

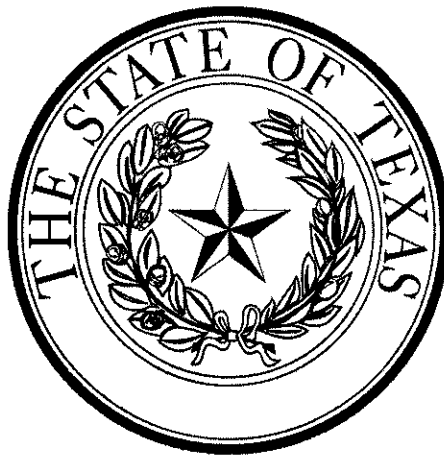
ANNUAL  
FINANCIAL REPORT

Texas Education Agency

For the Twelve Months Ending  
August 31, 2016







**TEXAS EDUCATION AGENCY**  
**Austin, Texas**

**Year Ended August 31, 2016**





Texas Education Agency

Commissioner Mike Morath

1701 North Congress Avenue • Austin, Texas 78701-1494 • 512 463-9734 • 512 463-9838 FAX • [tea.texas.gov](http://tea.texas.gov)

November 18, 2016

Honorable Gregg Abbott, Governor  
Honorable Glenn Hegar, Texas Comptroller  
Ursula Parks, Director, Legislative Budget Board  
Lisa R. Collier, CPA, State Auditor's Office

We are pleased to submit the Annual Financial Report of the Texas Education Agency for the year ended August 31, 2016, in compliance with Texas Government Code Annotated, Section 2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas *Comprehensive Annual Financial Report (CAFR)*; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Shirley Beaulieu, Chief Financial Officer at (512) 475-3773.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mike Morath', is written over the word 'Sincerely,'.

Mike Morath  
Commissioner of Education



**TEXAS EDUCATION AGENCY**

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**Texas Education Agency (701)**  
**Exhibit I**  
**Combined Balance Sheet/Statement of Net Assets -**  
**Governmental Funds**  
 August 31, 2016

	Governmental Fund Types			Governmental Funds Total FY2016
	General (Exhibit A-1)	Special Revenue Fund 0002	Permanent Fund Fund 0044	
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash on Hand	\$ 140.00	\$ 0.00	\$ 0.00	\$ 140.00
Cash in Bank (Note 3)	25,000.00	0.00	10,017,374.86	10,042,374.86
Cash in State Treasury	560,937,350.49	13,231,283.61	35,864,901.60	610,033,535.70
Securities Lending Collateral (Note 3)	0.00	0.00	1,362,216,872.00	1,362,216,872.00
Short-Term Investments	0.00	0.00	84,816,012.05	84,816,012.05
Legislative Appropriations	157,258,104.72	0.00	0.00	157,258,104.72
Receivables:				
Federal	589,914,946.47	0.00	0.00	589,914,946.47
Intergovernmental	446,005,028.00	0.00	0.00	446,005,028.00
Interest and Dividends	400,860.93	88,574.75	55,759,283.80	56,248,719.48
Accounts	100,000.00	0.00	787,800.00	887,800.00
Taxes	0.00	76,454,462.36	0.00	76,454,462.36
Investment Trade Receivable	0.00	0.00	1,964,557.03	1,964,557.03
Interfund Receivables (Note 12)	243,417.51	0.00	0.00	243,417.51
Due From Other Agencies (Note 12)	123,253,881.75	75,043,381.55	0.00	198,297,263.30
Consumable Inventories	104,030.79	0.00	0.00	104,030.79
<b>Total Current Assets</b>	<b>\$ 1,878,242,760.66</b>	<b>\$ 164,817,702.27</b>	<b>\$ 1,551,426,801.34</b>	<b>\$ 3,594,487,264.27</b>
Non-Current Assets:				
Receivables:				
Taxes	\$ 0.00	\$ 4,391.24	\$ 0.00	\$ 4,391.24
Investments (Note 3)	0.00	0.00	30,035,550,431.24	30,035,550,431.24
Capital Assets (Note 2):				
Non-Depreciable or Non-Amortizable	0.00	0.00	0.00	0.00
Depreciable or Amortizable, Net	0.00	0.00	0.00	0.00
<b>Total Non-Current Assets</b>	<b>\$ 0.00</b>	<b>\$ 4,391.24</b>	<b>\$ 30,035,550,431.24</b>	<b>\$ 30,035,554,822.48</b>
<b>Total Assets</b>	<b>\$ 1,878,242,760.66</b>	<b>\$ 164,822,093.51</b>	<b>\$ 31,586,977,232.58</b>	<b>\$ 33,630,042,086.75</b>
<b>DEFERRED OUTFLOWS</b>				
Deferred Outflow of Revenues	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>Total Deferred Outflows</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities:				
Payables:				
Accounts	\$ 655,361,959.85	\$ 0.00	\$ 1,615,467.88	\$ 656,977,427.73
Other Intergovernmental	503,231,454.00	0.00	0.00	503,231,454.00
Payroll	6,371,042.62	0.00	918,231.46	7,289,274.08
Investment Trade Payable	0.00	0.00	41,771,471.45	41,771,471.45
Interfund Payables (Note 12)	243,417.51	0.00	0.00	243,417.51
Due to Other Agencies (Note 12)	9,991,551.10	0.00	0.00	9,991,551.10
Unearned Revenues	619,465.92	32,029.45	0.00	651,495.37
Employee Compensable Leave (Note 5)	0.00	0.00	0.00	0.00
Obligations / Securities Lending	0.00	0.00	1,406,540,906.00	1,406,540,906.00
<b>Total Current Liabilities</b>	<b>\$ 1,175,818,891.00</b>	<b>\$ 32,029.45</b>	<b>\$ 1,450,846,076.79</b>	<b>\$ 2,626,696,997.24</b>
Non-Current Liabilities:				
Employee Compensable Leave (Note 5)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<b>Total Non-Current Liabilities</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Total Liabilities</b>	<b>\$ 1,175,818,891.00</b>	<b>\$ 32,029.45</b>	<b>\$ 1,450,846,076.79</b>	<b>\$ 2,626,696,997.24</b>
<b>DEFERRED INFLOWS</b>				
Deferred Inflow of Resources	\$ 0.00	\$ 0.00	\$ 17,248,037.13	\$ 17,248,037.13
<b>Total Deferred Inflows</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 17,248,037.13</b>	<b>\$ 17,248,037.13</b>
<b>Fund Financial Statement</b>				
Fund Balances (Deficits):				
Nonspendable	\$ 104,030.79	\$ 0.00	\$ 9,734,229,540.62	\$ 9,734,333,571.41
Restricted	522,401,801.97	164,790,064.06	20,384,653,578.04	21,071,845,444.07
Committed	73,985,760.52	0.00	0.00	73,985,760.52
Assigned	70,237,901.92	0.00	0.00	70,237,901.92
Unassigned	35,694,374.46	(0.00)	0.00	35,694,374.46
<b>Total Fund Balances</b>	<b>\$ 702,423,869.66</b>	<b>\$ 164,790,064.06</b>	<b>\$ 30,118,883,118.66</b>	<b>\$ 30,986,097,052.38</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 1,878,242,760.66</b>	<b>\$ 164,822,093.51</b>	<b>\$ 31,586,977,232.58</b>	<b>\$ 33,630,042,086.75</b>
<b>Government-wide Statement - Net Position</b>				
Net Position:				
Invested in Capital Assets, Net of Related Debt				
Restricted				
Expendable				
Unrestricted				
<b>Total Net Position</b>				

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



UNAUDITED

Statewide Adjustments			Statement of Net
Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Position FY2016
\$ 0.00	\$ 0.00	\$ 0.00	\$ 140.00
0.00	0.00	0.00	10,042,374.86
0.00	0.00	0.00	610,033,535.70
0.00	0.00	0.00	1,362,216,872.00
0.00	0.00	0.00	84,816,012.05
0.00	0.00	0.00	157,258,104.72
0.00	0.00	0.00	589,914,946.47
0.00	0.00	0.00	446,005,028.00
0.00	0.00	0.00	56,248,719.48
0.00	0.00	0.00	887,800.00
0.00	0.00	0.00	76,454,462.36
0.00	0.00	0.00	1,964,557.03
0.00	0.00	0.00	243,417.51
0.00	0.00	0.00	198,297,263.30
0.00	0.00	0.00	104,030.79
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 3,594,487,264.27</u>
\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,391.24
0.00	0.00	0.00	30,035,550,431.24
40,000.00	0.00	0.00	40,000.00
62,566,592.07	0.00	0.00	62,566,592.07
<u>\$ 62,606,592.07</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 30,098,181,414.55</u>
<u>\$ 62,606,592.07</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 33,692,648,678.82</u>
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
\$ 0.00	\$ 0.00	\$ 0.00	\$ 656,977,427.73
0.00	0.00	0.00	503,231,454.00
0.00	0.00	0.00	7,289,274.08
0.00	0.00	0.00	41,771,471.45
0.00	0.00	0.00	243,417.51
0.00	0.00	0.00	9,991,551.10
0.00	0.00	(32,029.45)	619,465.92
0.00	3,932,329.31	0.00	3,932,329.31
0.00	0.00	0.00	1,406,540,906.00
<u>\$ 0.00</u>	<u>\$ 3,932,329.31</u>	<u>\$ (32,029.45)</u>	<u>\$ 2,630,597,297.10</u>
\$ 0.00	\$ 3,198,885.67	\$ 0.00	\$ 3,198,885.67
<u>\$ 0.00</u>	<u>\$ 3,198,885.67</u>	<u>\$ 0.00</u>	<u>\$ 3,198,885.67</u>
<u>\$ 0.00</u>	<u>\$ 7,131,214.98</u>	<u>\$ (32,029.45)</u>	<u>\$ 2,633,796,182.77</u>
\$ 0.00	\$ 0.00	\$ (17,248,037.13)	\$ 0.00
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (17,248,037.13)</u>	<u>\$ 0.00</u>
			\$ 9,734,333,571.41
			21,071,845,444.07
			73,985,760.52
			70,237,901.92
			35,694,374.46
			<u>\$ 30,986,097,052.38</u>
\$ 62,606,592.07	\$ 0.00	\$ 0.00	\$ 62,606,592.07
0.00	0.00	17,280,066.58	17,280,066.58
0.00	(7,131,214.98)	0.00	(7,131,214.98)
<u>\$ 62,606,592.07</u>	<u>\$ (7,131,214.98)</u>	<u>\$ 17,280,066.58</u>	<u>\$ 31,058,852,496.05</u>

## Texas Education Agency (701)

## Exhibit II

Combined Statement of Revenues, Expenditures, and Changes  
in Fund Balance/Statement of Activities - Governmental Funds

For the fiscal year ended August 31, 2016

	Governmental Fund Types			Governmental Funds Total FY2016
	General (Exhibit A-2)	Special Revenue Fund 0002	Permanent Fund Fund 0044	
<b>REVENUES</b>				
Legislative Appropriations:				
Original Appropriations	\$ 271,805,284.00	\$ 0.00	\$ 0.00	\$ 271,805,284.00
Additional Appropriations	13,830,154.58	0.00	0.00	13,830,154.58
Taxes	0.00	862,717,487.06	0.00	862,717,487.06
Federal Revenue (Sch. 1A)	5,042,434,814.50	0.00	0.00	5,042,434,814.50
Federal Grant Pass-Through Revenue (Sch. 1A)	16,647,942.56	0.00	0.00	16,647,942.56
Licenses, Fees and Permits	733,796.95	0.00	0.00	733,796.95
Interest and Other Investment Income	3,139,577.30	575,931.45	484,241,998.33	487,957,507.08
Net Increase (Decrease) in Fair Value	0.00	0.00	1,592,789,187.00	1,592,789,187.00
Sales of Goods and Services	230,372.42	0.00	0.00	230,372.42
Other	1,581,795,742.39	0.00	2,417.55	1,581,798,159.94
<b>Total Revenues</b>	<b>\$ 6,930,617,684.70</b>	<b>\$ 863,293,418.51</b>	<b>\$ 2,077,033,602.88</b>	<b>\$ 9,870,944,706.09</b>
<b>EXPENDITURES</b>				
Salaries and Wages	\$ 58,315,666.40	\$ 0.00	\$ 9,199,531.15	\$ 67,515,197.55
Payroll Related Costs	17,971,873.84	0.00	2,228,287.73	20,200,161.57
Professional Fees and Services	172,807,265.74	0.00	4,508,813.69	177,316,079.43
Travel	817,160.13	0.00	183,726.53	1,000,886.66
Materials and Supplies	551,755.54	0.00	129,717.18	681,472.72
Communication and Utilities	3,445,385.80	0.00	3,166,006.12	6,611,391.92
Repairs and Maintenance	695,265.62	0.00	93,996.15	789,261.77
Rentals and Leases	1,701,829.83	0.00	878,152.04	2,579,981.87
Printing and Reproduction	74,005.83	0.00	15,780.68	89,786.51
Federal Grant Pass Through Expenditures (Sch. 1A)	74,625,019.31	0.00	0.00	74,625,019.31
State Grant Pass Through Expenditures (Sch. 1B)	121,269,038.17	611,366.00	0.00	121,880,404.17
Intergovernmental Payments	25,950,856,543.12	872,552,455.00	0.00	26,823,408,998.12
Public Assistance Payments	48,355,829.54	0.00	0.00	48,355,829.54
Other Expenditures	13,225,228.17	0.00	2,103,548.10	15,328,776.27
Capital Outlay	9,061.76	0.00	(2,561.76)	6,500.00
Depreciation and Amortization Expense	0.00	0.00	0.00	0.00
<b>Total Expenditures / Expenses</b>	<b>\$ 26,464,720,928.80</b>	<b>\$ 873,163,821.00</b>	<b>\$ 22,504,997.61</b>	<b>\$ 27,360,389,747.41</b>
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ (19,534,103,244.10)	\$ (9,870,402.49)	\$ 2,054,528,605.27	\$ (17,489,445,041.32)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Capital Assets	\$ 4,600.00	\$ 0.00	\$ 0.00	\$ 4,600.00
Transfers In (Note 12)	19,978,180,288.26	1,056,412,420.20	175,000,000.00	21,209,592,708.46
Transfers Out (Note 12)	(3,988,742.21)	(1,056,412,420.20)	(1,056,412,420.20)	(2,116,813,582.61)
Capital Asset Donations	0.00	0.00	0.00	0.00
Gain (Loss) on Sale of Capital Assets	0.00	0.00	0.00	0.00
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 19,974,196,146.05</b>	<b>\$ 0.00</b>	<b>\$ (881,412,420.20)</b>	<b>\$ 19,092,783,725.85</b>
Net Change in Fund Balances / Net Assets	\$ 440,092,901.95	\$ (9,870,402.49)	\$ 1,173,116,185.07	\$ 1,603,338,684.53
<b>Fund Financial Statement - Fund Balances</b>				
Fund Balance - September 1,	\$ 272,994,264.26	\$ 174,660,466.55	\$ 28,945,766,933.59	\$ 29,393,421,664.40
Restatements (Note 14)	0.00	0.00	0.00	0.00
Fund Balance, September 1, , as Restated	\$ 272,994,264.26	\$ 174,660,466.55	\$ 28,945,766,933.59	\$ 29,393,421,664.40
Appropriations Lapsed	\$ (10,663,296.55)	\$ 0.00	\$ 0.00	\$ (10,663,296.55)
<b>Fund Balances - August 31, 2016</b>	<b>\$ 702,423,869.66</b>	<b>\$ 164,790,064.00</b>	<b>\$ 30,118,883,118.66</b>	<b>\$ 30,986,097,052.38</b>
<b>Government-wide Statement - Net Position</b>				
Change in Net Position				\$ 30,986,097,052.38
Net Position - September 1, Restatements (Note 14) Net Position, September 1, , as Restated				
<b>Net Position - August 31, 2016</b>				<b>\$ 30,986,097,052.38</b>

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

UNAUDITED

Statewide Adjustments			
Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Activities FY2016
\$ 0.00	\$ 0.00	\$ 0.00	\$ 271,805,284.00
0.00	0.00	0.00	13,830,154.58
0.00	0.00	(9,907,437.41)	852,810,049.65
0.00	0.00	0.00	5,042,434,814.50
0.00	0.00	0.00	16,647,942.56
0.00	0.00	0.00	733,796.95
0.00	0.00	(1,039,561.21)	486,917,945.87
0.00	0.00	0.00	1,592,789,187.00
0.00	0.00	0.00	230,372.42
0.00	0.00	0.00	1,581,798,159.94
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (10,946,998.62)</u>	<u>\$ 9,859,997,707.47</u>
\$ 0.00	\$ 27,565.57	\$ 0.00	\$ 67,542,763.12
0.00	0.00	0.00	20,200,161.57
0.00	0.00	0.00	177,316,079.43
0.00	0.00	0.00	1,000,886.66
0.00	0.00	0.00	681,472.72
0.00	0.00	0.00	6,611,391.92
0.00	0.00	0.00	789,261.77
0.00	0.00	0.00	2,579,981.87
0.00	0.00	0.00	89,786.51
0.00	0.00	0.00	74,625,019.31
0.00	0.00	0.00	121,880,404.17
0.00	0.00	0.00	26,823,408,998.12
0.00	0.00	0.00	48,355,829.54
0.00	0.00	0.00	15,328,776.27
(6,500.00)	0.00	0.00	0.00
13,832,663.29	0.00	0.00	13,832,663.29
<u>\$ 13,826,163.29</u>	<u>\$ 27,565.57</u>	<u>\$ 0.00</u>	<u>\$ 27,374,243,476.27</u>
<u>\$ (13,826,163.29)</u>	<u>\$ (27,565.57)</u>	<u>\$ (10,946,998.62)</u>	<u>\$ (17,514,245,768.80)</u>
\$ (4,600.00)	\$ 0.00	\$ 0.00	\$ 0.00
0.00	0.00	0.00	21,209,592,708.46
0.00	0.00	0.00	(2,116,813,582.61)
97,819.00	0.00	0.00	97,819.00
(152,893.88)	0.00	0.00	(152,893.88)
<u>\$ (59,674.88)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 19,092,724,050.97</u>
<u>\$ (13,885,838.17)</u>	<u>\$ (27,565.57)</u>	<u>\$ (10,946,998.62)</u>	<u>\$ 1,578,478,282.17</u>
			\$ 29,393,421,664.40
			0.00
			<u>\$ 29,393,421,664.40</u>
			\$ (10,663,296.55)
			<u>\$ 30,961,236,650.02</u>
\$ (13,885,838.17)	\$ (27,565.57)	\$ (10,946,998.62)	\$ 30,961,236,650.02
76,492,430.24	(7,103,649.41)	28,227,065.20	97,615,846.03
0.00			0.00
<u>\$ 76,492,430.24</u>	<u>\$ (7,103,649.41)</u>	<u>\$ 28,227,065.20</u>	<u>\$ 97,615,846.03</u>
<u>\$ 62,606,592.07</u>	<u>\$ (7,131,214.98)</u>	<u>\$ 17,280,066.58</u>	<u>\$ 31,058,852,496.05</u>

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ANNUAL FINANCIAL REPORT (UNAUDITED)

NOTES TO THE FINANCIAL STATEMENTS

**Note 1 Summary of Significant Accounting Policies**

**Entity** - The Texas Education Agency is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies*.

The Texas Education Agency consists of the Commissioner of Education and agency staff. The Agency is statutorily charged with administering and monitoring compliance with education programs required by federal or state law and with funding public primary and secondary education in Texas.

Due to the statewide requirements embedded in Government Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the *State of Texas Comprehensive Annual Financial Report*; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

The Agency does not have any blended or discretely presented component units.

**Fund Structure** - The accompanying financial statements of the Texas Education Agency are presented on the basis of funds, each of which is considered a separate accounting entity.

**Governmental Fund Types & Government-wide Adjustment Fund Types**

General Fund - 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 required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than for private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes. The Available School Fund (fund 0002) derives a significant portion of its financing from legally dedicated motor fuel tax revenue. It is restricted to providing funding for schools and funding for the State Instructional Materials Fund (fund 0003).

Permanent Funds - Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the programs of the State of Texas. The annual distribution provided by the fund is calculated using a total return methodology, and by the Texas Constitution, and may be used for purposes that support the programs of the State of Texas. The Permanent School Fund is a permanent fund administered by the State Board of Education in a trustee capacity. All investment activity of the Permanent School Fund is reported in this fund.

Adjustment Fund Types - The Capital Asset Adjustment Fund Type, Long-Term Liabilities Adjustment Fund Type, and Other Adjustments Fund Type are used to convert governmental fund types' capital assets, debt, and other fund type activity from modified accrual to full accrual basis.

**Fiduciary Fund Types**

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

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Agency Funds - Agency Funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

**Basis of Accounting** - The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, 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 receivables collected within sixty days after year end to be available and recognizes them as revenues of the current year for fund financial statements prepared on the modified accrual basis. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the Government-wide Financial Statements are accounted for using the full accrual basis of accounting. This includes capital assets, accumulated depreciation, unpaid employee compensable leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, long-term claims and judgments, and full accrual revenues and expenses. The activity will be recognized in these fund types.

The Permanent School Fund has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

The Permanent School Fund is classified as a governmental permanent fund. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The Permanent School Fund does not present a Statement of Cash Flows because governmental funds are not required to present this statement. Measurement focus refers to the definition of the resource flows measured, and has to do with the types of transactions or events reported in the statement of revenues, expenditures, and changes in fund balance. Basis of accounting refers to the timing of the recognition of transactions or events.

**Budgets and Budgetary Accounting** - The budget is prepared biennially and represents appropriations authorized by the legislature and approved by the Governor (the General Appropriations Act). Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

#### **Assets, Liabilities, and Fund Equity**

##### **ASSETS**

###### Cash and Cash Equivalents

The money market account held at the Permanent School Fund's Custodian, The Bank of New York Mellon (Custodian), is integral to the Permanent School Fund's cash management activities rather than investment activities. The collateral margin account held at Newedge USA, LLC is integral to the Permanent School Fund's investment management activities.

###### Investments

Investments other than land endowment and other real property interest investments are reported at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Fair value is determined on the basis of market valuations provided by the Custodian. Short-term securities, which have maturities less than one year at the time of purchase, are valued at amortized cost, which approximates fair value.

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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 that appear in the governmental fund type. The cost of these items is expensed when the items are consumed.

Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year should be capitalized. The capitalization threshold for intangible capital assets is \$1 million for internally generated computer software and \$100,000 for purchased software and intellectual rights. These assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Purchase of assets by government funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as works of art and historical treasures are not depreciated. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

**LIABILITIES**

Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Other Intergovernmental Payables

Other Intergovernmental Payables represents the amounts owed to school districts in Texas.

Employees' Compensable Leave

Employees' Compensable Leave represents the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the statement of net assets.

Capital Lease Obligations

Capital Lease Obligations represent the liability for future lease payments under capital lease contracts contingent upon the appropriation of funding by the Legislature. Liabilities are reported separately as either current or non-current in the statement of net assets.

**FUND BALANCE/NET POSITION**

The difference between fund assets and liabilities is 'Net Position' on the government-wide statements and the 'Fund Balance' is the difference between fund assets and liabilities on the governmental fund statements.

Fund Balance Components

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* requires that governmental fund balances be classified in the fund financial statements as nonspendable, restricted, committed, assigned and unassigned.

- Nonspendable fund balance includes amounts not available to be spent because they are either (1) not in spendable form, such as consumable inventories, or (2) legally or contractually required to be maintained intact.
- Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.
- Committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Texas Legislature, the state's highest level of decision making authority.

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- Assigned fund balance includes amounts constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (1) the Texas Legislature or (2) a body (for example a budget or finance committee) or official to which the governing body has delegated the authority to assign amount to be used for specific purposes.
- Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund. Negative fund balances of other fund types are also classified as 'Unassigned'.

#### Invested in Capital Assets, Net of Related Debt

Invested in Capital Assets, Net of Related Debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

#### Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

#### Unrestricted Net Assets

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

#### **Interfund Activity and Transactions**

The Agency has the following types of transactions between funds:

- 1) Transfers: Legally required transfers that are reported when incurred as 'Transfers In' by the recipient fund and as 'Transfers Out' by the disbursing fund.
- 2) Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
- 3) Interfund receivables and payables: Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as "Current"; repayment for two (or more) years is classified as "Non-Current".
- 4) Interfund sales and purchases: Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

The composition of the Agency's interfund receivables and payables at August 31, 2016 is presented in Note 12.

## **Note 2 Capital Assets**

A summary of changes in Capital Assets for the year ended August 31, 2016, is presented below:



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Primary Government								
			Reclassifications					
	Balance 09/01/2016	Adjustments/ Restatements	Completed CIP	Inc- Int'gy Trans	Dec-int'gy Trans	Additions	Deletions	Balance 08/31/2016
<b>Governmental Activities</b>								
<b>Non-Depreciable Assets:</b>								
Construction in Progress								
Other Tangible Capital Assets	\$ 40,000.00							\$ 40,000.00
<b>Total Non-Depreciable Assets</b>	<b>\$ 40,000.00</b>							<b>\$ 40,000.00</b>
<b>Depreciable Assets:</b>								
Furniture and Equipment	\$ 10,755,162.55					\$ 6,500.00	\$ (3,023,001.08)	\$ 7,738,661.47
Vehicles, Boats and Aircraft	82,082.71				\$ (97,819.00)	97,819.00		82,082.71
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 10,837,245.26</b>				<b>\$ (97,819.00)</b>	<b>\$ 104,319.00</b>	<b>\$ (3,023,001.08)</b>	<b>\$ 7,820,744.18</b>
<b>Less Accumulated Depreciation for:</b>								
Furniture and Equipment	\$ (9,759,291.45)					\$ (433,807.30)	\$ 3,006,848.42	\$ (7,186,250.33)
Vehicles, Boats and Aircraft	(82,082.71)				\$ 1,164.49	(1,164.49)		(82,082.71)
<b>Total Accumulated Depreciation</b>	<b>\$ (9,841,374.16)</b>				<b>\$ 1,164.49</b>	<b>\$ (434,971.79)</b>	<b>\$ 3,006,848.42</b>	<b>\$ (7,268,333.04)</b>
<b>Depreciable Assets, Net</b>	<b>\$ 995,871.10</b>				<b>\$ (96,654.51)</b>	<b>\$ (330,652.79)</b>	<b>\$ (16,152.66)</b>	<b>\$ 552,411.14</b>
<b>Amortizable Assets:</b>								
Computer Software	\$ 35,386,379.62						\$ (2,487,507.23)	\$ 32,898,872.39
Other Capital Intangible Assets	79,673,236.68							79,673,236.68
<b>Total Amortizable Assets - Intangible</b>	<b>\$ 115,059,616.30</b>						<b>\$ (2,487,507.23)</b>	<b>\$ 112,572,109.07</b>
<b>Less Accumulated Amortization for:</b>								
Computer Software	\$ (14,917,090.03)					\$ (5,430,372.02)	\$ 2,442,820.52	\$ (17,904,641.53)
Other Intangible Capital Assets	(24,685,967.13)					(7,967,319.48)		(32,653,286.61)

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Primary Government								
	Balance 09/01/2015	Adjustments/ Restatements	Reclassifications			Additions	Deletions	Balance 08/31/2016
			Completed CIP	Inc- Int' agy Trans	Dec-Int' agy Trans			
Total Accumulated Amortization	\$ (39,603,057.16)					\$ (13,397,691.50)	\$ 2,442,820.52	\$ (50,557,928.14)
Amortizable Assets - Intangible - Net	\$ 78,456,559.14					\$ (13,397,691.50)	\$ (44,688.71)	\$ 62,014,180.93
Governmental Activities Capital Assets, Net	\$ 78,492,430.24				\$ (96,654.51)	\$ (13,728,344.29)	\$ (60,839.37)	\$ 62,606,592.07

**Note 3 Deposits, Investments, and Repurchase Agreements**

Deposits and investments of the Permanent School Fund are exposed to risks that have the potential to result in losses. GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment to GASB Statement No. 3* establishes and modifies disclosure requirements related to deposit and investment risks. Deposit risks include custodial credit and foreign currency risk. Investment risks include credit risk (custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement applies to all state and local governments.

The Texas Constitution and applicable statutes delegate to the State Board of Education the authority and responsibility for investment of the Permanent School Fund (PSF or Fund) excluding investment of the land endowment, which is the responsibility of the School Land Board. In making these investments, the State Board of Education is charged with exercising the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income there from as well as the probable safety of their capital. The PSF is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Administrative Code. The deposit policy of the Fund states that all residual cash must be invested on a daily basis. Permissible investments subject to Constitutional and State Board of Education imposed restrictions include the following:

- a) Equities listed on well recognized principal U. S. or foreign exchanges or nationally recognized over-the-counter markets, including common or preferred stocks; futures; corporate bonds, debentures, convertible preferred corporate stocks that may be converted into equities; and, investment trusts.
- b) Fixed income securities, including U. S. or foreign treasury or government agency obligations, U. S. or foreign corporate bonds, asset or mortgage backed securities, taxable municipal obligations, Yankee bonds, supranational bonds denominated in U. S. dollars, and 144A securities. Fixed income securities must be rated at least BBB- by Standard and Poor's, Baa3 by Moody's and BBB by Fitch at time of purchase. Fixed income securities may not be purchased unless there is stated par value amount due at maturity.
- c) Short term U. S. Government or U. S. Government agency securities, money market funds, corporate discounted instruments, corporate-issued commercial paper, U. S. or foreign bank time deposits, bankers acceptances, and fully collateralized repurchase agreements. Short term money market instruments must be rated at least A-1 by Standard and Poor's or P-1 by Moody's at time of purchase.
- d) Real estate investments in real properties as well as investments in real estate related securities and real estate related debt.
- e) Private equity investments including, but not limited to venture capital, buy-out investing, mezzanine financing and distressed debt.

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- f) Absolute return investments.
- g) Real return investments.
- h) Risk parity.
- i) Any new form of investment or non-publicly traded investment approved by the SBOE based on risk and return characteristics consistent with the Fund's goals and objectives.
- j) Currency hedging strategies, as approved by the State Board of Education, for international portfolios.

**Cash**

The Cash in Bank amount includes \$25,000.00 for the Travel Cash in Bank account at August 31, 2016. The Cash in Bank for the PSF amount represents the U. S. dollar equivalent of amounts held in foreign currencies for which trade settlement is pending and dividend payments that are awaiting repatriation, totaling \$6,252,512.29, and cash invested overnight at the Fund's custodial bank in the amount of \$3,764,862.57. The total cash in bank available as of August 31, 2016 is as follows:

	<b>Bank Balance</b>
Cash in Bank - Travel Advance	\$ 25,000.00
Cash in Bank - Permanent School Fund	10,017,374.86
<b>Total Cash in Bank (Exh. I)</b>	<b>\$ 10,042,374.86</b>

**Investments**

Security transactions are recorded on a trade date basis. Public market investments, except those held within the alternative investments, are registered in the nominee name of The Bank of New York Mellon, the Custodian of the Permanent School Fund, at the Depository Trust Company. At the Custodian, the securities are held in the name of the Permanent School Fund. Certain physical securities are held in the name of the Fund. Alternative investments are held within LLCs (limited liability companies) or LPs (limited partnerships) in the name of the Texas Education Agency.

Investments recorded as of August 31, 2016 are as follows:

<b>Investments</b>	<b>Recorded Value</b>
Absolute Return Investments	\$ 3,060,114,236.00
Real Estate Investments	2,115,511,636.00
Private Equity Investments	1,816,135,779.00
Risk Parity Strategies	2,061,999,741.00
Real Return - Commodities	775,672,502.00
Domestic Equity	7,665,878,741.00
International Equity – Foreign Currency Denominated	4,534,871,617.07
International Equity – USD Denominated (ADR/GDR)	191,371,587.93
International Equity – Emerging Markets	908,255,250.00
Emerging Market Debt	1,991,120,517.00
Asset Backed Securities	62,081,782.43
Collateralized Loan Obligations	160,345,243.30
Commercial Mortgage Backed Securities	100,790,728.03
Corporate Obligations	932,594,655.07

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Investments	Recorded Value
Non Agency Mortgage Backed Securities	\$ 78,314,980.06
Non-U.S. Government Agency Obligations	71,869,260.60
Non-U.S. Government Sovereign Debt Obligations	115,095,055.00
U.S. Government Agency Commercial Mortgage Backed Securities	31,928,676.65
U.S. Government Agency Mortgage Backed Securities	794,037,921.15
U.S. Government Agency Obligations	76,229,910.84
U.S. Taxable Municipal Bonds	88,492,981.75
U.S. Treasury Securities	1,373,439,210.00
U.S. Treasury TIPS	1,029,398,419.36
<b>Total Investments (Exh. I)</b>	<b>\$ 30,035,550,431.24</b>

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* (GASB 72).

GASB 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 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 72 are described below:

- Level 1 inputs – Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted 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 – Prices or valuations that require inputs that are both significant to the fair measurement and unobservable. Valuation under Level 3 generally involves a significant degree of judgment from management. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for the investments existed.

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

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input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment.

In accordance with GASB 72, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. 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 might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.
2. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount, or a discounted 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.
3. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to market participant (buyer) to acquire or construct a substitute asset of comparable utility.

The three approaches described above are consistent with generally accepted valuation methodologies. While all three approaches are not applicable to all assets or liabilities accounted for at fair value, where appropriate and possible, one or more valuation techniques may be used. The selection of the valuation method to apply considers the definition of an exit price and the nature of the asset being valued, and significant expertise and judgment is required. For assets accounted for at fair value, the valuation selected is generally the market or income approach.

For the year ended August 31, 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The following table presents information about the Fund's assets measured at fair value as of August 31, 2016.

Domestic Equity Portfolios	Level 1	Level 2	Level 3	Total
Advertising, Media, & Publishing	\$ 174,187,491.87			\$ 174,187,491.87
Aerospace & Defense	148,660,434.01			148,660,434.01
Agriculture & Environment	133,010,947.77			133,010,947.77
Banking & Finance	773,306,796.37			773,306,796.37
Biotechnology & Chemistry	333,031,492.05			333,031,492.05
Business Services	158,819,333.85			158,819,333.85
Capital Goods & Vehicles	2,033,802.77			2,033,802.77
Construction & Machinery	174,431,224.10			174,431,224.10

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Domestic Equity Portfolios	Level 1	Level 2	Level 3	Total
Consumer Goods	\$ 764,966,621.65			\$ 764,966,621.65
Energy & Utilities	793,679,113.88			793,679,113.88
Food & Beverage	308,089,092.45			308,089,092.45
Health & Pharmaceutical	832,064,586.23			832,064,586.23
Industrial Commodities	59,914,072.73			59,914,072.73
Industrial Manufacturing	289,470,419.69			289,470,419.69
Information Technology & Electronics	1,532,564,259.51			1,532,564,259.51
Insurance	321,928,423.62			321,928,423.62
Investment Management	208,287,283.95			208,287,283.95
Other	10,251,774.60			10,251,774.60
Packaging	29,637,262.15			29,637,262.15
Real Estate	177,062,798.52			177,062,798.52
Telecommunications	241,331,497.29			241,331,497.29
Travel & Entertainment	199,150,011.94			199,150,011.94
<b>Subtotal – Domestic Equity</b>	<b>\$ 7,665,878,741.00</b>			<b>\$ 7,665,878,741.00</b>
International Equity Portfolios	Level 1	Level 2	Level 3	Total
Advertising, Media, & Publishing	\$ 78,894,344.95			\$ 78,894,344.95
Aerospace & Defense	37,788,978.19			37,788,978.19
Agriculture & Environment	23,668,866.95			23,668,866.95
Banking & Finance	753,136,719.53		\$ 1.84	753,136,721.37
Biotechnology & Chemistry	156,453,031.24			156,453,031.24
Capital Goods & Vehicles	11,750,049.20			11,750,049.20
Commercial Services	80,417,105.74			80,417,105.74
Communications	255,444,174.40			255,444,174.40
Construction & Machinery	253,433,037.66			253,433,037.66
Consumer Goods	396,878,939.16			396,878,939.16
Energy & Utilities	556,656,080.20			556,656,080.20
Food & Beverage	352,638,062.00			352,638,062.00
Health & Pharmaceutical	389,418,117.42			389,418,117.42
Industrial Commodities	92,685,355.99			92,685,355.99
Industrial Manufacturing	253,647,809.66			253,647,809.66
Information Technology & Electronics	418,730,770.64			418,730,770.64
Insurance	232,089,073.91			232,089,073.91
Investment Management	133,262,495.53			133,262,495.53
Packaging	5,617,056.58			5,617,056.58

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Domestic Equity Portfolios	Level 1	Level 2	Level 3	Total
Real Estate	\$ 95,087,063.80		16.11	\$ 95,087,079.91
Travel & Entertainment	148,265,970.14			148,265,970.14
Other	280,084.16			280,084.16
<b>Subtotal - International Equity</b>	<b>\$ 4,726,243,187.05</b>		<b>\$ 17.95</b>	<b>\$ 4,726,243,205.00</b>

Fixed Income Portfolio	Level 1	Level 2	Level 3	Total
Asset Backed Securities		\$ 62,081,782.43		\$ 62,081,782.43
Collateralized Loan Obligations		160,345,243.30		160,345,243.30
Commercial Mortgage Backed Securities		100,790,728.03		100,790,728.03
U.S. Government Agency Commercial Mortgage Backed Securities		31,928,676.65		31,928,676.65
Corporate Obligations		932,594,655.07		932,594,655.07
Non-Agency Mortgage Backed Securities		78,314,980.06		78,314,980.06
Non-U.S. Government Agency Obligations		71,869,260.60		71,869,260.60
Non-U.S. Government Sovereign Debt Obligations		115,095,055.00		115,095,055.00
U.S. Government Agency Obligations		76,229,910.84		76,229,910.84
U.S. Government Agency Mortgage Backed Securities		794,037,921.15		794,037,921.15
U.S. Taxable Municipal Obligations		88,492,981.75		88,492,981.75
U.S. Treasury TIPS	\$ 103,529,209.17			103,529,209.17
U.S. Treasury Securities	1,373,439,210.00			1,373,439,210.00
<b>Subtotal – Fixed Income</b>	<b>\$ 1,476,968,419.17</b>	<b>\$ 2,511,781,194.88</b>		<b>\$ 3,988,749,614.05</b>

Real Return Portfolio	Level 1	Level 2	Level 3	Total
U.S. Treasury TIPS	\$ 925,869,210.19			\$ 925,869,210.19
<b>Total investment by fair value level</b>	<b>\$ 14,794,959,557.41</b>	<b>\$ 2,511,781,194.88</b>	<b>\$ 17.95</b>	<b>\$ 17,306,740,770.24</b>

The Fund measures the fair value of its securities lending program cash collateral by the same methodology described above, as follows:

Invested Securities Lending Collateral	Level 1	Level 2	Level 3	Fair Value
US Agency		\$ 145,114,670.00		\$ 145,114,670.00
Asset Backed Floating Rate Notes		433,053,186.00		433,053,186.00
Corporate Floating Rate Notes		51,747,285.00		51,747,285.00
Repurchase Agreements		60,275,979.00		60,275,979.00
Commercial Paper		404,954,471.00		404,954,471.00

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Invested Securities Lending Collateral	Level 1	Level 2	Level 3	Fair Value
Certificates of Deposit		\$ 267,071,281.00		\$ 267,071,281.00
<b>Total Securities Lending Collateral</b>		<b>\$ 1,362,216,872.00</b>		<b>\$ 1,362,216,872.00</b>

The Fund utilizes the net asset value (NAV) per share as a method for determining fair value for its investments in absolute return, real estate, private equity, emerging market debt, emerging market equity, risk parity and real return strategies. These investments calculate the NAV consistent with Governmental Accounting Standards Board's measurement principles for investment companies and the Fund 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.

The following table presents information about the Fund's assets measured at NAV at August 31, 2016.

Investments measured at NAV	
Absolute Return Investments	\$ 3,060,114,236.00
Real Estate Investments	2,115,511,636.00
Private Equity Investments	1,816,135,779.00
Emerging Market Debt	1,991,120,517.00
Emerging Market Equity	908,255,250.00
Risk Parity Strategies	2,061,999,741.00
Real Return - Commodities	775,672,502.00
<b>Total investments measured at NAV</b>	<b>\$ 12,728,809,661.00</b>

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice	Liquidity Expectation
Absolute Return Investments					
Credit	\$ 791,947,025.00		Monthly, Quarterly, Semi-Annual, Annual	45-180 days	(1)
Relative Value	113,463,830.00		Monthly, Quarterly	15-90 days	(2)
Multi-Strategy	499,974,709.00		Quarterly, Semi-Annual, Annual	30-90 days	(3)
Equity	1,061,844,774.00		Monthly, Quarterly Annual	18-120 days	(4)
Macro	495,359,821.00		Daily, Monthly, Quarterly	2-90 days	(5)
Other	97,524,077.00		Quarterly or not applicable	60-75 days	(6)
Real Estate Investments	2,115,511,636.00	\$ 839,955,242.00	none	none	3-13 years (7)



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Investment	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice	Liquidity Expectation	
Private Equity Investments						(8)
Large Capital Buy-out	\$ 247,183,124.00	\$ 232,976,867.00	none	none	10-15 years	
Mid Capital Buy-out	869,551,034.00	443,810,332.00	none	none	10-15 years	
Special Situation	398,164,474.00	221,308,197.00	none	none	10-15 years	
Venture/Growth Capital	301,237,147.00	252,287,481.00	none	none	10-15 years	
Emerging Market Debt	1,991,120,517.00		Daily	1-5 days		
Emerging Market Equity	908,255,250.00		Daily	1-3 days		
Risk Parity Strategies	2,061,999,741.00		Monthly	5-15 days		(9)
Real Return - Commodities	775,672,502.00		Daily	1 day		(10)
<b>Total investments measured at NAV</b>	<b>\$12,728,809,661.00</b>	<b>\$ 1,990,338,119.00</b>				

- (1) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 8% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 76% of the fair value have certain gate restrictions ranging from 15% to 50%.
- (2) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 19% of the fair value have certain gate restrictions ranging from 5% to 25%.
- (3) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 5% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 86% of the fair value have certain gate restrictions ranging from 5% to 25%.
- (4) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 1% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 65% of the fair value have certain gate restrictions ranging from 10% to 50%.
- (5) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 1% of the fair value have redemption restrictions that do not allow for redemption during a restricted time period. Investments representing 33% of the fair value have certain gate restrictions ranging from 10% to 33%.
- (6) Investment includes fund of funds which have been valued using the NAV per share for the fund. Investments representing 92% of the fair value do not have redemption provisions and distributions will be made as the underlying investments are liquidated.

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- (7) Investment includes real estate funds that primarily invest in real estate, including commercial, residential and industrial, and real estate financing. Investments are located in North America, Asia and Europe. The investments have been valued using the NAV per share for the fund. The majority of these investments are in close end funds and cannot be redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the funds will be liquidated over the next 3-13 years.
- (8) Investment includes 4 separate private equity funds, each utilizing various strategies as listed. There are no redemption provisions with the investment funds, distributions will be made as the underlying investments are liquidated. The underlying assets are expected to be liquidated over the next 10-15 years. The underlying investments are within various industries including communications, consumer services, distressed debt, diversified, energy, financial services, healthcare, manufacturing, software and technology.
- (9) Investment includes two externally managed funds with 50% of the fair value of the investment subject to a redemption notice of 5 days and 50% subject to a redemption notice of 15 days.
- (10) Investment includes two externally managed funds which have been valued using the NAV.

**Custodial Credit Risk for Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the deposits may not be recovered. Except for the requirement to invest cash daily, the State Constitution, applicable statutes, and the Permanent School Fund's investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The Travel deposits in the bank are insured or collateralized with securities held by Texas Education Agency or its agent in the Agency's name. Collateral for Cash in State Treasury is held in the State's name. The Permanent School Fund deposits in the bank, which are subject to custodial credit risk, are uninsured and uncollateralized.

**Custodial Credit Risk for Investments**

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the Permanent School Fund will not be able to recover the value of the investment or securities held as collateral that are in the possession of an outside party. Because Permanent School Fund investments are registered in the nominee name of The Bank of New York Mellon at the Depository Trust Company and held in the name of the Permanent School Fund at The Bank of New York Mellon, Permanent School Fund investments are not subject to custodial credit risk. However, the invested securities lending collateral detailed below as of August 31, 2016 is subject to custodial credit risk because the collateral is purchased and held by the counterparty, The Bank of New York Mellon, who is contracted to serve as both the custodian and the securities lending agent.

The invested securities lending collateral subject to custodial credit risk as of August 31, 2016 is as follows:

Invested Securities Lending Collateral	Amortized Cost	Fair Value
Agencies	\$ 144,967,379.00	\$ 145,114,670.00
Asset Backed Floating Rate Notes	432,897,778.00	433,053,186.00
Corporate Floating Rate Notes	96,428,758.00	51,747,285.00
Repurchase Agreements	60,275,979.00	60,275,979.00

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Invested Securities Lending Collateral	Amortized Cost	Fair Value
Commercial Paper	404,921,620.00	404,954,471.00
Certificates of Deposit	267,049,392.00	267,071,281.00
<b>Total Securities Lending Collateral (Exh. I)</b>	<b>\$1,406,540,906.00</b>	<b>\$1,362,216,872.00</b>

The State Constitution, applicable statutes, and the Permanent School Fund's investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments, including securities lending collateral investments.

**Credit Risk for Debt Investments**

Credit risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligation to pay interest and repay principal.

The rated debt investments of the Permanent School Fund as of August 31, 2016 are as indicated in the table below. Unless otherwise noted, the Standard and Poor's rating scale was used to rate the securities. For issues where the rating services differ, the lower rating is disclosed.

Investment Type	Rating	Rating Service	Fair Value
Asset Backed Securities	AAA		\$ 28,986,044.96
Asset Backed Securities	Aaa	Moody's	12,499,440.00
Asset Backed Securities	Aa	Moody's	15,075,158.63
Asset Backed Securities	A		5,521,138.84
Collateralized Loan Obligations	A	Moody's	754,029.83
Collateralized Loan Obligations	BBB		108,947,631.37
Collateralized Loan Obligations	Baa	Moody's	50,643,582.10
Commercial Mortgage Backed Obligations	AAA		8,510,642.48
Commercial Mortgage Backed Obligations	AAA	Fitch	10,798,253.59
Commercial Mortgage Backed Obligations	Aaa	Moody's	71,603,279.65
Commercial Mortgage Backed Obligations	Aa	Moody's	9,878,552.31
Corporate Obligations	AA		49,009,718.00
Corporate Obligations	AA	Fitch	17,642,982.00
Corporate Obligations	A		92,042,056.00
Corporate Obligations	A	Moody's	37,021,708.00
Corporate Obligations	BBB		598,975,094.07
Corporate Obligations	BBB	Fitch	10,351,130.00
Corporate Obligations	Baa	Moody's	108,970,955.00
Corporate Obligations	Ba	Moody's	10,390,712.00
Corporate Obligations	B	Moody's	8,190,000.00
Non Agency Mortgage Backed Securities	AAA		50,373,568.03
Non Agency Mortgage Backed Securities	AAA	Moody's	\$ 24,193,920.17
Non Agency Mortgage Backed Securities	CCC		3,747,491.86

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Investment Type	Rating	Rating Service	Fair Value
Non U.S. Government Agency Obligations	AAA		18,160,945.60
Non U.S. Government Agency Obligations	AAA	Moody's	10,367,370.00
Non U.S. Government Agency Obligations	A		20,093,320.00
Non U.S. Government Agency Obligations	BBB		7,908,625.00
Non U.S. Government Agency Obligations	Baa	Moody's	15,339,000.00
Non-U.S. Sovereign Government Debt	AA		5,311,930.00
Non-U.S. Sovereign Government Debt	Aa	Moody's	11,084,700.00
Non-U.S. Sovereign Government Debt	BBB		80,437,600.00
Non-U.S. Sovereign Government Debt	BBB	Fitch	18,260,825.00
U.S. Government Agency Commercial Mortgage Backed Securities	AA		14,115,760.59
U.S. Government Agency Commercial Mortgage Backed Securities	A	Moody's	9,562,411.26
U.S. Government Agency Commercial Mortgage Backed Securities	A	Fitch	8,250,504.80
U.S. Government Agency Mortgage Backed Securities	AA		782,670,287.28
U.S. Government Agency Obligations	AA		76,229,910.84
U.S. Taxable Municipal Bonds	AAA		13,232,796.50
U.S. Taxable Municipal Bonds	AA		47,106,514.00
U.S. Taxable Municipal Bonds	Aa	Moody's	22,897,399.60
U.S. Taxable Municipal Bonds	A		5,256,271.65
U.S. Treasury Securities	AA		1,373,439,210.00
U.S. Treasury Inflation Protected Securities	AA		1,029,398,419.36
<b>Total Credit Risk Rated Debt Securities</b>			<b>\$4,903,250,890.37</b>
Corporate Obligations	Withdrawn Rating	Fitch	\$ 300.00
U.S. Government Agency Obligations	Not Rated		11,367,633.87
<b>Total Fixed Income</b>			<b>\$4,914,618,824.24</b>

**Credit Risk for Invested Securities Lending Collateral**

The following presents the rated investments of the cash collateral as of August 31, 2016. The Standard & Poor's (S&P) rating scale is used as the primary source for ratings. The investment policy of the Permanent School Fund defines the various permissible collateral investments, including required ratings, at the time of purchase. Fixed rate negotiable certificates of deposit drawn on certain prescribed banks, commercial paper, asset backed commercial paper, and the short term corporate debt other than commercial paper must carry a "Tier 1" rating, defined as the highest short-term rating category by Standard & Poor's, Moody's or Fitch. Floating rate bank obligations as defined in the investment policy of the Permanent School Fund must be rated at least Aa2 by Moody's Investor Service and AA by Standard & Poor's Corporation. Asset backed securities shall be rated Aaa or AAA by Moody's and Standard & Poor's respectively. Reverse repurchase agreements must have a counterparty rated Tier 1 and the underlying collateral will be Tier 1 if the security is a short term security and at least Aa2 Moody's/AA Standard & Poor's or better if the collateral is corporate debt (other than commercial paper). Foreign sovereign debt issued by a foreign government rated Aa2 Moody's/AA Standard & Poor's or better is permissible collateral.

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Investment Type	Rating	Rating Service	Fair Value
Agencies	AA+		\$ 145,114,670.00
Asset Backed Floating Rate Notes	AAA		393,830,972.00
Asset Backed Floating Rate Notes	Aaa	Moody's	23,458,263.00
Asset Backed Floating Rate Notes	BBB+	Fitch	15,763,951.00
Certificate of Deposit	AA-		40,003,000.00
Certificate of Deposit	A+		40,004,200.00
Certificate of Deposit	A		22,559,809.00
Certificate of Deposit	Not Rated		164,504,272.00
Commercial Paper	A-1+		30,980,687.00
Commercial Paper	A-1		373,973,784.00
Floating Rate Notes	AAA		7,510,265.00
Floating Rate Notes	AA+		14,505,299.00
Floating Rate Notes	A+	Fitch	18,307,774.00
Floating Rate Notes	AA-		7,297,437.00
Floating Rate Notes	Aa2	Moody's	4,126,510.00
Repurchase Agreements	Not Rated		60,275,979.00
<b>Total Investments</b>			<b>\$1,362,216,872.00</b>

**Interest Rate Risk for Debt Investments**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of the investment. 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 first 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. The State Board of Education approved Investment Procedures Manual mandates the average duration of the core fixed income portfolio be consistent with the duration of the Barclay's Capital U.S. Aggregate Bond Index (formerly the Lehman Bros. Aggregate Index) and the real return portfolio (TIPS) be consistent with the Barclay's Capital U.S. TIPS Index. As of August 31, 2016, the Barclay's Capital U.S. Aggregate Bond Index duration is 5.83 years and the Barclay's Capital U.S. TIPS Index duration is 4.04 years.

The emerging market debt portfolio was funded in the current fiscal year ended August 31, 2016, and is externally managed to appropriate benchmarks.

Investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2016 are as follows for the core fixed income, real return, and emerging market debt portfolios:

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Investment Type	Fair Value	Effective Weighted Duration (Years)
Asset Backed Securities	\$ 62,081,782.43	0.852
Collateralized Loan Obligations	160,345,243.30	0.063
Commercial Mortgage Backed Securities	100,790,728.03	5.314
Corporate Obligations	932,594,655.07	8.217
Non Agency Mortgage Backed Securities	78,314,980.06	2.599
Non U.S. Government Agency Obligations	71,869,260.60	3.669
Non-U.S. Sovereign Government Debt	115,095,055.00	5.826
U.S. Government Agency Commercial Mortgage Backed Securities	31,928,676.65	3.396
U. S. Government Agency Mortgage Backed Securities	794,037,921.15	3.340
U. S. Government Agency Obligations	76,229,910.84	6.000
U.S. Taxable Municipal Securities	88,492,981.75	8.598
U. S. Treasury Securities	1,373,439,210.00	5.540
U.S. Treasury TIPS	103,529,209.17	17.019
<b>Total Fixed Income Portfolio (Excluding Real Return TIPS)</b>	<b>\$ 3,988,749,614.05</b>	<b>5.703</b>

<b>Real Return - U. S. Treasury TIPS Portfolio</b>	<b>\$ 925,869,210.19</b>	<b>6.157</b>
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<b>Emerging Market Debt Portfolio</b>	<b>\$ 1,990,544,774.93</b>	<b>5.220</b>
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**Interest Rate Risk for Invested Securities Lending Collateral**

The Permanent School Fund's investment policy defines the maturities of all permissible securities lending collateral investments. 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 three years on floating rate securities, including U. S. Government, U. S. Agencies, Bank Obligations, Corporate Debt or Asset Backed Securities with a maximum reset period of 90 days. The maximum weighted average maturity of the entire collateral portfolio is 180 days. The maximum weighted average interest rate exposure of the entire portfolio is 60 days.

The following provides information about the interest rate risks and maturities associated with invested collateral by investment type:

Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Agencies	\$ 145,114,670.00	\$ 10,019,430.00	\$ 135,095,240.00
Asset Backed Floating Rate Notes	433,053,186.00	269,162,853.00	163,890,333.00
Corporate Floating Rate Notes	51,747,285.00	40,243,248.00	11,504,037.00
Repurchase Agreements	60,275,979.00	60,275,979.00	
Commercial Paper	404,954,471.00	404,954,471.00	

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Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Certificates of Deposit	\$ 267,071,281.00	\$ 267,071,281.00	
<b>Total</b>	<b>\$ 1,362,216,872.00</b>	<b>\$ 1,051,727,262.00</b>	<b>\$ 310,489,610.00</b>

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss due to the magnitude of the Permanent School Fund's investment in a single issuer. The investment policies of the Permanent School Fund preclude engaging in any purchase transaction after which the cumulative market value of equity securities, fixed income securities, or cash equivalent securities of a single corporation (excluding the U. S. government or its agencies) exceeds 2.5% of the Permanent School Fund's total market value or 5.0% of the manager's total portfolio market value. As of August 31, 2016, the Permanent School Fund held \$468,337,359.61 in fixed income securities and mortgage backed obligations issued by the Federal National Mortgage Association (Fannie Mae). While this investment represents more than 5% of the fixed income portfolio market value total, it does not exceed a concentration of more than 2.5% of the total PSF market value. Fannie Mae is a government-sponsored enterprise chartered by Congress and, since September 2008, has been in conservatorship, operating under the direction of the Federal Housing Finance Agency. The U.S. Department of the Treasury has an agreement to provide required capital to correct net worth deficiencies; therefore, the credit risk is the same as holding U.S. Government securities.

**Investments with Fair Values that are Highly Sensitive to Interest Rate Changes**

In accordance with Permanent School Fund investment policies, the Permanent School Fund may invest in asset backed and mortgage backed obligations. The Permanent School Fund may also invest in investments that have floating rates with periodic changes in market rates, zero coupon bonds, and stripped U. S. Treasury and Agency securities created from coupon securities. At August 31, 2016, the Permanent School Fund held investments that are highly sensitive to interest rate changes.

Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. These securities also tend to increase in maturity as interest rates rise. The resultant reduction or extension in expected cash flows will affect the fair value of these securities. As of August 31, 2016 these securities totaled \$1,005,072,305.89.

Collateralized Loan Obligations are asset backed securities backed by the receivables on leveraged business loans, and are similar to collateralized mortgage obligations. The investor receives scheduled debt payments from the underlying loans but assumes most of the risk in the event that borrowers default. The securities held by PSF are in low duration tranches to mitigate default risk but are still subject to this risk. As of August 31, 2016 these securities totaled \$160,345,243.30.

Asset backed obligations are backed by home equity loans, auto loans, equipment loans, and credit card receivables. Pre-payments by the obligees of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. Conversely, rising interest rates could extend the stream of income that would have been received. As of August 31, 2016 these securities totaled \$62,081,782.43.

**Foreign Currency Risk for Deposits and Investments**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or an investment. The exposure to foreign currency risk as of August 31, 2016 is as follows:

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<b>Deposits</b>	<b>Amount</b>
<b>Currency</b>	
Australian Dollar	\$ 1,563,622.73
Brazil Real	21,890.45
Canadian Dollar	(16,570.33)
Chilean Peso	154,966.18
Colombian Peso	0.07
Czech Koruna	0.26
Danish Krone	(11.77)
Egyptian Pound	0.09
Euro Currency Unit	7,982.50
Hong Kong Dollar	1,393,919.70
Hungarian Forint	0.01
Indonesian Rupiah	46.75
Israeli Shekel	11,702.98
Malaysian Ringgit	47.80
Mexican Peso	73,453.85
Moroccan Dirham	1.34
New Taiwan Dollar	2,694,516.26
New Zealand Dollar	1.70
Norwegian Krone	2.25
Peruvian Sol	0.21
Philippines Peso	0.05
Polish Zloty	0.63
Pound Sterling	156,632.29
Qatari Riyal	118.01
Singapore Dollar	39,758.42
South African Rand	437.80
South Korean Won	91,843.93
Swedish Krona	0.22
Swiss Franc	4,196.93
Thailand Baht	53,911.05
Turkish Lira	38.79
United Arab Emirates Dirham	1.14
<b>Total Deposits Subject to Foreign Currency Risk</b>	<b>\$ 6,252,512.29</b>

<b>Investments in Equity Securities</b>	<b>Fair Value</b>
<b>Currency</b>	
Australian Dollar	\$ 239,016,793.79
Brazil Real	81,233,836.33



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<b>Investments in Equity Securities</b>	<b>Fair Value</b>
Canadian Dollar	\$ 317,945,552.63
Chilean Peso	12,640,732.46
Columbian Peso	5,025,503.77
Czech Koruna	1,494,660.50
Danish Krone	61,775,989.82
Egyptian Pound	2,211,049.00
Euro Currency Unit	993,803,064.69
Hong Kong Dollar	336,794,286.15
Hungarian Forint	3,241,091.64
Indonesian Rupiah	29,731,026.11
Israeli Shekel	19,120,625.05
Japanese Yen	788,757,639.84
Malaysian Ringgit	30,363,152.94
Mexican Peso	41,883,572.47
New Taiwan Dollar	131,487,041.46
New Zealand Dollar	6,291,861.79
Norwegian Krone	21,080,037.02
Philippines Peso	16,171,061.61
Polish Zloty	11,774,771.77
Pound Sterling	631,814,243.93
Qatari Riyal	10,458,253.25
Russian Ruble (New)	24,524,548.46
Singapore Dollar	41,010,113.16
South African Rand	75,115,100.15
South Korean Won	161,880,531.37
Swedish Krona	92,308,713.94
Swiss Franc	298,478,564.71
Thailand Baht	25,886,918.03
Turkish Lira	13,520,694.44
United Arab Emirates Dirham	8,030,584.79
<b>Total Securities Subject to Foreign Currency Risk</b>	<b>\$ 4,534,871,617.07</b>

The investment policy of the Permanent School Fund allows for international diversification to improve the risk and return characteristics of the Permanent School Fund. As such, the Permanent School Fund investments are exposed to foreign currency risk. The investment policy of the Permanent School Fund does not contain legal or policy requirements that limit the exposure to foreign currency risk. However, with State Board of Education approval, the Permanent School Fund is permitted to hedge currency. Hedging currency is a way to limit exposure to foreign currency risk. Currently, however, foreign currency exchange forward contracts are only executed as part of normal trading of foreign denominated securities.

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#### Securities Lending

The Permanent School Fund is authorized to conduct a securities lending program in accordance with Article 7, Section 5 of the Texas Constitution. The implementation policy for the program is further defined in Texas Administrative Code Title 19, Part 2, Chapter 33. The Permanent School Fund, through its current securities lending agent The Bank of New York Mellon (Agent), lends securities to certain brokers in exchange for authorized collateral.

Authorized collateral includes cash, government securities, irrevocable letters of credit, and other assets specifically agreed to by the Agent and the State Board of Education. The Permanent School Fund receives collateral against the loaned securities in an amount of 102% of the fair value plus accrued income for domestic corporate securities and 105% of the fair value plus accrued income for foreign securities; except in the case of foreign securities denominated and payable in U. S. Dollars, the required percentage is 102%. Collateral provided for Reverse Repurchase Agreements is maintained at various percentages depending on the type of security provided as collateral.

The Agent indemnifies the State Board of Education against losses as a result of the broker's failure to return loaned securities. Securities collateral cannot be pledged or sold unless the borrower defaults. All securities within the Permanent School Fund portfolio are available to be loaned to brokers based on market demand. The contract does not restrict the total aggregate value of loaned securities outstanding at any one time and loans are made to a specific list of brokers. The Permanent School Fund has the option to set a maximum aggregate loan limit for each broker.

As defined by the lending agreement, the length of maturities permitted for loans are clearly selected, defined, and approved by the lender. Loans made in this program can be terminated on demand by either party and are considered to have a one-day maturity, although cash collateral is invested in securities having longer maturities. As of August 31, 2016, the Permanent School Fund invested cash collateral had weighted average maturity of 29 days to reset date.

During the fiscal year ending August 31, 2016, the Agent did not experience any losses on securities lending activity as a result of borrower defaults. Since there were no losses related to borrower defaults in the fiscal year ending August 31, 2015, no losses were recovered in the fiscal year ending August 31, 2016.

Assets held in the invested cash collateral pool experienced a permanent impairment as of September 30, 2008. The original amortized cost of these permanently impaired assets totaled \$104,953,800.00. Partial cash recoveries since impairment have reduced the amortized cost to \$71,717,706.42. Beginning in April 2013, all Fund earnings from the securities lending program have been directed to further reduce the amortized cost. At fiscal year-end, these assets remain in the cash collateral pool at an amortized cost of \$44,694,356.97; however, the estimated market value is \$0.00 as of August 31, 2016.

As of August 31, 2016, the fair value of securities on loan to brokers equaled \$1,992,332,352.30 against non-cash collateral with a fair value of \$642,993,956.95 and invested cash collateral with an amortized cost of \$1,406,540,906.00 and a fair value of \$1,362,216,872.00.

At fiscal year end, the Fund does not have a credit risk associated with the securities lending program, because the Fund owes the borrowers a total of approximately \$2.05 billion in non-cash and cash collateral while the borrowers owe securities back to the Fund with a fair value of approximately \$1.99 billion.

Securities lending income is earned either through fees paid by the borrower to the lender or by splitting returns from invested cash collateral. In some cases, the investment of cash collateral fails to provide enough income to pay the borrower a rebate and also earn a return for the lender, so the lender and borrower may negotiate a negative rebate or fee to be paid by the borrower. During FY2016, most cash collateral loans were negotiated without a negative rebate. The other type of arrangement is for the borrower to provide securities or letters of credit as collateral for the securities lent, and pay a negotiated lender fee.

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Net income generated from securities lending transactions is then split between the Permanent School Fund and its securities lending agent. For fiscal year 2016, gross securities lending revenue totaled \$7,923,392.99, gross expenditures for bank fees and other adjustments totaled \$1,188,189.98, while net securities lending income totaled \$6,735,203.01.

**Note 4 Short-Term Debt**

Not applicable.

**Note 5 Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2016, the following changes occurred in liabilities:

Governmental Activities	Balance 09-01-15	Additions	Reductions	Balance 08-31-16	Amounts Due Within One Year
Compensable Leave	\$ 7,103,649.41	\$ 5,382,787.20	\$ 5,355,221.63	\$ 7,131,214.98	\$ 3,932,329.31
<b>Total Governmental Activities</b>	<b>\$ 7,103,649.41</b>	<b>\$ 5,382,787.20</b>	<b>\$ 5,355,221.63</b>	<b>\$ 7,131,214.98</b>	<b>\$ 3,932,329.31</b>

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months.

Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Note 6 Bonded Indebtedness**

Not applicable.

**Note 7 Derivative Instruments**

Derivatives are financial instruments, the value of which is derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts and forward contracts.

The Permanent School Fund enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes, and therefore classifies its futures contracts as investments. The State Board of Education approved Investments Procedure Manual defines the parameters for investing in futures contracts. The total amount of a portfolio's financial futures contract obligation should not exceed ten percent (10%) of the market value of the portfolio's total assets. The Permanent School Fund may exceed the ten percent (10%) rule during a transition approved by the State Board of Education. In no instance will the total amount of the contracts be an amount greater than the market value of a portfolio's cash and short-term securities.

Upon entering into a futures contract, initial margin deposit requirements are satisfied by segregating specific securities or cash as collateral for the account of the Futures Commission Merchant (FCM) broker (the Permanent

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School Fund's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The Permanent School Fund executes such contracts on major exchanges through major financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

As of August 31, 2016, the Permanent School Fund invested in S&P 500 Index Futures contracts and S&P 400 Index Futures contracts as detailed below with the FCM:

Futures Contract	Maturity Date	Number of Contracts	Notional Value	FCM Margin Deposit
S&P 500 e-mini	September 16, 2016	130	\$ 14,101,750.00	\$ 546,000.00
S&P 500 e-mini	December 16, 2016	31	3,351,565.00	130,200.00
S&P 400 e-mini	September 16, 2016	18	2,814,840.00	111,600.00
<b>Total Futures</b>			<b>\$ 20,268,155.00</b>	<b>\$ 787,800.00</b>

The amount of net realized gains on the futures contracts for the period ended August 31, 2016 was \$4,081,687.50 and is included in the net change in fair value of investments on the Statement of Revenues, Expenditures and Changes in Fund Balance. The futures contracts themselves have no fair value at August 31, 2016. If the FCM failed, the loss that would be recognized at August 31, 2016 would be \$760,911.60, which is the net of the FCM Margin Deposit of \$787,800.00 and the net unpaid year-end variation margin loss and initial margin of sold contracts totaling \$26,888.40.

Foreign currency balances are not maintained by the Permanent School Fund except for transactions that occur as part of normal security transactions; buys, sales and income payment. Foreign currency exchange (FX) contracts are executed by the external investment manager on the same day as security transactions. The investment manager buys or sells the FX contract in the currency native to the security transaction. These foreign exchange contracts hedge against the risk of currency changes between trade and settlement dates. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. For income payments received in other currencies, the custodian bank executes foreign exchange spot contracts to repatriate payments to U.S. dollars on actual income payment date.

**Note 8 Leases**

**Operating Leases**

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating leases:

Fund Type	Amount
General Fund	\$ 134,505.29
Permanent Fund	735,888.41
<b>Total</b>	<b>\$ 870,393.70</b>

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Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are as follows:

Year Ended August 31, 2016	Amount
2017	\$ 912,968.96
2018	283,180.74
2019	155,762.88
2020	155,762.88
2021	155,762.88
2022-2026	305,169.54
<b>Total Minimum Future Lease Rental Payments</b>	<b>\$ 1,968,607.88</b>

**Capital Leases**

The Agency had no active capital leases during fiscal year 2016.

**Note 9 Retirement Plans**

Not applicable.

**Note 10 Deferred Compensation**

Not applicable.

**Note 11 Post Employment Health Care and Life Insurance Benefits**

Not applicable.

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**Note 12 Interfund Activity and Transactions**

As explained in Note 1 on Interfund Activity and Transactions, numerous transactions are recorded between funds and agencies. At year end amounts to be received or paid are reported as:

- Interfund Receivables or Interfund Payables
- Due From Other Agencies or Due To Other Agencies
- Due From Other Funds or Due To Other Funds
- Transfers In or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

The Agency experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interfund balances will occur within one year from the date of the financial statement.

Individual fund balances and activity at August 31, 2016, which tie to Exhibits I and II, are as follows:

<b>INTERFUND RECEIVABLES/PAYABLES:</b>			
<b>Current Portion</b>	<b>Current Interfund Receivable</b>	<b>Current Interfund Payable</b>	<b>Purpose</b>
<b>GENERAL REVENUE (01)</b>			
Appd. Fund 0900, D23 1900		\$ 243,471.51	Reimb. between funds
<b>Totals for Fund 0900</b>		<b>\$ 243,471.51</b>	
Appd. Fund 0148, D23 0148	\$ 243,417.51		
<b>Totals for Fund 0148</b>	<b>\$ 243,417.51</b>		
<b>Total Interfund Receivable/Payable (Exh I)</b>	<b>\$ 243,417.51</b>	<b>\$ 243,417.51</b>	

<b>DUE FROM/TO OTHER AGENCIES:</b>			
	<b>Due From Other Agencies</b>	<b>Due To Other Agencies</b>	<b>Source</b>
<b>GENERAL REVENUE (01)</b>			
Appd. Fund 0001, D23 0001			
Agency 721, D23 Fund 7999		\$ 1,206,358.76	State P-T
Agency 733, D23 Fund 7999	\$ 430,884.07		State P-T
<b>Totals for Fund 0001</b>	<b>\$ 430,884.07</b>	<b>\$ 1,206,358.76</b>	

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<b>DUE FROM/TO OTHER AGENCIES:</b>			
	<b>Due From Other Agencies</b>	<b>Due To Other Agencies</b>	<b>Source</b>
Appd. Fund 0148, D23 Fund 0148			
Agency 320, D23 Fund 5026	\$ 3,821,628.48		Fed P-T
Agency 529, D23 Fund 0001	180,659.68		Fed P-T
Agency 538, D23 Fund 0001		\$ 63,530.40	Fed P-T
Agency 555, D23 Fund 7999		8,883.93	Fed P-T
Agency 556, D23 Fund 7999		10,493.20	Fed P-T
Agency 644, D23 Fund 0220		252,835.58	Fed P-T
Agency 644, D23 Fund 0271		82,018.84	Fed P-T
Agency 644, D23 Fund 0274		27,675.54	Fed P-T
Agency 644, D23 Fund 0285		14,504.89	Fed P-T
Agency 696, D23 Fund 0991		195,028.76	Fed P-T
Agency 711, D23 Fund 7999		76,631.16	Fed P-T
Agency 721, D23 Fund 7999		3,317,694.31	Fed P-T
Agency 730, D23 Fund 7999		53,107.62	Fed P-T
Agency 733, D23 Fund 7999		50,083.15	Fed P-T
Agency 744, D23 Fund 7999		4,235,017.03	Fed P-T
Agency 750, D23 Fund 7999		130,646.19	Fed P-T
Agency 752, D23 Fund 7999		126,747.25	Fed P-T
Agency 755, D23 Fund 7999		7,967.75	Fed P-T
Agency 772, D23 Fund 0090		130,846.77	Fed P-T
<b>Totals for Fund 0148</b>	<b>\$ 4,002,288.16</b>	<b>\$ 8,783,712.37</b>	
Appd. Fund 0171, D23 Fund 0171			
Agency 730, D23 Fund 7999		\$ 1,479.97	Fed P-T
<b>Totals for Fund 0171</b>		<b>\$ 1,479.97</b>	
Appd. Fund 0193, D23 Fund 0193			
Agency 362, D23 Fund 5025	\$ 118,799,022.67		Lottery Proceeds
<b>Totals for Fund 0193</b>	<b>\$ 118,799,022.67</b>		
Appd. Fund 0802, D23 Fund 2242			
Agency 608, D23 Fund 0802	\$ 1,057.00		
Appd. Fund 0802, D23 Fund 2250			
Agency 608, D23 Fund 0802	4,021.86		License Plate Proceeds
Appd. Fund 0802, D23 Fund 2260			

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<b>DUE FROM/TO OTHER AGENCIES:</b>			
	<b>Due From Other Agencies</b>	<b>Due To Other Agencies</b>	<b>Source</b>
Agency 608, D23 Fund 0802	\$ 44.00		License Plate Proceeds
Appd. Fund 0802, D23 Fund 2270			
Agency 608, D23 Fund 0802	2,458.79		License Plate Proceeds
Appd. Fund 0802, D23 Fund 2271			
Agency 608, D23 Fund 0802	2,701.92		License Plate Proceeds
Appd. Fund 0802, D23 Fund 2273			
Agency 608, D23 Fund 0802	6,304.34		License Plate Proceeds
Appd. Fund 0802, D23 Fund 2274			
Agency 608, D23 Fund 0802	5,098.94		License Plate Proceeds
<b>Totals for Fund 0802</b>	<b>\$ 21,686.85</b>		
<b>SPECIAL REVENUE (02)</b>			
Appd. Fund 0002, D23 Fund 0002			
Agency 902, D23 Fund 0001	\$ 75,043,381.55		Fuel Tax
<b>Totals for Fund 0002</b>	<b>\$ 75,043,381.55</b>		
<b>Total Due From/To Other Agencies (Exh I)</b>	<b>\$ 198,297,263.30</b>	<b>\$ 9,991,551.10</b>	

<b>TRANSFERS IN/OUT:</b>		
	<b>TRANSFERS IN</b>	<b>TRANSFERS OUT</b>
<b>GENERAL REVENUE (01)</b>		
Appd. Fund 0001, D23 Fund 0001		
Agency 902, D23 Fund 0001		\$ 802,626.47
<b>Total Transfers for Fund 0001</b>		<b>\$ 802,626.47</b>
Appd. Fund 0003, D23 Fund 0003		
Agency 701, D23 Fund 0002	\$ 1,056,412,420.20	
<b>Total Transfers for Fund 0003</b>	<b>\$ 1,056,412,420.20</b>	
Appd. Fund 0193, D23 Fund 0193		
Agency 362, D23 Fund 5025	\$ 1,372,719,991.67	
Agency 902, D23 Fund 0001	15,663,186,233.05	
Agency 902, D23 Fund 0304	1,885,861,643.34	
<b>Total Transfers for Fund 0193</b>	<b>\$ 18,921,767,868.06</b>	



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<b>TRANSFERS IN/OUT:</b>		
	<b>TRANSFERS IN</b>	<b>TRANSFERS OUT</b>
Appd. Fund 5135, D23 Fund 5135		
Agency 902, D23 Fund 0001		\$ 3,186,115.74
<b>Total Transfers for Fund 5135</b>		<b>\$ 3,186,115.74</b>
<b>SPECIAL REVENUE (02)</b>		
Appd. Fund 0002, D23 Fund 0002		
Agency 701, D23 Fund 0003		\$ 1,056,412,420.20
Agency 701, D23 Fund 0044	\$ 1,056,412,420.20	
<b>Total Transfers for Fund 0002</b>	<b>\$ 1,056,412,420.20</b>	<b>\$ 1,056,412,420.20</b>
<b>PERMANENT FUND (19)</b>		
Appd. Fund 0044, D23 Fund 0044		
Agency 305, D23 Fund 0013	\$ 175,000,000.00	
Agency 701, D23 Fund 0002		\$ 1,056,412,420.20
<b>Total Transfers for Fund 0044</b>	<b>\$ 175,000,000.00</b>	<b>\$ 1,056,412,420.20</b>
<b>Total Transfers (Exh II)</b>	<b>\$ 21,209,592,708.46</b>	<b>\$ 2,116,813,582.61</b>

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**Note 13 Continuance Subject to Review**

The Sunset Act provides for the periodic review and/or possible termination of certain state boards, commissions, and agencies. The Texas Education Agency is subject to that act and, unless continued in existence as provided by that act, will be abolished effective September 1, 2025. The State Board of Education is subject to review by the Sunset Advisory Commission at the same time as the Agency; however, the Board is created by the State Constitution and would not be abolished.

**Note 14 Adjustments to Fund Balances and Net Assets**

Not applicable.

**Note 15 Contingencies and Commitments**

**Federal Assistance**

The Agency has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, will be immaterial.

**Bond Guarantee Program**

As described by Note 30 in greater detail, the Agency administers a Bond Guarantee Program for qualified school districts and charter districts who choose to participate. The purpose of the Program is to ultimately reduce borrowing costs for participating districts by increasing their credit rating through association with the Program. The Agency, through the Permanent School Fund, commits to payment of scheduled principal and interest on behalf of a participating district in the event of that district's default.

As of August 31, 2016, no financial liability to the Permanent School Fund has been recorded in relation to the Fund's obligation to stand ready to perform over the term of the guarantee. The guarantee functions as a liquidity facility and an intercept program that carries very little risk to the Permanent School Fund. The guarantee is offered at a nominal cost to a school district or charter district that properly applies, receives endorsement by the Commissioner, and has its bonds approved by the State of Texas Attorney General.

**Foundation School Program Guarantee Program**

Legislation passed by the 2009 regular session of the Texas Legislature creates two programs to enhance the credit of school district and charter school debt issued for the purpose of financing facilities. Subchapters I and J of Chapter 45 of the Texas Education Code provide for credit enhancement "intercept" programs that would make payments from the state Foundation School Program appropriation in the event of a default on the part of a school district or charter school. The charter school program in subchapter J requires a pledge of private funds to that program equal to the amount of state funds made available. Any payments from the Foundation School Program or the private funds pledged would be recouped from state funds due to the district or charter. The Agency does not anticipate implementing these two programs due to the reopening of the school district bond guarantee program in 2010, and legislation adopted in 2011 making some charter schools eligible for the same type of bond guarantee as noted above.

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Pending Litigation

Non-Permanent School Fund (PSF) Pending Litigation

The Agency is a party to certain litigation pending in state and federal court as noted below.

1. *LULAC v. Texas*, No. 5:15-CV-00219-RP, U.S. District Court, Western District of Texas, San Antonio Div.

This suit was filed by the League of United Latin American Citizens (LULAC) against the State of Texas, Southwest Independent School District (SWISD) and North East Independent School District (NEISD), after the Fifth Circuit Court of Appeals issued a reversal and remand in *U.S. v. Texas*, 601 F.3d 354 (5th Cir. 2010). The causes of action against NEISD were dismissed without prejudice in May, 2016. The suit alleges that current practices by the state and by SWISD violate the Equal Educational Opportunities Act of 1974 (20 U.S.C. § 1703(f)). LULAC is pursuing class certification. This suit does not seek specific monetary damages, but an injunction against the state could ultimately require spending in excess of \$10 million in order to achieve compliance.

The following cases are pending but deemed very low-risk loss contingency:

2. *Alphonso Crutch Life Support Center, Inc. v. Williams (Crutch II)*, Case No. 03-15-00509-CC; In the Third Court of Appeals; *Alphonso Crutch Life Support Center, Inc. v. Williams (Crutch III)*, 03-13-00789-CV

Plaintiff is a former charter school that appeals a take nothing judgment of the district court. *Crutch II* was on remand from the court of appeals after the court permitted the Plaintiff to attempt to replead its claims under the Uniform Declaratory Judgments Act and Texas constitution. After a trial, the district court ruled in favor of TEA and the Plaintiffs filed another appeal to the court of appeals. The 3<sup>rd</sup> Court of Appeals affirmed the trial court in a memorandum opinion issued on September 7, 2016. Plaintiffs have requested an extension of time to file a Petition for Review with the Texas Supreme Court. The Petition for Review is now due on November 18, 2016. *Crutch III* is an appeal of the trial court's order that it lacked jurisdiction over the charter school's claims that it was denied due process in its revoked proceedings. This case was affirmed by the 3<sup>rd</sup> Court of Appeals in a memorandum opinion issued on December 1, 2015. A petition for review was denied by the Texas Supreme Court on September 12, 2016. The Plaintiffs have filed a motion for rehearing, which is still pending.

3. *Charles Taylor v. Williams*; Case No. 08-14-00066-CV; In the Eighth Court of Appeals

An individual who was elected to the El Paso ISD Board of Trustees filed suit in El Paso District Court alleging that the appointment of a Board of Managers in El Paso violated the individual's constitutional rights and the Election Code. The El Paso Court of Appeals issued an opinion on September 16, 2015, dismissing the suit as moot. The Appellant has filed a Motion for Rehearing of the court's opinion, which was denied. Taylor has filed a Petition for Writ of Certiorari in the US Supreme Court, the conference is currently set for October 28, 2016.

4. *Progreso Indep. Sch. Dist. v. Williams*, Cause No. D-1-GN-15-000834; In the 201<sup>st</sup> Judicial District of Travis, County, Texas

The school district brought suit in early 2015 challenging the TEA's recoupment of an over-allocation of funding after the agency determined after two final audits that the district received funding over a two-year period for students for whom the district failed to maintain any documentation that the students were residents of the district eligible to receive state funding. Plaintiff seeks to be repaid approximately \$1 million in recouped FSP payments and seeks attorney's fees. The case is pending in district court.

*Michael Morath, in his Official Capacity as Texas Commissioner of Education and Michael Berry, in his Official Capacity as Deputy Commissioner of Education v. Progreso Indep, Sch. Dist.*, Cause No. 03-16-00254-CV; In the Third Court of Appeals

This is an appeal of the Commissioner's decision to appoint a board of managers to replace the Board of Trustees. The case was originally filed in the Travis County District Court, Cause No. D-1-GN-15-000005 on January 4, 2016.

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5. *Youth Empowerment Services, Inc. d/b/a Higgs Carter King Gifted and Talented Charter Academy v. Williams*, Cause Number D-1-GN-15-001090; In the 53<sup>rd</sup> District Court of Travis County, Texas

Plaintiff, a revoked charter school, sued TEA and the Commissioner in his official capacity alleging that the charter school's substantive and procedural due process rights were violated in an action revoking their charter contract, and that the Agency's directives regarding the return of state property in the possession of the charter school was an unconstitutional taking. The school's claim asserting a right to ownership of its real property remains pending. Plaintiff also seeks attorney's fees.

6. *The Phoenix School d/b/a Phoenix Charter School v. Williams*, Cause No. D-1-GN-15-003067; In the 419<sup>th</sup> District Court of Travis County

Plaintiff, a former-charter school, filed suit challenging the Commissioner's mandatory non-renewal of the charter under statute. Plaintiff also seeks attorney's fees. The Commissioner has filed a plea to the jurisdiction and the case remains pending at the trial court.

7. *Academy of Careers and Technology Inc., d/b/a Academy of Careers and Technology Charter School (ACT) v. Williams*; Case No. 03-15-00528-CV; In the Third Court of Appeals

On July 30, 2015, a charter school filed suit in Travis County District Court seeking to enjoin the Agency from revoking the charter contract held by the Plaintiff. The district court entered a temporary injunction order enjoining the Agency from taking further steps to close the charter school and denied the Agency's plea to the jurisdiction. The Agency appealed to the Third Court of Appeals and superseded the Temporary Injunction. On September 8, 2015, the Third Court of Appeals granted temporary relief to the Plaintiff by reinstating the temporary injunction. After briefing of jurisdictional issues, the Third Court of Appeals ruled in the Agency's favor. The charter school is seeking to appeal the decision to the Texas Supreme Court.

8. *Transformative Learning System d/b/a Transformative Charter Academy v. Williams*; Cause No. D-1-GN-15-003711; In the 98<sup>th</sup> District Court, Austin, Texas.

On August 31, 2015, the Plaintiff filed this lawsuit alleging that TEA directives that told the former charter school to return state property that it possesses violated the plaintiff's constitutional rights and that the action was a "taking" under the constitution. The Agency filed an answer on October 2, 2015, and the case is currently pending.

9. *Excellence 2000, Inc., d/b/a Children First Academy of Dallas Charter School v. Texas Education Agency and Morath*; D-1-GN-16-003410; In the 53<sup>rd</sup> District Court of Travis County.

On August 1, 2016, TEA received notice that the Plaintiff filed this lawsuit challenging the non-renewal of its charter contract and the application of certain statutes and rules and alleging a violation of its due process rights. Defendants have not yet been served in this case.

10. *Premier Learning Academy Inc. v. Texas Education Agency, Morath, and John Sawyer*; Cause No. D-1-GN-16-004529; In the 261<sup>st</sup> District Court of Travis County.

On September 6, 2016, the Plaintiff filed this suit alleging that TEA has interfered in its ability to pay certain contracts and seeking a declaration that Plaintiff can pay the alleged contractual obligations with the Foundation School Program funds remaining in its bank account and enjoining TEA from seizing the funds remaining in the account.

11. *Lewis, et al v. Morath*, Cause No. D-1-GN-16-002211, In the 98<sup>th</sup> District Court of Travis County.

On May 23, 2016, this case was filed in the District Court, alleging the STAAR standardized tests administered in spring 2016 did not comply with the 2015 legislative directive. This case is currently pending before the Court of Appeal, Cause No. 03-16-00603-CV

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12. *Honors Academy, Inc. d/b/a Honors Academy, et al. v. TEA & Morath*, Cause No. 16-0519, Texas Supreme Court

The revoked charter schools filed this appeal to challenge the revocation of their open-enrollment charter. The district court denied the Agency's plea to the jurisdiction, and the Agency filed an interlocutory appeal to the 3<sup>rd</sup> court of appeals. The 3<sup>rd</sup> court of appeals reversed the trial court, granted the plea to the jurisdiction, and dismissed the case for lack of jurisdiction. The plaintiffs appealed to the Texas Supreme Court where the case is now pending.

13. *Texas State Teachers Association v. Texas Education Agency*, Cause No. D-1-GN-16-001685, 345<sup>th</sup> District Court of Travis County Texas

A Teacher's organization filed suit challenging a teacher evaluation instrument on April 20, 2016. The Agency has filed an answer and the case is currently pending in district court.

#### Permanent School Fund (PSF) Litigation

The PSF has potential liability in two sets of defense class actions asserting fraudulent conveyance claims and seeking to recover moneys paid the PSF for the sale of publicly-traded securities in response to tender offers made in the context of leveraged buy-outs. While ultimately uncertain whether the PSF will have any liability for these matters, management believes that it is unlikely that these suits will result in any liability to the PSF during this year's audit period [for the next 12 months] therefore, in accordance with GAAP, no accrual for these matters is currently reflected in the accompanying financial statements. The Attorney General's Office is representing the PSF in both matters and asserting sovereign immunity and other defenses.

1. *In re: Lyondell Chemical Company*, No. 09-10023; Edward S. Weisfelner, as Trustee of the LB Creditor Trust v. Morgan Stanley, Adv. Pro. No. 10-04609 (Bankr. S.D.N.Y.) and Edward S. Weisfelner, as Litigation Trustee of the LB Litigation Trust v. Holmes, Adv. Pro. No. 10-05525 (Bankr. S.D.N.Y.). The PSF received approximately \$17.5 million for Lyondell stock.
2. *In re: Tribune Company*, No. 08-13141; The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, Adv. Pro. No. 10-54010 (Bankr. D. Del); and Deutsche Bank v. Employees Retirement Fund of the City of Dallas, No. 3:11-CV-1167-F; (N. D. Tex. Dallas Div.) CONSOLIDATED in: *In re: Tribune Company Fraudulent Conveyance Litigation*; Nos. 11-MD-2296 and 12-MC-2296 (S. D. N. Y.). The PSF received approximately \$3.9 million for Tribune stock.

### 3. Significant Commitments

As of August 31, 2016 the SBOE has approved and the Fund has made capital commitments to externally managed real estate investment funds in a total amount of \$2,597.3 million and private equity program capital commitments to private equity limited partnerships in the total amount of \$2,938.9 million, to be implemented over several years. Unfunded commitments at August 31, 2016 totaled \$839.9 million in real estate investments and \$1,150.3 million in private equity programs.

### Note 16 Subsequent Events

Not applicable.

### Note 17 Risk Management

The Texas Education Agency is exposed to a variety of civil claims resulting from the performance of its duties. It is the Agency's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

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The Agency assumes substantially all risks associated with tort claims and liability claims due to the performance of its duties. Besides the commercial insurance purchased on its three vehicles during the fiscal year, the Agency currently has not purchased any other commercial insurance nor is the Agency involved in any risk pools with other governmental entities.

The Agency's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. At the present, there are no recorded liabilities.

#### **Note 18 Management Discussion and Analysis**

The Permanent School Fund is a permanent fund of financial investment assets administered by the State Board of Education in a trustee capacity. The Permanent School Fund was created with a \$2,000,000.00 appropriation by the Legislature of 1854 expressly for the benefit of funding public education for present and future generations. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the Permanent School Fund. Additional Acts later gave more public domain land and rights to the Permanent School Fund. In 1953, the U. S. Congress passed the Submerged Lands Acts that relinquished to coastal States all rights of the U. S. navigable waters within State boundaries. Submerged lands were defined to be those lands beneath and beyond three miles. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. Concluding three years of litigation, the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three league (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the Permanent School Fund. The Permanent School Fund currently owns approximately 15 million acres. The responsibility for accounting for this land belongs to the General Land Office. The value of the land balance and any related transactions are carried on the General Land Office financial records.

Article 7 of the Texas Constitution assigns control of the Permanent School Fund's financial assets to the State Board of Education while administrative duties related to the fund reside with the Commissioner of Education.

The State Constitution describes the Permanent School Fund as "permanent" and "perpetual" with proceeds produced by the Permanent School Fund to be used to complement taxes in financing public education. The sole purpose of the Permanent School Fund is to assist in the funding of public education for present and future generations. The Permanent School Fund calculates its annual distribution using a total return methodology. Article 7, Section 5 authorizes the SBOE to determine the amount to be distributed from the Permanent School Fund to the Available School Fund (ASF) each year of a fiscal biennium.

Two constraints in Article VII, Section 5 affect the amount that may be distributed. First, distributions made in each year are limited to not more than 6% of the average market value of the PSF for the 16 fiscal quarters preceding the legislative session before the state fiscal biennium, and second, the total amount distributed over the 10-year period as defined in subsection 5(a)(2) may not exceed the total return on all investment assets of the PSF over the same ten year period.

Under administrative rules adopted in 2009, the SBOE determines whether a distribution to the Available School Fund (ASF) is permitted under the Texas Constitution, Article VII, §5(a)(2) and whether such distribution shall be made for each current state fiscal year. In fiscal year 2016, the distribution to the ASF totaled \$1,056,412,420.20.

#### **Note 19 The Financial Reporting Entity**

Not applicable.

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**Note 20 Stewardship, Compliance, and Accountability**

As of August 31, 2016, the Agency had several intergovernmental receivables and payables which will be settled from 2017 appropriations.

**Note 21**

Not applicable.

**Note 22 Donor-Restricted Endowments**

Net assets of the Permanent School Fund represent the residual interest in the Fund’s assets after liabilities are deducted. The State of Texas Constitution describes the Fund as “permanent” and “perpetual” with proceeds produced by the Permanent School Fund to be used to complement taxes in financing public education. Under an obligation to maintain trust principal, the Permanent School Fund’s assets are held in a trustee capacity for the benefit of public free schools. The Permanent School Fund is dedicated by Sections 2 and 5 of Article VII of the Texas Constitution and may not be expended except as allowed by the constitution. Article VII, Section 5(b) allows an appropriation from the Permanent School Fund for the purpose of managing its investment, and Article VII, Section 5(d) allows the Permanent School Fund to be pledged to guarantee bonds issued by school districts or the state for the purpose of construction and improvement of instructional facilities. Article VII, Section (a) provides for a percentage of the Permanent School Fund’s value to be transferred to the Available School Fund as determined by the State Board of Education or the Legislature, not to exceed the lesser of six percent or the total return on all investment assets over the current year and preceding nine years.

	Permanent School Fund (PSF)
Non Spendable Net Assets of the PSF	\$ 9,734,229,540.62
Restricted Net Assets of the PSF	20,384,653,578.04
<b>Total Net PSF Assets at August 31, 2016 (Exh. I)</b>	<b>\$ 30,118,883,118.66</b>

**Note 23 Extraordinary and Special Items**

Not applicable.

**Note 24 Disaggregation of Receivable and Payable Balances**

As of August 31, 2016, the Agency had several intergovernmental receivables and payables which would be settled in the 2016 appropriation accounts. By statute, the Foundation School Program pays out the settlement owed from the past school year in September of the following school year; the expenditure refund amounts owed back to the Fund are subtracted from the allocations made to the districts for the following year.

**Note 25 Termination Benefits**

Not applicable.

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**Note 26 Segment Information**

Not applicable.

**Note 27 Service Concession Arrangements**

Not applicable.

**Note 28 Deferred Outflows of Resources and Deferred Inflows of Resources**

In fiscal year 2016, the Agency reported deferred inflows of resources in connection with fixed income and international equity investments for Fund 0044 as presented below:

As of August 31, 2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Permanent School Fund (0044):		
Interest and International Dividends		\$ 17,248,037.13
<b>Total (Exh. I)</b>		<b>\$ 17,248,037.13</b>

Deferred inflows of resources of \$17,248,037.13 were related to revenue measurable at year-end and due to the Agency, but not available within sixty days subsequent to year-end.

**Note 29 Trouble Debt Restructuring**

Not applicable.

**Note 30 Non-Exchange Financial Guarantees**

**Bond Guarantee Program**

In 1983, the voters of the State approved a constitutional amendment which provides for the guarantee of school district bonds by the Permanent School Fund. This amendment was statutorily codified in the Texas Education Code Title 2, Subtitle I, Chapter 45, Subchapter C. The Guarantee Program is administered by the Commissioner. For eligible bonds, including refunding bonds, school districts submit an application for guarantee and a \$1,500.00 processing fee. The Commissioner may endorse bonds for guarantee only after investigating the accreditation and financial viability of the applying school district. If the school district is considered viable and the bonds are approved by the State of Texas Attorney General, then the guarantee is endorsed at a zero premium charge to the district. In the event of a default by a school district, and upon proper notice to the Commissioner, the Permanent School Fund will transfer to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and/or interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled Bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld will be deposited to the credit of the Permanent School Fund. To date, no school districts have ever defaulted on their guaranteed bonded indebtedness.

In 2011, the 82<sup>nd</sup> Texas Legislature enacted a Bill that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program, and authorized the use of the Permanent School Fund to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. Charter district applicants are subject to the same application fee structure as described above for school districts. Upon meeting certain statutory eligibility requirements and



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approval by the Commissioner, bonds properly issued by a charter district are fully guaranteed by the corpus of the Permanent School Fund. Implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service, which was received in September 2013, and the establishment of regulations to govern the program, which were published for public comment in December 2013, approved in January 2014, and became effective in March, 2014.

Statute requires charter district participants in the Program to contribute a portion of their savings that result from their participation in the Program to a Charter District Bond Guarantee Reserve Fund. This fund is maintained by the Comptroller of Public Accounts in the state treasury. In the event of a default by a charter district, the Commissioner shall instruct the Comptroller to transfer from the Charter District Bond Guarantee Reserve Fund to the district's paying agent the amount necessary to pay the maturing or matured principal and/or interest. If funds in the Charter District Bond Guarantee Reserve Fund are insufficient to pay the amount due on a bond in default, the payment process followed is the same as for school districts. As with school districts, no charter districts have defaulted on their guaranteed bond indebtedness.

The Internal Revenue Service issued Notice 2010-5 on December 16, 2009 stating that it intended to propose regulations to replace the previous federal law limit on the Guarantee program capacity to be no more than five times the cost value of the Permanent School Fund on that date. Section 4 of the Notice states that it may be relied on for bonds issued after December 16, 2009.

The 80<sup>th</sup> Texas Legislature adopted a change in the state law limit, amending Section 45.053 of the Texas Education Code to allow the State Board of Education (SBOE) to increase the guarantee capacity up to five times the cost value of the Permanent School Fund, provided that the Board determines that any increase will still allow school district bonds to receive the highest rating. Effective February 1, 2016, the SBOE authorized capacity multiplier for the State Capacity Limit was increased to 3.25 times the cost value of the Fund, including the portion managed by the School Land Board (SLB).

As of August 31, 2016, the capacity of the Guarantee Program is \$117,318,653,038.00 under Federal law and \$96,967,154,703.00 under State law. Total outstanding bonds guaranteed by the Permanent School Fund under this program total \$68,303,328,444.53 at August 31, 2016; of that, \$67,342,303,444.53 is for school district guarantees (837 school districts) and \$961,025,000.00 is for charter district guarantees (14 charter districts). These dollar amounts represent the outstanding principal amount of the bonds issued. They do not reflect any subsequent accretions in value for the compound interest bonds (zero coupon bonds), nor do they include interest on current interest bonds or variable rate notes. The balances also exclude bonds that have been refunded and released from the Bond Guarantee Program. The balance of bonds guaranteed under the program does not exceed the calculated capacity of the program as of August 31, 2016.

Guarantees extend through the maturity dates of the bonds. As of August 31, 2016, the total principal debt guaranteed on bond issues is \$68,303,328,444.53, the expected interest to be paid out over the remaining life of those bond issues is \$41,035,146,448.36, and the final maturity is scheduled to occur in the year 2055.

Texas Education Agency (701)  
 Exhibit A-1  
 Combining Balance Sheet-  
 All General and Consolidated Funds  
 August 31, 2016

	Consolidated Accounts					
	General Revenue Fund 0001	State Instructional Materials Fund 0003	Charter District Bond Guarantee Reserve Fund 0053	License Plate Trust Fund 0802	Federal Health, Education & Welfare Fund 0148	Federal School Lunch Fund 0171
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents:						
Cash on Hand	\$ 140.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Cash in Bank	25,000.00	0.00	0.00	0.00	0.00	0.00
Cash in State Treasury	0.00	522,937,819.48	1,958,266.55	0.00	10,150,523.74	0.00
Legislative Appropriations	157,258,104.72	0.00	0.00	0.00	0.00	0.00
Receivables:						
Federal	0.00	0.00	0.00	0.00	500,513,466.50	89,401,479.97
Intergovernmental	0.00	0.00	0.00	0.00	0.00	0.00
Interest and Dividends	24,499.66	375,020.86	1,322.49	17.92	0.00	0.00
Accounts	100,000.00	0.00	0.00	0.00	0.00	0.00
Interfund Receivables (Note 12)	0.00	0.00	0.00	0.00	243,417.51	0.00
Due From Other Agencies (Note 12)	430,884.07	0.00	0.00	21,686.85	4,002,288.16	0.00
Consumable Inventories	104,030.79	0.00	0.00	0.00	0.00	0.00
<b>Total Current Assets</b>	<b>\$ 157,942,659.24</b>	<b>\$ 523,312,840.34</b>	<b>\$ 1,959,589.04</b>	<b>\$ 21,704.77</b>	<b>\$ 514,909,695.91</b>	<b>\$ 89,401,479.97</b>
<b>Total Assets</b>	<b>\$ 157,942,659.24</b>	<b>\$ 523,312,840.34</b>	<b>\$ 1,959,589.04</b>	<b>\$ 21,704.77</b>	<b>\$ 514,909,695.91</b>	<b>\$ 89,401,479.97</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Current Liabilities:						
Payables:						
Accounts	\$ 46,355,700.13	\$ 6,627,330.57	\$ 0.00	\$ 21,517.99	\$ 497,763,662.76	\$ 89,400,000.00
Other Intergovernmental	0.00	0.00	0.00	0.00	0.00	0.00
Payroll	3,772,680.19	116,729.82	0.00	0.00	2,481,632.61	0.00
Interfund Payables (Note 12)	0.00	0.00	0.00	0.00	0.00	0.00
Due to Other Agencies (Note 12)	1,206,358.76	0.00	0.00	0.00	8,783,712.37	1,479.97
Unearned Revenues	571,799.77	0.00	0.00	0.00	47,666.15	0.00
<b>Total Current Liabilities</b>	<b>\$ 51,906,538.85</b>	<b>\$ 6,744,060.39</b>	<b>\$ 0.00</b>	<b>\$ 21,517.99</b>	<b>\$ 509,076,673.89</b>	<b>\$ 89,401,479.97</b>
<b>Total Liabilities</b>	<b>\$ 51,906,538.85</b>	<b>\$ 6,744,060.39</b>	<b>\$ 0.00</b>	<b>\$ 21,517.99</b>	<b>\$ 509,076,673.89</b>	<b>\$ 89,401,479.97</b>
<b>Fund Financial Statement - Fund</b>						
Fund Balances (Deficits):						
Nonspendable	\$ 104,030.79	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Restricted	0.00	516,568,779.95	0.00	0.00	5,833,022.02	0.00
Committed	0.00	0.00	1,959,589.04	0.00	0.00	0.00
Assigned	70,237,901.92	0.00	0.00	0.00	0.00	0.00
Unassigned	35,694,187.68	0.00	0.00	186.78	(0.00)	(0.00)
<b>Total Fund Balances</b>	<b>\$ 106,036,120.39</b>	<b>\$ 516,568,779.95</b>	<b>\$ 1,959,589.04</b>	<b>\$ 186.78</b>	<b>\$ 5,833,022.02</b>	<b>\$ (0.00)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 157,942,659.24</b>	<b>\$ 523,312,840.34</b>	<b>\$ 1,959,589.04</b>	<b>\$ 21,704.77</b>	<b>\$ 514,909,695.91</b>	<b>\$ 89,401,479.97</b>

Consolidated Accounts

Foundation School Fund 0193	Educator Excellence Fund 5135	Special License Plates-General Fund 5140	Suspense Fund (D23 Fund 1900) 0900	Memorandum Totals FY2016 Exhibit I
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 140.00
0.00	0.00	0.00	0.00	25,000.00
20,521,294.32	5,126,028.89	0.00	243,417.51	560,937,350.49
0.00	0.00	0.00	0.00	157,258,104.72
0.00	0.00	0.00	0.00	589,914,946.47
446,005,028.00	0.00	0.00	0.00	446,005,028.00
0.00	0.00	0.00	0.00	400,860.93
0.00	0.00	0.00	0.00	100,000.00
0.00	0.00	0.00	0.00	243,417.51
118,799,022.67	0.00	0.00	0.00	123,253,881.75
0.00	0.00	0.00	0.00	104,030.79
<u>\$ 585,325,344.99</u>	<u>\$ 5,126,028.89</u>	<u>\$ 0.00</u>	<u>\$ 243,417.51</u>	<u>\$ 1,878,242,760.66</u>
<u>\$ 585,325,344.99</u>	<u>\$ 5,126,028.89</u>	<u>\$ 0.00</u>	<u>\$ 243,417.51</u>	<u>\$ 1,878,242,760.66</u>
\$ 13,900,141.79	\$ 1,293,606.61	\$ 0.00	\$ 0.00	\$ 655,361,959.85
503,231,454.00	0.00	0.00	0.00	503,231,454.00
0.00	0.00	0.00	0.00	6,371,042.62
0.00	0.00	0.00	243,417.51	243,417.51
0.00	0.00	0.00	0.00	9,991,551.10
0.00	0.00	0.00	0.00	619,465.92
<u>\$ 517,131,595.79</u>	<u>\$ 1,293,606.61</u>	<u>\$ 0.00</u>	<u>\$ 243,417.51</u>	<u>\$ 1,175,818,891.00</u>
<u>\$ 517,131,595.79</u>	<u>\$ 1,293,606.61</u>	<u>\$ 0.00</u>	<u>\$ 243,417.51</u>	<u>\$ 1,175,818,891.00</u>
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 104,030.79
0.00	0.00	0.00	0.00	522,401,801.97
68,193,749.20	3,832,422.28	0.00	0.00	73,985,760.52
0.00	0.00	0.00	0.00	70,237,901.92
0.00	0.00	0.00	0.00	35,694,374.46
<u>\$ 68,193,749.20</u>	<u>\$ 3,832,422.28</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 702,423,869.66</u>
<u>\$ 585,325,344.99</u>	<u>\$ 5,126,028.89</u>	<u>\$ 0.00</u>	<u>\$ 243,417.51</u>	<u>\$ 1,878,242,760.66</u>

**Texas Education Agency (701)**  
**Exhibit A-2**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balance - All General and Consolidated Funds**

For the fiscal year ended August 31, 2016

	General Revenue Fund 0001	State Instructional Materials Fund 0003	Charter District Bond Guarantee Reserve Fund 0053	License Plate Trust Fund 0802	Consolidated Accounts	
					Federal Health, Education & Welfare Fund 0148	Federal School Lunch Fund 0171
<b>REVENUES</b>						
Legislative Appropriations:						
Original Appropriations	\$ 271,805,284.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Additional Appropriations	13,830,154.58	0.00	0.00	0.00	0.00	0.00
Federal Revenue (Sch. 1A)	458,136.00	0.00	0.00	0.00	3,095,595,807.25	1,946,380,871.25
Federal Grant Pass-Through Revenue (Sch. 1A)	0.00	0.00	0.00	0.00	16,647,942.56	0.00
Licenses, Fees and Permits	494,092.76	0.00	0.00	239,704.19	0.00	0.00
Interest and Other Investment Income	364,263.06	2,765,085.55	10,041.91	186.78	0.00	0.00
Sales of Goods and Services	230,107.64	264.78	0.00	0.00	0.00	0.00
Other	2,459,999.13	0.00	927,927.00	0.00	506.12	0.00
<b>Total Revenues</b>	<b>\$ 289,642,037.17</b>	<b>\$ 2,765,350.33</b>	<b>\$ 937,968.91</b>	<b>\$ 239,890.97</b>	<b>\$ 3,112,244,255.93</b>	<b>\$ 1,946,380,871.25</b>
<b>EXPENDITURES</b>						
Salaries and Wages	\$ 34,139,641.61	\$ 1,129,613.75	\$ 0.00	\$ 0.00	\$ 23,092,443.53	\$ 0.00
Payroll Related Costs	9,378,235.20	534,286.23	0.00	0.00	8,059,352.41	0.00
Professional Fees and Services	60,765,326.21	335,862.29	0.00	0.00	60,568,490.73	0.00
Travel	371,721.37	204,130.48	0.00	0.00	241,308.28	0.00
Materials and Supplies	325,264.62	4,754.12	0.00	0.00	220,533.65	0.00
Communication and Utilities	2,845,952.91	8,477.68	0.00	0.00	590,829.20	0.00
Repairs and Maintenance	537,064.36	3,246.69	0.00	0.00	154,954.57	0.00
Rentals and Leases	1,163,645.31	42,819.20	0.00	0.00	486,831.35	0.00
Printing and Reproduction	39,428.34	1,640.82	0.00	0.00	21,005.32	0.00
Federal Grant Pass Through Expenditures (Sch. 1A)	0.00	0.00	0.00	0.00	74,492,704.05	132,315.26
State Grant Pass Through Expenditures (Sch. 1B)	9,441,810.41	1,148,654.12	0.00	0.00	0.00	0.00
Intergovernmental Payments	50,471,229.56	456,432,170.28	0.00	14,299.75	2,918,033,009.13	1,946,248,555.99
Public Assistance Payments	26,904,378.41	0.00	0.00	225,404.44	21,007,181.75	0.00
Other Expenditures	7,228,764.05	100,342.42	0.00	0.00	5,896,309.56	0.00
Capital Outlay	4,586.70	322.81	0.00	0.00	4,152.25	0.00
<b>Total Expenditures / Expenses</b>	<b>\$ 203,617,049.06</b>	<b>\$ 459,946,320.89</b>	<b>\$ 0.00</b>	<b>\$ 239,704.19</b>	<b>\$ 3,112,869,105.78</b>	<b>\$ 1,946,380,871.25</b>
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ 86,024,988.11	\$ (457,180,970.56)	\$ 937,968.91	\$ 186.78	\$ (624,849.85)	\$ 0.00
<b>OTHER FINANCING SOURCES (USES):</b>						
Sale of Capital Assets	\$ 4,600.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Transfers In (Note 12)	0.00	1,056,412,420.20	0.00	0.00	0.00	0.00
Transfers Out (Note 12)	(802,626.47)	0.00	0.00	0.00	0.00	0.00
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (798,026.47)</b>	<b>\$ 1,056,412,420.20</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
Net Change in Fund Balances / Net Assets	\$ 85,226,961.64	\$ 599,231,449.64	\$ 937,968.91	\$ 186.78	\$ (624,849.85)	\$ 0.00
<b>Fund Financial Statement - Fund Balances</b>						
Fund Balance - September 1, 2015	\$ 31,472,455.30	\$ (82,662,669.69)	\$ 1,021,620.13	\$ 0.00	\$ 6,457,871.87	\$ 0.00
Appropriations Lapsed	(10,663,296.55)	0.00	0.00	0.00	0.00	0.00
<b>Fund Balance - August 31, 2016</b>	<b>\$ 106,036,120.39</b>	<b>\$ 516,568,779.95</b>	<b>\$ 1,959,589.04</b>	<b>\$ 186.78</b>	<b>\$ 5,833,022.02</b>	<b>\$ 0.00</b>

Consolidated Accounts				
Foundation School Fund 0193	Educator Excellence Fund 5135	Special License Plates-General Fund 5140	Suspense Fund (D23 Fund 1900) 0900	Memorandum Totals FY2016 Exhibit II
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 271,805,284.00
0.00	0.00	0.00	0.00	13,830,154.58
0.00	0.00	0.00	0.00	5,042,434,814.50
0.00	0.00	0.00	0.00	16,647,942.56
0.00	0.00	0.00	0.00	733,796.95
0.00	0.00	0.00	0.00	3,139,577.30
0.00	0.00	0.00	0.00	230,372.42
1,578,407,310.14	0.00	0.00	0.00	1,581,795,742.39
<u>\$ 1,578,407,310.14</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 6,930,617,684.70</u>
\$ (46,032.49)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 58,315,666.40
0.00	0.00	0.00	0.00	17,971,873.84
51,137,586.51	0.00	0.00	0.00	172,807,265.74
0.00	0.00	0.00	0.00	817,160.13
1,203.15	0.00	0.00	0.00	551,755.54
126.01	0.00	0.00	0.00	3,445,385.80
0.00	0.00	0.00	0.00	695,265.62
8,533.97	0.00	0.00	0.00	1,701,829.83
11,931.35	0.00	0.00	0.00	74,005.83
0.00	0.00	0.00	0.00	74,625,019.31
110,678,573.64	0.00	0.00	0.00	121,269,038.17
20,566,540,355.02	13,116,923.39	0.00	0.00	25,950,856,543.12
218,864.94	0.00	0.00	0.00	48,355,829.54
(187.86)	0.00	0.00	0.00	13,225,228.17
0.00	0.00	0.00	0.00	9,061.76
<u>\$ 20,728,550,954.24</u>	<u>\$ 13,116,923.39</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 26,464,720,928.80</u>
<u>\$ (19,150,143,644.10)</u>	<u>\$ (13,116,923.39)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (19,534,103,244.10)</u>
\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,600.00
18,921,767,868.06	0.00	0.00	0.00	19,978,180,288.26
0.00	(3,186,115.74)	0.00	0.00	(3,988,742.21)
<u>\$ 18,921,767,868.06</u>	<u>\$ (3,186,115.74)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 19,974,196,146.05</u>
<u>\$ (228,375,776.04)</u>	<u>\$ (16,303,039.13)</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 440,092,901.95</u>
\$ 296,569,525.24	\$ 20,135,461.41	\$ 0.00	\$ 0.00	\$ 272,994,264.26
0.00	0.00	0.00	0.00	(10,663,296.55)
<u>\$ 68,193,749.20</u>	<u>\$ 3,832,422.28</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 702,423,869.66</u>

(UNAUDITED)

Texas Education Agency (701)

Exhibit J-1

Combining Statement of Changes in Assets and Liabilities - Agency Funds

August 31, 2016

	Beginning Balances September 1, 2015	Additions	Deductions	Ending Balances August 31, 2016
<b>Child Support Addenda</b>				
<b>Deducts Fund (0807)</b>				
<b>ASSETS</b>				
Cash in State Treasury	\$ 11,091.15	\$ 137,962.71	\$ 138,605.33	\$ 10,448.53
Total Assets	<u>\$ 11,091.15</u>	<u>\$ 137,962.71</u>	<u>\$ 138,605.33</u>	<u>\$ 10,448.53</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 11,091.15	\$ 137,962.71	\$ 138,605.33	\$ 10,448.53
Total Liabilities	<u>\$ 11,091.15</u>	<u>\$ 137,962.71</u>	<u>\$ 138,605.33</u>	<u>\$ 10,448.53</u>
<b>City, County, MTA &amp; SPD Sales</b>				
<b>Tax Trust Fund (0882)</b>				
<b>ASSETS</b>				
Cash in State Treasury	\$ 0.00	\$ 288.64	\$ 288.64	\$ 0.00
Total Assets	<u>\$ 0.00</u>	<u>\$ 288.64</u>	<u>\$ 288.64</u>	<u>\$ 0.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 0.00	\$ 288.64	\$ 288.64	\$ 0.00
Total Liabilities	<u>\$ 0.00</u>	<u>\$ 288.64</u>	<u>\$ 288.64</u>	<u>\$ 0.00</u>
<b>Agency Suspense</b>				
<b>Fund (0900)</b>				
<b>ASSETS</b>				
Cash in State Treasury	\$ 0.00	\$ 21,982,454.80	\$ 21,978,627.43	\$ 3,827.37
Total Assets	<u>\$ 0.00</u>	<u>\$ 21,982,454.80</u>	<u>\$ 21,978,627.43</u>	<u>\$ 3,827.37</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 0.00	\$ 21,982,454.80	\$ 21,978,627.43	\$ 3,827.37
Total Liabilities	<u>\$ 0.00</u>	<u>\$ 21,982,454.80</u>	<u>\$ 21,978,627.43</u>	<u>\$ 3,827.37</u>

(UNAUDITED)

Texas Education Agency (701)  
Exhibit J-1  
Combining Statement of Changes in Assets and Liabilities - Agency Funds  
August 31, 2016

	<u>Beginning Balances September 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balances August 31, 2016</u>
<b>Unappropriated</b>				
<b>General Revenue Fund (1000)</b>				
<b>ASSETS</b>				
Cash on Hand	\$ 251.99	\$ 65.00	\$ 251.99	\$ 65.00
Cash in State Treasury	0.00	31,761,563.65	31,761,563.65	0.00
Total Assets	<u>\$ 251.99</u>	<u>\$ 31,761,628.65</u>	<u>\$ 31,761,815.64</u>	<u>\$ 65.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 251.99	\$ 31,761,628.65	\$ 31,761,815.64	\$ 65.00
Total Liabilities	<u>\$ 251.99</u>	<u>\$ 31,761,628.65</u>	<u>\$ 31,761,815.64</u>	<u>\$ 65.00</u>
 <b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Cash on Hand	\$ 251.99	\$ 65.00	\$ 251.99	\$ 65.00
Cash in State Treasury	11,091.15	53,882,269.80	53,879,085.05	14,275.90
Total Assets	<u>\$ 11,343.14</u>	<u>\$ 53,882,334.80</u>	<u>\$ 53,879,337.04</u>	<u>\$ 14,340.90</u>
<b>LIABILITIES</b>				
Funds Held for Others	\$ 11,343.14	\$ 53,882,334.80	\$ 53,879,337.04	\$ 14,340.90
Total Liabilities	<u>\$ 11,343.14</u>	<u>\$ 53,882,334.80</u>	<u>\$ 53,879,337.04</u>	<u>\$ 14,340.90</u>

Texas Education Agency (701)  
 Schedule 1A - Expenditures of Federal Awards  
 For the fiscal year ended August 31, 2016

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA	Pass-Through From			Direct Program Amount
		Agency / University Number	Agency / University Amount	Non-State Entities Amount	
<b>U.S. Department of Education</b>					
<i>Direct Programs:</i>					
<u>Title I Grants to Local Educational Agencies</u>	84.010				\$ 1,351,563,130.02
<i>Pass-Through To:</i>					
University of Texas at Austin					
University of Houston					
University of Texas at Tyler					
Texas School for the Blind and Visually Impaired					
Texas School for the Deaf					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.010</b>				<b>\$ 1,351,563,130.02</b>
<u>Migrant Education - State Grant Program</u>	84.011				\$ 56,042,407.39
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.011</b>				<b>\$ 56,042,407.39</b>
<u>Title I Program for Neglected &amp; Delinquent Children &amp; Youth</u>	84.013				\$ 1,971,323.67
<i>Pass-Through To:</i>					
Texas Juvenile Justice Department					
Texas Department of Criminal Justice					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.013</b>				<b>\$ 1,971,323.67</b>
<u>Career and Technical Education - Basic Grants to States</u>	84.048				\$ 90,232,575.99
<i>Pass-Through To:</i>					
Texas A & M Agrilife Extension Service					
Texas A & M Agrilife Research					
Texas Juvenile Justice Department					
Texas Department of Criminal Justice					
Texas Tech University					
University of Texas at Tyler					
University of North Texas					
Stephen F. Austin State University					
Texas Higher Education Coordinating Board					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.048</b>				<b>\$ 90,232,575.99</b>
<u>Migrant Education Coordination Program</u>	84.144				\$ 60,000.00
<b>Total</b>	<b>84.144</b>				<b>\$ 60,000.00</b>
<u>Safe and Drug-Free Schools and Communities-Nat'l Prgrms</u>	84.184				\$ 956,452.66
<b>Total</b>	<b>84.184</b>				<b>\$ 956,452.66</b>
<u>Safe and Drug-Free Schools and Communities-State Grants</u>	84.186				\$ (8,069.15)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.186</b>				<b>\$ (8,069.15)</b>
<u>Education for Homeless Children and Youth</u>	84.196				\$ 6,736,422.86
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.196</b>				<b>\$ 6,736,422.86</b>
<u>Tech-Prep Education</u>	84.243				\$ (10,341.98)
<i>Pass-Through To:</i>					
Texas Higher Education Coordinating Board					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>					<b>\$ (10,341.98)</b>
<u>Eisenhower Professional Development State Grants</u>	84.281				\$ (154.08)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.281</b>				<b>\$ (154.08)</b>
<u>Charter Schools</u>	84.282				\$ 7,094,704.24
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.282</b>				<b>\$ 7,094,704.24</b>
<u>Twenty-First Century Community Learning Centers</u>	84.287				\$ 105,861,331.83
<i>Pass-Through To:</i>					
University of Texas at Tyler					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.287</b>				<b>\$ 105,861,331.83</b>



Total Pass-Through From and Direct Program	Pass-Through To			Expenditures Amount	Total Pass-Through to and Expenditures
	Agency / University Number	Agency / University Amount	Non-State Entities Amount		
\$ 1,351,563,130.02				\$ 14,026,701.38	\$ 14,026,701.38
	721	\$ 1,108,689.09			1,108,689.09
	730	19,094.18			19,094.18
	750	43,215.00			43,215.00
	771	28,001.77			28,001.77
	772	87,873.00			87,873.00
			\$ 1,336,249,555.60		1,336,249,555.60
\$ 1,351,563,130.02		\$ 1,286,873.04	\$ 1,336,249,555.60	\$ 14,026,701.38	\$ 1,351,563,130.02
\$ 56,042,407.39				\$ 2,247,606.75	\$ 2,247,606.75
			\$ 53,794,800.64		53,794,800.64
\$ 56,042,407.39			\$ 53,794,800.64	\$ 2,247,606.75	\$ 56,042,407.39
\$ 1,971,323.67				\$ 18,463.96	\$ 18,463.96
	644	\$ 853,640.08			853,640.08
	696	1,096,887.26			1,096,887.26
			\$ 2,332.37		2,332.37
\$ 1,971,323.67		\$ 1,950,527.34	\$ 2,332.37	\$ 18,463.96	\$ 1,971,323.67
\$ 90,232,575.99				\$ 2,271,328.12	\$ 2,271,328.12
	555	\$ 27,906.75			27,906.75
	556	91,165.28			91,165.28
	644	202,394.11			202,394.11
	696	714,347.00			714,347.00
	733	60,503.90			60,503.90
	750	(1,120.00)			(1,120.00)
	752	346,984.17			346,984.17
	755	57,821.95			57,821.95
	781	27,214,470.66			27,214,470.66
			\$ 59,246,774.05		59,246,774.05
\$ 90,232,575.99		\$ 28,714,473.82	\$ 59,246,774.05	\$ 2,271,328.12	\$ 90,232,575.99
\$ 60,000.00				\$ 60,000.00	\$ 60,000.00
\$ 60,000.00				\$ 60,000.00	\$ 60,000.00
\$ 956,452.66				\$ 956,452.66	\$ 956,452.66
\$ 956,452.66				\$ 956,452.66	\$ 956,452.66
\$ (8,069.15)			\$ (8,069.15)		\$ (8,069.15)
\$ (8,069.15)			\$ (8,069.15)		\$ (8,069.15)
\$ 6,736,422.86			\$ 6,736,422.86		\$ 6,736,422.86
\$ 6,736,422.86			\$ 6,736,422.86		\$ 6,736,422.86
\$ (10,341.98)					
	781	\$ (10,341.98)			\$ (10,341.98)
\$ (10,341.98)		\$ (10,341.98)			\$ (10,341.98)
\$ (154.08)			\$ (154.08)		\$ (154.08)
\$ (154.08)			\$ (154.08)		\$ (154.08)
\$ 7,094,704.24				\$ 140,561.27	\$ 140,561.27
			\$ 6,954,142.97		6,954,142.97
\$ 7,094,704.24			\$ 6,954,142.97	\$ 140,561.27	\$ 7,094,704.24
\$ 105,861,331.83				\$ 3,737,867.17	\$ 3,737,867.17
	750	\$ 4,082,227.19			4,082,227.19
			\$ 98,041,237.47		98,041,237.47
\$ 105,861,331.83		\$ 4,082,227.19	\$ 98,041,237.47	\$ 3,737,867.17	\$ 105,861,331.83

Texas Education Agency (701)  
 Schedule 1A - Expenditures of Federal Awards  
 For the fiscal year ended August 31, 2016

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA	Pass-Through From			Direct Program Amount
		Agency / University Number	Agency / University Amount	Non-State Entities Amount	
<u>State Grants for Innovative Programs</u>	84.298				\$ (358.56)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.298</b>				<b>\$ (358.56)</b>
<u>Education Technology State Grants</u>	84.318				\$ (2,737.00)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.318</b>				<b>\$ (2,737.00)</b>
<u>Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities</u>	84.326				\$ 508,153.39
<i>Pass-Through To:</i> Texas School for the Blind and Visually Impaired					
<b>Total</b>	<b>84.326</b>				<b>\$ 508,153.39</b>
<u>Advanced Placement Program</u>	84.330				\$ 5,440,743.00
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.330</b>				<b>\$ 5,440,743.00</b>
<u>Gaining Early Awareness and Readiness for Undergraduate Programs</u>	84.334				\$ 6,068,999.81
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.334</b>				<b>\$ 6,068,999.81</b>
<u>Class Size Reduction</u>	84.340				\$ (939.60)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.340</b>				<b>\$ (939.60)</b>
<u>Rural Education</u>	84.358				\$ 6,483,374.14
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.358</b>				<b>\$ 6,483,374.14</b>
<u>English Language Acquisition State Grants</u>	84.365				\$ 106,891,333.31
<i>Pass-Through To:</i> Texas A & M University (Main University)					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.365</b>				<b>\$ 106,891,333.31</b>
<u>Mathematics and Science Partnerships</u>	84.366				\$ 12,892,540.16
<i>Pass-Through To:</i> Texas A & M Engineering Experiment Station University of Texas at Austin University of Texas Medical Branch at Galveston Texas Tech University University of Texas at Dallas					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.366</b>				<b>\$ 12,892,540.16</b>
<u>Improving Teacher Quality State Grants</u>	84.367				\$ 184,000,557.12
<i>Pass-Through To:</i> Texas Juvenile Justice Department Texas Department of Criminal Justice University of Texas at Austin University of Houston University of Texas of the Permian Basin University of Texas at Tyler Texas School for the Blind and Visually Impaired Texas School for the Deaf					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.367</b>				<b>\$ 184,000,557.12</b>
<u>Grants for Enhanced Assessment Instruments</u>	84.368				\$ 1,372,360.65
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.368</b>				<b>\$ 1,372,360.65</b>
<u>Grants for State Assessments and Related Activities</u>	84.369				\$ 22,943,529.37
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.369</b>				<b>\$ 22,943,529.37</b>

Total Pass-Through From and Direct Program	Pass-Through To			Expenditures Amount	Total Pass-Through to and Expenditures
	Agency / University Number	Agency / University Amount	Non-State Entities Amount		
\$ (358.56)			\$ (358.56)	\$	(358.56)
\$ (358.56)			\$ (358.56)	\$	(358.56)
\$ (2,737.00)			\$ (2,737.00)	\$	(2,737.00)
\$ (2,737.00)			\$ (2,737.00)	\$	(2,737.00)
\$ 508,153.39					
	771	\$ 508,153.39		\$	508,153.39
\$ 508,153.39		\$ 508,153.39		\$	508,153.39
\$ 5,440,743.00			\$ 426,855.00	\$ 5,013,888.00	\$ 5,013,888.00
\$ 5,440,743.00			\$ 426,855.00	\$ 5,013,888.00	\$ 5,440,743.00
\$ 6,068,999.81				\$ 4,601,731.67	\$ 4,601,731.67
\$ 6,068,999.81			\$ 1,467,268.14	\$ 4,601,731.67	\$ 1,467,268.14
\$ 6,068,999.81			\$ 1,467,268.14	\$ 4,601,731.67	\$ 6,068,999.81
\$ (939.60)			\$ (939.60)	\$	(939.60)
\$ (939.60)			\$ (939.60)	\$	(939.60)
\$ 6,483,374.14			\$ 6,174,638.01	\$ 308,736.13	\$ 308,736.13
\$ 6,483,374.14			\$ 6,174,638.01	\$ 308,736.13	\$ 6,174,638.01
\$ 6,483,374.14			\$ 6,174,638.01	\$ 308,736.13	\$ 6,483,374.14
\$ 106,891,333.31				\$ 3,366,650.49	\$ 3,366,650.49
	711	\$ 189,849.88			189,849.88
			\$ 103,334,832.94		103,334,832.94
\$ 106,891,333.31		\$ 189,849.88	\$ 103,334,832.94	\$ 3,366,650.49	\$ 106,891,333.31
\$ 12,892,540.16				\$ 29,984.52	\$ 29,984.52
	712	\$ 338.39			338.39
	721	10,973,722.99			10,973,722.99
	723	15,278.89			15,278.89
	733	0.04			0.04
	738	68,691.53			68,691.53
			\$ 1,804,523.80		1,804,523.80
\$ 12,892,540.16		\$ 11,058,031.84	\$ 1,804,523.80	\$ 29,984.52	\$ 12,892,540.16
\$ 184,000,557.12				\$ 5,004,743.18	\$ 5,004,743.18
	644	\$ 213,662.80			213,662.80
	696	122,198.37			122,198.37
	721	37,135.91			37,135.91
	730	10,329.86			10,329.86
	742	3,399.00			3,399.00
	750	12,476.00			12,476.00
	771	4,217.16			4,217.16
	772	17,709.00			17,709.00
			\$ 178,574,685.84		178,574,685.84
\$ 184,000,557.12		\$ 421,128.10	\$ 178,574,685.84	\$ 5,004,743.18	\$ 184,000,557.12
\$ 1,372,360.65				\$ 1,372,360.65	\$ 1,372,360.65
\$ 1,372,360.65				\$ 1,372,360.65	\$ 1,372,360.65
\$ 22,943,529.37			\$ 3,800,000.00	\$ 19,143,529.37	\$ 19,143,529.37
\$ 22,943,529.37			\$ 3,800,000.00	\$ 19,143,529.37	\$ 22,943,529.37

Texas Education Agency (701)  
 Schedule 1A - Expenditures of Federal Awards  
 For the fiscal year ended August 31, 2016

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA	Pass-Through From			Direct Program Amount
		Agency / University Number	Agency / University Amount	Non-State Entities Amount	
<u>Striving Readers</u>	84.371				\$ 89,710,018.04
<i>Pass-Through To:</i>					
University of Texas at Austin					
University of Texas Health Science Center at Houston					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.371</b>				<b>\$ 89,710,018.04</b>
<u>Statewide Longitudinal Data Systems</u>	84.372				\$ 566,668.58
<b>Total</b>	<b>84.372</b>				<b>\$ 566,668.58</b>
<u>ARRA - Education Technology State Grants, Recovery Act</u>	84.386				\$ (4,260.00)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.386</b>				<b>\$ (4,260.00)</b>
<u>ARRA - Title I Grants to Local Educational Agencies, Recovery Act</u>	84.389				\$ (135,888.00)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.389</b>				<b>\$ (135,888.00)</b>
<u>ARRA - Special Education Grants to States, Recovery Act</u>	84.391				\$ (75,100.00)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.391</b>				<b>\$ (75,100.00)</b>
<u>ARRA - Special Education -Preschool Grants, Recovery Act</u>	84.392				\$ (1,730.00)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.392</b>				<b>\$ (1,730.00)</b>
<u>ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act</u>	84.394				\$ (114,825.00)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.394</b>				<b>\$ (114,825.00)</b>
<u>Troops to Teachers</u>	84.815				\$ 261,021.00
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.815</b>				<b>\$ 261,021.00</b>
<i>Pass-Through Programs:</i>					
<u>Special Education-Grants for Infants and Families</u>	84.181				
<i>Pass-Through From:</i>					
Department of Assistive and Rehabilitative Services		538	\$ 65,450.32		
<i>Pass-Through To:</i>					
Texas School for the Deaf					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.181</b>		<b>\$ 65,450.32</b>		
<b>Totals - U.S. Department of Education</b>			<b>\$ 65,450.32</b>		<b>\$ 2,057,303,243.86</b>
<b>U.S. Department of Health and Human Services</b>					
<i>Direct Programs:</i>					
<u>Developmental Disabilities Basic Support and Advocacy Grants</u>	93.630				\$ 4,791,658.32
<i>Pass-Through To:</i>					
Department of Assistive and Rehabilitative Services					
Texas A & M University (Main University)					
University of Texas at Austin					
Texas Tech University					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>93.630</b>				<b>\$ 4,791,658.32</b>
<b>Totals - U.S. Department of Health and Human Services</b>					<b>\$ 4,791,658.32</b>
<b>CCDF Cluster</b>					
<b>U.S. Department of Health and Human Services</b>					
<i>Pass-Through Programs:</i>					
<u>Child Care and Development Block Grant</u>	93.575				
<i>Pass-Through From:</i>					
Texas Workforce Commission		320	\$ 12,033,663.50		
<i>Pass-Through To:</i>					
University of Texas Health Science Center at Houston					
<b>Total</b>	<b>93.575</b>		<b>\$ 12,033,663.50</b>		
<b>Totals - U.S. Department of Health and Human Services</b>			<b>\$ 12,033,663.50</b>		

Total Pass-Through From and Direct Program	Pass-Through To			Expenditures Amount	Total Pass-Through to and Expenditures
	Agency / University Number	Agency / University Amount	Non-State Entities Amount		
\$ 89,710,018.04				\$ 754,022.54	\$ 754,022.54
	721	\$ 490,580.46			490,580.46
	744	470,889.00			470,889.00
			\$ 87,994,526.04		87,994,526.04
\$ 89,710,018.04		\$ 961,469.46	\$ 87,994,526.04	\$ 754,022.54	\$ 89,710,018.04
\$ 566,668.58				\$ 566,668.58	\$ 566,668.58
\$ 566,668.58				\$ 566,668.58	\$ 566,668.58
\$ (4,260.00)					
			\$ (4,260.00)		\$ (4,260.00)
\$ (4,260.00)			\$ (4,260.00)		\$ (4,260.00)
\$ (135,888.00)					
			\$ (135,888.00)		\$ (135,888.00)
\$ (135,888.00)			\$ (135,888.00)		\$ (135,888.00)
\$ (75,100.00)					
			\$ (75,100.00)		\$ (75,100.00)
\$ (75,100.00)			\$ (75,100.00)		\$ (75,100.00)
\$ (1,730.00)					
			\$ (1,730.00)		\$ (1,730.00)
\$ (1,730.00)			\$ (1,730.00)		\$ (1,730.00)
\$ (114,825.00)					
			\$ (114,825.00)		\$ (114,825.00)
\$ (114,825.00)			\$ (114,825.00)		\$ (114,825.00)
\$ 261,021.00					
			\$ 261,021.00		\$ 261,021.00
\$ 261,021.00			\$ 261,021.00		\$ 261,021.00
\$ 65,450.32					
	772	\$ 1,705.55			\$ 1,705.55
			\$ 63,744.77		\$ 63,744.77
\$ 65,450.32		\$ 1,705.55	\$ 63,744.77		\$ 65,450.32
<b>\$ 2,057,368,694.18</b>		<b>\$ 49,164,097.63</b>	<b>\$ 1,944,583,300.11</b>	<b>\$ 63,621,296.44</b>	<b>\$ 2,057,368,694.18</b>
\$ 4,791,658.32				\$ 1,770,852.70	\$ 1,770,852.70
	538	\$ 98,698.25			98,698.25
	711	117,214.75			117,214.75
	721	12,331.65			12,331.65
	733	395,207.59			395,207.59
			\$ 2,397,353.38		2,397,353.38
\$ 4,791,658.32		\$ 623,452.24	\$ 2,397,353.38	\$ 1,770,852.70	\$ 4,791,658.32
\$ 4,791,658.32		\$ 623,452.24	\$ 2,397,353.38	\$ 1,770,852.70	\$ 4,791,658.32
\$ 12,033,663.50					
	744	\$ 12,033,663.50			\$ 12,033,663.50
\$ 12,033,663.50		\$ 12,033,663.50			\$ 12,033,663.50
\$ 12,033,663.50		\$ 12,033,663.50			\$ 12,033,663.50

Texas Education Agency (701)  
 Schedule 1A - Expenditures of Federal Awards  
 For the fiscal year ended August 31, 2016

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA	Pass-Through From			Direct Program Amount
		Agency / University Number	Agency / University Amount	Non-State Entities Amount	
<b>Child Nutrition Cluster</b>					
<b>U.S. Department of Agriculture</b>					
<i>Direct Programs:</i>					
<u>School Breakfast Program</u>	10.553				\$ 549,187,254.23
<i>Pass-Through To:</i>					
University of Texas at Austin					
University of Houston					
University of Texas at Tyler					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>10.553</b>				<b>\$ 549,187,254.23</b>
<u>National School Lunch Program</u>	10.555				\$ 1,397,193,617.02
<i>Pass-Through To:</i>					
University of Texas at Austin					
University of Houston					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>10.555</b>				<b>\$ 1,397,193,617.02</b>
<b>Totals - U.S. Department of Agriculture</b>					<b>\$ 1,946,380,871.25</b>
<b>Special Education (IDEA) Cluster</b>					
<b>U.S. Department of Education</b>					
<i>Direct Programs:</i>					
<u>Special Education - Grants to States</u>	84.027				\$ 992,321,449.03
<i>Pass-Through To:</i>					
Department of Assistive and Rehabilitative Services					
Texas Juvenile Justice Department					
Texas Department of Criminal Justice					
University of Texas at Austin					
University of Houston					
University of Texas of the Permian Basin					
University of Texas Health Science Center at Houston					
University of Texas at Tyler					
Stephen F. Austin State University					
Texas School for the Blind and Visually Impaired					
Texas School for the Deaf					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.027</b>				<b>\$ 992,321,449.03</b>
<u>Special Education - Preschool Grants</u>	84.173				\$ 22,180,205.72
<i>Pass-Through To:</i>					
University of Texas at Austin					
Texas School for the Deaf					
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.173</b>				<b>\$ 22,180,205.72</b>
<b>Totals - U.S. Department of Education</b>					<b>\$ 1,014,501,654.75</b>
<b>School Improvement Grants Cluster</b>					
<b>U.S. Department of Education</b>					
<i>Direct Programs:</i>					
<u>School Improvement Grants</u>	84.377				\$ 19,464,123.25
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.377</b>				<b>\$ 19,464,123.25</b>
<u>ARRA - School Improvement Grants, Recovery Act</u>	84.388				\$ (6,736.93)
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>84.388</b>				<b>\$ (6,736.93)</b>
<b>Totals - U.S. Department of Education</b>					<b>\$ 19,457,386.32</b>
<b>TANF Cluster</b>					
<b>U.S. Department of Health and Human Services</b>					
<i>Pass-Through Programs:</i>					
<u>Temporary Assistance for Needy Families</u>	93.558				
<i>Pass-Through From:</i>					
Health and Human Services Commission		529	\$ 4,548,828.74		
<i>Pass-Through To Non-State Entities</i>					
<b>Total</b>	<b>93.558</b>		<b>\$ 4,548,828.74</b>		
<b>Totals - U.S. Department of Health and Human Services</b>			<b>\$ 4,548,828.74</b>		
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b>\$ 16,647,942.56</b>		<b>\$ 5,042,434,814.50</b>

Total Pass-Through From and Direct Program	Pass-Through To			Expenditures Amount	Total Pass-Through to and Expenditures
	Agency / University Number	Agency / University Amount	Non-State Entities Amount		
\$ 549,187,254.23					
	721	\$ 21,264.84		\$	21,264.84
	730	4,735.01			4,735.01
	750	11,391.46			11,391.46
			\$ 549,149,862.92		549,149,862.92
\$ 549,187,254.23		\$ 37,391.31	\$ 549,149,862.92		\$ 549,187,254.23
\$ 1,397,193,617.02					
	721	\$ 79,012.11		\$	79,012.11
	730	15,911.84			15,911.84
			\$ 1,397,098,693.07		1,397,098,693.07
\$ 1,397,193,617.02		\$ 94,923.95	\$ 1,397,098,693.07		\$ 1,397,193,617.02
\$ 1,946,380,871.25		\$ 132,315.26	\$ 1,946,248,555.99		\$ 1,946,380,871.25
\$ 992,321,449.03				\$ 36,670,269.51	\$ 36,670,269.51
	538	\$ 5,131,125.00			5,131,125.00
	644	646,444.92			646,444.92
	696	55,563.65			55,563.65
	721	1,905,729.72			1,905,729.72
	730	226,690.20			226,690.20
	742	35,417.26			35,417.26
	744	299,504.47			299,504.47
	750	73,550.00			73,550.00
	755	18,127.80			18,127.80
	771	3,016,101.29			3,016,101.29
	772	1,252,328.43			1,252,328.43
			\$ 942,990,596.78		942,990,596.78
\$ 992,321,449.03		\$ 12,660,582.74	\$ 942,990,596.78	\$ 36,670,269.51	\$ 992,321,449.03
\$ 22,180,205.72				\$ 21,460.01	\$ 21,460.01
	721	\$ 3,585.98			3,585.98
	772	7,321.96			7,321.96
			\$ 22,147,837.77		22,147,837.77
\$ 22,180,205.72		\$ 10,907.94	\$ 22,147,837.77	\$ 21,460.01	\$ 22,180,205.72
\$ 1,014,501,654.75		\$ 12,671,490.68	\$ 965,138,434.55	\$ 36,691,729.52	\$ 1,014,501,654.75
\$ 19,464,123.25				\$ 1,245,868.41	\$ 1,245,868.41
			\$ 18,218,254.84		18,218,254.84
\$ 19,464,123.25			\$ 18,218,254.84	\$ 1,245,868.41	\$ 19,464,123.25
\$ (6,736.93)				\$ (6,736.93)	\$ (6,736.93)
			\$ (6,736.93)		(6,736.93)
\$ (6,736.93)			\$ (6,736.93)		(6,736.93)
\$ 19,457,386.32			\$ 18,211,517.91	\$ 1,245,868.41	\$ 19,457,386.32
\$ 4,548,828.74				\$ 741,041.20	\$ 741,041.20
			\$ 3,807,787.54		3,807,787.54
\$ 4,548,828.74			\$ 3,807,787.54	\$ 741,041.20	\$ 4,548,828.74
\$ 4,548,828.74			\$ 3,807,787.54	\$ 741,041.20	\$ 4,548,828.74
\$ 5,059,082,757.06		\$ 74,625,019.31	\$ 4,880,386,949.48	\$ 104,070,788.27	\$ 5,059,082,757.06

**Texas Education Agency (701)**  
**Schedule 1A**  
**Expenditures of Federal Awards**  
**For the fiscal year ended August 31, 2016**

**Note 1 - Non-Monetary Assistance**

Not applicable.

**Note 2 - Reconciliation**

Below is a reconciliation of the total federal pass-through and federal expenditures as reported on the Schedule of Assistance to the total of federal revenues and federal grant pass-through revenues as reported in the general-purpose financial statements. Generally, federal funds are not earned until expended; therefore, federal revenues equal federal expenditures for the reporting period.

Per Combined Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Net Activities - Governmental Fund Types (Exh. II):

Federal Revenues (Exh. II)	\$ 5,042,434,814.50
Federal Pass-Through Revenues (Exh. II)	<u>16,647,942.56</u>
Total Pass-Through and Direct Expenditures per Federal Schedule	<u>\$ 5,059,082,757.06</u>

**Note 3 - Student Loans**

Not applicable.

**Note 4 - Depository Libraries for Government Publications**

Not applicable.

**Note 5 - Unemployment Insurance Funds**

Not applicable.

**Note 6 - Rebates from the Special Supplemental Food Program for Women, Infant and Children (WIC)**

Not applicable.



**Texas Education Agency (701)**  
**Schedule 1A**  
**Expenditures of Federal Awards**  
**For the fiscal year ended August 31, 2016**

**Note 7 - Federal Unearned Revenue**

All unearned revenues related to federal programs reported below are prepaid federal grants that have not been earned by fiscal year-end.

Federal Unearned Revenue As of 09/01/2015	\$ 154,777.15
Net Change During the Fiscal Year - Increase / (Decrease)	<u>(107,111.00)</u>
Federal Unearned Revenue As of 08/31/2016	<u>\$ 47,666.15</u>

**CFDA Number**

84.815	<u>\$ 47,666.15</u>
	<u>\$ 47,666.15</u>

**Note 8 - Supplemental Nutrition Assistance Program (SNAP)**

Not applicable.

(UNAUDITED)

Texas Education Agency (701)  
Schedule 1B  
Schedule of State Grant Pass-Throughs From/To State Agencies  
For the Year Ended August 31, 2016

Pass-Through From/To	Agency Number	Pass-Through Amount
<b><u>Pass-Through To:</u></b>		
<b>Available School Fund - Per Capita</b>		
Texas Juvenile Justice Department	644	\$ 179,321.00
University of Texas at Austin	721	127,150.00
University of Houston	730	23,699.00
Lamar University	734	10,266.00
University of Texas of The Permian Basin	742	49,404.00
University of Texas Rio Grande Valley	746	16,594.00
University of Texas at Tyler	750	88,954.00
University of North Texas	752	64,348.00
Stephen F. Austin State University	755	44,272.00
Texas A&M International University	761	7,358.00
		<u>\$ 611,366.00</u>
<b>Council Early Childhood Intervention</b>		
Department of Assistive and Rehabilitative Services	538	\$ 16,498,102.00
		<u>\$ 16,498,102.00</u>
<b>Early Childhood School Readiness</b>		
University of Texas Health Science Center at Houston	744	\$ 3,848,741.64
		<u>\$ 3,848,741.64</u>
<b>Early High School Graduation Scholarships</b>		
Texas Higher Education Coordinating Board	781	\$ (2,863.00)
		<u>\$ (2,863.00)</u>
<b>Foundation School Program (FSP) - Formula</b>		
University of Texas at Austin	721	\$ 9,860,323.00
University of Houston	730	913,795.00
Lamar University	734	422,689.00
University of Texas of the Permian Basin	742	1,865,171.00
University of Texas Rio Grande Valley	746	721,609.00
University of Texas at Tyler	750	4,175,641.00
University of North Texas	752	2,578,335.00
Stephen F. Austin State University	755	1,720,203.00
Texas A&M International University	761	690,791.00
Texas School F/T Blind and Visually Impaired	771	1,136,138.00
Texas School for the Deaf	772	7,236,359.00
		<u>\$ 31,321,054.00</u>
<b>FSP - Challenge Project - Adjutant General</b>		
Texas Military Department	401	\$ 350,000.00
		<u>\$ 350,000.00</u>
<b>FSP - Texas Juvenile Justice Department</b>		
Texas Juvenile Justice Department	644	\$ 4,253,992.00
		<u>\$ 4,253,992.00</u>
<b>FSP - Windham School District</b>		
Texas Department of Criminal Justice	696	\$ 52,498,438.00
		<u>\$ 52,498,438.00</u>

(UNAUDITED)

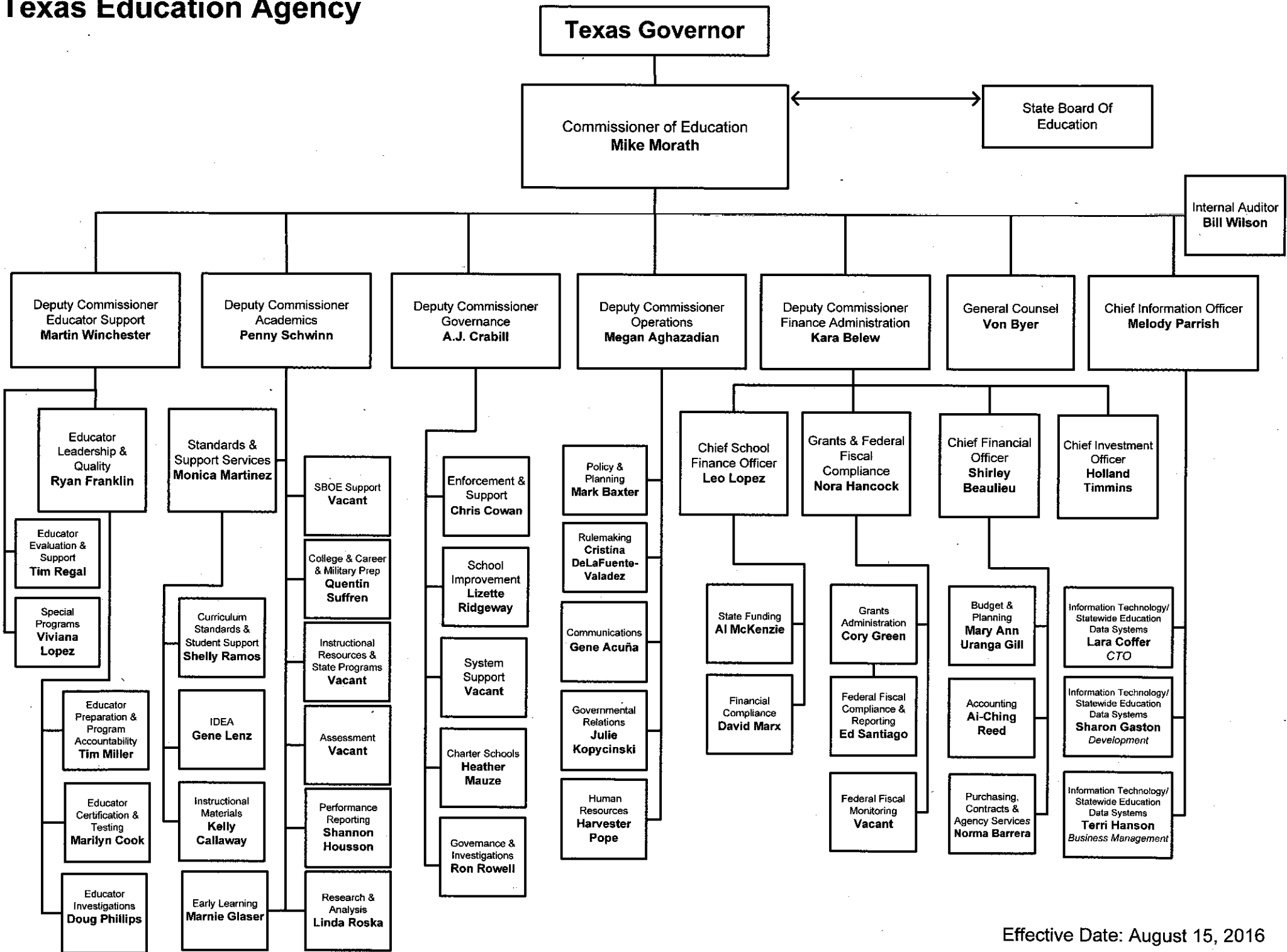
Texas Education Agency (701)  
Schedule 1B  
Schedule of State Grant Pass-Throughs From/To State Agencies  
For the Year Ended August 31, 2016

<b>Pass-Through From/To</b>	<b>Agency Number</b>	<b>Pass-Through Amount</b>
<b>Juvenile Justice Alternative Education Program</b>		
Texas Juvenile Justice Department	644	\$ 1,795,732.00
		<u>\$ 1,795,732.00</u>
<b>School Lunch Matching</b>		
University of Texas at Austin	721	\$ 1,200.24
University of Houston	730	289.86
		<u>\$ 1,490.10</u>
<b>Student Success Initiative</b>		
University of Texas at Austin	721	\$ 8,207,569.53
		<u>\$ 8,207,569.53</u>
<b>Students With Visual Impairment</b>		
Texas School for the Blind and Visually Impaired	771	\$ 115,377.00
		<u>\$ 115,377.00</u>
<b>Instructional Materials Allotment</b>		
Texas Juvenile Justice Department	644	\$ 22,928.94
Texas Department of Criminal Justice	696	865,928.32
University of Texas at Austin	721	87,460.75
University of Houston	730	10,429.45
University of Texas at Tyler	750	24,351.00
Stephen F. Austin State University	755	40,604.59
Texas School for the Blind and Visually Impaired	771	15,465.59
Texas School for the Deaf	772	81,485.48
		<u>\$ 1,148,654.12</u>
<b>Early College High School &amp; T-STEM</b>		
Texas Higher Education Coordinating Board	781	\$ (142,245.50)
		<u>\$ (142,245.50)</u>
<b>Autism Training</b>		
Texas Tech University	733	\$ 281,706.28
		<u>\$ 281,706.28</u>
<b>Onramp Dual Enrollment Course</b>		
University of Texas at Austin	721	\$ 1,093,290.00
		<u>\$ 1,093,290.00</u>
<b>Total Pass-Through to Other Agencies (Exh. II)</b>		<u>\$ 121,880,404.17</u>

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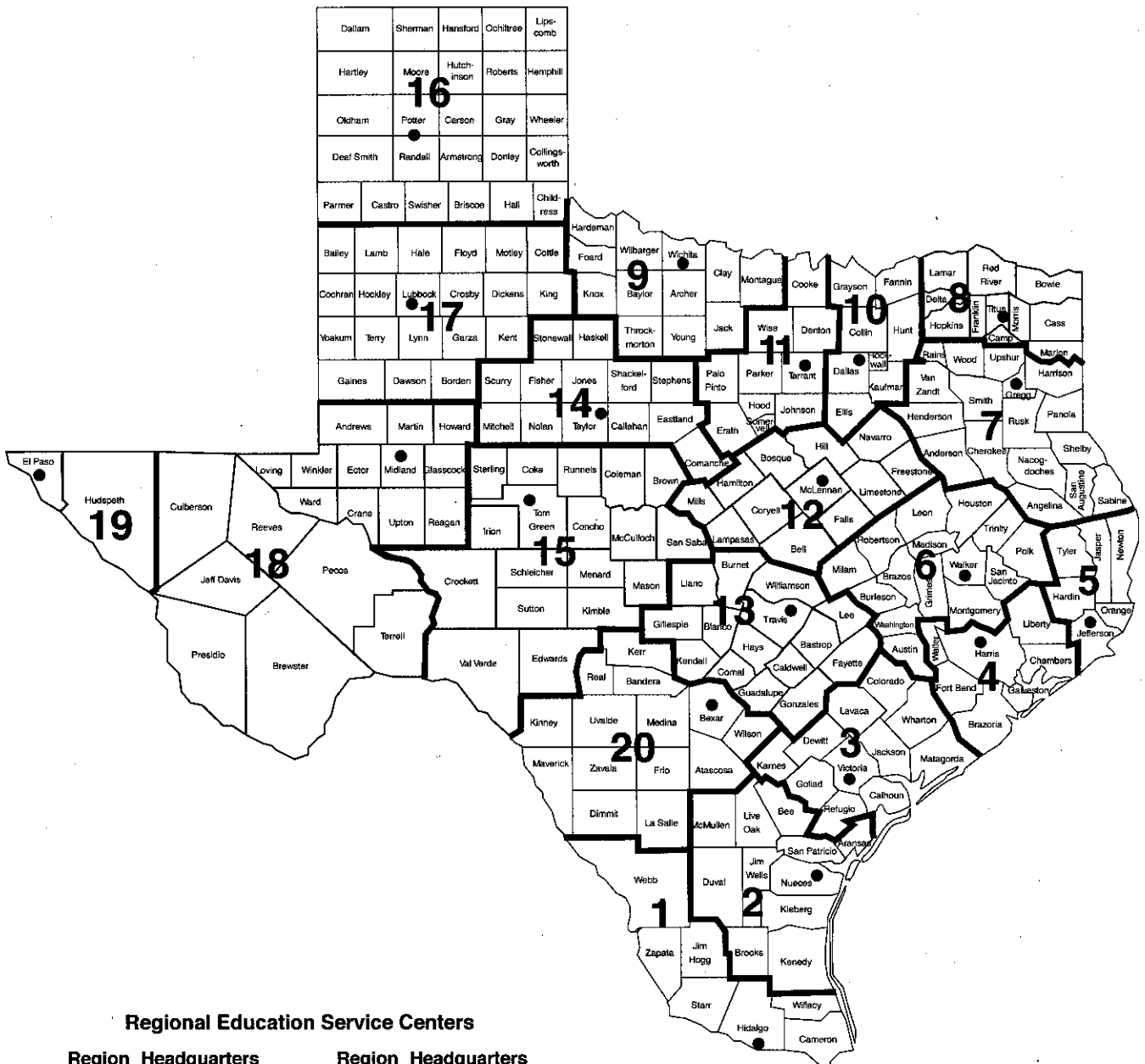
## **ADDENDUM**

# Texas Education Agency



Effective Date: August 15, 2016

# REGIONAL EDUCATION SERVICE CENTERS



## Regional Education Service Centers

### Region Headquarters

- 1 Edinburg
- 2 Corpus Christi
- 3 Victoria
- 4 Houston
- 5 Beaumont
- 6 Huntsville
- 7 Kilgore
- 8 Mount Pleasant
- 9 Wichita Falls
- 10 Richardson

### Region Headquarters

- 11 Fort Worth
- 12 Waco
- 13 Austin
- 14 Abilene
- 15 San Angelo
- 16 Amarillo
- 17 Lubbock
- 18 Midland
- 19 El Paso
- 20 San Antonio

**STATE BOARD OF EDUCATION**  
*(State Board for Career and Technology Education)*

**DONNA BAHORICH, Houston**  
Chair of the State Board of Education  
District 6

**THOMAS RATLIFF, Mount Pleasant**  
Vice Chair of the State Board of Education  
District 9

**RUBEN CORTEZ, JR., Brownsville**  
Secretary of the State Board of Education  
District 2

**Board Members**

**LAWRENCE A. ALLEN, JR., Houston**  
District 4

**TOM MAYNARD, Florence**  
District 10

**ERIKA BELTRAN, Fort Worth**  
District 13

**SUE MELTON-MALONE, Robinson**  
District 14

**DAVID BRADLEY, Beaumont**  
District 7

**KEN MERCER, San Antonio**  
District 5

**BARBARA CARGILL, The Woodlands**  
District 8

**GERALDINE MILLER, Dallas**  
District 12

**MARTHA M. DOMINGUEZ, El Paso**  
District 1

**MARISA B. PEREZ, San Antonio**  
District 3

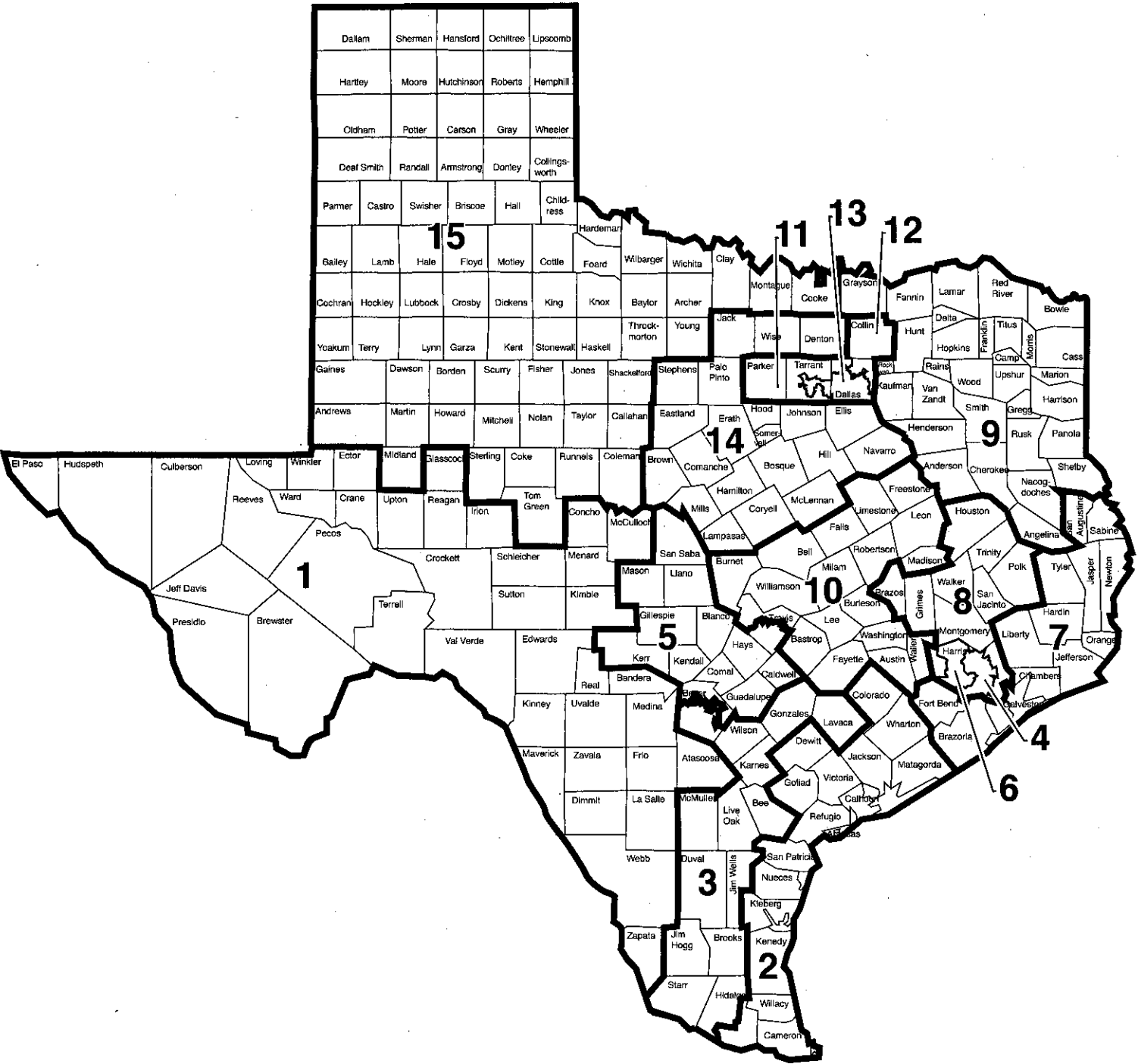
**PATRICIA HARDY, Weatherford**  
District 11

**MARTY ROWLEY, Amarillo**  
District 15

**MIKE MORATH**  
Commissioner of Education  
(Executive Officer of the State Board of Education)



# Texas State Board of Education Districts



- District 1 - El Paso
- District 2 - Brownsville
- District 3 - San Antonio
- District 4 - Houston
- District 5 - San Antonio
- District 6 - Houston
- District 7 - Beaumont
- District 8 - The Woodlands
- District 9 - Mount Pleasant
- District 10 - Florence
- District 11 - Weatherford
- District 12 - Dallas
- District 13 - Fort Worth
- District 14 - Robinson
- District 15 - Amarillo





