of the Aug. 31, 2021 measurement date. There have been no changes to the benefit provisions of the JRS1 Plan since the prior measurement date.

Actuarial Methods and Assumptions

Table 9K: Judicial Retirement System of Texas Plan One
For the Fiscal Year Ended August 31, 2022

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate[1]	1.95%
Inflation	2.30%
Salary Increase	2.30%
Mortality:	
Active Members	Pub-2010 General Employees Active Member Mortality table. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2010.
Service Retirees, Beneficiaries and Inactive Members	2020 State Retirees of Texas mortality table. Generational mortality improvements in accordance with the ultimate rates from the scales published through 2019 by Retirement Plans Experience Committee of the Society of Actuaries (Ultimate MP) and projected from the year 2020.
Cost-of-living Adjustments	2.30% compounded annually on Sept. 1

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

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

Sensitivity of Total Pension Liability to Changes in Discount Rate

Table 9L: Judicial Retirement System of Texas Plan One
August 31, 2022 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	0.95%	1.95%	2.95%
Total Pension Liability	$ 238,806	$ 218,226	$ 200,511

The state's total pension liability is based on an actuarial valuation performed as of Aug. 31, 2021. For fiscal 2022 reporting, the measurement date of the state's total pension liability is Aug. 31, 2021. The schedule of changes in the state's total pension liability for the fiscal year ended Aug. 31, 2022 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, 2021 (Amounts in Thousands)

Schedule of Changes	Total Pension Liability
Service Cost	$ 307
Interest on the Total Pension Liability	5,142
Difference Between Expected and Actual Experience of the Total Pension Liability	(5,425)
Assumption Changes[2]	7,040
Benefit Payments and Refunds	(18,712)
Net Change in Total Pension Liability	(11,648)
Total Pension Liability – Beginning	229,874
Total Pension Liability – Ending	$ 218,226

[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, 2022, the state recognized pension expense of $7.1 million for the JRS1 Plan. Since the expected remaining service lives is one year, at Aug. 31, 2022, 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 $17.8 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, 2023.

Teacher Retirement System of Texas (TRS)

Teacher Retirement System of Texas Plan (TRS Plan)

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

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

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provisions of the TRS Plan are authorized by state law and may be amended by the Texas Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before Aug. 31, 2005, and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic cost-of-living adjustments.

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

The state is both an employer and a nonemployer contributing entity under the TRS Plan. The state makes contributions to the plan for its employees as well as the employees of the Texas public school districts. During the measurement period of 2021 for fiscal

2022 reporting, the amount of the state's contributions recognized by the plan was $710.8 million for the state as an employer and $2.1 billion for the state as a nonemployer contributing entity. Similar to the ERS, LECOS and JRS2 Plans, the contribution rates are based on a percentage of the monthly gross compensation for each member. The contribution requirements for the state and the members in the measurement period of fiscal 2021 are presented in table 9N.

Required Contribution Rates

Table 9N: Teacher Retirement System of Texas Plan

For the Fiscal Year Ended August 31, 2022

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

The actuarial valuation was performed as of Aug. 31, 2020. Update procedures were used to roll forward the total pension liability to Aug. 31, 2021. Table 9O presents the actuarial methods and assumptions used to measure the total pension liability for the TRS Plan as of the Aug. 31, 2021 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, 2022

Description	
Actuarial Valuation Date	Aug. 31, 2020, rolled forward to Aug. 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Actuarial Assumptions:	
Discount Rate	7.25 %
Long-term Expected Return	7.25 %
Municipal Bond Rate	1.95%[1]
Inflation	2.30 %
Salary Increase	3.05% to 9.05% including inflation
Last year ending Aug. 31 in projection period (100 years)	2120
Mortality:	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2018 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

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

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

The discount rate used to measure the total pension liability for the TRS Plan was 7.25 percent as of the end of the measurement year, the same as the discount rate used as of the beginning of the measurement year. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 1.95 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and nonemployer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 8.5 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent over the next several years. This includes a factor for all employer and state contributions for active and rehired retirees. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

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

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

Target Allocations

Table 9P: Teacher Retirement System of Texas Plan

August 31, 2022

Asset Class	Target Allocation[1]	Long-Term Expected Geometric Real Rate of Return[2]	Expected Contribution to Long Term Portfolio Returns
Global Equity			
U.S.	18.00%	3.60%	0.94%
Non-U.S. Developed	13.00%	4.40%	0.83%
Emerging Markets	9.00%	4.60%	0.74%
Private Equity	14.00%	6.30%	1.36%
Stable Value			
Government Bonds	16.00%	(0.20)%	0.01%
Absolute Return	0.00%	1.10%	0.00%
Stable Value Hedge Funds	5.00%	2.20%	0.12%
Real Return			
Real Estate	15.00%	4.50%	1.00%
Energy, Natural Resources and Infrastructure	6.00%	4.70%	0.35%
Commodities	0.00%	1.70%	0.00%
Risk Parity			
Risk Parity	8.00%	2.80%	0.28%
Asset Allocation Leverage			
Cash	2.00%	(0.70)%	(0.01)%
Asset Allocation Leverage	(6.00)%	(0.50)%	0.03%
Inflation Expectation			2.20%
Volatility Drag[3]			(0.95)%
Total	100.00%		6.90%

[1] Target allocations are based on the fiscal year 2021 policy model.
[2] Capital market assumptions come from Aon Hewitt as of Aug. 31, 2021.
[3] The volatility drag results from the conversion between arithmetic and geometric mean returns.

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

Sensitivity of Net Pension Liability to Changes in Discount Rate

Table 9Q: Teacher Retirement System of Texas Plan

August 31, 2022 (Amounts in Thousands)

State as:	1% Decrease	Current Discount Rate	1% Increase
Employer			
Discount Rate	6.25%	7.25%	8.25%
NPL	$ 9,268,363	$ 4,241,505	$ 163,198
Nonemployer Contributing Entity			
Discount Rate	6.25%	7.25%	8.25%
NPL	$ 27,913,007	$ 12,773,904	$ 491,496

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 2021 ACFR.

At Aug. 31, 2022, the state reported a liability of $4.2 billion for its proportionate share of the collective net pension liability as an employer and a liability of $12.8 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, 2021, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2020, rolled forward to Aug. 31, 2021. The state's proportion decreased from 16.76 percent at Aug. 31, 2020, to 16.66 percent at Aug. 31, 2021, and decreased from 51.09 percent to 50.16 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, 2020 through Aug. 31, 2021.

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, 2022, the state recognized pension expense of $174.1 million and grant expense of $51.1 million for the TRS Plan. At Aug. 31, 2022, 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, 2022 (Amounts in Thousands)

	State as Employer		State as Nonemployer Contributing Entity	
Deferral Type	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ 7,098	$ 298,605	$ 21,377	$ 899,293
Changes of assumptions	1,499,289	653,562	4,515,325	1,968,295
Net difference between projected and actual investment return		3,556,447		10,710,753
Change in proportion and contribution difference	979,632	843,985	427,958	905,686
Contributions subsequent to the measurement date	832,399		2,153,483	
Total	$ 3,318,418	$ 5,352,599	$ 7,118,143	$ 14,484,027

The $832.4 million and $2.2 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, 2023.

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, 2022 (Amounts in Thousands)

Year Ended Aug. 31:	State as Employer (Pension Expense[1])	State as Nonemployer Contributing Entity (Grant Expense[1])
2023	$ (422,511)	$ (1,781,028)
2024	(464,260)	(1,753,768)
2025	(803,972)	(2,599,575)
2026	(1,110,866)	(3,214,104)
2027	(54,488)	(125,098)
Thereafter	(10,483)	(45,793)

[1]Negative amounts indicate decrease in pension/grant expense.

During the measurement period of fiscal 2022, the actuarial assumptions used in the determination of the total pension liability were based on the same assumptions used in the actuarial valuation as of Aug. 31, 2021. The actuarial assumptions and methods have been modified since the determination of the prior year's net pension liability. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7 percent. The TRS Plan's net pension liability is expected to increase by $33.9 billion for fiscal 2023 due primarily to a $17.6 billion decrease in the TRS Plan's fiduciary net position. Although annualized rates of return for the 5-year and 10-year period ending Aug. 31, 2022 remain in excess of the long-term investment return assumption of 7%, global markets retreated from all time highs in early 2022 and saw a rise in market volatility, resulting in a bear market phase. The state's proportionate share is estimated to increase $5.6 billion and $17 billion for its role as an employer and nonemployer contributing entity, respectively.

Texas Emergency Services Retirement System (TESRS)

Texas Emergency Services Retirement System Plan (TESRS Plan)

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

The TESRS Plan provides pension benefits for emergency services personnel who serve without significant monetary remuneration through participating fire or emergency services departments within the state. The TESRS Plan provides pension benefits to members with vested service and their beneficiaries as well as death and disability benefits to active volunteer fire fighters and first responders. The benefit and contribution provisions of the TESRS Plan are set by the TESRS board authorized by state law (*Texas Government Code*, Title 8, Subtitle H) and may be amended by the board. Members are 50 percent vested after the tenth year of service, with the vesting percent increasing 10 percent for each of the next five years of service. For a vested member, the monthly pension benefit equals the member's vested percent multiplied by six times the average monthly contribution of the governing body (of the participating department) over the member's years of qualified service. For years of service in excess of 15 years, the monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic post-retirement benefit changes.

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

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

Part Two contributions: In case the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation, an actuarially determined contribution not to exceed 15 percent of the Part One contributions is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of Aug. 31, 2020, the Part Two contributions are not required for an adequate contribution arrangement.

The state of Texas is not an employer of the members under the TESRS Plan. However, the state makes contributions directly to the TESRS Plan for members of the participating fire or emergency services departments in the state. During the measurement period of 2021 for fiscal 2022 reporting, the amount of the state's contributions recognized by the TESRS Plan was $1.3 million.

The total pension liability is determined by an actuarial valuation as of Aug. 31, 2020 and rolled forward to Aug. 31, 2021. Table 9T presents the actuarial methods and assumptions used to measure the total pension liability for the TESRS Plan as of the Aug. 31, 2021 measurement date. The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study from 2020 as indicated by Rudd and Wisdom, Inc., TESRS' actuary. There have been no changes of actuarial methods and benefit terms since the prior measurement date. There have been no changes to the benefit provisions since the prior measurement date.

Actuarial Methods and Assumptions

Table 9T: Texas Emergency Services Retirement System Plan
As of August 31, 2022

Description	Actuarial Method/Assumption
Actuarial Valuation Date	Aug. 31, 2020, rolled forward to Aug. 31, 2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Actuarial Assumptions:	
Discount Rate	7.5%
Investment Rate of Return	7.5%
Inflation	3%
Salary Increase	N/A
Mortality	PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019
Ad Hoc Post-Retirement Benefit Changes	None

The discount rate of 7.5 percent was applied to measure the total pension liability. 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, 2020 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability in 30 years using the level dollar amortization method. Because of the 30-year amortization period with the amortization method, TESRS Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on the TESRS Plan investments was applied to all periods of projected benefit payments without incorporating the municipal bond rate.

The long-term expected net real rate of return on the TESRS Plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments and inflation factor. Under this method, expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighing the expected future net real rates of return by the target asset allocation percentage and by adding expected inflation. In addition, the final 7.5 percent assumption was selected by rounding down.

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

Target Allocations

Table 9U: Texas Emergency Services Retirement System Plan
August 31, 2022

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

[1]The above components are weighted to arrive at an average of 4.60%, which is added to the expected inflation of 3%, The final rate of 7.5% assumption was selected by rounding down.

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

Sensitivity of Net Pension Liability to Changes in Discount Rate

Table 9V: Texas Emergency Services Retirement System Plan
August 31, 2022 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.50%	7.50%	8.50%
Net Pension Liability	$ 9,652	$ 2,953	$ (1,519)

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 six months. 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 fair 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 2021 audited Annual Financial Report at the website **www.tesrs.org/financial-information**.

At Aug. 31, 2022, the state reported a liability of $3 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, 2021, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of Aug. 31, 2020. Update procedures were used to roll forward the total pension liability to the measurement date of Aug. 31, 2021. The state's proportion as a nonemployer contributing entity decreased from 28.51 percent at Aug. 31, 2020 to 27.56 percent at Aug. 31, 2021. The state's proportion of the collective net pension liability was based on a fiscal 2021 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. Amounts recognized in pension expense represent changes between current and prior measurement dates. For the fiscal year ended Aug. 31, 2022, the state recognized negative grant expense of $268 thousand for the TESRS Plan, mainly due to the amortization of differences between projected and actual earnings on plan investments. At Aug. 31, 2022, 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, 2022 (Amounts in Thousands)

	State as Nonemployer Contributing Entity	
Deferral Type	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference Between Expected and Actual Experience	$	$ 117
Change of Assumptions		4
Net Difference Between Projected and Actual Investment Return		2,765
Change in Proportion and Contribution Difference	23	293
Contributions Subsequent to the Measurement Date	1,263	
Total TESRS Plan	$ 1,286	$ 3,179

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

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

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

Table 9X: Texas Emergency Services Retirement System Plan
August 31, 2022 (Amounts in Thousands)

Year Ended Aug. 31:	State as Nonemployer Contributing Entity (Grant Expense[1])
2023	$(977)
2024	(553)
2025	(906)
2026	(719)
2027	
Thereafter	

[1] Negative amounts indicate decrease in grant expense;

Physicians Referral Service (PRS) Supplemental Retirement Plan (SRP) Retirement Benefit Plan (RBP)

GASB Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* supersedes GASB Statement No. 32 – *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which held that *Internal Revenue Code (IRC)* section 457 plans were viewed as tax-deferred employee savings plans. Due to changes in tax law, GASB Statement No. 97 states that an IRC section 457 plan should be classified as either a pension plan or an other employee benefit plan.

The University of Texas MD Anderson Cancer Center (MD Anderson), a component university of the University of Texas System (UT System), offers two *IRC* section 457(f) plans in accordance with *Texas Government Code (TGC)*, Title 6, Subtitle A, Subchapter D. The Physicians Referral Service Supplemental Retirement Plan (SRP) and the Retirement Benefit Plan (RBP) are single-employer noncontributory defined benefit pension plans that are not administered through trust. The plan administrator is the PRS Executive Council and the Retirement Board acts as the advisory to the council. The President of MD Anderson is the chair of the PRS Executive Council and has the ultimate decision authority.

The assets of the SRP/RBP Plans of approximately $585 million at Aug. 31, 2022 are measured at fair value and presented as restricted investments in the UT Systems' statement of net position. The plan assets are not held in trust and the plan assets remain subject to the claims of the general creditors of MD Anderson.

Pension expense for fiscal year 2022 is $70.3 million.

Eligible employees of MD Anderson prior to July 1, 1986 may participate in the SRP. Eligible employees include physicians with a license to practice medicine in the state of Texas, other individuals with certain advanced degrees and individuals elected to membership by the Executive Council of PRS as an administrative staff officer. No new members have been admitted to the SRP since May 31, 1989 as the SRP is closed to new entrants. In general, participants are fully vested in the SRP after five years of credited service. Former participants not in active service on Jan. 1, 1985, require ten years of credited service as required by previous plan provisions. An active member receives full retirement benefits based on the SRP payment formula at age 65, age 60 with 20 years of credited service, or age 55 with 25 years of credited service. A vested member who becomes inactive for any reason other than death or retirement is entitled to an earned retirement allowance. This is a deferred allowance with benefit payments beginning at the former participant's normal retirement age. Participants in the SRP are not taxed on the employer's contributions made until benefits are paid since the SRP is grandfathered under the provisions of *IRC* section 457.

On Sept. 1, 1990, PRS established the RBP. Eligible employees may participate in the RBP upon the later of their employment date or Sept. 1, 1990. Employees who were eligible for the SRP because of their employment date had a one-time option to become members of the RBP and forego membership in the SRP. The amount of a participant's benefit is equal to each participant's account balance, as outlined in the RBP provisions. In general, a participant's account balance is equal to a stated percentage of annual compensation for each year of service plus a provision for annual interest credits. The earnings credit percentage is equal to the Moody's Average Corporate Bond yield determined as of the first day of such plan year. Participants are taxed on the employer's contributions made when the contributions become vested. Participants become vested in their account balances after five years of service. Any vested member who becomes inactive for any reason other than death or retirement and has not attained the age of 55 will have his or her account maintained under RBP until retirement and earn half the interest credits of active participants. Upon vesting, participants are subject to federal and Social Security taxes on the amount of deferred compensation. MD Anderson pays the taxes to, or on behalf of participants. These amounts are reflected as a liability on MD Anderson's financial statements.

The membership data for the SRP/RBP Plans as of the measurement date of Sept. 1, 2021 is presented in table 9Y.

Membership Data

Table 9Y: SRP/RBP Plans

As of Measurement Date of September 1, 2021

Type of Member	SRP/RBP
Inactive employees receiving benefit payments	508
Inactive employees entitled to but not yet receiving benefit payments	279
Active employees	1,597
Total	2,384

The total pension liability for the SRP/RBP Plans is determined by an annual actuarial valuation. Table 9Z presents the actuarial methods and assumptions used to measure the total pension liability as of the Sept. 1, 2021 measurement date.

Actuarial Methods and Assumptions

Table 9Z: SRP/RBP Plans

As of August 31, 2022

Description	Actuarial Method/Assumption
Actuarial Valuation Date	September 1, 2021
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Average Remaining Service Life
Asset Valuation Method	NA - Unfunded Plan
Actuarial Assumptions:	
Discount Rate[1]	2.14 %
Inflation	NA
Rate of Compensation Increase	4.00 %
Ad Hoc Post-Retirement Benefit Changes	None
Mortality	The mortality table is based on the final report of RP-2014 Mortality Tables and MP-2014 mortality improvement scale as published by the Society of Actuaries' (SOA's) Retirement Plans Experience Committee, with adjustments that align with the SOA's subsequent release of updates to mortality improvement scales. Other key demographic assumptions, such as Termination and Retirement, are based upon a review of the PRS participant experience. This experience study is documented in the Assumption Rationale as last being conducted in 2021.

[1]The discount rate was determined using the 20-year yields on the Bond Buyer 20-Bond GO Index as of Aug. 31 2021.

The discount rate of 2.14 percent was applied to measure the total pension liability. The discount rate decreased from 2.20 percent as of Sept. 1, 2020 to 2.14 percent as of Sept. 1, 2021. There were no other changes in assumptions. There have been no changes to the benefit provisions of the SRP/RBP Plan since the prior measurement date. Sensitivity analysis was performed on the impact of changes in the discount rate on MD Anderson's total pension liability. The results of the analysis for the SRP/RBP Plans are presented in table 9AA.

Sensitivity of Total Pension Liability to Changes in Discount Rate

Table 9AA: SRP/RBP Plans

August 31, 2022 (Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.14%	2.14%	3.14%
Total Pension Liability	$ 1,150,981	$ 1,046,052	$ 955,425

At Aug. 31, 2022 MD Anderson reported a total pension liability of $1 billion for the SRP/RBP Plans. The schedule of changes in the state's total pension liability for the fiscal year ended Aug. 31, 2022 is presented in table 9AB.

Schedule of Changes in Total Pension Liability[1]

Table 9AB: SRP/RBP Plans

As of Measurement Date of September 1, 2021

(Amounts in Thousands)

Schedule of Changes	Total Pension Liability
Service Cost	$ 37,989
Interest on the Total Pension Liability	22,899
Changes of Assumption or other inputs[2]	5,813
Benefit Payments and Refunds	(47,006)
Net Change in Total Pension Liability	19,695
Total Pension Liability – Beginning	1,026,357
Total Pension Liability – Ending	$ 1,046,052

[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. Changes in benefit terms and the differences between expected and actual experience are $0. The latter is $0 because the results are calculated as of Sept. 1, 2021 and then rolled back to measurement dates as of Sept. 1, 2020 and 2019.

The $51.5 million reported as deferred outflows of resources resulting from benefit payments subsequent to measurement date will be recognized as a reduction in the total pension liability for the fiscal year ending Aug. 31, 2023. At Aug. 31, 2022, the state reported deferred outflows of resources and deferred inflows of resources related to the SRP/RBP Plans in table 9AC.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 9AC:SRP/RBP Plans

August 31, 2022 (Amounts in Thousands)

Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	$ 58,642	$
Benefit payments subsequent to measurement date	51,531	
Administrative costs subsequent to measurement date	376	
Total	$ 110,549	$ 0

Table 9AD 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 SRP/RBP Plans.

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

Table 9AD:SRP/RBP Plans

August 31, 2022 (Amounts in Thousands)

Year Ended Aug. 31:	
2023	$ 9,911
2024	9,046
2025	9,046
2026	9,046
2027	9,046
Thereafter	12,923

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 2022. 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 2022 resulted in participant contributions of $301.1 million and employer contributions of $360.7 million.

As of Aug. 31, 2022, ORP had 35,649 participants. The total participant contributions were $326 million and total employer contributions were $390.2 million. Additional information for ORP is included in the fiscal 2022 *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 the Employees Retirement System (ERS) Texa$aver 401(k) / 457(b) Program to all state employees. The Texa$aver Program is a deferred compensation plan and is an other employee benefit. Per *Texas Government Code* (*TGC*) Chapter 609.502, the board of trustees of ERS establishes the rules for any deferred compensation plan. The state of Texas does not contribute to either plan in the Texa$aver Program. These plans are established in accordance with *Internal Revenue Code (IRC)*, Section 457(b) and *IRC*, 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.

IRC Section 457(f) plans are also offered by some universities. These plans allow only the employer to make contributions to the plan and contain certain conditions that must be met before distributions from the plan can be made. GASB Statement No. 97 - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* requires that *IRC* Section 457 plans be classified as either a pension plan or as an other employee benefit plan.

The University of Texas System (UT System) offers two deferred compensation plans. The UTSaver Deferred Compensation 457(b) Plan was created in accordance with *IRC*, Section 457(b), where all UT System employees are eligible to participate and do not participate in the plan offered by the state of Texas, per *TGC* Chapter 609.702. 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 UTSaver Executive Deferred Compensation 457(f) Plan is also offered and is in accordance with *IRC* Section 457(f). This plan provides financial incentives in the recruitment of highly qualified candidates for employment and to retain existing employees. It does not provide retirement income nor postemployment benefits.

The Texas A&M University System (A&M System) participates in the ERS Texa$aver 401(k)/ 457(b) Program and additionally offers the Texas A&M University System 457(f) Deferred Compensation Plan. All A&M System employees are eligible to participate in the ERS Texa$aver plan. Participation in the *IRC* 457(f) plan is subject to the approval of the A&M System board of regents, the chancellor or any chancellor-designated member chief executive officer. This 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. Distributions are made during employment as additional compensation. Should a participant in the *IRC* 457(f) plan leave before the distribution date, the deferred amounts are forfeit.

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, 2022, the state recognized OPEB expense of $171.2 million. Of this amount, $915.7 million was incurred as an employer and negative $744.5 million as a nonemployer contributing entity. The reported deferred outflows of resources and deferred inflows of resources related to OPEB are identified in Note 27.

Employees Retirement System of Texas

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

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

Plan Description

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

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

Funding Policy

The state is both an employer and a nonemployer contributing entity in SRHP. The state makes contributions to the SRHP for its employees as well as part of the premiums for the junior and community colleges. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contributions. During the measurement period of 2021, for fiscal 2022 reporting, the amount of the state contributions recognized by the SRHP was $687.6 million for the state as employer and $49.4 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, 2022

Level of Coverage	Employer Monthly Premium Rates
Retiree Only	$ 625
Retiree and Spouse	1,340
Retiree and Children	1,104
Retiree and Family	1,818

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, 2021 for fiscal year ended Aug. 31, 2022.

Actuarial Methods and Assumptions

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

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

Actuarial Methods and Assumptions

Table 11B: State Retiree Health Plan

For the Fiscal Year Ended August 31, 2022

Description	
Actuarial Valuation Date	Aug. 31, 2021
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	Not applicable
Actuarial Assumptions:	
Inflation	2.30 %
Discount Rate	2.14%[1]
Salary Increase	2.30% to 9.05% , includes inflation
Annual Healthcare Trend Rates:	
HealthSelect	5.25% for fiscal 2023, 5.15% for fiscal 2024, 5.00% for fiscal 2025, 4.75% for fiscal 2026, 4.60% for fiscal 2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for fiscal 2030 and later years
HealthSelect Medicare Advantage	0.00% for fiscal 2023, 66.67% for fiscal 2024, 24.00% for fiscal 2025, 4.75% for fiscal 2026, 4.60% for fiscal 2027, decreasing 10 basis points per year to an ultimate rate of 4.30% for fiscal 2030 and later years
Ad Hoc Post-Employment Benefit Changes	None
Mortality:	
State Agency Members:	
Service Retirees, Survivors and other Inactive Members	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020
Disability Retirees	2020 State Retirees of Texas Mortality table with a 3 year set forward for males and females with minimum rates at all ages of 3.0% for males and 2.5% for females, respectively, and Ultimate MP Projection Scale projected from the year 2020
Active Members	Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP Projection Scale from the year 2010
Higher Education Members:	
Service Retirees, Survivors and other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disability Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014

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

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

a. assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on our short-term expectations,
b. the annual rate of increase in the Patient-Centered Outcomes Research Institute Fee payable under the Affordable Care Act has been updated to reflect recent health plan experience and its effects on short-term expectations,
c. assumed expenses directly related to the payment of Group Benefit Program HealthSelect medical benefits have been updated to reflect recent contract revisions,
d. 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,
e. 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
f. the proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement,
g. the percentage of higher education vested terminated members assumed to have terminated less than one year before the valuation date and
h. the discount rate assumption was decreased from 2.20 percent to 2.14 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 2022 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 2.14 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.20 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, 2022
(Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	1.14 %	2.14 %	3.14 %
State as Employer	$ 36,456,336	$ 30,608,879	$ 26,034,117
State as Nonemployer Contributing Entity	$ 2,617,272	$ 2,197,472	$ 1,869,040

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, 2022
(Amounts in Thousands)

Activity	1% Decrease	Current Rate	1% Increase
State as Employer	$ 25,631,333	$ 30,608,879	$ 37,130,350
State as Nonemployer Contributing Entity	$ 1,840,124	$ 2,197,472	$ 2,665,661

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, 2022, the state reported a liability of $30.6 billion for its proportionate share of the collective NOL as an employer, which was comprised of a current portion of $753.8 million and a noncurrent portion of $29.8 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 $54.1 million and a noncurrent portion of $2.1 billion. The collective NOL was measured as of Aug. 31, 2021, and the TOL used to calculate the NOL was determined by an actuarial valuation as of that date. The state's proportion increased from 85.34 percent at Aug. 31, 2020, to 85.32 percent at Aug. 31, 2021, and decreased from 6.12 percent to 6.13 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, 2020 through Aug. 31, 2021.

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, 2022, the state recognized OPEB expense of negative $703.7 million and grant expense of $70.7 million for SRHP. At Aug. 31, 2022, 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, 2022 (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	$	$ 750,801	$	$ 53,902
Changes of Assumptions or Other Inputs	2,095,604	3,409,144	150,448	244,749
Net Difference Between Projected and Actual Investment Return	5,421		389	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	994,996	1,593,367	190,783	49,622
Contributions Subsequent to the Measurement Date	577,892		45,128	
Total	$ 3,673,913	$ 5,753,312	$ 386,748	$ 348,273

The $578 million and $45.1 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, 2023.

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, 2022
(Amounts in Thousands)

Year	State as Employer (OPEB Expense)[1]	State as Nonemployer Contributing Entity (Grant Expense)[1]
2023	$ (1,879,782)	$ (13,758)
2024	(707,999)	22,333
2025	(126,825)	(14,713)
2026	(59,052)	(9,426)
2027	116,367	8,910
Thereafter		

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

Teacher Retirement System of Texas

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

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

Plan Description

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

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

The *General Appropriations Act* passed by the 86th legislative session included funding to maintain TRS-Care premiums at their current level through Aug. 31, 2021. The 86th legislative session also passed Senate Bill 1682 requiring TRS to establish a contingency reserve in the TRS-Care plan's fund equal to 60 days of expenditures. As of the measurement date of Aug. 31, 2021, this amount is estimated at $ 271.3 million.

Funding Policy

The state is a nonemployer contributing entity in TRS-Care per *Texas Insurance Code*, Chapter 1575. There is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding is provided by retiree premiums, state contributions, active members and participating employers based on active member compensation. The Board does not have the authority to set or amend contribution rates. The *Texas Insurance Code*, Chapter 1575, Sections 202-204 establishes the contribution rates, while the *General Appropriations Act* from each legislative session establishes the actual public school contribution rate. Employers are also required to pay a surcharge of $535 per month when employing a retiree of TRS. During the measurement period of 2021, for fiscal 2022 reporting, the amount of the state contributions recognized by the TRS-Care plan was $452.9 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, 2022

(Amounts in Thousands)

	Contribution	
Contributor	**Rate**	**Amount**
Active Employee	0.65%	$ 250,414
Nonemployer Contributing Entity (State)	1.25%	447,338
Participating Employer	0.75%	288,924
Federal/Private Funding[1]	1.25%	34,227
Total		$ 1,020,903

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

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

Measurement Date

TRS has elected to use a measurement date that is twelve months in advance of the fiscal year, with a measurement date of Aug. 31, 2021 for fiscal year ended Aug. 31, 2022.

Actuarial Methods and Assumptions

The actuarial valuation was performed as of Aug. 31, 2020. Update procedures were used to roll forward the total OPEB liability (TOL) to Aug. 31, 2021. 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, 2022

Description	
Actuarial Valuation Date	Aug. 31, 2020, rolled forward to Aug. 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Actuarial Assumptions:	
Inflation	2.30 %
Discount Rate	1.95%[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 8.5% for Medicare retirees and 7.1% for non-Medicare retirees. Initial prescription drug trend rate of 8.5% for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 12 years.
Election Rates	Normal Retirement Participation: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad Hoc Post-Employment Benefit Changes	None
Demographic	The rates of mortality, retirement, termination and disability incidence are identical to the assumptions used to value the pension liabilities of TRS. These assumptions were developed in the experience study performed by TRS for the period ending Aug. 31, 2017.
Mortality:	
Post-Retirement	Tables based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with projection on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90%, with projection on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018

[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, 2021.

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

a. The discount rate changed from 2.33 percent as of Aug. 31, 2020 to 1.95 percent as of Aug. 31, 2021 (increased TOL).

b. 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 1.95 percent as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.33 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, 2022

(Amounts in Thousands)

Activity	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	0.95%	1.95%	2.95%
Balance	$ 26,643,318	$ 22,088,083	$ 18,502,965

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, 2022

(Amounts in Thousands)

Activity	1% Decrease	Current Rate	1% Increase
Balance	$ 17,890,615	$ 22,088,083	$ 27,720,042

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, 2022, the state reported a liability of $22.1 billion for its proportionate share of the collective NOL as nonemployer contributing entity, with a noncurrent portion of $22.1 billion. The collective NOL was measured as of Aug. 31, 2021 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 57.33 percent at Aug. 31, 2020, to 57.26 percent at Aug. 31, 2021. The state's proportion of the collective NOL was based on its contributions to the OPEB plan relative to the contributions of all employers and nonemployer contributing entity to the TRS-Care for the period Sept. 1, 2020 through Aug. 31, 2021.

For the fiscal year ended Aug. 31, 2022, the state recognized grant expense of negative $815.2 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, 2022 (Amounts in Thousands)

Deferral Type	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	$ 950,997	$ 10,692,177
Changes of Assumptions or Other Inputs	2,446,513	4,671,221
Net Difference Between Projected and Actual Investment Return	23,981	
Changes in Proportion and Difference Between Employer Contributions and Proportionate Share	134,260	542,523
Contributions Subsequent to the Measurement Date	451,341	
Total	$ 4,007,092	$ 15,905,921

The $451.3 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, 2023.

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.

During the measurement period of fiscal 2022, the following TRS-Care plan changes were updated by TRS. TRS increased the discount rate from 1.95 percent to 3.91 percent, lowered the participation rates and updated the health care trend rate assumption. This is expected to decrease TRS-Care's NOL by $14.6 billion for fiscal year 2023 of which the state's proportionate share is estimated to decrease $8.4 billion for its role as nonemployer contributing entity.

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, 2022
(Amounts in Thousands)

Year	Grand Expense[1]
2023	$ (2,410,470)
2024	(2,411,011)
2025	(2,410,862)
2026	(1,829,439)
2027	(1,042,300)
Thereafter	(2,246,088)

[1] Negative amounts indicate decrease in grant expense.

A&M System and UT System

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

The A&M System and the UT System each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses:

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

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

Plan Descriptions

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

Employees Covered by Benefit Terms

Table 11M: A&M System and UT System
For the Fiscal Year Ended August 31, 2022

Type of Member	A&M Plan	UT Plan
Measurement Date	Sep. 1, 2021	Dec. 31, 2021
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	11,156	31,104
Inactive Employees Entitled to But Not Yet Receiving Benefit Payments	3,389	15,091
Active Members	24,029	104,546
Total	38,574	150,741

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 2021, for fiscal 2022 reporting, the amount of state employer benefit payments recognized by the A&M Plan was $75.8 million and the UT Plan was $221.2 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, 2022

Level of Coverage	A&M Plan	UT Plan
Retiree Only	$ 677	$ 628
Retiree and Spouse	1,239	957
Retiree and Children	1,067	839
Retiree and Family	1,468	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, 2021 for fiscal year ended Aug. 31, 2022.

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, 2021 for fiscal year ended Aug. 31, 2022.

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.

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

a. the discount rate has changed for the A&M and UT Plans,
b. the percentage of eligible terminated employees who are assumed to participate in the A&M Plan as a result of A&M system being the terminated employee's last state employer has been updated to refelect expected trends,

Actuarial Methods and Assumptions

Table 11O - A&M System and UT System

For the Fiscal Year Ended August 31, 2022

Description	A&M Plan	UT Plan
Actuarial Valuation Date	Sep. 1, 2021	Dec. 31, 2021
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	2.14%[1]	2.06%[1]
Healthcare Cost and Trend Rate:		
Medical	6.00% for fiscal 2023, 5.50% for fiscal 2024, 5.25% for fiscal 2025, 5.00% for fiscal 2026, 4.75% for fiscal 2027, 4.60% for fiscal 2028, 4.50% for fiscal 2029, 4.40% for fiscal 2030 and 4.30% for fiscal 2031 and later years	6.00% for fiscal 2023, 5.50% for fiscal 2024, 5.25% for fiscal 2025, 5.00% for fiscal 2026, 4.75% for fiscal 2027, 4.60% for fiscal 2028, 4.50% for fiscal 2029, 4.40% for fiscal 2030 and 4.30% for fiscal 2031 and later years
Pharmacy	10.50% for fiscal 2023, 10.00% for fiscal 2024, 9.50% for fiscal 2025, 9.00% for fiscal 2026, 8.00% for fiscal 2027, 7.00% for fiscal 2028, 6.00% for fiscal 2029, 5.00% for fiscal 2030 and 4.30% for fiscal 2031 and later years	10.50% for fiscal 2023, 10.00% for fiscal 2024, 9.50% for fiscal 2025, 9.00% for fiscal 2026, 8.00% for fiscal 2027, 7.00% for fiscal 2028, 6.00% for fiscal 2029, 5.00% for fiscal 2030 and 4.30% for fiscal 2031 and later years
Mortality:		
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018
Disabled Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members	Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP Projection Scale from the year 2014
Ad Hoc Post-Employment Benefit Changes	None	None

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

c. the assumed per capita health benefit costs and health benefit cost and retiree contribution trends to reflect recent health plan experience and its effect on short-term expectations for the A&M and UT Plans,
d. the expenses directly related to the payment of the A&M and UT Plans' health benefits and
e. the Patient-Centered Outcome Research Institute fees payable under the Affordable Care Act have been updated to reflect Internal Revenue Service Notice 2020-44 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 2.14 percent for the A&M Plan and 2.06 percent for the UT Plan, as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.20 percent and 2.12 percent, respectively.

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

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

Sensitivity of Total OPEB Liability to Changes in Discount Rate

Table 11P: A&M System and UT System
For the Fiscal Year Ended August 31, 2022
(Amounts in Thousands)

University System Plan	1% Decrease	Current Discount Rate	1% Increase
A&M Plan:			
Discount Rate	1.14 %	2.14 %	3.14 %
Balance	$ 5,846,739	$ 4,836,457	$ 4,053,301
UT Plan:			
Discount Rate	1.06 %	2.06 %	3.06 %
Balance	$ 21,887,386	$ 17,935,545	$ 14,898,344

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, 2022
(Amounts in Thousands)

University System Plan	1% Decrease	Current Rate	1% Increase
A&M Plan	$ 3,979,485	$ 4,836,457	$ 5,984,700
UT Plan	$ 14,553,368	$ 17,935,545	$ 22,525,124

Total OPEB Liability, Deferrals, and OPEB Expense

At Aug. 31, 2022, the state reported a liability of $4.8 billion for the A&M Plan and $17.9 billion for the UT Plan. The A&M Plan's TOL is comprised of a current portion of $96.5 million and a noncurrent portion of $4.7 billion, and the UT Plan's TOL is comprised of a current portion of $297.4 million and a noncurrent portion of $17.6 billion. The UT Plan restated fiscal 2021 to correct for the effects of census data errors and resultant changes to actuarial assumptions used to calculate the plan's TOL. This decreased the UT Plan's beginning TOL from $17.5 billion to $14.6 billion for fiscal 2022. 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, 2021 and Dec. 31, 2021 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, 2022
(Amounts in Thousands)

Schedule of Changes	A&M Plan	UT Plan
Measurement Date	Sept. 1, 2021	Dec. 31, 2021
Total OPEB Liability		
Service Cost	$ 193,377	$ 864,121
Interest on the Total OPEB Liability	101,058	325,444
Difference Between Expected and Actual Experience	(373,018)	196,327
Changes of Assumptions or Other Inputs	552,762	2,173,265
Benefit Payments (Employer)	(75,817)	(221,214)
Net Change in Total OPEB Liability	398,362	3,337,943
Total OPEB Liability – Beginning	4,438,095	14,597,602
Total OPEB Liability – Ending	$ 4,836,457	$ 17,935,545

For the fiscal year ended Aug. 31, 2022, the state recognized OPEB expense of $321.5 million for the A&M Plan and $1.3 billion for the UT Plan, respectively. At Aug. 31, 2022, 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, 2022 (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	$	$ 389,837	$ 173,338	$ 135,157
Changes of Assumptions or Other Inputs	1,072,913	384,421	3,504,141	1,446,105
Transactions Subsequent to the Measurement Date	82,243		171,933	
Total	$ 1,155,156	$ 774,258	$ 3,849,412	$ 1,581,262

[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 $82.2 million reported as deferred outflows of resources for the A&M Plan and $171.9 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, 2023.

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, 2022
(Amounts in Thousands)

Year	A&M Plan	UT Plan
2023	$ 16,947	$ 105,587
2024	3,655	105,587
2025	110,342	167,545
2026	109,465	304,840
2027	55,591	371,400
Thereafter	2,656	1,041,260

[1] Positive amounts indicate an increase 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 $3.4 billion transfer from the property tax relief fund and a $2 billion transfer from the lottery fund to the foundation school fund for educational programs. There is a $2.1 billion transfer from the permanent school fund to the available school fund. There is $3.6 billion due from amount for the state highway fund from the Texas Comptroller of Public Accounts' office related to a November 2014 amendment to Article III, Section 49-g of the *Texas Constitution*. Under the amendment, a portion of the funds collected and deposited in the general revenue fund are transferred equally to the economic stabilization fund and the state highway fund. The funds were transferred to the state highway fund in November 2022.

The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2022, are presented in tables 12A-E.

Interfund Receivables/Payables

Table 12A

August 31, 2022 (Amounts in Thousands)

Fund Type	Current Interfund Receivables	Current Interfund Payables	Noncurrent Interfund Receivables	Noncurrent Interfund Payables	Total Interfund Receivables	Total Interfund Payables
GOVERNMENTAL FUNDS						
General Fund	$ 1,861	$ 17	$ 15,016	$	$ 16,877	$ 17
Nonmajor Governmental Funds	19	33			19	33
Total Governmental Funds	1,880	50	15,016	0	16,896	50
PROPRIETARY FUNDS						
Colleges and Universities	57,946	59,773	1,423,210	1,438,226	1,481,156	1,497,999
Nonmajor Enterprise Funds		3				3
Total Proprietary Funds	57,946	59,776	1,423,210	1,438,226	1,481,156	1,498,002
Total Interfund Receivables/Payables	$ 59,826	$ 59,826	$ 1,438,226	$ 1,438,226	$ 1,498,052	$ 1,498,052

Due From/Due To

Table 12B

August 31, 2022 (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	$ 452,334	$	$	$ 5,910,914	$	$
State Highway Fund	3,918,043			36,458		
Permanent School Fund	2			61		
Nonmajor Governmental Funds	429,401			11,957		
Total Governmental Funds	4,799,780	0	0	5,959,390	0	0
PROPRIETARY FUNDS						
Colleges and Universities	1,473,668			278,994		
Unemployment Trust Fund	7,968					
Lottery Fund				122,600		
Water Development Board Funds				4,269		
Nonmajor Enterprise Funds	120,333			22,234		
Internal Service Fund	3,546			15,614		
Total Proprietary Funds	1,605,515	0	0	443,711	0	0
FIDUCIARY FUNDS						
Pension and Other Employee Benefit Trust Funds	54,486			56,680		
Total Fiduciary Funds	54,486	0	0	56,680	0	0
Total Due From/Due To	$ 6,459,781	$ 0	$ 0	$ 6,459,781	$ 0	$ 0

Transfers In/Transfers Out

Table 12C

For the Fiscal Year Ended August 31, 2022

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
GOVERNMENTAL FUNDS		
General Fund	$ 10,215,549	$ 19,101,174
State Highway Fund	4,026,052	752,932
Permanent School Fund		2,145,708
Nonmajor Governmental Funds	3,936,660	5,893,222
Total Governmental Funds	18,178,261	27,893,036
PROPRIETARY FUNDS		
Colleges and Universities	8,073,803	3,466,843
Unemployment Trust Fund	7,083,736	
Lottery Fund		1,998,417
Water Development Funds	34,611	12,890
Nonmajor Enterprise Funds	25,676	36,358
Total Proprietary Funds	15,217,826	5,514,508
FIDUCIARY FUNDS		
Pension and Other Employee Benefit Trust Funds	149,998	148,735
Private-Purpose Trust Funds	10,000	
Custodial Funds	774	580
Total Fiduciary Funds	160,772	149,315
Total Transfers In/Transfers Out	$ 33,556,859	$ 33,556,859

Internal Balances per the Government-wide Financial Statements

Table 12D

August 31, 2022 (Amounts in Thousands)

Internal Balances	Governmental Activities	Business-Type Activities	Total
Noncurrent Assets	$ 15,016	$ (15,016)	$ 0
Current Liabilities	$ 1,172,043	$ (1,172,043)	$ 0

Transfers – Internal Activities per the Government-wide Financial Statements

Table 12E

For the Fiscal Year Ended August 31, 2022

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$ (9,708,156)
Business-Type Activities	$ 9,708,156

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, 2022, 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 $33.9 billion governmental funds total unassigned fund balance, $14.4 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, 2022 (Amounts in Thousands)

Governmental Fund	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Nonspendable for:					
Inventory	$ 219,593	$ 144,050	$	$ 1,315	$ 364,958
Long-term Receivables	475,795				475,795
Permanent Principal	20,000		55,025,239	1,042,869	56,088,108
Prepaid Items	9,439			34	9,473
Total Nonspendable	724,827	144,050	55,025,239	1,044,218	56,938,334
Restricted for:					
Capital Purposes	163,790			540,852	704,642
Debt Service				311,835	311,835
Economic and Consumer Affairs	505,119			52,404	557,523
Education – Public Schools	584,229		1,785,424	1,295,156	3,664,809
Education – Loan Programs				1,354,781	1,354,781
Environment and Natural Resources - Other	153,068			54,291	207,359
Environment and Natural Resources - Water Programs	422			3,407,836	3,408,258
General Government[1]	173,362			41,362	214,724
Parks and Recreation	390,654			3,092	393,746
Public Health and Welfare – Federal Programs	47,823				47,823
Public Health and Welfare – Public Programs	708,651			141,311	849,962
Public Safety and Criminal Justice	151,073			11,763	162,836
Public Safety and Criminal Justice – Law Enforcement	20,809			13,312	34,121
Regulatory Agencies				19,526	19,526
Transportation – Construction		7,576,936			7,576,936
Transportation – Licensing and Regulation		118,592			118,592
Transportation – Maintenance		431,538			431,538
Transportation – Other	10,108	2,726,314		448,360	3,184,782
Total Restricted	2,909,108	10,853,380	1,785,424	7,695,881	23,243,793

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, 2022 (Amounts in Thousands)

Governmental Fund	General Fund	State Highway Fund	Permanent School Fund	Other Funds	TOTAL
Committed to:					
Capital Purposes	$ 47,865	$	$	$	$ 47,865
Economic and Consumer Affairs	871,363				871,363
Education – Public Schools	1,758,796			13,431	1,772,227
Education – Loan Programs	266,224				266,224
Environment and Natural Resources - Other	3,093,986				3,093,986
Environment and Natural Resources Water Programs	75,198				75,198
General Government[1]	571,498			24,079	595,577
Parks and Recreation	126,054				126,054
Public Health and Welfare – Federal Programs	254				254
Public Health and Welfare – Public Programs	411,129				411,129
Public Safety and Criminal Justice	130,006				130,006
Public Safety and Criminal Justice – Corrections	27,180			54,978	82,158
Public Safety and Criminal Justice – Law Enforcement	35				35
Regulatory Agencies					
Transportation – Construction		445,972			445,972
Transportation – Maintenance		25,400			25,400
Transportation – Other		160,468		205,441	365,909
Total Committed	7,379,588	631,840	0	297,929	8,309,357
Assigned to:					
Economic and Consumer Affairs	573				573
Education	301				301
Environment and Natural Resources - Other	3,574				3,574
General Government[1]	1,752				1,752
Public Safety and Criminal Justice – Corrections	34,245				34,245
Public Health and Welfare	165				165
Transportation – Construction		651,563			651,563
Transportation – Maintenance		37,109			37,109
Transportation – Other	166	234,444			234,610
Regulatory Agencies	100				100
Total Assigned	40,876	923,116	0	0	963,992
Unassigned:					
Education	(19,877,589)				(19,877,589)
Environment and Natural Resources	(291,030)				(291,030)
General Government[1]	57,700,464			(159,974)	57,540,490
General Government - ESF	14,364,926				14,364,926
Public Health and Welfare	(11,705,617)			(693)	(11,706,310)
Public Safety and Criminal Justice – Corrections	(6,106,002)				(6,106,002)
Regulatory Agencies	75,285				75,285
Transportation	(83,302)			(1,575)	(84,877)
Total Unassigned	34,077,135	0	0	(162,242)	33,914,893
Total Fund Balances – Governmental Funds	$ 45,131,534	$ 12,552,386	$ 56,810,663	$ 8,875,786	$ 123,370,369

[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 2022, 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 2022 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, 2022 (Amounts in Thousands)

Fund Type	Sept. 1, 2021, As Previously Reported	Change in Accounting Principle	Change in Reporting Entity	Correction of Prior Year Errors	Sept. 1, 2021, As Restated
GOVERNMENT-WIDE ACTIVITIES:					
PRIMARY GOVERNMENT:					
Governmental Activities	$ 72,752,717	$ (2,704)	$	$ 507,593	$ 73,257,606
Business-Type Activities	83,671,908	(78)		1,604,507	85,276,337
Total Primary Government	$ 156,424,625	$ (2,782)	$ 0	$ 2,112,100	$ 158,533,943
Discrete Component Units	$ 991,674	$	$ (44)	$ 694	$ 992,324
FUND FINANCIAL STATEMENTS:					
GOVERNMENTAL FUNDS					
Major Governmental Funds:					
General Fund	$ 24,735,817	$ 101	$	$ (125,785)	$ 24,610,133
State Highway Fund	9,626,298	(3,096)			9,623,202
Permanent School Fund	55,624,006			(3)	55,624,003
Nonmajor Governmental Funds:					
Special Revenue Funds	6,899,638			880	6,900,518
Debt Service Funds	602,391				602,391
Capital Project Funds	777,415				777,415
Permanent Funds	1,751,667			48,400	1,800,067
Total Governmental Funds	$ 100,017,232	$ (2,995)	$ 0	$ (76,508)	$ 99,937,729
PROPRIETARY FUNDS					
Major Enterprise Funds:					
Colleges and Universities	$ 82,302,003	$ (78)	$	$ 1,770,141	$ 84,072,066
Unemployment Trust Fund	(5,548,830)			(165,344)	(5,714,174)
Lottery Fund	14,399				14,399
Water Development Board Funds	5,280,754				5,280,754
Nonmajor Enterprise Funds	1,623,581			(290)	1,623,291
Total Proprietary Funds	$ 83,671,907	$ (78)	$ 0	$ 1,604,507	$ 85,276,336
Internal Service Fund	$ 2,967,760	$ 0	$ 0	$ 0	$ 2,967,760
FIDUCIARY FUNDS					
Pension and Other Employee Benefit Trust Funds	$ 240,052,615	$ (285)	$	$	$ 240,052,330
External Investment Trust Funds	29,608,869				29,608,869
Private-Purpose Trust Funds	4,413,954			2,046	4,416,000
Custodial Funds	3,858,537			(46,101)	3,812,436
Total Fiduciary Funds	$ 277,933,975	$ (285)	$ 0	$ (44,055)	$ 277,889,635
Total Reporting Entity[1]	$ 435,350,274	$ (3,067)	$ (44)	$ 2,068,739	$ 437,415,902

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

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

Changes in the Reporting Entity

Texas Tech Research Park, Inc. (TTRP) is a newly identified discretely presented component unit of TTU System which needed a $44 thousand adjustment to create its beginning balance.

Changes in Accounting Principles

The $3 million restatement decrease is to record the effect of the implementation of GASB Statement No.87, Leases. The objective of this statement relates to the establishment of a single model for lease accounting based on the principal that leases are financings of the right to use an underlying asset. Adjustments were made to the State Highway Fund for a decrease of $3.1 million and an increase to the General Fund of $101.3 thousand.

Correction of Prior Year Errors

Government-wide activities: Governmental activities include a restatement increase of $507.6 million. The General Fund decreased by $125.8 million and was primarily offset by an increase of the Capital Assets Fund by $45.1 million and a $539.2 million increase to the OPEB liability. Included in the Capital Assets Fund was an increase of $44.1 million to construction in progress and an increase of $643.7 thousand in capital asset valuation. In addition, there was a $46.1 million decrease in Custodial Funds due to a correction to bonds outstanding and an increase in Private-Purpose Trust Funds of $2 million to correct an error in posting this amount to the General Fund.

Business-type activities include a restatement increase of $1.6 billion primarily due to a change in OPEB liability.

Discrete component units include a restatement increase of $694 thousand for adjustments in investment balances.

Fund Financial Statements-Governmental: The restatements for governmental funds related to the $125.8 million decrease in the General Fund primarily include a decrease of $118.7 million in CARES Act funds, a decrease of $18.7 million in unearned revenues, an $11.5 million decrease for errors in the prior year implementations of GASB Statement No. 84, *Fiduciary Activities*, and an increase of $26.7 million due to audit adjustments.

The restatements for Other Nonmajor Governmental Funds include an $880 thousand increase in Special Revenue Funds due to understating a combination of accounts receivables, pledges receivable, accounts payable and deferred revenues. There was an additional increase in Other Permanent Funds of $48.4 million due to the correction of accounting errors in prior periods.

Fund Financial Statements-Proprietary: The $1.6 billion restatement increase for Colleges and Universities is primarily due to the UT System which had a $1.8 billion correction to its OPEB liability from the use of incorrect census data which resulted in a change to the actuarial assumptions. This was offset by a $165.3 million decrease to the Unemployment Trust Fund due to an overstatement of Federal Receivables.

Restatements to Change in Net Position

Table 14B

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

Fund Type	Sept. 1, 2020 Net Position, As Restated	Change in Net Position Aug. 31, 2021 As Previously Reported	Change in Accounting Principle	Change in Reporting Entity	Correction of Prior Year Errors	Change in Net Position Aug. 31, 2021 as Restated	Net Position Sept. 1, 2021 as Restated
GOVERNMENT-WIDE ACTIVITIES:							
PRIMARY GOVERNMENT:							
Governmental Activities	$ 50,518,446	$ 22,234,271	$ (2,704)	$	$ 507,593	$ 22,739,160	$ 73,257,606
Business-Type Activities	66,523,217	17,148,691	(78)		1,604,507	18,753,120	85,276,337
Total Primary Government	$ 117,041,663	$ 39,382,962	$ (2,782)	$ 0	$ 2,112,100	$ 41,492,280	$ 158,533,943
Discrete Component Units	$ 846,298	$ 145,376	$	$ (44)	$ 694	$ 146,026	$ 992,324

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 has loan commitments of $2.8 billion as of Aug. 31, 2022. The Texas Department of Transportation (TxDOT) has equity loan commitments of $8.9 billion. The $8.9 billion is used by the Grand Parkway Transportation Corporation to pay for certain costs related to development, construction, operation, maintenance and financing of projects in Harris County and possible extensions or expansions of the Grand Parkway in the Houston area.

Investment Funds

As of Aug. 31, 2022, 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, 2022, the remaining commitment was $67.6 billion

Construction and Other Commitments

As of Aug. 31, 2022, TxDOT had contractual commitments of approximately $19.4 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

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

Aug. 31, 2022, there is no unrealized payable for pass-through toll agreement. In addition, TxDOT has equity grant commitments of $160.8 million to various local toll project entities.

The University of North Texas System implemented approximately $381.3 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 $90.5 million for facilities and other improvements, building replacements, building maintenance and repairs, infrastructure and infrastructure maintenance and repairs.

The University of Texas System continues to implement its $6.0 billion capital improvement program, planned for fiscal 2023 through fiscal 2028, to upgrade facilities. Contracts have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

Contingencies

Protested Tax Payments

As of Aug. 31, 2022, pending litigation filed by taxpayers seeking refunds of state taxes totaled $249.7 million. The protested taxes include sales, franchise, insurance and other taxes, as well as statutory interest imposed by *Texas Tax Code*, Section 112.060(a). Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refund liabilities.

Unpaid Claims and Lawsuits

A variety of cases that may affect the state were filed as of Aug. 31, 2022. These claims totaled $245.6 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 $564.6 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.

The funds for the Lost Wages Assistance Program came from the Federal Emergency Management Agency. A small percentage of the unemployment benefits were to individuals who may not have been entitled to receive them whether by error or by fraudulent activities. As of Aug. 31, 2022, this amount is estimated at $4.2 million. It is uncertain if this amount will eventually be remitted to the Federal Emergency Management Agency.

Guaranteed Debt

In 1983, Texas voters approved a constitutional amendment authorizing the guarantee of the permanent school fund (PSF). Approval by the state of Texas attorney general is required for each bond issuance and on approval by the Texas commissioner of education, bonds properly issued by a school district are fully guaranteed by the PSF. In 2011, legislation was enacted further authorizing the use of PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools designated as charter districts by the commissioner of education. As of Aug. 31, 2022, PSF has a defined guarantee capacity of up to $148.8 billion in school district bonds. In the event of default by a school district or charter district, the PSF will transfer to the paying agent/registrar an amount necessary to pay the maturing or matured principal and/or interest to bondholders. As of Aug. 31, 2022, $99.5 billion debt in outstanding bond issues was guaranteed by the PSF for 867 school districts and $3.7 billion for 31 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, 2022, none of the school districts or charter districts with PSF guaranteed debt have defaulted on the debt.

Arbitrage

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

Bond Yield Reduction

Pursuant *Internal Revenue Code*, Section 143(g)(2), pertaining to the effective rate of mortgage interest on home loans originated with proceeds of tax-exempt qualified veterans' mortgage bonds cannot exceed the yield on the applicable bond issue by more than 1.125 percent. To the extent that such limitation is exceeded, the Veterans' Land Board may pay a yield reduction payment to the federal government. As of Aug. 31, 2022 there is an accumulated yield reduction liability of $13.9 million with respect to tax-exempt bonds issued by the Veterans' Land Board.

Derivative Instrument Commitments

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, 2022, the aggregate fair value of all derivative instruments with collateral provisions was negative $429.6 thousand. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. Since the posting requirements were not triggered, TDHCA posted no collateral as of Aug. 31, 2022.

The Teacher Retirement System of Texas (TRS) derivative instrument 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, 2022, the aggregate fair value of all derivative instruments with these provisions was negative $19.5 million, and $131.6 million was posted as collateral. TRS has not triggered any events that would require the posting of additional collateral to its counterparties.

As of Aug. 31, 2022, the Texas General Land Office (GLO) had outstanding natural gas commitments/open positions with third parties valued at negative $28.2 million. Power contracts are priced off Electricity Reliability Council of Texas (ERCOT) grid. The fair value of future cash flows from electric contracts is not reported because the electric service provider is responsible for hedging these transactions and GLO simply has a credit risk related to these future cash flows.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded and Other Debt Financing

State agencies and institutions of higher education issued $2.3 billion in new bonds and $394.7 million in commercial paper since August 31, 2022, as presented in table 16A. There were no refunding bonds issued during this time period. 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, 2022

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
Single Family Revenue Bonds, Series 2022B	$ 190,000	12/21/22	To fund the purchase of mortgage-backed securities guaranteed as timely payments of principal and interest by Government National Mortgage Association.
Residential Mortgage Revenue Bonds, Series 2022B	150,000	10/01/22	To fund the purchase of mortgage-backed securities guaranteed as timely payments of principal and interest by Government National Mortgage Association.
TEXAS PUBLIC FINANCE AUTHORITY			
General Obligation Commercial Paper Notes, Taxable Series A, Cancer Prevention and Research Institute of Texas (CPRIT)	79,500	09/01/22	To fund CPRIT's grant awards.
TEXAS WATER DEVELOPMENT BOARD			
State Water Implementation Revenue Fund for Texas (SWIRFT) Revenue Bonds, Series 2022	961,850	10/13/22	To provide financial assistance for projects in the State Water Plan through the purchase of or entering into political subdivision obligations, and to pay the costs of issuance of the bonds. As a part of the closing on the bonds, $97.7 million was transferred from the State Water Implementation Fund for Texas to SWIRFT.
TEXAS STATE TECHNICAL COLLEGE			
Revenue Financing System Revenue Bonds, Series 2022	298,800	11/15/22	To fund capital projects.
TEXAS WOMAN'S UNIVERSITY			
Revenue Bonds, Series 2022A	93,955	10/06/22	To finance the construction of the Health Science Center on the Denton Campus.

Concluded on the following page

Bonds and Commercial Paper Issued/Refunded Subsequent to August 31, 2022 (concluded)

Table 16A

(Amounts in Thousands)

Description	Amount	Issuance Date	Purpose
TEXAS STATE UNIVERSITY SYSTEM			
Commercial Paper Notes, Tax-Exempt	$ 90,289	09/26/22	To finance capital projects.
Commercial Paper Notes, Tax-Exempt	12,200	11/16/22	To finance capital projects.
Commercial Paper Notes, Tax-Exempt	2,671	01/25/23	To finance capital projects.
TEXAS A&M UNIVERSITY SYSTEM			
Revenue Financing System Bonds, Series 2022	208,520	10/18/22	Provide construction funds for eligible projects, refund $167.8 million of outstanding Tax-Exempt Commercial Paper Notes, and pay the cost of issuing the bonds.
Revenue Financing System Commercial Paper Notes	60,000	12/06/22	To provide interim financing for construction projects.
Revenue Financing System Commercial Paper Notes, Taxable	30,000	12/06/22	To provide interim financing for construction projects.
UNIVERSITY OF TEXAS SYSTEM			
Revenue Financing System (RFS) Commercial Paper Notes, Series A	85,000	09/26/22	To finance a variety of capital projects and equipment purchases.
Permanent University Fund Bonds, Series 2022A	372,915	10/13/22	To finance a variety of capital projects and equipment purchases.
RFS Commercial Paper Notes, Series A	35,000	01/21/23	To finance a variety of capital projects and equipment purchases.
Total Bond and Commercial Paper Issued/Refunded	$ 2,670,700		

Other Subsequent Events

Pursuant to Senate Bill 1232, 87th Legislature, Regular Session, on or after January 1, 2023, all revenue received from mineral or royalty interests, including bonus payments, mineral lease rental revenues, royalties and any other type of revenue received from those interests, less any amount specified by appropriation to be retained by the School Land Board, shall be transferred to the Texas Permanent School Fund Corporation for investment in the Permanent School Fund. In addition, investments identified in the Natural Resources Code, Section 51.001(14) shall transfer to the Corporation on or after January 1, 2023.

As a result of its duties, the Office of the Secretary of State was aware of a potential settlement in progress during fiscal year 2022 and has subsequently made a payment to a claimant / plaintiff for settlements and judgements in October 2022 in the amount of $67 million.

The Office of the Secretary of State also has $3.2 million in restricted funds under Federal ALN 90.404 that were received as part of a federal award that are unspent and will be returned to the federal government in fiscal year 2023.

On September 16, 2022, in accordance with Section 204.123(a) of the Labor Code $19.9 million was transferred from the Employment Training Investment Act (ETIA) Holding Fund to the Skills Development Program since the amount in the Unemployment Trust Fund Account was above the statutorily defined floor as computed under Section 201.061, calculated as one percent of total taxable wages for the four calendar quarters ending June 30, 2022.

In July 2022, the Board of Trustees of the Texas Teachers Retirement System authorized the Executive Director to finalize the agreements related to the sale of the headquarters at 1000 Red River St in Austin. In October 2022, the property was sold for $108 million.

HB 1520, enacted by the 87th Legislature, Regular Session (2021) allows for the Texas Public Finance Authority to provide a method of financing for self-supporting revenue bonds authorized by the Texas Railroad Commission, the proceeds of which would be used to reduce the cost that customers would otherwise experience due to the extraordinary costs that gas utilities incurred during the February 2021 winter storm. The bill authorizes the Authority to create bankruptcy-remote special purpose entity (i.e., a Texas non-profit corporation) designed to hold financial assets pledged as security for repayment of the bonds. Bonds issued pursuant to HB 1520 would be issued by, and would be obligations of, the special purpose entity only. The bonds would not be an obligation of the State of Texas, the Authority, the Texas Railroad Commission or the participating natural gas utilities. The corporation authorized by HB 1520 has been created. It is anticipated that the Corporation will issue the Texas Natural Gas Securitization Finance Corporation Customer Relief Bonds, Taxable, Series 2023 in accordance with HB 1520 in February 2023.

On September 23, 2022, S&P Global Ratings raised its long-term rating from 'BBB' to 'BBB+' on the Grand Parkway Transportation Corporation's (GPTC) first-tier toll revenue bonds citing favorable transaction and revenue growth trends exceeding forecasted levels.

The United States Department of Transportation (USDOT) approved a secured loan made to GPTC under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) in 2021 in a principal amount not to exceed $605.3 million. GPTC drew the TIFIA loan on November 15, 2022. The TIFIA proceeds will be used to pay off the 2018 Bond Anticipation Notes that funded the Highway and Infrastructure Project as they matured on February 1, 2023.

On October 11, 2022, Texas Department of Transportation (TxDOT) received a $94.3 million loan payoff from the North Texas Tollway Authority (NTTA) for the President George Bush Turnpike. Of the amount received, $91.3 million fully reduced NTTA's outstanding principal balance and $3.0 million was recognized as interest.

On June 16, 2021, the Governor signed Senate Bill 1232 (87th Legislature, Regular Session), effective September 1, 2021, allowing management of the Permanent School Fund's (Fund) financial investments function to transfer from divisions of the TEA and the GLO to the Texas Permanent School Fund Corporation, a special-purpose governmental corporation governed by a nine-member Board of Directors, and changed the authority of the School Land Board after December 31, 2022. On September 1, 2022, financial support and operations went into production for the Corporation as a stand-alone entity separate from TEA. In November 2022, the State Board of Education (SBOE) approved transfer of the Fund management from the PSF(SBOE) to the Corporation on January 1, 2023, as contemplated by SB 1232.

The Board of Regents for Stephen F. Austin University held a special called meeting on November 29, 2022 and voted to join the University of Texas System. Since then, SFA has received an official invitation to join the UT System.

On November 22, 2022, The Red Raider Facilities Foundation (RRFF), a component unit of the Texas Tech System, opened taxable and tax-exempt lines of credit with the intent of drawing down funds for expenditures incurred in the construction of TTU athletic facilities. The RRFF tax-exempt line of credit was issued in the amount of $190.3 million and the RRFF taxable line of credit for $34.6 million.

On September 20, 2022, the University of Texas Health Science Center at Houston closed on the sale and transfer of an Educational Broadband Service (EBS) line (Call Sign WAU31) with Clearwire Spectrum Holdings III LLC for $42.4 million.

On September 20, 2022, the UT System Board of Regents used available resources to legally defease $79.7

million of outstanding Permanent University Fund Bonds, Series 2014B. The liability for these defeased obligations has been removed from the consolidated statement of net position. As a result of this defeasance, the UT System reduced its future debt service payments by $106.2 million from closing through July 1, 2032.

Note 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income and personnel. The state of Texas and its employees are covered by numerous immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claims adjustment expenditures/expenses. In addition, estimated recoveries on unsettled claims, such as salvage and subrogation, are evaluated in terms of their estimated realizable value and deducted from the liability for unpaid claims. Unallocated claim adjustment expenditures/expenses are not included in the liability for claims and judgments.

There were no significant reductions in insurance coverage in the past year. Also, in the past three years, settlements have not exceeded insurance coverage.

Property and Liability

The *Texas Labor Code*, Chapter 412, states that the State Office of Risk Management (SORM) shall operate as a full-service risk and insurance manager for state agencies and shall administer programs to reduce property and liability losses, including workers' compensation losses.

SORM administers the statewide workers' compensation program. The state does not carry commercial insurance for workers' compensation, but instead uses the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT System), Texas A&M University System (A&M System) and Texas Department of Transportation administer separate self-insured workers' compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by the UT System and the A&M System are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas. Public school employees and their dependents are covered by the Texas School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas. Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employees Group Benefits Program

Claims for health, life, vision, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental HMO contracts.

UT System & A&M System

The UT System and the A&M System provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers employees of participating entities the option of three preferred provider organization plans and also offers employees of certain areas the option of choosing coverage under an HMO plan. In fiscal 2022, 1,239 entities participated in the program. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan administrator, employers or the state.

Changes in Claims Liability Balances

The changes in claims liability reported in various statement of net position liability accounts during fiscal 2021 and fiscal 2022, 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, 2022 (Amounts in Thousands)

Year	Beginning Balance	Increases	Decreases	Ending Balance
2021	$ 981,897	$ 4,567,220	$ 4,548,374	$ 1,000,743
2022	$ 1,135,029	$ 6,466,542	$ 6,421,895	$ 1,179,676

Of the fiscal 2022 claims liability ending balance, $327.8 million relates to long-term claims liabilities, which are reported in Note 5 and $851.7 million relates to the state's health, life and dental insurance programs and the remainder to miscellaneous claims and judgments, all of which are reported as accounts payable.

Note 18

Contested Taxes

The state may assess a tax liability against one or multiple taxpayers. Taxpayers may petition for a redetermination hearing before an administrative law judge if they wish to contest a tax liability assessed by the state. If the request for a redetermination hearing is received by a specified date, the taxpayer is not obligated to pay the tax liability until 20 days after a final decision is made by the Texas Comptroller of Public Accounts (Comptroller's office) in a redetermination hearing and served on the taxpayer. As of Aug. 31, 2022, there was an estimated $482.3 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, 2022 unless indicated otherwise.

Blended Component Units

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

Texas Private Activity Bond Surface Transportation Corporation (TxPABST) is a legally separate entity that acts on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements (CDA) entered into by TxDOT. Bonds issued by TxPABST are not legal obligations of the state and are payable solely from payments received by or on behalf of a CDA developer. TxPABST is blended rather than discretely presented because the Texas Transportation Commission (TTC) appoints the voting majority of TxPABST's governing board, and has the ability to remove appointed board members at will. TxPABST does not have any financial activity, as its sole purpose is to issue debt on behalf of TxDOT. TxPABST does not issue separate financial statements. Information about TxPABST may be obtained by contacting TxPABST at 125 East 11th St., 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. 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 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 St., Austin, Texas 78701.

Employees Retirement System of Texas (ERS) is a legally separate entity established by the Texas Legislature to administer benefits for officers and employees of the state. ERS is governed by a six-member board of trustees. The six-member board is composed of three elected members and three members who are appointed respectively by the governor, the speaker of the Texas House of Representatives, and the chief justice of the Supreme Court of Texas. ERS is blended rather than discretely presented because the state of Texas has the ability to impose its will upon ERS through its legislative and budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Trust Company) is a legally separate entity established by the Texas Legislature. The Texas Comptroller of Public Accounts (Comptroller's office) is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company is blended rather than discretely presented because the Comptroller's office is the single shareholder of the Trust Company and their activities benefit the state. The Trust Company is authorized to manage, disburse, transfer, safe-keep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller's office direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Trust Company at 208 E. 10th St., 4th Floor, Austin, Texas 78701.

Alamo Trust, Inc. (ATI), (formerly known as Alamo Complex Management), is a legally separate entity, established to operate exclusively for the benefit of the Texas General Land Office (GLO). ATI is blended rather than discretely presented because GLO appoints a majority of ATI, has the ability to remove board members at will, has the ability to modify or approve the budget of ATI, has the ability to modify or approve the rates of ATI affecting the revenue of ATI, has the ability to veto, overrule or modify the decisions of ATI's governing body, has the ability to appoint, hire, reassign or dismiss those persons responsible for ATI's day-to-day operations and its ability to unilaterally abolish ATI by ordering ATI to cease operations. ATI is reported for the fiscal year ended June 30, 2022. Information about ATI may be obtained by contacting GLO at 1700 N. Congress Ave., Austin, Texas 78701.

Windham School District (WSD) is a legally separate entity that provides education to offenders within the Texas Department of Criminal Justice. The Texas Board of Criminal Justice serves as the board of trustees for WSD. WSD is blended rather than discretely presented because the primary government is able to impose its will on WSD through its ability to modify or approve the budget of 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. THC provides office space and administrative services that include staff support 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). TTFI is blended rather than discretely presented because TTFI operates exclusively for the benefit of TTU System and component institutions and there is a fiscal dependency and financial benefit relationship between TTFI and 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 Ave., Suite 315, Lubbock, Texas 79409.

Red Raider Facilities Foundation, Inc. (RRFFI) is a legally separate nonprofit corporation established exclusively for charitable and educational purposes to benefit Texas Tech University (TTU). It was formed to support and promote, and otherwise hold, invest, construct and administer property, and make expenditures for the benefit of athletic activities and endeavors of TTU. The RRFFI board of directors are appointed one each by the TTU president, the TTU system chancellor and the Texas Tech board of regents chairman. Although RRFFI is legally separate from TTU, financial transactions have been blended into the financial statements of TTU rather than discretely presented because RRFFI operates exclusively for the benefit of TTU. Audited financial statements may be obtained by mail request to 801 Cherry St., Suite 500, Fort Worth, Texas 76102.

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 St., 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 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, 2022. Separate financial statements may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office at 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Harold M. Freeman Educational Foundation (Freeman Foundation) is a legally separate entity formed through a trust to make the use of the Freeman Ranch available exclusively to TSU System. The Freeman Ranch is used and operated solely for farm, ranch and game management, education and research purposes in connection with the educational activities of TSU System. There is no formal governing board for the Freeman Foundation. TSU System acts as an active co-trustee to operate the ranch. Frost Bank operates as an inactive trustee to ensure the provisions of the trust are followed. The Freeman Foundation is blended rather than discretely presented because they operate exclusively for TSU System. Separate financial statements are not issued by the Freeman Foundation. Information about the Freeman Foundation may be obtained by contacting Texas State University, Director of Accounting, General Accounting Office at 601 University Drive, JCK 589, San Marcos, Texas 78666-4684.

Texas A&M Research Foundation (Research Foundation) is included as a blended component unit in the combined financial statements of the Texas A&M University System (A&M System). This determination is based on the close relationship and joint agreements in effect between the Research Foundation and A&M System in regard to research grant/contract administration. Complete financial statements of the Research Foundation may be obtained by contacting their administrative offices at 400 Harvey Mitchell Parkway South, Suite 300, College Station, Texas 77845.

U.T. Southwestern Health Systems, Inc. (SHSI) is a legally separate entity established to support the University of Texas Southwestern Medical Center (UTSWMC). SHSI is blended rather than discretely presented because UTSWMC appoints the three-member governing board of SHSI, has the ability to remove appointed board members at will, its ability to modify or approve the budget of SHSI and its ability to modify or approve rates or fees affecting revenues of SHSI. Separate financial statements may be obtained by contacting SHSI at 5323 Harry Hines Blvd., Dallas, Texas 75390.

U.T. Southwestern Moncrief Cancer Center (SW Moncrief) is a legally separate entity established to support 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 Ave., 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 Blvd., 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 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 Blvd., 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 Blvd., 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 Blvd., Galveston, Texas 77555.

University of Texas Physicians (UT Physicians) is a legally separate entity established to provide management services for the physician practice plan at the University of Texas Health Science Center at Houston (UTHSCH). UT Physicians is blended rather than discretely presented because UTHSCH appoints its nine-member governing board, has the ability to impose its will on UT Physicians through its ability to modify or approve the budget of UT Physicians, its ability to modify or approve rates or fees affecting revenues of UT Physicians and its ability to appoint, hire, reassign or dismiss those responsible for UT Physicians' day-to-day operations. Separate financial statements may be obtained by contacting UT Physicians at 7000 Fannin St., Suite 860, Houston, Texas 77030.

University Physicians Group (UPG) is a legally separate entity established to provide health care education and research activity services to the University of Texas Health Science Center at San Antonio (UTHSCSA). UPG is blended rather than discretely presented because UTHSCSA appoints its five-member governing board consisting of the dean of the School of Medicine and four members elected by the physician practice plan board at UTHSCSA, has the ability to remove board members at will, the ability to modify or approve the budget of UPG, the ability to veto, overrule or modify the decisions of UPG's board, the ability to appoint, hire, reassign or dismiss those responsible for UPG's day-to-day operations and the ability to unilaterally abolish UPG. Separate financial statements may be obtained by contacting UPG at 8431 Fredericksburg Road, San Antonio, Texas 78229.

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

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

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

East Texas Quality Care Network (ETQCN) is a legally separate entity established to provide agency nursing services to the University of Texas Health Science Center at Tyler (UTHSCT). ETQCN is blended rather than discretely presented because its four-member governing board is appointed by UTHSCT, has the ability to remove board members at will, the ability to modify or approve the budget of ETQCN, the ability to modify or approve rates or fees affecting revenues of ETQCN, the ability to veto, overrule or modify the decisions of ETQCN's board, the ability to appoint, hire, reassign or dismiss those responsible for ETQCN's day-to-day operations and the ability to unilaterally abolish ETQCN. Separate financial statements may be obtained by contacting ETQCN at 11937 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 UT System. Its nine-member board consists of at least three members of UT System board of regents, four members appointed by UT System board of regents (one of whom may be the chancellor of UT) and two members appointed by A&M System board of regents. At least three members appointed by UT System board of regents and at least one member appointed by 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 St., Suite 1700, Austin, Texas 78701.

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

Centro Global de Innovacion y Emprendimiento, A.C., Parque de Investigacion e Innovacion Technologica (CGIE) was 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 was blended rather than discretely presented because UT-Austin appoints its two-member board and UT-Austin was the sole corporate member. CGIE was reported for the fiscal year ended Dec. 31, 2021. Separate financial statements may be obtained by contacting CGIE, A.C., Carlos Ross, Director, at ross@cgie.org.mx. The foundation was dissolved in fiscal 2022.

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 is reported for the fiscal year ended Dec. 31, 2021. 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 is reported for the fiscal year ended Dec. 31, 2021. In fiscal year 2021, substantially all assets and operations of CMAA Foundation transferred to UT-Dallas in accordance with a unanimous consent letter executed by the board of directors. Assets distributed to UT-Dallas will be managed in accordance with the memorandum of understanding associated with the 2018 donation of the Crow Museum of Asian Art. CMAA Foundation will continue its corporate existence as deemed advisable by the board of directors. Separate financial statements may be obtained by contacting CMAA Foundation at 2010 Flora St., Dallas, Texas 75201.

The Crow Museum of Asian Art - Trust (CMAA-Trust) was governed by UT-Dallas as sole trustee. CMAA-Trust was blended rather than discretely presented because CMAA-Trust was organized as a not-for-profit corporation and UT-Dallas was the sole corporate member. CMAA-Trust was reported for the fiscal year ended Dec. 31, 2021. In fiscal year 2021, all assets of CMAA-Trust transferred to UT-Dallas in accordance with a unanimous consent letter executed by the board of directors of the parent foundation. Assets distributed to UT-Dallas will be managed in accordance with the memorandum of understanding associated with the 2018 donation of the Crow Museum of Asian Art. Separate financial statements may be obtained by contacting CMAA-Trust at 2010 Flora St., Dallas, Texas 75201. CMAA-Trust was dissolved in fiscal 2022.

The Office of Community-Based Care Transition (TOCBCT) is a legally separate entity established to support and improve the expansion of Community-Based Care. TOCBCT is blended rather than discretely presented because its total debt outstanding including leases, is expected to be repaid with the resources of Texas Department of Family and Protective Services (DFPS). TOCBCT will be abolished on the date that community-based care is implemented in the last department region in the state. TOCBCT does not issue separate financial statements. Information about TOCBCT may be obtained by contacting DFPS at 4900 N. Lamar, Austin, Texas 78714.

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 State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The annual budget for State Bar must be reviewed and approved by the Supreme Court, thus making State Bar fiscally dependent on the state of Texas. State Bar is reported for the fiscal year ended May 31, 2022. Separate financial statements may be obtained by contacting 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, Inc.** (OneStar) are legally separate nonprofit corporations that administer the AmeriCorps*Texas program. They serve as the state's liaison to and oversee Texas' participation in OneStar programs for the Corporation for National and Community Service (a federal agency), as well as prepare a comprehensive three-year national service plan for the state. The governor appoints all members of OneStar's boards. The governor can also remove any board member at will. OneStar performs all administrative duties of the OneStar National Service Commission, as well as provides technical assistance, education, information and other support to the volunteer community. OneStar is reported for the fiscal year ended Dec. 31, 2021. 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 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 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 St., 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 St., 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, 2021. Separate financial statements may be obtained by contacting the Association at 5700 South Mopac Expressway, Building A, Austin, Texas 78749.

Surplus Lines Stamping Office of Texas (Stamping Office) is a legally separate nonprofit organization created by the Texas Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints all nine members of the board of directors. 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, 2021. 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, 2021. Separate financial statements may be obtained by contacting TFPA at

5700 South Mopac Expressway, Building A, Austin, Texas 78749-1461.

Texas Boll Weevil Eradication Foundation, Inc. (TBWEF) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is governed by 21 board members. The Texas Department of Agriculture's (TDA) commissioner appoints five of the board members. Although TDA must approve TBWEF's budget, assessment fees and debt, a financial benefit or financial burden does not exist between TBWEF and the primary government. Therefore, the primary government is not financially accountable for the TBWEF. However, based on TBWEF's financial relationship with TDA, omitting TBWEF would result in incomplete financial statements. TBWEF is reported for the fiscal year ended Dec. 31, 2021. 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, the director of the Institute for International Agribusiness Studies at Prairie View A&M University and nine members appointed by the commissioner of agriculture. The commissioner of TDA administers TAFA with the assistance of the board of directors. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount sufficient to pay those obligations. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) is a legally separate entity created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects, and primarily benefits the citizens of Texas. A board of directors, composed of the three members of the Texas Water Development Board (TWDB), governs the Authority. The members of TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Appraiser Licensing and Certification Board (TALCB) is a legally separate entity statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) to serve the real estate community in Texas. The governor appoints the members of the governing board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TREC is not financially accountable for TALCB, to exclude it would result in the presentation of incomplete financial statements. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Disaster Relief Fund (TDRF) is a legally separate nonprofit corporation established to help the Office of the Governor (Office) provide disaster relief. The services provided by TDRF assist the Office in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF operates exclusively for charitable, educational, scientific or literary purposes and primarily benefits the citizens of Texas. TDRF's financial statements for the fiscal year ended Dec. 31, 2021, 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 14 members appointed by the governor, with the advice and consent of the Senate. The governor may order the dissolution of THSA at any time he declares that the purpose of THSA has been fulfilled or that THSA is inoperative or abandoned. THSA is reported for the fiscal year ended Sept. 30, 2021. THSA's financial statements may be obtained by contacting THSA at 901 South Mopac Expressway, Bldg. 1, Suite 300, Austin, Texas 78746.

Beacon State Fund (BSF) is a legally separate organization established to support the goals of the Governor's Commission for Women (GCW) in promoting issues affecting the women of Texas through distributing of information, holding media campaign events and supporting community outreach programs, which are consistent with the goals of GCW. The board is elected annually by the current board of directors at its annual meeting. The Office provides reasonable use of its office facilities and personnel. BSF is reported for the fiscal year ended Dec. 31, 2021. Financial statements may be obtained by contacting the Office at P.O. Box 12428, Austin, Texas 78711.

State Agency Council (SAC) is a legally separate organization established to support the goals of GCW by honoring women who have made significant contributions to Texas through their work in state government, providing opportunities for professional development to its state agency representatives and supporting community outreach programs consistent with the goals of GCW. The director of GCW appoints the board and has operational influence on the activities of SAC. Financial statements for SAC may be obtained by contacting GCW at P.O. Box 12428, Austin, Texas 78711.

Texas Governor's Mansion Administration (TGMA) is a legally separate nonprofit organization established to support the financial administration of catering, facility and other expenses associated with the use of the official residence of the governor of Texas for events and operations. TGMA is closely related to the state of Texas because the Office provides administrative services, including accounting services, to TGMA. TGMA is reported for the fiscal year ended Dec. 31, 2021. 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 TTU System. 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 UNT System. The majority of endowments supporting UNT System scholarships and other university programs are owned by UNTF. Therefore, UNTF is closely related to the UNT System, and failure to include its financial activities would lead to incomplete financial statements. Separate financial statements may be obtained by contacting UNTF at 1155 Union Circle #311250, Denton, Texas 76203-5017.

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

Texas State University Development Foundation (Development Foundation) is a legally separate entity formed to support the educational, scientific and research mission of Texas State University (TSU). Development Foundation raises and manages endowment funds designated for scholarships and other support of TSU. The 47 member board of trustees is comprised of a cross-section of alumni and notable leaders who assist in the development and support of TSU. Development Foundation is reported for the fiscal year ended June 30, 2022. Separate financial statements may be obtained at the following URL: http://www.ua.txstate.edu/about/development-foundation/Financials/Accountability.html.

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

Texas Governor's Mansion Greenhouse Project (TGMGP) is a legally separate corporation established to raise and distribute funds for the construction and maintenance of a greenhouse on the grounds of the historic Texas Governor's Mansion, which will be open to members of the general public during specialized grounds tours and certain educational tours. While legally separate from the Office of the Governor (Office), TGMGP is closely related to and administratively supported by the Office. TGMGP's financial statements, for the fiscal year ended Dec. 31, 2021, may be obtained by contacting the Office at P.O. Box 12428, Austin, Texas 78711.

Texas Tech Research Park, Inc. (TTRP) is a Texas nonprofit corporation operated exclusively for charitable, educational, and scientific purposes. TTRP was formed to provide support for and promote, sponsor, assist and carry out the educational, scientific, and related activities and objectives of the Texas Tech University System (TTUS) and will support and enhance scientific research and collaborative innovation opportunities for TTUS and the surrounding region. The nine-member board of directors are appointed two each by the Texas Tech University president and Texas Tech University Health Science Center president, one appointment by the TTUS chancellor and the remaining four director roles are elected by existing TTRP board of directors. No board members may be employees of TTUS and appointing persons have the right to revoke and remove the director role he/she appoints at any time. TTRP's financial statements may be obtained by mail request to 3911 4th St., Box 43005, Lubbock, Texas 79415.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

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

Texas Mutual Insurance Company (Texas Mutual) operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. The commissioner of insurance regulates Texas Mutual to the same extent as a private mutual insurance company. The governor, with the advice and consent of the Senate, appoints five of the nine members of Texas Mutual's board of directors.

Texas Title Insurance Guaranty Association (TTIGA) is a legally separate nonprofit organization created for the purpose of providing funds for the protection of holders of covered claims as defined in the *Texas Insurance Code*. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

Texas Life and Health Insurance Guaranty Association (TLHIGA) is a legally separate entity created to protect persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts due to the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints TLHIGA's nine-member board of directors.

Midwestern State University Charitable Trust (Trust) was a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University (MSU). The Trust was dissolved in fiscal 2022 and assets were transferred to MSU Foundation, a private foundation which is not a component unit of the university.

Charter School Finance Corporation is a nonprofit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency and subject to the governor's approval.

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

Operation Game Thief Committee is a nonprofit corporation established to administer the Operation Game Thief Program (The Program). The Program facilitates the apprehension and prosecution of persons who violate Texas laws intended to protect the state's natural or cultural resources and the public safety of persons using those natural or cultural resources. The Program also pays rewards and death benefits authorized by Texas statute. The Texas Parks and Wildlife Department's executive director appoints the 11 members of the committee.

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

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

River Authorities are political subdivisions created by Texas statute. The *Texas Constitution*, Article XVI, Section 59, authorizes the Texas Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes:

- The control, storing, preservation and distribution for irrigation, power and all other useful purposes of storm waters.
- Flood waters and the waters of rivers and streams.
- The reclamation and irrigation of arid, semiarid and other lands needing irrigation.
- The reclamation of drainage of overflowed lands and other lands needing drainage.
- The conservation and development of forests, water and hydro-electric power.
- The navigation of inland and coastal waters.
- The preservation and conservation of all such natural resources of the state.

The state of Texas appoints the voting majority for the following 16 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- San Antonio River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches River Municipal Water Authority

Note 20

Deficit Fund Balances/Net Position of Individual Nonmajor Funds

Proprietary Funds

The **Texas Prepaid Tuition Plans**, that consist of the Texas Guaranteed Tuition Plan (Plan) and the Texas Tuition Promise Fund (TTPF), reported a deficit of $24.6 million. The Plan deficit of $239.4 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 $214.8 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 $534.1 million. The deficit is primarily due to accretion on outstanding bonds and notes and the accumulated amortization of the intangibles assets for the two service concession projects operated by GPTC. The largest expense in fiscal 2022 included $104.1 million of amortization and $200.3 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.

Note 21

Texas Lawsuits

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total $15.3 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the agreed inflation adjustment and any other court-ordered factors. A revenue accrual of $287.8 million is based on the payments received in December 2022. Tobacco settlement revenues were $679.6 million in fiscal 2021 and $530 million in fiscal 2022. As of fiscal 2022, cumulative actual tobacco settlement revenues were $12.6 billion.

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

Opioid Settlement

During fiscal 2021, the state of Texas and its political subdivisions participated in obtaining final settlement agreements and judgments against multiple companies to resolve legal claims related to the companies' role in the opioid crisis. Currently, Texas' allocation is approximately $2.9 billion as estimated from the settlement agreements negotiated as of Jan. 20, 2023. Funding is dependent on the number of subdivisions or local governments that join the settlement agreements and the specific payment schedules in a settlement agreement. The funding must be used to support any of a wide variety of strategies to fight the opioid crisis. Separate provisions exist to compensate attorneys who have pursued opioid litigation on behalf of states and local governments. Future opioid litigation may result in additional settlement agreements or judgments, or suspension and reduction of payments, and each agreement or judgment may have unique terms governing payment timing and duration. Opioid settlement revenues were $382.2 million in fiscal 2022.

The Texas Opioid Abatement Fund Council (council) was created by Senate Bill 1827 of the 87th regular legislative session to ensure that money recovered through the joint efforts of the state and its political subdivisions through statewide opioid settlement agreements and judgments are allocated fairly and spent to remediate the opioid crisis using efficient, cost-effective methods. The council is administratively attached to the Texas Comptroller of Public Accounts (Comptroller's office), which provides the staff and facilities as necessary to assist the council in performing its duties, maintain copies of settlement agreements online and submit annual report of expenditures made by the council to the Legislature. The legislation also created the Opioid Abatement Account (account) as a dedicated account in the General Revenue Fund that is administered by the Comptroller's office and the Opioid Abatement Trust Fund (fund) as a trust fund outside of the state treasury that is administered by the Texas Treasury Safekeeping Trust Company. Of the money received by the state under a statewide opioid settlement agreement, or resulting from an action by the state against an opioid manufacturer, distributor or any other person in the opioid industry, 15 percent is deposited into the account and 85 percent is deposited into the fund. Requirements related to the allowable uses and distributions of the account and fund, along with the composition and duties of the council, are defined in Subchapter R, as added by the bill, in Chapter 403 of the *Texas Government Code*.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $5.4 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, 2022, are presented in table 22A.

Donor-Restricted Endowments
Table 22A
August 31, 2022 (Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	$5,342,419	Expendable
Term Endowments	65,071	Expendable
Total Endowments	$5,407,490	

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 $21.2 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 statement of net position - governmental funds as of Aug. 31, 2022, are presented in tables 23A and 23B.

Taxes Receivable by Tax Type

Table 23A

August 31, 2022 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	$ 3,174,963
Motor Vehicle and Manufactured Housing	97,037
Motor Fuels	7,523
Oil and Natural Gas Production	1,402,026
Franchise	513,826
Insurance Occupation	340,394
Cigarette and Tobacco	24,494
Other	286,509
Total Taxes Receivable[1]	$ 5,846,772
Liquidity Characteristics:	
Current Taxes Receivable	$ 5,845,555
Noncurrent Taxes Receivable	1,217
Total Taxes Receivable	$ 5,846,772
[1]Total Taxes Receivable General Fund	$ 5,846,772
Current Taxes Receivable:	
State Highway Fund	229,735
Nonmajor Governmental Funds	76,819
Total Taxes Receivable – Statement of Net Position – Governmental Funds	$ 6,153,326

Tax Refunds Payable by Tax Type

Table 23B

August 31, 2022 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Oil and Natural Gas Production	$ 269,411
Franchise	751,284
Total Tax Refunds Payable	$ 1,020,695

Texas franchise tax receivables represent balances due as of Aug. 31, 2022, for business-type activity that occurred in calendar year 2021. The franchise tax payments were due May 16, 2022 and taxpayers were allowed to extend the filing date to November 2022.

Franchise taxes are considered earned when the business-type activity occurs. Franchise tax applies to certain for-profit entities doing business or chartered in Texas and is based on the total revenue, that is, income reported to the Internal Revenue Service with various deductions, limitations and exceptions. There are no required quarterly estimated payments under this tax. Annual franchise tax reports and tax payments are due May 15 unless it falls on a weekend or holiday, then the next business day. Generally the tax earned during the first eight months of calendar year 2022 is not due until May 2023. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

Note 24

Termination Benefits

Health Care Related Termination Benefits

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

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2022, the cost to the state was approximately $33.5 million for 4,434 COBRA participants.

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

Non-Health Care Related Termination Benefits

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

Note 25

Segment Information

Primary Government

A segment is a separately identifiable activity reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. Segment disclosure is not required for an activity whose only outstanding debt is conduit debt or if an individual fund is both a segment and reported as a major fund. Therefore, the following programs have met the requirements for disclosure as a segment.

These programs were funded by the issuance of revenue bonds, which require revenues, expenses, gains, losses, assets and liabilities to be separately accounted for:

- The **Single Family Bond Program** was created to originate below-market rate loans for eligible low and moderate-income residents who are purchasing a residence and
- The **Residential Mortgage Revenue Bond Program (RMRB)** was created to purchase single-family loans, while proceeds from the remaining RMRB bond issues are used to purchase pass-through certificates created through the origination of single-family loans.

The condensed statement of net position for each program as of Aug. 31, 2022, is presented in table 25A. The condensed statement of revenues, expenses and changes in net position for each program for the fiscal year ended Aug. 31, 2022, is presented in table 25B. The condensed statement of cash flows for each program for fiscal year ended Aug. 31, 2022, is presented in table 25C.

Condensed Statement of Net Position

Table 25A

August 31, 2022 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
ASSETS		
Current Restricted Assets	$ 174,679	$ 51,046
Noncurrent Restricted Assets	976,562	562,767
Total Assets	1,151,241	613,813
Deferred Outflows of Resources	429	0
LIABILITIES		
Current Liabilities	24,971	11,179
Noncurrent Liabilities	935,216	476,152
Total Liabilities	960,187	487,331
NET POSITION		
Restricted	191,483	126,482
Total Net Position	$ 191,483	$ 126,482

Condensed Statement of Revenues, Expenses and Changes in Net Position

Table 25B

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	$ 32,094	$ 13,555
Net Increase in Fair Value	(64,453)	(33,678)
Other Operating Revenues	71,025	12,092
Operating Expenses	(66,597)	(19,567)
Operating Income	(27,931)	(27,598)
NONOPERATING REVENUES (EXPENSES)		
Transfer In (Out)	(183)	(2,759)
Changes in Net Position	(28,114)	(30,357)
Net Position, September 1, 2021	219,597	156,839
Net Position, August 31, 2022	$ 191,483	$ 126,482

Condensed Statement of Cash Flows

Table 25C

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Single Family Bond Program Funds	Residential Mortgage Revenue Bond Funds
NET CASH PROVIDED (USED) BY:		
Operating Activities	$ (13,316)	$ 5,343
Non capital Financing Activities	219,736	145,201
Investing Activities	(88,048)	(152,075)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	118,372	(1,531)
Cash and Cash Equivalents, September 1, 2021	53,783	50,710
Cash and Cash Equivalents, August 31, 2022	$ 172,155	$ 49,179

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, 2022, is presented in table 26A.

Service Concession Arrangements

Table 26A

August 31, 2022

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	Complete	36 years	2018	2053[1]
SH 288	Complete	52 years	2016	2068
North Tarrant Exp Seg 3C	Under Construction	42 years	2019	2061

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

These arrangements were entered into to:

- Improve mobility by expanding existing road capacity and introducing managed toll lanes, traditional toll lanes and other strategies aimed at reducing traffic congestion,
- Enable the state to deliver these projects faster than would be possible using traditional funding sources and

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

In the year an SCA project opens for traffic, TxDOT records the capital assets acquired under the SCA at their acquisition value with a corresponding entry to deferred inflow of resources. The deferred inflow of resources balance will then be reduced and revenue will be recognized in a systematic manner over the term of the arrangement, beginning when the infrastructure asset is placed into operations. Up-front concession payments received are recorded as assets (cash in state treasury) with an offset to deferred inflow of resources on the government-wide financial statements. Revenue is recognized and the deferred inflow of resources is reduced in a systematic and rational manner over the term of the arrangement. SCA amounts reported as of Aug. 31, 2022, are presented in table 26B.

Service Concession Arrangements – Amounts Recognized in Financial Statements

Table 26B: Governmental Activities

August 31, 2022 (Amounts in Thousands)

Arrangement Name	Cash in State Treasury[1]	Capital Assets	Deferred Inflows of Resources[2]
IH 10 Katy Managed Lanes	$	$ 250,000	$ 179,348
SH 130 Segments 5 and 6	26,827	1,435,816	1,224,135
SH 121 Concession	204,322	1,336,606	2,791,217
North Tarrant Exp Seg 1 and 2-West		2,400,857	1,422,868
North Tarrant Exp Seg 3A and 3B		2,005,056	1,230,562
LBJ/IH-635 Managed Lanes		2,683,719	1,758,529
Grand Parkway Seg D, E, F1, F2, G		2,522,868	2,044,856
GPTC H&I		1,219,563	1,181,452
SH 288	8,659	1,031,384	931,615
North Tarrant Exp Seg 3C		27,371	
Total	$ 239,808	$14,913,240	$12,764,582

[1] The balance of Cash in State Treasury is the amount of unspent up-front concession payments.

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

In some cases, TxDOT is obligated to make contributions of public funds to the SCA project during the construction period for portions of the project's design, construction or right-of-way costs. Outlays of TxDOT funds related to SCA projects are recorded as additions to construction in progress as they are incurred.

The Grand Parkway Transportation Corporation (GPTC) is a blended component unit of TxDOT. In fiscal 2013, GPTC and TxDOT entered into an arrangement that fits the criteria of an SCA. Pursuant to this arrangement, GPTC is responsible for the design, construction, financing and operation of Segments D (Harris County) and E, F1, F2, G, H and I of the Grand Parkway (State Highway 99) until the bonds or other debt secured is fully repaid. GPTC is entitled to all toll revenues during the operations period. At the end of the arrangement, operation of the roadway will be transferred to TxDOT.

The objective of this arrangement is to deliver this project in partnership with TxDOT more quickly than would be possible under a traditional structure.

As of Aug. 31, 2022, the Texas Transportation Commission has outstanding toll equity grant commitments and toll equity loan commitments totaling $160.8 million and $8.9 billion, respectively. Payments of these amounts are made subject to executed financial assistance agreements between TxDOT and the applicable public or private entity. The toll equity loan commitment is related to a toll equity loan agreement (TELA) with GPTC. This agreement makes a loan available to be drawn on in the event revenues and certain reserves are insufficient to pay certain debt service or operations and maintenance cost of the toll systems of aforementioned entities. The GPTC's funds financed by a TELA-supported debt are to be used to pay for certain costs relating to the development, construction, operation, maintenance and financing of Segments D (Harris County), E, F1, F2, G, H and I and the predevelopment of possible extensions or expansions of the Grand Parkway. The maximum amount of money that can be paid by TxDOT to GPTC under a TELA is equal to the aggregate amount of costs that are authorized under Article VIII, Section 7a of the *Texas Constitution* and Section 222.103 of the *Texas Transportation Code*, i.e. the eligible costs. As of Aug. 31, 2022, no drawdowns of funding have been requested by GPTC under this arrangement.

GPTC has recognized an intangible asset in the amount of $3.2 billion for its costs of design, construction and right-of-way acquisition for the fiscal year ended Aug. 31, 2022. This amount is reported as business-type activities.

Note 27

Deferred Outflows of Resources and Deferred Inflows of Resources

In fiscal 2022, the state reported deferred outflows of resources and deferred inflows of resources in connection with its hedging derivative instruments, service concession arrangements (SCA), bond refunding, pensions, other postemployment benefits other than pensions, government acquisitions, irrevocable split-interest agreements, direct borrowings/placements obligations, asset retirement obligations, lease income 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, 2022, are presented in table 27A.

Deferred Outflows of Resources and Deferred Inflows of Resources

Table 27A

August 31, 2022 (Amounts in Thousands)

Fund Type	Deferred Outflows of Resources	Deferred Inflows of Resources
GOVERNMENT-WIDE FINANCIAL STATEMENTS		
Governmental Activities		
Bond/Debt Refunding	$ 198,599	$ 36,359
SCAs (Note 26)		12,764,582
Pensions (Note 9)[2]	13,491,605	36,124,598
OPEB (Note 11)[3]	8,114,815	22,673,500
Asset Retirement Obligation	1,285	
Unclaimed Properties		680,814
Lease Income		8,430
Total Governmental Activities	$ 21,806,304	$ 72,288,283
Business-Type Activities		
Bond/Debt Refunding	$ 283,437	$ 33,578
Derivative Instruments (Note 7)[1]	137,255	201,428
Pensions (Note 9)	2,438,409	3,836,256
OPEB (Note 11)[3]	5,644,088	2,375,838
Split Interest Agreements		71,857
Direct Placements	303	
Government Acquisitions	17,047	
Asset Retirement Obligation	3,235	
Lease Income		412,972
Total Business-Type Activities	$ 8,523,774	$ 6,931,929
FUND FINANCIAL STATEMENTS		
Governmental Funds		
Revenue Earned But Not Available	$	$ 1,906,966
Total Governmental Funds	$ 0	$ 1,906,966

[1] The $137,255 and $201,428 fair values for cash flow hedges are reported as a hedging derivative instrument in a liability position and a hedging derivative instrument in an asset position, respectively.

[2] The deferred outflows of resources related to governmental activities pension includes $17.8 million in transactions subsequent to measurement date for the JRS1 plan. For more details, see Note 9 text.

[3] The deferred outflows of resources and deferred inflows of resources related to OPEB includes $44.1 million and $642.5 million for governmental activities and $642.5 million and $43.8 million for business-type activities, respectively, for the proportionate change between governmental and business-type activities in relation to the A&M and UT plans. For more details, see Note 11 text and table 11S.

Deferred outflows of resources in business-type activities of $137.3 million related to hedging derivative instruments in a liability position. The hedging derivative instrument liability of $137.3 million and the hedging derivative instrument asset of $201.4 million are disclosed in Note 7.

Deferred outflows of resources in business-type activities of $17 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 $12.8 billion were related to service concession arrangements entered into by the Texas Department of Transportation (TxDOT) with non-state entities. This amount reflects the unamortized balance of up-front concession payments received and capital improvements acquired from these entities. Details of the state's SCA are disclosed in Note 26.

Deferred outflows of resources of $198.6 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 2022 in business-type activities for $283.4 million in deferred outflows of resources related to losses.

Deferred inflows of resources in governmental activities of $36.4 million were related to a gain TxDOT and the Texas Higher Education Coordinating Board incurred on a bond refunding transaction. Several universities and TxDOT also reported $33.6 million deferred inflows of resources related to bond refunding gains in business-type activities.

Deferred inflows of resources of $1.9 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 $13.5 billion of deferred outflows of resources and $36.1 billion of deferred inflows of resources related to pensions in governmental activities. The state also reported $2.4 billion of deferred outflows of resources and $3.8 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 $8.1 billion of deferred outflows of resources and $22.7 billion of deferred inflows of resources related to OPEB in governmental activities. The state also reported $5.6 billion of deferred outflows of resources and $2.4 billion of deferred inflows of resources related to OPEB in business-type activities. Details of the state's OPEB are disclosed in Note 11.

The state reported $303 thousand of deferred outflows of resources related to direct placement obligations and $71.9 million of deferred inflows of resources related to split-interest agreements in business-type activities.

In fiscal 2022, the state reported $1.3 million of deferred outflows of resources related to asset retirement obligations in governmental activities and $3.2 million of deferred outflows of resources related to asset retirement obligations in business-type activities. In accordance with GASB Statement No. 84, Fiduciary Activities, the state reported $680.8 million in governmental activities in deferred inflows of resources related to special revenue unclaimed property fund.

The state reported $8.4 million of deferred inflows of resources related to lease income in governmental activities. The state also reported $413 million of deferred inflows of resources related to lease income in business-type activities. Note 8 - *Leases* provides details on the type of lease agreements entered into by the state as a lessor.

Note 28

Nonexchange Financial Guarantees

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

Article VII, Section 5 of the *Texas Constitution* and *Texas Education Code*, Title 2, Subtitle I, Chapter

45 provides for the guarantee of school district bonds by the permanent school fund (PSF). The PSF is also authorized for use to guarantee revenue bonds issued for certain open-enrollment charter schools designated by the commissioner of education. In the event of default by a school district or charter school district, funds may be withheld from state money payable to the district or school in an amount necessary for payment of principal and/or interest. Guarantees extend through maturity dates of the bonds. As of Aug. 31, 2022, no school districts or charter school districts have ever defaulted on their guaranteed bond indebtedness and the total principal debt guaranteed by the PSF on bond issues is approximately $103.2 billion.

The Texas Credit Enhancement Program was established to provide a guarantee fund for issuing tax exempt revenue bonds to provide financing for the acquisition, construction, repair or renovation of Texas charter school facilities within federal program guidelines. A consortium consisting of the Texas Public Finance Authority Charter School Finance Corporation (CSFC), the Texas Charter Schools Association and the Texas Education Agency was awarded a federal grant to create the guarantee fund. The CSFC is a nonprofit corporation in which the directors are appointed by the Texas Public Finance Authority (TPFA) in consultation with the commissioner of education and subject to the approval of the governor pursuant to Section 53.351 of *Texas Education Code*. TPFA provides administrative and staff support for CSFC. Reimbursement periods commence on the date of a guarantee payment and end 12 months following such payment. Borrowers will reimburse CSFC within the guarantee period by making level monthly principal repayments for each guaranty period during the reimbursement period. Guarantees extend through maturity dates of the bonds. As of Aug. 31, 2022, no charter schools have ever defaulted on their guaranteed bond indebtedness and $12.4 million of available grant funds have been committed.

Note 29

Tax Abatements

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

Information related to these programs for the fiscal year ended 2022, is presented in tables 29A-D.

Tax Abatement Programs

Table 29A

For the Fiscal Year Ended August 31, 2022 (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	$ 110,600	$ 391,800	$ 32,240	$ 39,537

Tax Abatement Programs

Table 29B

For the Fiscal Year Ended August 31, 2022 (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	$ 245,300	$ 303,708

Tax Abatement Programs

Table 29C

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

Description	Texas Enterprise Zone Programs Refunds	Texas Enterprise Zone Programs 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	$ 9,851	$ 12,434

Tax Abatement Programs

Table 29D

For the Fiscal Year Ended August 31, 2022 (Amounts in Thousands)

	Other Programs	
Description	**Texas Data Center Program Exemption**	**Certified Rehabilitation of 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	$ 80,172	$ 35,206