



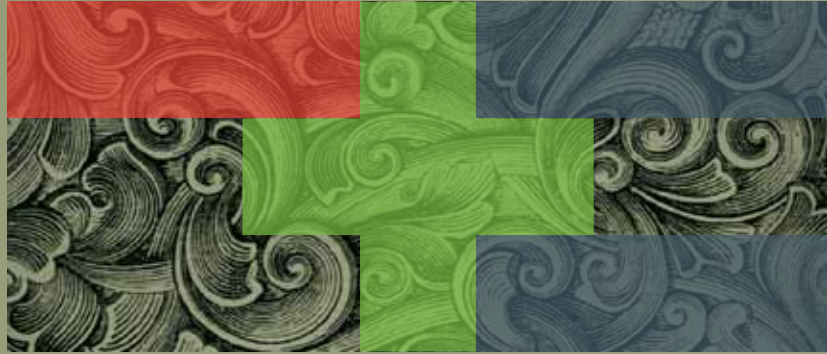
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SUSAN COMBS

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE STATE
OF TEXAS FOR THE FISCAL YEAR ENDING AUGUST 31, 2010





The State of Texas
**Comprehensive Annual
Financial Report**

Fiscal Year Ending August 31, 2010

Susan Combs

Texas Comptroller of Public Accounts

Acknowledgments

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State of Texas Comprehensive Annual Financial Report

For the Year Ended August 31, 2010

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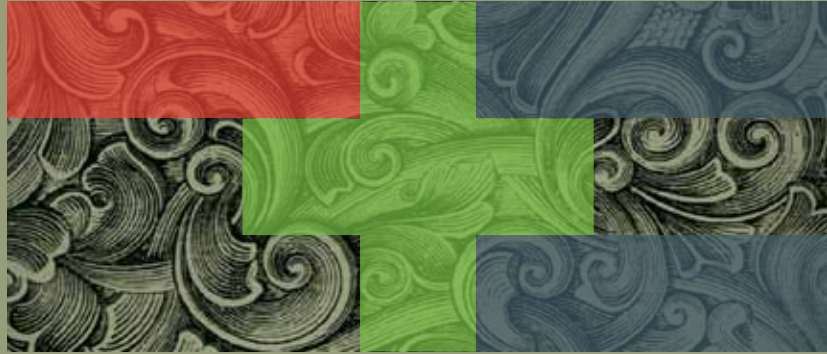
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Section One

Introductory Section



February 28, 2011

To the Citizens of Texas, Governor Perry
and Members of the 82nd Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2010, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. The state auditor performed an audit, in accordance with generally accepted auditing standards, of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the year ended Aug. 31, 2010, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the state of Texas is discussed in Note 19.

All activities generally considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

The management discussion and analysis (MD&A), in the financial section, provides an overview of the state's financial activities, addressing both governmental and business-type activities reported in the government-wide financial statements.

Accounting System and Budgetary Controls

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after the General Appropriations Act becomes law. The General Appropriations Act becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes

of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

Economic Outlook and Major Initiatives

The Texas economy has emerged from recession and has now regained more than half the jobs lost during the 2008-09 recession. Over the 12 months ending in November 2010, the number of Texas nonfarm jobs increased by 1.9 percent. Texas' nonfarm employment totaled 10.4 million in November 2010, for a year-to-year increase of 192,100 jobs. The state recovered more quickly from the "Great Recession" than the nation, as the nation recovered only 13 percent of its lost jobs as of December 2010, compared to 55 percent in Texas.

The relative advantage of the Texas economy during the recent recession and recovery continues a long-standing trend. Not only did Texas add more jobs than any state over the past year, but only one state—New Hampshire—had a faster rate of job growth than Texas. Three of the 10 most populous states continued to lose jobs during the year. With substantial growth in the labor force due to internal population growth and net migration gains, Texas' unemployment rate, however, remained at its highest annual average rate since 1987. At 8.3 percent as of December 2010, the state's jobless rate is still the lowest among the 10 most populous states and remains 1.1 percent below the national average of 9.4 percent. A big challenge remaining is that many of the replacement jobs added in the last year pay less than the jobs that were lost, and total wages in Texas remain almost 2 percent lower than the peak during the fourth quarter of 2008.

Another indicator the state's economy was comparatively healthy was the U.S. Bureau of the Census report that Texas added more people (nearly 4.3 million) than any other state between the census counts of 2000 and 2010. Among all states, Texas ranked fifth in the rate of

population growth, with a faster rate of growth than all states except the much less populous states of Nevada, Arizona, Utah and Idaho. According to the U.S. Bureau of the Census count, Texas (with 8.1 percent of the U.S. population) accounted for nearly 16 percent of the nation's total population growth during the decade. Net migration of approximately 2 million people accounted for 47 percent of Texas' population increase over the 10 year period.

Closing the Book on the Great Recession

The nation experienced its worst recession in 2008 and 2009 since World War II. While the nation's real Gross Domestic Product (GDP) fell by 4.1 percent from its peak in the fourth quarter of 2007 to its low point in the second quarter of 2009, Texas' real Gross State Product (GSP) dropped by a comparatively milder 1.6 percent from peak to low point. Estimates from IHS Global Insight, Inc., and the Comptroller's economic forecast model, show that both Texas and the nation returned to economic growth in 2010, with the nation increasing its GDP by 2.8 percent and Texas increasing its GSP by 3.4 percent. The mix of Texas industries, a comparatively healthier housing market and robust export growth allowed the state to grow faster than the nation. In its position as the nation's largest exporting state, Texas accounts for a comparatively large one-seventh of the total value of U.S. exports, which is a plus as international economies strengthen.

Texas' personal income increased by 4.7 percent over the past year, based on data from the U.S. Bureau of Economic Analysis for the third quarter of 2010. This is markedly improved from a 1.3 percent loss of personal income in 2009. The nation's latest personal income growth rate is 3.6 percent, following a loss of 1.7 percent in 2009.

Even as the economy began to grow again, consumer optimism for both the Texas region and the nation was lower in December 2010 than a year ear-

lier, based on the Consumer Confidence Index from The Conference Board, a monthly measure of the level of optimism consumers have in the economy. Although the index for the region containing Texas and its neighboring states closed well above its low of 46.4 in March 2009, the December 2010 level of 67.9 was beneath its level of 72.1 a year earlier. The continuance of high unemployment, a weak market for job seekers and uninspiring per capita wage levels kept consumers uncertain about current conditions and the economic outlook.

The Job Picture by Industry

Nine of the state's 11 major industries added jobs from November 2009 to November 2010. The fastest job growth rate was in mining and logging, which is dominated by the oil and natural gas industry, and the industry with the poorest performance was information, which includes broadcast media, telecommunications and Internet-based services. While private (non-government) employment dropped by 405,000 statewide in the year ending November 2009, private employment increased by 186,400 jobs during the 12 months ending in November 2010, a 2.2 percent growth rate. Government employment increased by just 0.3 percent, with the gains related to hiring by local governments, including school districts.

In the year ending November 2010, the industry that added the most jobs was professional and business services, at 61,200 jobs added. Along with having the most negative rate of change, information also lost the most jobs—12,900—among Texas industries. Professional and business services advanced largely due to hiring in administrative and support services, including employment services, a sector that often adds temporary and part-time jobs when the economy begins to emerge from a recession. Employers still not confident enough to hire full-time employees often hire additional help first through employment service agencies.

The number of oil and natural gas drilling rigs operating in Texas dropped to a low of 329 in mid-2009, but by the end of calendar 2010, the count had more than doubled, to 750. Although far from its record level, this increase was indicative of a turnaround in the state's oil and natural gas industry. The drilling activity contributed to a robust 14.5 percent employment growth from November 2009 to November 2010, adding 28,600 mining and logging jobs. This industry is more than five times as concentrated in Texas as it is nationally, as measured by the industry's share of total wages paid in Texas and the U.S. In addition to the economic impact from exploration activities within the state, Texas is the headquarters for many of the nation's oil and natural gas firms. The broader oil and natural gas industry, which includes mining, petrochemicals, petroleum refining and oil/natural gas-related manufacturing, accounts for a 15 percent share of the total Texas economy, and this serves as a buttress for the state economy when increasing oil and natural gas prices hinder the industries consuming those energy sources. In November 2010, the state's mining and logging industry job count stood at 226,300.

Sustained weakness in the building of multi-family residences and public highway and bridge construction was counterbalanced by renewed investment in single-family housing and business structures. Most sectors of construction continued to lose jobs, but hiring for building construction indicated that renewed optimism was returning to the Texas construction industry as 2010 came to a close. After losing 107,300 jobs between November 2008 and November 2009, the severe downturn turned into the net gain of 13,400 construction jobs from November 2009 to November 2010.

Mortgage foreclosures in Texas were slightly higher than normal during 2010, but were still less than half the national rate. With a recovering market and a federal tax credit for many first time buyers of single-family

homes, Texas permits for single-family houses increased by an annual 6 percent, based on a 12-month moving average ending in October 2010. Multi-family housing permits remained in a slump, at 7 percent lower than a year earlier. According to the Texas A&M Real Estate Center, median prices for single-family houses sold in Texas increased 2 percent over the past year and the number of sales of single-family houses remained stable. According to McGraw Hill Construction and the Comptroller's economic forecast model, Texas nonresidential construction of offices, fabrication facilities and warehouses declined another 22 percent in 2010, but the rate of decline has slowed.

As in other industries, Texas is faring better than the many states where housing was overvalued and prices cratered. The U.S. construction industry saw another year of job declines (down 2 percent), while Texas' total construction employment increased by 2.4 percent. Construction employment statewide totaled 575,100 in November 2010. After two years of job losses grounded in a national recession, weak international markets, subdued oil and natural gas drilling activity and continued growth in productivity per worker, the Texas manufacturing industry saw the recovery of a substantial number of jobs during the past year. The improvements took root, in particular, in the demand for oil and natural gas drilling rigs, with an increase of 18,500 jobs in the fabricated metals sector, a robust 16.4 percent increase from November 2009 to November 2010. With continued and often substantial losses in many manufacturing sectors, these jobs were the lion's share of the 22,700 net manufacturing jobs added statewide. Increased drilling activity also boosted employment for agricultural/construction/mining machinery, which grew by 10.3 percent. Relocation of some automobile manufacturing to Texas boosted hiring in motor vehicle manufacturing, which increased by 4.5 percent. With a 4 percent growth rate, aerospace manufacturing added a net 2,000 new jobs in Texas.

On the downside, there were double-digit percentage losses in the manufacturing of communications equipment (down 10.8 percent) and in furniture manufacturing (down 10.2 percent), as weak homebuilding and consumer spending failed to stimulate demand for home furnishings. Employment in printing dropped by 9.6 percent as newspapers struggled to maintain subscription volume and advertising.

Although the domestic demand for Texas goods and services remained weak in 2010, Texas export markets more than recovered from severe losses in 2009. Texas exporters faced a 16 percent sales decline a year ago, but had a renewed 28 percent increase through the first three quarters of 2010, compared to the same three quarters of 2009, to reach a new all-time high in Texas export sales. With a preliminary estimate of \$222 billion in exports from Texas in calendar 2010, exports accounted for 16.5 percent of the state's GSP, with chemicals, electronics, nonelectrical machinery and petroleum products accounting for about two-thirds of the total. Texas led all other states in the value of export trade since 2002 and saw a larger percentage increase during 2010 than the nation, according to the World Institute of Social and Economic Research.

Texas manufacturing production, as measured by real GSP, jumped up by 2.8 percent in 2010, attributable primarily to the resurgence of oil and natural gas drilling in the state. The GSP from the Texas manufacturing industry was \$157 billion in 2010.

Manufacturing jobs in Texas totaled 838,400 in November 2010, an increase of 2.8 percent over the past year. The industry's employment growth in Texas was better over the last year than it was nationally (at 0.8 percent growth).

Texas' service-providing industries, which account for more than 84 percent of the state's total nonfarm employment, uncharacteristically underperformed the goods-producing industries in the rate of job growth over the past year but still accounted for 66 percent

of all jobs added statewide. Six of the eight service-providing industries had job expansions during the year, but the growth rates were muted by historical standards, particularly when compared to previous periods when the economy was emerging from a recession. Over the past 20 years, average annual job growth in service-providing industries was 2.2 percent. The 1.5 percent rate of job growth from November 2009 to November 2010 was comparatively weaker.

The lackluster employment and wage situation during most of 2010 kept consumer spending lukewarm. Texas saw a 0.3 percent increase in sales tax collections during calendar 2010, following a decline of 8.2 percent during calendar 2009.

Motor vehicle sales tax collections, which had retrenched by 20.7 percent in calendar 2009, largely recovered by 9.9 percent in 2010, but still remained well below 2008 sales levels.

Outlook for 2011 and 2012

Based on the *2010-2011 State Economic Forecast*, the Texas economy will continue to recover in 2011, but the recovery will be slower than is typically seen in economic recoveries. Seven of the Comptroller's 10 leading economic indicators for Texas point toward a stronger Texas economy in the upcoming months, but three indicators suggest continued weakness. Leading indicators in both Texas and the nation gradually improved in 2010, but the recovery will be comparatively slow, grounded in an economy that continues to be restrained by high unemployment rates, cautious consumer spending and tight credit markets. The economic indicator's overall index value have not recovered to the levels of 2007 and 2008, suggesting a period of relatively uninspiring growth in 2011 and 2012.

Federal tax incentives enacted at the end of calendar 2010 should help the economy fire on more cylinders. The provision included an extension of the current federal personal income tax rates, a 2 percent cut in

the employee Social Security tax rate and a two-year extension of federal depreciation incentives for business investment. The federal tax changes should provide an economic boost in 2011 and 2012. The longer term outlook is more optimistic, and the Texas economy is expected to completely recover by 2013.

The Texas outlook is marginally more positive than that for the nation, in line with Texas GSP growth having outperformed U.S. GDP growth in all but one year since 1991. Texas real GSP is expected to grow by 2.5 percent in 2011 and 3 percent in 2012, marginally faster than U.S. growth rates. The state's population will increase by an average of 1.7 percent per year in 2012 and 2013. About two-fifths of the growth will be due to net migration into the state, as job seekers elsewhere respond to a healthier Texas economy. During 2011, the state's population will average 25.8 million.

Texas will see ongoing employment growth in calendar 2011, forecast to average 1.4 percent for the calendar year. Economic activity will gather strength through the year and recharge to a more typical 2.2 percent rate of growth in 2012. In comparison, U.S. non-farm employment is expected to increase by 0.9 percent in 2011 and 2.2 percent in 2012. Conditions indicate the unemployment rate will remain tenaciously high in both Texas and the nation in 2011, with only fractional improvement through the year, and stay above 2009 averages. Although higher than usual, Texas' jobless rate throughout 2011 and 2012 will remain between 1 and 2 percent better than the nation's.

Growth in total personal income in Texas is forecast to average 4.3 percent annually in 2011 and 2012, followed by slightly stronger growth in 2013. In 2011, the non-wage component of personal income (such as dividends, investment income, rents and proprietor income) is expected to grow the fastest, as wage gains will be held down by abundant available workers. In 2012, wage income will grow more quickly than non-wage income. From 2002 to 2008, Texas' total personal

income advanced by an average 7.5 percent annually before losing 1.3 percent in 2009 and increasing only 3.7 percent in 2010.

National economic forecasters expect the dollar's value to continue its slide relative to major world currencies and for emerging world markets to grow briskly. Those factors mean exports will continue to fuel the state's economy in 2011 and 2012. Texas exports are expected to grow at about 9 percent annually in 2011 and 2012, to total more than \$240 billion in 2012.

Export sales, business investment and capital spending on equipment will have respectable gains in 2011, and interest rates are expected to remain low until broader economic growth returns. Even with the continuing economic headwinds, the national economy is recovering, and Texas should outpace the U.S. This will occur for the same reasons that Texas outperformed the national economy in recent history, including continued net migration into the state, a location at the heart of the nation's healthiest economic region, an experienced workforce, a growing energy industry, a comparatively healthy housing market and a relatively attractive business environment characterized by a lower cost of doing business.

SECO American Recovery and Reinvestment Act Funding

In February 2009, the U.S. Congress passed and the President signed into law the American Recovery and Reinvestment Act (ARRA), which was created to preserve and create jobs and promote economic recovery. ARRA funds are used to invest in infrastructure, energy efficiency and science and for state and local fiscal stabilization.

The State Energy Conservation Office (SECO), which is part of the Comptroller of Public Accounts, received more than \$290 million in formula grant funding from the U.S. Department of Energy (DOE) through four separate programs as a result of ARRA. These include \$218.8 million in funding for the

State Energy Program (SEP); \$45.6 million in funding for the Energy Efficiency and Conservation Block Grant (EECBG) Program; \$23.3 million in funding for the State Energy Efficient Appliance Rebate Program (SEEARP); and \$2.4 million in funding for the Enhancing State Government Energy Assurance Capabilities and Planning for Smart Grid Resiliency (“Energy Assurance” or EA) Program.

The ultimate goal of these four programs is to preserve and protect domestic energy supplies and related infrastructure through energy efficiency, renewable energy, transportation efficiency and energy emergency planning projects. SECO was required to apply to DOE and receive approval before being awarded ARRA funding. DOE provided approval for all four of SECO’s applications and SECO began its process of providing funds to support projects in Texas in the fall of 2009.

Under SEP, a competitive request for applications process was used for SEP sub-programs, including a Building Efficiency and Retrofit revolving loan program; a Distributed Renewable Energy Technology grant program; a Transportation Efficiency grant program (alternative fuels and traffic light synchronization); and an Energy Sector Training Centers grant program. Further, a public education and outreach campaign is being conducted to educate Texans on the benefits of energy efficiency and renewable energy in addition to providing information and tools for Texas homeowners to make more informed decisions. Under EECBG, SECO reallocated its \$45.6 million based on population to cities and counties in Texas not receiving direct EECBG allocation from DOE. Approximately 1,100 local governmental entities are the beneficiaries. Grant amounts range from approximately \$23,000 to \$172,000. Eligible projects include building energy audits and retrofits, installation of distributed energy technologies, installation of energy efficient traffic signals and street lighting and installation of renewable energy technologies on governmental facilities. SEE-

ARP provided homeowners rebates for the purchase of Energy Star® appliances when they replace old, less efficient but functional appliances.

All four DOE ARRA grants to SECO are three-year grants and expire in fiscal 2012. More information on these programs can be found at: www.secostimulus.org.

Jobs and Education for Texans (JET) Grant Program

In 2009, the 81st Legislature passed the Jobs and Education for Texans (JET) legislation to train skilled workers for technical positions in high-demand occupations in engineering, science, precision production, mechanical, health care and other industries.

During fiscal 2010, the Comptroller’s office established three funds under the JET program umbrella and an advisory board to help administer the \$25 million appropriated by the Legislature for the 2010-11 biennium.

The job building fund awarded 61 grants for a total of \$10 million. The program funded 39 community college districts, three state colleges and two public technical colleges. An estimated 28,606 students are projected to be served by JET equipment grants. Programs in the fields of health, engineering, precision production or mechanical and repair technologies were allocated 86 percent of the equipment funds.

The career and technology scholarship fund awarded a total of \$5 million to community colleges and public technical institutes to provide scholarships for students in high-demand-occupation training programs. Every community college and public technical institute in the state received funding, and an estimated 5,189 students are projected to receive JET scholarships. Programs in the fields of health, engineering, precision production or mechanical and repair technologies were allocated 90 percent of the scholarship funds.

The launchpad fund awarded grants to nonprofit organizations to prepare low-income students for careers

in high-demand technical occupations. A total of 18 grants were awarded during fiscal 2010 for approximately \$6 million. Grant recipients included 12 unique nonprofit organizations, of which six were community college nonprofit foundations. An estimated 2,400 low-income Texans will be trained by the grants for jobs in high-demand occupations in health, computer sciences, precision production, mechanical and repair technologies and engineering technologies.

Transparency

The Comptroller's office promotes openness in state and local government and financial transparency at all levels. The agency encouraged local governments in Texas to open their books to the public by posting their budgets, annual financial reports and check registers online. The *Texas Transparency* website displays the progress local governments are making toward this goal and allows taxpayers direct access to local government websites and their key financial documents. As of Dec. 31, 2010, the *Texas Transparency* website listed all 254 Texas counties, 116 cities, all 1,033 school districts and 23 special districts such as river and transit authorities. More than 76 percent of these local governments are posting at least one of the three recommended documents. This website was revised for 2011 to offer more information to taxpayers curious about financial transparency and local governments interested in opening their books to the public.

The Leadership Circle award program was renewed for a second year. At the end of the first program year, 280 local governments were recognized with Leadership Circle awards. Those awards were presented to 95 cities, 58 counties, 119 school districts and eight special districts. Of the awards, 214 were gold, 28 were silver and 38 were bronze. To earn a Leadership Circle award, local governments voluntarily posted on their websites three recommended documents: their annual budget, annual financial report and check register. The different

award levels are based on the efforts made to post these documents and to meet related criteria. Taxpayers now have at their fingertips financial reports showing exactly how their tax dollars are being spent. Leadership Circle awards are also displayed on the *Texas Transparency* website. Outreach to promote the Leadership Circle award and financial transparency will continue with a focus on smaller cities, community college districts and a broader range of special districts. The *Texas Transparency* website will provide a monthly spotlight to showcase local governments that develop simple solutions to common problems or initiate innovative ideas that further transparency. We will also continue to collaborate with the Texas Association of Counties, the Texas Municipal League and other agencies to provide technical assistance and encourage more local governments to implement financial transparency.

Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200, creating the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development, renewable energy generation, nuclear power generation, advanced clean energy projects or electric power generation using integrated gasification combined cycle technology. The amount of investment and the minimum amount of the value limitation varies

according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

In 2009, the 81st Legislature enacted House Bill 3676, bringing a number of substantive and technical changes to the Act. The Comptroller was given clearer authority to determine project eligibility, as well as make more substantive recommendations to school districts. More information about the projects is required to be posted on the Internet, and the legislation establishes clearer performance standards and new penalties for non-performance. The bill also extended the program's sunset date from Dec. 31, 2011, to Dec. 31, 2014. As of August 2010, 68 school districts were parties to 98 value limitation agreements, with the bulk of projects involving manufacturing facilities and wind farms.

On Dec. 22, 2010, the Comptroller's office released a report titled *An Analysis of Texas Economic Development Incentives 2010*, which includes an assessment of the progress of each property tax value limitation agreement. On Dec. 30, 2010, the Texas Legislative Budget Board released a performance review of the program, which was included in the *Texas State Government Effectiveness and Efficiency: Selected Issues and Recommendations* report.

Event Trust Funds

The 2003, the Legislature authorized the first event trust fund program as an incentive tool to help Texas communities attract major sporting events such as the Super Bowl, NCAA Final Four tournaments and professional all star games. Other trust fund programs created since then established the incentive for smaller sporting programs, motor sports racing events and non-athletic events. Currently, four trust fund programs allow Texas cities and counties to request the creation of a trust fund for the reimbursement of costs relating to attracting and holding a wide variety of events in the state.

Both the state and the city or county requesting the trust fund contribute tax revenue to the fund. State law requires the revenue deposited in the trust fund for an event be the estimated gains in sales tax, hotel occupancy tax, motor vehicle rental tax and alcoholic beverage taxes from hosting the event. The state share of the trust fund can be up to, but not greater than, the amount of projected state revenue gain from these taxes. A local match is required to receive state funds. To receive the maximum amount of state funds available, the local entity or entities must deposit an amount equal to 16 percent of the amount of state money in the trust fund.

The number of trust fund requests grew significantly since the program began. In 2009, the Legislature broadened eligibility to include non-athletic events and eliminated population criteria for cities and counties to participate. In fiscal 2004, the first year in which events were eligible, the state funded event trust fund requests for three events. In fiscal 2006, four more events were authorized reimbursement funding. Three more events were approved in fiscal 2007 and seven more in fiscal 2008. The total jumped to 22 events in fiscal 2009 and 57 events in fiscal 2010. As of Jan. 1, 2011, a total of 68 events to be held in fiscal 2011 were approved for reimbursement funding. The amount of funding authorized for all events as of Jan. 1, 2011, totaled \$161 million, of which \$140 million came from state funds and \$21 million from local funds.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its Comprehensive Annual Financial Report for the fiscal year ended Aug. 31, 2009. The Certificate of Achievement is a presti-

gious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 20 years (fiscal years ended August 1990 through 2009). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we will be submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,
Susan Combs



State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
Comptroller of Public Accounts

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Elizabeth A. Jones
David J. Porter
Michael L. Williams
Railroad Commissioners

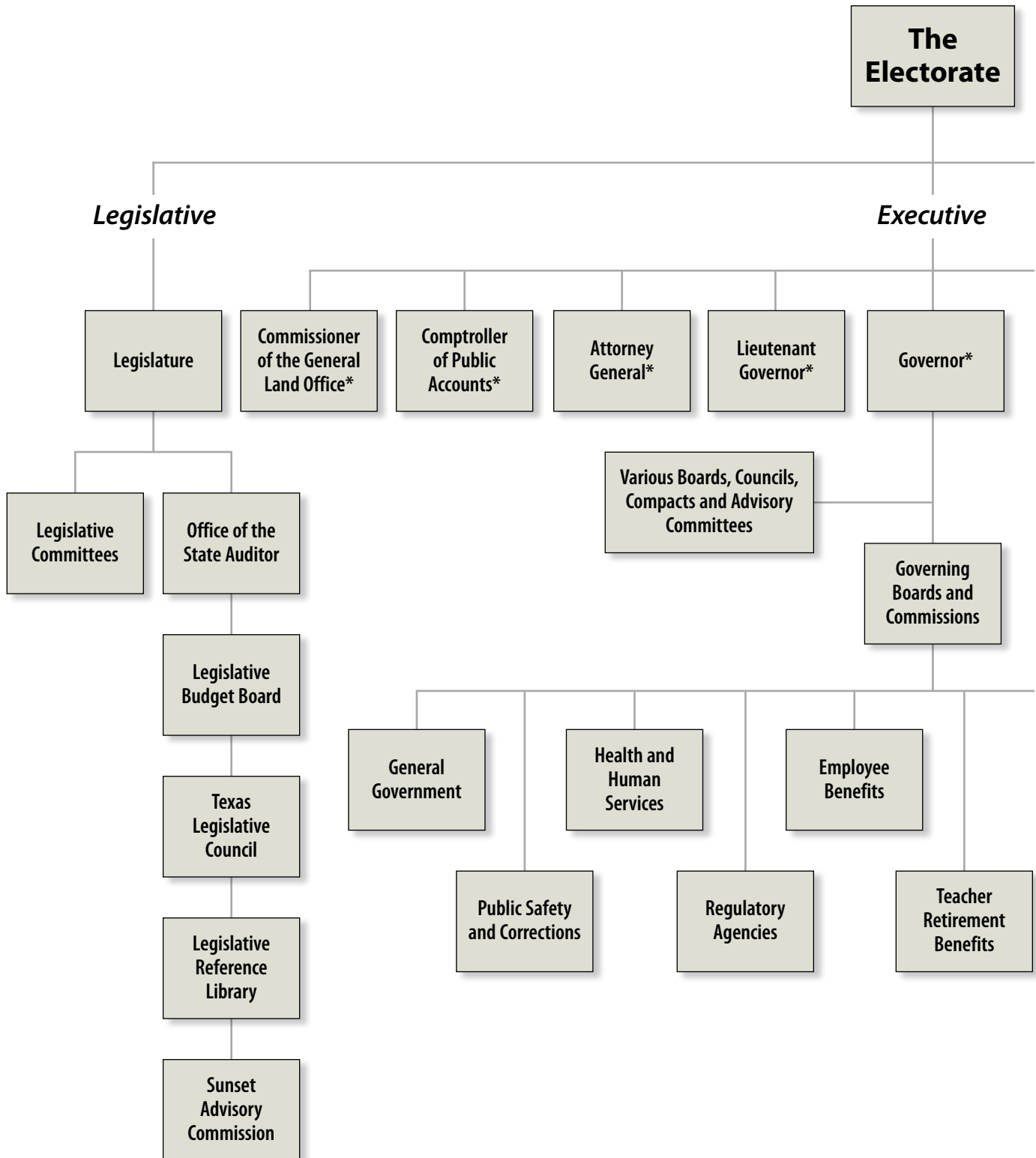
Legislative Lieutenant Governor David Dewhurst
President of the Senate

Joe Straus
Speaker of the House of Representatives

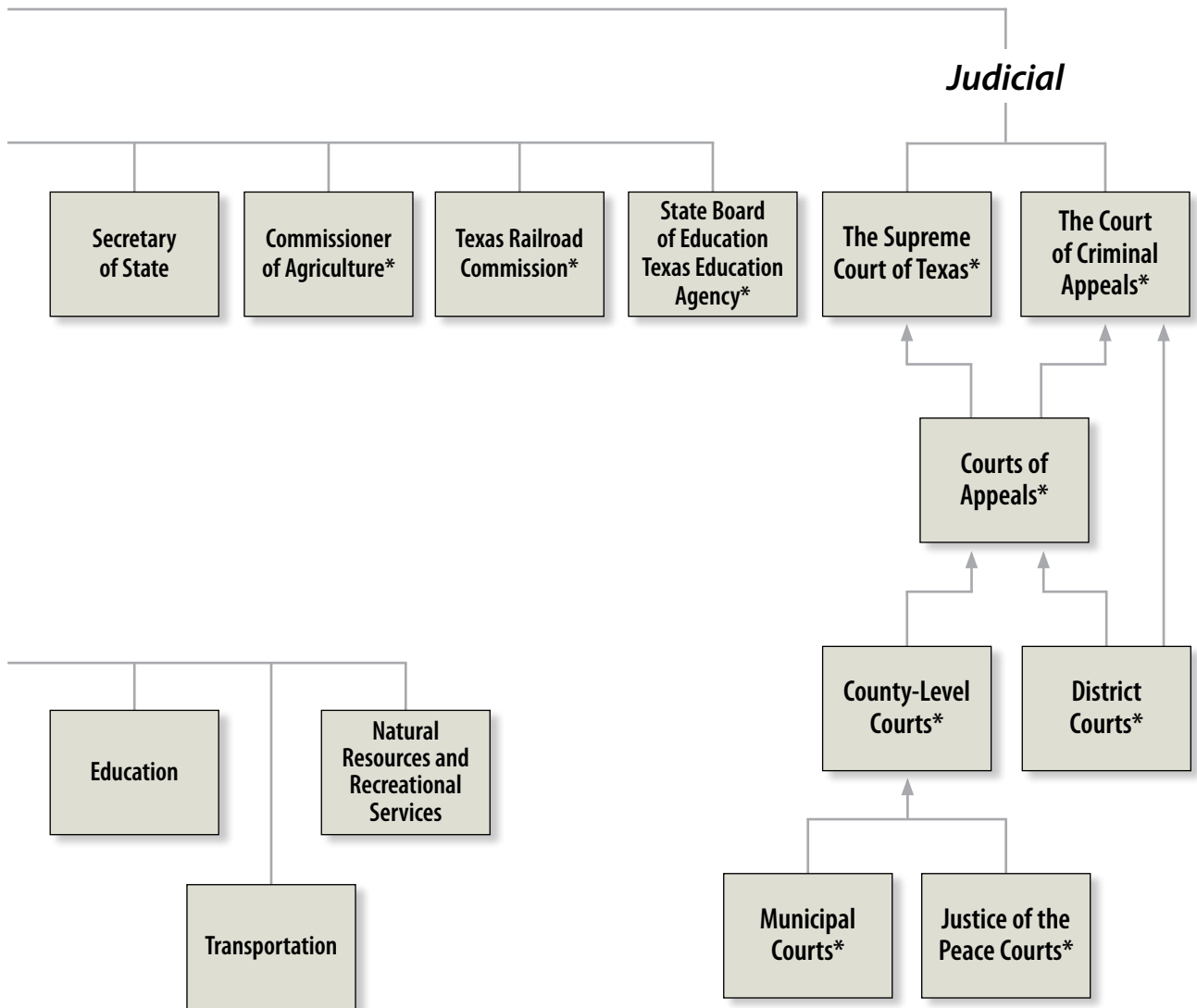
Judicial Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices



Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

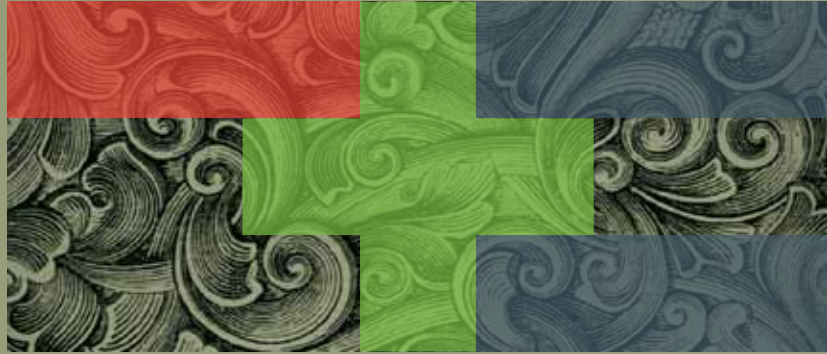
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



Section Two

Financial Section



INDEPENDENT AUDITOR'S REPORT

The Honorable Rick Perry, Governor
 The Honorable Susan Combs, Comptroller of Public Accounts
 The Honorable David Dewhurst, Lieutenant Governor
 The Honorable Joe Straus, Speaker of the House of Representatives
 and
 Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2010, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

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

- The University of Texas Investment Management Company (UTIMCO) and the University of Texas M.D. Anderson Cancer Center (UTMDACC), which constitute 49 percent and 10 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 37 percent and 7 percent, respectively, of the assets of the business-type activities.
- The Texas Lottery Fund, a major enterprise fund, which constitutes 15 percent of the operating revenues of the business-type activities.
- The Texas Local Government Investment Pool (TexPool), a blended component unit, which constitutes 8 percent of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Robert E. Johnson Building
 1501 N. Congress Avenue
 Austin, Texas 78701

P.O. Box 12067
 Austin, Texas 78711-2067

Phone:
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Internet:
www.sao.state.tx.us

SAO Report No. 11-317

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of UTIMCO and TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

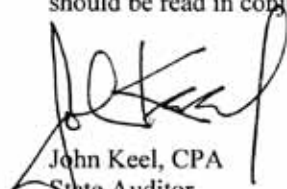
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule, the modified approach to reporting infrastructure assets, and the schedules of funding progress, as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the State Comptroller of Public Accounts. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The other supplementary information - combining financial statements and schedules, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

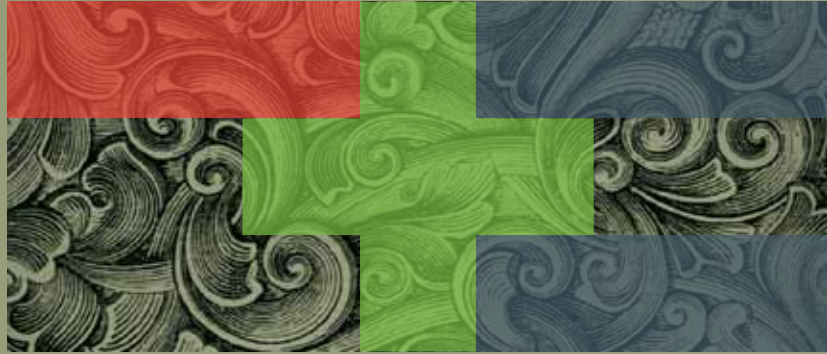
We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

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



John Keel, CPA
State Auditor

February 18, 2011



Section Two
(continued)

Management's Discussion and Analysis

Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2010. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2010 report.

Highlights

The state implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in fiscal 2010. As a result, the state reports deferred inflows and deferred outflows of resources for changes in the fair value of hedging derivatives. Deferred inflows and deferred outflows are not assets or liabilities, but rather are an acquisition or consumption of net assets that is applicable to a future reporting period. With the introduction of deferred inflows and deferred outflows, the statement of net assets is no longer representative of the state's financial position. Net assets represented the difference between the state's assets and liabilities. The Comptroller's office decided to replace the term "net assets" with "net position" to clearly indicate the introduction of these new elements to the fiscal 2010 financial statements. Net position is calculated as assets, plus deferred outflows, less liabilities, less deferred inflows.

Government-wide

Net Position

The assets of the state of Texas exceeded its liabilities by \$132.3 billion as of Aug. 31, 2010, an increase of \$1.4 billion or 1.1 percent from fiscal 2009. The state reported \$580.6 million of deferred outflows and \$4.6 million of deferred inflows due to the implementation of GASB 53.

Fund Level

Governmental Funds

As of Aug. 31, 2010, the state's governmental funds reported a combined ending fund balance of \$40.8 billion, an increase of \$527.8 million or 1.3 percent from fiscal 2009. The state reported a positive unreserved fund balance of \$6.6 billion in fiscal 2010, a decrease of \$4.7 billion.

Proprietary Funds

The proprietary funds reported a net position of \$37.4 billion as of Aug. 31, 2010, an increase of \$2.4 billion or 6.7 percent from fiscal 2009.

Long-Term Debt

The state's total bonds outstanding increased by \$4.2 billion or 13.5 percent during fiscal 2010. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling \$7 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

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

The Financial Section of this annual report presents the state's financial activities and position in four parts—(1) MD&A (this part), (2) the basic financial statements, (3) required supplementary information other than MD&A and (4) other supplementary information

presenting combining statements and schedules. The report also includes statistical and economic data.

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

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private sector companies.

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

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

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

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

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

Governmental Activities

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

Business-Type Activities

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

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. The state includes 19 separate legal entities in the notes to this report.

Reporting on the State's Most Significant Funds

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

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

Governmental Funds

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

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

Proprietary Funds

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

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

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

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. The activities are reported separately from other financial activities because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Position

Total assets of the state on Aug. 31, 2010, were \$209 billion, an increase of \$15.4 billion or 7.9 percent. Total liabilities as of Aug. 31, 2010, were \$77.3 billion, an increase of \$14.6 billion or 23.2 percent. Net position was affected by a number of factors. Cash and cash equivalents increased by \$5.4 billion from fiscal 2009 and investments increased by \$4 billion. The issuance of tax and revenue anticipation notes in the latter part of 2010 amounted to \$7.8 billion. Net capital assets increased by \$4.3 billion. The major components of this increase were additions to the state's highway system and college and university building and building improvement projects. Current liabilities increased by \$8.4 billion, from the tax and revenue anticipation notes and from increases in notes payable by the Texas Public Finance Authority and the Texas Department of Transportation. There was an increase in total bond debt of \$4.2 billion as well, with increases to both general obligation and revenue bonds. The state's bonded indebtedness was \$35.7 billion, which included new issuances of \$7.1 billion in state bonds to finance new

Statement of Net Position

August 31, 2010 and 2009 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
ASSETS						
Assets Other Than Capital Assets	\$ 63,799,804	\$ 56,087,439	\$ 51,278,165	\$ 47,928,129	\$ 115,077,969	\$ 104,015,568
Capital Assets	72,418,557	69,946,975	21,475,474	19,633,273	93,894,031	89,580,248
Total Assets	<u>136,218,361</u>	<u>126,034,414</u>	<u>72,753,639</u>	<u>67,561,402</u>	<u>208,972,000</u>	<u>193,595,816</u>
DEFERRED OUTFLOWS						
			580,611		580,611	
LIABILITIES						
Current Liabilities	23,577,732	16,212,909	10,323,540	9,285,023	33,901,272	25,497,932
Noncurrent Liabilities	17,735,541	13,959,499	25,634,302	23,258,541	43,369,843	37,218,040
Total Liabilities	<u>41,313,273</u>	<u>30,172,408</u>	<u>35,957,842</u>	<u>32,543,564</u>	<u>77,271,115</u>	<u>62,715,972</u>
DEFERRED INFLOWS						
			4,618		4,618	
NET POSITION						
Invested in Capital Assets,						
Net of Related Debt	60,743,457	59,719,286	7,933,135	7,654,750	68,676,592	67,374,036
Restricted	26,136,214	32,664,185	22,209,032	18,743,589	48,345,246	51,407,774
Unrestricted	8,025,417	3,478,535	7,229,623	8,619,499	15,255,040	12,098,034
Total Net Position	<u>\$ 94,905,088</u>	<u>\$ 95,862,006</u>	<u>\$ 37,371,790</u>	<u>\$ 35,017,838</u>	<u>\$ 132,276,878</u>	<u>\$ 130,879,844</u>

construction, housing, water conservation and other projects. Approximately \$2.8 billion in bonded debt was retired or refunded. Net position was \$132.3 billion in fiscal 2010, an increase of \$1.4 billion or 1.1 percent. Of the state's net position, \$68.7 billion was invested in capital assets, net of related debt, while \$48.3 billion was restricted by statute or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was \$15.3 billion, of which \$8 billion was in governmental activities.

Changes in Net Position

The state's net position for fiscal 2010 increased by \$1.4 billion. The state earned program revenues of \$82 billion and general revenues of \$39.5 billion, for total revenues of \$121.5 billion, an increase of \$22.9 billion or 23.2 percent. The major components of this increase were operating grants and contributions, which had an increase of \$20.4 billion and charges for services with an increase of \$1.7 billion. Increases totaling \$10.1 billion in federal funding for unemployment assistance,

Medicaid, nutrition assistance and from the American Recovery and Reinvestment Act (ARRA) were significant. Financial market recovery and improvement produced investment and income gains of \$9.6 billion.

The expenses of the state were \$120.1 billion, an increase of \$10.9 billion or 10 percent. The expense fluctuations in governmental activities are largely attributable to the health and human services function and education, due to increased funding for Medicaid, nutrition assistance, ARRA state fiscal stabilization funds and other ARRA programs. In the business-type activities, unemployment benefit payments increased by \$2.9 billion.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds. The state's two largest revenue sources changed in opposite directions. The largest source, taxes, declined, mostly due to lower sales tax collections. The second largest source, federal funds, however, reported large increases as noted above. The health and human services and education functions were the largest benefactors.

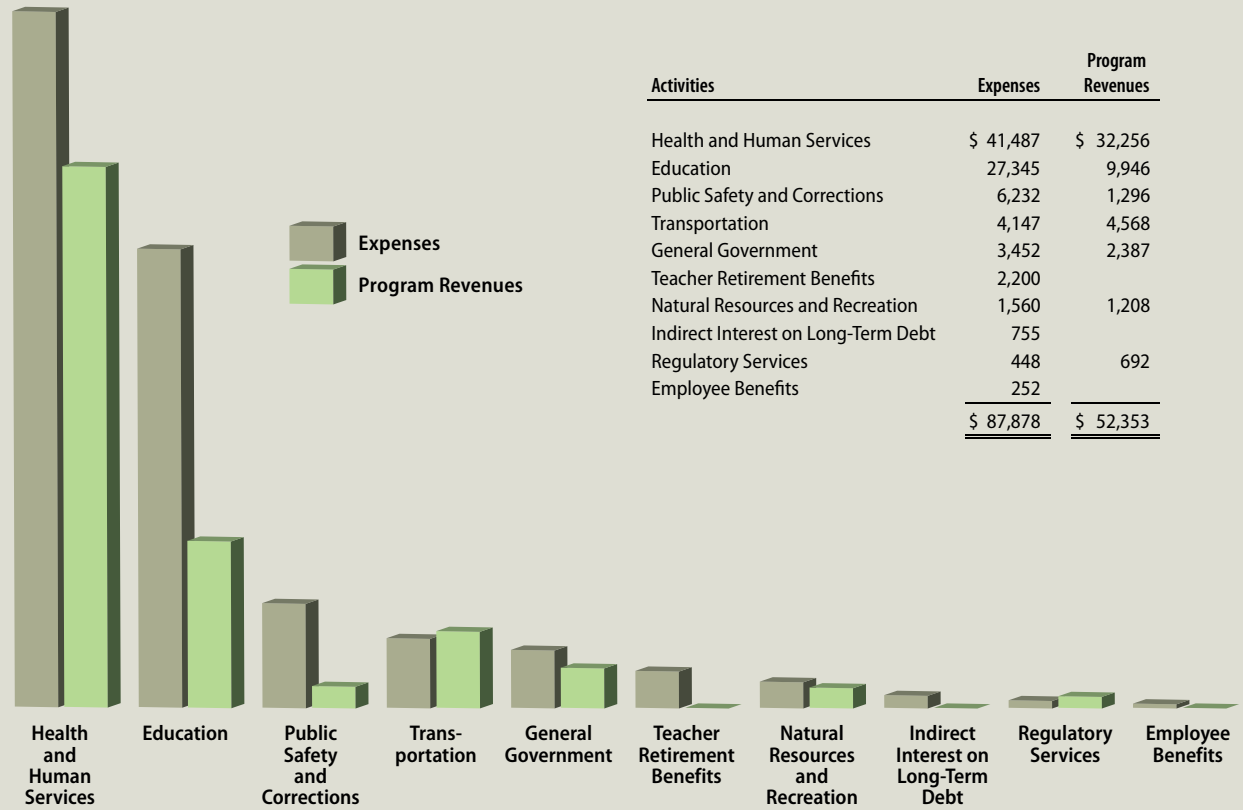
Changes in Net Position

For the Fiscal Years Ended August 31, 2010 and 2009 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Charges for Services	\$ 6,752,075	\$ 6,838,996	\$ 16,013,379	\$ 14,248,537	\$ 22,765,454	\$ 21,087,533
Operating Grants and Contributions	43,148,227	32,410,929	13,292,594	3,613,083	56,440,821	36,024,012
Capital Grants and Contributions	2,453,183	2,619,631	305,669	95,889	2,758,852	2,715,520
Total Program Revenues	<u>52,353,485</u>	<u>41,869,556</u>	<u>29,611,642</u>	<u>17,957,509</u>	<u>81,965,127</u>	<u>59,827,065</u>
General Revenues:						
Taxes	35,590,034	35,928,793			35,590,034	35,928,793
Unrestricted Investment Earnings	575,642	178,470	134,195	129,445	709,837	307,915
Settlement of Claims	925,676	555,626	1,384	14,691	927,060	570,317
Gain on Sale of Capital Assets				609		609
Other General Revenues	2,017,783	1,769,051	241,013	156,903	2,258,796	1,925,954
Total General Revenues	<u>39,109,135</u>	<u>38,431,940</u>	<u>376,592</u>	<u>301,648</u>	<u>39,485,727</u>	<u>38,733,588</u>
Total Revenues	<u>91,462,620</u>	<u>80,301,496</u>	<u>29,988,234</u>	<u>18,259,157</u>	<u>121,450,854</u>	<u>98,560,653</u>
EXPENSES						
General Government	3,451,868	3,052,177	162,620	180,543	3,614,488	3,232,720
Education	27,344,876	24,952,375	20,943,292	20,135,452	48,288,168	45,087,827
Employee Benefits	252,457	220,272			252,457	220,272
Teacher Retirement Benefits	2,200,408	1,667,325			2,200,408	1,667,325
Health and Human Services	41,487,191	38,124,180	7,826,452	4,908,112	49,313,643	43,032,292
Public Safety and Corrections	6,231,847	6,026,868	87,120	83,498	6,318,967	6,110,366
Transportation	4,146,987	4,025,226	206,822	220,881	4,353,809	4,246,107
Natural Resources and Recreation	1,559,708	1,673,915	353,641	304,577	1,913,349	1,978,492
Regulatory Services	447,557	445,938			447,557	445,938
Indirect Interest on Long-Term Debt	755,314	525,648			755,314	525,648
Lottery			2,681,627	2,680,273	2,681,627	2,680,273
Total Expenses	<u>87,878,213</u>	<u>80,713,924</u>	<u>32,261,574</u>	<u>28,513,336</u>	<u>120,139,787</u>	<u>109,227,260</u>
Excess (Deficiency) Before Contributions, Special Items and Transfers	<u>3,584,407</u>	<u>(412,428)</u>	<u>(2,273,340)</u>	<u>(10,254,179)</u>	<u>1,311,067</u>	<u>(10,666,607)</u>
Capital Contributions	30,845	1,554			30,845	1,554
Contributions to Permanent and Term Endowments			136,577	120,404	136,577	120,404
Transfers	(4,491,627)	(4,268,014)	4,491,627	4,268,014		
Change in Net Position	<u>(876,375)</u>	<u>(4,678,888)</u>	<u>2,354,864</u>	<u>(5,865,761)</u>	<u>1,478,489</u>	<u>(10,544,649)</u>
Net Position, Beginning Balance	95,862,006	100,671,188	35,017,838	42,152,308	130,879,844	142,823,496
Restatements	(80,543)	(130,294)	(912)	(1,268,709)	(81,455)	(1,399,003)
Net Position, Beginning Balance, as Restated	<u>95,781,463</u>	<u>100,540,894</u>	<u>35,016,926</u>	<u>40,883,599</u>	<u>130,798,389</u>	<u>141,424,493</u>
Net Position, Ending Balance	<u>\$ 94,905,088</u>	<u>\$ 95,862,006</u>	<u>\$ 37,371,790</u>	<u>\$ 35,017,838</u>	<u>\$ 132,276,878</u>	<u>\$ 130,879,844</u>

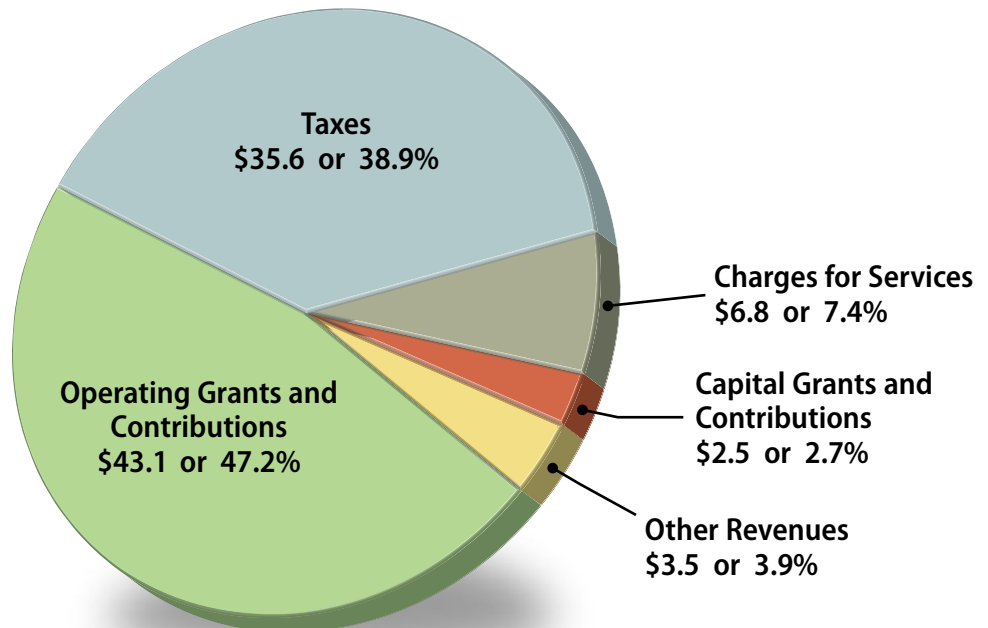
Expenses and Program Revenues: Governmental Activities

For the Fiscal Year Ended August 31, 2010 (In Millions)



Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2010 (In Billions)*

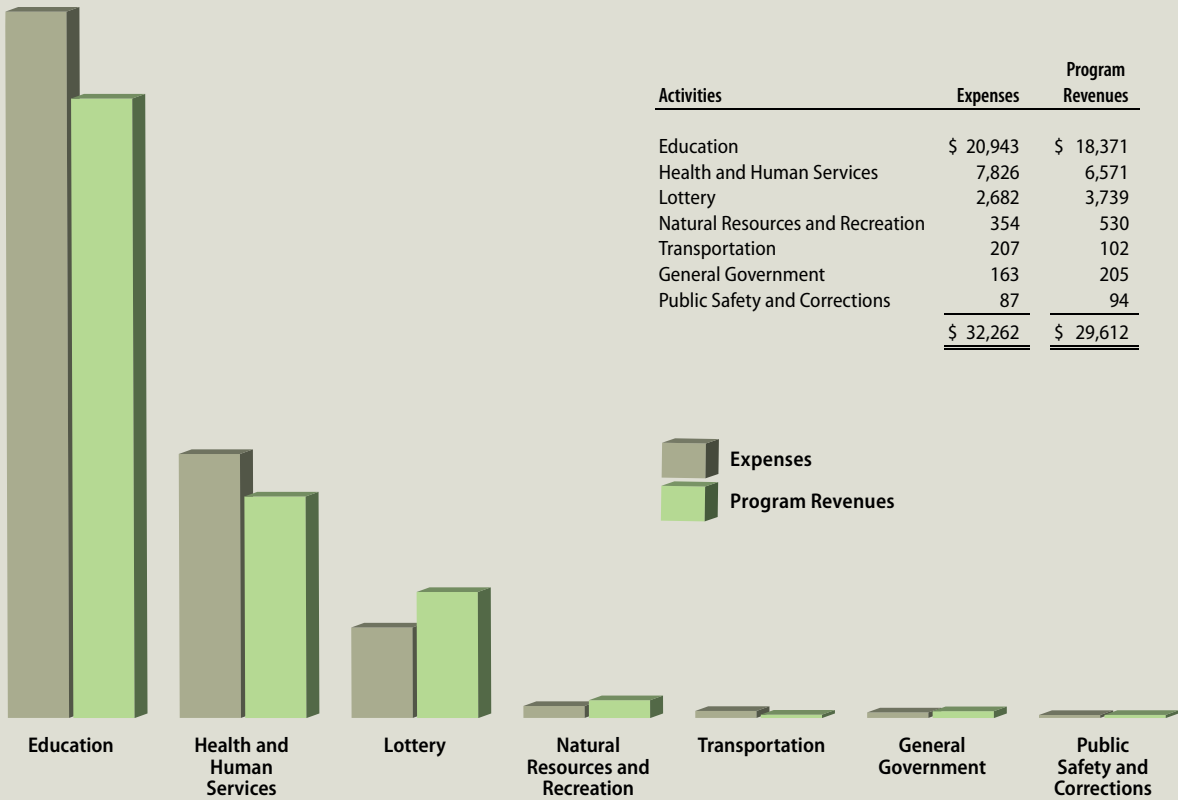


Total = \$91.5 Billion

* Totals may not add due to rounding

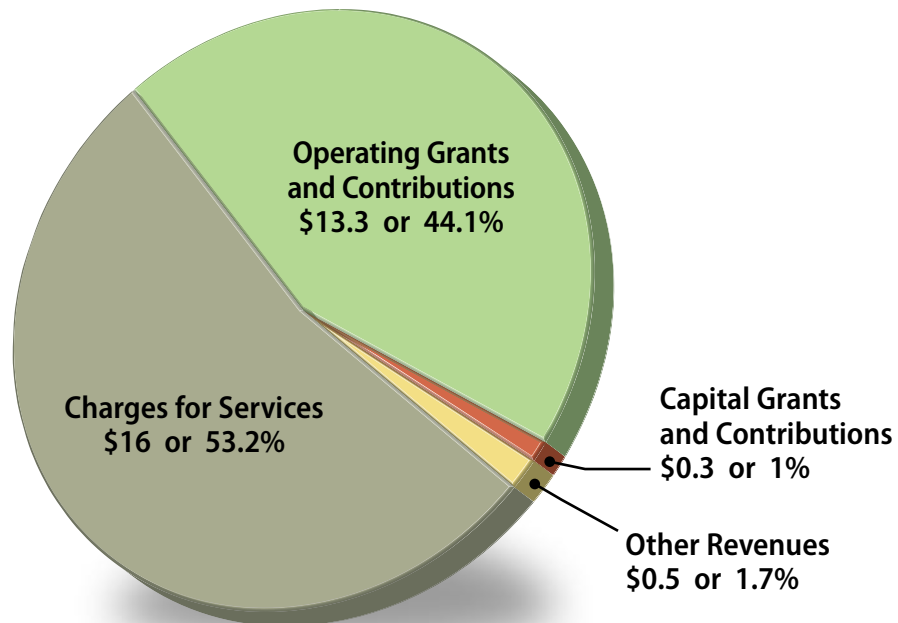
Expenses and Program Revenues: Business-Type Activities

For the Fiscal Year Ended August 31, 2010 (In Millions)



Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2010 (In Billions)*



Total = \$30.1 Billion

* Totals may not add due to rounding

Governmental Activities

The governmental activities program revenue is \$52.4 billion, including charges for services of \$6.8 billion, operating grants and contributions of \$43.1 billion and \$2.5 billion reported in capital grants and contributions. The largest increase, \$10.7 billion, was for operating grants and contributions, which includes revenues from federal funds. Changes in general revenue sources were relatively stable. Taxes had the only declines from general revenue sources, with the largest reduction in sales tax revenue.

Governmental activities expenses were \$87.9 billion. All functions of governmental activities in the

government-wide statement of activities have a net cost, except transportation and regulatory services functions, which report slight surpluses. The education and health and human services functions account for 78.3 percent of governmental activities expenses and 75 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

Business-Type Activities

Business-type activities generated program revenue of \$29.6 billion, including charges for services of \$16 billion, operating grants and contributions of \$13.3 billion and \$305.7 million reported in capital grants and contributions. The total expenses for business-type activities were \$32.3 billion. There was a total gain from the government's business-type activities of \$2.4 billion in comparison to the prior year's net loss of \$5.9 billion. The largest change occurred in the health and human services function, where there was an increase in unemployment benefit payments of \$2.9 billion, due to federal legislation that extended benefits.

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 3,451,868	\$ 1,064,925
Education	27,344,876	17,398,975
Employee Benefits	252,457	252,322
Teacher Retirement Benefits	2,200,408	2,200,408
Health and Human Services	41,487,191	9,231,122
Public Safety and Corrections	6,231,847	4,935,758
Transportation	4,146,987	(420,761)
Natural Resources and Recreation	1,559,708	350,917
Regulatory Services	447,557	(244,252)
Indirect Interest on Long-Term Debt	755,314	755,314
Total	<u>\$ 87,878,213</u>	<u>\$ 35,524,728</u>

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	\$ 162,620	\$ (42,361)
Education	20,943,292	2,572,432
Health and Human Services	7,826,452	1,255,114
Public Safety and Corrections	87,120	(6,614)
Transportation	206,822	104,931
Natural Resources and Recreation	353,641	(176,031)
Lottery	2,681,627	(1,057,539)
Total	<u>\$ 32,261,574</u>	<u>\$ 2,649,932</u>

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2010, governmental funds reported fund balances of \$40.8 billion. Of this total amount, \$6.6 billion constitutes unreserved fund balances and \$34.2 billion reserved fund balance. The general fund reported a positive \$2.9 billion unreserved balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2010, was \$8.4 billion, a decrease of \$557 million from fiscal 2009. Contributing to the lower balance were decreased tax collections, primarily sales taxes, and

necessary increases in spending for health and human services to meet needs due to reduced economic conditions. Increases in federal revenues of almost \$6.9 billion, however, assisted funding in these areas. Primarily the increase was due to ARRA, which increased funding for supplemental nutrition assistance programs, children's health insurance programs, Medicare and other assistance programs.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2010, was \$1.3 billion, an increase of \$1.1 billion from \$139.4 million as of Aug. 31, 2009, due to bond proceeds. Other financing sources increased by \$1.9 billion from bond issuances and decreased by a reduction of \$336.3 million in transfers from the Texas mobility fund. Highway construction projects begun in fiscal 2010 decreased by \$652.1 million in comparison to projects begun in fiscal 2009. Cash and cash equivalents increased by \$808.5 million.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2010, totaled \$24.4 billion, an increase of \$1.8 billion, or 8 percent, since Aug. 31, 2009. This increase was primarily attributable to interest and investment income of \$1.5 billion and a decrease of \$655.8 billion or 91.5 percent in the amount transferred to support public education. The decrease in the transfer amount was necessary to be in compliance with the Texas Constitution, Article 7, which places limitations on total return payouts from the fund. Value in the fund provided \$60.7 million in transfers to provide funding for public education. A second way the PSF supports the state's public school system is through a bond guarantee program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2010, \$49.3 billion in school district bond

issues were guaranteed. The capacity to guarantee bonds is limited by both Internal Revenue Service ruling and state law to two and a half times the cost or market value of the fund, whichever is lower.

Proprietary Funds

Proprietary funds reported net position of \$37.4 billion as of Aug. 31, 2010, an increase of \$2.4 billion from fiscal 2009. The Texas Water Development Board and Texas Department of Transportation Turnpike Authority funds are now included in other non-major proprietary funds.

Colleges and Universities

Colleges and universities' net position as of Aug. 31, 2010, totaled \$34.9 billion, an increase of \$3.1 billion from Aug. 31, 2009. There were increases of approximately \$1 billion for both operating revenues and operating expenses. There was a \$6 billion positive change in investment and interest income, as there was overall interest and investment gains of \$3 billion in fiscal 2010, compared to interest and investment losses of \$3 billion in fiscal 2009. Improving market conditions produced better investment returns. The permanent university fund posted a net investment return of over 13 percent.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of \$(1.2) billion as of Aug. 31, 2010, a decrease of \$911.3 million from \$(303.8) million as of Aug. 31, 2009. During fiscal 2010, unemployment taxes collected increased to \$2.1 billion as compared to \$1 billion in 2009. While state funded benefits during fiscal 2010 remained essentially unchanged from the prior year at \$3.4 billion, federally financed benefits increased to \$4.4 billion from \$1.4 billion in the prior

year. Texas continued to borrow funds interest free from the federal government in order to pay benefits. Notes and loans payable increased from \$289.6 million in 2009 to \$1.4 billion in 2010. Federal revenue increased from \$1.6 billion in 2009 to \$4.5 billion in 2010. Unemployment benefit payments increased from \$4.9 billion in 2009 to \$7.8 billion in 2010. The interest free provisions of the federal advances as outlined in ARRA expired Dec. 31, 2010. In December 2010, \$2 billion in revenue bonds were issued to repay the federal advances and to provide state funded unemployment benefits. Payment of principal and interest will be funded by an obligation assessment tax on employers.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state's foundation school fund. The lottery fund had a net position of \$112.1 million on Aug. 31, 2010, as compared to \$71.1 million at the end of fiscal 2009, an increase of \$41 million. Lottery sales for the year ended Aug. 31, 2010, totaled \$3.7 billion, an increase of 0.5 percent over 2009. Distributions to the foundation school fund for fiscal 2010 totaled \$989.1 million.

The majority of the lottery fund's net position consists of cash, cash equivalents and investments used to fund future installment payments. At Aug. 31, 2010, the lottery fund's assets included \$57.3 million in cash and cash equivalents as compared with \$123.8 million at Aug. 31, 2009. The lottery fund's short and long-term investments approximated \$1.2 billion each year. The lottery fund's liabilities include amounts owed to the state's foundation school fund for August accrued sales for fiscal 2010, and to the Texas Treasury Safekeeping Trust Company for investment purchases, vendor payables and prize payment obligations. The amount due to the foundation school fund was approximately \$2.8 million at Aug. 31, 2010, as compared with \$14.1 million at Aug. 31, 2009.

Fiduciary Funds

Fiduciary funds reported \$134.2 billion in net position as of Aug. 31, 2010, an increase of \$6.1 billion from \$128.1 billion in fiscal 2009.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was \$117 billion, an increase of \$7.6 billion from the \$109.4 billion reported in fiscal 2009. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans improved during fiscal 2010, primarily from recovering market conditions affecting investment assets. Contributions from all sources increased \$433 million from fiscal 2009, while benefit payments increased \$540.4 million. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was 10.7 percent and 6.7 percent, respectively, compared to the previous year's negative returns of 13.1 and 6.6 percent.

External Investment Trust Fund

The external investment trust fund reported total net position of \$14.6 billion in fiscal 2010, a decrease of \$1.7 billion from the \$16.3 billion reported in fiscal 2009. The decrease of \$1.7 billion in participant investments is due to withdrawals by local government entities as surpluses declined and local needs had to be addressed.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was \$2.5 billion in fiscal 2010, an increase of \$189.9 million or 8.2 percent from fiscal 2009. Increases to net position were due to a combination of factors including higher rates of return on investments due to market recovery, increases in participant contributions to the Texas college savings plans and increased claims settlements in the catastrophe reserve trust fund.

Budgetary Highlights

Variations for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons. Actual results for revenues were \$2 billion below the final budget number. The most negative revenue variance occurred with tax revenues, showing a \$1.1 billion difference, actual below budget. Actual tax revenues declined from the prior year revenues by \$1.2 billion. Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. ARRA provided additional federal funds beyond the original budget. Accordingly, major revisions were made for programs such as nutritional assistance, Medicaid and ARRA state fiscal stabilization program.

Actual results for expenditures were \$3 billion more than the final budget revision. Significant revisions were made to original budget amounts increasing expenditures in major functions for education, health and human services and public safety and corrections.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2010, the state had \$93.9 billion in net capital assets, of which \$58.9 billion was infrastructure. This total represents an increase of \$2.4 billion in infrastructure capital assets or 4.2 percent from fiscal 2009. Included in this amount are additions to the state's highway system of \$2.3 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added \$984.2 million to buildings and building improvements.

To ensure future availability of essential services and finance highway capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated \$9 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state. This amount is not recognized as a liability because the terms of the contracts or agreements were not met and benefits were not received as of the end of fiscal 2010.

Capital Assets – Net of Depreciation and Amortization

August 31, 2010 and 2009 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land and Land Improvements	\$ 8,296,693	\$ 8,125,334	\$ 1,503,215	\$ 1,477,108	\$ 9,799,908	\$ 9,602,442
Infrastructure	56,541,708	54,194,424	2,357,321	2,341,644	58,899,029	56,536,068
Construction in Progress	4,208,127	4,206,962	3,175,537	2,639,472	7,383,664	6,846,434
Buildings and Building Improvements	2,387,651	2,436,851	11,058,779	10,078,703	13,446,430	12,515,554
Facilities and Other Improvements	78,337	83,252	834,709	767,142	913,046	850,394
Furniture and Equipment	228,618	237,375	1,306,460	1,423,110	1,535,078	1,660,485
Vehicles, Boats and Aircraft	406,739	402,586	65,323	66,582	472,062	469,168
Other Capital Assets-Tangible	105,106	260,191	889,861	839,512	994,967	1,099,703
Land Use Rights	78,985		19,992		98,977	
Computer Software-Intangible	71,550		264,277		335,827	
Other Capital Assets-Intangible	15,043				15,043	
Total Capital Assets	<u>\$ 72,418,557</u>	<u>\$ 69,946,975</u>	<u>\$ 21,475,474</u>	<u>\$ 19,633,273</u>	<u>\$ 93,894,031</u>	<u>\$ 89,580,248</u>

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

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide financial statements.

The state accounts for its system of roads and highways using the modified approach. TxDOT developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and 80 percent for the Central Texas Turnpike System. The condition assessment results for fiscal 2010 reflect condition levels of 83.6 percent (81.4 percent in fiscal 2009) for the interstate system, 77.9 percent (76.5 percent for fiscal 2009) for the non-interstate system and 87.9 percent for the Central Texas Turnpike System (90.5 percent for fiscal 2009).

In fiscal 2010, the estimated maintenance expenditures required to maintain the highway system at or above the adopted condition levels for interstate highways were \$568.5 million, \$3 billion for the non-interstate system and \$11.4 million for the Central Texas Turnpike System. Actual expenditures were \$333.3 million for the interstate system, \$1.4 billion for the non-interstate system and \$7 million for the Central Texas Turnpike System. Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

Debt Administration

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

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AA+ by Standard & Poor's and AAA by Fitch Ratings as of August 2010. During fiscal 2010, Texas' state agencies and institutions of higher education issued \$7 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for \$1.3 billion of state bonds issued in fiscal 2010. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining \$5.7 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of \$503.2 million in general obligation bonds and \$702.9 million in revenue bonds. Also, \$428.7 million in general obligation bonds and \$1.1 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2010, was \$13 billion. This represents an increase of \$357 million or 2.8 percent from fiscal 2009. An additional \$13.2 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were \$22.7 billion, which is an increase of \$3.9 billion or 20.7 percent from fiscal 2009. The net increase of \$3.9 billion for revenue bonds includes issuances for the state highway fund of \$1.5 billion to finance highway improvement projects. The net increase for revenue bonds also includes issuances of the state's institutions of higher education for campus improvements or associated with refundings to take advantage of lower interest

Outstanding Bonded Debt

August 31, 2010 and 2009 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds Payable	\$ 10,085,579	\$ 9,745,220	\$ 2,943,752	\$ 2,927,153	\$ 13,029,331	\$ 12,672,373
Revenue Bonds Payable	5,620,060	3,287,121	17,042,975	15,487,970	22,663,035	18,775,091
Total Bonds Payable	<u>\$ 15,705,639</u>	<u>\$ 13,032,341</u>	<u>\$ 19,986,727</u>	<u>\$ 18,415,123</u>	<u>\$ 35,692,366</u>	<u>\$ 31,447,464</u>

rates. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detail information on the state's bonded indebtedness.

Economic Condition and Outlook

The Texas economic direction reflected a positive change in 2010, particularly with employment numbers. During the period from November 2009 to November 2010, Texas' nonfarm employment increased by 192,100 jobs. Even though the unemployment rate of 8.3 percent is at its highest since 1987, Texas still has the lowest rate of unemployment among the 10 most populous states and is 1.1 percent below the nation's unemployment rate of 9.4 percent.

Economic forecasts indicate that both Texas and the nation returned to economic growth in 2010. Texas' real gross state product (GSP) grew by 3.4 percent in 2010. The diversity of Texas industries, a relatively healthier housing market and strong export performance allowed the state to grow faster than the nation. On the downside, the continuance of high unemployment, a weak market for job seekers and new jobs paying less than jobs lost kept consumers uncertain about current conditions and the economic outlook.

Nine of the state's 11 major industries added jobs in 2010. The fastest job growth rate was in the mining and logging industry. The industry with the poorest performance was information, which includes the broadcast media, telecommunications and Internet-based services. Although there was little change in the domestic demand for Texas goods and services, export sales

reached an all-time high and accounted for 16.5 percent of the state's gross state product. Texas continues to lead all other states in the value of its export trade.

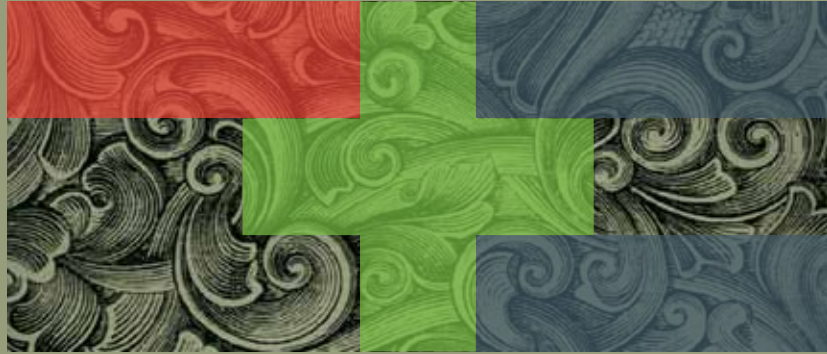
The *2010-2011 State Economic Forecast* indicates continued improvement in 2011, but projects it will be slower than normal during economic recoveries. The recovery will be grounded in an economy that continues to struggle with high unemployment rates, cautious consumer spending and tight credit markets. Federal tax incentives may help. These include provisions to extend the current federal personal income tax rates, a 2 percent cut in the employee social security tax rate and a two-year extension of depreciation incentives for business investment.

Indications are that the unemployment rate will remain high for both Texas and the nation, although for Texas it will remain 1 to 2 percent lower than the nation's. Expectations that the dollar will continue its slide relative to major world currencies will continue to fuel Texas exports. Export sales, business investment and capital spending will show gains in 2011 and interest rates are expected to remain low. Texas' recovery should outpace the nation for the same reasons as in recent history. These include continued net migration to the state, location in the nation's healthiest economic region, an experienced workforce, a growing energy industry and a comparatively healthy housing market.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to

demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.



Section Two
(continued)

Basic Financial Statements

STATE OF TEXAS

Statement of Net Position

August 31, 2010 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities*	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 25,147,467	\$ 4,059,003	\$ 29,206,470	\$ 541,570
Short-Term Investments	495,101	1,230,677	1,725,778	786,583
Securities Lending Collateral	2,095,243	701,054	2,796,297	
Receivables:				
Taxes (Note 24)	1,972,188		1,972,188	
Federal	2,727,091	737,468	3,464,559	63,827
Other Intergovernmental	709,443	43,878	753,321	30,960
Accounts	797,810	1,450,323	2,248,133	108,549
Interest and Dividends	112,487	133,037	245,524	8,243
Gifts		162,012	162,012	
Investment Trades	28,617	370,022	398,639	
Other	79,992	316,127	396,119	177
From Fiduciary Funds	48,279		48,279	
Due From Primary Government (Note 12)				538
Due From Component Units (Note 12)		58	58	
Inventories	299,565	128,819	428,384	3,057
Prepaid Items	167	136,256	136,423	1,063
Loans and Contracts	107,821	320,013	427,834	3,832
Other Current Assets	70	328,316	328,386	2,933
Restricted:				
Cash and Cash Equivalents	193,787	2,295,544	2,489,331	76,684
Short-Term Investments		856,893	856,893	2,467
Loans and Contracts	62,883	75,188	138,071	2,038
Total Current Assets	<u>34,878,011</u>	<u>13,344,688</u>	<u>48,222,699</u>	<u>1,632,521</u>
Noncurrent Assets:				
Internal Balances (Note 12)	2,949	(2,949)		
Loans and Contracts	2,485,334	3,828,838	6,314,172	59,682
Investments	24,671,143	4,939,198	29,610,341	9,712
Receivables:				
Taxes (Note 24)	331,306		331,306	
Federal	28,821		28,821	
Gifts		241,810	241,810	
Other	263,026		263,026	2,575
Restricted:				
Cash and Cash Equivalents		206,926	206,926	210
Short-Term Investments		16,661	16,661	
Investments		25,113,143	25,113,143	231,214
Receivables		185,182	185,182	
Loans and Contracts	989,508	3,302,101	4,291,609	11,087
Other	91,578	2,229	93,807	
Assets Held in Trust		3,305	3,305	
Net Pension Asset (Note 9)	4,576		4,576	
Deferred Charges	39,918	50,487	90,405	
Hedging Derivative Asset (Note 7)		4,618	4,618	
Other Noncurrent Assets	13,634	41,928	55,562	5,046
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	60,748,171	6,712,263	67,460,434	7,974
Depreciable or Amortizable, Net	11,670,386	14,763,211	26,433,597	58,425
Total Noncurrent Assets	<u>101,340,350</u>	<u>59,408,951</u>	<u>160,749,301</u>	<u>385,925</u>
Total Assets	<u>136,218,361</u>	<u>72,753,639</u>	<u>208,972,000</u>	<u>2,018,446</u>
DEFERRED OUTFLOWS				
Deferred Outflow of Resources (Note 7)		580,611	580,611	
Total Deferred Outflow of Resources	<u>0</u>	<u>580,611</u>	<u>580,611</u>	<u>0</u>

Concluded on the following page

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

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

STATE OF TEXAS

Statement of Net Position (concluded)

August 31, 2010 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities*	Total	
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	\$ 4,895,349	\$ 1,335,745	\$ 6,231,094	\$ 163,012
Payroll	656,543	693,092	1,349,635	667
Other Intergovernmental	668,864	14,955	683,819	
Federal	288	92,666	92,954	60,168
Investment Trades	81,623	415,329	496,952	
Interest	341,897	56,684	398,581	2,254
Tax Refunds (Note 24)	889,444		889,444	
Annuities		12,612	12,612	
To Fiduciary Funds	145,973		145,973	
Internal Balances (Note 12)	818,482	(818,482)		
Due To Primary Government (Note 12)				58
Due To Component Units (Note 12)	538		538	
Unearned Revenue	3,550,796	2,590,012	6,140,808	47,357
Obligations/Reverse Repurchase Agreement	75,912		75,912	
Obligations/Securities Lending	2,194,989	701,182	2,896,171	
Short-Term Debt (Note 4)	7,865,000		7,865,000	
Claims and Judgments (Note 5)	54,814	16,583	71,397	
Capital Lease Obligations (Note 5, 8)	2,609	2,588	5,197	48
Employees' Compensable Leave (Note 5)	477,680	333,063	810,743	3,649
Notes and Loans Payable (Note 5)	44,557	2,004,833	2,049,390	12,586
General Obligation Bonds Payable (Note 5, 6)	379,330	135,332	514,662	
Revenue Bonds Payable (Note 5, 6)	167,824	1,880,769	2,048,593	2,108
Pollution Remediation Obligation (Note 5)	39,881	22	39,903	
Liabilities Payable From Restricted Assets (Note 5)		473,131	473,131	
Funds Held for Others		124,342	124,342	292
Hedging Derivative Liability (Note 7)		7,467	7,467	
Other Current Liabilities	225,339	251,615	476,954	42,071
Total Current Liabilities	23,577,732	10,323,540	33,901,272	334,270
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	101,676	50,951	152,627	
Capital Lease Obligations (Note 5, 8)	11,892	11,754	23,646	144
Employees' Compensable Leave (Note 5)	280,511	345,354	625,865	1,775
Notes and Loans Payable (Note 5)	716,043	1,097,728	1,813,771	87,600
General Obligation Bonds Payable (Note 5, 6)	9,706,249	2,808,420	12,514,669	
Revenue Bonds Payable (Note 5, 6)	5,452,236	15,162,206	20,614,442	359,661
Pollution Remediation Obligation (Note 5)	287,209		287,209	
Liabilities Payable From Restricted Assets (Note 5)		3,086,140	3,086,140	57,830
Assets Held for Others		714,541	714,541	
Net Pension Obligation (Note 9)	1,179,725		1,179,725	
Net OPEB Obligation (Note 11)		1,638,142	1,638,142	
Hedging Derivative Liability (Note 7)		573,144	573,144	
Other Noncurrent Liabilities		145,922	145,922	252,603
Total Noncurrent Liabilities	17,735,541	25,634,302	43,369,843	759,613
Total Liabilities	41,313,273	35,957,842	77,271,115	1,093,883
DEFERRED INFLOWS				
Deferred Inflow of Resources (Note 7)		4,618	4,618	
Total Deferred Inflow of Resources	0	4,618	4,618	0
NET POSITION				
Invested in Capital Assets, Net of Related Debt	60,743,457	7,933,135	68,676,592	54,404
Restricted for:				
Education	846,041	2,479,096	3,325,137	97,531
Debt Service	428,908	360,797	789,705	
Capital Projects	211,869	470,655	682,524	
Veterans Land Board Housing Programs		684,672	684,672	
Funds Held as Permanent Investments:				
Nonexpendable	11,012,187	11,619,866	22,632,053	
Expendable	13,397,965	6,548,727	19,946,692	
Other	239,244	45,219	284,463	21,198
Unrestricted	8,025,417	7,229,623	15,255,040	751,430
Total Net Position	\$ 94,905,088	\$ 37,371,790	\$ 132,276,878	\$ 924,563

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	\$ 3,451,868	\$ 984,639	\$ 1,396,812	\$ 5,492
Education	27,344,876	463,719	9,482,182	
Employee Benefits	252,457	135		
Teacher Retirement Benefits	2,200,408			
Health and Human Services	41,487,191	1,782,704	30,473,350	15
Public Safety and Corrections	6,231,847	336,134	959,955	
Transportation	4,146,987	1,891,247	230,235	2,446,266
Natural Resources and Recreation	1,559,708	605,751	601,630	1,410
Regulatory Services	447,557	687,746	4,063	
Interest on General Long-Term Debt	755,314			
Total Governmental Activities	<u>87,878,213</u>	<u>6,752,075</u>	<u>43,148,227</u>	<u>2,453,183</u>
Business-Type Activities:				
General Government	162,620	47,377	157,604	
Education*	20,943,292	9,907,344	8,186,347	277,169
Health and Human Services	7,826,452	2,107,474	4,463,864	
Public Safety and Corrections	87,120	93,734		
Transportation	206,822	73,312	79	28,500
Natural Resources and Recreation	353,641	44,973	484,699	
Lottery	2,681,627	3,739,165	1	
Total Business-Type Activities	<u>32,261,574</u>	<u>16,013,379</u>	<u>13,292,594</u>	<u>305,669</u>
Total Primary Government	<u>\$ 120,139,787</u>	<u>\$ 22,765,454</u>	<u>\$ 56,440,821</u>	<u>\$ 2,758,852</u>
COMPONENT UNITS				
Component Units	<u>\$ 2,064,693</u>	<u>\$ 1,685,999</u>	<u>\$ 314,713</u>	<u>\$</u>
Total Component Units	<u>\$ 2,064,693</u>	<u>\$ 1,685,999</u>	<u>\$ 314,713</u>	<u>\$ 0</u>

General Revenues
Taxes:
Sales and Use
Motor Vehicle and Manufactured Housing
Motor Fuels
Franchise
Oil and Natural Gas Production
Insurance Occupation
Cigarette and Tobacco
Other
Unrestricted Investment Earnings
Settlement of Claims
Gain on Sale of Capital Assets
Other General Revenues
Capital Contributions
Contributions to Permanent and Term Endowments
Transfers - Internal Activities (Note 12)
Total General Revenues, Contributions and Transfers
Change in Net Position

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

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

Net Position, September 1, 2009
Restatements (Note 14)
Net Position, September 1, 2009, as Restated
Net Position, August 31, 2010

Net (Expense) Revenue and Changes in Net Position

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (1,064,925)	\$	\$ (1,064,925)	\$
(17,398,975)		(17,398,975)	
(252,322)		(252,322)	
(2,200,408)		(2,200,408)	
(9,231,122)		(9,231,122)	
(4,935,758)		(4,935,758)	
420,761		420,761	
(350,917)		(350,917)	
244,252		244,252	
(755,314)		(755,314)	
<u>(35,524,728)</u>	<u>0</u>	<u>(35,524,728)</u>	<u>0</u>
	42,361	42,361	
	(2,572,432)	(2,572,432)	
	(1,255,114)	(1,255,114)	
	6,614	6,614	
	(104,931)	(104,931)	
	176,031	176,031	
	1,057,539	1,057,539	
<u>0</u>	<u>(2,649,932)</u>	<u>(2,649,932)</u>	<u>0</u>
<u>(35,524,728)</u>	<u>(2,649,932)</u>	<u>(38,174,660)</u>	<u>0</u>
			(63,981)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(63,981)</u>
19,558,426		19,558,426	
2,624,725		2,624,725	
3,060,246		3,060,246	
3,809,109		3,809,109	
2,157,334		2,157,334	
1,309,620		1,309,620	
1,394,122		1,394,122	
1,676,452		1,676,452	
575,642	134,195	709,837	14,710
925,676	1,384	927,060	481
2,017,783	241,013	2,258,796	1,885
30,845		30,845	
	136,577	136,577	
<u>(4,491,627)</u>	<u>4,491,627</u>		
<u>34,648,353</u>	<u>5,004,796</u>	<u>39,653,149</u>	<u>17,076</u>
<u>(876,375)</u>	<u>2,354,864</u>	<u>1,478,489</u>	<u>(46,905)</u>
95,862,006	35,017,838	130,879,844	971,429
(80,543)	(912)	(81,455)	39
<u>95,781,463</u>	<u>35,016,926</u>	<u>130,798,389</u>	<u>971,468</u>
<u>\$ 94,905,088</u>	<u>\$ 37,371,790</u>	<u>\$ 132,276,878</u>	<u>\$ 924,563</u>

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2010 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	\$ 16,751,189	\$ 4,443,553	\$ 1,203,897	\$ 2,706,302	\$ 25,104,941
Short-Term Investments	78,551		17,997	167,918	264,466
Securities Lending Collateral			2,084,320		2,084,320
Receivables:					
Accounts	487,867	125,229	84,111	2,080	699,287
Taxes (Note 24)	2,303,494				2,303,494
Federal	2,427,098	317,239		11,354	2,755,691
Investment Trades	5		28,084	528	28,617
Other Intergovernmental	645,878	63,565			709,443
Interest and Dividends	8,524	11,020	78,007	12,751	110,302
Other (Note 1)	342,799			219	343,018
Due From Other Funds (Note 12)	108,356	240,864	32	81,159	430,411
Interfund Receivable (Note 12)	9,869			17	9,886
Inventories	186,509	112,616		440	299,565
Prepaid Items	156		6	5	167
Investments	11,100		23,244,022	998,206	24,253,328
Loans and Contracts	451,080	292,587	3,625	1,845,863	2,593,155
Other Assets		5,633		8,071	13,704
Restricted:					
Cash and Cash Equivalents	5,901			187,886	193,787
Loans and Contracts	338,589			713,802	1,052,391
Other Assets	761			90,817	91,578
Total Assets	\$ 24,157,726	\$ 5,612,306	\$ 26,744,101	\$ 6,827,418	\$ 63,341,551
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 3,443,410	\$ 815,609	\$ 6,061	\$ 87,640	\$ 4,352,720
Investment Trades	15		79,910	1,698	81,623
Other Intergovernmental	668,864				668,864
Tax Refunds (Note 24)	889,444				889,444
Payroll	553,042	94,899	1,566	7,036	656,543
Federal	288				288
Interest	18,692				18,692
Due To Other Funds (Note 12)	1,151,444	50,261	376	43,167	1,245,248
Due To Component Units (Note 12)	538				538
Interfund Payable (Note 12)	52			4,934	4,986
Deferred Revenues	981,620	3,244,106	76,809	428	4,302,963
Obligations/Reverse Repurchase Agreements	75,912				75,912
Obligations/Securities Lending			2,184,063		2,184,063
Other Liabilities	164,853	57,414		3,072	225,339
Short-Term Debt (Note 4)	7,800,000	65,000			7,865,000
Total Liabilities	15,748,174	4,327,289	2,348,785	147,975	22,572,223
Fund Balances/(Deficits):					
Reserved (Note 13)	5,459,299	589,604	24,395,316	3,207,913	33,652,132
Unreserved (Note 13):					
General	2,950,253				2,950,253
Special Revenue		695,413		2,647,486	3,342,899
Capital Projects				(203,972)	(203,972)
Permanent				1,028,016	1,028,016
Total Fund Balances	8,409,552	1,285,017	24,395,316	6,679,443	40,769,328
Total Liabilities and Fund Balances	\$ 24,157,726	\$ 5,612,306	\$ 26,744,101	\$ 6,827,418	\$ 63,341,551

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

August 31, 2010 (Amounts in Thousands)

Total Fund Balance – Governmental Funds \$ 40,769,328

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets less accumulated depreciation and amortization are included in the statement of net position (Note 2):

Capital Assets - Non-Depreciable or Non-Amortizable	\$ 60,748,171	
Capital Assets - Depreciable or Amortizable, Net	<u>11,670,386</u>	72,418,557

Some of the state's resources are not currently available and are not reported in the funds.

Net Pension Assets (Note 9)	4,576	
Deferred charges for unamortized bond issuance cost	39,918	
Derivative Instruments (Note 7)	<u>8,897</u>	53,391

Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds. 752,654

Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (Note 5 and Note 9)

Claims and Judgments	(156,490)	
Capital Lease Obligations	(14,501)	
Employees' Compensable Leave	(758,191)	
Notes and Loans Payable	(760,600)	
General Obligation Bonds Payable	(10,085,579)	
Revenue Bonds Payable	(5,620,060)	
Pollution Remediation Obligation	(327,090)	
Net Pension Obligation	<u>(1,179,725)</u>	(18,902,236) *

* current portion = \$1,166,695 and noncurrent portion = \$17,735,541

Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. These liabilities, however, are included in the statement of net position. (323,205)

The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 136,599

Net Position of Governmental Activities \$ 94,905,088

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	\$ 33,810,925	\$ 40,356	\$	\$ 2,016,365	\$ 35,867,646
Federal	39,742,696	2,676,700		63,484	42,482,880
Licenses, Fees and Permits	2,582,357	1,278,244		672,219	4,532,820
Interest and Other Investment Income	417,180	53,693	1,522,970	177,323	2,171,166
Land Income	17,445	6,409	360,521	15	384,390
Settlement of Claims	612,873	794			613,667
Sales of Goods and Services	1,550,622	208,231	49,544	7,919	1,816,316
Other	3,448,376	10,143	2	40,411	3,498,932
Total Revenues	<u>82,182,474</u>	<u>4,274,570</u>	<u>1,933,037</u>	<u>2,977,736</u>	<u>91,367,817</u>
EXPENDITURES					
Current:					
General Government	3,097,479	12,402		242,588	3,352,469
Education	26,417,992		74,367	838,656	27,331,015
Employee Benefits	1,721			13,424	15,145
Teacher Retirement Benefits	1,829,709				1,829,709
Health and Human Services	41,293,175	384		73,749	41,367,308
Public Safety and Corrections	5,341,480	568,455		95,828	6,005,763
Transportation	14,477	3,432,583		27,283	3,474,343
Natural Resources and Recreation	1,473,196			92,327	1,565,523
Regulatory Services	340,604			96,840	437,444
Capital Outlay	213,277	3,157,365	170	168,557	3,539,369
Debt Service:					
Principal	3,209	248		727,640	731,097
Interest	154,553			565,312	719,865
Other Financing Fees		13,241		27,525	40,766
Total Expenditures	<u>80,180,872</u>	<u>7,184,678</u>	<u>74,537</u>	<u>2,969,729</u>	<u>90,409,816</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>2,001,602</u>	<u>(2,910,108)</u>	<u>1,858,500</u>	<u>8,007</u>	<u>958,001</u>
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	6,452,719	2,532,927		2,479,070	11,464,716
Transfer Out (Note 12)	(9,277,867)	(410,827)	(60,700)	(6,237,113)	(15,986,507)
Bonds and Notes Issued	224,822	1,916,820		1,666,485	3,808,127
Bonds Issued for Refunding				385,077	385,077
Premiums on Bonds Issued				48,176	48,176
Payment to Escrow for Refunding				(214,417)	(214,417)
Sale of Capital Assets	9,874	4,532			14,406
Increase in Obligations Under Capital Leases	8,221	1,458			9,679
Insurance Recoveries	3,552	10,775		653	14,980
Total Other Financing Sources (Uses)	<u>(2,578,679)</u>	<u>4,055,685</u>	<u>(60,700)</u>	<u>(1,872,069)</u>	<u>(455,763)</u>
Net Change in Fund Balances	<u>(577,077)</u>	<u>1,145,577</u>	<u>1,797,800</u>	<u>(1,864,062)</u>	<u>502,238</u>
Fund Balances, September 1, 2009	8,966,412	139,440	22,597,516	8,538,156	40,241,524
Restatements (Note 14)	20,217			5,349	25,566
Fund Balances, September 1, 2009, as Restated	<u>8,986,629</u>	<u>139,440</u>	<u>22,597,516</u>	<u>8,543,505</u>	<u>40,267,090</u>
Fund Balances, August 31, 2010	<u>\$ 8,409,552</u>	<u>\$ 1,285,017</u>	<u>\$ 24,395,316</u>	<u>\$ 6,679,443</u>	<u>\$ 40,769,328</u>

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

Net Change in Fund Balances \$ 502,238

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:

Capital Outlay	\$ 3,539,369	
Depreciation Expense (Note 2)	(913,985)	
Amortization Expense (Note 2)	(29,059)	
	2,596,325	2,596,325

The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets. (14,406)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (1,580,098)

The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities. (145,885)

Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position. Repayment of long-term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net position.

Bonds and Notes Issued	(4,193,204)	
Premiums on Bond Proceeds	(48,176)	
Increase in Obligations Under Capital Leases	(9,680)	
Repayment of Bond and Capital Lease Principal	945,514	
	(3,305,546)	(3,305,546)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 1,070,878

Transfers of capital assets are not reported in the governmental funds. Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities.

Capital Asset Transfers	119	
Increase in Revenues	59	
Increase in Expenses	(30,104)	
Net Change in Transfers	30,045	
	119	119

Change in Net Position of Governmental Activities \$ (876,375)

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds		
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 3,728,495	\$ 613	\$ 57,269	\$ 272,626	\$ 4,059,003	\$ 42,526
Short-Term Investments	449,162			781,515	1,230,677	230,635
Securities Lending Collateral	546,076			154,978	701,054	10,923
Restricted:						
Cash and Cash Equivalents	889,731	32,854		1,372,959	2,295,544	
Short-Term Investments	609,924		206,211	40,758	856,893	
Loans and Contracts				75,188	75,188	
Receivables:						
Federal	656,217	73,452		7,799	737,468	221
Other Intergovernmental	40,204			3,674	43,878	
Accounts	1,180,937	215,607	41,704	12,075	1,450,323	98,523
Interest and Dividends	67,718			65,319	133,037	2,185
Gifts	162,012				162,012	
Investment Trades	118,740			251,282	370,022	
Other	313,458			2,669	316,127	
Due From Other Funds (Note 12)	829,740	6,833		13,537	850,110	318
Due From Component Units (Note 12)	58				58	
Interfund Receivable (Note 12)	20,245			169	20,414	
Inventories	110,689		9,570	8,560	128,819	
Prepaid Items	134,875		1,141	240	136,256	
Loans and Contracts	115,472			204,541	320,013	
Other Current Assets	327,948			368	328,316	
Total Current Assets	<u>10,301,701</u>	<u>329,359</u>	<u>315,895</u>	<u>3,268,257</u>	<u>14,215,212</u>	<u>385,331</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	187,100			19,826	206,926	
Short-Term Investments	16,661				16,661	
Investments	21,158,078		1,067,985	2,887,080	25,113,143	
Receivables	12,178			173,004	185,182	
Loans and Contracts	107,747			3,194,354	3,302,101	
Other				2,229	2,229	
Loans and Contracts	36,432			3,792,406	3,828,838	
Investments	4,940,869			(1,671)	4,939,198	408,918
Interfund Receivable (Note 12)	591,650			2,965	594,615	
Gifts Receivable	241,810				241,810	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	4,426,682			2,285,581	6,712,263	
Depreciable or Amortizable, Net	14,335,590		707	426,914	14,763,211	
Assets Held in Trust	362			2,943	3,305	
Deferred Charges	1,027			49,460	50,487	
Hedging Derivative Asset (Note 7)				4,618	4,618	
Other Noncurrent Assets	41,407			521	41,928	
Total Noncurrent Assets	<u>46,097,593</u>	<u>0</u>	<u>1,068,692</u>	<u>12,840,230</u>	<u>60,006,515</u>	<u>408,918</u>
Total Assets	<u>56,399,294</u>	<u>329,359</u>	<u>1,384,587</u>	<u>16,108,487</u>	<u>74,221,727</u>	<u>794,249</u>
DEFERRED OUTFLOWS						
Deferred Outflow of Resources (Note 7)	216,560			364,051	580,611	
Total Deferred Outflow of Resources	<u>216,560</u>	<u>0</u>	<u>0</u>	<u>364,051</u>	<u>580,611</u>	<u>0</u>
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,121,535	146,386	24,136	43,688	1,335,745	542,629
Payroll	687,861		1,796	3,435	693,092	
Other Intergovernmental	14,955				14,955	
Federal	92,666				92,666	
Investment Trades	153,483			261,846	415,329	
Interest	4,829			51,855	56,684	
Annuities			12,612		12,612	

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds		
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	\$ 23,419	\$	\$ 2,871	\$ 3,413	\$ 29,703	\$ 103,608
Interfund Payable (Note 12)	22,339				22,339	
Unearned Revenue	2,479,228	41,396		69,388	2,590,012	487
Obligations/Securities Lending	546,204			154,978	701,182	10,926
Claims and Judgments (Note 5)	16,583				16,583	
Capital Lease Obligations (Note 5, 8)	2,520			68	2,588	
Employees' Compensable Leave (Note 5)	329,326		1,256	2,481	333,063	
Notes and Loans Payable (Note 5)	636,634	1,356,699		11,500	2,004,833	
General Obligation Bonds Payable (Note 5, 6)	8,410			126,922	135,332	
Revenue Bonds Payable (Note 5, 6)	1,831,227			49,542	1,880,769	
Pollution Remediation Obligation (Note 5)	22				22	
Liabilities Payable From Restricted Assets (Note 5)			261,859	211,272	473,131	
Funds Held for Others	124,316			26	124,342	
Hedging Derivative Liability (Note 7)	7,467				7,467	
Other Current Liabilities	242,110		3,855	5,650	251,615	
Total Current Liabilities	8,345,134	1,544,481	308,385	996,064	11,194,064	657,650
Noncurrent Liabilities:						
Interfund Payable (Note 12)	597,564				597,564	
Claims and Judgments (Note 5)	50,951				50,951	
Capital Lease Obligations (Note 5, 8)	11,754				11,754	
Employees' Compensable Leave (Note 5)	343,348		958	1,048	345,354	
Notes and Loans Payable (Note 5)	90,715			1,007,013	1,097,728	
Liabilities Payable From Restricted Assets (Note 5)			963,180	2,122,960	3,086,140	
General Obligation Bonds Payable (Note 5, 6)	38,657			2,769,763	2,808,420	
Revenue Bonds Payable (Note 5, 6)	9,653,454			5,508,752	15,162,206	
Assets Held for Others	711,598			2,943	714,541	
Net OPEB Obligation (Note 11)	1,638,142				1,638,142	
Hedging Derivative Liability (Note 7)	209,093			364,051	573,144	
Other Noncurrent Liabilities	51,894			94,028	145,922	
Total Noncurrent Liabilities	13,397,170	0	964,138	11,870,558	26,231,866	0
Total Liabilities	21,742,304	1,544,481	1,272,523	12,866,622	37,425,930	657,650
DEFERRED INFLOWS						
Deferred Inflow of Resources (Note 7)				4,618	4,618	
Total Deferred Inflow of Resources	0	0	0	4,618	4,618	0
NET POSITION						
Invested in Capital Assets, Net of Related Debt	7,790,114		707	142,314	7,933,135	
Restricted for:						
Education	2,479,096				2,479,096	
Debt Retirement	57,021			303,776	360,797	
Capital Projects	470,655				470,655	
Veterans Land Board Housing Programs				684,672	684,672	
Funds Held as Permanent Investments:						
Nonexpendable	11,619,866				11,619,866	
Expendable	6,548,727				6,548,727	
Other		39,691	5,000	528	45,219	136,599
Unrestricted	5,908,071	(1,254,813)	106,357	2,470,008	7,229,623	
Total Net Position	\$34,873,550	\$(1,215,122)	\$ 112,064	\$3,601,298	\$37,371,790	\$ 136,599

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

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

** The unemployment trust fund and the lottery fund were previously presented in the combining statement of net assets – nonmajor enterprise funds.

*** Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds		
OPERATING REVENUES						
Lottery Collections	\$	\$	\$ 3,738,726	\$	\$ 3,738,726	\$
Tuition Revenue	42,553				42,553	
Tuition Revenue – Pledged	4,151,054				4,151,054	
Discounts and Allowances	(960,757)				(960,757)	
Hospital Revenue – Pledged	7,289,132				7,289,132	
Discounts and Allowances	(3,856,238)				(3,856,238)	
Professional Fees	3,919,742				3,919,742	
Professional Fees – Pledged	13,205				13,205	
Discounts and Allowances	(2,514,973)				(2,514,973)	
Auxiliary Enterprises	3,283				3,283	
Auxiliary Enterprises – Pledged	1,044,633			93,507	1,138,140	
Discounts and Allowances	(30,555)				(30,555)	
Unemployment Taxes		2,107,474			2,107,474	
Other Sales of Goods and Services	3,914			16,670	20,584	
Other Sales of Goods and Services – Pledged	637,868			104,037	741,905	
Discounts and Allowances	(26,491)				(26,491)	
Interest and Investment Income	1,637		1	331,877	333,515	
Interest and Investment Income – Pledged	167			101,533	101,700	
Federal Revenue	2,215,949	4,463,864		26,342	6,706,155	2,268
State Grant Revenue	31,283				31,283	
Premium Revenue						1,650,471
Other Operating Grant Revenue	524,155				524,155	
Other Operating Grant Revenue – Pledged	823,932				823,932	
Other Revenues	27,913	238,545	938	47,166	314,562	1,087
Other Revenues – Pledged	156,064			42	156,106	
Total Operating Revenues	<u>13,497,470</u>	<u>6,809,883</u>	<u>3,739,665</u>	<u>721,174</u>	<u>24,768,192</u>	<u>1,653,826</u>
OPERATING EXPENSES						
Cost of Goods Sold	145,848			68,660	214,508	
Salaries and Wages	9,789,151		17,263	43,636	9,850,050	4,938
Payroll Related Costs	2,217,325		4,280	10,247	2,231,852	1,252
Professional Fees and Services	828,254		4,181	82,293	914,728	364
Travel	268,628		315	544	269,487	35
Materials and Supplies	1,734,527		1,854	8,763	1,745,144	446
Communication and Utilities	630,320		742	2,048	633,110	174
Repairs and Maintenance	404,363		526	14,244	419,133	222
Rentals and Leases	213,561		4,869	2,972	221,402	437
Printing and Reproduction	64,408		14,516	231	79,155	22
Depreciation and Amortization	1,238,886		308	22,887	1,262,081	
Unemployment Benefit Payments		7,826,452			7,826,452	
Bad Debt Expense	9,330		309	321	9,960	
Interest Expense	655		12	321,281	321,948	
Scholarships	959,761				959,761	
Lottery Fees and Other Costs			297,545		297,545	
Lottery Prize Payments			2,300,183		2,300,183	
Employee/Participant Benefit Payments				12,365	12,365	1,828,422
Claims and Judgments	33,057				33,057	
Net Change in Pension/OPEB Obligations (Note 11)	577,244				577,244	
Other Expenses	1,112,515		34,724	105,187	1,252,426	228
Total Operating Expenses	<u>20,227,833</u>	<u>7,826,452</u>	<u>2,681,627</u>	<u>695,679</u>	<u>31,431,591</u>	<u>1,836,540</u>
Operating Income (Loss)	<u>(6,730,363)</u>	<u>(1,016,569)</u>	<u>1,058,038</u>	<u>25,495</u>	<u>(6,663,399)</u>	<u>(182,714)</u>

Concluded on the following page

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds		
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	\$ 808,797	\$	\$	\$ 182,457	\$ 991,254	\$
Gifts	411,061			87	411,148	
Gifts – Pledged	148,250				148,250	
Land Income	6,884			13	6,897	
Interest and Investment Income	2,689,916	123	55,539	125,088	2,870,666	36,609
Interest and Investment Income – Pledged	354,228				354,228	
Loan Premium and Fees on Securities Lending				419	419	121
Investing Activities Expense	(74,501)			(659)	(75,160)	
Interest Expense	(414,483)			(141,025)	(555,508)	
Borrower Rebates and Agent Fees	(3,969)			(155)	(4,124)	(59)
Settlement of Claims	1,384			2	1,386	158
Claims and Judgments	(1,739)			(9)	(1,748)	
Other Revenues	95,375			78	95,453	
Other Revenues – Pledged	34,671				34,671	
Other Expenses	(135,825)			(57,617)	(193,442)	
Total Nonoperating Revenues (Expenses)	<u>3,920,049</u>	<u>123</u>	<u>55,539</u>	<u>108,679</u>	<u>4,084,390</u>	<u>36,829</u>
Income (Loss) Before Capital Contributions, Endowments and Transfers	<u>(2,810,314)</u>	<u>(1,016,446)</u>	<u>1,113,577</u>	<u>134,174</u>	<u>(2,579,009)</u>	<u>(145,885)</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	1,083				1,083	
Capital Contributions – Other	275,967			28,500	304,467	
Contributions to Permanent and Term Endowments	136,577				136,577	
Transfer In (Note 12)	5,841,662	105,160		54,046	6,000,868	
Transfer Out (Note 12)	(391,552)		(1,063,085)	(54,485)	(1,509,122)	
Total Capital Contributions, Endowments and Transfers	<u>5,863,737</u>	<u>105,160</u>	<u>(1,063,085)</u>	<u>28,061</u>	<u>4,933,873</u>	<u>0</u>
Change in Net Position	<u>3,053,423</u>	<u>(911,286)</u>	<u>50,492</u>	<u>162,235</u>	<u>2,354,864</u>	<u>(145,885)</u>
Net Position, September 1, 2009	31,809,726	(303,836)	71,141	3,440,807	35,017,838	282,484
Restatements (Note 14)	10,401		(9,569)	(1,744)	(912)	
Net Position, September 1, 2009, as Restated	<u>31,820,127</u>	<u>(303,836)</u>	<u>61,572</u>	<u>3,439,063</u>	<u>35,016,926</u>	<u>282,484</u>
Net Position, August 31, 2010	<u>\$34,873,550</u>	<u>\$(1,215,122)</u>	<u>\$ 112,064</u>	<u>\$3,601,298</u>	<u>\$37,371,790</u>	<u>\$ 136,599</u>

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

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

** The unemployment trust fund and the lottery fund were previously presented in the combining statement of revenues, expenses and changes in fund net assets – nonmajor enterprise funds.

*** Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund**
	Colleges and Universities	Unemployment Trust Fund*	Lottery Fund*	Nonmajor Enterprise Funds		
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 5,082,721	\$ 2,018,345	\$ 3,752,845	\$ 214,924	\$ 11,068,835	\$ 419,234
Proceeds from Tuition and Fees	3,398,636				3,398,636	
Proceeds from Research Grants and Contracts	4,131,487	4,478,806			8,610,293	
Proceeds from Loan Programs	249,352			451,449	700,801	
Proceeds from Auxiliaries	995,639				995,639	
Proceeds from Other Revenues	703,868	211,481		100,574	1,015,923	1,266,444
Payments to Suppliers for Goods and Services	(5,773,237)		(360,256)	(209,105)	(6,342,598)	(2,071)
Payments to Employees	(11,929,091)		(21,544)	(54,836)	(12,005,471)	(6,912)
Payments for Loans Provided	(287,266)			(276,000)	(563,266)	
Payments for Unemployment Benefits		(7,882,758)			(7,882,758)	
Payments for Lottery Prizes			(2,341,447)		(2,341,447)	
Payments for Other Expenses	(991,884)			(212,959)	(1,204,843)	(1,780,521)
Net Cash Provided (Used) by Operating Activities	<u>(4,419,775)</u>	<u>(1,174,126)</u>	<u>1,029,598</u>	<u>14,047</u>	<u>(4,550,256)</u>	<u>(103,826)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				952,253	952,253	
Proceeds from State Appropriations	4,570,503			1,335	4,571,838	
Proceeds from Gifts	519,138				519,138	
Proceeds from Endowments	363,057				363,057	
Proceeds from Transfers from Other Funds	253,246	103,757		251,623	608,626	
Proceeds from Loan Programs		2,666,291			2,666,291	
Proceeds from Grant Receipts	585,819			180,570	766,389	
Proceeds from Interfund Payables				20,665	20,665	
Proceeds from Other Financing Activities	445,349		169,010	134,672	749,031	
Payments of Principal on Debt Issuance		(1,599,229)		(879,300)	(2,478,529)	
Payments of Interest	(72)			(330,847)	(330,919)	
Payments of Other Costs on Debt Issuance				(1,757)	(1,757)	
Payments for Transfers to Other Funds	(374,314)		(1,094,623)	(670,375)	(2,139,312)	
Payments for Grant Disbursements				(67,671)	(67,671)	
Payments for Interfund Receivables				(71,529)	(71,529)	
Payments for Other Uses	(85,298)		(180,521)	(386)	(266,205)	(97)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>6,277,428</u>	<u>1,170,819</u>	<u>(1,106,134)</u>	<u>(480,747)</u>	<u>5,861,366</u>	<u>(97)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	6,299				6,299	
Proceeds from Debt Issuance	3,479,019				3,479,019	
Proceeds from State Grants and Contracts	34,894			1,227	36,121	
Proceeds from Federal Grants and Contracts	195				195	
Proceeds from Gifts	14,318				14,318	
Proceeds from Other Financing Activities	105,954			218	106,172	
Proceeds from Capital Contributions	328,197			27,762	355,959	
Proceeds from Interfund Payables	70,156				70,156	
Payments for Additions to Capital Assets	(3,015,559)		(256)	(21,633)	(3,037,448)	
Payments of Principal on Debt Issuance	(2,083,257)			(375)	(2,083,632)	
Payments for Capital Leases	(362)				(362)	
Payments of Interest on Debt Issuance	(432,186)			(64,115)	(496,301)	
Payments of Other Costs on Debt Issuance	(99,664)			(5)	(99,669)	
Net Cash Used by Capital and Related Financing Activities	<u>(1,591,996)</u>	<u>0</u>	<u>(256)</u>	<u>(56,921)</u>	<u>(1,649,173)</u>	<u>0</u>

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds				Totals	Governmental Activities – Internal Service Fund**
	Colleges and Universities	Unemployment Trust Fund*	Lottery Fund*	Nonmajor Enterprise Funds		
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	\$ 16,795,441	\$ 565	\$ 180,521	\$ 6,100,993	\$ 23,076,955	\$ 132,100
Proceeds from Interest and Investment Income	847,980	565		312,729	1,161,274	
Proceeds from Principal Payments on Loans				554,633	554,633	
Payments for Nonprogram Loans Provided				(400,054)	(400,054)	
Payments to Acquire Investments	(17,655,710)		(170,249)	(5,552,306)	(23,378,265)	
Net Cash Provided (Used) by Investing Activities	(12,289)	565	10,272	1,015,995	1,014,543	132,100
Net Increase (Decrease) in Cash and Cash Equivalents	253,368	(2,742)	(66,520)	492,374	676,480	28,177
Cash and Cash Equivalents, September 1, 2009	4,551,633	36,209	123,789	1,189,238	5,900,869	14,349
Restatements	325			(16,201)	(15,876)	
Cash and Cash Equivalents, September 1, 2009, as Restated	4,551,958	36,209	123,789	1,173,037	5,884,993	14,349
Cash and Cash Equivalents, August 31, 2010	\$ 4,805,326	\$ 33,467	\$ 57,269	\$ 1,665,411	\$ 6,561,473	\$ 42,526
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (6,730,363)	\$ (1,016,569)	\$ 1,058,038	\$ 25,495	\$ (6,663,399)	\$ (182,714)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	1,238,886		308	22,887	1,262,081	
Bad Debt Expense	298,974		309	321	299,604	
Operating Income (Loss) and Cash Flow Categories Classification Differences	446,809			28,235	475,044	(436)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(510,335)	(90,262)	13,179	3,110	(584,308)	15,672
(Increase) Decrease in Due From Other Funds	306				306	878
(Increase) Decrease in Inventories	(553)		212	551	210	
(Increase) Decrease in Notes Receivable	633				633	
(Increase) Decrease in Loans and Contracts	(770)			66,567	65,797	
(Increase) Decrease in Other Assets	24,403		1,970	2,957	29,330	
(Increase) Decrease in Prepaid Expenses	(16,616)			13	(16,603)	
Increase (Decrease) in Payables	2,055	(55,204)	(44,418)	(121,186)	(218,753)	47,879
Increase (Decrease) in Deposits	4,956				4,956	
Increase (Decrease) in Due To Other Funds	(11,144)			12,192	1,048	14,811
Increase (Decrease) in Unearned Revenue	226,321	(12,091)		(1,585)	212,645	84
Increase (Decrease) in Compensated Absence Liability	14,486			(6)	14,480	
Increase (Decrease) in Benefits Payable	587,763				587,763	
Increase (Decrease) in Other Liabilities	4,414			(25,504)	(21,090)	
Total Adjustments	2,310,588	(157,557)	(28,440)	(11,448)	2,113,143	78,888
Net Cash Provided (Used) by Operating Activities	\$ (4,419,775)	\$ (1,174,126)	\$ 1,029,598	\$ 14,047	\$ (4,550,256)	\$ (103,826)
NONCASH TRANSACTIONS						
Net Change in Fair Value of Investments	\$ 1,415,470	\$	\$ 55,538	\$ 104,613	\$ 1,575,621	\$ 20,789
Donation of Capital Assets	\$ 57,449	\$	\$	\$ 365	\$ 57,814	\$
Borrowing Under Capital Lease Purchase	\$ 3,003	\$	\$	\$	\$ 3,003	\$
Other	\$ 74,100	\$	\$	\$ 33,591	\$ 107,691	\$

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

* The unemployment trust fund and the lottery fund were previously presented in the combining statement of cash flows – nonmajor enterprise funds.

** Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

Statement of Fiduciary Net Position

August 31, 2010 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	\$ 7,840,235	\$	\$ 323,827	\$ 1,267,359
Restricted Cash and Cash Equivalents			372	
Securities Lending Collateral	24,022,229			
Investments:				
U.S. Government	22,856,908	5,646,129	20,744	201,227
Corporate Equity	28,605,161		47,805	205,438
Corporate Obligations	2,925,437	553,438	28,596	140
Repurchase Agreements	213,530	8,692,145		35,034
Foreign Securities	26,205,653		192,797	
Externally Managed Investments	21,380,572		277,900	
Other	7,127,688		1,636,917	40,772
Receivables:				
Interest and Dividends	301,563	6,667	2,759	573
Accounts	274,295		541	7,222
Other Intergovernmental				2,230
Investment Trades	182,203		1,629	
Other	422		4,250	6
Due From Other Funds (Note 12)	151,922			192
Properties, at Cost, Net of Accumulated Depreciation or Amortization	41,701		920	
Other Assets	250		80,950	1,819,984
Total Assets	142,129,769	14,898,379	2,620,007	3,580,177
LIABILITIES				
Payables:				
Accounts	\$ 299,298	\$ 3,246	\$ 16,859	\$ 814
Investment Trades	148,061	259,960	3,828	
Payroll	4,086			
Other Intergovernmental				746,033
Interest			27	
Annuities	578,215			
Due To Other Funds (Note 12)	25,837		13	28,544
Interfund Payable (Note 12)				26
Unearned Revenue	23,648		156	
Employees' Compensable Leave	7,839			
Obligations/Securities Lending	24,002,548			
Funds Held for Others			80,950	2,804,750
Other Liabilities	2,363	660	178	10
Total Liabilities	25,091,895	263,866	102,011	3,580,177
NET POSITION				
Held in Trust for:				
Pension Benefits and Other Purposes	117,037,874			
Individuals, Organizations and Other Governments			2,517,996	
Pool Participants		14,634,513		
Total Net Position	\$ 117,037,874	\$ 14,634,513	\$ 2,517,996	\$ 0

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

* The activity of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) is reported as an external investment trust fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private- Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	\$ 2,803,814	\$	\$
State Contributions	2,747,620		
Premium Contributions	821,611		
Federal Contributions	111,783		3,426
Other Contributions	720,083		115,569
Total Contributions	<u>7,204,911</u>	<u>0</u>	<u>118,995</u>
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	8,275,497		94,054
Interest and Investment Income	2,454,723	46,594	54,373
Total Investing Income	<u>10,730,220</u>	<u>46,594</u>	<u>148,427</u>
Less Investing Activities Expense	161,332	8,911	1,252
Net Income from Investing Activities	<u>10,568,888</u>	<u>37,683</u>	<u>147,175</u>
From Securities Lending Activities:			
Securities Lending Income	170,831		
Less Securities Lending Expense:			
Borrower Rebates	39,271		
Management Fees	17,338		
Net Income from Securities Lending	<u>114,222</u>	<u>0</u>	<u>0</u>
Total Net Investment Income	<u>10,683,110</u>	<u>37,683</u>	<u>147,175</u>
Capital Share and Individual Account Transactions:			
Net Decrease in Participant Investments	<u>0</u>	<u>(1,723,922)</u>	<u>0</u>
Other Additions:			
Settlement of Claims	56		4,850
Other Revenue	3,349		270,214
Transfer In (Note 12)	103,090		
Total Other Additions	<u>106,495</u>	<u>0</u>	<u>275,064</u>
Total Additions	<u>17,994,516</u>	<u>(1,686,239)</u>	<u>541,234</u>
DEDUCTIONS			
Benefits	9,942,363		85,071
Refunds of Contributions	330,801		
Transfer Out (Note 12)	72,985		60
Intergovernmental Payments			51,418
Administrative Expenses	52,974		6,664
Depreciation and Amortization Expense	2,402		39
Settlement of Claims			69,228
Interest Expense	47		7
Loss on Sale of Properties	33		
Other Expenses	3,566		138,863
Total Deductions	<u>10,405,171</u>	<u>0</u>	<u>351,350</u>
INCREASE (DECREASE) IN NET POSITION	<u>7,589,345</u>	<u>(1,686,239)</u>	<u>189,884</u>
NET POSITION			
Net Position, September 1, 2009	<u>109,448,529</u>	<u>16,320,752</u>	<u>2,328,112</u>
Net Position, August 31, 2010	<u>\$ 117,037,874</u>	<u>\$ 14,634,513</u>	<u>\$ 2,517,996</u>

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

* The activity of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) is reported as an external investment trust fund. Combining statements are not presented.

State of Texas
Notes to Financial Statements

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Note 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying financial statements of the state of Texas were prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

The state implemented the following GASB statements in fiscal 2010.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets are applied to these intangible assets, as applicable. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. GASB 51 also provides guidance on recognizing the costs of internally generated computer software as an intangible asset. Retroactive reporting is required except for intangible assets with indefinite useful lives or those that were internally generated prior to the effective date of the statement. The state chose not to retroactively report internally generated intangible assets and intangible assets with indefinite useful lives.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the rec-

ognition, measurement and disclosure of information pertaining to derivative instruments by state and local governments. It requires governments to measure most derivative instruments at fair value in the government-wide, proprietary and fiduciary fund statements of net position. If derivatives are recognized in the financial statements, consideration of hedge accounting is necessary.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas includes all funds, agencies, boards, commissions, authorities, institutions of higher education and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services.

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

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include government-wide financial statements and fund financial statements.

The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net position and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units) as well as its discretely presented component units. In the statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on an accrual basis, economic resources measurement focus, which incorporates noncurrent investments, capital assets and long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety and corrections, transportation, etc.), which is otherwise supported by general government revenues (sales and use taxes, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, which include depreciation and amortization, to present the net cost of each program. Program revenues are directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses are charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses.

Program revenues include charges for services; operating grants and contributions; and capital grants

and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while capital grants reflect capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and agency). The assets of fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources and how the state's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, governmental activities column, a reconciliation is presented. The reconciliation explains the adjustments required to restate the fund-based financial statements for the government-wide financial statements' governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for specific revenue proceeds legally restricted for specific purposes. Debt service funds account for the accumulation of resources and the payment of general long-term debt principal and interest. Capital projects funds account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities other than those

financed by proprietary or similar trust funds. Permanent funds are used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** includes transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity;
- Laws or regulations require the activity's costs of providing services, including capital costs (such

as depreciation, amortization or debt service), be recovered with fees and charges; or

- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds are used to report any activity that provides goods or services, on a cost reimbursement basis, to other funds, departments or agencies of the reporting entity or other governments. The employees life, accident and health insurance benefits fund accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

The state's major enterprise funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University and Texas State Technical College. These institutions of higher education are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

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

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

Fiduciary Fund Types

Fiduciary funds account for assets held in either a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. When assets are held under the terms of a for-

mal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans.

External investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments. These trusts include tobacco settlement money, reserve for insurance company liquidations, relief of catastrophic insurance losses, contributions of prison inmates, educational savings plans and others.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments. Agency funds include those funds established to account for the collection of sales and use tax for distribution to localities, bond escrow funds, deposits of insurance carriers, child support collections and other miscellaneous accounts.

Component Units

All component units of the state of Texas are reported as nonmajor component units. The combining statement of net position – component units and the combining statement of activities – component units are presented for all discrete component units.

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

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting entity, both current and noncurrent, are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. The state of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, a receivable not expected to be collected within 60 days is not available to liquidate the liabilities of the current period and will be reported as deferred revenue.

Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

Under the accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than as expenditures.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, depreciation and amortization on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than management discussion and analysis (MD&A) section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budget-

ary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and all other nonmajor special revenue funds listed in other supplementary information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the federal and state treasuries and cash equivalents. Cash in local banks is primarily held by special revenue funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through

consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities.

Receivables and Payables

The major receivables for governmental activities and business-type activities are taxes and federal, respectively. Receivables represent amounts due to the state at Aug. 31, 2010, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as current and amounts expected to be collected beyond the next fiscal year are classified as noncurrent. All receivables are recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2010 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as deferred revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 24 for details on taxes receivable and tax refunds payable.

Other receivables consist primarily of health care assistance and supplemental nutrition assistance program receivables in the general fund and receivables from private sponsored programs in the colleges and universities fund. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as due from or due to other funds. Any residual balances

between governmental and business-type activities are reported in the government-wide financial statements as “internal balances.”

Noncurrent interfund receivables between funds, as shown in Note 12, are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Investment trade receivables are reported for sales of investments pending settlement. Investment trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The costs of these items are expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, trust funds and government-wide financial statements. The capitalization threshold and the estimated useful

life of the assets vary depending upon the asset type. Note 2 includes a table identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state’s depreciation/amortization policy and other detailed information.

The state adopted the modified approach to report infrastructure assets. This approach reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state’s system of highways are included in the required supplementary information other than MD&A section of this report.

Long-Term Liabilities

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

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

In the government-wide financial statements and proprietary fund financial statements, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line, bonds outstanding or effective interest method. Bonds payable

are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

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

Employees' Compensable Leave Balances

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

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

each employee because it may be used like compensatory time or be paid.

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

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

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 8 provides details for capital lease obligations.

Deferred Inflows and Deferred Outflows

Changes in fair values of hedging derivative assets and liabilities are reported as deferred inflows and deferred outflows. Note 7 presents additional information about derivative instruments.

Net Position and Fund Balances

The state reports restricted net position when constraints placed on resources are (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed.

Invested in capital assets, net of related debt, consists of capital assets including restricted capital assets, net of accumulated depreciation/amortization and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

Fund balances for governmental funds are classified as reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are either funds legally segregated for a specific use or assets that, by their nature, are not available for expenditure. Unre-

served fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years. Note 13 presents disaggregated fund balances.

Interfund Activity and Transactions – Government-wide Financial Statements

The terms and definitions for interfund activity and requirements for reporting transfers are as follows.

Interfund Activity: As a general rule, the effect of interfund activity is eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds is reclassified and reported as external activity.

Interfund payables and receivables are eliminated from the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. Interfund activities between the primary government and component units with a different year end are limited and immaterial. Note 12 provides details of interfund activities and transactions.

Interfund Transactions: Interfund transactions with discretely presented component units are reclassified and reported as external activity.

Risk Financing

The state maintains a combination of commercial insurance and self-insurance programs. The state is self-insured for workers' compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The group insurance programs are

provided through a combination of insurance contracts, self-funded health plans and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. For additional information, see Note 17.

Note 2

Capital Assets

Capital assets, which include land, infrastructure, buildings, equipment and intangible assets, of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. The capitalization thresholds and useful lives of the state's various categories of capital assets are as follows.

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

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Depreciation or amortization is reported on all “exhaustible” assets. “Inexhaustible assets,” such as works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered “exhaustible” assets and are depreciated. Intangible assets with determinable useful lives are amortized. Donated assets are reported at fair value on the acquisition date. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The state's capitalization policy regarding works of art and historical treasures is that capitalization is encouraged, but not required, for works of art and historical treasures that meet certain conditions. Works of art and historical treasures held for public exhibition, education or research in furtherance of public service, rather than for financial gain; protected, kept unencumbered, cared for and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection are not required to be capitalized. Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 35 million records dating back to 1720, including approximately 80 thousand maps, sketches and plat maps.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/10
	Balance 9/1/09	Adjustments	Reclassifications	Additions	Deletions	
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 8,125,334	\$ (112,666)	\$ 1,779	\$ 285,174	\$ (2,928)	\$ 8,296,693
Infrastructure	45,859,510	120,368	1,723,418	452,325		48,155,621
Construction in Progress	4,206,962	(6,930)	(2,553,276)	2,561,371		4,208,127
Other Capital Assets	181,301	(154,959)		24		26,366
Land Use Rights – Permanent		53,539		7,841	(16)	61,364
Total Non-Depreciable & Non-Amortizable Assets	<u>58,373,107</u>	<u>(100,648)</u>	<u>(828,079)</u>	<u>3,306,735</u>	<u>(2,944)</u>	<u>60,748,171</u>
Depreciable Assets						
Buildings and Building Improvements	5,397,191	5,893	100,341	19,510	(13,149)	5,509,786
Infrastructure	18,564,924	(120,368)	716,932	3,163	(130,593)	19,034,058
Facilities and Other Improvements	212,653	(144)	2,483	424	(175)	215,241
Furniture and Equipment	1,122,367	(247,831)	2,308	96,599	(47,178)	926,265
Vehicles, Boats and Aircraft	981,578	(398)	37	77,036	(55,160)	1,003,093
Other Capital Assets	133,320	(41)	3,527	3,489	(1,680)	138,615
Total Depreciable Assets at Historical Cost	<u>26,412,033</u>	<u>(362,889)</u>	<u>825,628</u>	<u>200,221</u>	<u>(247,935)</u>	<u>26,827,058</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,960,340)	6,291		(174,284)	6,198	(3,122,135)
Infrastructure	(10,230,010)	64,597		(596,944)	114,386	(10,647,971)
Facilities and Other Improvements	(129,401)			(7,678)	175	(136,904)
Furniture and Equipment	(884,992)	204,729	161	(63,333)	45,788	(697,647)
Vehicles, Boats and Aircraft	(578,992)	(72)	7	(64,851)	47,554	(596,354)
Other Capital Assets	(54,430)	397		(6,895)	1,053	(59,875)
Total Accumulated Depreciation*	<u>(14,838,165)</u>	<u>275,942</u>	<u>168</u>	<u>(913,985)</u>	<u>215,154</u>	<u>(15,260,886)</u>
Depreciable Assets, Net	<u>11,573,868</u>	<u>(86,947)</u>	<u>825,796</u>	<u>(713,764)</u>	<u>(32,781)</u>	<u>11,566,172</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term		31,450		3,833	(13,087)	22,196
Computer Software – Intangible		252,216	2,420	51,156	(8,843)	296,949
Other Intangible Capital Assets – Term				15,170		15,170
Total Intangible Assets at Historical Cost	<u>0</u>	<u>283,666</u>	<u>2,420</u>	<u>70,159</u>	<u>(21,930)</u>	<u>334,315</u>
Less Accumulated Amortization for:						
Land Use Rights – Term		(12,299)		(4,348)	12,072	(4,575)
Computer Software – Intangible		(209,508)	(18)	(24,584)	8,711	(225,399)
Other Intangible Capital Assets – Term				(127)		(127)
Total Accumulated Amortization*	<u>0</u>	<u>(221,807)</u>	<u>(18)</u>	<u>(29,059)</u>	<u>20,783</u>	<u>(230,101)</u>
Amortizable Assets, Net	<u>0</u>	<u>61,859</u>	<u>2,402</u>	<u>41,100</u>	<u>(1,147)</u>	<u>104,214</u>
Governmental Activities Capital Assets, Net	<u>\$ 69,946,975</u>	<u>\$ (125,736)</u>	<u>\$ 119</u>	<u>\$ 2,634,071</u>	<u>\$ (36,872)</u>	<u>\$ 72,418,557</u>

* Depreciation and amortization expense was charged to governmental activities as follows:

General Government	\$ 52,947
Education	4,535
Employee Benefits	4
Health and Human Services	39,716
Public Safety and Corrections	165,137
Transportation	648,889
Natural Resources and Recreation	29,012
Regulatory Services	2,804
Total	<u>\$ 943,044</u>

Continued on the following page

The table above and on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal

2010. The adjustment column includes assets not previously reported, accounting errors and other changes. The reclassifications column presents completed construction

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/10
	Balance 9/1/09	Adjustments	Reclassifications	Additions	Deletions	
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 1,477,108	\$ (10,442)	\$ 1,294	\$ 48,381	\$ (13,126)	\$ 1,503,215
Infrastructure	1,622,486	(11,376)	18,318			1,629,428
Construction in Progress	2,639,472	(136,568)	(1,627,227)	2,299,953	(93)	3,175,537
Other Capital Assets	354,408	(11)		33,525	(3,588)	384,334
Land Use Rights – Permanent		19,718		31		19,749
Total Non-Depreciable & Non-Amortizable Assets	<u>6,093,474</u>	<u>(138,679)</u>	<u>(1,607,615)</u>	<u>2,381,890</u>	<u>(16,807)</u>	<u>6,712,263</u>
Depreciable Assets						
Buildings and Building Improvements	17,780,287	158,259	1,376,100	183,678	(58,482)	19,439,842
Infrastructure	1,190,390	9,341	39,275	3,947	(2,154)	1,240,799
Facilities and Other Improvements	1,312,757	(30,201)	118,018	17,718	(5,291)	1,413,001
Furniture and Equipment	4,186,088	(622,727)	15,170	396,096	(155,888)	3,818,739
Vehicles, Boats and Aircraft	215,159	(490)	37	17,107	(7,314)	224,499
Other Capital Assets	1,315,100	1,973	12,436	70,088	(20,597)	1,379,000
Total Depreciable Assets at Historical Cost	<u>25,999,781</u>	<u>(483,845)</u>	<u>1,561,036</u>	<u>688,634</u>	<u>(249,726)</u>	<u>27,515,880</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(7,701,584)	(27,055)		(685,334)	32,910	(8,381,063)
Infrastructure	(471,232)	(648)		(41,028)	2	(512,906)
Facilities and Other Improvements	(545,615)	13,680		(46,576)	219	(578,292)
Furniture and Equipment	(2,762,978)	430,697	(31)	(317,620)	137,653	(2,512,279)
Vehicles, Boats and Aircraft	(148,577)	344	(19)	(17,729)	6,805	(159,176)
Other Capital Assets	(829,996)	(826)		(59,658)	17,007	(873,473)
Total Accumulated Depreciation**	<u>(12,459,982)</u>	<u>416,192</u>	<u>(50)</u>	<u>(1,167,945)</u>	<u>194,596</u>	<u>(13,017,189)</u>
Depreciable Assets, Net	<u>13,539,799</u>	<u>(67,653)</u>	<u>1,560,986</u>	<u>(479,311)</u>	<u>(55,130)</u>	<u>14,498,691</u>
Intangible Capital Assets – Amortizable						
Land Use Rights – Term		255		255	(255)	255
Computer Software – Intangible		633,085	46,502	124,517	(12,827)	791,277
Total Intangible Assets at Historical Cost	<u>0</u>	<u>633,340</u>	<u>46,502</u>	<u>124,772</u>	<u>(13,082)</u>	<u>791,532</u>
Less Accumulated Amortization for:						
Land Use Rights – Term		(242)		(25)	255	(12)
Computer Software – Intangible		(442,928)	8	(93,380)	9,300	(527,000)
Total Accumulated Amortization**	<u>0</u>	<u>(443,170)</u>	<u>8</u>	<u>(93,405)</u>	<u>9,555</u>	<u>(527,012)</u>
Amortizable Assets, Net	<u>0</u>	<u>190,170</u>	<u>46,510</u>	<u>31,367</u>	<u>(3,527)</u>	<u>264,520</u>
Business-Type Activities Capital Assets, Net	<u>\$ 19,633,273</u>	<u>\$ (16,162)</u>	<u>\$ (119)</u>	<u>\$ 1,933,946</u>	<u>\$ (75,464)</u>	<u>\$ 21,475,474</u>

** Depreciation and amortization expense was charged to business-type activities as follows:

Education	\$ 1,238,886
Transportation	17,409
Lottery	308
Other Business-Type Activities	4,747
Total	<u>\$ 1,261,350</u>

Concluded on the following page

projects and transfers of capital assets between agencies. The additions column includes current year purchases, depreciation and amortization. The deletions column presents assets removed during the current fiscal year.

The state implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in fiscal 2010. The state began capitalizing the costs of purchased computer software several years ago and, as

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	PRIMARY GOVERNMENT					Balance 8/31/10
	Balance 9/1/09	Adjustments	Reclassifications	Additions	Deletions	
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	\$ 3,701	\$	\$	\$ 505	\$	\$ 4,206
Construction in Progress	227	(46)		3,587		3,768
Total Non-Depreciable & Non-Amortizable Assets	<u>3,928</u>	<u>(46)</u>	<u>0</u>	<u>4,092</u>	<u>0</u>	<u>7,974</u>
Depreciable Assets						
Buildings and Building Improvements	41,509	2		3,234		44,745
Infrastructure				15		15
Facilities and Other Improvements	442			18	(11)	449
Furniture and Equipment	43,367	(8,809)		2,630	(444)	36,744
Vehicles, Boats and Aircraft	16,615				(2,841)	13,774
Other Capital Assets	2	(2)				
Total Depreciable Assets at Historical Cost	<u>101,935</u>	<u>(8,809)</u>	<u>0</u>	<u>5,897</u>	<u>(3,296)</u>	<u>95,727</u>
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(9,428)	(854)		(895)		(11,177)
Infrastructure						
Facilities and Other Improvements	(41)			(305)		(346)
Furniture and Equipment	(24,129)	7,598		(3,624)	365	(19,790)
Vehicles, Boats and Aircraft	(12,201)	(8)		(7)	2,004	(10,212)
Other Capital Assets	(2)	2				
Total Accumulated Depreciation	<u>(45,801)</u>	<u>6,738</u>	<u>0</u>	<u>(4,831)</u>	<u>2,369</u>	<u>(41,525)</u>
Depreciable Assets, Net	<u>56,134</u>	<u>(2,071)</u>	<u>0</u>	<u>1,066</u>	<u>(927)</u>	<u>54,202</u>
Intangible Capital Assets – Amortizable						
Computer Software – Intangible		8,883		3,401		12,284
Total Intangible Assets at Historical Cost	<u>0</u>	<u>8,883</u>	<u>0</u>	<u>3,401</u>	<u>0</u>	<u>12,284</u>
Less Accumulated Amortization for:						
Computer Software – Intangible		(6,812)		(1,249)		(8,061)
Total Accumulated Amortization	<u>0</u>	<u>(6,812)</u>	<u>0</u>	<u>(1,249)</u>	<u>0</u>	<u>(8,061)</u>
Amortizable Assets, Net	<u>0</u>	<u>2,071</u>	<u>0</u>	<u>2,152</u>	<u>0</u>	<u>4,223</u>
Component Units Capital Assets, Net	<u>\$ 60,062</u>	<u>\$ (46)</u>	<u>\$ 0</u>	<u>\$ 7,310</u>	<u>\$ (927)</u>	<u>\$ 66,399</u>

a result, there was not a significant amount of restatement needed for GASB 51. Computer software was previously included as part of the furniture and equipment category of assets. The movement of computer software out of furniture and equipment and into the computer software category is shown as adjustments

on the table. A similar procedure was needed to reclassify easements from land and land improvements to land use rights. Computer software, land use rights and a category for other intangible assets were added to the summary of changes in capital asset activity table.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

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

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2010. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units, public employee retirement systems and institutions of higher education are authorized to invest funds not deposited with the Treasury. At Aug. 31, 2010, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported over 80 percent of the total investment fair value. TRS, PSF, ERS and UT make investments following the "prudent investor rule." Authorized investments

include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all U.S. Treasury obligations, most federal agency obligations and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2010 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loan institutions. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

External Investment Pool

The activity of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) is reported as an external investment trust fund. Separate audited financial statements for this activity may be obtained from the Trust Company.

Deposits

At Aug. 31, 2010, the carrying amount of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1 billion, \$175.5 million and \$91.9 million, respectively.

These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net position as part of the “Cash and Cash Equivalents,” “Securities Lending Collateral” and “Investments” accounts. At Aug. 31, 2010, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was \$1.1 billion, \$173.1 million and \$113.5 million, respectively.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing custodial credit risk. The state’s securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. At Aug. 31, 2010, the bank balances exposed to custodial credit risk are as follows.

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
Bank Balances Exposed to Custodial Credit Risk		
August 31, 2010 (Amounts in Thousands)		
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	\$ 2,170	\$ 0
Total Governmental Activities	<u>2,170</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	391	100,726
Other Nonmajor Funds	925	
Total Business-Type Activities	<u>1,316</u>	<u>100,726</u>
Total Governmental and Business-Type Activities	<u>\$ 3,486</u>	<u>\$ 100,726</u>
FIDUCIARY	<u>\$ 85,844</u>	<u>\$ 0</u>
COMPONENT UNITS	<u>\$ 1,267</u>	<u>\$ 0</u>

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. At Aug. 31, 2010, the bank balances exposed to foreign currency risk are as follows.

	Governmental and Business-Type Activities	Pension and Other Employee Benefit Trust Funds	Component Units
Bank Balances Exposed to Foreign Currency Risk			
August 31, 2010 (Amounts in Thousands)			
Australian Dollar	\$ 270	\$ 2,336	\$
Botswana Pula		31	
Brazilian Real	52	1,984	
Canadian Dollar	26	4,018	
Chilean Peso		160	
Costa Rica Colones			18
Colombian Peso		19	
Croatian Kuna		149	
Czech Koruna		293	
Danish Krone		113	
Egyptian Pound		239	
Euro	58	6,818	
Hong Kong Dollar	8	4,816	
Hungarian Forint		130	
Indian Rupee		323	
Indonesian Rupiah		279	
Japanese Yen	50	5,665	
Jordanian Dinar		37	
Kenyan Shilling		65	
Malaysian Ringgit	42	359	
Mauritius Rupee		35	
Mexican Peso	39	60	
Moroccan Dirham		68	
New Israeli Shekel		11	
New Taiwan Dollar	1,634	25,123	
New Turkish Lira		111	
New Zealand Dollar		13	
Nigerian Naira		74	
Norwegian Krone		77	
Pakistani Rupee		181	
Peruvian Nuevo Sol		90	
Philippine Peso		36	
Polish Zloty		242	
Pound Sterling		2,247	
Qatar Riyal	334		
Singapore Dollar	1	353	
South African Rand		554	
South Korean Won	132	1,071	
Swedish Krona		820	
Swiss Franc		1,143	
Thai Baht		440	
Total	<u>\$ 2,646</u>	<u>\$ 60,583</u>	<u>\$ 18</u>

Investment Fair Value

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type		Component Units
	Activities	Fiduciary	
U.S. Treasury	\$ 15,928,357	\$ 14,865,920	\$ 330,846
U.S. Treasury Strips	304,736	29,245	
U.S. Treasury TIPS	250,184	8,020,309	
U.S. Government Agency	9,531,905	6,780,536	599,447
Corporate Obligations	2,900,650	1,959,254	109,392
Corporate Asset and Mortgage Backed	2,158,597	4,304,409	247,473
Corporate Equity	11,776,567	28,852,125	
International Obligations	1,466,118	182,855	362
International Equity	2,735,823	26,024,998	
International Other Commingled Funds	492,953	2,370,047	
Repurchase Agreements	5,371,926	11,814,544	77,324
Fixed Income and Bond Mutual Fund	4,172,918	1,790,102	29,941
Other Mutual Funds	2,496,497	815,070	33,200
Other Commingled Funds	2,414,738	2,231,666	77,174
Commercial Paper	1,733,293	1,172,799	18,842
Invested Collateral	2,563,608	24,022,229	
Securities Lending Collateral Investment Pool	232,690		
Real Estate	953,379	365,251	
Derivatives	32,209	(124,132)	
Externally Managed Investments	21,556,870	21,658,472	
Other Investments	2,339,296	3,116,334	43,210
Total Investments	\$ 91,413,314	\$ 160,252,033	\$ 1,567,211

Investments in money market investments are reported at amortized cost, which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less may also be reported at amortized cost, provided the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The investments at Aug. 31, 2010, are shown in the table to the left.

TRS, PSF, ERS and UT participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the

Investments

The fair value of the investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings, on prices from fixed income pricing services or external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

individual entity. Additional information about the securities lending activity is disclosed in the "Securities Lending" section of this note. At Aug. 31, 2010, the investment type balances for the invested securities lending cash collateral is as follows.

Invested Securities Lending Collateral Fair Value

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type	
	Activities	Fiduciary
U.S. Treasury	\$ 8,536	\$ 151,316
U.S. Government Agency	776	13,763
Corporate Obligations	7,471	679,973
Corporate Asset and Mortgage Backed	20,027	5,205,209
Corporate Equity		98,905
International Obligations	28,328	
International Equity		107,039
Repurchase Agreements	2,400,938	5,272,629
Commercial Paper	77,224	1,580,113
Real Estate		21,192
Other Investments	20,308	10,892,090
Total Investments	\$ 2,563,608	\$ 24,022,229

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities in the possession of an outside party will not be recovered. There is no formal investment policy

for managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

At Aug. 31, 2010, the investments exposed to custodial credit risk are as follows.

	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent but Not in the State's Name
Investments Exposed to Custodial Credit Risk		
August 31, 2010 (Amounts in Thousands)		
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Asset and Mortgage Backed Repurchase Agreements	\$ 20,027	\$
	<u>2,064,293</u>	<u>0</u>
Total Governmental Activities	<u>2,084,320</u>	<u>0</u>
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
Corporate Equity	1,835	2,989
U.S. Government Agency	12,636	
Corporate Asset and Mortgage Backed		1,237
Fixed Income and Bond Mutual Fund	8,121	
Other Commingled Funds	19,167	
Miscellaneous	5,321	
Other Proprietary Funds		
U.S. Government Agency	15,029	
Repurchase Agreements		114,999
Total Business-Type Activities	<u>62,109</u>	<u>119,225</u>
Total Governmental and Business-Type Activities	<u>\$ 2,146,429</u>	<u>\$ 119,225</u>
FIDUCIARY		
Pension and Other Employee Benefit Trust Funds		
U.S. Treasury	\$ 3,225	\$ 17,044
Corporate Obligations		832,903
Corporate Asset and Mortgage Backed		6,655,326
Corporate Equity		34,075
International Equity		8,412
Repurchase Agreements		6,741,528
Fixed Income and Bond Mutual Fund		19,436
Commercial Paper		2,020,316
Miscellaneous		13,926,513
Total Fiduciary	<u>\$ 3,225</u>	<u>\$30,255,553</u>

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, ERS and UT have exposure to investment foreign currency risk. TRS manages the risk of holding investments in foreign currencies through asset allocation limits on various

international investments. PSF and ERS do not have an investment policy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

At Aug. 31, 2010, the investments exposed to foreign currency risk are as follows.

Investments Exposed to Foreign Currency Risk

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary			
	International Obligations	International Equity	International Other Commingled Funds*	Other Investments	International Obligations	International Equity	International Other Commingled Funds	Other Investments
Argentine Peso	\$	\$	\$	\$	\$	\$	\$	\$
Australian Dollar	123,477	68,118	2,308	226,183	497	816,509		640
Bermudan Dollar					3		52	
Botswana Pula						4,429		
Brazilian Real	28,514	146,592	9,539	148,225	3,690	994,437	346	
Canadian Dollar	87,031	69,512	2,062	318,006	7,072	1,274,988		10,870
Cayman Island Dollar					1			
Chilean Peso		5,049	3	11,321		75,524		
Chinese Yuan			5,459		3			
Colombian Peso	193			8,377	1,344	13,852		
Croatian Kuna						5,248		
Czech Koruna		4,945	392	4,204	7	38,231		
Danish Krone	2,105	1,943	691	27,599	29	80,694		
Egyptian Pound	114	6,196	462	3,338		62,540		
Euro	363,077	291,360	121,478	1,097,131	60,264	3,740,226	4,792	1,801,632
Ghanaian Cedi						2,878		
Hong Kong Dollar	2,621	287,615	(13,840)	240,182		1,874,435		4,625
Hungarian Forint	12,351	3,916	3	4,806	1,340	58,403		
Indian Rupee		18,406	1,805		3	374,025		
Indonesian Rupiah	22,606	23,812	2,729	21,905		301,045		
Jamaican Dollar					3			
Japanese Yen	106,149	151,713	11,769	614,583	14,231	2,542,720	3,795	10,730
Jersey Pound					2			
Jordanian Dinar						5,439		
Kazakhstani Tengre					6			
Kenyan Shilling						6,506		
Lithuanian Litas					8	2,050		
Malaysian Ringgit	33,519	40,396	1,060	30,470	1,465	165,284		
Mauritius Rupee						4,408		
Mexican Peso	21,160	25,854	2,779	39,298	3,254	319,390	292	
Moroccan Dirham		840	31	1,370		10,423		
New Israeli Shekel	6,043	166	698	13,692		33,934		
New Taiwan Dollar		47,004	5,621	83,979		707,829		
New Turkish Lira		24,494	1,975	15,816	3,262	287,819		
New Zealand Dollar	31,684	600	1	2,993		8,664	36	
Nigerian Naira					1	6,446		
Norwegian Krone	6,637	5,722	(1,449)	21,095	2	154,206		
Pakistani Rupee		2,060				13,446		
Peruvian Nuevo Sol		38	286		416	3,376		
Philippine Peso		3,894	38	4,672		35,209		
Polish Zloty	40,345	15,152	231	12,801	2,613	72,784		
Pound Sterling	132,716	209,948	9,424	596,984	57,589	2,943,739	1,864	123,669
Qatar Riyal						9,054		
Russian Ruble			263	46,250	22			
Singapore Dollar	3,785	32,523	2,509	47,630		203,812	45	7,927
South African Rand	18,982	59,304	3,754	70,981	3,596	622,187		
South Korean Won	30,223	133,316	5,871	123,898	68	991,992	201	
Swedish Krona	28,273	18,372	1,150	80,636	5,546	249,271	220	
Swiss Franc	89	60,541	(21,214)	224,256	24	1,049,390	616	
Thai Baht		34,935	2,163	16,412	1,380	213,991		
Trinidad and Tobago Dollar					2			
Ukrainian Hryvnia					2			
United Arab Emirates Dirham					3	4,089		
Other Currency**					78			
Total	\$1,101,694	\$1,794,336	\$160,051	\$4,159,093	\$167,829	\$20,384,922	\$12,259	\$1,960,093

* Includes investment receivables and payables related to spot currency transactions and swaps.

** Multi-national securities and does not represent a specific currency.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy establishes tracking error limits intended to reduce the tracking error of the asset class. In addition, the policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality resulting in a NRSRO rating below the A- level subsequent to the inception of the contract, additional eligible collateral must be posted. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnification agreement by an organization that bears a

long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

PSF's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policy requires that non-cash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policy has no requirements or limitations for investment ratings.

At Aug. 31, 2010, the credit quality distribution for securities with credit risk exposure is as follows.

Investments Exposed to Credit Risk

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$4,562,047	\$ 393,295	\$1,447,673	\$ 712,576	\$ 5,368,265	\$	\$	\$ 99,017	\$12,582,873
AA	85,977	528,682	67,026	200,270	12,831			346,712	1,241,498
A	65,911	1,029,166	204,100	299,352	420,678			42,296	2,061,503
BBB		779,007	122,201	67,559				18,530	987,297
BB		111,799	54,163	17,910					183,872
B		52,290	22,437	4,161				110	78,998
CCC		440	35,184	76					35,700
CC			4,627						4,627
C				949					949
D			5,589						5,589
AAAf						4,591,512			4,591,512
AAAm						922,263			922,263
Aaf						61,700			61,700
A-1							1,613,912		1,613,912
Not Rated	1,931,263	155,817	125,495	162,358	2,417,099	637,853	169,699	58,137	5,657,721
Total	<u>\$6,645,198</u>	<u>\$3,050,496</u>	<u>\$2,088,495</u>	<u>\$1,465,211</u>	<u>\$8,218,873</u>	<u>\$6,213,328</u>	<u>\$1,783,611</u>	<u>\$564,802</u>	<u>\$30,030,014</u>

Continued on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2010 (Amounts in Thousands)

	Fiduciary Activities								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 6,860,464	\$ 187,763	\$ 5,758,123	\$ 105,867	\$ 9,511,980	\$	\$	\$ 382,991	\$ 22,807,188
AA		1,128,048	187,772	11,297				3,955,614	5,282,731
A	3	471,023	1,055,830	32,197	6,776,940			9,701,866	18,037,859
BBB		415,544	43,607	4,282					463,433
BB		123,232	103,935	5,756					232,923
B		164,197	73,158	4,794					242,149
CCC		35,089	537,446	134					572,669
CC		1,510	153,539						155,049
D			31						31
AAAf						251,017			251,017
AAAAm						19,436			19,436
Aaf						14,276			14,276
A-1							2,702,595		2,702,595
Not Rated	214,626	149,116	261,260	15,034		371,903	594	1,695,197	2,707,730
Total	<u>\$ 7,075,093</u>	<u>\$ 2,675,522</u>	<u>\$ 8,174,701</u>	<u>\$ 179,361</u>	<u>\$ 16,288,920</u>	<u>\$ 656,632</u>	<u>\$ 2,703,189</u>	<u>\$ 15,735,668</u>	<u>\$ 53,489,086</u>

	Component Units								Totals
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	
AAA	\$ 604,056	\$ 103,642	\$ 246,349	\$	\$ 68,750	\$	\$	\$	\$ 1,022,797
AA	21,377	2,482							23,859
A		3,268		362	4,684			30,488	38,802
BB								2,832	2,832
AAAf						33,200			33,200
A-1							18,842		18,842
Not Rated	28,382		1,124		3,890	7,620		6,400	47,416
Total	<u>\$ 653,815</u>	<u>\$ 109,392</u>	<u>\$ 247,473</u>	<u>\$ 362</u>	<u>\$ 77,324</u>	<u>\$ 40,820</u>	<u>\$ 18,842</u>	<u>\$ 39,720</u>	<u>\$ 1,187,748</u>

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. At Aug. 31, 2010, governmental and business-type activities did not hold more than 5 percent of investments in any one issuer.

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

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by 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. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio be consistent with the Barclay Aggregate Index's (formerly Lehman Bros. Aggregate Index) duration. At Aug. 31, 2010, the Barclay Aggregate Index duration was 4.12 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits, which is 60 days, bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days, and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio is 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio is 60 days. TRS, ERS and UT do not have a formal investment policy for managing interest rate risk.

At Aug. 31, 2010, PSF's investments by investment type, fair value and the effective weighted duration rate are as follows.

Investments Exposed to Interest Rate Risk		
August 31, 2010		
PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	\$ 29,218	2.41
Commercial Mortgage Backed Securities	325,883	4.74
Corporate Obligations	1,138,151	1.76
Yankee - Corporate Obligations	151,186	4.83
Non Agency Mortgage Backed Securities	59,114	2.25
Private Placements - Corporate	106,175	5.08
Private Placements - Government	28,126	0.61
U.S. Government Agency Mortgage Backed Securities	1,959,602	1.34
U.S. Government Agency Obligations	671,186	4.38
U.S. Treasury Securities	789,329	4.98
U.S. Treasury Strips	34,352	15.91
U.S. Treasury TIPS	248,258	11.68
Total Fixed Income	<u>\$ 5,540,580</u>	<u>4.33</u>

The following provides information about PSF's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

Invested Securities Lending Collateral Exposed to Interest Rate Risk			
August 31, 2010 (Amounts in Thousands)			
PSF Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	\$ 20,027	\$ 5,429	\$ 14,598
Repurchase Agreements	<u>2,064,293</u>	<u>2,064,293</u>	
Total	<u>\$2,084,320</u>	<u>\$2,069,722</u>	<u>\$ 14,598</u>

At Aug. 31, 2010, TRS' investments by investment type, fair value and the effective weighted duration rate are as follows. The effective weighted duration calculation for TRS excludes the high yield limited partnerships, which are pooled instruments and not debt securities.

Investments Exposed to Interest Rate Risk		
August 31, 2010		
TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	\$ 17,788,194	9.42
U.S. Government Agency Obligations	14,560	6.47
Asset and Mortgage Backed Obligations	1,230,852	3.93
Corporate Obligations	294,147	5.29
International Government Obligations	164,769	8.15
International Corporate Obligations	<u>9,940</u>	<u>5.31</u>
Total Interest Rate Risk Debt Securities	<u>\$ 19,502,462</u>	<u>9.00</u>

At Aug. 31, 2010, ERS' investments by investment type, fair value and the modified duration rate are as follows.

Investments Exposed to Interest Rate Risk				
August 31, 2010				
ERS Investment Type	Fair Value (In Thousands)		Modified Duration Rate	
	Fiduciary Fund	Proprietary Fund	Fiduciary Fund	Proprietary Fund
U.S. Treasury Securities	\$3,302,626	\$ 186,211	5.63	5.63
U.S. Government Agency Obligations	1,481,099	83,509	2.09	2.09
Corporate Obligations	1,573,603	75,931	5.62	5.73
Corporate Asset and Mortgage Backed Securities	133,116	7,505	2.53	2.53
Cash and Cash Equivalents	2,520,901	283,315	0.01	0.01
Miscellaneous	<u>55,401</u>	<u>3,124</u>	<u>13.15</u>	<u>13.15</u>
Overall Interest Rate Risk Debt Securities	<u>\$9,066,746</u>	<u>\$ 639,595</u>	<u>3.48</u>	<u>2.69</u>

At Aug. 31, 2010, UT's investments by investment type, fair value and the modified duration rate are as follows.

Investments Exposed to Interest Rate Risk		
August 31, 2010		
UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	\$ 302,267	9.95
U.S. Treasury Strips	11,352	1.07
U.S. Treasury Bills	16,696	0.12
U.S. Treasury Inflation Protected	1,926	22.11
U.S. Agency Asset Backed	13,279	4.84
Total U.S. Government Guaranteed	<u>345,520</u>	<u>9.05</u>
U.S. Government Non-Guaranteed:		
U.S. Agency	8,962	4.57
U.S. Agency Asset Backed	315,914	2.41
U.S. Agency Commercial Paper		
Total U.S. Government Non-Guaranteed	<u>324,876</u>	<u>2.47</u>
Total U.S. Government	<u>670,396</u>	<u>5.86</u>
Corporate Obligations:		
Domestic	845,350	5.46
Foreign	450,489	4.75
Total Corporate Obligations	<u>1,295,839</u>	<u>5.22</u>
Foreign Government and Provincial Obligations	784,180	6.15
Other Debt Securities	24,680	11.77
Total Debt Securities	<u>2,775,095</u>	<u>5.69</u>
Other Investment Funds – Debt	324,527	6.07
Fixed Income Money Market Funds	2,383,052	0.10
Total Investments in Securities	<u>\$ 5,482,674</u>	<u>3.29</u>

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. At Aug. 31, 2010, the

fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was \$4.7 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate

the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

At Aug. 31, 2010, the Treasury's aggregate amount of reverse repurchase agreement obligations was \$75.9 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$75.7 million. During fiscal 2010 there was no credit exposure.

Securities Lending

TRS, PSF, ERS, UT, the Texas A&M University System (A&M), the Veterans Land Board (VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and UT established their own separately managed securities lending programs. A&M, VLB and TPHETB participate in collateral investment pools that commingle the cash collateral of several entities. Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, ERS, UT and VLB receive collateral equal to 102

percent of the value of domestic securities lent and 105 percent for international securities. PSF receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities; except in the case of foreign securities denominated and payable in U.S. dollars, the required percentage is 102 percent. A&M receives collateral of 102 percent of the value of the securities lent. TPHETB receives collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The securities custodians are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify TRS, PSF, ERS, UT, VLB and TPHETB if the borrowers fail to return the securities. For A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence, failure to live up to its contractual responsibilities or willful misconduct.

TRS, VLB and TPHETB loans are terminable at will. For PSF, maturities are defined by the lending agreement and the loans are terminable at will. For ERS, the relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements. UT manages its investments to maintain an average maturity and overnight liquidity. For A&M, cash collateral is invested in a portfolio with a liquidity target of 20 percent, but does not generally match the maturities of investments with the term maturities of the loan agreements. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Securities Lending Activity Summary

August 31, 2010 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral*	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value
TRS	\$ 23,222,706	\$ 61,037	\$ 23,581,689	\$ 23,601,465	\$ 19,776
PSF	2,291,170	177,175	2,184,063	2,084,320	(99,743)
ERS	419,130		431,785	431,687	(98)
UT* **	451,076		468,365	468,365	
A&M*	78,823	1,221	77,839	77,711	(128)
VLB**	27,489		28,075	28,075	
TPHETB	124,290	150	126,904	126,904	
Total	<u>\$ 26,614,684</u>	<u>\$ 239,583</u>	<u>\$ 26,898,720</u>	<u>\$ 26,818,527</u>	<u>\$ (80,193)</u>

* Non-cash collateral received for securities lending activities are not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** UT and VLB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2010.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. At Aug. 31, 2010, the overall securities lending activity is summarized above.

Investment Derivative Instruments

Derivatives are financial instruments (securities or contracts) whose value is linked to or “derived” from changes in interest rates, currency rates and stock and commodity prices. These securities or contracts serve as components of certain state agencies, public employee retirement systems and institutes of higher education investment strategies and are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

All investment derivatives instruments are reported at fair value on the statement of net position and the statement of fiduciary net position. The changes in the fair

value of investment derivative instruments are reported as investment revenue in the operating statements. At Aug. 31, 2010, TRS, PSF, UT, A&M, VLB and the Texas Department of Transportation (TxDOT) held investment derivatives (forwards, futures, options and swaps).

Forward foreign currency exchange contracts are entered for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are marked-to-market daily with the change in market value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts and unanticipated movements in currency exchange rates.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price and date. Futures contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase or decrease of market exposure to various asset classes. Upon

entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. At Aug. 31, 2010, swap investments entered were interest rate, credit default, commodity, equity and total return swaps.

UT, VLB and TxDOT invested in pay-variable, receive-variable and pay-fixed, receive

variable interest rate swap agreements that are reported as investment derivatives because they are ineffective hedges. In late calendar year 2009, the slope of the 10 year London Interbank Offered Rate (LIBOR) swap yield curve had steepened, which allowed TxDOT to negotiate a fixed monthly cash flow annuity benefit on its three pay-variable, receive-variable constant maturity swaps. The suspension period began on Dec. 3, 2009. During the three year suspension period, the exchange of payments will cease and TxDOT will receive a fixed monthly annuity as consideration for the suspension.

Foreign Currency Risk: TRS, PSE, UT and A&M have exposure to investment foreign currency risk in forwards, futures, options and swaps derivative investments. At Aug. 31, 2010, derivative investments exposed to foreign currency risk are as follows.

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary
	Swaps	Options	Futures	Forwards	Swaps
Australian Dollar	\$ 299	\$	\$	\$ 457	\$ 48
Brazilian Real	88			3	
Canadian Dollar	167		82	231	
Chilean Peso				(1)	
Chinese Yuan				(857)	
Danish Krone				86	
Egyptian Pound				3	
Euro	78	(104)	3,322	(502)	
Hungarian Forint				210	
Indian Rupee				(3)	
Indonesian Rupiah				341	
Japanese Yen	719			2,209	
Malaysian Ringgit				103	
Mexican Peso				(104)	
New Taiwan Dollar				(49)	191
New Turkish Lira				1,367	
New Zealand Dollar				589	
Norwegian Krone				272	
Polish Zloty				1	
Pound Sterling	184	(1)	81	656	
Singapore Dollar				36	
South African Rand				97	
South Korean Won				(187)	66
Swedish Krona				(1,081)	200
Swiss Franc				278	(94)
Thai Baht				53	
Total	<u>\$ 1,535</u>	<u>\$(105)</u>	<u>\$ 3,485</u>	<u>\$ 4,208</u>	<u>\$ 411</u>

Credit Risk: TRS and UT instituted policies to mitigate counterparty credit risk for investment derivatives by having master netting agreements and collateral posting arrangements. TRS and UT negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS investment policy limits the net market value of all over-the-counter derivative positions, less collateral posted, to an amount not exceeding \$500 million for any individual counterparty. In addition, the net market value of all over-the-counter derivative positions, without consideration of collateral, may not exceed 5 percent of the total market value of the total investments in the TRS pension fund. TRS investment policy clarifies that termination of the transaction is allowed.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by UT in one of its accounts at their custodian bank.

TxDOT's basis swap agreements contain provisions for collateral posting by counterparties in the event of a credit rating downgrade. Acceptable forms of collateral include cash in the form of U.S. dollars, negotiable debt obligations issued by the U.S. Treasury Department and agency securities. Agency securities include negotiable debt obligations fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation. Collateral will be held by TxDOT and/or its designated custodian.

The aggregate fair value of investment derivative instruments in asset positions at Aug. 31, 2010, is \$51.1 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount

of loss that would be recognized at Aug. 31, 2010, if all counterparties failed to perform as contracted. This maximum exposure is reduced by \$164.8 million in liabilities included in netting arrangements with those counterparties, resulting in a reduced net exposure of investment derivative instruments to credit risk.

Interest Rate Risk: TRS, UT, VLB and TxDOT are exposed to interest rate risk on swap transactions. TxDOT's interest rate risk on its constant maturity swap cash flows was eliminated during the suspension period by establishing the fixed annuity for that period. TxDOT also mitigates interest rate risk by maintaining the unilateral option to terminate any or all of the swaps at any time should interest rates cause sustained negative cash flows or fair values that warrant termination of the swaps.

Investment in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 134.4 percent of Securities Industry and Financial Markets Association (SIFMA) and receipt of 69.42 to 100 percent of one month to 10 year LIBOR. Investment in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rate and receipt of 1.5 to 11.33 percent. Investment in pay-fixed, received-variable interest rate swaps ranged from payment of 3.5 to 4.63 percent and receipt of 67 to 100 percent of one month to three month LIBOR. At Aug. 31, 2010, the investment maturities for the state's swap contracts exposed to interest rate risk are as follows.

Derivative Investments Exposed to Interest Rate Risk

August 31, 2010 (Amounts in Thousands)

Investment Type	Investment Maturities (in years)				
	Fair Value	Less Than 1	1 - 5	11-15	More than 15
Interest Rate Swaps	\$ (75,859)	\$ (112,212)	\$ (687)	\$ (1,611)	\$ 38,651

Investment Funds

Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment managers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. At Aug. 31, 2010, the fair value of various investment funds was \$43.2 billion.

expenditures payable from the general revenue fund. The Series 2009 notes were repaid during fiscal 2010, bore interest at 2.5 percent and were priced to yield 0.479 percent.

On Aug. 24, 2010, the Comptroller’s office sold approximately \$7.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2010, with an issue date of Aug. 31, 2010, and a maturity date of Aug. 31, 2011. The notes bear interest at 2 percent and were priced to yield 0.34 percent. They are not subject to redemption prior to maturity. On Aug. 24, 2010, good faith funds in the amount of \$78 million were received.

During fiscal 2010, the Texas Department of Transportation issued commercial paper under its short-term borrowing program. The commercial paper proceeds are being used to cover temporary funding shortfalls for capital expenditures.

Short-term debt activity for the year ended Aug. 31, 2010, is shown below.

Note 4

Short-Term Debt

On Aug. 25, 2009 (with an issue date of Sept. 1, 2009), \$5.5 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2009, were sold to coordinate the cash flow of the state for the fiscal year ended Aug. 31, 2010. Issuance of these notes enhanced the state’s ability to make timely payment of

Short-Term Debt				
For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)				
	Beginning Balance 9/1/09	Issued	Redeemed	Ending Balance 8/31/10
Tax and Revenue Anticipation Notes	\$ 300,000	\$ 13,300,000	\$ 5,500,000	\$ 7,800,000
Commercial Paper		205,439	440,439	65,000
	<u>\$ 300,000</u>	<u>\$ 13,505,439</u>	<u>\$ 5,940,439</u>	<u>\$ 7,865,000</u>

Note 5

Long-Term Liabilities

Long-term liabilities for fiscal 2010 are presented in the table below.

Long-Term Liabilities Activity						
For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)						
	Beginning Balance 09/01/09	Additions	Reductions	Ending Balance 08/31/10	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	\$ 162,958	\$ 53,847	\$ 60,315	\$ 156,490	\$ 54,814	\$ 101,676
Capital Lease Obligations	8,073	9,679	3,251	14,501	2,609	11,892
Employees' Compensable Leave	811,984	781,473	835,266	758,191	477,680	280,511
Notes and Loans Payable	150,215	829,320	218,935	760,600	44,557	716,043
General Obligation Bonds Payable	9,745,220	904,993	564,634	10,085,579	379,330	9,706,249
Revenue Bonds Payable	3,287,121	2,527,351	194,412	5,620,060	167,824	5,452,236
Pollution Remediation Obligation	381,631	38,501	93,042	327,090	39,881	287,209
Governmental Activities Long-Term Liabilities	<u>\$ 14,547,202</u>	<u>\$ 5,145,164</u>	<u>\$ 1,969,855</u>	<u>\$ 17,722,511</u>	<u>\$ 1,166,695</u>	<u>\$ 16,555,816</u>
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	\$ 155,609	\$ 713,889	\$ 801,964	\$ 67,534	\$ 16,583	\$ 50,951
Capital Lease Obligations	12,545	4,414	2,617	14,342	2,588	11,754
Employees' Compensable Leave	661,623	242,444	225,650	678,417	333,063	345,354
Notes and Loans Payable	2,347,814	3,365,129	2,610,382	3,102,561	2,004,833	1,097,728
General Obligation Bonds Payable	2,927,153	383,881	367,282	2,943,752	135,332	2,808,420
Revenue Bonds Payable	15,487,970	3,190,748	1,635,743	17,042,975	1,880,769	15,162,206
Liabilities Payable From Restricted Assets	3,728,361	283,113	452,203	3,559,271	473,131	3,086,140
Pollution Remediation Obligation	341	12	331	22	22	
Business-Type Activities Long-Term Liabilities	<u>\$ 25,321,416</u>	<u>\$ 8,183,630</u>	<u>\$ 6,096,172</u>	<u>\$ 27,408,874</u>	<u>\$ 4,846,321</u>	<u>\$ 22,562,553</u>
COMPONENT UNITS						
Capital Lease Obligations*	\$	\$ 239	\$ 47	\$ 192	\$ 48	\$ 144
Employees' Compensable Leave	5,362	2,226	2,164	5,424	3,649	1,775
Notes and Loans Payable	133,088	86,399	119,301	100,186	12,586	87,600
Revenue Bonds Payable	332,306	73,640	44,177	361,769	2,108	359,661
Liabilities Payable From Restricted Assets	72,249		14,419	57,830		57,830
Component Units Long-Term Liabilities	<u>\$ 543,005</u>	<u>\$ 162,504</u>	<u>\$ 180,108</u>	<u>\$ 525,401</u>	<u>\$ 18,391</u>	<u>\$ 507,010</u>

* Beginning balance was restated to exclude assets not meeting capitalization threshold.

**Notes and Loans Payable
Debt Service Requirements
Governmental Activities**

(Amounts in Thousands)

Year	Principal	Interest	Total
2011	\$ 44,557	\$ 18,198	\$ 62,755
2012	51,316	16,995	68,311
2013	50,613	15,757	66,370
2014	50,045	14,588	64,633
2015	49,101	13,448	62,549
2016 - 2020	241,191	51,221	292,412
2021 - 2025	161,754	27,083	188,837
2026 - 2030	104,523	9,299	113,822
2031 - 2035	7,500	37	7,537
Total Requirements	<u>\$ 760,600</u>	<u>\$ 166,626</u>	<u>\$ 927,226</u>

**Notes and Loans Payable
Debt Service Requirements
Business-Type Activities**

(Amounts in Thousands)

Year	Principal	Interest	Total
2011	\$ 2,004,833	\$ 35,574	\$ 2,040,407
2012	6,040	35,047	41,087
2013	6,032	36,839	42,871
2014	5,370	37,947	43,317
2015	5,016	39,230	44,246
2016 - 2020	34,000	248,192	282,192
2021 - 2025	16,414	317,539	333,953
2026 - 2030	50,047	334,645	384,692
2031 - 2035	44,696	290,079	334,775
2036 - 2040	267,420	199,908	467,328
2041 - 2045	895,354	32,552	927,906
Total Requirements	<u>3,335,222</u>	<u>1,607,552</u>	<u>4,942,774</u>
Unamortized Accretion	<u>(232,661)</u>		<u>(232,661)</u>
Total Requirements	<u>\$ 3,102,561</u>	<u>\$ 1,607,552</u>	<u>\$ 4,710,113</u>

**Notes and Loans Payable
Debt Service Requirements
Component Units**

(Amounts in Thousands)

Year	Principal	Interest	Total
2011	\$ 12,586	\$ 2,961	\$ 15,547
2012	11,466	2,812	14,278
2013	10,192	2,403	12,595
2014	9,403	2,062	11,465
2015	8,589	1,750	10,339
2016 - 2020	47,233	4,176	51,409
2021 - 2025	717	135	852
Total Requirements	<u>\$ 100,186</u>	<u>\$ 16,299</u>	<u>\$ 116,485</u>

Notes and loans payable consist of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt; and the funding of agency specific missions such as economic development projects and pest eradication programs. The Texas Department of Transportation (TxDOT) entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. In fiscal 2010, TxDOT capitalized roadways and recognized a pass-through toll payable as a long-term liability of \$416.8 million for the completed projects and sections of pass-through projects in various cities and counties. See Note 15 for additional details. Debt service requirements for notes and loans payable in the long-term liabilities are shown to the left.

General obligation bonds and revenue bonds are described in detail in Note 6.

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above \$50 thousand or numerous separate claims from the same individual or entity that in total exceed \$50 thousand must be approved by the Legislature before being paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Capital lease obligations are described in detail in Note 8.

Long-term liabilities associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment,
- The state is in violation of a pollution prevention-related permit or license,
- The state is named as a potentially responsible party by a regulator,
- The state is named in a lawsuit that compels it to participate in remediation, and/or
- The state has commenced, or legally obligated itself to commence, cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets. Recoveries from the federal government are considered nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2010, the state is expected to recover \$218 thousand to offset remediation costs related to various contaminated sites.

Federal Regulatory Cleanup Requirements: Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and U.S. Environmental Protection Agency Class V Wells regulations.

The Superfund obligation estimates are based on budgeted projects to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations are calculated based on contractor estimates or historical costs as applicable.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

State Regulatory Cleanup Requirements: Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality operates as a regulatory agency to ensure cleanups are conducted within applicable state laws and regulations contained in the Texas Administrative Code, Title 30; Texas Water Code; Texas Health and Safety Code; Texas Occupations Code; and Texas Natural Resources Code.

Other Pollution Remediation Activity: Texas Tech University remediation activities for land it owns in Carson County, Texas, could not be reasonably estimated as of Aug. 31, 2010.

Note 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas has 488 bond issues outstanding as of Aug. 31, 2010. During fiscal 2010 the state paid \$423.6 million from the general revenue fund for debt service.

Bonds Issued and Issues Outstanding

(Amounts in Thousands)

	Bond Issues Outstanding 8/31/10	Bonds Issued
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	63	\$ 11,657,594
Revenue Bonds	21	5,168,374
Governmental Activities Total	84	16,825,968
BUSINESS-TYPE ACTIVITIES		
General Obligation Bonds	89	\$ 3,881,152
Revenue Bonds	288	21,603,084
Business-Type Activities Total	377	25,484,236
COMPONENT UNITS		
Revenue Bonds	27	\$ 1,459,109
Total	488	\$43,769,313

Miscellaneous Bond Information

(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities		First Call Date
				First Year	Last Year	
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 11,657,594	1.50	6.07	1998	2045	07/01/03
Revenue Bonds	5,168,374	2.50	7.25	1991	2030	02/01/01
Governmental Activities Total	16,825,968					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	3,881,152	1.37	8.06	1995	2047	02/24/94
Revenue Bonds	21,603,084	0.63	15.00	1988	2047	05/04/95
Business-Type Activities Total	25,484,236					
COMPONENT UNITS						
Revenue Bonds	1,459,109	5.25	7.50	1986	2041	10/08/86
Total	\$43,769,313					

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Bonds Outstanding 9/1/09	Bonds Issued*	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/10	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	\$ 9,745,220	\$ 904,993	\$ 351,734	\$ 212,900	\$ 10,085,579	\$ 379,330
Revenue Bonds	3,287,121	2,527,351	194,412		5,620,060	167,824
Governmental Activities Total	13,032,341	3,432,344	546,146	212,900	15,705,639	547,154
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,927,153	383,881	151,467	215,815	2,943,752	135,332
Revenue Bonds	15,487,970	3,190,748	508,528	1,127,215	17,042,975	1,880,769
Business-Type Activities Total	18,415,123	3,574,629	659,995	1,343,030	19,986,727	2,016,101
COMPONENT UNITS						
Revenue Bonds	332,306	73,640	44,177		361,769	2,108
Total	\$31,779,770	\$7,080,613	\$1,250,318	\$1,555,930	\$36,054,135	\$2,565,363

* Includes current year amortization of premiums, discounts and accretion.

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES						
Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 364,380	\$ 451,492	\$ 815,872	\$ 161,750	\$ 227,891	\$ 389,641
2012	343,960	439,300	783,260	170,650	282,203	452,853
2013	342,735	423,850	766,585	172,015	274,770	446,785
2014	352,975	410,874	763,849	174,925	267,212	442,137
2015	333,465	398,297	731,762	162,130	259,466	421,596
2016 - 2020	1,319,315	1,798,626	3,117,941	848,160	1,177,918	2,026,078
2021 - 2025	1,411,570	1,488,115	2,899,685	1,201,905	947,974	2,149,879
2026 - 2030	1,656,930	1,115,738	2,772,668	1,629,205	612,966	2,242,171
2031 - 2035	1,797,340	706,487	2,503,827	391,990	303,978	695,968
2036 - 2040	1,869,815	242,397	2,112,212	581,825	135,312	717,137
2041 - 2045	45,000	653	45,653	41,185	1,441	42,626
	<u>9,837,485 *</u>	<u>7,475,829</u>	<u>17,313,314</u>	<u>5,535,740 *</u>	<u>4,491,131</u>	<u>10,026,871</u>
Accretion	(33,066)		(33,066)	(7,792)		(7,792)
Premium	281,356		281,356	111,049		111,049
Discount	(196)		(196)	(18,937)		(18,937)
Total	<u>\$ 10,085,579</u>	<u>\$ 7,475,829</u>	<u>\$ 17,561,408</u>	<u>\$ 5,620,060</u>	<u>\$ 4,491,131</u>	<u>\$ 10,111,191</u>
BUSINESS-TYPE ACTIVITIES						
Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 134,244	\$ 65,104	\$ 199,348	\$ 1,858,419	\$ 653,026	\$ 2,511,445
2012	116,907	61,846	178,753	771,321	633,349	1,404,670
2013	122,862	58,990	181,852	522,406	610,991	1,133,397
2014	130,450	56,015	186,465	547,644	586,729	1,134,373
2015	135,599	52,768	188,367	597,604	560,502	1,158,106
2016 - 2020	704,352	215,662	920,014	3,309,854	2,389,441	5,699,295
2021 - 2025	628,190	135,404	763,594	2,990,762	1,697,197	4,687,959
2026 - 2030	563,765	68,737	632,502	2,610,613	1,101,565	3,712,178
2031 - 2035	278,555	36,845	315,400	2,105,359	686,018	2,791,377
2036 - 2040	98,970	13,309	112,279	1,891,553	371,870	2,263,423
2041 - 2045	13,710	2,170	15,880	725,701	66,072	791,773
2046 - 2050	2,730	212	2,942	24,489	1,700	26,189
	<u>2,930,334 *</u>	<u>767,062</u>	<u>3,697,396</u>	<u>17,955,725 *</u>	<u>9,358,460</u>	<u>27,314,185</u>
Accretion	(1,801)		(1,801)	(1,284,054)		(1,284,054)
Premium	15,219		15,219	459,064		459,064
Discount				(16,835)		(16,835)
Loss on Refunding				(70,925)		(70,925)
Total	<u>\$ 2,943,752</u>	<u>\$ 767,062</u>	<u>\$ 3,710,814</u>	<u>\$ 17,042,975</u>	<u>\$ 9,358,460</u>	<u>\$ 26,401,435</u>
COMPONENT UNITS						
Year	Revenue Bonds					
	Principal	Interest	Total			
2011	\$ 2,108	\$ 7,900	\$ 10,008			
2012	77,096	11,944	89,040			
2013	3,644	11,755	15,399			
2014	3,888	11,554	15,442			
2015	4,092	11,340	15,432			
2016 - 2020	22,385	53,215	75,600			
2021 - 2025	30,856	45,975	76,831			
2026 - 2030	105,680	35,002	140,682			
2031 - 2035	65,580	19,370	84,950			
2036 - 2040	34,981	3,191	38,172			
2041 - 2045		1	1			
	<u>350,310 *</u>	<u>211,247</u>	<u>561,557</u>			
Premium	11,459		11,459			
Total	<u>\$ 361,769</u>	<u>\$ 211,247</u>	<u>\$ 573,016</u>			

* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions of higher education. The Texas Public Finance Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase

of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation**, through the Texas mobility fund, issues general obligation bonds to pay or reimburse the state highway fund for the payment of part of the costs of constructing, reconstructing, acquiring and expanding state highways and providing participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees.

Constitutional Appropriation Bonds are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund, which is dedicated to the University of Texas System and Texas A&M University System. Debt service payments on bonds issued are limited to the \$131.3 million in general revenue funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, promote domestic business development, provide loans to finance the commercialization of new and improved products and processes and provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the Economic Development and Tourism Office, primarily from the repayment of loans and the disposition of debt instruments.

**General Obligation Bonds –
Authorized But Unissued**

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2010, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, authorized but unissued, are listed in the table below.

General Obligation Bonds Authorized But Unissued	
(Amounts in Thousands)	
SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	\$ 25,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	2,014,792
Water Development Bonds	727,436
College Student Loan Bonds	400,485
Texas Military Value Revolving Loan Fund	200,405
Total	<u>3,843,118</u>
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,536,743
Transportation Commission Transportation Bonds	5,000,000
Water Development Bonds -	
Economically Distressed Areas Program	236,854
State Participation Projects	179,466
Water Infrastructure Fund Program	204,599
Total	<u>9,322,502</u>
Total General Obligation Bonds	<u>\$ 13,165,620</u>

Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

Self-Supporting

The **Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make land and home mortgage loans to veterans. The bonds are limited and special revenue obligations payable solely from

the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. The agency also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the state water pollution control revolving fund commonly referred to as the state revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets at Aug. 31, 2010, excluding real estate, was \$9.9 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

Permanent University Fund Bonds			
(Amounts in Thousands)			
	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	\$ 1,982,243	\$ 1,476,380	\$ 505,863
Texas A&M University System	991,122	561,895	429,227
Total	<u>\$ 2,973,365</u>	<u>\$ 2,038,275</u>	<u>\$ 935,090</u>

Miscellaneous College and University Revenue

Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the income of the respective institutions and are not an obligation of the state of Texas.

The Office of the Governor is the oversight agency for the **Texas Small Business Industrial Development Corporation**, a discretely presented component unit of the state. The Texas Small Business Industrial Development Corporation bond program provides financing to state and local governments and to businesses and non-profit corporations for the purchase of land, facilities and equipment for economic development. The bonds are not an obligation of the state and are payable from the repayment of loans and investment earnings on the bond proceeds.

The **Texas Water Resources Finance Authority**, a discretely presented component unit of the state, issues bonds to purchase the majority of existing political subdivision bonds held by the Texas Water Development Board. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation** issues revenue bonds to finance state highway improvement projects. Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues and amounts collected or received pursuant to other state highway fund revenue laws and any interest or earning from the investment of these funds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater city of Austin

metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the trust estate.

The **Private Activity Bond Surface Transportation Corporation**, a blended component unit of the state, issued \$1 billion of revenue bonds during fiscal 2010. The proceeds of these bonds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC to finance costs and construction of the Interstate Highway 635 Managed Lanes Project located in Dallas County and the North Tarrant Express Facility in Tarrant County and to pay certain costs of issuance of the bonds. Debt service is funded from loan and interest repayments from the borrowers.

Non Self-Supporting

The following revenue bonds are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

The **Adjutant General's Department** assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Adjutant General's Department upon final discharge of all bond obligations. Bonds are issued for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and the construction, equipping or renovation of buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs and construction. The

bonds are payable from state appropriations funded rent payments made by the Texas Parks and Wildlife Department to the Texas Public Finance Authority.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds. The table below provides information on pledged revenue and pledged future revenue for the state’s revenue bonds.

Pledged Future Revenue			
<i>(Amounts in Thousands)</i>			
	Governmental Activities	Business-Type Activities	Component Units
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$ 10,026,871	\$ 27,314,185	\$ 561,557
Term of Commitment Year Ending August 31,	2030	2047	2041
Percentage of Revenue Pledged	100%	100%	100%
Current Year Pledged Revenue	5,522,453	11,514,734	63,667
Current Year Principal and Interest Paid	316,286	1,185,590	47,956

Build America Bonds

The American Recovery and Reinvestment Act of 2009 (ARRA) was implemented in February 2009. As part of this federal legislation, a new bond program called Build America Bonds (BABs) was created. Tax-

able bonds may be issued by governmental entities, including state agencies and institutions of higher education, as Tax Credit BABs or as Direct Payment BABs. Tax Credit BABs provide a federal tax credit to investors equal to 35 percent of the interest received from the bond issuer. Direct Payment BABs provide a direct federal reimbursement to state and local governmental issuers equal to 35 percent of the interest paid on the bonds. Under the terms of ARRA, both types must be issued before Jan. 1, 2011.

The Texas Department of Transportation, the University of Texas System (UT) and the University of Houston System issued Direct Payment BABs in the amount of \$2.1 billion during fiscal 2010. Except for \$351.8 million of refunding bonds issued by UT, all was issued as new debt. No Tax Credit BABs were issued during the fiscal year.

Variable Rate Bonds

Ten state agencies had a total of 104 variable rate bond issues with outstanding balances as of Aug. 31, 2010. Most of the issues’ interest rates reset every seven days. The remaining issues’ interest rates reset daily or monthly. The potential volatility for related debt services increases with these interest rate reset provisions.

Demand Bonds

The Office of the Governor, the Veterans Land Board, the Texas Department of Housing and Community Affairs, the Texas Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds at Aug. 31, 2010.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days.

Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under a letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2010, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in the tables below and on the following page.

Demand Bonds						
(Amounts in Thousands)						
	Number of Demand Bond Issues 8/31/10	Standby Purchase Agreement	Letter of Credit	Other	Bonds Held By Liquidity Providers 8/31/10	Principal Balance Outstanding 8/31/10
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds						
Office of the Governor	2			2 b	None	\$ 45,000
Texas Department of Transportation	<u>2</u>	<u>3 a</u>	<u>—</u>	<u>—</u>	<u>None</u>	<u>235,400</u>
	<u>4</u>	<u>3</u>	<u>—</u>	<u>2</u>	<u>None</u>	<u>280,400</u>
Revenue Bonds						
Texas Department of Transportation	<u>1</u>	<u>1 a</u>	<u>—</u>	<u>—</u>	<u>None</u>	<u>100,000</u>
Governmental Activities Total	<u>5</u>	<u>4</u>	<u>—</u>	<u>2</u>	<u>None</u>	<u>380,400</u>
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds						
Veterans Land Board	<u>38</u>	<u>38 a</u>	<u>—</u>	<u>—</u>	<u>None</u>	<u>\$ 1,475,635</u>
	<u>38</u>	<u>38</u>	<u>—</u>	<u>—</u>	<u>None</u>	<u>1,475,635</u>
Revenue Bonds						
University of Texas System	4			4 b	None	1,405,700
Texas Department of Housing and Community Affairs	7	7 a			None	331,720
University of Houston System	<u>1</u>	<u>—</u>	<u>—</u>	<u>1 b</u>	<u>None</u>	<u>12,310</u>
	<u>12</u>	<u>7</u>	<u>—</u>	<u>5</u>	<u>None</u>	<u>1,749,730</u>
Business-Type Activities Total	<u>50</u>	<u>45</u>	<u>—</u>	<u>5</u>	<u>None</u>	<u>\$ 3,225,365</u>
COMPONENT UNITS						
Revenue Bonds						
Office of the Governor	<u>1</u>	<u>—</u>	<u>1 c</u>	<u>—</u>	<u>None</u>	<u>\$ 60,000</u>
Component Units Total	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>None</u>	<u>\$ 60,000</u>

a – See Demand Bonds - Standby Purchase Agreements table.
 b – In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.
 c – In the event redeemed bonds are not remarketed, a letter of credit with Bank of America will be used until remarketed.

Demand Bond – Standby Purchase Agreements

Counterparties	Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
California Public Employees Retirement System	1	0.0500%	12/13/13
Comptroller of Public Accounts*	3	0.1200%	08/31/11
Comptroller of Public Accounts*	7	0.1200%	11/30/10
DEPFA Bank plc	1	0.0800%	04/08/12
Dexia Credit Local	9	0.0650%	11/15/11
Dexia Credit Local	1	0.1000%	11/15/11
Dexia Credit Local	1	0.3250%	09/11/10
Dexia Credit Local	1	0.0650%	11/15/11
J.P. Morgan Chase Bank	2	0.8800%	11/02/12
J.P. Morgan Chase Bank	1	0.8800%	11/16/12
Landesbank Hessen-Thuringen Girozentrale	5	0.5500%	06/11/11
Landesbank Hessen-Thuringen Girozentrale	4	0.5500%	12/31/15
Lloyds TSB Bank plc	1	0.4800%	12/20/12
State Street Bank and Trust Company	3	0.1100%	11/17/10
State Street Bank and Trust Company	4	0.2500%	02/01/12
State Street Bank and Trust Company	1	0.0500%	12/13/13
Sumitomo Mitsui Banking Corp	2	0.7500%	08/11/12
Sumitomo Mitsui Banking Corp	1	0.6000%	05/20/13
Total	<u>49</u>		

* Comptroller of Public Accounts Treasury Operations Division

Takeout agreements are used by the Texas Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. The table shown below provides the estimated impact of such an event.

Demand Bonds – Takeout Agreement Provisions

(Amounts in Thousands)

	Estimated Debt Service	Rate	Basis
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2005B	\$ 96,167 a	3.69%	Daily Fed Fds Rate + 1.25%
Series 2006B	160,680 b	5.34%	1% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	<u>110,567 c</u>	6.34%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	<u>\$ 367,414</u>		

a – Replacement debt is subject to semi-annual payments over seven years starting the first day of the third month of that period.
 b – Replacement debt is subject to semi-annual payments over three years starting the first day of the second month of that period.
 c – Replacement debt is subject to semi-annual payments over three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

Early debt extinguishments in fiscal 2010 are as follows. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues	
(Amounts in Thousands)	
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	\$ 5,155
Veterans Land Board	3,390
Revenue Bonds	
Texas Department of Housing and Community Affairs	268,080
Texas Water Development Board	194,685
University of Texas System	4,300
University of Houston System	895
Business-Type Activities Total	<u>\$476,505</u>

Refunding

The table below summarizes bonds refunded during fiscal 2010 to lower interest rates or to restructure debt service requirements for cash management purposes.

Refunding Issues					
(Amounts in Thousands)					
	Types of Refunding	Par Value of Refunding Issue*	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Public Finance Authority	Advance Refunding	\$ 153,050	\$ 156,360	\$ 7,732	\$ 7,140
Texas High Education Coordinating Board	Current Refunding	51,865	56,540	1,517	7,372
Governmental Activities Total		<u>204,915</u>	<u>212,900</u>	<u>9,249</u>	<u>14,512</u>
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	Current Refunding	151,230	149,515	4,965	2,386
		<u>151,230</u>	<u>149,515</u>	<u>4,965</u>	<u>2,386</u>
Revenue Bonds					
University of North Texas System	Advance Refunding	69,970	71,625	(5,885)	4,954
University of North Texas System	Current Refunding	3,455	3,585	(439)	382
Texas State University System	Advance Refunding	99,950	104,840	8,517	7,219
Texas A&M University System	Advance Refunding	79,220	82,125	4,364	3,541
University of Texas System	Advance Refunding	385,380	393,690	25,766	19,879
Stephen F. Austin State University	Current Refunding	3,415	3,390	529	353
		<u>641,390</u>	<u>659,255</u>	<u>32,852</u>	<u>36,328</u>
Business-Type Activities Total		<u>792,620</u>	<u>808,770</u>	<u>37,817</u>	<u>38,714</u>
Total		<u>\$ 997,535</u>	<u>\$ 1,021,670</u>	<u>\$ 47,066</u>	<u>\$ 53,226</u>

* The par value of refunding issue does not include bonds issued to refund notes payable, which had a par value of approximately \$180 million.

Defeased Bonds

Texas defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company) and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Trust Company to defease \$180.6 million in bonds are included in the state’s financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state’s financial statements. The Texas Water Development Board defeased \$57.8 million of business-type activity general obligation bonds this year. As of Aug. 31, 2010, the following amounts of defeased bonds, at par, remain outstanding for all bond issuers.

Conduit Debt

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Texas Government Code, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to nonprofit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property’s units for rent to persons and families of low income. TSAHC finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. TSAHC, the state and any political subdivision thereof are not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2010, there were 19 series of multifamily housing revenue bonds outstanding with an aggregate \$310 million principal amount payable. No bonds were issued in fiscal 2010.

Defeased Bonds Outstanding	
(Amounts in Thousands)	
GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Public Finance Authority	\$ 156,360
Texas Water Development Board	49,340
Revenue Bonds	
Texas Public Finance Authority	55,440
Texas National Research Laboratory Commission	24,240
	285,380
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	74,365
Veterans Land Board	44,700
Revenue Bonds	
University of Texas System	1,844,388
Texas A&M University System	125,060
Texas State University System	108,160
Texas Tech University System	81,985
University of North Texas System	69,330
Stephen F. Austin State University	1,846
Texas Southern University	130
	2,349,964
Total	\$2,635,344

INTEREST RATE SWAPS

Effective interest rate swap agreements are considered hedging derivatives. The state's pay-fixed, receive-variable interest rate swaps are considered effective hedges. The state's pay-variable, receive-variable swaps are considered ineffective hedges. The aggregate debt service requirements and associated net swap payments

are detailed in this note. Refer to Note 7 for additional information on derivatives.

Estimated Debt Service of Swap Payments

Using rates as of Aug. 31, 2010, the debt service requirements of the state's variable rate and fixed rate bonds and associated net swap payments were estimated and presented in the following tables.

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

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2011	\$ 73,470	\$ 8,539	\$ 116,429	\$ 198,438
2012	87,145	8,371	113,540	209,056
2013	93,935	8,126	110,185	212,246
2014	94,240	7,860	106,511	208,611
2015	105,555	7,593	102,847	215,995
2016 - 2020	585,950	32,943	445,515	1,064,408
2021 - 2025	624,540	24,329	325,510	974,379
2026 - 2030	609,740	15,505	210,287	835,532
2031 - 2035	487,520	7,838	106,892	602,250
2036 - 2040	382,675	2,294	32,508	417,477
2041 - 2045	1,025	1	11	1,037
Total	<u>\$ 3,145,795</u>	<u>\$ 123,399</u>	<u>\$ 1,670,235</u>	<u>\$ 4,939,429</u>

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

(Amounts in Thousands)

Year	Variable-Rate Bonds		Interest Rate Swaps, Net *	Total
	Principal	Interest		
2011	\$ 790	\$ 548	\$ 282	\$ 1,620
2012	845	546	160	1,551
2013	890	543	51	1,484
2014	950	541	50	1,541
2015	1,010	538	49	1,597
2016 - 2020	6,055	2,640	222	8,917
2021 - 2025	18,495	2,487	173	21,155
2026 - 2030	175,785	1,959	86	177,830
2031 - 2035	5,315	20	(21)	5,314
2036 - 2040			(6)	(6)
Total	<u>\$ 210,135</u>	<u>\$ 9,822</u>	<u>\$ 1,046</u>	<u>\$ 221,003</u>

* Includes swap payments for swaps that overlay pay-fixed, receive-variable swaps on the same bonds. Principal and interest on these bonds is reported only in the pay-fixed, receive-variable swap table.

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

(Amounts in Thousands)

Year	Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2011	\$ 2,275	\$ 66,215	\$ (6,135)	\$ 62,355
2012	3,215	66,122	(6,134)	63,203
2013	4,185	65,995	(5,321)	64,859
2014	5,115	65,827	(5,048)	65,894
2015	6,045	65,622	(5,048)	66,619
2016 - 2020	89,725	322,390	(25,241)	386,874
2021 - 2025	281,835	275,241	(25,571)	531,505
2026 - 2030	447,310	195,003	(5,144)	637,169
2031 - 2035	514,100	78,019	186	592,305
Total	<u>\$1,353,805</u>	<u>\$1,200,434</u>	<u>\$ (83,456)</u>	<u>\$2,470,783</u>

The tables were prepared assuming current interest rates and swap index relationships remain the same for their terms. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Note 7

Derivative Instruments

Derivatives are financial instruments the value of which are 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.

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

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

Summary of Derivative Activity

The fair value of effective hedging derivatives is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred inflows and deferred outflows. As of Aug. 31, 2010, the state's cumulative derivative activity is summarized on the following page. When applicable, the notional values of certain swap contracts are presented in their local currency.

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
<i>Investment Derivatives</i>			
Basis Swaps	\$ 2,145	\$ 8,897	\$ 400,000
Futures	337		121,140
BUSINESS-TYPE ACTIVITIES			
<i>Cash Flow Hedges</i>			
Receive-Fixed Interest Rate Swaps	\$ 1,623	\$ 4,618	\$ 21,895
Pay-Fixed Interest Rate Swaps	(221,507)	(569,217)	3,134,140
Commodity Forward	(11,394)	(11,394)	6,290,000/ MMBTUs
<i>Investment Derivatives</i>			
Pay-Fixed Interest Rate Swaps	\$ (1,889)	\$ (3,182)	\$ 36,090
Pay-Variable Interest Rate Swaps			
Australian Dollar	299	299	5,800
Brazilian Real			39,600
Canadian Dollar	166	167	22,500
Japanese Yen	719	719	1,550,000
U.S. Dollar	173	173	2,500
Basis Swaps	(28,461)	3,049	825,335
Credit Default Swaps			
British Pound	8	(10)	1,780
Euro	(5)	(5)	2,100
U.S. Dollar	770	1,039	78,000
Equity Swaps			
Brazilian Real	88	88	681
British Pound	195	195	1,194
Euro	82	82	2,773
U.S. Dollar	(152)	(152)	236,902
Commodity Swaps	351	351	1,880
Forwards	4,209	4,209	1,002,381
Futures	20,498		550,784
Options	(21,490)	16,290	4,185,041
FIDUCIARY ACTIVITIES			
<i>Investment Derivatives</i>			
Pay-Fixed Interest Rate Swaps	\$ (2,334)	\$ (112,987)	\$ 6,903,807
Total Return Swaps	54,310	163	12,452
Credit Default Swaps	604	(32)	1,515
Forwards	(20,548)	(11,276)	1,638,646
Futures	57,631		1,237,560
Options	42		

Fair Value

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods as outlined below.

VLB and UT used the zero-coupon method in determining the fair values of their effective interest rate swaps. Several of VLB's effective interest rate swaps contain a provision that provides for the state to

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments

Veterans Land Board (VLB)

Hedging and investment derivatives

Texas Department of Housing and Community Affairs (TDHCA)

Hedging derivatives

University of Texas System (UT)

Hedging and investment derivatives

Texas A&M University System (A&M)

Hedging and investment derivatives

Texas Department of Transportation (TxDOT)

Investment derivatives

Permanent School Fund (PSF)*

Investment derivatives

Teacher Retirement System of Texas (TRS)

Investment derivatives

* The permanent school fund is jointly managed by the Texas Education Agency and the Texas General Land Office, but issues a separately audited standalone annual financial report.

be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the swap associated with Vet Land Tax Ref Bds Ser '2000, the knock-out is permanent and is optional at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

TDHCA based the fair value of its swaps on market conditions as of Aug. 31, 2010. Fair values were directly obtained by the counterparties to the transactions and separately verified by an independent third party. Valu-

ations are based on mid-market levels and may not reflect the amount a counterparty would have required in event of an early termination of the swap transaction on that date. For swaps with no pre-defined notional amortization schedule, a valuation was performed based on an assumed notional amortization.

Futures contracts are valued at closing market prices on valuation date. Futures contracts are marked-to-market daily. The net offsetting positions are reported as accruals, with a daily variation margin (the gain or loss) recorded between the daily value of the contracts and the value on the previous day. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

The fair value of forward currency contracts is estimated by adding the forward points to the corresponding spot rate. These rates are then applied to the outstanding currency exchange to derive a change in valuation.

HEDGING DERIVATIVES

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. Each of the state's interest rate swaps is a contractual agreement entered into between the state and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest rate swaps determined to be hedging derivatives are designated as cash flow hedges. The state also entered into commodity forward contracts to hedge against the future purchase of natural gas. The specific objectives for each category of effective hedges are summarized as follows.

Pay-fixed Interest Rate Swaps: The combination of these swaps and variable rate bonds creates synthetic fixed rate debt. The use of synthetic fixed rate debt has historically lowered the state's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed rate bonds.

Receive-fixed Interest Rate Swaps: The state is currently a party to one pay-variable, receive-fixed interest rate swap that is associated with a taxable variable rate bond issue. The swap was overlaid on an existing pay-fixed, receive-variable swap and effectively results in unhedged variable rate bonds with an expected borrowing cost significantly below market over the life of the swap.

Commodity Forward: The state enters into commodity forward contracts to meet the objective of hedging the risk that changes in the market price of natural gas will adversely affect the cash flows of the expected purchase of natural gas. The outstanding commodity forward contracts as of Aug. 31, 2010, include contracts with future expiration dates extending from September 2010 through August 2013. Contracts will be cash-settled on the expiration date based on New York Mercantile Exchange (NYMEX) market price.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2010, are shown in the following tables. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap index rates as noted. Standard & Poor's and Moody's Investor service credit ratings are disclosed for each swap and forward contract. The notional amount for the commodity forward is expressed as MMBTUs, which represents a million British thermal units.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD –				
PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Ref Bds Ser '95	\$48,435	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	25,180	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Land Tax Ref Bds Ser '2000	39,960	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	12/01/2029	Pay 4.3%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	17,390	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,650	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2003A	36,420	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	37,685	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2003	23,490	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2004B	40,685	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2004	22,235	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	34,370	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	40,300	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2005	20,780	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	23,580	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2005C	15,985	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	42,040	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006A	28,125	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006C	20,285	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006B	21,895	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2006D	44,145	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006C	36,525	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2007C	41,655	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	44,465	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	46,340	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	46,835	03/26/2008	06/01/2037	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	47,810	09/11/2008	06/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	16,950	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	65,845	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2010B	66,720	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Bds Ser 2010C	74,995	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Tax Ref Bds Ser 2010D	16,480	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Tax Ref Bds Ser 2010E	49,995	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Homes Rev Ref Bds, Ser 2012	21,795	08/01/2012	08/01/2035	Pay 3.76%; receive 68% of 1M LIBOR

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	\$	A- / A3
Vet Land Ref Bds Ser '99A	N/A		A- / A3
Vet Land Tax Ref Bds Ser '2000	1M LIBOR >= 7.00%	2,700	AAA / Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A		A / A3
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AAA / Aaa
Vet Land Bds Ser 2002	N/A		A / A2
Vet Hsg Fund II Bds Ser 2002A-2	N/A		AA- / Aa1
Vet Land Tax Ref Bds Ser 2002	6M LIBOR >= 7.00%	2,785	A / A2
Vet Hsg Fund I Tax Ref Bds Ser 2002B	6M LIBOR > 7.00%	2,165	AAA / Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A		AA- / Aa1
Vet Hsg Fund II Bds Ser 2003B	N/A		AAA / Aaa
Vet Land Tax Ref Bds Ser 2003	1M LIBOR >= 7.00%	1,896	AA- / Aa1
Vet Hsg Fund I Tax Ref Bds Ser 2003	6M LIBOR > 7.00%	4,470	AAA / Aaa
Vet Hsg Fund I Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	1,442	AA- / Aa1
Vet Hsg Fund II Bds Ser 2004B	N/A		AA- / Aa1
Vet Land Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	2,075	A / A2
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	1M LIBOR >= 7.00%	2,594	AA- / Aa1
Vet Hsg Fund II Bds Ser 2005A	N/A		AAA / Aaa
Vet Land Tax Ref Bds Ser 2005	6M LIBOR >= 7.00%	1,542	AA- / Aa1
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,367 566	AA- / Aa1
Vet Hsg Fund I Tax Ref Bds Ser 2005C	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	484 267	AA- / Aa1
Vet Hsg Fund II Bds Ser 2006A	N/A		AAA / Aaa
Vet Land Tax Ref Bds Ser 2006A	6M LIBOR >= 7.00%	1,931	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006C	6M LIBOR >= 7.00%	1,493	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006B	1M LIBOR >= 7.00%	1,992	AA- / Aa1
Vet Land Tax Ref Bds Ser 2006B	6M LIBOR >= 7.00%	886	AAA / Aaa
Vet Hsg Fund II Bds Ser 2006D	N/A		A+ / Aa3
Vet Land Tax Ref Bds Ser 2006C	1M LIBOR >= 7.00%	2,725	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006E	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,652 1,018	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2007C	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS > 71%	935 1,020	AA- / Aa1
Vet Hsg Fund II Bds Ser 2007A	N/A		AAA / Aaa
Vet Hsg Fund II Bds Ser 2007B	N/A		AA- / Aa1
Vet Hsg Fund II Bds Ser 2008A	N/A		AAA / Aaa
Vet Hsg Fund II Bds Ser 2008B	N/A		AAA / Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	612	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	2,740	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2010B	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	2,355 1,427	AA- / Aa1
Vet Bds Ser 2010C	N/A		A / A2
Vet Tax Ref Bds Ser 2010D	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	466 208	AA- / Aa1
Vet Tax Ref Bds Ser 2010E	N/A		AAA / Aaa
Vet Homes Rev Ref Bds, Ser 2012	1M LIBOR >= 7.00%	579	AAA / Aaa

Continued on the following page

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

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	\$53,000	09/01/2004	09/01/2034	Pay 3.843%; receive 63% of LIBOR + .30%
2004D Single Family	35,000	01/01/2005	03/01/2035	Pay 3.6375%; receive Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2005A Single Family	77,290	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2006H Single Family	36,000	11/15/2006	09/01/2025	Pay 3.857%; receive 63% of LIBOR +.30%
2007A Single Family	120,775	06/05/2007	09/01/2038	Pay 4.013%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
PUF Bonds 2008A	200,452	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	200,453	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2007B	167,905	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	167,905	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2008B	149,170	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	149,170	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	358,980	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-FIXED INTEREST RATE SWAP				
Vet Land Tax Ref Bds Ser 2006B	21,895	06/01/2006	12/01/2026	Receive 4.61%; pay 100% of 6M LIBOR

Concluded on the following page

Hedging Forward Contracts: Significant Terms and Credit Ratings

	Number of Contracts	Notional Amount	Effective Dates Range*	Termination Dates Range*	Terms: Pay (Average)	Terms: Receive	Counterparty Credit Ratings
2011 Forward Contracts (A&M)	96 Contracts	4,370,000/ MMBTUs	02/06/2009 - 07/08/2010	09/01/2010 - 08/01/2011	\$6.04/ MMBTU	NYMEX market price	AA
2012 Forward Contracts (A&M)	24 Contracts	960,000/ MMBTUs	02/06/2009 - 02/12/2009	09/01/2011 - 08/01/2012	\$7.36/ MMBTU	NYMEX market price	AA
2013 Forward Contracts (A&M)	24 Contracts	960,000/ MMBTUs	02/06/2009 - 02/12/2009	09/01/2012 - 08/01/2013	\$7.44/ MMBTU	NYMEX market price	AA

* A&M invested in several separate commodity forward contracts. This disclosure summarizes the contracts by establishing ranges and averages of detailed individual contract information.

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

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A	\$	A+/Aa3
2004D Single Family	N/A		Aa3
2005A Single Family	N/A		AA- / Aa1
2006H Single Family	N/A		A+/Aa3
2007A Single Family	N/A		AA- / Aa1
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
PUF Bonds 2008A	N/A		A/A2
PUF Bonds 2008A	N/A		AA/Aaa
RFS Bonds 2007B	N/A		AA/Aa1
RFS Bonds 2007B	N/A		A+/Aa3
RFS Bonds 2008B	N/A		AA-/Aa1
RFS Bonds 2008B	N/A		A/A2
RFS Bonds 2008B	N/A		AA-/Aa1
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-FIXED INTEREST RATE SWAP			
Vet Land Tax Ref Bds Ser 2006B	6M LIBOR >= 8.00%	674	AA- / Aa1

Risks

Credit Risk: The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2010, the state was not exposed to credit risk because the swap recorded in the positive position was offset by other swaps with negative fair values. The aggregate fair value of hedging derivative instruments in

asset (positive) positions is \$4.6 million. This amount is solely comprised of the pay-variable, receive-fixed interest rate swap held by VLB. This swap was overlaid on an existing pay-fixed, receive-variable swap and effectively results in unhedged variable rate bonds with an expected borrowing cost significantly below market over the life of the swap. The net between the related swaps results in a negative position.

Interest Rate Risk: The state is exposed to interest rate risk on its interest rate swaps. On the pay-variable, receive-fixed interest rate swap, as the LIBOR increases, the state's net payment on the swap increases. Alternatively, on the pay-fixed, receive-variable interest rate swaps, as LIBOR and the SIFMA municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable rate debt, as LIBOR or

the SIFMA municipal swap index decrease the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

Basis Risk: The state is exposed to basis risk to the extent that the interest payments on its variable rate bonds do not match the variable rate payments received on the associated swaps. The state mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable rate bond issue and (b) selecting an index for the variable rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable rate bonds over the life of each bond issue. Additionally, tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

The state is exposed to basis risk on its commodity forward contracts because the expected commodity purchase will be priced based on a pricing point of Waha Natural Gas Hub, while the hedging forward contract is expected to settle on the NYMEX pricing point. As of Aug. 31, 2010, the Waha price was \$3.47 per MMBTU and the NYMEX price was \$3.81 per MMBTU.

Termination Risk: Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser '2000 provides the counterparty with the option to terminate the swap under certain conditions at any time.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer have a synthetic fixed rate and

the state would be subject to interest rate risk to the extent that the variable rate bonds were not hedged with another swap or with variable rate assets. Unless there is a termination option exercised by the counterparty, the state would owe the counterparty a termination payment equal to the swap's negative fair value.

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

Rollover Risk: Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. None of the state's effective interest rate swaps are subject to rollover risk because the maturity dates of the swaps extend to the maturity dates of the related bonds.

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

Swap Payments and Associated Debt

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

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Moody's Inves-

tor Service and Standard & Poor's. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Detail about derivatives with contingent features are disclosed in Note 15.

INVESTMENT DERIVATIVES

Investment derivatives expose the state to certain investment related risks. Detail about the state's investment derivatives is disclosed in Note 3.

Note 8

Leases

The state leases office buildings, computer and office equipment and other assets under a variety of agreements. Although lease terms vary, most leases are subject to biennial appropriation from the Legislature to continue the lease obligations.

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for the year ended Aug. 31, 2010, are \$452.3 million for the primary government and \$3.2 million for discrete component units. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2010.

Noncancelable Operating Lease Obligations

August 31, 2010 (Amounts in Thousands)

Year	Minimum Future Lease Payments	
	Primary Government	Component Units
2011	\$ 245,249	\$ 2,831
2012	203,855	2,290
2013	159,358	2,206
2014	119,085	2,202
2015	90,646	1,391
2016 – 2020	195,045	615
2021 – 2025	17,979	81
2026 – 2030	6,284	
2031 – 2035	4,056	
2036 – 2040	4,002	
Total	<u>\$ 1,045,559</u>	<u>\$ 11,616</u>

Additionally, the permanent school fund (PSF), the University of Texas System (UT) and the Texas A&M University System (A&M) have leased buildings, equipment and land to outside parties under various operating leases. The following table presents estimated future lease rentals on noncancelable operating leases as of Aug. 31, 2010.

Noncancelable Operating Lease Rentals

August 31, 2010 (Amounts in Thousands)

Year	Minimum Future Lease Rentals
	Primary Government
2011	\$ 34,840
2012	32,503
2013	30,509
2014	23,342
2015	16,194
2016 and beyond	<u>317,524</u>
Total	<u>\$454,912</u>

The historical cost of the PSF leased assets is \$463 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are re-appraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2010, PSF

reported contingent rental revenues in the amount of \$697 thousand.

As of Aug. 31, 2010, the carrying value of UT's leased assets is \$71.4 million. The historical cost of UT's leased buildings is \$94.7 million and related accumulated depreciation is \$26.6 million. The historical cost of UT's leased land is \$3.3 million. UT did not report any contingent rental revenues.

Rentals for A&M represent only portions of the assets that do not allow for the historical costs, accumulated depreciation or carrying values to be reasonably determined. A&M reported contingent rental revenues of \$623 thousand for the period ended Aug. 31, 2010.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Year	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities			Principal	Interest	Total Future Minimum Lease Payments
	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments			
2011	\$ 2,609	\$ 680	\$ 3,289	\$ 2,588	\$ 620	\$ 3,208	\$ 48	\$ 6	\$ 54
2012	4,121	523	4,644	1,873	500	2,373	48	6	54
2013	4,524	335	4,859	1,611	421	2,032	48	6	54
2014	2,922	139	3,061	1,423	346	1,769	48	6	54
2015	325	29	354	1,401	278	1,679			
2016 - 2020				4,064	648	4,712			
2021 - 2025				1,144	160	1,304			
2026 - 2030				238	16	254			
Total	<u>\$14,501</u>	<u>\$ 1,706</u>	<u>\$16,207</u>	<u>\$14,342</u>	<u>\$ 2,989</u>	<u>\$17,331</u>	<u>\$ 192</u>	<u>\$ 24</u>	<u>\$ 216</u>

The following table presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2010.

Type	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities		Assets under Capital Lease	Accumulated Depreciation
	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation		
Land	\$	\$	\$ 11	\$	\$	\$
Buildings	18,084	12,536	12,464	2,453		
Furniture and Equipment	2,170	298	12,898	2,518	238	12
Vehicles, Boats, etc.	7,896					
Total	<u>\$28,150</u>	<u>\$12,834</u>	<u>\$25,373</u>	<u>\$ 4,971</u>	<u>\$ 238</u>	<u>\$ 12</u>

Note 9

Retirement Plans

The state of Texas contributes to six defined benefit pension plans and one defined contribution plan that provide financial benefits to retired employees, their spouses and beneficiaries of the state of Texas, school districts and other entities. The defined benefit pension plans are administered by the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), which are component units, and the Fire Fighters' Pension Commissioner (FPC), which is part of the primary government. The state is a participating employer in these plans with the exception of the FPC defined benefit pension plan. The state is not an employer in the FPC plan, but makes on-behalf contributions to the FPC plan. The state makes employer contributions to the defined contribution plan, Optional Retirement Program (ORP), which benefits certain employees of institutions of higher education. This plan is administered by the employers of institutions of higher education.

The state's contributions to these plans are authorized by statute and may be amended by the Legislature. The state reports the pensions' financial activities in the other employee benefit trust funds column of the fiduciary funds financial statements. The investments of the pension funds are included in Note 3.

The Texas Guaranteed Student Loan Corporation's (TGSLC) defined contribution pension plan is disclosed because the TGSLC is a component unit of the state, but the state is not considered an employer of the plan and does not contribute to the plan.

Audited financial statements for each defined benefit pension plan may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commissioner
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

Additional information for each defined contribution plan may be obtained from the following:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711-2788

Texas Guaranteed Student Loan Corporation
P.O. Box 201725
Austin, Texas 78720-1725

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. The Employees Retirement System of Texas Plan (ERS Plan) is considered a cost-sharing, multiple-employer defined benefit plan with a special funding situation. The employers of the ERS Plan are the state of Texas and one discrete component unit of the state of Texas, the State Bar of Texas. The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and the Judicial Retirement System of Texas Plan One and Plan Two (JRS) are considered single-employer defined benefit pension plans.

Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS Plan Two, under which the state contribution rate is actuarially determined every even-numbered year for the next biennium. Each plan's monthly contribution requirements are disclosed on the table below.

Plan	Employer	Members		
		Employee	Elected – Legislators	Elected – Other
ERS*	6.95%	6.50%	8.00%	6.00%
LECOS	1.59%	0.50%	N/A	N/A
JRS1	N/A	6.00%	N/A	N/A
JRS2	16.83%	6.00%	N/A	N/A
TRS	6.644%	6.40%	N/A	N/A

* The employee contribution rate and employer contribution rate was 6.45 percent through December 2009.

The ERS audited financial statements reflect the results of the actuarial valuations of the four plans it administers. The statements do not note any subsequent legislative action that would negatively affect the certification of actuarial soundness of the plans.

The ERS Plan, established by the Texas Government Code, Chapters 811-815, covers elected class members and employee class members. The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

The elected class members are vested after eight years of service credit and may retire at age 50 with 12 years of service credit or at age 60 with eight years of service credit. The monthly standard annuity equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries increase. The

maximum standard annuity is 100 percent of the state salary being paid a district judge.

The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Other employee class members include certified peace officers and custodial officers. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the ERS employee class plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employee class retirement benefits for employees hired on or before Aug. 31, 2009, with the exception of certified peace officers and custodial officers, vest after five years of service credit and employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80. The average monthly compensation is the average of the highest 36 months of compensation.
- Employee class retirement benefits for employees hired on or after Sept. 1, 2009, with the exception of certified peace officers and custodial officers, may retire at age 65 with 10 years of service credit or at any age when the sum of age and service credit (including months) equals or exceeds 80. The average monthly compensation is the average of the highest 48 months of compensation. The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 60, with a maximum possible reduction of 25 percent.
- Certified peace officers and custodial officers hired on or before Aug. 31, 2009, may retire at age 55 with 10 years of service as a certified peace officer

or custodial officer. The average monthly compensation is the average of the highest 36 months of compensation. For certified peace officers and custodial officers hired on or after Sept. 1, 2009, the average monthly compensation is the average of the highest 48 months of compensation.

A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life.

LECOS, established under Texas Government Code, Chapter 814.107, provides a supplemental retirement benefit to the ERS employee class member with service rendered while a law enforcement officer, a custodial officer, a parole officer or a case worker. The LECOS plan increases the statutory percentage to 2.8 percent of the average monthly compensation multiplied by the number of years of service credit. The minimum monthly standard annuity is \$150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the LECOS plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employees hired on or before Aug. 31, 2009, with 20 years of service may retire at age 50 or at any age when the sum of age and service credit equals or exceeds 80. A member under the age of 50 may receive reduced benefits upon completing 20 years of service. Average monthly compensation is the average of the highest 36 months of compensation.
- Employees hired on or after Sept. 1, 2009, vest after 20 years of services and vested employees may retire at age 55 or at any age when the sum of age and service credit equals or exceeds 80. A member under the age of 55 may receive reduced benefits upon completing 20 years of service. Average monthly compensation is the average of the highest 48 months of compensation.

Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. In 2009, the 81st Legislature appropriated state funding for the LECOS plan for the biennium ending Aug. 31, 2011, based on 1.59 percent of covered payroll for LECOS members.

JRS Plan One is established by Texas Government Code, Chapter 835, and JRS Plan Two is established by Texas Government Code, Chapter 840. JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a court. Members prior to Sept. 1, 1985, participate in Plan One and all others participate in Plan Two.

Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of Plan One and Plan Two may retire at any age with 20 years of service. Prior to Sept. 1, 2005, members of Plan Two were restricted to retirement at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous or at age 60 with 12 years of service.

The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Member contributions for JRS Plan One are made to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are not actuarially determined since the plan is not funded in advance.

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the ERS, JRS Plan Two or LECOS plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period already exceeds 30 years by one or more years. As of the Aug. 31, 2010, actuarial valuations, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS and LECOS plans over any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized for either plan.

Teacher Retirement System of Texas

The Board of Trustees of TRS is the administrator of one pension plan (TRS Plan). The TRS Plan, established under Texas Government Code, Chapters 822-824, is considered a cost-sharing multiple-employer defined benefit plan with a special funding situation. The state is required by statute to make contributions to the TRS Plan. For fiscal 2010, the state made the majority of contributions to the TRS Plan. A special funding situation is created, which results in the state reporting the TRS Plan as if it was the sole employer. The employers of the TRS Plan include the state of Texas, TRS and 1,311 public schools, service centers, charter schools and community colleges. Employees of state of Texas colleges, universities, medical schools and the Texas Education Agency are members of the TRS Plan. Employees of these entities not employed for one-half or more of the standard work load or who are exempted from membership are not covered by the TRS Plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provision of the TRS Plan are authorized by state law and may be amended by the Legislature.

A member is vested after five years of service credit and is eligible to retire at a future date and receive a life-

time monthly annuity. The normal service retirement is at age 65 with five years of service credit or when the sum of the member's age and years of service credit equals at least 80 years. The service age requirement for early retirement is age 55 with five years of service credit or any age below 50 with 30 years of service credit. The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service credit. For "grandfathered" members, the three highest annual salaries are used. At normal retirement age, the minimum monthly standard annuity is the greater of \$150 or the formula standard annuity. Total payments will not be less than accumulated contributions at retirement.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five and 10 year guaranteed period annuities.

TRS also offers two other annuity payment options:

- **The Deferred Retirement Option Plan (DROP)**
DROP allows members to freeze their standard annuity and, instead of retiring, have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan was closed for new participants effective Dec. 31, 2005.
- **A Partial Lump-Sum Cash Option (PLSO)**
PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

Contribution requirements are not actuarially determined, but are legally established each biennium. The TRS Plan's monthly contribution requirements are disclosed on the "Contribution Rates" table. The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation, and a state contribution rate of not less than 6 percent but not greater than 10 percent of the aggregate annual compensation of all members of the TRS Plan during that fiscal year. As required by state statute, the state rate is paid by the employer for compensation paid to new members during the first 90 days of employment, on amounts paid to employees above the statutory minimum amount and on compensation paid from private or federal funds. Total employer contributions to the TRS Plan are a combination of state, public schools, federal and private funding.

State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by such action. As of the Aug. 31, 2010, actuarial valuation, contributions are insufficient to amortize the current unfunded accrued liabilities of the TRS Plan over

any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized.

Optional Retirement Program

The state's contributions to the Optional Retirement Program (ORP) are authorized by Texas Government Code, Chapter 830. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect ORP in lieu of the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of ORP.

ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several insurance and investment companies through annuity contracts or mutual fund investments. These types of investments are authorized by Internal Revenue Code, Section 403(b). With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the companies. Benefits in ORP vest after one year of participation.

Retirement Systems' Membership					
	ERS	LECOS	JRS1	JRS2	TRS
Retirees and Beneficiaries Currently Receiving Benefits	79,311	7,175	447	164	296,491
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	78,737	2,978	7	130	73,646
Current Employees: Vested and Non-Vested	<u>142,490</u>	<u>39,052</u>	<u>22</u>	<u>539</u>	<u>930,543</u>
Total Members	<u>300,538</u>	<u>49,205</u>	<u>476</u>	<u>833</u>	<u>1,300,680</u>

Actuarial Methods and Assumptions

	ERS	LECOS	JRS1	JRS2	TRS
Actuarial Valuation Date	Aug. 31, 2010	Aug. 31, 2010	Aug. 31, 2010	Aug. 31, 2010	Aug. 31, 2010
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open
Remaining Amortization Period	Never	Never	N/A	12.6 years*	Never
Asset Valuation Method	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	N/A	20% of market plus 80% of expected actuarial value	5-year Smoothed Market
Actuarial Assumptions:					
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-13.5%	5.5%-13.5%	3.5%	3.5%	4.25%-26.4%
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None

* The amortization period was calculated based on estimated fiscal 2011 covered payroll. At the end of fiscal 2011, the ARC and the amortization period will be recalculated based on actual 2011 covered payroll.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent for the participant and 6.4 percent for the state. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate up to 2.1 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not prepared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of ORP are institutions of higher education, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2010 resulted in participant contributions of \$219.4 million and employer contributions of \$262.8 million.

As of Aug. 31, 2010, ORP has 39,603 participants. The total participant contributions were \$256.2 million and total employer contributions were \$304.9 million. Additional information for ORP is included in the fiscal 2010 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board.

Fire Fighters' Pension Commissioner

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At Aug. 31, 2010, there are 198 member fire departments participating in TESRS. The state is not an employer of the TESRS plan.

The statutory authority for TESRS is found in Texas Government Code, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. The state may also be required to make a limited amount of annual appropriations to make the fund actuarially sound. The appropriations may not exceed the amount of one-third of the total of all contributions

by governing bodies in one year. For fiscal 2010, legislative appropriations in the amount of \$502.9 thousand were made to assist with TESRS's administrative expenses. The member fire department contributions to the fund for the year ending Aug. 31, 2010, were \$2.9 million. Contributions made were equal to the yearly statutorily required contributions.

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation or asset for fiscal 2010 is presented below.

Annual Pension Cost and Net Pension Obligation/Asset					
(Amounts in Thousands)					
	ERS	LECOS	JRS1	JRS2	TRS
Annual Required Contribution, ARC	\$630,326	\$33,760	\$23,452	\$11,270	\$2,661,848
Interest on Net Pension Obligation, NPO	16,492	1,528	6,403	(410)	21,361
Adjustment to ARC	(12,379)	(1,147)	(6,841)	1,206	(16,030)
Annual Pension Cost	<u>634,439</u>	<u>34,141</u>	<u>23,014</u>	<u>12,066</u>	<u>2,667,179</u>
Employer Contributions Made	<u>399,768</u>	<u>27,799</u>	<u>27,303</u>	<u>11,511</u>	<u>2,296,479</u>
Increase (Decrease) in NPO	<u>234,671</u>	<u>6,342</u>	<u>(4,289)</u>	<u>555</u>	<u>370,700</u>
Net Pension Obligation/(Asset), September 1, 2009	<u>206,152</u>	<u>19,102</u>	<u>80,034</u>	<u>(5,131)</u>	<u>213,926</u>
Restatement*					<u>53,087</u>
Net Pension Obligation/(Asset), September 1, 2009, as Restated	<u>206,152</u>	<u>19,102</u>	<u>80,034</u>	<u>(5,131)</u>	<u>267,013</u>
Net Pension Obligation/(Asset), August 31, 2010**	<u>\$440,823</u>	<u>\$25,444</u>	<u>\$75,745</u>	<u>\$ (4,576)</u>	<u>\$ 637,713</u>

* Refer to Note 14 for information pertaining to the TRS restatement.
 ** See the "Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The table below presents the three-year trend information regarding annual pension cost and net pension obligation of the plans.

Three-Year Trend Information			
(Amounts in Thousands)			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/(Asset)
ERS			
08/31/10	\$ 634,439	63.0%	\$440,823
08/31/09	530,647	68.3%	206,152
08/31/08	378,269	90.3%	38,050
LECOS			
08/31/10	\$ 34,141	81.4%	\$ 25,444
08/31/09	33,317	62.0%	19,102
08/31/08	19,678	102.6%	6,442
JRS1			
08/31/10	\$ 23,014	118.6%	\$ 75,745
08/31/09	24,868	113.4%	80,034
08/31/08	26,791	107.0%	83,360
JRS2			
08/31/10	\$ 12,066	95.4%	\$ (4,576)
08/31/09	13,153	86.3%	(5,131)
08/31/08	11,480	97.0%	(6,928)
TRS*			
08/31/10	\$2,667,179	86.1%	\$637,713
08/31/09	1,278,488	107.5%	213,926
08/31/08	1,432,030	101.3%	309,184

* In fiscal 2010, the Net Pension Obligation was restated for fiscal years 1998 through 2009 to include reporting entity contributions.

Funded Status

The state’s pension plans funded status information for each plan as of Aug. 31, 2010, is presented below.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Included in the audited financial reports for ERS and TRS are:

- (1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.
- (2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC.

Texas Guaranteed Student Loan Corporation

The Texas Guaranteed Student Loan Corporation (TGS LC), a discrete component unit of the state, maintains its own defined contribution retirement plan, the TGS LC Money Purchase Pension Plan and Trust (the Plan). The Plan covers substantially all employees of the TGS LC. As of June 30, 2010, there are 690 participants in the Plan. Employees do not contribute to the Plan; TGS LC’s contributions to the Plan are generally based on 9 percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately \$39.1 million and \$36.6 million, respectively, in the Plan year ended June 30, 2010. Total TGS LC contributions were approximately \$3.2 million for the fiscal year ended Sept. 30, 2010. Plan amendments are subject to the Plan’s Board of Trustees’ approval and the TGS LC Board of Directors’ ratification.

Funded Status						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll* (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
ERS*						
08/31/10	\$ 23,628,567	\$ 27,668,876	\$ (4,040,309)	85.4%	\$ 5,930,141	(68.1)%
LECOS*						
08/31/10	\$ 802,897	\$ 930,747	\$ (127,850)	86.3%	\$ 1,507,950	(8.5)%
JRS1						
08/31/10	\$ 0	\$ 264,077	\$ (264,077)	0.0%	\$ 2,827	(9,341.2)%
JRS2						
08/31/10	\$ 264,515	\$ 281,760	\$ (17,245)	93.9%	\$ 68,755	(25.1)%
TRS						
08/31/10	\$ 111,292,528	\$ 134,191,110	\$ (22,898,582)	82.9%	\$ 36,628,844	(62.5)%

* The AAL and Covered Payroll calculations incorporate changes made by 81st Legislature, Regular Session, House Bill 2559, which modified benefits for members hired after Aug. 31, 2009.

Note 10

Deferred Compensation

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457. The second was established in accordance with Internal Revenue Code, Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (UT) offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 457(b). All UT employees are eligible to participate in UT's plan and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. UT has no liability under the plan.

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 401(k). All TSAHC employees are eligible to participate in TSAHC's plan and do not participate in the plan offered by the state of Texas. The state of Texas does not contribute to the plan. TSAHC is not the plan administrator and has no liability under the plan.

Note 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are established by the General Appropriations Act.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care and life insurance benefit plans: the UT System Employee Group Insurance Program (UT Plan) and A&M System Group Insurance Program (A&M Plan). The UT Plan is administered by the University of Texas System and the A&M Plan is administered by the Texas A&M University System.

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

University of Texas System
 601 Colorado Street
 Austin, Texas 78701-2982

Texas A&M University System
 200 Technology Way
 College Station, Texas 77845

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. UT and A&M are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT and A&M plans are established and amended by the administering systems as allowed under Texas Insurance Code, Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

The university system and member contribution rates are determined annually by each system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. The three year history of employer contributions and annual OPEB costs is presented in the “Three-Year Trend Information” table.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/10	\$ 117,023	\$ 571,761	20.5%	\$ 1,295,763
8/31/09	105,356	523,703	20.1%	841,025
8/31/08	99,892	522,570	19.1%	422,678
A&M Plan				
8/31/10	\$ 40,174	\$ 162,680	24.7%	\$ 342,379
8/31/09	37,325	116,890	31.9%	219,873
8/31/08	36,284	176,593	20.5%	140,309

For the fiscal year ended Aug. 31, 2010, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2010

Level of Coverage	UT Plan	A&M Plan
Retiree Only	\$ 393	\$ 401
Retiree/Spouse	599	583
Retiree/Children	525	515
Retiree/Family	732	674

Annual OPEB Cost and Net OPEB Obligation

The state’s annual OPEB cost for the UT and A&M plans is calculated based on the annual required contributions of the employers (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater

than 30 years. The following table shows the components of the annual OPEB cost for the year for the UT and A&M plans.

Annual OPEB Cost and Net OPEB Obligation		
(Amounts in Thousands)		
	UT Plan	A&M Plan
Annual Required Contribution, ARC	\$ 553,975	\$ 157,745
Interest on Net OPEB Obligation	58,872	16,051
Adjustment to ARC	(41,086)	(11,116)
Annual OPEB Cost	<u>571,761</u>	<u>162,680</u>
Employer Contributions Made	<u>117,023</u>	<u>40,174</u>
Increase Net OPEB Obligation	<u>454,738</u>	<u>122,506</u>
Net OPEB Obligation, September 1, 2009	<u>841,025</u>	<u>219,873</u>
Net OPEB Obligation, August 31, 2010	<u>\$ 1,295,763</u>	<u>\$ 342,379</u>

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2010, is disclosed below.

Funded Status		
(Amounts in Thousands)		
	UT Plan	A&M Plan
Actuarial Accrued Liability (AAL)	\$ 5,676,868	\$ 1,864,320
Actuarial Value of Plan Assets	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 5,676,868</u>	<u>\$ 1,864,320</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	\$ 5,026,491	\$ 1,315,292
UAAL as a Percentage of Covered Payroll	112.9%	141.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new

estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. See the table below for additional detail on the actuarial methods and assumptions used in the UT plan and A&M plan valuations.

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2009	Sept. 1, 2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Amortization Period	30 years	30 years
Asset Valuation Method	Market	N/A
Actuarial Assumptions:		
Investment Rate of Return	7%	7.3%
Includes Inflation at	4%	4%
Health Care Trend Rates	9% initial 6% ultimate	8% initial 6% ultimate

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Section 1551.102. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 61 participating employers.

In a cost-sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements. Because SRHP is funded by multiple employers, the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB plan are not required to be based on the plan ARC.

Each employer has limited note disclosure requirements under the cost-sharing multiple-employer provisions of GASB 45. Additionally, each employer is not required to disclose the actuarial information as it relates to the entire plan on their individual employer report. Instead, the OPEB plan discloses all required actuarial calculations in the notes to their financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for SRHP. That report may be obtained by writing to ERS at the following address:

Employees Retirement System of Texas
 P.O. Box 13207
 Austin, Texas 78711-3207

Plan Description

Retirees of state agencies, institutions of higher education (not part of UT and A&M) and other non-state entities selected by the Legislature are eligible to receive these OPEB through SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The table below summarizes the maximum monthly employer contribution toward the health and basic life premiums of eligible retirees.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2010

Level of Coverage	ERS SRHP
Retiree Only	\$ 385
Retiree/Spouse	606
Retiree/Children	533
Retiree/Family	753

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2010 the state contributed

\$432.4 million to SRHP, which equaled the required contribution.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,259 participating employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. A special funding situation is not created because costs are shared between the state and the many participating non-state school district employers. The fiscal 2010 contributions to the TRS-Care OPEB plan are displayed below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

	<u>TRS-Care</u>
From Reporting Entities	\$155,918
On Behalf From State	279,251
On Behalf From Federal Government	70,796
	<u>\$505,965</u>

TRS issues a publically available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at the following address:

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code, Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

In fiscal 2010 the state contributed \$279.3 million to TRS-Care. The state is not contractually required to contribute to the TRS-Care plan because it is not an employer in the plan.

Medicare Part D

In fiscal 2010 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. On-behalf payments are recorded as revenues and expenses of each plan. The OPEB administrators reported the following amounts of Medicare Part D payments from the federal government in fiscal 2010.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

UT Plan	\$ 7,456
A&M Plan	3,814
ERS SRHP	40,988
TRS-Care	<u>70,796</u>
	<u>\$ 123,054</u>

Note 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables and are classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonop-

erating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year-end are accrued as “due from/due to.” Activity occurring within the same fund is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as “transfers-internal activities.”

Certain reclassifications and eliminations are made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units are reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds are reported as transfers on the fund financial statements and are reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/ payables to fiduciary funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the gen-

eral revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The interfund receivables/payables include loans for energy efficiency programs of approximately \$9.9 million. There is also a \$591.7 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for

bond payments. Significant transfers include a \$5 billion transfer from the property tax relief fund and a \$989.1 million transfer from the lottery fund to the foundation school fund for educational programs. There is also a \$2.2 billion transfer from the general revenue fund to the state highway fund and a \$745.8 million transfer from the general fund to the available school fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2010, is presented in the following tables.

Interfund Receivables/Payables

(Amounts in Thousands)

Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Governmental Funds						
General Fund	\$ 2,366	\$ 52	\$ 7,503	\$	\$ 9,869	\$ 52
Nonmajor Governmental Funds	17	380		4,554	17	4,934
	<u>2,383</u>	<u>432</u>	<u>7,503</u>	<u>4,554</u>	<u>9,886</u>	<u>4,986</u>
Proprietary Funds						
Colleges and Universities	20,245	22,339	591,650	597,564	611,895	619,903
Nonmajor Enterprise Funds	169		2,965		3,134	
	<u>20,414</u>	<u>22,339</u>	<u>594,615</u>	<u>597,564</u>	<u>615,029</u>	<u>619,903</u>
Fiduciary Funds						
Agency Funds		26				26
	<u>0</u>	<u>26</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>26</u>
Total	<u>\$ 22,797</u>	<u>\$ 22,797</u>	<u>\$602,118</u>	<u>\$602,118</u>	<u>\$624,915</u>	<u>\$624,915</u>

Due From/Due To

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
Governmental Funds						
General Fund	\$ 108,356	\$	\$	\$ 1,151,444	\$	\$ 538
State Highway Fund	240,864			50,261		
Permanent School Fund	32			376		
Nonmajor Governmental Funds	81,159			43,167		
	<u>430,411</u>	<u>0</u>	<u>0</u>	<u>1,245,248</u>	<u>0</u>	<u>538</u>
Proprietary Funds						
Colleges and Universities	829,740		58	23,419		
Unemployment Trust Fund	6,833					
Lottery Fund				2,871		
Nonmajor Enterprise Funds	13,537			3,413		
Internal Service Fund	318			103,608		
	<u>850,428</u>	<u>0</u>	<u>58</u>	<u>133,311</u>	<u>0</u>	<u>0</u>
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	151,922			25,837		
Private-Purpose Trust Funds				13		
Agency Funds	192			28,544		
	<u>152,114</u>	<u>0</u>	<u>0</u>	<u>54,394</u>	<u>0</u>	<u>0</u>
Discretely Presented Component Units	<u>0</u>	<u>538</u>	<u>0</u>	<u>0</u>	<u>58</u>	<u>0</u>
Total	<u>\$ 1,432,953</u>	<u>\$ 538</u>	<u>\$ 58</u>	<u>\$ 1,432,953</u>	<u>\$ 58</u>	<u>\$ 538</u>

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances—Receivables	\$ 2,949	\$ (2,949)	\$ 0
CURRENT LIABILITIES			
Internal Balances—Payables	\$ 818,482	\$ (818,482)	\$ 0

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In	Transfers Out
	Other Funds	Other Funds
Governmental Funds		
General Fund	\$ 6,452,719	\$ 9,277,867
State Highway Fund	2,532,927	410,827
Permanent School Fund		60,700
Nonmajor Governmental Funds	2,479,070	6,237,113
	<u>11,464,716</u>	<u>15,986,507</u>
Proprietary Funds		
Colleges and Universities	5,841,662	391,552
Unemployment Trust Fund	105,160	
Lottery Fund		1,063,085
Nonmajor Enterprise Funds	54,046	54,485
	<u>6,000,868</u>	<u>1,509,122</u>
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds	103,090	72,985
Private-Purpose Trust Funds		60
	<u>103,090</u>	<u>73,045</u>
Total Transfers In/Out	<u>\$17,568,674</u>	<u>\$17,568,674</u>

Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	\$ (4,491,627)
Business-Type Activities	\$ 4,491,627

Note 13

Classification of Fund Balances/ Net Position

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at Aug. 31, 2010.

The classification of unreserved undesignated or unreserved designated fund balances for governmental funds is based on the function of the operation of the agencies within the funds. The fund balances of oversight agencies are classified as designated for general government.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Of the \$48.3 billion reported as restricted net position by the primary government, \$33.1 billion was restricted by enabling legislation. Restrictions imposed by enabling legislation could be changed by future legislative action.

Of the \$15.3 billion reported as unrestricted net position, \$7.7 billion is for the economic stabilization fund. The Legislature may appropriate the fund for any purpose upon receiving a two-thirds vote of the members present in each house.

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated

(Amounts in Thousands)

MAJOR FUNDS

General Fund – Reserved:

Encumbrances	\$ 4,100,999
Inventories	186,509
Imprest Accounts	3,916
Loans and Contracts (Noncurrent)	718,760
Interfund Receivables (Noncurrent)	7,503
Tax Receivables (Noncurrent)	331,306
Health and Human Services	110,306
	<u>\$ 5,459,299</u>

General Fund – Unreserved

Undesignated:	<u>\$ 2,950,253</u>
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State Highway Fund – Reserved:

Encumbrances	\$ 192,838
Inventories	112,616
Imprest Accounts	602
Loans and Contracts (Noncurrent)	283,548
	<u>\$ 589,604</u>

State Highway Fund – Unreserved:

Designated:	
General Government	\$ 1,680
Transportation	693,733
	<u>\$ 695,413</u>

Permanent School Fund – Reserved:

Encumbrances	\$ 4,963
Loans and Contracts (Noncurrent)	3,479
Public School Support	24,386,874
	<u>\$ 24,395,316</u>

NONMAJOR FUNDS

Special Revenue Funds – Reserved:

Encumbrances	\$ 33,383
Inventories	359
Imprest Accounts	10
Loans and Contracts (Noncurrent)	2,531,937
	<u>\$ 2,565,689</u>

Special Revenue Funds – Unreserved:

Designated:	
General Government	\$ 122,970
Regulatory Services	576,318
Health and Human Services	12,538
Natural Resources and Recreation	190,792
Education	350,621
Transportation	1,372,087
Public Safety and Corrections	7,351
Employee Benefits	56
	<u>\$ 2,632,733</u>

Undesignated:

General Government	\$ 6
Regulatory Services	13,651
Health and Human Services	1,096
	<u>\$ 14,753</u>

Debt Service Funds – Reserved:

Debt Service	<u>\$ 227,778</u>
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Concluded on the following page

**Governmental Fund Balances –
Reserved, Unreserved/Designated, Unreserved/Undesignated (concluded)**

(Amounts in Thousands)

NONMAJOR FUNDS (continued)

Capital Projects Funds – Reserved:	
Encumbrances	\$ 186,321
Inventories	81
Capital Projects	228,041
	<u>\$ 414,443</u>
Capital Projects Funds – Unreserved:	
Undesignated:	
General Government	\$ (82,457)
Health and Human Services	(56,713)
Natural Resources and Recreation	(4,703)
Education	(8,759)
Public Safety and Corrections	(51,340)
	<u>\$ (203,972)</u>

NONMAJOR FUNDS (concluded)

Permanent Funds – Reserved:	
Encumbrances	<u>\$ 3</u>
	<u>\$ 3</u>
Permanent Funds – Unreserved:	
Designated:	
Permanent Health Fund	<u>\$ 468,315</u>
Undesignated:	
General Government	\$ 559,692
Education	9
	<u>\$ 559,701</u>
ALL GOVERNMENTAL FUNDS	
Reserved	\$ 33,652,132
Unreserved/Designated	3,796,461
Unreserved/Undesignated	3,320,735
Total Fund Balances – Governmental Funds	<u>\$ 40,769,328</u>

Note 14

Restatement of Beginning Balances

During fiscal 2010, certain accounting changes and adjustments were made that required the restatement of fund balances or net position. Additionally, certain adjustments required a restatement to begin-

ning cash and cash equivalents on the statement of cash flows.

Restatements to Fund Balances/Net Position

A reconciliation of the beginning balances and all related restatements is included below and discussed on the following page.

Restatements to Fund Balances/Net Position			
(Amounts in Thousands)			
	September 1, 2009, As Previously Reported	Restatements	September 1, 2009, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES			
Major Funds:			
General Fund	\$ 8,966,412	\$ 20,217	\$ 8,986,629
State Highway Fund	139,440		139,440
Permanent School Fund	22,597,516		22,597,516
Total Major Funds	<u>31,703,368</u>	<u>20,217</u>	<u>31,723,585</u>
Nonmajor Funds:			
Special Revenue Funds	6,989,757	1,188	6,990,945
Debt Service Funds	220,802	(72)	220,730
Capital Project Funds	334,712	4,233	338,945
Permanent Funds	992,885		992,885
Total Nonmajor Funds	<u>8,538,156</u>	<u>5,349</u>	<u>8,543,505</u>
Total Governmental Funds	<u>40,241,524</u>	<u>25,566</u>	<u>40,267,090</u>
Governmental Activities Adjustments:			
Capital Assets	69,946,975	(125,736)	69,821,239
Long-Term Liabilities	(15,319,103)	12,875	(15,306,228)
Deferred Revenue	710,126	6,752	716,878
Internal Service Fund	282,484		282,484
Total Governmental Activities Adjustments	<u>55,620,482</u>	<u>(106,109)</u>	<u>55,514,373</u>
Total Governmental Activities	<u>95,862,006</u>	<u>(80,543)</u>	<u>95,781,463</u>
BUSINESS-TYPE ACTIVITIES			
Major Funds:			
Colleges and Universities	31,809,726	10,401	31,820,127
Unemployment Trust Fund	(303,836)		(303,836)
Lottery Fund	71,141	(9,569)	61,572
Nonmajor Enterprise Funds	<u>3,440,807</u>	<u>(1,744)</u>	<u>3,439,063</u>
Total Business-Type Activities	<u>35,017,838</u>	<u>(912)</u>	<u>35,016,926</u>
Total Primary Government	<u>\$ 130,879,844</u>	<u>\$ (81,455)</u>	<u>\$ 130,798,389</u>
Discretely Presented Component Units	<u>\$ 971,429</u>	<u>\$ 39</u>	<u>\$ 971,468</u>

Restatements by Activity				
(Amounts in Thousands)				
Restatements	Governmental Activities	Business-Type Activities	Component Unit	Total Restatements
A.	\$ 91,528	\$ (14,968)	\$ 85	\$ 76,645
B.	(125,736)	(16,162)	(46)	(141,944)
C.	6,752	30,218		36,970
D.	(53,087)			(53,087)
Total Restatements	<u>\$ (80,543)</u>	<u>\$ (912)</u>	<u>\$ 39</u>	<u>\$ (81,416)</u>

Restatements are grouped into the following four categories:

- A. These are miscellaneous restatements necessary to correct accounting errors in the prior period or recognize changes in the application of accounting principles to improve consistency within the financial reporting entity. All adjustments related to capital assets are included in category B.
- B. These restatements are for adjustments to capital assets and accumulated depreciation or amortization, including those adjustments needed due to the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Included within the total adjustments is a \$155 million restatement to remove the historical archives collection of the Texas General Land Office. These items were previously recorded at their estimated fair value, which is not appropriate for capital assets. Refer to Note 2 for additional information on the state’s policies and balances for capital assets.
- C. These restatements are due to the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The restatement records the fair value of interest rate

swap agreements determined to be ineffective hedges. Refer to Note 7 for additional information on derivative activity.

- D. This restatement is due to changes in the actuarial method of calculation for the Teacher Retirement System of Texas pension plan (TRS Plan). These calculation changes impacted the amounts of annual required contributions and employer contributions for the TRS Plan and resulted in a restatement to increase the state’s beginning net pension obligation. Refer to Note 9 for additional details about the TRS Plan.

Other Restatements

During fiscal 2010, the Central Texas Turnpike System implemented the terms of a Master Lockbox and Custodial Agreement (Agreement) related to prepaid toll accounts. To comply with the provisions of the Agreement, all previously held cash deposits for prepaid tolls were transferred to the toll revenue custodial account, an agency fund. The implementation of the Agreement resulted in a restatement to beginning cash and cash equivalents of \$16.1 million in the statement of cash flows. All future cash received for prepaid tolls will be deposited to the toll revenue custodial account.

Note 15

Commitments and Contingencies

COMMITMENTS

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds and federal drawdowns. The Texas Water Development Board has loan commitments totaling \$1.7 billion as of Aug. 31, 2010.

Guaranteed Debt

At Aug. 31, 2010, \$49.3 billion in debt was guaranteed by the permanent school fund for outstanding bond issues in 776 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The \$49.3 billion represents the principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that were refunded and released from the bond guarantee program.

Investment Funds

At Aug. 31, 2010, state agencies, public employee retirement systems and institutions of higher education entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. At Aug. 31, 2010, the remaining commitment is \$22.6 billion.

Construction and Other Commitments

At Aug. 31, 2010, the Texas Department of Transportation (TxDOT) has contractual commitments of

approximately \$7.6 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2010, the maximum amount of future obligations for uncompleted pass-through toll agreements was \$1.4 billion.

As a function of its normal business operations, the State Energy Marketing Program of the Texas General Land Office (GLO) enters into contracts for the purchase and sale of natural gas, the sale of oil and the delivery of natural gas and electric energy to certain public retail customers. As of Aug. 31, 2010, GLO has commitments to third parties for the purchase of 8.5 million British thermal units (MMBTUs) of natural gas at various fixed prices for \$58.2 million. These commitments extend through Aug. 31, 2020.

CONTINGENCIES

Protested Tax Payments

As of Aug. 31, 2010, pending litigation filed by taxpayers seeking refunds of state taxes totals \$699.9 million. The taxes protested include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse ruling in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling \$106.5 million were filed that may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies.

Federal Assistance

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

The Texas Department of Aging and Disability Services has potential federal funding deferrals totaling \$53.4 million as of Aug. 31, 2010.

The Texas Health and Human Services Commission Office of Inspector General and the Office of the Attorney General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers is potentially subject to recovery (amounts associated with the “open case list”) and may represent a corresponding potential liability for the federal share of these payments – about 60 to 65 percent of that total.

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

Arbitrage

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

Derivatives with Contingent Features

All of the Department of Housing and Community Affairs (TDHCA) derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. The aggregate fair value of all derivative instruments with collateral provisions at Aug. 31, 2010, is \$(37) million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2010.

The Teacher Retirement System of Texas (TRS) is party to derivative instruments with provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. At Aug. 31, 2010, the aggregate fair value of all derivative instruments with these provisions is \$(123.7) million. If the collateral posting thresholds did not exist, TRS would be required to post the aggregate amount of \$141.7 million in collateral to its counterparties. TRS posted no collateral as of Aug. 31, 2010.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/ Refunded/Other Financing

State agencies and institutions of higher education issued \$3.8 billion in new bonds and commercial paper and \$88 million in refunding bonds since Aug. 31, 2010. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

The **Veterans Land Board (VLB)** issued:

- \$50 million State of Texas Veterans Bonds Taxable Refunding, Series 2010E on Nov. 18, 2010, to refund the State of Texas Veterans Housing Assistance Program Fund II Bonds, Series 2001A-1, 2001C-1 and 2002A-1; and
- \$16.5 million State of Texas Veterans Bonds Taxable Refunding Series, 2010D on Nov. 18, 2010, to refund the State of Texas Veterans Land Bonds, Series 2000.

The **Texas Public Finance Authority (TPFA)** issued:

- \$11.8 million of Cancer Prevention Research Institute of Texas General Obligation Commercial Paper Notes, Series A on Sept. 7, 2010;
- \$1 million and \$2 million of Master Lease Commercial Paper Notes, Series 2003 on Sept. 8, 2010, and Oct. 14, 2010, respectively;
- \$1 million, \$6.6 million and \$21 million of General Obligation Commercial Paper Notes, Series 2002A on Sept. 7, 2010, Oct. 20, 2010, and Oct. 28, 2010, respectively;
- \$10 million and \$17 million of General Obligation Commercial Paper Notes, Series 2008 on Sept. 24, 2010, and Oct. 12, 2010, respectively;
- \$2 billion of Texas Public Finance Authority Unemployment Compensation Obligation Rev-

enue Bonds, Series 2010A on Nov. 18, 2010, and Series 2010B and 2010C on Dec. 7, 2010, on behalf of the Unemployment Trust Fund (TWC) to repay federal advances and finance a portion of the benefits program administered by TWC;

- \$4.4 million of Education Revenue Bonds, Series 2010A, \$500 thousand of Taxable Education Revenue Bonds, Series 2010B and \$1.2 million of Taxable Education Revenue Bonds, Series 2010Q on Oct. 12, 2010, to fund the construction and equipment of an open-enrollment charter school in Sherman, Texas; and
- \$3.2 million of Education Revenue Bonds, Series 2010A, \$400 thousand of Taxable Education Revenue Bonds, Series 2010B and \$4 million of Taxable Education Revenue Bonds, Series 2010Q on Oct. 16, 2010, to (a) acquire and renovate land in San Antonio, (b) to fund debt service reserve fund for the Series 2010AB bonds and (c) to pay costs of issuance related to bonds.

The **Texas Department of Agriculture** refinanced \$9 million of outstanding Commercial Paper Notes, Series A on Sept. 9, 2010. The commercial paper notes mature in 56 days from the date of issuance with a discount of \$4.2 thousand at a rate of 0.35 percent.

The **Texas Water Development Board** issued \$32.4 million of General Obligation Water Financial Assistance Bonds, Series 2010D on Oct. 6, 2010, to assist small rural utilities in obtaining low-cost financing for water and wastewater projects.

The **Texas Department of Transportation (TxDOT)** issued \$977.8 million of State of Texas Highway Improvement General Obligation Bonds, Series 2010 on Sept. 29, 2010, to (a) reimburse the state highway fund for payment of all or part of the costs of highway improvement projects, (b) to pay the costs of administering projects authorized under Texas Transportation Code, Section 222.004 and (c) to pay the cost or expense of the issuance of the Series 2010 bonds.

The **Texas A&M University System (A&M)** issued \$35 million of Revenue Financing System Commercial Paper on Sept. 9, 2010, and \$30 million of Permanent University Fund Commercial Paper on Oct. 5, 2010, to provide interim financing for the capital improvement needs of A&M.

The **University of Texas System** issued \$604.3 million of Revenue Financing System Taxable Bonds, Series 2010C and \$39.8 million of Revenue Financing System Bonds, Series 2010E on Sept. 15, 2010, to (a) refund \$21.3 million principal amount of Revenue Financing System Commercial Paper Notes, Series A, (b) to finance the costs of campus improvements and (c) to pay the costs of issuance related thereof.

Other Subsequent Events

The Texas Workforce Commission transferred \$82.6 million of taxes to the unemployment trust fund in September 2010. The taxes were originally deposited to the employment and training investment holding fund, an account within the general revenue fund. Texas Labor Code, Section 204.123, defines a statutory floor for the unemployment trust fund as 1 percent of total taxable wages for the four quarters ending June 30, 2010. The transfer was required because the unemployment trust fund balance was below that floor.

As of January 2011, TxDOT was negotiating terms to extend a toll equity loan of an aggregate maximum amount of approximately \$4.1 billion to the North Texas Tollway Authority (NTTA) to enhance the project feasibility and expedite delivery on the State Highway 161 project in Dallas, Texas. NTTA will pay \$458 million, plus interest, as an upfront payment to TxDOT, which will be reserved for transportation projects selected by local leaders in the Dallas-Fort Worth Metroplex. The Texas Transportation Commission authorized the loan to be made; however, TxDOT and NTTA are making non-substantive changes to the agreement to satisfy all lenders of the project.

Note 17

Risk Management

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

Estimates of liabilities for incurred but not reported claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience.

Property and Liability

The Texas Labor Code, Chapter 412, identifies the executive director of the State Office of Risk Management (SORM) as the state risk manager. SORM operates as a full-service risk and insurance manager for the state and oversees all surety bond and property and liability insurance purchases by state agencies.

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

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed

through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

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

Texas Employee Group Benefits Program

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

University of Texas System and Texas A&M University System

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

Teacher Retirement System

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

TRS-ActiveCare offers a choice of four preferred provider organization plans statewide as well as HMO plans in certain service areas. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The following table presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ending Aug. 31, 2009, and Aug. 31, 2010. Claims and judgment amounts presented in Note 5 are also included in the table.

	Beginning Balance	Increases	Decreases	Ending Balance
2010	\$ 737,066	\$ 2,806,764	\$ 2,757,708	\$ 786,122
2009	\$ 717,060	\$ 2,233,247	\$ 2,213,241	\$ 737,066

Of the fiscal 2010 claims liability ending balance, \$224 million relates to long-term claims liabilities, which are reported in Note 5. The remaining \$562 million relates to the state's health, life and dental insurance programs, which are reported as accounts payable.

Note 18

Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of Aug. 31, 2010, the redetermination hearings process had an estimated amount of \$870 million.

Note 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Most component units, however, are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for information purposes

of interested parties. The component units are reported for the year ended Aug. 31, 2010, unless indicated otherwise.

Blended Component Units

The state is financially accountable for the following material blended component units. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state. The component units' financial data is blended in the appropriate funds within the financial statements. There are no other material blended component units of the state.

Employees Retirement System of Texas (ERS) is a legal entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six member board of trustees. The governor, with the advice and consent of the Senate, appoints three of the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting ERS at P.O. Box 13207, Austin, Texas 78711.

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

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however,

the units do not provide services entirely or almost entirely to the state. The component units' financial data is discretely presented in the component unit column of the state's financial statements.

Texas Guaranteed Student Loan Corporation (TGSLC) is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state of Texas is financially accountable for TGSLC through board appointment and imposition of will. All members of TGSLC's board are appointed by the governor with the advice and consent of the Senate. TGSLC's liabilities are not debts of the state. TGSLC received a one-time appropriation of \$1.5 million to fund initial startup operations. TGSLC is reported for the year ended Sept. 30, 2010. Separate financial statements may be obtained by contacting TGSLC at P.O. Box 83100, Round Rock, Texas 78683-3100.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. TRS is governed by a nine-member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. The state of Texas has the ability to impose its will on TRS through its budget approval powers. Separate financial statements may be obtained by contacting TRS at 1000 Red River St., Austin, Texas 78701.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The state of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2010. Separate financial statements may

be obtained by contacting the State Bar at 1414 Colorado St., Austin, Texas 78701.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Nonprofit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Prior to any bonds being issued by TSAHC, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the house of representatives and Comptroller of Public Accounts. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association became a discrete component unit of the state of Texas on Jan. 1, 2010. The Association is reported on a calendar year basis. Their most recent financial statements are for the calendar year ended Dec. 31, 2009, when they were not a component unit of the state; therefore, their financial information is not included in the fiscal 2010 state of Texas financial statements.

Surplus Lines Stamping Office of Texas (Stamping Office) is a nonprofit corporation created by the

Legislature to assist TDI in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec. 31, 2009. Separate financial statements may be obtained by contacting the Stamping Office at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System is a legally separate entity that reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements are presented on statutory accounting principles established by TDI, and are reported for the year ended Dec. 31, 2009. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool (THIRP) is a legally separate entity that provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members, is appointed by TDI's commissioner. THIRP is reported for the year ended Dec. 31, 2009. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas Boll Weevil Eradication Foundation Inc. (Foundation) is a legally separate entity that establishes and implements a boll weevil eradication program for

Texas. It is fiscally dependent on the Texas Department of Agriculture (TDA) and governed by 16 board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2009. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses. TAFA primarily benefits the citizens of Texas. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount sufficient to pay those obligations. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers TAFA with the assistance of the board. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) is a legally separate entity created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the house of representatives and the Comptroller of Public Accounts. Financial statements may be obtained by contacting TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas On-Site Wastewater Treatment Research

Council (Council) awards competitive grants and contracts to support applied research, demonstration projects and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the state of Texas. The Council is a component unit due to its fiscal dependency on the Texas Commission on Environmental Quality (TCEQ). The Council's fiscal operations (revenues, budget, expenditures and administration) are maintained by TCEQ. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the TCEQ combined financial statements. Financial statements may be obtained by contacting TCEQ at P.O. Box 13087, Austin, Texas 78711-3087.

Texas Appraiser Licensing and Certification

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

Texas Economic Development Corporation

(TED Corp), a nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for TED Corp. The board of directors is appointed by the governor. TED Corp's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Small Business Industrial Development

Corporation (TSBIDC) was chartered to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for TSBIDC. The board of directors is appointed by the governor, and all programs and expenditures of TSBIDC must be approved on behalf of the state by the Texas Economic Development Bank. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Disaster Relief Fund (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The chief of staff, director of homeland security and the chief financial officer of the Office of the Governor serve as directors on the board. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created to assist the Office of the Governor with the improvement of the Texas health care system. THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor declares the purposes of THSA are fulfilled or that THSA is inoperative or abandoned. THSA's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Casa Verde Research Center, Sociedad Anonimo

(Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. The board of Casa Verde is appointed by executive management of Texas A&M University. The executive management can also remove board members at will and modify the budget of Casa Verde. Casa Verde is reported for the year ended Sept. 30, 2009. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center) is a legally separate organization established in Mexico City, Mexico, to serve as a central point of contact for the support and promotion of Texas A&M University's international education, research and outreach activities. In addition, the Mexico Center provides services outside of Texas A&M University, such as to Mexican government entities. The executive management of Texas A&M University appoints the voting majority of the board of the Mexico Center. It can also remove board members at will and approve and modify the Mexico Center's budget. The Mexico Center is reported for the year ended Dec. 31, 2009. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

Related Organizations

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

Life, Accident, Health and Hospital Service

Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints the Association's nine-member board of directors.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

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

Midwestern State University Charitable Trust (Trust) is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a board of trustees of no less than three members. This board appoints individuals to fill vacancies on the board as they occur with the approval of the Midwestern State University board of regents, which is appointed by the governor. The Trust's board of trustees serves under the direction of the board of regents, which has the power by majority vote to appoint or remove any or all of the trustees.

Charter School Finance Corporation is a nonprofit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas

Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency.

Texas State University System Foundation Inc. (Foundation) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The Foundation provides funds for student scholarships, faculty awards and for assisting the chancellor in the performance of his/her duties. The board of directors is comprised of all members of the Texas State University System board of regents, which is appointed by the governor.

Coastal Coordination Council was established to adopt uniform policies and goals to guide decision-making by all entities regulating or managing natural resource use within the Texas coastal area. The majority of the board of directors is appointed by the governor.

Texas Farm and Ranch Lands Conservation Council was established to advise and assist the commissioner of the General Land Office with the administration of the Texas Farm and Ranch Lands Conservation Program and to select applicants to receive grants under the program. The governor appoints the members of the council.

River Authorities are political subdivisions that are created by Texas statute. The Texas Constitution, Article 16, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes; the reclamation and irrigation of its arid, semiarid and other lands needing irrigation; the reclamation of drainage of its overflowed lands and other lands needing drainage; the conservation and development of its forests, water and hydro-electric power; the navigation of its inland and coastal waters; and the preservation

and conservation of all such natural resources of the state. The state of Texas has voting majority for the following 16 river/water authorities:

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

Note 20

Deficit Fund Balances/Net Position

Governmental Funds

The **Texas Health Agencies Project Funds**, a non-major capital projects fund, reported a deficit of \$13 million. This deficit is primarily due to the commercial paper funding mechanism used for funding these projects. Because of arbitrage rebate guidelines, commercial paper is issued only when there is an immediate need. Commercial paper to pay for the accrued liabilities in this fund was authorized but not issued at fiscal year-end.

Proprietary Funds

The **Unemployment Trust Fund**, a major enterprise fund, reported a deficit of \$1.2 billion. This deficit was caused by the continued high rates of unemployment. The net position deficit will decrease in future years as a

result of the obligation assessment tax and the statutory provisions in the Texas Labor Code, which will result in an increase in other employer contributions.

The **Texas Prepaid Tuition Plans**, a nonmajor enterprise fund, reported a deficit of \$587.3 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and actual and projected contributions from account holders and investment earnings on those contributions to the Texas Guaranteed Tuition Plan (Plan). The Plan was closed to new enrollment in 2003 when tuition was deregulated. Over the life of the Plan, actual tuition and required fees for Texas public four year colleges and universities grew at a higher percentage rate than the Plan's investment return.

Note 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The settling tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total \$15.1 billion over the first 25 years of the agreement. The court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other court-ordered factors. A revenue accrual of \$311.8 million is based on the payment received in December 2010. Tobacco settlement revenues were \$501.9 million in fiscal 2009 and \$480.8 million in fiscal 2010. Cumulative actual tobacco settlement revenues as of fiscal 2010 were \$6.7 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of \$1.7 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported can be found in the donor-restricted endowments table below. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment are met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those required to be retained in perpetuity.

Donor-Restricted Endowments		
(Amounts in Thousands)		
Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	\$ 1,634,451	Expendable
Term Endowments	28,848	Expendable
	<u>\$ 1,663,299</u>	

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

Note 23

Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state did not report special items in the current fiscal year. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Note 24

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type as follows.

<u>Tax Type</u>	<u>Taxes Receivable</u>
Sales and Use Tax	\$ 1,179,882
Motor Vehicle and Manufactured Housing	92,865
Motor Fuels	271,232
Franchise	207,881
Oil and Natural Gas Production	231,531
Insurance Occupation	138,448
Cigarette and Tobacco	28,131
Other	153,524
Total Taxes Receivable	<u>\$ 2,303,494</u>
Liquidity Characteristics:	
Current Taxes Receivable	\$ 1,972,188
Noncurrent Taxes Receivable	331,306
Total Taxes Receivable	<u>\$ 2,303,494</u>

Tax Refunds Payable by Tax Type

August 31, 2010 (Amounts in Thousands)

<u>Tax Type</u>	<u>Tax Refunds Payable</u>
Franchise	\$ 502,706
Oil and Natural Gas Production	386,738
Total Tax Refunds Payable	<u>\$ 889,444</u>

Texas franchise tax receivables represent balances due at Aug. 31, 2010, for business activity that occurred in calendar year 2009. The franchise tax payments were due May 15, 2010; however, taxpayers were allowed to extend the filing date to November 2010.

Franchise taxes are considered earned when the underlying business activity occurs. There are no required estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2010 is not due until May 2011. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

Note 25

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. COBRA members are eligible to remain in their eligible insurance program for 18 months, or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. COBRA Plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

As part of the American Recovery and Reinvestment Act (ARRA), employees involuntarily terminated between Sept. 1, 2008, and May 31, 2010, are eligible for a 65 percent subsidy of COBRA premiums for up to a 15 month period. The administrators of the COBRA premium assistance program recover the subsidy as a credit on their quarterly employment tax return.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2010, the cost to the state was approximately \$28.2 million for 7,095 COBRA participants.

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

Non-Health Care Related Termination Benefits

There were no material non-health care related voluntary or involuntary termination benefits accepted in fiscal 2010.

Note 26

Segment Information

Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. The activities reported in the following financial information meet these requirements.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which require these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. The tables on the following page present the financial statements of the homes related to the revenue bonds.

Condensed Statement of Net Position

August 31, 2010 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
ASSETS	
Current Restricted Assets:	
Cash and Cash Equivalents	\$ 3,738
Other Current Assets	5,016
Other Noncurrent Assets	4,289
Capital Assets, Net of Depreciation	25,426
Total Assets	<u>38,469</u>
LIABILITIES	
Current Liabilities	5,565
Noncurrent Liabilities	26,509
Total Liabilities	<u>32,074</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,806
Restricted	3,589
Total Net Position	<u>\$ 6,395</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

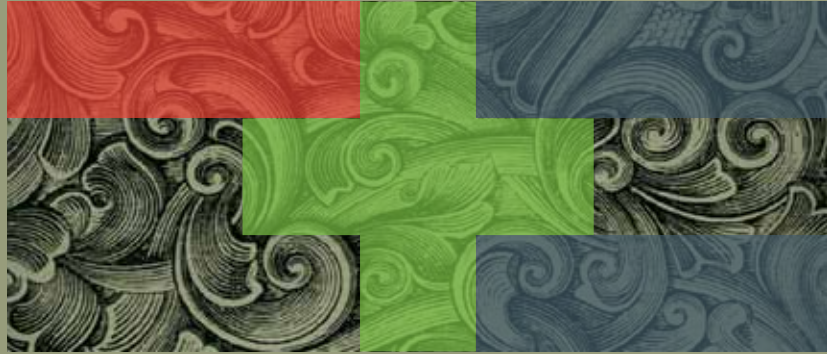
For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
OPERATING REVENUES (EXPENSES)	
Sale of Goods and Services	\$37,232
Other Operating Revenues	14
Depreciation and Amortization	(1,831)
Other Operating Expenses	<u>(33,875)</u>
Operating Income	<u>1,540</u>
NONOPERATING REVENUES (EXPENSES)	
Other Nonoperating Revenues	100
Interest Expense	<u>(1,435)</u>
Nonoperating Expenses	(1,335)
OTHER TRANSFERS – TRANSFER OUT	<u>(578)</u>
Change in Net Position	<u>(373)</u>
Net Position, September 1, 2009	<u>6,768</u>
Net Position, August 31, 2010	<u>\$ 6,395</u>

Condensed Statement of Cash Flows

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
NET CASH PROVIDED (USED) BY:	
Operating Activities	\$ 1,330
Noncapital Financing Activities	(578)
Capital and Related Financing Activities	(1,812)
Investing Activities	<u>85</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(975)</u>
Cash and Cash Equivalents, September 1, 2009	<u>4,713</u>
Cash and Cash Equivalents, August 31, 2010	<u>\$ 3,738</u>



Section Two
(continued)

**Required
Supplementary
Information
Other Than MD&A**

STATE OF TEXAS

**Budgetary Comparison Schedule
General Fund**

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	\$ 35,786,978	\$ 34,597,702	\$ 33,489,324	\$ (1,108,378)
Federal	23,639,590	38,788,923	38,662,141	(126,782)
Licenses, Fees and Permits	2,512,644	2,619,848	2,054,936	(564,912)
Interest and Other Investment Income	648,869	532,824	421,322	(111,502)
Land Income	13,663	13,853	17,445	3,592
Settlement of Claims	516,632	537,779	925,052	387,273
Sales of Goods and Services	1,009,004	1,925,206	1,557,720	(367,486)
Other	2,681,660	3,478,030	3,414,908	(63,122)
Total Revenues	<u>66,809,040</u>	<u>82,494,165</u>	<u>80,542,848</u>	<u>(1,951,317)</u>
EXPENDITURES				
General Government	6,098,749	5,702,893	2,791,221	2,911,672
Education	23,808,585	25,250,316	25,691,183	(440,867)
Employee Benefits	1,229,679	33,777	1,714	32,063
Teacher Retirement Benefits	1,871,340	1,871,340	1,829,709	41,631
Health and Human Services	32,831,416	39,910,214	40,398,941	(488,727)
Public Safety and Corrections	3,916,799	5,483,100	5,386,796	96,304
Transportation	447,869	453,859	19,881	433,978
Natural Resources and Recreation	1,648,235	1,924,296	1,528,081	396,215
Regulatory Services	285,565	362,232	341,682	20,550
Total Expenditures	<u>72,138,237</u>	<u>80,992,027</u>	<u>77,989,208</u>	<u>3,002,819</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,329,197)</u>	<u>1,502,138</u>	<u>2,553,640</u>	<u>1,051,502</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	1,157,468	1,469,644	6,452,719	4,983,075
Transfer Out	(7,385,699)	(7,955,311)	(9,277,867)	(1,322,556)
Sale of Capital Assets	8,525	8,609	9,874	1,265
Insurance Recoveries	1,218	3,086	3,552	466
Available Beginning Balances	2,784,570	2,784,570	2,784,570	
Total Other Financing Sources (Uses)	<u>(3,433,918)</u>	<u>(3,689,402)</u>	<u>(27,152)</u>	<u>3,662,250</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (8,763,115)</u>	<u>\$ (2,187,264)</u>	<u>\$ 2,526,488</u>	<u>\$ 4,713,752</u>

STATE OF TEXAS

Budgetary Comparison Schedule Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts	Final
	Original	Final	Budgetary Basis	to Actual Variance
REVENUES				
Taxes	\$ 40,356	\$ 40,356	\$ 40,356	\$
Federal	3,235,019	3,538,947	2,724,629	(814,318)
Licenses, Fees and Permits	1,121,363	1,208,613	1,291,545	82,932
Interest and Other Investment Income	73,788	73,788	53,583	(20,205)
Land Income	4,301	4,301	6,409	2,108
Settlement of Claims	103	103	794	691
Sales of Goods and Services	166,005	176,590	154,108	(22,482)
Other	11,652	12,478	10,143	(2,335)
Total Revenues	<u>4,652,587</u>	<u>5,055,176</u>	<u>4,281,567</u>	<u>(773,609)</u>
EXPENDITURES				
General Government	16,508	18,738	12,412	6,326
Employee Benefits	85,503			
Health and Human Services			603	(603)
Public Safety and Corrections	501,576	623,422	630,233	(6,811)
Transportation	8,708,094	9,377,654	6,637,943	2,739,711
Total Expenditures	<u>9,311,681</u>	<u>10,019,814</u>	<u>7,281,191</u>	<u>2,738,623</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(4,659,094)</u>	<u>(4,964,638)</u>	<u>(2,999,624)</u>	<u>1,965,014</u>
OTHER FINANCING SOURCES (USES)				
Transfer In	2,285,491	2,267,961	2,532,927	264,966
Transfer Out			(410,827)	(410,827)
Bond Proceeds*	1,197,122	1,197,122	1,916,820	719,698
Sale of Capital Assets	3,010	3,010	4,532	1,522
Insurance Recoveries	9,000	9,210	10,775	1,565
Available Beginning Balances	3,596,824	3,596,824	3,596,824	
Total Other Financing Sources (Uses)	<u>7,091,447</u>	<u>7,074,127</u>	<u>7,651,051</u>	<u>576,924</u>
Excess of Revenue and Other Financing Sources				
Over Expenditures and Other Financing Uses	<u>\$ 2,432,353</u>	<u>\$ 2,109,489</u>	<u>\$ 4,651,427</u>	<u>\$ 2,541,938</u>

* The state highway fund received \$1.7 billion in bond proceeds. These are authorized by the Texas Constitution, Article 3, Sec 49-n and Texas Transportation Code, Section 222.003.

Note to Budgetary Comparison Schedule

The budgetary comparison schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

Perspective Differences

Certain revenues and expenditures, including debt service and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs is excluded from the budgetary comparison schedule.

The beginning cash balances are included as other financing sources in the budgetary comparison schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2010 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	\$ 2,526,488	\$ 4,651,427
Basis of Accounting Differences:		
Receivables and Deferred Revenues	269,319	(6,996)
Payables	(482,570)	110,001
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(2,784,570)	(3,596,824)
Other Revenues Not Budgeted	318,970	
Other Expenditures Not Budgeted	(432,935)	(13,489)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	8,221	1,458
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	<u>\$ (577,077)</u>	<u>\$ 1,145,577</u>

The major reconciling items between the budgetary comparison schedule actual and the GAAP financial statements are due to the following items.

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the budgetary comparison schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the budgetary comparison schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - The \$441 million variance in education was due to prior year American Recovery and Reinvestment Act (ARRA) funds in that year's budget being spent mostly in this fiscal year. The \$489 million variance in health and human services is the result of increased expenditures made from the excess of federal revenues

received over estimates for agencies in this particular function.

Major special revenue fund - state highway fund - the \$603 thousand variance in health and human services is due to health and human service agencies spending from the transportation fund. The \$6.8 million variance in public safety and corrections is the result of expenditures made from the beginning cash balance in the fund.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue, not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the General Appropriations Act by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session

of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol" and "Vehicle Inspection Program" are two of the strategies for the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary Report*, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2010, \$2.3 million was transferred to the Texas Veteran's Commission and the Texas Department of Public Safety to assist with disaster recovery cash flow needs. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

The state adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system and 5 percent of the non-interstate system (national, state and farm-to-market roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is

converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMap assessments.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum 80%)
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%
2008	83.7%	79.0%	91.7%
2007	84.1%	79.5%	N/A
2006	83.4%	78.0%	N/A

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost (Amounts in Thousands)					
	2010	2009	2008	2007	2006
INTERSTATE HIGHWAYS					
Estimate	\$ 568,456	\$ 534,263	\$ 502,128	\$ 438,460	\$ 469,818
Actual	\$ 333,253	\$ 326,305	\$ 438,237	\$ 471,925	\$ 434,088
OTHER HIGHWAYS					
Estimate	\$ 3,005,713	\$ 2,687,869	\$ 2,455,243	\$ 1,702,612	\$ 1,608,015
Actual	\$ 1,423,734	\$ 1,519,110	\$ 1,649,317	\$ 1,881,285	\$ 1,750,438
CENTRAL TEXAS TURNPIKE SYSTEM					
Estimate	\$ 11,371	\$ 9,179	\$ 6,910	N/A	N/A
Actual	\$ 6,972	\$ 7,262	\$ 5,411	N/A	N/A

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legisla-

tive mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of Texas roads.

Schedules of Funding Progress

The schedules of funding progress for the state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table below.

Schedules of Funding Progress – OPEB						
<i>(Amounts in Thousands)</i>						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/09	\$ 0	\$ 5,676,868	\$ (5,676,868)	0.0%	\$ 5,026,491	(112.9)%
12/31/08	0	5,102,765	(5,102,765)	0.0%	4,820,568	(105.9)%
12/31/07	0	5,014,217	(5,014,217)	0.0%	4,312,904	(116.3)%
A&M Care Health and Life Plan (A&M Plan)						
09/01/09	\$ 0	\$ 1,864,320	\$ (1,864,320)	0.0%	\$ 1,315,292	(141.7)%
09/01/08	0	1,258,563	(1,258,563)	0.0%	1,260,683	(99.8)%
09/01/07	0	1,993,236	(1,993,236)	0.0%	1,140,126	(174.8)%

The schedules of funding progress for the state’s pension plans for the three most recent actuarial valuations are presented below.

Schedules of Funding Progress – Pension						
(Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System of Texas (ERS)						
08/31/10	\$ 23,628,567	\$ 27,668,876	\$ (4,040,309)	85.4%	\$ 5,930,141	(68.1)%
08/31/09	23,509,622	26,191,650	(2,682,028)	89.8%	5,814,417	(46.1)%
08/31/08	23,511,918	25,403,280	(1,891,362)	92.6%	5,379,527	(35.2)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/10	\$ 802,897	\$ 930,747	\$ (127,850)	86.3%	\$ 1,507,950	(8.5)%
08/31/09	780,808	870,179	(89,371)	89.7%	1,464,483	(6.1)%
08/31/08	774,509	842,135	(67,626)	92.0%	1,242,122	(5.4)%
Judicial Retirement System Plan One (JRS1)						
08/31/10	\$ 0	\$ 264,077	\$ (264,077)	0.0%	\$ 2,827	(9,341.2)%
08/31/09	0	268,275	(268,275)	0.0%	2,965	(9,048.1)%
08/31/08	0	289,671	(289,671)	0.0%	3,478	(8,328.7)%
Judicial Retirement System Plan Two (JRS2)						
08/31/10	\$ 264,515	\$ 281,760	\$ (17,245)	93.9%	\$ 68,755	(25.1)%
08/31/09	248,279	255,569	(7,290)	97.1%	67,968	(10.7)%
08/31/08	232,891	239,098	(6,207)	97.4%	66,110	(9.4)%
Teacher Retirement System of Texas (TRS)						
08/31/10	\$ 111,292,528	\$ 134,191,110	\$ (22,898,582)	82.9%	\$ 36,628,844	(62.5)%
08/31/09	106,383,566	128,029,304	(21,645,738)	83.1%	35,096,890	(61.7)%
08/31/08	110,233,420	121,756,542	(11,523,122)	90.5%	33,237,904	(34.7)%

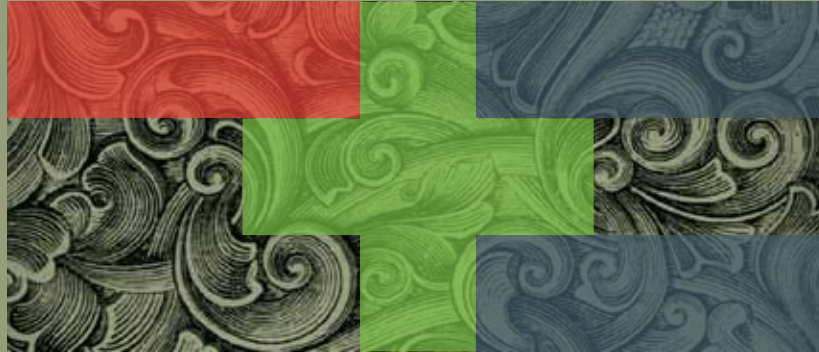
Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following OPEB plans varied significantly from the previous year to the current year due to changes in actuarial assumptions or benefit provisions. Reasons for the changes are summarized below and the effects of those changes are incorporated into the 2010 valuations.

The UT OPEB Plan’s per capita health benefit costs assumption and the expenses for retirees and dependents assumption were updated to reflect claims and expense experience in the 12 months following the date as of which the prior valuations’ assumptions were

determined. The health benefit cost trend assumption was updated to reflect changes in short-term expectations of the annual rate of increase of the assumed per capita benefit costs. Changes to the plan’s benefit provisions became effective Sept. 1, 2010, and included increases in certain deductibles, copayments and other out-of-pocket costs of retirees.

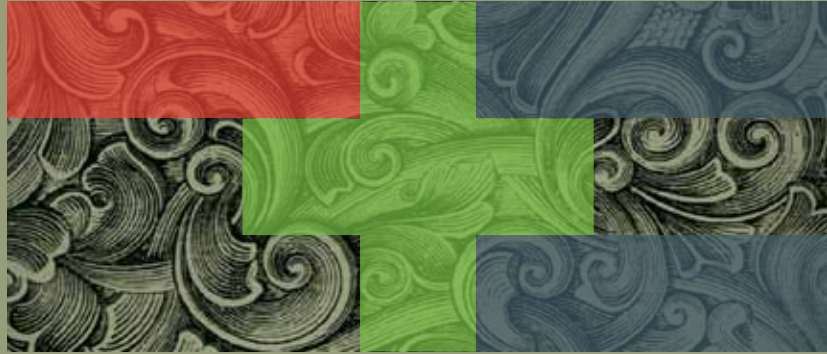
The A&M OPEB Plan investment rate of return assumption decreased from 9.4 percent to 7.3 percent in fiscal 2010. Also during fiscal 2010, the plan’s health benefit provisions were changed to increase life insurance coverage for some current and all future retirees from \$5,000 to \$7,500.



Section Two
(continued)

Other Supplementary Information

Combining Financial Statements and Schedules



Section Two
(continued)

Governmental Funds

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2010 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,329,700	\$ 121,578	\$ 254,727	\$ 297	\$ 2,706,302
Short-Term Investments	31,008	96,612		40,298	167,918
Receivables:					
Accounts	1,329	185	566		2,080
Federal	11,354				11,354
Investment Trades				528	528
Interest and Dividends	11,034	270		1,447	12,751
Other	219				219
Due From Other Funds	66,741		14,418		81,159
Interfund Receivable			14	3	17
Inventories	359		81		440
Prepaid Items	5				5
Investments	10,536			987,670	998,206
Loans and Contracts	1,845,863				1,845,863
Other Assets	8,071				8,071
Restricted:					
Cash and Cash Equivalents	178,721	9,165			187,886
Loans and Contracts	713,802				713,802
Other Assets	90,817				90,817
Total Assets	\$ 5,299,559	\$ 227,810	\$ 269,806	\$ 1,030,243	\$ 6,827,418
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 32,739	\$ 32	\$ 54,343	\$ 526	\$ 87,640
Investment Trades				1,698	1,698
Payroll	6,941		95		7,036
Due To Other Funds	42,847		320		43,167
Interfund Payable	3,085		1,849		4,934
Deferred Revenues	428				428
Other Liabilities	344		2,728		3,072
Total Liabilities	86,384	32	59,335	2,224	147,975
Fund Balances (Deficits):					
Reserved	2,565,689	227,778	414,443	3	3,207,913
Unreserved	2,647,486		(203,972)	1,028,016	3,471,530
Total Fund Balances	5,213,175	227,778	210,471	1,028,019	6,679,443
Total Liabilities and Fund Balances	\$ 5,299,559	\$ 227,810	\$ 269,806	\$ 1,030,243	\$ 6,827,418

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	\$ 2,016,365	\$	\$	\$	\$ 2,016,365
Federal	61,238	2,246			63,484
Licenses, Fees and Permits	672,219				672,219
Interest and Other Investment Income	97,664	3,720	4,465	71,474	177,323
Land Income	2			13	15
Sales of Goods and Services	4,798		3,121		7,919
Other	39,747	660	4		40,411
Total Revenues	<u>2,892,033</u>	<u>6,626</u>	<u>7,590</u>	<u>71,487</u>	<u>2,977,736</u>
EXPENDITURES					
Current:					
General Government	193,527	676	42,697	5,688	242,588
Education	834,444		4,212		838,656
Employee Benefits	13,424				13,424
Health and Human Services	15,687		58,062		73,749
Public Safety and Corrections	73,346		22,482		95,828
Transportation	1,426		25,857		27,283
Natural Resources and Recreation	86,373		5,954		92,327
Regulatory Services	96,840				96,840
Capital Outlay	4,092		164,465		168,557
Debt Service:					
Principal	34,730	692,910			727,640
Interest	275,880	289,410	22		565,312
Other Financing Fees	8,398		19,127		27,525
Total Expenditures	<u>1,638,167</u>	<u>982,996</u>	<u>342,878</u>	<u>5,688</u>	<u>2,969,729</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>1,253,866</u>	<u>(976,370)</u>	<u>(335,288)</u>	<u>65,799</u>	<u>8,007</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	1,158,676	771,838	2,298	546,258	2,479,070
Transfer Out	(5,657,055)	(48)	(3,087)	(576,923)	(6,237,113)
Bonds and Notes Issued	1,466,516	11,963	188,006		1,666,485
Bonds Issued for Refunding		252,865	132,212		385,077
Premiums on Bonds Issued	227	4,674	43,275		48,176
Payment to Escrow for Refunding		(58,057)	(156,360)		(214,417)
Insurance Recoveries		183	470		653
Total Other Financing Sources (Uses)	<u>(3,031,636)</u>	<u>983,418</u>	<u>206,814</u>	<u>(30,665)</u>	<u>(1,872,069)</u>
Net Change in Fund Balances	<u>(1,777,770)</u>	<u>7,048</u>	<u>(128,474)</u>	<u>35,134</u>	<u>(1,864,062)</u>
Fund Balances, September 1, 2009	6,989,757	220,802	334,712	992,885	8,538,156
Restatements	1,188	(72)	4,233		5,349
Fund Balances, September 1, 2009, as Restated	<u>6,990,945</u>	<u>220,730</u>	<u>338,945</u>	<u>992,885</u>	<u>8,543,505</u>
Fund Balances, August 31, 2010	<u>\$ 5,213,175</u>	<u>\$ 227,778</u>	<u>\$ 210,471</u>	<u>\$ 1,028,019</u>	<u>\$ 6,679,443</u>

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increase and calculated amounts from franchise taxes. The intent of the fund is to reduce school district property taxes.

The **Texas Transportation Corporations** issue bonds and notes to finance the cost of projects. The corporations act on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements entered into by TxDOT.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education and school funding loss mechanism.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

The **Texas Mobility Fund** accounts for the construction, reconstruction, acquisition and expansion of state highways, including costs of design and acquisition of rights of way. It provides payment of a portion of the costs of construction, publicly owned toll roads and other public transportation projects. It is financed primarily from the sale of obligations of the state, appropriations made by the Legislature of revenue, including taxes, other money not otherwise dedicated by the construction and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to this fund.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2010 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
ASSETS								
Cash and Cash Equivalents	\$	\$ 777	\$ 145,942	\$ 607,789	\$ 10,957	\$ 1,390,311	\$ 173,924	\$ 2,329,700
Short-Term Investments			30,687				321	31,008
Receivables:								
Accounts		211	209			533	376	1,329
Federal			5			9,710	1,639	11,354
Interest and Dividends	131		2,635		64		8,204	11,034
Other							219	219
Due From Other Funds					64,556		2,185	66,741
Inventories							359	359
Prepaid Items							5	5
Investments							10,536	10,536
Loans and Contracts		982,613	860,326				2,924	1,845,863
Other Assets							8,071	8,071
Restricted:								
Cash and Cash Equivalents							178,721	178,721
Loans and Contracts							713,802	713,802
Other Assets							90,817	90,817
Total Assets	<u>\$ 131</u>	<u>\$ 983,601</u>	<u>\$ 1,039,804</u>	<u>\$ 607,789</u>	<u>\$ 75,577</u>	<u>\$ 1,400,554</u>	<u>\$ 1,192,103</u>	<u>\$ 5,299,559</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Payables:								
Accounts	\$	\$ 192	\$ 1,470	\$ 22,120	\$	\$ 35	\$ 8,922	\$ 32,739
Payroll							6,941	6,941
Due To Other Funds			422			41,967	458	42,847
Interfund Payable			3,085					3,085
Deferred Revenues							428	428
Other Liabilities							344	344
Total Liabilities	<u>0</u>	<u>192</u>	<u>4,977</u>	<u>22,120</u>	<u>0</u>	<u>42,002</u>	<u>17,093</u>	<u>86,384</u>
Fund Balances:								
Reserved for:								
Encumbrances			26,734	1,000			5,649	33,383
Inventories							359	359
Imprest Accounts							10	10
Loans and Contracts		969,874	845,558				716,505	2,531,937
Unreserved:								
Designated for:								
General Government	131						122,839	122,970
Regulatory Services				571,018			5,300	576,318
Health and Human Services							12,538	12,538
Natural Resources and Recreation			162,535				28,257	190,792
Education					75,577		275,044	350,621
Transportation		13,535				1,358,552		1,372,087
Public Safety and Corrections							7,351	7,351
Employee Benefits							56	56
Undesignated				13,651			1,102	14,753
Total Fund Balances	<u>131</u>	<u>983,409</u>	<u>1,034,827</u>	<u>585,669</u>	<u>75,577</u>	<u>1,358,552</u>	<u>1,175,010</u>	<u>5,213,175</u>
Total Liabilities and Fund Balances	<u>\$ 131</u>	<u>\$ 983,601</u>	<u>\$ 1,039,804</u>	<u>\$ 607,789</u>	<u>\$ 75,577</u>	<u>\$ 1,400,554</u>	<u>\$ 1,192,103</u>	<u>\$ 5,299,559</u>

* The activity of two Texas transportation corporations, which are blended component units, are now discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas, the student loan fund and the state textbook fund. These funds do not meet the materiality threshold for separate column presentation. The state textbook fund was previously reported as a discrete nonmajor fund.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
REVENUES								
Taxes	\$ 2,016,365	\$	\$	\$	\$	\$	\$	\$ 2,016,365
Federal			33,301			23,628	4,309	61,238
Licenses, Fees and Permits			355	141,594		320,405	209,865	672,219
Interest and Other Investment Income	3,885		17,382	7,567	1,091	18,273	49,466	97,664
Land Income							2	2
Sales of Goods and Services			329				4,469	4,798
Other	1	1,423	3,184				35,139	39,747
Total Revenues	<u>2,020,251</u>	<u>1,423</u>	<u>54,551</u>	<u>149,161</u>	<u>1,091</u>	<u>362,306</u>	<u>303,250</u>	<u>2,892,033</u>
EXPENDITURES								
Current:								
General Government							193,527	193,527
Education					646,853		187,591	834,444
Employee Benefits							13,424	13,424
Health and Human Services							15,687	15,687
Public Safety and Corrections							73,346	73,346
Transportation		1,001				425		1,426
Natural Resources and Recreation			60,901				25,472	86,373
Regulatory Services				94,916			1,924	96,840
Capital Outlay			10				4,082	4,092
Debt Service:								
Principal						34,730		34,730
Interest		15,021	94			260,765		275,880
Other Financing Fees		6,176				643	1,579	8,398
Total Expenditures	<u>0</u>	<u>22,198</u>	<u>61,005</u>	<u>94,916</u>	<u>646,853</u>	<u>296,563</u>	<u>516,632</u>	<u>1,638,167</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>2,020,251</u>	<u>(20,775)</u>	<u>(6,454)</u>	<u>54,245</u>	<u>(645,762)</u>	<u>65,743</u>	<u>(213,382)</u>	<u>1,253,866</u>
OTHER FINANCING SOURCES (USES)								
Transfer In			8,898		806,491		343,287	1,158,676
Transfer Out	(5,024,003)		(22,241)		(201,797)	(263,725)	(145,289)	(5,657,055)
Bonds and Notes Issued		1,015,000	337,936				113,580	1,466,516
Premiums (Discounts) on Bonds Issued		(11,191)					11,418	227
Total Other Financing Sources (Uses)	<u>(5,024,003)</u>	<u>1,003,809</u>	<u>324,593</u>	<u>0</u>	<u>604,694</u>	<u>(263,725)</u>	<u>322,996</u>	<u>(3,031,636)</u>
Net Change in Fund Balances	<u>(3,003,752)</u>	<u>983,034</u>	<u>318,139</u>	<u>54,245</u>	<u>(41,068)</u>	<u>(197,982)</u>	<u>109,614</u>	<u>(1,777,770)</u>
Fund Balances, September 1, 2009	3,003,883	375	716,688	531,424	116,645	1,556,534	1,064,208	6,989,757
Restatements							1,188	1,188
Fund Balances, September 1, 2009, as Restated	<u>3,003,883</u>	<u>375</u>	<u>716,688</u>	<u>531,424</u>	<u>116,645</u>	<u>1,556,534</u>	<u>1,065,396</u>	<u>6,990,945</u>
Fund Balances, August 31, 2010	<u>\$ 131</u>	<u>\$ 983,409</u>	<u>\$ 1,034,827</u>	<u>\$ 585,669</u>	<u>\$ 75,577</u>	<u>\$ 1,358,552</u>	<u>\$ 1,175,010</u>	<u>\$ 5,213,175</u>

* The activity of two Texas transportation corporations, which are blended component units, are now discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas, the student loan fund and the state textbook fund. These funds do not meet the materiality threshold for separate column presentation. The state textbook fund was previously reported as a discrete nonmajor fund.

STATE OF TEXAS

Budgetary Comparison Schedule Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Property Tax Relief Fund				Water Development Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	\$2,669,836	\$2,574,137	\$2,016,365	\$ (557,772)	\$	\$	\$	\$
Federal					20	33,271	33,346	75
Licenses, Fees and Permits	78,342	31,438	7,637	(23,801)			355	355
Interest and Other Investment Income					20,012	20,012	16,570	(3,442)
Sales of Goods and Services					250	250	428	178
Other			1	1			3,185	3,185
Total Revenues	<u>2,748,178</u>	<u>2,605,575</u>	<u>2,024,003</u>	<u>(581,572)</u>	<u>20,282</u>	<u>53,533</u>	<u>53,884</u>	<u>351</u>
EXPENDITURES								
General Government								
Education	2,748,200	2,748,200		2,748,200				
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation					9,164	44,686	60,308	(15,622)
Regulatory Services								
Total Expenditures	<u>2,748,200</u>	<u>2,748,200</u>	<u>0</u>	<u>2,748,200</u>	<u>9,164</u>	<u>44,686</u>	<u>60,308</u>	<u>(15,622)</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>(22)</u>	<u>(142,625)</u>	<u>2,024,003</u>	<u>2,166,628</u>	<u>11,118</u>	<u>8,847</u>	<u>(6,424)</u>	<u>(15,271)</u>
OTHER FINANCING SOURCES (USES)								
Transfer In							8,898	8,898
Transfer Out			(5,024,003)	(5,024,003)			(13,833)	(13,833)
Bond Proceeds								
Available Beginning Balances	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>		<u>188,803</u>	<u>188,803</u>	<u>188,803</u>	
Total Other Financing Sources (Uses)	<u>3,000,000</u>	<u>3,000,000</u>	<u>(2,024,003)</u>	<u>(5,024,003)</u>	<u>188,803</u>	<u>188,803</u>	<u>183,868</u>	<u>(4,935)</u>
Excess (Deficiency) of Revenues and Other Financing Sources								
Over (Under) Expenditures and Other Financing Uses	<u>\$2,999,978</u>	<u>\$2,857,375</u>	<u>\$ 0</u>	<u>\$(2,857,375)</u>	<u>\$199,921</u>	<u>\$197,650</u>	<u>\$177,444</u>	<u>\$(20,206)</u>

System Benefit Fund				Available School Fund			
Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
Original	Final			Original	Final		
\$	\$	\$	\$	\$	\$	\$	\$
147,936	147,936	141,594	(6,342)				
29,555	29,555	7,567	(21,988)	6,873	1,433	1,188	(245)
<u>177,491</u>	<u>177,491</u>	<u>149,161</u>	<u>(28,330)</u>	<u>6,873</u>	<u>1,433</u>	<u>1,188</u>	<u>(245)</u>
				600,709	600,709	646,853	(46,144)
<u>122,525</u>	<u>122,638</u>	<u>90,195</u>	<u>32,443</u>	<u>600,709</u>	<u>600,709</u>	<u>646,853</u>	<u>(46,144)</u>
<u>54,966</u>	<u>54,853</u>	<u>58,966</u>	<u>4,113</u>	<u>(593,836)</u>	<u>(599,276)</u>	<u>(645,665)</u>	<u>(46,389)</u>
				767,011	821,868	806,491	(15,377)
						(201,797)	(201,797)
<u>548,823</u>	<u>548,823</u>	<u>548,823</u>	<u>0</u>	<u>52,955</u>	<u>52,955</u>	<u>52,955</u>	<u>0</u>
<u>548,823</u>	<u>548,823</u>	<u>548,823</u>	<u>0</u>	<u>819,966</u>	<u>874,823</u>	<u>657,649</u>	<u>(217,174)</u>
<u>\$603,789</u>	<u>\$603,676</u>	<u>\$607,789</u>	<u>\$ 4,113</u>	<u>\$226,130</u>	<u>\$275,547</u>	<u>\$ 11,984</u>	<u>\$ (263,563)</u>

Concluded on the following page

STATE OF TEXAS

Budgetary Comparison Schedule Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Mobility Fund				Other Nonmajor Special Revenue Funds*			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	\$	\$	\$	\$	\$	\$	\$	\$
Federal			13,918	13,918			620	620
Licenses, Fees and Permits	322,410	320,422	320,624	202	84,330	84,330	98,647	14,317
Interest and Other Investment Income	15,647	15,647	18,273	2,626	22,701	22,348	47,456	25,108
Sales of Goods and Services					1,851	1,851	7,642	5,791
Other					89	108	7,405	7,297
Total Revenues	<u>338,057</u>	<u>336,069</u>	<u>352,815</u>	<u>16,746</u>	<u>108,971</u>	<u>108,637</u>	<u>161,770</u>	<u>53,133</u>
EXPENDITURES								
General Government					420,513	140,195	98,325	41,870
Education					180,962	182,232	226,320	(44,088)
Employee Benefits					539,560	28,377	13,327	15,050
Health and Human Services					32,052	32,917	19,296	13,621
Public Safety and Corrections					10,338	10,338		10,338
Transportation	719,394	719,394	615	718,779		8,754		8,754
Natural Resources and Recreation					19,920	24,992	22,242	2,750
Regulatory Services								
Total Expenditures	<u>719,394</u>	<u>719,394</u>	<u>615</u>	<u>718,779</u>	<u>1,203,345</u>	<u>427,805</u>	<u>379,510</u>	<u>48,295</u>
Excess (Deficiency) of Revenues								
Over (Under) Expenditures	<u>(381,337)</u>	<u>(383,325)</u>	<u>352,200</u>	<u>735,525</u>	<u>(1,094,374)</u>	<u>(319,168)</u>	<u>(217,740)</u>	<u>101,428</u>
OTHER FINANCING SOURCES (USES)								
Transfer In					7,300	7,300	220,118	212,818
Transfer Out			(263,725)	(263,725)			(28,087)	(28,087)
Bond Proceeds								
Available Beginning Balances	<u>1,583,079</u>	<u>1,583,079</u>	<u>1,583,079</u>		<u>135,324</u>	<u>135,324</u>	<u>135,324</u>	
Total Other Financing Sources (Uses)	<u>1,583,079</u>	<u>1,583,079</u>	<u>1,319,354</u>	<u>(263,725)</u>	<u>142,624</u>	<u>142,624</u>	<u>327,355</u>	<u>184,731</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ 1,201,742</u>	<u>\$ 1,199,754</u>	<u>\$ 1,671,554</u>	<u>\$ 471,800</u>	<u>\$ (951,750)</u>	<u>\$ (176,544)</u>	<u>\$ 109,615</u>	<u>\$ 286,159</u>

* The activity of two Texas transportation corporations, now discretely presented, is not shown on this schedule since there is no legally adopted budget.

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas opportunity plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on the sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2010 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Fund	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
ASSETS							
Cash and Cash Equivalents	\$ 13	\$ 3	\$ 28	\$ 5,153	\$ 116,368	\$ 13	\$ 121,578
Short-Term Investments	96,612						96,612
Receivables:							
Accounts	183					2	185
Interest and Dividends	270						270
Restricted:							
Cash and Cash Equivalents	9,158					7	9,165
Total Assets	\$ 106,236	\$ 3	\$ 28	\$ 5,153	\$ 116,368	\$ 22	\$ 227,810
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	\$ 0	\$ 0	\$ 5	\$ 27	\$ 0	\$ 0	\$ 32
Total Liabilities	0	0	5	27	0	0	32
Fund Balances:							
Reserved for Debt Service	106,236	3	23	5,126	116,368	22	227,778
Total Fund Balances	106,236	3	23	5,126	116,368	22	227,778
Total Liabilities and Fund Balances	\$ 106,236	\$ 3	\$ 28	\$ 5,153	\$ 116,368	\$ 22	\$ 227,810

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Fund	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
REVENUES							
Federal	\$ 70	\$	\$ 2,175	\$	\$	\$ 1	\$ 2,246
Interest and Other Investment Income	2,318	13	41	67	1,266	15	3,720
Other			660				660
Total Revenues	<u>2,388</u>	<u>13</u>	<u>2,876</u>	<u>67</u>	<u>1,266</u>	<u>16</u>	<u>6,626</u>
EXPENDITURES							
Current:							
General Government			459	217			676
Debt Service:							
Principal	71,470	61,195	392,270	17,730	104,100	46,145	692,910
Interest	26,056	17,188	81,497	448	117,710	46,511	289,410
Total Expenditures	<u>97,526</u>	<u>78,383</u>	<u>474,226</u>	<u>18,395</u>	<u>221,810</u>	<u>92,656</u>	<u>982,996</u>
Deficiency of Revenues							
Under Expenditures	<u>(95,138)</u>	<u>(78,370)</u>	<u>(471,350)</u>	<u>(18,328)</u>	<u>(220,544)</u>	<u>(92,640)</u>	<u>(976,370)</u>
OTHER FINANCING SOURCES (USES)							
Transfer In	86,904	73,972	262,601	18,458	237,227	92,676	771,838
Transfer Out		(8)	(8)			(32)	(48)
Bonds and Notes Issued		4,211	7,752				11,963
Bonds Issued for Refunding	51,865		201,000				252,865
Premiums on Bonds Issued	4,674						4,674
Payment to Escrow for Refunding	(58,057)						(58,057)
Insurance Recoveries		183					183
Total Other Financing Sources (Uses)	<u>85,386</u>	<u>78,358</u>	<u>471,345</u>	<u>18,458</u>	<u>237,227</u>	<u>92,644</u>	<u>983,418</u>
Net Change in Fund Balances	<u>(9,752)</u>	<u>(12)</u>	<u>(5)</u>	<u>130</u>	<u>16,683</u>	<u>4</u>	<u>7,048</u>
Fund Balances, September 1, 2009	116,060	15	28	4,996	99,685	18	220,802
Restatements	(72)						(72)
Fund Balances, September 1, 2009, as Restated	<u>115,988</u>	<u>15</u>	<u>28</u>	<u>4,996</u>	<u>99,685</u>	<u>18</u>	<u>220,730</u>
Fund Balances, August 31, 2010	<u>\$ 106,236</u>	<u>\$ 3</u>	<u>\$ 23</u>	<u>\$ 5,126</u>	<u>\$ 116,368</u>	<u>\$ 22</u>	<u>\$ 227,778</u>

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new Department of Public Safety buildings and Crime Lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of courthouses.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2010 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
ASSETS					
Cash and Cash Equivalents	\$ 3,003	\$ 31,474	\$ 36,096	\$ 39,175	\$ 4,067
Accounts Receivable			566		
Due From Other Funds			13,967		
Interfund Receivable					
Inventories	<u>2</u>				
Total Assets	<u>\$ 3,005</u>	<u>\$ 31,474</u>	<u>\$ 50,629</u>	<u>\$ 39,175</u>	<u>\$ 4,067</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	\$ 108	\$ 1,113	\$ 3,827	\$ 1,566	\$ 207
Payroll	82				13
Due To Other Funds		320			
Interfund Payable					
Other Liabilities			2,506	222	
Total Liabilities	<u>190</u>	<u>1,433</u>	<u>6,333</u>	<u>1,788</u>	<u>220</u>
Fund Balances (Deficits):					
Reserved for:					
Encumbrances		24,442	32,030	14,948	3,282
Inventories	2				
Capital Projects	2,813	10,302	14,507	22,439	5,071
Unreserved:					
Undesignated		(4,703)	(2,241)		(4,506)
Total Fund Balances	<u>2,815</u>	<u>30,041</u>	<u>44,296</u>	<u>37,387</u>	<u>3,847</u>
Total Liabilities and Fund Balances	<u>\$ 3,005</u>	<u>\$ 31,474</u>	<u>\$ 50,629</u>	<u>\$ 39,175</u>	<u>\$ 4,067</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 28,919	\$ 66,959	\$ 7,774	\$ 23,629	\$ 13,631	\$254,727
					566
451					14,418
			14		14
				79	81
<u>\$ 29,370</u>	<u>\$ 66,959</u>	<u>\$ 7,774</u>	<u>\$ 23,643</u>	<u>\$ 13,710</u>	<u>\$269,806</u>
\$ 40,517	\$ 79	\$ 512	\$ 1,279	\$ 5,135	\$ 54,343
					95
					320
1,849					1,849
					2,728
<u>42,366</u>	<u>79</u>	<u>512</u>	<u>1,279</u>	<u>5,135</u>	<u>59,335</u>
4,495	46,674		48,229	12,221	186,321
				79	81
39,278	66,880	7,262	54,351	5,138	228,041
(56,769)	(46,674)		(80,216)	(8,863)	(203,972)
<u>(12,996)</u>	<u>66,880</u>	<u>7,262</u>	<u>22,364</u>	<u>8,575</u>	<u>210,471</u>
<u>\$ 29,370</u>	<u>\$ 66,959</u>	<u>\$ 7,774</u>	<u>\$ 23,643</u>	<u>\$ 13,710</u>	<u>\$269,806</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
REVENUES					
Interest and Other Investment Income	\$ 37	\$ 500	\$ 611	\$ 535	\$ 55
Sales of Goods and Services			3,113		
Other					
Total Revenues	<u>37</u>	<u>500</u>	<u>3,724</u>	<u>535</u>	<u>55</u>
EXPENDITURES					
Current:					
General Government	8,546		11,316		
Education					
Health and Human Services					
Public Safety and Corrections				21,792	
Transportation					
Natural Resources and Recreation		5,954			
Capital Outlay		8,507	27,246	11,067	3,909
Debt Service:					
Interest					
Other Financing Fees	19,127				
Total Expenditures	<u>27,673</u>	<u>14,461</u>	<u>38,562</u>	<u>32,859</u>	<u>3,909</u>
Deficiency of Revenues					
Under Expenditures	<u>(27,636)</u>	<u>(13,961)</u>	<u>(34,838)</u>	<u>(32,324)</u>	<u>(3,854)</u>
OTHER FINANCING SOURCES (USES)					
Transfer In	1,925		36		
Transfer Out	(2,126)	(33)	(224)		(77)
Bonds and Notes Issued	8,506	9,400	35,800	45,000	3,800
Bonds Issued for Refunding	132,212				
Premiums on Bonds Issued	43,275				
Payment to Escrow for Refunding	(156,360)				
Insurance Recoveries	470				
Total Other Financing Sources (Uses)	<u>27,902</u>	<u>9,367</u>	<u>35,612</u>	<u>45,000</u>	<u>3,723</u>
Net Change in Fund Balances	<u>266</u>	<u>(4,594)</u>	<u>774</u>	<u>12,676</u>	<u>(131)</u>
Fund Balances, September 1, 2009	2,549	34,635	43,522	24,711	3,978
Restatements					
Fund Balances, September 1, 2009, as Restated	<u>2,549</u>	<u>34,635</u>	<u>43,522</u>	<u>24,711</u>	<u>3,978</u>
Fund Balances, August 31, 2010	<u>\$ 2,815</u>	<u>\$ 30,041</u>	<u>\$ 44,296</u>	<u>\$ 37,387</u>	<u>\$ 3,847</u>

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds	Totals
\$ 677	\$ 1,230	\$ 134	\$ 406	\$ 280	\$ 4,465
8					3,121
2				2	4
<u>687</u>	<u>1,230</u>	<u>134</u>	<u>406</u>	<u>282</u>	<u>7,590</u>
			22,835		42,697
58,062				4,212	4,212
	548			142	22,482
		25,857			25,857
21,921	47,605		2,595	41,615	5,954
					164,465
22					22
<u>80,005</u>	<u>48,153</u>	<u>25,857</u>	<u>25,430</u>	<u>45,969</u>	<u>19,127</u>
					<u>342,878</u>
(79,318)	(46,923)	(25,723)	(25,024)	(45,687)	(335,288)
337					2,298
(362)			(99)	(166)	(3,087)
9,500		24,000	15,000	37,000	188,006
					132,212
					43,275
					(156,360)
					470
<u>9,475</u>	<u>0</u>	<u>24,000</u>	<u>14,901</u>	<u>36,834</u>	<u>206,814</u>
(69,843)	(46,923)	(1,723)	(10,123)	(8,853)	(128,474)
52,614	113,803	8,985	32,487	17,428	334,712
4,233					4,233
<u>56,847</u>	<u>113,803</u>	<u>8,985</u>	<u>32,487</u>	<u>17,428</u>	<u>338,945</u>
<u>\$ (12,996)</u>	<u>\$ 66,880</u>	<u>\$ 7,262</u>	<u>\$ 22,364</u>	<u>\$ 8,575</u>	<u>\$ 210,471</u>

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the Legislature from a portion of the money received in the settlement of *The State of Texas v. The American Tobacco Co., et.al.* The corpus of the account was designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **National Research University Fund** is a permanent fund established by the Legislature to provide a dedicated, independent and equitable source of funding to enable emerging research universities to achieve national prominence as major research universities. The fund consists of appropriations or transfers under the Texas Constitution or otherwise provided by law, gifts, grants and interest. The Texas Constitution required money in the permanent higher education fund to be transferred to the national research university fund on Jan. 1, 2010. Money will be allocated to eligible universities based on an equitable formula, and may be appropriated or distributed beginning Sept. 1, 2011.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches \$2 billion and each year thereafter, 10 percent of the interest, dividends and other income accruing from investments during the previous fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in the Texas Constitution, Article 7, Sec. 17(a).

The **Texas Commission on the Arts Trust Fund** consists of the Texas cultural endowment fund account held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development and advance the well being of communities.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2010 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund*	Permanent Higher Education Fund**	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$	\$	\$	\$	\$ 297	\$ 297
Short-Term Investments	18,806	21,492				40,298
Receivables:						
Investment Trades	248	280				528
Interest and Dividends	656	791				1,447
Interfund Receivable					3	3
Investments	454,607	530,073			2,990	987,670
Total Assets	\$ 474,317	\$ 552,636	\$ 0	\$ 0	\$ 3,290	\$ 1,030,243
LIABILITIES AND FUND BALANCES						
Liabilities:						
Payables:						
Accounts	\$ 244	\$ 282	\$	\$	\$	\$ 526
Investment Trades	798	900				1,698
Total Liabilities	1,042	1,182	0	0	0	2,224
Fund Balances (Deficits):						
Reserved for:						
Encumbrances					3	3
Unreserved:						
Designated for:						
Permanent Health Fund	465,335				2,980	468,315
Undesignated	7,940	551,454			307	559,701
Total Fund Balances	473,275	551,454	0	0	3,290	1,028,019
Total Liabilities and Fund Balances	\$ 474,317	\$ 552,636	\$ 0	\$ 0	\$ 3,290	\$ 1,030,243

* This is a new fund that is discretely presented.

** This fund has activity on the combining statement of revenues, expenditures and changes in fund balances – nonmajor permanent funds.

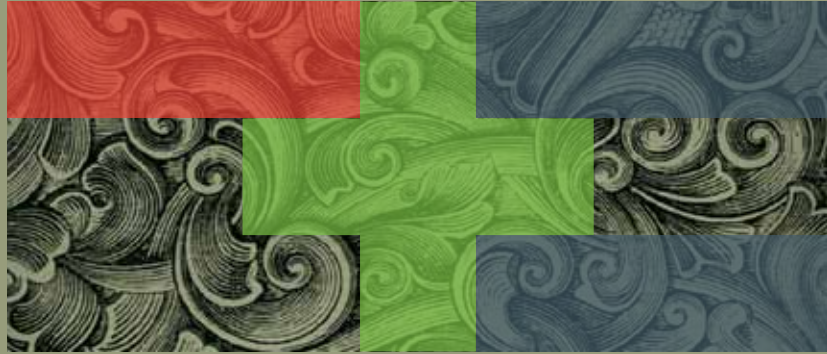
STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund*	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
REVENUES						
Interest and Other Investment Income	\$ 33,839	\$ 6,295	\$ 30,876	\$ 257	\$ 207	\$ 71,474
Land Income					13	13
Total Revenues	<u>33,839</u>	<u>6,295</u>	<u>30,876</u>	<u>257</u>	<u>220</u>	<u>71,487</u>
EXPENDITURES						
Current:						
General Government	<u>1,445</u>	<u>1,099</u>	<u>538</u>	<u>2,479</u>	<u>127</u>	<u>5,688</u>
Total Expenditures	<u>1,445</u>	<u>1,099</u>	<u>538</u>	<u>2,479</u>	<u>127</u>	<u>5,688</u>
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	<u>32,394</u>	<u>5,196</u>	<u>30,338</u>	<u>(2,222)</u>	<u>93</u>	<u>65,799</u>
OTHER FINANCING SOURCES (USES)						
Transfer In		546,258				546,258
Transfer Out	<u>(24,455)</u>		<u>(546,258)</u>	<u>(6,197)</u>	<u>(13)</u>	<u>(576,923)</u>
Total Other Financing Sources (Uses)	<u>(24,455)</u>	<u>546,258</u>	<u>(546,258)</u>	<u>(6,197)</u>	<u>(13)</u>	<u>(30,665)</u>
Net Change in Fund Balances	<u>7,939</u>	<u>551,454</u>	<u>(515,920)</u>	<u>(8,419)</u>	<u>80</u>	<u>35,134</u>
Fund Balances, September 1, 2009	<u>465,336</u>		<u>515,920</u>	<u>8,419</u>	<u>3,210</u>	<u>992,885</u>
Fund Balances, August 31, 2010	<u>\$ 473,275</u>	<u>\$ 551,454</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,290</u>	<u>\$ 1,028,019</u>

* This is a new fund that is discretely presented.



Section Two
(continued)

Enterprise Funds

Nonmajor Enterprise Funds

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds and water pollution control revolving funds that issue bonds to provide assistance to political subdivisions.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Texas Prepaid Tuition Plans** (previously reported as the Texas Prepaid Higher Education Tuition Board) offer programs that allow Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

STATE OF TEXAS

**Combining Statement of Net Position –
Nonmajor Enterprise Funds**

August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 202,166	\$ 42,679	\$	\$
Short-Term Investments	781,507			8
Securities Lending Collateral				28,075
Restricted:				
Cash and Cash Equivalents		454,157	318,383	370,644
Short-Term Investments		11,675	15,029	14,054
Loans and Contracts		12,364		62,824
Receivables:				
Federal	2,444			5,355
Other Intergovernmental			3,674	
Accounts	138	1,794	4,386	4,061
Interest and Dividends	31,939	14,562	300	12,891
Investment Trades				
Other		67		
Due From Other Funds	41		2	457
Interfund Receivable	120	49		
Inventories		5		
Prepaid Items				
Loans and Contracts	146,657	2,319		
Other Current Assets		368		
Total Current Assets	<u>1,165,012</u>	<u>540,039</u>	<u>341,774</u>	<u>498,369</u>
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents			33	
Investments		1,227,812	114,999	256,299
Receivables				
Loans and Contracts		1,221,546		1,972,808
Other				2,229
Loans and Contracts	3,738,165	39,449		
Investments				(1,671)
Interfund Receivable	2,965			
Capital Assets:				
Non-Depreciable or Non-Amortizable			2,277,394	7,528
Depreciable or Amortizable, Net		73	372,292	52,868
Assets Held in Trust				
Deferred Charges		9,778	39,682	
Hedging Derivative Asset				4,618
Other Noncurrent Assets		521		
Total Noncurrent Assets	<u>3,741,130</u>	<u>2,499,179</u>	<u>2,804,400</u>	<u>2,294,679</u>
Total Assets	<u>4,906,142</u>	<u>3,039,218</u>	<u>3,146,174</u>	<u>2,793,048</u>
DEFERRED OUTFLOWS				
Deferred Outflow of Resources		36,966		327,085
Total Deferred Outflow of Resources	<u>0</u>	<u>36,966</u>	<u>0</u>	<u>327,085</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$	\$ 8,591	\$ 19,190	\$ 272,626
	126,903		781,515
	229,775		154,978
			1,372,959
			40,758
			75,188
			7,799
			3,674
1,574		122	12,075
	5,585	42	65,319
	251,282		251,282
	225	2,377	2,669
13,037			13,537
			169
7,601		954	8,560
		240	240
	54,191	1,374	204,541
			368
<u>22,212</u>	<u>676,552</u>	<u>24,299</u>	<u>3,268,257</u>
		19,793	19,826
	1,287,927	43	2,887,080
	173,004		173,004
			3,194,354
			2,229
		14,792	3,792,406
			(1,671)
			2,965
283		376	2,285,581
372	6	1,303	426,914
		2,943	2,943
			49,460
			4,618
			521
<u>655</u>	<u>1,460,937</u>	<u>39,250</u>	<u>12,840,230</u>
<u>22,867</u>	<u>2,137,489</u>	<u>63,549</u>	<u>16,108,487</u>
			364,051
<u>0</u>	<u>0</u>	<u>0</u>	<u>364,051</u>

Concluded on the following page

STATE OF TEXAS

**Combining Statement of Net Position –
Nonmajor Enterprise Funds (concluded)**

August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts Payroll	\$ 52	\$ 797	\$ 20,100	\$ 15,636
Investment Trades				
Interest	10,820	32,466	3,658	4,911
Due To Other Funds	2,392			346
Unearned Revenue	49,109	19,514	260	153
Obligations/Securities Lending				28,075
Capital Lease Obligations				
Employees' Compensable Leave		767		
Notes and Loans Payable				
General Obligation Bonds Payable	34,575			92,347
Revenue Bonds Payable	22,895	26,247		400
Liabilities Payable From Restricted Assets				
Funds Held for Others				
Other Current Liabilities		5,575		
Total Current Liabilities	<u>119,843</u>	<u>85,366</u>	<u>24,018</u>	<u>141,868</u>
Noncurrent Liabilities:				
Employees' Compensable Leave		227		
Notes and Loans Payable			1,007,013	
Liabilities Payable From Restricted Assets				
General Obligation Bonds Payable	866,280			1,903,483
Revenue Bonds Payable	1,303,215	2,644,803	1,537,924	22,810
Assets Held for Others				
Hedging Derivative Liability		36,966		327,085
Other Noncurrent Liabilities		94,028		
Total Noncurrent Liabilities	<u>2,169,495</u>	<u>2,776,024</u>	<u>2,544,937</u>	<u>2,253,378</u>
Total Liabilities	<u>2,289,338</u>	<u>2,861,390</u>	<u>2,568,955</u>	<u>2,395,246</u>
DEFERRED INFLOWS				
Deferred Inflow of Resources				4,618
Total Deferred Inflow of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,618</u>
NET POSITION				
Invested in Capital Assets, Net of Related Debt		73	104,749	35,597
Restricted for:				
Debt Retirement		139,490	164,286	
Veterans Land Board Housing Programs				684,672
Other				
Unrestricted	<u>2,616,804</u>	<u>75,231</u>	<u>308,184</u>	
Total Net Position	<u>\$ 2,616,804</u>	<u>\$ 214,794</u>	<u>\$ 577,219</u>	<u>\$ 720,269</u>

* The Texas Water Development Board Funds and the Texas Department of Transportation Turnpike Authority were previously presented in the statement of net assets – proprietary funds.

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 4,586	\$ 1,191	\$ 1,326	\$ 43,688
1,428		2,007	3,435
	261,846		261,846
			51,855
536	139		3,413
	301	51	69,388
	126,903		154,978
		68	68
993	66	655	2,481
		11,500	11,500
			126,922
			49,542
	211,272		211,272
	26		26
	75		5,650
<u>7,543</u>	<u>601,819</u>	<u>15,607</u>	<u>996,064</u>
362	58	401	1,048
			1,007,013
	2,122,960		2,122,960
			2,769,763
			5,508,752
		2,943	2,943
			364,051
			94,028
<u>362</u>	<u>2,123,018</u>	<u>3,344</u>	<u>11,870,558</u>
<u>7,905</u>	<u>2,724,837</u>	<u>18,951</u>	<u>12,866,622</u>
			4,618
<u>0</u>	<u>0</u>	<u>0</u>	<u>4,618</u>
655	6	1,234	142,314
			303,776
			684,672
		528	528
<u>14,307</u>	<u>(587,354)</u>	<u>42,836</u>	<u>2,470,008</u>
<u>\$ 14,962</u>	<u>\$ (587,348)</u>	<u>\$ 44,598</u>	<u>\$ 3,601,298</u>

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
OPERATING REVENUES				
Auxiliary Enterprises – Pledged	\$	\$	\$	\$
Other Sales of Goods and Services				7,321
Other Sales of Goods and Services – Pledged			73,299	30,738
Interest and Investment Income	70,074	157,262		104,293
Interest and Investment Income – Pledged	101,533			
Federal Revenue				26,342
Other Revenues	6,872	17,594		63
Other Revenues – Pledged				
Total Operating Revenues	<u>178,479</u>	<u>174,856</u>	<u>73,299</u>	<u>168,757</u>
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages	10,142	8,519		
Payroll Related Costs	1,580	1,720		
Professional Fees and Services	2,355	2,644	9,173	58,209
Travel	109	252		5
Materials and Supplies	83	363	3,782	2,623
Communication and Utilities	60	139	1,255	
Repairs and Maintenance	59	300	12,779	178
Rentals and Leases	146	128		4
Printing and Reproduction	5	9	16	4
Depreciation and Amortization		788	17,409	3,715
Bad Debt Expense		275		
Interest Expense	130,278	116,471	1	74,531
Employee/Participant Benefit Payments				
Other Expenses	2,490	4,562	22,855	7,906
Total Operating Expenses	<u>147,307</u>	<u>136,170</u>	<u>67,270</u>	<u>147,175</u>
Operating Income (Loss)	<u>31,172</u>	<u>38,686</u>	<u>6,029</u>	<u>21,582</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 93,507	\$ (260)	\$ 9,609	\$ 93,507
			16,670
			104,037
		248	331,877
			101,533
			26,342
243	1,470	20,924	47,166
		42	42
<u>93,750</u>	<u>1,210</u>	<u>30,823</u>	<u>721,174</u>
67,021		1,639	68,660
13,488	984	10,503	43,636
4,390	224	2,333	10,247
	4,943	4,969	82,293
37	21	120	544
1,104	194	614	8,763
1	81	512	2,048
166	265	497	14,244
727	28	1,939	2,972
82	52	63	231
57	3	915	22,887
3		43	321
			321,281
	12,365		12,365
42	65,079	2,253	105,187
<u>87,118</u>	<u>84,239</u>	<u>26,400</u>	<u>695,679</u>
<u>6,632</u>	<u>(83,029)</u>	<u>4,423</u>	<u>25,495</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	\$ 180,234	\$	\$	\$ 2,188
Gifts				36
Land Income			13	
Interest and Investment Income		4,923	6,632	22,095
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense			(139,548)	(1,435)
Borrower Rebates and Agent Fees				(115)
Settlement of Claims				
Claims and Judgments				
Other Revenues			78	
Other Expenses	(57,611)		(5)	
Total Nonoperating Revenues (Expenses)	<u>122,623</u>	<u>4,923</u>	<u>(132,830)</u>	<u>22,769</u>
Income (Loss) Before Capital Contributions and Transfers	<u>153,795</u>	<u>43,609</u>	<u>(126,801)</u>	<u>44,351</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital Contributions – Other			28,500	
Transfer In	3,367	8,683	34,790	1,368
Transfer Out	(10,716)			(22,061)
Total Capital Contributions and Transfers	<u>(7,349)</u>	<u>8,683</u>	<u>63,290</u>	<u>(20,693)</u>
Change in Net Position	<u>146,446</u>	<u>52,292</u>	<u>(63,511)</u>	<u>23,658</u>
Net Position, September 1, 2009	2,470,358	162,502	642,258	696,819
Restatements			(1,528)	(208)
Net Position, September 1, 2009, as Restated	<u>2,470,358</u>	<u>162,502</u>	<u>640,730</u>	<u>696,611</u>
Net Position, August 31, 2010	<u>\$ 2,616,804</u>	<u>\$ 214,794</u>	<u>\$ 577,219</u>	<u>\$ 720,269</u>

* The Texas Water Development Board Funds and the Texas Department of Transportation Turnpike Authority were previously presented in the statement of revenues, expenses and changes in fund net assets – proprietary funds.

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$	\$ 46	\$ 35	\$ 182,457
		5	87
			13
	91,248	190	125,088
	419		419
	(659)		(659)
		(42)	(141,025)
	(40)		(155)
2			2
		(9)	(9)
			78
(1)			(57,617)
<u>1</u>	<u>91,014</u>	<u>179</u>	<u>108,679</u>
6,633	7,985	4,602	134,174
			28,500
4,532		1,306	54,046
(21,134)		(574)	(54,485)
<u>(16,602)</u>	<u>0</u>	<u>732</u>	<u>28,061</u>
(9,969)	7,985	5,334	162,235
24,939	(595,333)	39,264	3,440,807
(8)			(1,744)
<u>24,931</u>	<u>(595,333)</u>	<u>39,264</u>	<u>3,439,063</u>
<u>\$ 14,962</u>	<u>\$ (587,348)</u>	<u>\$ 44,598</u>	<u>\$ 3,601,298</u>

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$	\$	\$ 75,331	\$
Proceeds from Loan Programs		60,951		389,265
Proceeds from Other Revenues		13,121		65,633
Payments to Suppliers for Goods and Services	(4,397)	(10,160)	(45,091)	(73,593)
Payments to Employees	(12,563)	(10,207)		
Payments for Loans Provided		(11,021)		(257,757)
Payments for Other Expenses	(137)			(9)
Net Cash Provided (Used) by Operating Activities	<u>(17,097)</u>	<u>42,684</u>	<u>30,240</u>	<u>123,539</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance	287,649	300,000		362,436
Proceeds from State Appropriations	1,335			
Proceeds from Transfers from Other Funds	233,259	12,444		
Proceeds from Grant Receipts	180,570			
Proceeds from Interfund Payables	20,665			
Proceeds from Other Financing Activities				134,596
Payments of Principal on Debt Issuance	(331,955)	(294,547)		(252,798)
Payments of Interest	(133,763)	(121,378)		(75,676)
Payments of Other Costs on Debt Issuance	(383)	(1,368)		
Payments for Transfers to Other Funds	(498,750)	(3,657)		(155,999)
Payments for Grant Disbursements	(67,671)			
Payments for Interfund Receivables	(71,529)			
Payments for Other Uses	(386)			
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(380,959)</u>	<u>(108,506)</u>	<u>0</u>	<u>12,559</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from State Grants and Contracts				1,227
Proceeds from Other Financing Activities			13	204
Proceeds from Capital Contributions			27,762	
Payments for Additions to Capital Assets		(6)	(19,223)	(1,828)
Payments of Principal on Debt Issuance				(375)
Payments of Interest on Debt Issuance			(62,678)	(1,437)
Payments of Other Costs on Debt Issuance			(5)	
Net Cash Used by Capital and Related Financing Activities	<u>0</u>	<u>(6)</u>	<u>(54,131)</u>	<u>(2,209)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments	920,723	568,955	59,997	290,441
Proceeds from Interest and Investment Income	179,842	73,095	7,031	7,285
Proceeds from Principal Payments on Loans	554,633			
Payments to Acquire Investments	(781,998)	(377,395)	(59,997)	(260,376)
Payments for Nonprogram Loans Provided	(400,011)			
Net Cash Provided by Investing Activities	<u>473,189</u>	<u>264,655</u>	<u>7,031</u>	<u>37,350</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>75,133</u>	<u>198,827</u>	<u>(16,860)</u>	<u>171,239</u>
Cash and Cash Equivalents, September 1, 2009	127,033	298,009	351,423	199,459
Restatements			(16,147)	(54)
Cash and Cash Equivalents, September 1, 2009, as Restated	<u>127,033</u>	<u>298,009</u>	<u>335,276</u>	<u>199,405</u>
Cash and Cash Equivalents, August 31, 2010	<u>\$ 202,166</u>	<u>\$ 496,836</u>	<u>\$ 318,416</u>	<u>\$ 370,644</u>

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 93,576	\$ 36,570	\$ 9,447	\$ 214,924
		1,233	451,449
243	466	21,111	100,574
(66,972)	(6,633)	(2,259)	(209,105)
(17,878)	(1,215)	(12,973)	(54,836)
		(7,222)	(276,000)
(2,164)	(199,919)	(10,730)	(212,959)
<u>6,805</u>	<u>(170,731)</u>	<u>(1,393)</u>	<u>14,047</u>
		2,168	952,253
			1,335
4,532		1,388	251,623
			180,570
			20,665
	46	30	134,672
			(879,300)
		(30)	(330,847)
		(6)	(1,757)
(11,313)		(656)	(670,375)
			(67,671)
			(71,529)
			(386)
<u>(6,781)</u>	<u>46</u>	<u>2,894</u>	<u>(480,747)</u>
			1,227
		1	218
			27,762
(31)		(545)	(21,633)
			(375)
			(64,115)
			(5)
<u>(31)</u>	<u>0</u>	<u>(544)</u>	<u>(56,921)</u>
23,465	4,237,412		6,100,993
52	45,245	179	312,729
			554,633
(23,510)	(4,049,030)		(5,552,306)
		(43)	(400,054)
<u>7</u>	<u>233,627</u>	<u>136</u>	<u>1,015,995</u>
0	62,942	1,093	492,374
	175,424	37,890	1,189,238
			(16,201)
<u>0</u>	<u>175,424</u>	<u>37,890</u>	<u>1,173,037</u>
<u>\$ 0</u>	<u>\$ 238,366</u>	<u>\$ 38,983</u>	<u>\$ 1,665,411</u>

Concluded on the following page

STATE OF TEXAS

**Combining Statement of Cash Flows –
Nonmajor Enterprise Funds (concluded)**

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 31,172	\$ 38,686	\$ 6,029	\$ 21,582
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization		788	17,409	3,715
Bad Debt Expense		275		
Operating Income (Loss) and Cash Flow Categories Classification Differences	(60,288)	13,964		74,566
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables		(292)	2,033	1,155
(Increase) Decrease in Inventories				
(Increase) Decrease in Loans and Contracts		18,065		25,703
(Increase) Decrease in Other Assets		973		1,970
(Increase) Decrease in Prepaid Expenses				
Increase (Decrease) in Payables	(167)	(3,649)	4,769	(4,797)
Increase (Decrease) in Due To Other Funds	12,186			
Increase (Decrease) in Unearned Revenue		(1,357)		
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Other Liabilities		(24,769)		(355)
Total Adjustments	<u>(48,269)</u>	<u>3,998</u>	<u>24,211</u>	<u>101,957</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (17,097)</u>	<u>\$ 42,684</u>	<u>\$ 30,240</u>	<u>\$ 123,539</u>
NONCASH TRANSACTIONS				
Net Change in Fair Value of Investments	\$	\$ 35,670	\$ 381	\$ 15,320
Donation of Capital Assets	\$ (373)	\$	\$ 738	\$
Other	\$	\$	\$ 34,790	\$ (1,199)

* The Texas Water Development Board Funds and Texas Department of Transportation Turnpike Authority were previously presented in the statement of cash flows – proprietary funds.

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
\$ 6,632	\$ (83,029)	\$ 4,423	\$ 25,495
57	3	915	22,887
3		43	321
		(7)	28,235
64	31	119	3,110
724		(173)	551
	29,017	(6,218)	66,567
	14		2,957
		13	13
(675)	(116,149)	(518)	(121,186)
	6		12,192
	(205)	(23)	(1,585)
	14	(20)	(6)
	(433)	53	(25,504)
<u>173</u>	<u>(87,702)</u>	<u>(5,816)</u>	<u>(11,448)</u>
<u>\$ 6,805</u>	<u>\$ (170,731)</u>	<u>\$ (1,393)</u>	<u>\$ 14,047</u>
\$	\$ 53,242	\$	\$ 104,613
\$	\$	\$	\$ 365
\$	\$	\$	\$ 33,591

Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules were prepared to report the breakdown of the following universities.

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

STATE OF TEXAS

Schedule of Net Position Colleges and Universities – Major Enterprise Fund

August 31, 2010 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 2,031,157	\$ 324,701	\$ 351,317	\$ 170,601	\$ 368,661
Short-Term Investments		191,167		195,383	
Securities Lending Collateral	468,365	77,711			
Restricted:					
Cash and Cash Equivalents	531,478	(2,850)	109,153	16,329	176,385
Short-Term Investments		506,464			99
Receivables:					
Federal	330,249	162,308	20,861	51,501	19,291
Other Intergovernmental	33,867	5,626			
Accounts	844,374	71,515	48,415	24,040	87,415
Interest and Dividends	57,430	6,142	546	772	543
Gifts	96,822	16,497	22,334	14,428	4,586
Investment Trades	89,385	29,355			
Other	231,031	65,850	6,702	1,696	6
Due From Other Funds	268,300	127,177	100,731	108,982	88,600
Due From Component Units		8	50		
Interfund Receivable		20,245			
Inventories	69,116	24,472	3,468	2,208	4,220
Prepaid Items			55,169	49,310	9,875
Loans and Contracts	47,897	25,081	4,110	15,504	8,301
Other Current Assets	182,988	64,832	450		37,455
Total Current Assets	<u>5,282,459</u>	<u>1,716,301</u>	<u>723,306</u>	<u>650,754</u>	<u>805,437</u>
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	18		70,378	90,186	26,391
Short-Term Investments					
Investments	19,980,909	611,745	264,390		86,663
Receivables				7,983	4,195
Loans and Contracts	80,581	4,647		16,533	1,021
Loans and Contracts		22,023	3,234		600
Investments	1,864,220	1,449,284	783,769	553,198	107,829
Interfund Receivable		591,650			
Gifts Receivable	153,098	46,477	40,149		
Capital Assets:					
Non-Depreciable or Non-Amortizable	2,584,156	825,562	214,420	199,722	270,953
Depreciable or Amortizable, Net	8,423,812	2,258,641	1,021,660	660,117	811,304
Assets Held in Trust		362			
Deferred Charges					
Other Noncurrent Assets	38,795	1,270			
Total Noncurrent Assets	<u>33,125,589</u>	<u>5,811,661</u>	<u>2,398,000</u>	<u>1,527,739</u>	<u>1,308,956</u>
Total Assets	<u>38,408,048</u>	<u>7,527,962</u>	<u>3,121,306</u>	<u>2,178,493</u>	<u>2,114,393</u>
DEFERRED OUTFLOWS					
Deferred Outflow of Resources	205,166	11,394			
Total Deferred Outflow of Resources	<u>205,166</u>	<u>11,394</u>	<u>0</u>	<u>0</u>	<u>0</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 330,063	\$ 9,303 20,863	\$ 66,288 5,084	\$ 46,192	\$ 6,368 25,337	\$ 23,844 11,328	\$ 3,728,495 449,162 546,076
32,290	1,153 55,070	26,231 14,103	427 5,785	(1,309)	444 28,403	889,731 609,924
29,912	12,025	2,516	11,920	862	14,772	656,217
475		113	16		107	40,204
54,024	13,892	8,290	19,193	4,504	5,275	1,180,937
1,226	800	156		77	26	67,718
2,534	3,550		997	264		162,012
						118,740
	3,484	2,429	828	1,432		313,458
70,211	25,293	7,819	10,975	766	20,886	829,740
						58
						20,245
2,231	852	577	218	263	3,064	110,689
	957	19,564				134,875
6,794	5,400	2,371		14		115,472
20,534			13,659	8,028	2	327,948
<u>550,294</u>	<u>152,642</u>	<u>155,541</u>	<u>110,210</u>	<u>46,606</u>	<u>108,151</u>	<u>10,301,701</u>
					127	187,100
				16,151	510	16,661
67,296	107,134	8,977	30,964			21,158,078
		4,871		94		12,178
5,929		2,421	2,225			107,747
147,662		26,632		8,275		36,432
						4,940,869
2,086						591,650
						241,810
199,225	73,706	16,683	19,404	8,891	13,960	4,426,682
431,814	146,980	202,860	164,841	132,962	80,599	14,335,590
						362
			1,027			1,027
268				1,074		41,407
<u>854,280</u>	<u>327,820</u>	<u>262,444</u>	<u>218,461</u>	<u>167,447</u>	<u>95,196</u>	<u>46,097,593</u>
<u>1,404,574</u>	<u>480,462</u>	<u>417,985</u>	<u>328,671</u>	<u>214,053</u>	<u>203,347</u>	<u>56,399,294</u>
						216,560
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>216,560</u>

Concluded on the following page

STATE OF TEXAS

Schedule of Net Position Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2010 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	\$ 808,847	\$ 139,316	\$ 43,615	\$ 33,838	\$ 40,081
Payroll	394,204	108,373	59,675	36,640	22,478
Other Intergovernmental	11				13,330
Federal	90,742			21	
Investment Trades	99,740	53,743			
Interest					
Due To Other Funds	15,515	1,778	2,767	323	1,925
Interfund Payable	21,232	1,107			
Unearned Revenue	1,097,824	455,115	170,904	172,822	260,553
Obligations/Securities Lending	468,365	77,839			
Claims and Judgments	12,162	2,200	1,833	388	
Capital Lease Obligations	1,233	192	96		153
Employees' Compensable Leave	283,402	7,634	7,566	10,964	11,562
Notes and Loans Payable	558,290	2,373	63,637	10,000	
General Obligation Bonds Payable					
Revenue Bonds Payable	1,581,825	115,190	25,223	26,525	39,182
Pollution Remediation Obligation		10			
Funds Held for Others	20,509	29,062	26,839	12,843	5,641
Hedging Derivative Liability		7,467			
Other Current Liabilities	156,910	48,347	4,428	3,375	5,068
Total Current Liabilities	<u>5,610,811</u>	<u>1,049,746</u>	<u>406,583</u>	<u>307,739</u>	<u>399,973</u>
Noncurrent Liabilities:					
Interfund Payable	594,164	3,400			
Claims and Judgments	27,395	6,232	16,500	14	
Capital Lease Obligations	2,449	2,110	185		113
Employees' Compensable Leave	157,620	96,907	37,111	12,167	8,957
Notes and Loans Payable	26,301	59,127			
General Obligation Bonds Payable					
Revenue Bonds Payable	4,829,919	2,113,113	450,165	675,830	701,970
Assets Held for Others	648,572	60,620			
Net OPEB Obligation	1,295,763	342,379			
Hedging Derivative Liability	205,166	3,927			
Other Noncurrent Liabilities	20,717	26,529	626		1,366
Total Noncurrent Liabilities	<u>7,808,066</u>	<u>2,714,344</u>	<u>504,587</u>	<u>688,011</u>	<u>712,406</u>
Total Liabilities	<u>13,418,877</u>	<u>3,764,090</u>	<u>911,170</u>	<u>995,750</u>	<u>1,112,379</u>
NET POSITION					
Invested in Capital Assets,					
Net of Related Debt	4,630,805	1,164,257	745,613	348,347	338,446
Restricted for:					
Education	1,617,671	253,105	233,710	121,233	75,174
Debt Retirement	7,539		22,413	20,456	3,225
Capital Projects	111,398	11,992	25,621	4,985	164,956
Funds Held as Permanent Investments:					
Nonexpendable	10,167,365	359,138	611,227	300,890	92,526
Expendable	6,357,146	122,280		52,178	7,301
Unrestricted	<u>2,302,413</u>	<u>1,864,494</u>	<u>571,552</u>	<u>334,654</u>	<u>320,386</u>
Total Net Position	<u>\$ 25,194,337</u>	<u>\$ 3,775,266</u>	<u>\$ 2,210,136</u>	<u>\$ 1,182,743</u>	<u>\$ 1,002,014</u>

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 32,077	\$ 3,044	\$ 4,435	\$ 6,314	\$ 4,749	\$ 5,219	\$ 1,121,535
36,080	4,649	8,481	6,589	3,891	6,801	687,861
	1,611		3			14,955
	1,628				275	92,666
		2,908	1,741		180	153,483
30	246	835				4,829
						23,419
						22,339
142,910	42,463	56,140	42,259	21,914	16,324	2,479,228
						546,204
	200	13		13	620	16,583
						2,520
2,117	2,309	581	2,400	174	617	329,326
2,093			241			636,634
		900	4,640	1,305	1,565	8,410
19,399	3,989	8,444	6,459	3,280	1,711	1,831,227
12						22
13,411		14,054		90	1,867	124,316
						7,467
5,600	1,423	8,063	8,163	92	641	242,110
<u>253,729</u>	<u>61,562</u>	<u>104,854</u>	<u>78,809</u>	<u>35,508</u>	<u>35,820</u>	<u>8,345,134</u>
						597,564
			810			50,951
	1,601	10		8	5,278	11,754
17,026	1,410	3,286	2,110	1,254	5,500	343,348
5,287						90,715
		8,430	19,092	4,210	6,925	38,657
421,056	87,156	169,480	80,354	83,660	40,751	9,653,454
2,406						711,598
						1,638,142
						209,093
1,757			622	275	2	51,894
<u>447,532</u>	<u>90,167</u>	<u>181,206</u>	<u>102,988</u>	<u>89,407</u>	<u>58,456</u>	<u>13,397,170</u>
<u>701,261</u>	<u>151,729</u>	<u>286,060</u>	<u>181,797</u>	<u>124,915</u>	<u>94,276</u>	<u>21,742,304</u>
190,161	127,948	57,610	64,031	57,549	65,347	7,790,114
57,377	106,208	13,739	159		720	2,479,096
20		2,908	449		11	57,021
146,477		1,544	1,756	1,890	36	470,655
40,604	9,176	6,660	27,938	3,705	637	11,619,866
3,354		2,020		4,448		6,548,727
<u>265,320</u>	<u>85,401</u>	<u>47,444</u>	<u>52,541</u>	<u>21,546</u>	<u>42,320</u>	<u>5,908,071</u>
<u>\$ 703,313</u>	<u>\$328,733</u>	<u>\$ 131,925</u>	<u>\$ 146,874</u>	<u>\$ 89,138</u>	<u>\$ 109,071</u>	<u>\$34,873,550</u>

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	\$	\$	\$ 7,245	\$	\$
Tuition Revenue – Pledged	1,564,427	831,128	320,787	436,391	451,432
Discounts and Allowances	(377,994)	(199,051)	(52,522)	(100,746)	(90,606)
Hospital Revenue – Pledged	7,289,132				
Discounts and Allowances	(3,856,238)				
Professional Fees	3,613,949		220,756		
Professional Fees – Pledged	4,500	8,705			
Discounts and Allowances	(2,514,973)				
Auxiliary Enterprises					
Auxiliary Enterprises – Pledged	402,024	239,762	103,094	57,154	105,622
Discounts and Allowances	(10,148)				
Other Sales of Goods and Services			2,056		
Other Sales of Goods and Services – Pledged	366,804	177,163	14,077	24,253	17,686
Discounts and Allowances	(466)	(26,025)			
Interest and Investment Income		1,637			
Interest and Investment Income – Pledged					
Federal Revenue	1,452,461	442,707	60,866	35,841	44,023
State Grant Revenue	25	1,066	5,069	9,899	9,401
Other Operating Grant Revenue	347,334	42	136,990	22,493	5,568
Other Operating Grant Revenue – Pledged	588,184	228,628	3,762		
Other Revenues	25,005			397	716
Other Revenues – Pledged	75,464	59,379			17,131
Total Operating Revenues	<u>8,969,490</u>	<u>1,765,141</u>	<u>822,180</u>	<u>485,682</u>	<u>560,973</u>
OPERATING EXPENSES					
Cost of Goods Sold	91,444	17,320	10,717	3,176	8,359
Salaries and Wages	5,933,289	1,507,600	690,968	491,283	434,921
Payroll Related Costs	1,357,650	339,595	149,863	100,636	98,570
Professional Fees and Services	383,251	233,702	72,679	44,605	44,349
Travel	127,387	70,791	22,824	14,033	13,973
Materials and Supplies	1,201,527	226,516	70,348	42,357	83,681
Communication and Utilities	327,275	115,707	44,065	43,845	46,555
Repairs and Maintenance	216,912	79,664	36,327	13,189	17,429
Rentals and Leases	133,435	32,267	11,528	16,931	6,383
Printing and Reproduction	27,926	14,695	6,423	5,023	4,701
Depreciation and Amortization	785,395	179,987	78,849	57,343	53,099
Bad Debt Expense	5,204	932	195		16
Interest Expense		43	27	541	35
Scholarships	392,483	196,432	53,596	67,667	103,222
Claims and Judgments	29,823	1,747		1,487	
Net Change in Pension/OPEB Obligations	454,738	122,506			
Other Expenses	702,175	170,559	99,877	39,232	34,356
Total Operating Expenses	<u>12,169,914</u>	<u>3,310,063</u>	<u>1,348,286</u>	<u>941,348</u>	<u>949,649</u>
Operating Loss	<u>(3,200,424)</u>	<u>(1,544,922)</u>	<u>(526,106)</u>	<u>(455,666)</u>	<u>(388,676)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 6,302	\$ 18,112	\$ 3,771	\$	\$	\$ 7,123	\$ 42,553
269,228	54,166	79,582	76,139	35,878	31,896	4,151,054
(48,594)	(15,073)	(23,060)	(22,069)	(8,646)	(22,396)	(960,757)
						7,289,132
						(3,856,238)
85,037						3,919,742
						13,205
						(2,514,973)
1,074		1,424			785	3,283
44,520	21,993	35,172	12,118	7,702	15,472	1,044,633
(196)	(3,691)	(9,830)			(6,690)	(30,555)
		1,858				3,914
27,214		3,753	82	1,295	5,541	637,868
						(26,491)
						1,637
					167	167
89,644	2,387	27,255	50,250	2,156	8,359	2,215,949
3,464			1,498		861	31,283
9,831		872			1,025	524,155
	1,349		1,866	143		823,932
185	1,586	24				27,913
			2,654	1,436		156,064
<u>487,709</u>	<u>80,829</u>	<u>120,821</u>	<u>122,538</u>	<u>39,964</u>	<u>42,143</u>	<u>13,497,470</u>
665	89	8,697			5,381	145,848
369,136	80,320	86,887	86,118	37,660	70,969	9,789,151
81,252	18,498	21,009	19,082	9,215	21,955	2,217,325
31,118	2,069	2,362	9,031	4,040	1,048	828,254
10,021	1,545	2,436	3,124	1,426	1,068	268,628
48,736	12,691	16,185	14,854	5,618	12,014	1,734,527
17,007	6,307	13,375	5,553	3,234	7,397	630,320
22,611	3,194	3,686	6,624	2,332	2,395	404,363
6,089	1,190	1,810	2,078	525	1,325	213,561
3,711	378	681	578	171	121	64,408
33,358	10,738	12,518	11,899	9,000	6,700	1,238,886
(1,111)	449	381	3,262	2		9,330
				3	6	655
57,957	14,566	11,688	25,157	8,853	28,140	959,761
						33,057
						577,244
31,477	6,663	5,802	12,724		9,650	1,112,515
<u>712,027</u>	<u>158,697</u>	<u>187,517</u>	<u>200,084</u>	<u>82,079</u>	<u>168,169</u>	<u>20,227,833</u>
(224,318)	(77,868)	(66,696)	(77,546)	(42,115)	(126,026)	(6,730,363)

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	\$ 295,315	\$ 191,288	\$ 42,827	\$ 110,351	\$ 99,302
Gifts	272,019		49,829	56,568	22,859
Gifts – Pledged	24,251	110,652	6,108		
Land Income		6,881			
Interest and Investment Income	2,547,214		79,388	40,240	7,918
Interest and Investment Income – Pledged	202,462	140,379	7,869		
Investing Activities Expense	(68,813)	(3,796)			(1,595)
Interest Expense	(207,452)	(81,888)	(23,282)	(28,999)	(28,108)
Borrower Rebates and Agent Fees		(3,969)			
Settlement of Claims					1,101
Claims and Judgments		(597)			
Other Revenues			4,805	86,409	3,274
Other Revenues – Pledged	14,169	11,220	5,267		
Other Expenses	(40,604)	(23,693)	(6,717)	(51,418)	(127)
Total Nonoperating Revenues (Expenses)	<u>3,038,561</u>	<u>346,477</u>	<u>166,094</u>	<u>213,151</u>	<u>104,624</u>
Loss Before Capital Contributions, Endowments and Transfers	<u>(161,863)</u>	<u>(1,198,445)</u>	<u>(360,012)</u>	<u>(242,515)</u>	<u>(284,052)</u>
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS					
Capital Contributions – Federal	936				147
Capital Contributions – Other	184,757	15,411	61,147	50	681
Contributions to Permanent and Term Endowments	118,983	4,825	3,329	5,419	331
Transfer In	2,571,420	1,374,642	479,607	388,227	367,307
Transfer Out	(337,589)	(12,866)	(13,703)	(7,501)	(7,203)
Total Capital Contributions, Endowments and Transfers	<u>2,538,507</u>	<u>1,382,012</u>	<u>530,380</u>	<u>386,195</u>	<u>361,263</u>
Change in Net Position	<u>2,376,644</u>	<u>183,567</u>	<u>170,368</u>	<u>143,680</u>	<u>77,211</u>
Net Position, September 1, 2009	22,789,384	3,604,958	2,039,782	1,038,988	925,051
Restatements	28,309	(13,259)	(14)	75	(248)
Net Position, September 1, 2009, as Restated	<u>22,817,693</u>	<u>3,591,699</u>	<u>2,039,768</u>	<u>1,039,063</u>	<u>924,803</u>
Net Position, August 31, 2010	<u>\$ 25,194,337</u>	<u>\$ 3,775,266</u>	<u>\$ 2,210,136</u>	<u>\$ 1,182,743</u>	<u>\$ 1,002,014</u>

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 7,134	\$ 16,743	\$ 2,598	\$	\$ 8,457	\$ 44,514	\$ 808,797
					54	411,061
	2,350	92	1,305	3,492		148,250
		3				6,884
6,797	4,891	1,066	2,402			2,689,916
	1,381	995		844	298	354,228
		(88)	(209)			(74,501)
(23,883)	(4,015)	(5,935)	(5,455)	(3,447)	(2,019)	(414,483)
						(3,969)
		283				1,384
(1,009)	(7)	(1)			(125)	(1,739)
516		59			312	95,375
	4,015					34,671
(6,676)	(104)	(1,005)	(3,318)	(34)	(2,129)	(135,825)
<u>(17,121)</u>	<u>25,254</u>	<u>(1,933)</u>	<u>(5,275)</u>	<u>9,312</u>	<u>40,905</u>	<u>3,920,049</u>
<u>(241,439)</u>	<u>(52,614)</u>	<u>(68,629)</u>	<u>(82,821)</u>	<u>(32,803)</u>	<u>(85,121)</u>	<u>(2,810,314)</u>
						1,083
4,470		685		345	8,421	275,967
354		79	31	3,226		136,577
272,740	79,759	77,796	94,009	32,950	103,205	5,841,662
<u>(4,342)</u>	<u>(1,871)</u>	<u>(3,144)</u>	<u>(928)</u>	<u>(1,281)</u>	<u>(1,124)</u>	<u>(391,552)</u>
<u>273,222</u>	<u>77,888</u>	<u>75,416</u>	<u>93,112</u>	<u>35,240</u>	<u>110,502</u>	<u>5,863,737</u>
<u>31,783</u>	<u>25,274</u>	<u>6,787</u>	<u>10,291</u>	<u>2,437</u>	<u>25,381</u>	<u>3,053,423</u>
671,573	303,471	125,138	140,992	86,701	83,688	31,809,726
<u>(43)</u>	<u>(12)</u>		<u>(4,409)</u>		<u>2</u>	<u>10,401</u>
<u>671,530</u>	<u>303,459</u>	<u>125,138</u>	<u>136,583</u>	<u>86,701</u>	<u>83,690</u>	<u>31,820,127</u>
<u>\$ 703,313</u>	<u>\$ 328,733</u>	<u>\$ 131,925</u>	<u>\$ 146,874</u>	<u>\$ 89,138</u>	<u>\$ 109,071</u>	<u>\$ 34,873,550</u>

STATE OF TEXAS

Schedule of Cash Flows

Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 4,505,110	\$ 173,848	\$ 233,877	\$ 23,949	\$ 16,593
Proceeds from Tuition and Fees	1,228,526	702,152	287,277	334,107	383,838
Proceeds from Research Grants and Contracts	2,698,751	847,625	257,284	80,890	119,524
Proceeds from Loan Programs	91,105	5,269	4,916	105,660	32,376
Proceeds from Auxiliaries	401,855	210,701	124,188	56,261	101,360
Proceeds from Other Revenues	472,961	59,906		5,153	26,550
Payments to Suppliers for Goods and Services	(3,669,624)	(1,034,376)	(269,948)	(219,293)	(284,069)
Payments to Employees	(7,331,628)	(1,854,872)	(690,692)	(597,193)	(545,707)
Payments for Loans Provided	(87,708)	(8,649)	(1,279)	(106,330)	(31,325)
Payments for Other Expenses		(264,546)	(332,403)	(84,544)	(131,653)
Net Cash Used by Operating Activities	<u>(1,690,652)</u>	<u>(1,162,942)</u>	<u>(386,780)</u>	<u>(401,340)</u>	<u>(312,513)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from State Appropriations	2,094,752	1,019,244	373,902	261,627	269,015
Proceeds from Gifts	247,842	112,011	70,790	53,924	18,715
Proceeds from Endowments	342,595	4,825		5,126	6,969
Proceeds from Transfers from Other Funds		199,154		50,616	3,476
Proceeds from Grant Receipts		217,953	61,358	123,399	97,302
Proceeds from Other Financing Activities	374,631	48,078	10,960	939	2,690
Payments of Interest					
Payments for Transfers to Other Funds	(331,420)	(8,530)	(6,299)	(17,031)	(5,696)
Payments for Other Uses	<u>(1,547)</u>	<u>(52,202)</u>	<u>(9,635)</u>	<u>(5,362)</u>	<u>(13,799)</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,726,853</u>	<u>1,540,533</u>	<u>501,076</u>	<u>473,238</u>	<u>378,672</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	1,382	4,859			
Proceeds from Debt Issuance	2,134,463	772,283	32,602	121,535	69,408
Proceeds from State Grants and Contracts		27,986			
Proceeds from Federal Grants and Contracts					195
Proceeds from Gifts			4,714		7,303
Proceeds from Other Financing Activities		980		81,496	23,177
Proceeds from Capital Contributions	180,841		53,850	53,332	
Proceeds from Interfund Payables		4			70,152
Payments for Additions to Capital Assets	(1,655,234)	(697,780)	(135,078)	(150,536)	(137,494)
Payments of Principal on Debt Issuance	(1,551,210)	(241,028)	(44,015)	(48,090)	(71,045)
Payments for Capital Leases		(16)			(156)
Payments of Interest on Debt Issuance	(205,524)	(81,872)	(23,583)	(29,005)	(49,726)
Payments of Other Costs on Debt Issuance	(46,219)	(5,609)		(45,022)	(833)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,141,501)</u>	<u>(220,193)</u>	<u>(111,510)</u>	<u>(16,290)</u>	<u>(89,019)</u>

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 118,128	\$	\$ 5,567	\$	\$	\$ 5,649	\$ 5,082,721
225,114	69,134	61,042	51,270	33,809	22,367	3,398,636
	13,321	40,536	63,096		10,460	4,131,487
9,921		69		36		249,352
43,947		27,473	12,118	8,190	9,546	995,639
116,044	19,889	24	609	2,732		703,868
(154,121)	(27,467)	(55,482)		(19,087)	(39,770)	(5,773,237)
(453,256)	(100,251)	(108,417)	(106,659)	(46,999)	(93,417)	(11,929,091)
(9,796)	(28,718)	(13,461)				(287,266)
(58,132)	(6,663)		(76,147)	(10,114)	(27,682)	(991,884)
<u>(162,151)</u>	<u>(60,755)</u>	<u>(42,649)</u>	<u>(55,713)</u>	<u>(31,433)</u>	<u>(112,847)</u>	<u>(4,419,775)</u>
218,922	69,738	58,492	93,634	26,642	84,535	4,570,503
6,783		2,689	2,839	3,492	53	519,138
354				3,188		363,057
						253,246
10,385	16,743	2,059		9,526	47,094	585,819
1,067	6,364	333			287	445,349
(72)						(72)
(3,548)		(910)		(865)	(15)	(374,314)
<u>(585)</u>	<u>(7)</u>	<u>(185)</u>		<u>(15)</u>	<u>(1,961)</u>	<u>(85,298)</u>
<u>233,306</u>	<u>92,838</u>	<u>62,478</u>	<u>96,473</u>	<u>41,968</u>	<u>129,993</u>	<u>6,277,428</u>
47		11				6,299
256,179	14,980	39,075		6,939	31,555	3,479,019
		6,908				34,894
						195
		945		1,274	82	14,318
		129		149	23	105,954
36,364				3,810		328,197
						70,156
(123,774)	(48,866)	(31,509)	(12,997)	(10,492)	(11,799)	(3,015,559)
(94,875)	(4,380)	(11,071)	(11,008)	(3,860)	(2,675)	(2,083,257)
	(190)					(362)
(21,539)	(3,952)	(6,231)	(5,450)	(3,387)	(1,917)	(432,186)
<u>(600)</u>	<u>(63)</u>			<u>(190)</u>	<u>(1,128)</u>	<u>(99,664)</u>
<u>51,802</u>	<u>(42,471)</u>	<u>(1,743)</u>	<u>(29,455)</u>	<u>(5,757)</u>	<u>14,141</u>	<u>(1,591,996)</u>

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STATE OF TEXAS

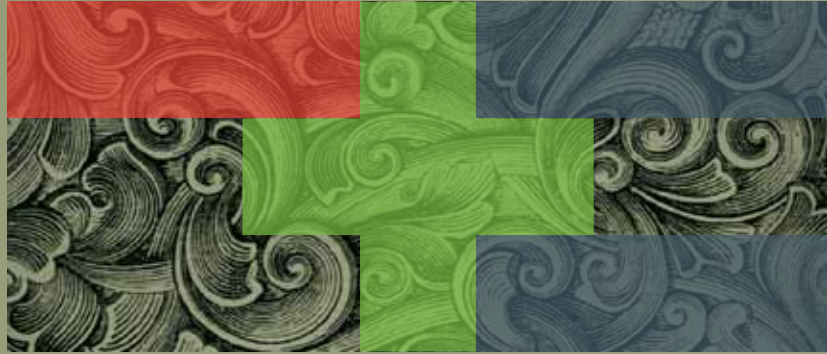
Schedule of Cash Flows

Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	\$ 11,283,995	\$ 4,420,429	\$ 495,789	\$ 288,150	\$ 111,301
Proceeds from Interest and Investment Income	699,568	41,260	51,647	25,378	14,379
Payments to Acquire Investments	(11,660,348)	(4,589,836)	(629,673)	(346,365)	(137,383)
Net Cash Provided (Used) by Investing Activities	<u>323,215</u>	<u>(128,147)</u>	<u>(82,237)</u>	<u>(32,837)</u>	<u>(11,703)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>217,915</u>	<u>29,251</u>	<u>(79,451)</u>	<u>22,771</u>	<u>(34,563)</u>
Cash and Cash Equivalents, September 1, 2009	2,344,738	292,329	610,299	254,345	606,000
Restatements		271			
Cash and Cash Equivalents, September 1, 2009, as Restated	<u>2,344,738</u>	<u>292,600</u>	<u>610,299</u>	<u>254,345</u>	<u>606,000</u>
Cash and Cash Equivalents, August 31, 2010	<u>\$ 2,562,653</u>	<u>\$ 321,851</u>	<u>\$ 530,848</u>	<u>\$ 277,116</u>	<u>\$ 571,437</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES					
Operating Loss	\$ (3,200,424)	\$ (1,544,922)	\$ (526,106)	\$ (455,666)	\$ (388,676)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:					
Depreciation and Amortization	785,395	179,987	78,849	57,343	53,099
Bad Debt Expense	289,177	6,590	195	13	16
Operating Loss and Cash Flow Categories Classification Differences	193,897	93,749	32,896	34,902	33,095
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(329,006)	(85,625)	(7,929)	(40,581)	(6,261)
(Increase) Decrease in Due From Other Funds		(6,940)	(3,697)		13,933
(Increase) Decrease in Inventories	(3,221)	1,993	249	330	207
(Increase) Decrease in Notes Receivable			(1,703)		2,336
(Increase) Decrease in Loans and Contracts	3,396	(4,595)		46	472
(Increase) Decrease in Other Assets	19,245	1,031	837	1,485	(4)
(Increase) Decrease in Prepaid Expenses		(5,997)	(11,183)	6,509	(2,995)
Increase (Decrease) in Payables	17,946	(21,703)	(2,268)	(11,197)	(1,259)
Increase (Decrease) in Deposits	2,838	1,834			204
Increase (Decrease) in Due To Other Funds		(338)	2,625		(13,701)
Increase (Decrease) in Unearned Revenue	64,738	96,127	36,652	4,351	3,972
Increase (Decrease) in Compensated Absence Liability	5,967	3,393	4,076	31	(314)
Increase (Decrease) in Benefits Payable	454,738	122,507	7,800	801	1,917
Increase (Decrease) in Other Liabilities	4,662	(33)	1,927	293	(8,554)
Total Adjustments	<u>1,509,772</u>	<u>381,980</u>	<u>139,326</u>	<u>54,326</u>	<u>76,163</u>
Net Cash Used by Operating Activities	<u>\$ (1,690,652)</u>	<u>\$ (1,162,942)</u>	<u>\$ (386,780)</u>	<u>\$ (401,340)</u>	<u>\$ (312,513)</u>
NONCASH TRANSACTIONS					
Net Change in Fair Value of Investments	\$ 1,249,451	\$ 95,339	\$ 31,595	\$ 38,838	\$ (2,537)
Donation of Capital Assets	\$ 40,843	\$ 8,078	\$	\$	\$ 177
Borrowing Under Capital Lease Purchase	\$ 1,046	\$	\$	\$	\$
Other	\$ (13,192)	\$ 86,353	\$	\$	\$ 24

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
\$ 67,916	\$ 77,348	\$ 10,212	\$ 1,265	\$ 28,208	\$ 10,828	\$ 16,795,441
7,119	4,891	1,682	928	666	462	847,980
(135,400)	(72,858)	(11,712)	(313)	(34,796)	(37,026)	(17,655,710)
(60,365)	9,381	182	1,880	(5,922)	(25,736)	(12,289)
62,592	(1,007)	18,268	13,185	(1,144)	5,551	253,368
299,707	11,463	74,251	33,434	6,203	18,864	4,551,633
54						325
299,761	11,463	74,251	33,434	6,203	18,864	4,551,958
<u>\$ 362,353</u>	<u>\$ 10,456</u>	<u>\$ 92,519</u>	<u>\$ 46,619</u>	<u>\$ 5,059</u>	<u>\$ 24,415</u>	<u>\$ 4,805,326</u>
\$ (224,318)	\$ (77,868)	\$ (66,696)	\$ (77,546)	\$ (42,115)	\$ (126,026)	\$ (6,730,363)
33,358	10,738	12,518	11,899	9,000	6,700	1,238,886
(1,111)	449	381	3,262	2		298,974
14,906	8,151	10,136	15,180	2,427	7,470	446,809
(13,524)	(6,592)	(2,503)	(14,010)	277	(4,581)	(510,335)
	(504)	(2,039)			(447)	306
8	(40)	(43)	97	34	(167)	(553)
						633
(158)		69				(770)
1,846		(35)			(2)	24,403
(102)	(42)	(1,666)	141	(1,281)		(16,616)
15,273	(327)	3,463	1,666	(1,467)	1,928	2,055
					80	4,956
37	(28)	369			(108)	(11,144)
11,634	6,084	2,848	(3,185)	1,575	1,525	226,321
	105	417	490		321	14,486
						587,763
	(881)	132	6,293	115	460	4,414
62,167	17,113	24,047	21,833	10,682	13,179	2,310,588
<u>\$ (162,151)</u>	<u>\$ (60,755)</u>	<u>\$ (42,649)</u>	<u>\$ (55,713)</u>	<u>\$ (31,433)</u>	<u>\$ (112,847)</u>	<u>\$ (4,419,775)</u>
\$ (432)	\$ 1,381	\$ 504	\$ 1,265	\$ 66	\$	\$ 1,415,470
\$	\$	\$	\$	\$ 41	\$ 8,310	\$ 57,449
\$	\$	\$	\$	\$ 20	\$ 1,937	\$ 3,003
\$	\$	\$	\$	\$ 1,396	\$ (481)	\$ 74,100



Section Two
(continued)

**Fiduciary
Funds**
(and similar Component Units)

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who completed 20 or more years of service or became occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters' Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state's general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized

to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

**Combining Statement of Fiduciary Net Position –
Pension and Other Employee Benefit Trust Funds**

August 31, 2010 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ASSETS					
Cash and Cash Equivalents	\$ 6,919,429	\$ 24,064	\$ 967	\$ 609	\$ 803
Securities Lending Collateral	23,601,465	402,111	13,639	5,014	
Investments:					
U.S. Government	17,802,754	4,833,884	164,870	55,400	
Corporate Equity	22,060,008	6,235,398	212,671	71,463	25,621
Corporate Obligations	1,524,999	1,339,404	45,683	15,351	
Repurchase Agreements	213,530				
Foreign Securities	20,920,199	5,042,425	171,982	57,790	13,257
Externally Managed Investments	21,070,905	296,171	10,102	3,394	
Other	5,363,315	1,673,722	57,093	19,145	14,351
Receivables:					
Interest and Dividends	223,484	73,790	2,493	869	32
Accounts	133,055	64,139	2,587	1,282	832
Investment Trades	147,801	32,712	1,109	407	174
Other	422				
Due From Other Funds	28,941	5,202			4
Properties, at Cost, Net of Accumulated Depreciation or Amortization	30,998	10,703			
Other Assets					
Total Assets	<u>120,041,305</u>	<u>20,033,725</u>	<u>683,196</u>	<u>230,724</u>	<u>55,074</u>
LIABILITIES					
Payables:					
Accounts	\$ 18,360	\$ 18,757	\$ 281	\$ 106	\$ 101
Investment Trades	119,435	27,139	920	338	229
Payroll	3,934	4			
Annuities	578,168	47			
Due To Other Funds	22,521	971			
Unearned Revenue	21,223	1,695			
Employees' Compensable Leave	5,362	2,300			
Obligations/Securities Lending	23,581,689	402,202	13,642	5,015	
Other Liabilities	2,208				155
Total Liabilities	<u>24,352,900</u>	<u>453,115</u>	<u>14,843</u>	<u>5,459</u>	<u>485</u>
NET POSITION					
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 95,688,405</u>	<u>\$ 19,580,610</u>	<u>\$ 668,353</u>	<u>\$ 225,265</u>	<u>\$ 54,589</u>

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexasSaver Administrative Trust Fund	Totals
\$	\$873,607	\$ 10,791	\$ 2,029	\$ 5,386	\$ 2,550	\$ 7,840,235
						24,022,229
						22,856,908
						28,605,161
						2,925,437
						213,530
						26,205,653
						21,380,572
		62				7,127,688
	889	1	1	2	2	301,563
	57,572	8,008	2	6,818		274,295
						182,203
						422
292	13,902	103,560		20	1	151,922
						41,701
				250		250
<u>292</u>	<u>945,970</u>	<u>122,422</u>	<u>2,032</u>	<u>12,476</u>	<u>2,553</u>	<u>142,129,769</u>
\$ 292	\$128,664	\$121,399	\$ 1,083	\$ 10,253	\$ 2	\$ 299,298
	148					148,061
						4,086
	2,017	305	9	3	11	578,215
		718	12			25,837
	177					23,648
						7,839
						24,002,548
						2,363
<u>292</u>	<u>131,006</u>	<u>122,422</u>	<u>1,104</u>	<u>10,256</u>	<u>13</u>	<u>25,091,895</u>
<u>\$ 0</u>	<u>\$814,964</u>	<u>\$ 0</u>	<u>\$ 928</u>	<u>\$ 2,220</u>	<u>\$ 2,540</u>	<u>\$ 117,037,874</u>

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ADDITIONS					
Contributions:					
Member Contributions	\$ 2,289,537	\$ 410,134	\$ 7,473	\$ 4,121	\$ 3,291
State Contributions	1,576,083	400,252	27,799	11,511	
Premium Contributions					
Federal Contributions					
Other Contributions	719,051				
Total Contributions	<u>4,584,671</u>	<u>810,386</u>	<u>35,272</u>	<u>15,632</u>	<u>3,291</u>
Investment Income:					
From Investing Activities:					
Net Appreciation in Fair Value of Investments	7,542,738	700,993	23,180	7,505	1,081
Interest and Investment Income	1,872,312	544,161	18,202	6,548	1,124
Total Investing Income	9,415,050	1,245,154	41,382	14,053	2,205
Less Investing Activities Expense	111,919	47,007	1,517	534	346
Net Income from Investing Activities	<u>9,303,131</u>	<u>1,198,147</u>	<u>39,865</u>	<u>13,519</u>	<u>1,859</u>
From Securities Lending Activities:					
Securities Lending Income	164,683	5,882	196	70	
Less Securities Lending Expense:					
Borrower Rebates*	40,036	(731)	(25)	(9)	
Management Fees	16,331	963	32	12	
Net Income from Securities Lending	<u>108,316</u>	<u>5,650</u>	<u>189</u>	<u>67</u>	<u>0</u>
Total Net Investment Income	<u>9,411,447</u>	<u>1,203,797</u>	<u>40,054</u>	<u>13,586</u>	<u>1,859</u>
Other Additions:					
Settlement of Claims		12			44
Other Revenue	950	158	6		
Transfer In	14,017	61,774			
Total Other Additions	<u>14,967</u>	<u>61,944</u>	<u>6</u>	<u>0</u>	<u>44</u>
Total Additions	<u>14,011,085</u>	<u>2,076,127</u>	<u>75,332</u>	<u>29,218</u>	<u>5,194</u>
DEDUCTIONS					
Benefits	6,618,698	1,497,754	41,001	9,289	3,125
Refunds of Contributions	265,187	65,334	162	118	
Transfer Out	61,774	11,211			
Administrative Expenses	27,957	17,014	559	261	100
Depreciation and Amortization Expense	1,485	917			
Interest Expense					
Loss on Sale of Properties		33			
Other Expenses	551	1,029	36	15	5
Total Deductions	<u>6,975,652</u>	<u>1,593,292</u>	<u>41,758</u>	<u>9,683</u>	<u>3,230</u>
INCREASE (DECREASE) IN NET POSITION	<u>7,035,433</u>	<u>482,835</u>	<u>33,574</u>	<u>19,535</u>	<u>1,964</u>
NET POSITION					
Net Position, September 1, 2009	<u>88,652,972</u>	<u>19,097,775</u>	<u>634,779</u>	<u>205,730</u>	<u>52,625</u>
Net Position, August 31, 2010	<u>\$95,688,405</u>	<u>\$19,580,610</u>	<u>\$ 668,353</u>	<u>\$ 225,265</u>	<u>\$ 54,589</u>

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
\$	\$	\$	\$	\$ 89,258	\$	\$ 2,803,814
	253,626	478,349				2,747,620
	695,538	126,073				821,611
	70,795	40,988				111,783
				1,032		720,083
<u>0</u>	<u>1,019,959</u>	<u>645,410</u>	<u>0</u>	<u>90,290</u>	<u>0</u>	<u>7,204,911</u>
						8,275,497
	11,679	610	15	27	45	2,454,723
<u>0</u>	<u>11,679</u>	<u>610</u>	<u>15</u>	<u>27</u>	<u>45</u>	<u>10,730,220</u>
		1	2	2	4	161,332
<u>0</u>	<u>11,679</u>	<u>609</u>	<u>13</u>	<u>25</u>	<u>41</u>	<u>10,568,888</u>
						170,831
						39,271
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,338</u>
<u>0</u>	<u>11,679</u>	<u>609</u>	<u>13</u>	<u>25</u>	<u>41</u>	<u>114,222</u>
						56
	102		589	105	1,439	3,349
27,299						103,090
<u>27,299</u>	<u>102</u>	<u>0</u>	<u>589</u>	<u>105</u>	<u>1,439</u>	<u>106,495</u>
						56
27,299	1,031,740	646,019	602	90,420	1,480	17,994,516
						9,942,363
27,303	1,013,892	643,389		87,912		330,801
						72,985
	3,026	2,560	616	398	483	52,974
						2,402
				47		47
						33
	6	70	53	1,772	29	3,566
<u>27,303</u>	<u>1,016,924</u>	<u>646,019</u>	<u>669</u>	<u>90,129</u>	<u>512</u>	<u>10,405,171</u>
						47
(4)	14,816	0	(67)	291	968	7,589,345
						47
<u>4</u>	<u>800,148</u>	<u></u>	<u>995</u>	<u>1,929</u>	<u>1,572</u>	<u>109,448,529</u>
<u>\$ 0</u>	<u>\$ 814,964</u>	<u>\$ 0</u>	<u>\$ 928</u>	<u>\$ 2,220</u>	<u>\$ 2,540</u>	<u>\$ 117,037,874</u>

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas College Savings Plans** (previously reported as the Texas Tomorrow Trust Fund) receive money contributed by account holders, money acquired from private sources and income from investment of deposits. The plans may be used only to pay costs of program administration and operations, make payments to state, private or independent institutions of higher education and make refunds to account holders.

Other Private-Purpose Trust Funds account for other assets held in a trustee capacity where principal and income benefit individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Private-Purpose Trust Funds

August 31, 2010 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	\$	\$202,590	\$74,050	\$ 5,739	\$ 1,500	\$39,948	\$ 323,827
Restricted Cash and Cash Equivalents						372	372
Investments:							
U.S. Government				18,509		2,235	20,744
Corporate Equity	31,478					16,327	47,805
Corporate Obligations	25,183					3,413	28,596
Foreign Securities	192,797						192,797
Externally Managed Investments	277,900						277,900
Other	1,380,238				248,369	8,310	1,636,917
Receivables:							
Interest and Dividends Accounts	2,685	2			54	18	2,759
Investment Trades	999				630		1,629
Other					38	4,212	4,250
Properties, at Cost, Net of Accumulated Depreciation or Amortization						920	920
Other Assets		80,950					80,950
Total Assets	<u>1,911,280</u>	<u>283,542</u>	<u>74,050</u>	<u>24,248</u>	<u>250,591</u>	<u>76,296</u>	<u>2,620,007</u>
LIABILITIES							
Payables:							
Accounts	\$ 976	\$	\$	\$ 1,750	\$ 90	\$14,043	\$ 16,859
Investment Trades	3,222				606		3,828
Interest						27	27
Due To Other Funds					3	10	13
Unearned Revenue					139	17	156
Funds Held for Others		80,950					80,950
Other Liabilities					178		178
Total Liabilities	<u>4,198</u>	<u>80,950</u>	<u>0</u>	<u>1,750</u>	<u>1,016</u>	<u>14,097</u>	<u>102,011</u>
NET POSITION							
Held in Trust for Individuals, Organizations and Other Governments	<u>1,907,082</u>	<u>202,592</u>	<u>74,050</u>	<u>22,498</u>	<u>249,575</u>	<u>62,199</u>	<u>2,517,996</u>
Total Net Position	<u>\$ 1,907,082</u>	<u>\$202,592</u>	<u>\$74,050</u>	<u>\$22,498</u>	<u>\$249,575</u>	<u>\$62,199</u>	<u>\$ 2,517,996</u>

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas College Savings Plans	Other Private- Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	\$	\$	\$	\$	\$	\$ 3,426	\$ 3,426
Other Contributions					115,569		115,569
Total Contributions	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>115,569</u>	<u>3,426</u>	<u>118,995</u>
Investment Income:							
From Investing Activities:							
Net Appreciation in							
Fair Value of Investments	83,030				9,466	1,558	94,054
Interest and Investment Income	50,621	289	16		572	2,875	54,373
Total Investing Income	<u>133,651</u>	<u>289</u>	<u>16</u>	<u>0</u>	<u>10,038</u>	<u>4,433</u>	<u>148,427</u>
Less Investing Activities Expense							
Net Income from Investing Activities					1,252		1,252
	<u>133,651</u>	<u>289</u>	<u>16</u>	<u>0</u>	<u>8,786</u>	<u>4,433</u>	<u>147,175</u>
Total Net Investment Income	<u>133,651</u>	<u>289</u>	<u>16</u>	<u>0</u>	<u>8,786</u>	<u>4,433</u>	<u>147,175</u>
Other Additions:							
Settlement of Claims						4,850	4,850
Other Revenue		64,273	74,034	126,302	200	5,405	270,214
Total Other Additions	<u>0</u>	<u>64,273</u>	<u>74,034</u>	<u>126,302</u>	<u>200</u>	<u>10,255</u>	<u>275,064</u>
Total Additions	<u>133,651</u>	<u>64,562</u>	<u>74,050</u>	<u>126,302</u>	<u>124,555</u>	<u>18,114</u>	<u>541,234</u>
DEDUCTIONS							
Benefits					84,423	648	85,071
Transfer Out						60	60
Intergovernmental Payments	46,152					5,266	51,418
Administrative Expenses	5,735				203	726	6,664
Depreciation and Amortization Expense						39	39
Settlement of Claims		63,712				5,516	69,228
Interest Expense						7	7
Other Expenses		11,324		126,146		1,393	138,863
Total Deductions	<u>51,887</u>	<u>75,036</u>	<u>0</u>	<u>126,146</u>	<u>84,626</u>	<u>13,655</u>	<u>351,350</u>
INCREASE (DECREASE) IN NET POSITION	<u>81,764</u>	<u>(10,474)</u>	<u>74,050</u>	<u>156</u>	<u>39,929</u>	<u>4,459</u>	<u>189,884</u>
NET POSITION							
Net Position, September 1, 2009	<u>1,825,318</u>	<u>213,066</u>	<u>0</u>	<u>22,342</u>	<u>209,646</u>	<u>57,740</u>	<u>2,328,112</u>
Net Position, August 31, 2010	<u>\$ 1,907,082</u>	<u>\$ 202,592</u>	<u>\$ 74,050</u>	<u>\$ 22,498</u>	<u>\$ 249,575</u>	<u>\$ 62,199</u>	<u>\$ 2,517,996</u>

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

Other Agency Funds account for other resources held by the state in an agent capacity for individuals, private organizations or other governments.

STATE OF TEXAS

**Combining Statement of Fiduciary Net Position –
Agency Funds**

August 31, 2010 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	\$ 18	\$ 328	\$ 11,140	\$746,033	\$ 509,840	\$ 1,267,359
Investments:						
U.S. Government	201,071				156	201,227
Corporate Equity					205,438	205,438
Corporate Obligations					140	140
Repurchase Agreements					35,034	35,034
Other					40,772	40,772
Receivables:						
Interest and Dividends	572				1	573
Accounts					7,222	7,222
Other Intergovernmental					2,230	2,230
Other					6	6
Due From Other Funds					192	192
Other Assets		1,214,625	534,966		70,393	1,819,984
Total Assets	<u>\$201,661</u>	<u>\$1,214,953</u>	<u>\$546,106</u>	<u>\$746,033</u>	<u>\$871,424</u>	<u>\$3,580,177</u>
LIABILITIES						
Payables:						
Accounts	\$	\$	\$	\$	\$ 814	\$ 814
Other Intergovernmental				746,033		746,033
Due To Other Funds					28,544	28,544
Interfund Payable					26	26
Funds Held for Others	201,661	1,214,953	546,106		842,030	2,804,750
Other Liabilities					10	10
Total Liabilities	<u>\$201,661</u>	<u>\$1,214,953</u>	<u>\$546,106</u>	<u>\$746,033</u>	<u>\$871,424</u>	<u>\$3,580,177</u>

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Beginning Balance September 1, 2009	Additions	Deductions	Ending Balance August 31, 2010
Texas Public Finance Authority				
Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	\$ 4	\$ 14	\$	\$ 18
Investments	77,854	123,217		201,071
Interest and Dividends Receivable	727		155	572
Total Assets	<u>\$ 78,585</u>	<u>\$ 123,231</u>	<u>\$ 155</u>	<u>\$ 201,661</u>
LIABILITIES				
Funds Held for Others	\$ 78,585	\$ 123,076	\$	\$ 201,661
Total Liabilities	<u>\$ 78,585</u>	<u>\$ 123,076</u>	<u>\$ 0</u>	<u>\$ 201,661</u>
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 298	\$ 378	\$ 348	\$ 328
Other Assets	1,133,660	390,971	310,006	1,214,625
Total Assets	<u>\$ 1,133,958</u>	<u>\$ 391,349</u>	<u>\$ 310,354</u>	<u>\$ 1,214,953</u>
LIABILITIES				
Accounts Payable	\$	\$ 50	\$ 50	\$
Funds Held for Others	1,133,958	391,349	310,354	1,214,953
Total Liabilities	<u>\$ 1,133,958</u>	<u>\$ 391,399</u>	<u>\$ 310,404</u>	<u>\$ 1,214,953</u>
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	\$ 9,550	\$ 11,798	\$ 10,208	\$ 11,140
Other Assets	506,863	28,103		534,966
Total Assets	<u>\$ 516,413</u>	<u>\$ 39,901</u>	<u>\$ 10,208</u>	<u>\$ 546,106</u>
LIABILITIES				
Accounts Payable	\$	\$ 534	\$ 534	\$
Funds Held for Others	516,413	30,351	658	546,106
Total Liabilities	<u>\$ 516,413</u>	<u>\$ 30,885</u>	<u>\$ 1,192</u>	<u>\$ 546,106</u>
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	\$ 743,121	\$ 6,838,890	\$ 6,835,978	\$ 746,033
Total Assets	<u>\$ 743,121</u>	<u>\$ 6,838,890</u>	<u>\$ 6,835,978</u>	<u>\$ 746,033</u>
LIABILITIES				
Payables:				
Accounts	\$	\$ 5,811,873	\$ 5,811,873	\$
Other Intergovernmental	743,121	746,033	743,121	746,033
Funds Held for Others		7,582,012	7,582,012	
Total Liabilities	<u>\$ 743,121</u>	<u>\$ 14,139,918</u>	<u>\$ 14,137,006</u>	<u>\$ 746,033</u>

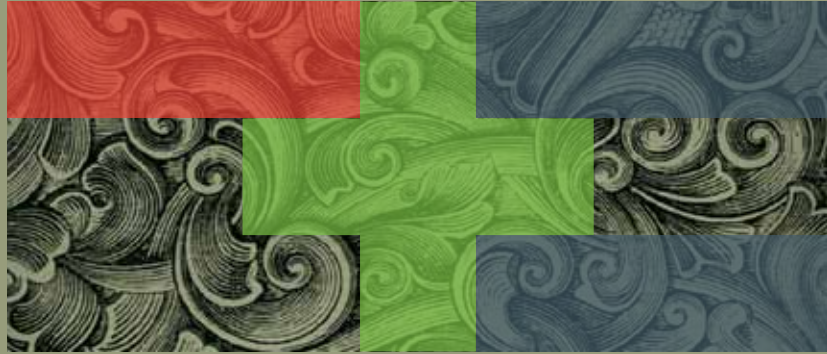
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STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Beginning Balance September 1, 2009	Additions	Deductions	Ending Balance August 31, 2010
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 449,342	\$ 8,699,670	\$ 8,639,172	\$ 509,840
Investments	214,407	267,455	200,322	281,540
Receivables:				
Interest and Dividends		2	1	1
Accounts	7,183	155,375	155,336	7,222
Other Intergovernmental	934	1,296		2,230
Other	6			6
Due From Other Funds	167	191	166	192
Interfund Receivable		1,703	1,703	
Other Assets	75,968	5,022	10,597	70,393
Total Assets	<u>\$ 748,007</u>	<u>\$ 9,130,714</u>	<u>\$ 9,007,297</u>	<u>\$ 871,424</u>
LIABILITIES				
Payables:				
Accounts	\$ 22	\$ 899,246	\$ 898,454	\$ 814
Other Intergovernmental	4,216		4,216	
Due To Other Funds	1,660	28,545	1,661	28,544
Interfund Payable		1,891	1,865	26
Funds Held for Others	742,108	8,521,256	8,421,334	842,030
Other Liabilities	1	9		10
Total Liabilities	<u>\$ 748,007</u>	<u>\$ 9,450,947</u>	<u>\$ 9,327,530</u>	<u>\$ 871,424</u>
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	\$ 1,202,315	\$ 15,550,750	\$ 15,485,706	\$ 1,267,359
Investments	292,261	390,672	200,322	482,611
Receivables:				
Interest and Dividends	727	2	156	573
Accounts	7,183	155,375	155,336	7,222
Other Intergovernmental	934	1,296		2,230
Other	6			6
Due From Other Funds	167	191	166	192
Interfund Receivable		1,703	1,703	
Other Assets	1,716,491	424,096	320,603	1,819,984
Total Assets	<u>\$ 3,220,084</u>	<u>\$ 16,524,085</u>	<u>\$ 16,163,992</u>	<u>\$ 3,580,177</u>
LIABILITIES				
Payables:				
Accounts	\$ 22	\$ 6,711,703	\$ 6,710,911	\$ 814
Other Intergovernmental	747,337	746,033	747,337	746,033
Due To Other Funds	1,660	28,545	1,661	28,544
Interfund Payable		1,891	1,865	26
Funds Held for Others	2,471,064	16,648,044	16,314,358	2,804,750
Other Liabilities	1	9		10
Total Liabilities	<u>\$ 3,220,084</u>	<u>\$ 24,136,225</u>	<u>\$ 23,776,132</u>	<u>\$ 3,580,177</u>



Section Two
(concluded)

Discretely Presented Component Units

Discretely Presented Component Units

A statement of net position and a statement of activities were prepared to report the breakdown of the following discretely presented component units.

Texas Guaranteed Student Loan Corporation
Teacher Retirement System of Texas
State Bar of Texas
Texas State Affordable Housing Corporation
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas Boll Weevil Eradication Foundation Inc.
Texas Agricultural Finance Authority
Texas Water Resources Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Economic Development Corporation
Texas Small Business Industrial Development Corporation
Texas Disaster Relief Fund
Texas Health Services Authority
Casa Verde Research Center, Sociedad Anonimo
Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center)

STATE OF TEXAS

Combining Statement of Net Position – Component Units

August 31, 2010 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	Surplus Lines Stamping Office of Texas
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 4,407	\$ 387,562	\$ 9,761	\$ 2,615	\$ 1,627
Short-Term Investments	724,794		21,871	2,488	3,550
Restricted:					
Cash and Cash Equivalents				76,642	
Short-Term Investments				2,467	
Loans and Contracts				2,038	
Receivables:					
Federal	58,827				
Other Intergovernmental Accounts		63,855	1,572	965	220
Interest and Dividends	6,816	419		633	
Other					48
Due From Primary Government					
Inventories			892		
Prepaid Items			641	23	
Loans and Contracts					
Other Current Assets	2,033			894	
Total Current Assets	<u>796,877</u>	<u>451,836</u>	<u>34,737</u>	<u>88,765</u>	<u>5,445</u>
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents				210	
Investments				231,214	
Loans and Contracts				11,087	
Loans and Contracts Investments					2,850
Other Receivables					
Capital Assets:					
Non-Depreciable or Non-Amortizable	6,816		298	232	
Depreciable or Amortizable, Net	36,212		11,326	1,239	2,169
Other Noncurrent Assets	50			4,904	18
Total Noncurrent Assets	<u>43,078</u>	<u>0</u>	<u>11,624</u>	<u>248,886</u>	<u>5,037</u>
Total Assets	<u>839,955</u>	<u>451,836</u>	<u>46,361</u>	<u>337,651</u>	<u>10,482</u>

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	Surplus Lines Stamping Office of Texas
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts Payable	\$ 6,505	\$ 151,532	\$ 2,134	\$ 370	\$ 65
Payroll		116			
Federal Interest	60,168			1,775	
Due To Primary Government					
Unearned Revenue			7,767		
Capital Lease Obligations			48		
Employees' Compensable Leave	1,933	85	466		
Notes and Loans Payable	1,871			103	
Revenue Bonds Payable				2,108	
Funds Held for Others			292		
Other Current Liabilities			11	928	146
Total Current Liabilities	<u>70,477</u>	<u>151,733</u>	<u>10,718</u>	<u>5,284</u>	<u>211</u>
Noncurrent Liabilities:					
Capital Lease Obligations			144		
Employees' Compensable Leave	882	47	811		
Notes and Loans Payable	2,636			3,266	
Liabilities Payable From Restricted Assets	57,830				
Revenue Bonds Payable				299,661	
Other Noncurrent Liabilities	251,320		46	599	
Total Noncurrent Liabilities	<u>312,668</u>	<u>47</u>	<u>1,001</u>	<u>303,526</u>	<u>0</u>
Total Liabilities	<u>383,145</u>	<u>151,780</u>	<u>11,719</u>	<u>308,810</u>	<u>211</u>
NET POSITION					
Invested in Capital Assets, Net of Related Debt	38,521		11,624	681	2,169
Restricted for:					
Education	97,531				
Other				21,198	
Unrestricted	<u>320,758</u>	<u>300,056</u>	<u>23,018</u>	<u>6,962</u>	<u>8,102</u>
Total Net Position	<u>\$ 456,810</u>	<u>\$ 300,056</u>	<u>\$ 34,642</u>	<u>\$ 28,841</u>	<u>\$ 10,271</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2010, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 506	\$26,927	\$ 67,699	\$13,894	\$ 1,820	\$
Short-Term Investments		15,996			17,884	
Restricted:						
Cash and Cash Equivalents						
Short-Term Investments						
Loans and Contracts						
Receivables:						
Federal			5,000			
Other Intergovernmental Accounts		38,953	30,960 2,780	193		
Interest and Dividends Other			57	39	264	
Due From Primary Government						285
Inventories			2,156			
Prepaid Items			198	1		
Loans and Contracts					2,677	
Other Current Assets				6		
Total Current Assets	<u>506</u>	<u>81,876</u>	<u>108,850</u>	<u>14,133</u>	<u>22,645</u>	<u>285</u>
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts				4,093	17,748	
Investments					6,862	
Other Receivables			2,575			
Capital Assets:						
Non-Depreciable or Non-Amortizable						
Depreciable or Amortizable, Net		11	4,069			
Other Noncurrent Assets		8				
Total Noncurrent Assets	<u>0</u>	<u>19</u>	<u>6,644</u>	<u>4,093</u>	<u>24,610</u>	<u>0</u>
Total Assets	<u>506</u>	<u>81,895</u>	<u>115,494</u>	<u>18,226</u>	<u>47,255</u>	<u>285</u>

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	\$ 13	\$ 1,812	\$ 178	\$ 19	\$	\$ 2
Payroll			474			1
Federal Interest			466			
Due To Primary Government						58
Unearned Revenue		39,590				
Capital Lease Obligations						
Employees' Compensable Leave			1,116	5		
Notes and Loans Payable			1,626	8,986		
Revenue Bonds Payable						
Funds Held for Others						
Other Current Liabilities	493	40,493				
Total Current Liabilities	<u>506</u>	<u>81,895</u>	<u>3,860</u>	<u>9,010</u>	<u>0</u>	<u>61</u>
Noncurrent Liabilities:						
Capital Lease Obligations						
Employees' Compensable Leave				6		
Notes and Loans Payable			81,698			
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable						
Other Noncurrent Liabilities						
Total Noncurrent Liabilities	<u>0</u>	<u>0</u>	<u>81,698</u>	<u>6</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>506</u>	<u>81,895</u>	<u>85,558</u>	<u>9,016</u>	<u>0</u>	<u>61</u>
NET POSITION						
Invested in Capital Assets, Net of Related Debt						
			1,409			
Restricted for:						
Education						
Other						
Unrestricted			28,527	9,210	47,255	224
Total Net Position	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,936</u>	<u>\$ 9,210</u>	<u>\$ 47,255</u>	<u>\$ 224</u>

Continued on the following page

* Amounts reported as of Aug. 31, 2010, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	Totals
ASSETS								
Current Assets:								
Cash and Cash Equivalents	\$	\$ 1,660	\$22,321	\$ 696	\$	\$ 30	\$ 45	\$ 541,570
Short-Term Investments								786,583
Restricted:								
Cash and Cash Equivalents					42			76,684
Short-Term Investments								2,467
Loans and Contracts								2,038
Receivables:								
Federal								63,827
Other Intergovernmental Accounts		11						30,960
Interest and Dividends			72					108,549
Other						5	67	8,243
Due From Primary Government	253							177
Inventories	9							538
Prepaid Items		188	12					3,057
Loans and Contracts			1,092	63				1,063
Other Current Assets								3,832
Total Current Assets	<u>262</u>	<u>1,859</u>	<u>23,497</u>	<u>759</u>	<u>42</u>	<u>35</u>	<u>112</u>	<u>1,632,521</u>
Noncurrent Assets:								
Restricted:								
Cash and Cash Equivalents								210
Investments								231,214
Loans and Contracts								11,087
Loans and Contracts			37,841					59,682
Investments								9,712
Other Receivables								2,575
Capital Assets:								
Non-Depreciable or Non-Amortizable	123					505		7,974
Depreciable or Amortizable, Net	3	17			3	3,308	68	58,425
Other Noncurrent Assets						11	55	5,046
Total Noncurrent Assets	<u>126</u>	<u>17</u>	<u>37,841</u>	<u>0</u>	<u>3</u>	<u>3,824</u>	<u>123</u>	<u>385,925</u>
Total Assets	<u>388</u>	<u>1,876</u>	<u>61,338</u>	<u>759</u>	<u>45</u>	<u>3,859</u>	<u>235</u>	<u>2,018,446</u>

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (concluded)

August 31, 2010 (Amounts in Thousands)*

	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	Totals
LIABILITIES								
Current Liabilities:								
Payables:								
Accounts	\$ 109	\$ 42	\$ 162	\$	\$	\$ 51	\$ 18	\$ 163,012
Payroll	61					15		667
Federal								60,168
Interest			13					2,254
Due To Primary Government								58
Unearned Revenue								47,357
Capital Lease Obligations								48
Employees' Compensable Leave	44							3,649
Notes and Loans Payable								12,586
Revenue Bonds Payable								2,108
Funds Held for Others								292
Other Current Liabilities								42,071
Total Current Liabilities	<u>214</u>	<u>42</u>	<u>175</u>	<u>0</u>	<u>0</u>	<u>66</u>	<u>18</u>	<u>334,270</u>
Noncurrent Liabilities:								
Capital Lease Obligations								144
Employees' Compensable Leave	29							1,775
Notes and Loans Payable								87,600
Liabilities Payable From Restricted Assets								57,830
Revenue Bonds Payable			60,000					359,661
Other Noncurrent Liabilities						546	92	252,603
Total Noncurrent Liabilities	<u>29</u>	<u>0</u>	<u>60,000</u>	<u>0</u>	<u>0</u>	<u>546</u>	<u>92</u>	<u>759,613</u>
Total Liabilities	<u>243</u>	<u>42</u>	<u>60,175</u>	<u>0</u>	<u>0</u>	<u>612</u>	<u>110</u>	<u>1,093,883</u>
NET POSITION								
Invested in Capital Assets, Net of Related Debt								54,404
Restricted for:								
Education								97,531
Other								21,198
Unrestricted	<u>145</u>	<u>1,834</u>	<u>1,163</u>	<u>759</u>	<u>45</u>	<u>3,247</u>	<u>125</u>	<u>751,430</u>
Total Net Position	<u>\$ 145</u>	<u>\$ 1,834</u>	<u>\$ 1,163</u>	<u>\$ 759</u>	<u>\$ 45</u>	<u>\$ 3,247</u>	<u>\$ 125</u>	<u>\$ 924,563</u>

* Amounts reported as of Aug. 31, 2010, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System
EXPENSES						
Salaries and Wages	\$ 42,146	\$ 1,199	\$ 15,370	\$ 1,330	\$ 1,211	\$
Payroll Related Costs	13,082	295	4,088		393	
Professional Fees and Services	13,213	479	2,602	228	341	
Travel	2,136	3	6,893	43	6	
Materials and Supplies	1,790	9	959		45	
Communications and Utilities	1,410	1	1,529		35	
Repairs and Maintenance	3,116		820		33	
Rentals and Leases	579	66	1,329	42	221	
Printing and Reproduction	507		2,166		2	
Claims and Judgments			612			
Bad Debt Expense						
Cost of Goods Sold			1,139			
Depreciation and Amortization	3,777		860	800	100	
Other Financing Fees	56,214		210			
Intergovernmental Payments						
Public Assistance Payments	10,468					
Employee/Participant Benefit Payments		1,445,553				
Direct Interest Expense						
Interest Expense - Other	257		10	11,852		
Other Expenses	63,453	4	3,995	2,927	229	101
Total Expenses	<u>212,148</u>	<u>1,447,609</u>	<u>42,582</u>	<u>17,222</u>	<u>2,616</u>	<u>101</u>
PROGRAM REVENUES						
Charges for Services	1,250	1,329,347	38,910	1,150	2,233	65
Operating Grants and Contributions	212,392	1,298	5,661	18,481	19	36
Total Program Revenues	<u>213,642</u>	<u>1,330,645</u>	<u>44,571</u>	<u>19,631</u>	<u>2,252</u>	<u>101</u>
Net Program Revenues (Expenses)	<u>1,494</u>	<u>(116,964)</u>	<u>1,989</u>	<u>2,409</u>	<u>(364)</u>	<u>0</u>
GENERAL REVENUES						
Unrestricted Investment Earnings	7,753	6,426				
Other Revenues				446		
Gain on Sale of Capital Assets			30			
Total General Revenues	<u>7,753</u>	<u>6,426</u>	<u>30</u>	<u>446</u>	<u>0</u>	<u>0</u>
Change in Net Position	<u>9,247</u>	<u>(110,538)</u>	<u>2,019</u>	<u>2,855</u>	<u>(364)</u>	<u>0</u>
Net Position, September 1, 2009	447,563	410,594	32,348	25,986	10,635	
Restatements			275			
Net Position, September 1, 2009, as Restated	<u>447,563</u>	<u>410,594</u>	<u>32,623</u>	<u>25,986</u>	<u>10,635</u>	<u>0</u>
Net Position, August 31, 2010	<u>\$ 456,810</u>	<u>\$ 300,056</u>	<u>\$ 34,642</u>	<u>\$ 28,841</u>	<u>\$ 10,271</u>	<u>\$ 0</u>

* Amounts for the fiscal year ended Aug. 31, 2010, unless otherwise indicated in Note 19.

Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation
\$ 299	\$ 16,429	\$ 85	\$ 6	\$ 2	\$ 646	\$ 22
		36			158	2
12,400	954	46		19	158	490
3	290	11		15	15	328
37	7,361	5		2	20	285
	618				6	2
	848				2	
66	792				41	85
					1	41
		(30)				
4	1,252				1	2
		4		207		
				31		
		70	3,740			
		21	329			
	3,295					
279,811	7,321	104	13	43	41	553
<u>292,620</u>	<u>39,160</u>	<u>352</u>	<u>4,088</u>	<u>319</u>	<u>1,089</u>	<u>1,810</u>
286,291	24,797	962			24	172
6,329	56,287	4,700	2,682			1,437
292,620	81,084	5,662	2,682	0	24	1,609
<u>0</u>	<u>41,924</u>	<u>5,310</u>	<u>(1,406)</u>	<u>(319)</u>	<u>(1,065)</u>	<u>(201)</u>
	189	332				3
				328	1,110	
	451					
<u>0</u>	<u>640</u>	<u>332</u>	<u>0</u>	<u>328</u>	<u>1,110</u>	<u>3</u>
<u>0</u>	<u>42,564</u>	<u>5,642</u>	<u>(1,406)</u>	<u>9</u>	<u>45</u>	<u>(198)</u>
	(12,628)	3,568	48,661	215	147	2,142
					(47)	(110)
<u>0</u>	<u>(12,628)</u>	<u>3,568</u>	<u>48,661</u>	<u>215</u>	<u>100</u>	<u>2,032</u>
<u>\$ 0</u>	<u>\$ 29,936</u>	<u>\$ 9,210</u>	<u>\$ 47,255</u>	<u>\$ 224</u>	<u>\$ 145</u>	<u>\$ 1,834</u>

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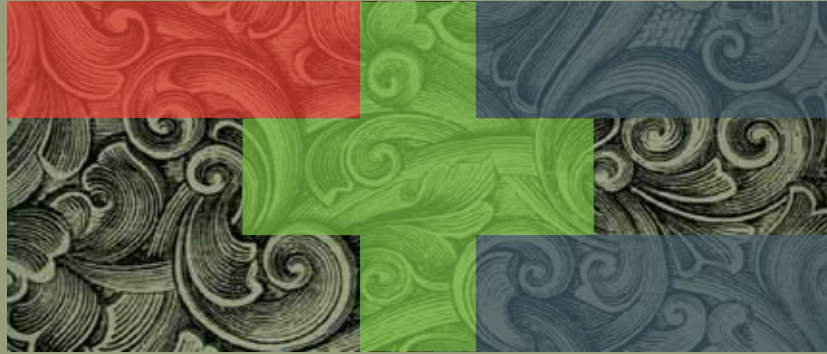
STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)*

	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	Totals
EXPENSES						
Salaries and Wages	\$	\$	\$ 47	\$ 116	\$	\$ 78,908
Payroll Related Costs			4	28		18,086
Professional Fees and Services	65	47	547	26		31,615
Travel			2	55		9,800
Materials and Supplies			1	14		10,528
Communication and Utilities			1	4		3,606
Repairs and Maintenance				23		4,842
Rentals and Leases			1	6		3,228
Printing and Reproduction						2,717
Claims and Judgments						612
Bad Debt Expense						(30)
Cost of Goods Sold					181	1,320
Depreciation and Amortization				16	20	6,832
Other Financing Fees				17	31	56,683
Intergovernmental Payments						31
Public Assistance Payments						14,278
Employee/Participant Benefit Payments						1,445,553
Direct Interest Expense						350
Interest Expense - Other	175					15,589
Other Expenses	1,248			10	292	360,145
Total Expenses	<u>1,488</u>	<u>47</u>	<u>603</u>	<u>315</u>	<u>524</u>	<u>2,064,693</u>
PROGRAM REVENUES						
Charges for Services			648		150	1,685,999
Operating Grants and Contributions	1,524	1		3,580	286	314,713
Total Program Revenues	<u>1,524</u>	<u>1</u>	<u>648</u>	<u>3,580</u>	<u>436</u>	<u>2,000,712</u>
Net Program Revenues (Expenses)	<u>36</u>	<u>(46)</u>	<u>45</u>	<u>3,265</u>	<u>(88)</u>	<u>(63,981)</u>
GENERAL REVENUES						
Unrestricted Investment Earnings	6	1				14,710
Other Revenues		1				1,885
Gain on Sale of Capital Assets						481
Total General Revenues	<u>6</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,076</u>
Change in Net Position	<u>42</u>	<u>(44)</u>	<u>45</u>	<u>3,265</u>	<u>(88)</u>	<u>(46,905)</u>
Net Position, September 1, 2009	1,121	803			274	971,429
Restatements				(18)	(61)	39
Net Position, September 1, 2009, as Restated	<u>1,121</u>	<u>803</u>	<u>0</u>	<u>(18)</u>	<u>213</u>	<u>971,468</u>
Net Position, August 31, 2010	<u>\$ 1,163</u>	<u>\$ 759</u>	<u>\$ 45</u>	<u>\$ 3,247</u>	<u>\$ 125</u>	<u>\$ 924,563</u>

* Amounts for the fiscal year ended Aug. 31, 2010, unless otherwise indicated in Note 19.



Section Three

Statistical Section

State of Texas Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and other supplementary information says about the state's overall financial health.

Contents	Pages
Financial Trends Information	247 – 253
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.	
Revenue Capacity Information	254 – 256
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.	
Debt Capacity Information	257 – 261
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.	
Demographic and Economic Information	262 – 264
These schedules provide demographic and economic indicators intended to help the reader understand the socioeconomic environment within which the state's financial activities take place.	
Operating Information	265 – 267
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.	

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report databases for the relevant years. GASB 34 and 35 were implemented in 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TEXAS
Statistical Section – Financial Trends Information
Net Position by Component
Last Nine Fiscal Years*

(Amounts in Millions)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	\$ 47,322	\$ 49,254	\$ 51,407	\$ 53,815	\$ 55,473
Restricted	20,089	20,846	22,213	24,110	25,993
Unrestricted	2,065	(28)	541	3,753	8,696
Total Governmental Activities Net Position	<u>69,476</u>	<u>70,072</u>	<u>74,161</u>	<u>81,678</u>	<u>90,162</u>
BUSINESS-TYPE ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	5,142	5,737	6,464	6,253	6,871
Restricted	14,413	15,168	17,628	20,581	22,812
Unrestricted	5,841	6,167	5,805	7,076	8,056
Total Business-Type Activities Net Position	<u>25,396</u>	<u>27,072</u>	<u>29,897</u>	<u>33,910</u>	<u>37,739</u>
PRIMARY GOVERNMENT					
Invested in Capital Assets, Net of Related Debt	52,464	54,991	57,871	60,068	62,344
Restricted	34,502	36,014	39,841	44,691	48,805
Unrestricted	7,906	6,139	6,346	10,829	16,752
Total Primary Government Net Position	<u>\$ 94,872</u>	<u>\$ 97,144</u>	<u>\$ 104,058</u>	<u>\$ 115,588</u>	<u>\$ 127,901</u>

	2007	2008	2009	2010
GOVERNMENTAL ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	\$ 56,438	\$ 58,208	\$ 59,720	\$ 60,744
Restricted	29,347	31,358	32,663	26,136
Unrestricted	12,565	11,105	3,479	8,025
Total Governmental Activities Net Position	<u>98,350</u>	<u>100,671</u>	<u>95,862</u>	<u>94,905</u>
BUSINESS-TYPE ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	7,343	7,385	7,655	7,933
Restricted	25,815	24,882	18,744	22,209
Unrestricted	9,741	9,885	8,619	7,230
Total Business-Type Activities Net Position	<u>42,899</u>	<u>42,152</u>	<u>35,018</u>	<u>37,372</u>
PRIMARY GOVERNMENT				
Invested in Capital Assets, Net of Related Debt	63,781	65,593	67,375	68,677
Restricted	55,162	56,240	51,407	48,345
Unrestricted	22,306	20,990	12,098	15,255
Total Primary Government Net Position	<u>\$ 141,249</u>	<u>\$ 142,823</u>	<u>\$ 130,880</u>	<u>\$ 132,277</u>

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the net position information is available only from 2002.

Source: 2002-10 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position
Last Nine Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES:					
Expenses					
General Government	\$ 1,947,049	\$ 2,026,241	\$ 2,234,369	\$ 2,206,793	\$ 2,681,117
Education	15,831,226	15,935,961	16,250,938	16,293,851	18,025,550
Employee Benefits	14,757	22,644	60,536	50,544	56,718
Teacher Retirement Benefits	1,201,886	2,435,727	2,269,667	2,083,530	1,932,325
Health and Human Services	22,817,118	24,742,714	25,060,588	27,302,426	28,808,315
Public Safety and Corrections	4,170,817	4,207,856	4,030,120	4,086,450	5,084,923
Transportation	3,576,274	3,562,159	3,476,342	3,766,301	4,452,154
Natural Resources and Recreation	736,111	835,139	864,508	1,070,481	961,178
Regulatory Services	273,023	324,567	375,951	349,420	282,067
Indirect Interest on Long-Term Debt	403,784	366,847	338,693	417,854	54,121
Total Expenses	<u>50,972,045</u>	<u>54,459,855</u>	<u>54,961,712</u>	<u>57,627,650</u>	<u>62,338,468</u>
Program Revenues					
Charges for Services:					
General Government	1,378,004	1,378,735	1,695,987	802,588	1,199,924
Education	236,776	485,676	520,621	594,702	626,224
Employee Benefits	383	112	171	97	120
Teacher Retirement Benefits				10	93,694
Health and Human Services	710,167	821,773	838,377	1,124,402	1,177,825
Public Safety and Corrections	144,120	148,420	164,959	463,097	441,803
Transportation	988,612	974,627	1,016,809	1,342,073	1,373,339
Natural Resources and Recreation	453,990	437,834	473,608	716,981	570,872
Regulatory Services	63,986	92,875	212,919	534,469	596,705
Operating Grants and Contributions	17,563,832	22,801,211	24,501,850	26,667,982	28,979,226
Capital Grants and Contributions	2,191,470	2,570,634	2,773,764	3,253,051	2,803,006
Total Program Revenues	<u>23,731,340</u>	<u>29,711,897</u>	<u>32,199,065</u>	<u>35,499,452</u>	<u>37,862,738</u>
Total Governmental Activities					
Net Program Expense	<u>(27,240,705)</u>	<u>(24,747,958)</u>	<u>(22,762,647)</u>	<u>(22,128,198)</u>	<u>(24,475,730)</u>
General Revenues					
Taxes:					
Sales and Use	14,249,422	14,349,758	15,564,085	16,260,689	18,475,176
Motor Vehicle and Manufactured Housing	2,891,742	2,795,211	2,665,258	2,897,031	3,046,856
Motor Fuels	2,687,798	2,790,936	2,931,753	2,915,680	3,053,476
Franchise	1,999,005	1,532,820	1,657,141	2,203,578	2,632,780
Oil and Natural Gas Production	640,615	1,531,275	1,918,989	2,409,276	3,441,638
Insurance Occupation	973,279	1,179,553	1,192,829	1,213,627	1,238,846
Cigarette and Tobacco	536,464	583,159	540,404	596,569	547,000
Other	1,454,357	1,405,325	1,426,026	1,435,701	1,558,073
Unrestricted Investment Earnings	383,608	239,198	211,239	327,516	760,207
Federal Jobs and Growth Tax Relief Funds		354,535	354,535		
Settlement of Claims	512,579	563,196	523,518	885,975	583,787
Gain on Sale of Capital Assets		6,359	31,189	8,461	2,762
Other General Revenues	618,981	787,866	723,157	822,652	1,071,679
Capital Contributions		600	944	107	1,449
Transfers	<u>(3,171,399)</u>	<u>(3,069,447)</u>	<u>(2,867,137)</u>	<u>(2,966,197)</u>	<u>(3,513,639)</u>
Total General Revenues, Contributions and Transfers	<u>23,776,451</u>	<u>25,050,344</u>	<u>26,873,930</u>	<u>29,010,665</u>	<u>32,900,090</u>
Change in Net Position – Governmental Activities	<u>(3,464,254)</u>	<u>302,386</u>	<u>4,111,283</u>	<u>6,882,467</u>	<u>8,424,360</u>

* The state did not begin reporting government-wide financial statements until it implemented GASB Statements No. 34 and No. 35 in 2002.

Source: 2002-10 state of Texas financial statements

2007	2008	2009	2010
\$ 2,555,309	\$ 2,659,822	\$ 3,052,177	\$ 3,451,868
21,313,526	24,986,076	24,952,375	27,344,876
61,171	86,195	220,272	252,457
2,017,000	1,761,759	1,667,325	2,200,408
30,886,484	32,426,046	38,124,180	41,487,191
5,035,761	5,020,897	6,026,868	6,231,847
4,252,129	4,478,109	4,025,226	4,146,987
1,217,201	1,451,450	1,673,915	1,559,708
314,266	398,885	445,938	447,557
229,354	578,059	525,648	755,314
<u>67,882,201</u>	<u>73,847,298</u>	<u>80,713,924</u>	<u>87,878,213</u>
1,141,278	1,171,997	1,010,388	984,639
584,971	821,291	474,249	463,719
116	107	109	135
26,661		33,624	
2,059,789	1,832,315	1,825,395	1,782,704
823,602	331,101	354,117	336,134
1,530,669	1,785,835	1,920,123	1,891,247
714,687	661,657	574,032	605,751
604,199	635,089	646,959	687,746
29,995,409	25,900,072	32,410,929	43,148,227
1,823,686	2,585,507	2,619,631	2,453,183
<u>39,305,067</u>	<u>35,724,971</u>	<u>41,869,556</u>	<u>52,353,485</u>
<u>(28,577,134)</u>	<u>(38,122,327)</u>	<u>(38,844,368)</u>	<u>(35,524,728)</u>
20,230,164	21,640,855	21,026,034	19,558,426
3,338,498	3,384,597	2,568,599	2,624,725
3,149,043	3,000,148	3,155,941	3,060,246
3,273,050	4,712,183	3,303,170	3,809,109
2,692,032	4,036,033	1,335,296	2,157,334
1,368,340	1,446,828	1,295,330	1,309,620
1,325,712	1,454,187	1,564,061	1,394,122
1,694,750	1,744,400	1,680,362	1,676,452
941,938	1,041,840	178,470	575,642
538,836	555,476	555,626	925,676
3,942			
1,627,330	1,392,565	1,769,051	2,017,783
309	8,653	1,554	30,845
<u>(3,383,910)</u>	<u>(3,909,529)</u>	<u>(4,268,014)</u>	<u>(4,491,627)</u>
<u>36,800,034</u>	<u>40,508,236</u>	<u>34,165,480</u>	<u>34,648,353</u>
<u>8,222,900</u>	<u>2,385,909</u>	<u>(4,678,888)</u>	<u>(876,375)</u>

Concluded on the following page

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Net Position (concluded)

Last Nine Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006
BUSINESS-TYPE ACTIVITIES:					
Expenses					
General Government	\$ 246,183	\$ 235,098	\$ 187,064	\$ 142,142	\$ 162,499
Education	12,584,976	13,340,397	13,538,233	14,716,405	15,982,582
Employee Benefits		517,912	615,692		
Teacher Retirement Benefits				761,240	813,133
Health and Human Services	2,712,361	2,964,169	2,203,096	1,540,459	1,253,431
Public Safety and Corrections	69,235	68,419	68,828	71,308	73,775
Transportation	13,011	16,937	22,725	346	16,339
Natural Resources and Recreation	149,767	157,902	146,815	264,707	284,241
Regulatory Services	2,096				
Lottery	2,034,639	2,163,670	2,426,019	2,594,241	2,687,084
Total Expenses	<u>17,812,268</u>	<u>19,464,504</u>	<u>19,208,472</u>	<u>20,090,848</u>	<u>21,273,084</u>
Program Revenues					
Charges for Services:					
General Government	32,475	50,669	44,166	27,947	37,245
Education	5,108,647	5,549,390	5,845,956	6,662,679	7,284,371
Employee Benefits		584,709	758,255		
Teacher Retirement Benefits				823,910	861,648
Health and Human Services	1,129,885	1,603,241	1,783,807	1,963,403	1,862,804
Public Safety and Corrections	67,809	71,694	75,094	77,521	79,032
Transportation			39,162	14	13
Natural Resources and Recreation	2,377	3,002	3,911	22,106	33,716
Lottery	2,967,271	3,131,532	3,488,941	3,663,414	3,775,491
Operating Grants and Contributions	3,299,297	6,244,537	6,356,243	8,086,139	7,200,099
Capital Grants and Contributions	51,930	162,991	272,997	211,726	155,541
Total Program Revenues	<u>12,659,691</u>	<u>17,401,765</u>	<u>18,668,532</u>	<u>21,538,859</u>	<u>21,289,960</u>
Total Business-Type Activities					
Net Program Revenue (Expense)	<u>(5,152,577)</u>	<u>(2,062,739)</u>	<u>(539,940)</u>	<u>1,448,011</u>	<u>16,876</u>
General Revenues					
Unrestricted Investment Earnings	108,831	28,020	193,347	68,423	55,150
Settlement of Claims	2,579	5	4	20	94
Gain on Sale of Capital Assets	750			6,431	276
Other General Revenue	301,020	329,235	194,474	126,957	91,017
Capital Contributions	112,088	1,318	2,715	133	3,874
Contributions to Permanent and Term Endowments	101,473	235,997	235,182	145,919	123,939
Special Items					(38,898)
Extraordinary Items	603,679	36,532	(13,401)		
Transfers	3,171,399	3,069,447	2,867,137	2,966,197	3,513,639
Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers	<u>4,401,819</u>	<u>3,700,554</u>	<u>3,479,458</u>	<u>3,314,080</u>	<u>3,749,091</u>
Change in Net Position – Business-Type Activities	<u>(750,758)</u>	<u>1,637,815</u>	<u>2,939,518</u>	<u>4,762,091</u>	<u>3,765,967</u>
Change in Net Position – Primary Government	<u>\$ (4,215,012)</u>	<u>\$ 1,940,201</u>	<u>\$ 7,050,801</u>	<u>\$ 11,644,558</u>	<u>\$ 12,190,327</u>

2007	2008	2009	2010
\$ 186,628	\$ 177,012	\$ 180,543	\$ 162,620
17,165,602	18,619,716	20,135,452	20,943,292
909,845			
1,204,609	1,467,185	4,908,112	7,826,452
75,305	80,607	83,498	87,120
125,910	164,280	220,881	206,822
283,653	247,018	304,577	353,641
<u>2,691,210</u>	<u>2,634,446</u>	<u>2,680,273</u>	<u>2,681,627</u>
<u>22,642,762</u>	<u>23,390,264</u>	<u>28,513,336</u>	<u>32,261,574</u>
42,713	43,106	42,147	47,377
8,268,639	8,705,756	9,253,972	9,907,344
939,879			
1,665,242	1,058,134	1,027,897	2,107,474
82,779	87,365	90,469	93,734
16,757	48,958	66,375	73,312
41,034	42,964	46,682	44,973
3,774,948	3,672,423	3,720,995	3,739,165
9,001,427	4,808,580	3,613,083	13,292,594
197,731	245,962	95,889	305,669
<u>24,031,149</u>	<u>18,713,248</u>	<u>17,957,509</u>	<u>29,611,642</u>
<u>1,388,387</u>	<u>(4,677,016)</u>	<u>(10,555,827)</u>	<u>(2,649,932)</u>
245,977	190,974	129,445	134,195
283	6	14,691	1,384
13,363	269	609	
266,722	270,787	156,903	241,013
1,364			
184,193	167,692	120,404	136,577
(318,813)	(150,026)		
<u>3,383,910</u>	<u>3,909,529</u>	<u>4,268,014</u>	<u>4,491,627</u>
<u>3,776,999</u>	<u>4,389,231</u>	<u>4,690,066</u>	<u>5,004,796</u>
<u>5,165,386</u>	<u>(287,785)</u>	<u>(5,865,761)</u>	<u>2,354,864</u>
<u>\$ 13,388,286</u>	<u>\$ 2,098,124</u>	<u>\$ (10,544,649)</u>	<u>\$ 1,478,489</u>

STATE OF TEXAS
Statistical Section – Financial Trends Information
Fund Balances – Governmental Funds
Last Nine Fiscal Years*

(Amounts in Millions)

	2002	2003	2004	2005	2006
GENERAL FUND					
Reserved	\$ 1,430	\$ 1,042	\$ 1,185	\$ 1,752	\$ 1,648
Unreserved	(369)	(2,326)	(1,562)	286	5,673
Total General Fund	<u>\$ 1,061</u>	<u>\$ (1,284)</u>	<u>\$ (377)</u>	<u>\$ 2,038</u>	<u>\$ 7,321</u>
ALL OTHER GOVERNMENTAL FUNDS					
Reserved	\$ 19,187	\$ 20,485	\$ 21,850	\$ 24,275	\$ 25,999
Unreserved					
Special Revenue	1,669	1,256	1,309	1,460	910
Capital Projects	13	14	15		7
Permanent	429	458	492	546	575
Total All Other Governmental Funds	<u>\$ 21,298</u>	<u>\$ 22,213</u>	<u>\$ 23,666</u>	<u>\$ 26,281</u>	<u>\$ 27,491</u>

	2007	2008	2009	2010
GENERAL FUND				
Reserved	\$ 2,138	\$ 2,471	\$ 3,380	\$ 5,460
Unreserved	8,698	8,184	5,586	2,950
Total General Fund	<u>\$ 10,836</u>	<u>\$ 10,655</u>	<u>\$ 8,966</u>	<u>\$ 8,410</u>
ALL OTHER GOVERNMENTAL FUNDS				
Reserved	\$ 29,054	\$ 27,957	\$ 25,586	\$ 28,193
Unreserved				
Special Revenue	1,847	4,953	5,323	3,343
Capital Projects	(11)	(124)	(111)	(204)
Permanent	632	564	477	1,028
Total All Other Governmental Funds	<u>\$ 31,522</u>	<u>\$ 33,350</u>	<u>\$ 31,275</u>	<u>\$ 32,360</u>

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, information for fund balances is available only for the line items presented beginning in 2002.

Source: 2002-10 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Financial Trends Information
Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years*

(Amounts in Millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES BY SOURCE										
Tax Collections	\$27,045	\$25,123	\$25,939	\$27,976	\$29,830	\$33,867	\$36,670	\$41,256	\$37,654	\$35,868
Federal Funds	17,319	20,307	23,017	24,382	25,851	28,212	26,967	28,656	35,699	42,483
Licenses, Fees and Permits	2,960	2,815	2,921	3,332	3,590	4,011	4,324	4,522	4,433	4,533
Interest and Other Investment Income	1,705	(815)	2,118	2,435	3,317	3,218	4,574	(368)	(1,957)	2,171
Land Income	46	179	298	482	544	462	422	650	390	384
Settlement of Claims	403	513	563	523	883	583	539	555	555	614
Sales of Goods and Services	689	962	1,131	1,109	1,445	1,503	2,697	2,063	1,962	1,816
Other Revenues	1,451	1,273	1,464	1,754	1,918	2,159	2,730	2,590	3,192	3,499
Total Revenues	51,618	50,357	57,451	61,993	67,378	74,015	78,923	79,924	81,928	91,368
EXPENDITURES BY FUNCTION										
General Government	1,902	1,846	1,961	2,191	2,151	2,530	2,415	2,628	3,025	3,352
Education	15,057	15,739	15,927	16,220	16,204	18,025	21,317	24,976	24,941	27,331
Employee Benefits	8	15	12	12	12	13	14	14	13	15
Teacher Retirement Benefits								1,781	1,729	1,830
Health and Human Services	19,036	22,394	24,690	25,039	27,192	28,761	30,855	32,355	37,988	41,367
Public Safety and Corrections	3,812	4,037	4,067	3,887	3,952	4,939	4,897	4,864	5,802	6,006
Transportation	4,720	3,096	3,065	2,970	3,246	3,909	3,702	3,895	3,399	3,474
Natural Resources and Recreation	704	713	787	844	1,039	930	1,172	1,420	1,606	1,566
Regulatory Services	260	270	311	371	345	294	317	393	434	438
Debt Service:										
Principal	346	287	367	211	306	393	437	415	596	731
Interest	761	339	360	335	375	238	370	428	513	720
Other Financing Fees						2	14	15	15	41
Capital Outlay	389	2,274	2,654	2,830	3,735	3,938	4,368	4,404	3,738	3,539
Total Expenditures	46,995	51,010	54,201	54,910	58,557	63,972	69,878	77,588	83,799	90,410
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	4,623	(653)	3,250	7,083	8,821	10,043	9,045	2,336	(1,871)	958
OTHER FINANCING SOURCES (USES)										
Transfer In	4,988	6,093	5,793	6,984	7,488	7,343	7,765	13,832	9,737	11,465
Transfer Out	(9,070)	(10,870)	(10,937)	(11,842)	(12,248)	(12,433)	(12,887)	(17,777)	(14,033)	(15,987)
Bonds and Notes Issued	464	232	383	87	1,242	1,440	3,471	2,988	1,940	3,808
Bonds Issued for Refunding		8	164	58	208	72	249	515	271	385
Payment to Escrow for Refunding		(8)	(164)	(69)	(208)	(72)	(263)	(559)	(309)	(214)
Premiums on Bonds Issued **							126	180	33	48
Sale of Capital Assets	19	80	21	50	37	17	29	22	16	14
Increases in Obligations Under Capital Leases	1		4			3		1		10
Insurance Recoveries						7	2	15	18	15
Total Other Financing Sources (Uses)	(3,598)	(4,465)	(4,736)	(4,732)	(3,481)	(3,623)	(1,508)	(783)	(2,327)	(456)
NET CHANGE IN FUND BALANCES	\$ 1,025	\$ (5,118)	\$ (1,486)	\$ 2,351	\$ 5,340	\$ 6,420	\$ 7,537	\$ 1,553	\$ (4,198)	\$ 502
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES										
	2.4%	1.3%	1.4%	1.0%	1.2%	1.1%	1.3%	1.2%	1.4%	1.7%

* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2007.

Source: 2001-10 state of Texas financial statements

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Taxable Sales by Industry
For the Fiscal Years 2000 through 2009*

(Amounts in Millions)

NAICS** Industry	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture, Forestry, Fishing, Hunting	\$ 127	\$ 108	\$ 105	\$ 137	\$ 149	\$ 147	\$ 152	\$ 132
Mining, Quarrying, Oil & Gas Extraction	2,862	3,342	3,897	5,329	8,143	11,351	15,950	10,038
Utilities	4,801	5,282	5,485	7,543	9,022	9,305	9,881	9,576
Construction	6,857	7,003	8,071	9,271	11,583	13,144	14,180	11,013
Manufacturing	17,653	16,319	17,543	20,733	24,336	27,021	27,145	22,423
Wholesale Trade	14,919	17,324	19,000	21,634	25,044	26,663	28,512	22,225
Retail Trade	99,690	102,215	108,078	116,307	127,389	135,050	138,266	130,657
Transportation, Warehousing	830	1,208	1,390	1,317	1,805	1,832	2,907	2,168
Information	23,884	23,900	24,804	26,579	29,538	30,933	33,305	32,753
Finance, Insurance	1,955	1,894	1,819	1,913	2,099	2,183	2,868	2,637
Real Estate, Rental, Leasing	5,766	5,569	5,820	6,832	8,102	9,062	9,397	7,348
Professional, Scientific, Technical Serv.	5,147	4,812	5,181	6,282	7,069	7,657	8,400	7,760
Management of Companies, Enterprises	1,649	1,930	1,972	2,008	802	525	854	322
Admin Supt Waste Mgmt Remediation Serv.	6,827	7,050	7,554	7,995	8,692	9,434	9,886	9,368
Educational Services	281	294	341	379	406	428	337	371
Health Care, Social Assistance	422	513	547	600	623	743	757	790
Arts, Entertainment, Recreation	2,316	2,710	2,885	2,875	3,019	3,215	3,481	3,537
Accommodation, Food Services	22,931	23,653	25,438	27,313	29,750	31,962	33,667	33,246
Other Services (except Public Admin)	5,892	6,083	6,295	6,824	7,452	7,889	8,087	7,248
Public Administration	1,881	1,692	2,072	1,565	1,474	1,468	1,641	1,662
Nonclassifiable	5	9	8	8	6	4	4	4
Other	3,263	1,655	648	221	98	57	19	56
Total Taxable Sales	\$ 229,958	\$ 234,565	\$ 248,953	\$ 273,665	\$ 306,601	\$ 330,073	\$ 349,696	\$ 315,334
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

SIC*** Industry	2000	2001
Agriculture, Forestry, Fishing	\$ 1,294	\$ 1,367
Mining, Natural Resources	2,030	2,815
Construction	7,370	7,422
Manufacturing	17,356	16,141
Transportation, Communications, Utilities	27,652	28,415
Wholesale Trade	19,609	19,172
Retail Trade	122,849	127,145
Finance, Insurance, Real Estate	1,062	1,226
Services	29,773	29,742
Public Administration	500	513
Nonclassifiable Establishments	48	35
Other	497	838
Total Taxable Sales	\$ 230,040	\$ 234,831
Direct Sales Tax Rate	6.25%	6.25%

* Fiscal 2010 data are not available until mid-year of the the following fiscal year.

** North American Industry Classification System – available only from 2002-09

*** Standard Industrial Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports"

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
State Tax Collections and Retail Sales
Last Ten Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

State Tax Collections Per Capita, 2001-10*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Tax Collections	\$27,045	\$25,123	\$25,939	\$27,976	\$29,830	\$33,867	\$36,670	\$41,256	\$37,654	\$35,868
Percentage Tax Collection Change From Prior Year	7.2%	(7.1)%	3.2%	7.9%	6.6%	13.5%	8.3%	12.5%	(8.7)%	(4.7)%
Resident Population	21.4	21.8	22.1	22.4	22.8	23.4	23.8	24.3	24.8	25.3
Percentage Population Change From Prior Year	1.9%	1.9%	1.4%	1.4%	1.8%	2.6%	1.7%	2.1%	2.1%	2.0%
State Tax Collections Per Capita	\$ 1,266	\$ 1,155	\$ 1,172	\$ 1,248	\$ 1,308	\$ 1,449	\$ 1,538	\$ 1,696	\$ 1,518	\$ 1,418

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collection figures were taken from the 2001-10 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and were revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales
Last Ten Years

(Amounts in Millions)

Year	Retail Sales	Percent Change
2001	\$307,070	2.8%
2002*	\$290,719	(5.3)%
2003	\$306,363	5.4%
2004	\$340,363	11.1%
2005	\$364,788	7.2%
2006	\$380,303	4.3%
2007	\$394,884	3.8%
2008	\$440,698	11.6%
2009	\$390,310	(11.4)%
2010**	\$193,588	7.0%

* Retail sales are classified on the basis of the North American Industrial Classification System (NAICS) for 2002-10, as opposed to Standard Industrial Codes (SICs) for 2001. The percentage change in 2002 is based on SIC data for both 2001 and 2002.

** First half of 2010 and the percentage change over the first half of 2009.

Source: Texas Comptroller of Public Accounts. Some revisions were made from 2002 onward, based on changes in retailer classifications in the Comptroller's database.

STATE OF TEXAS
Statistical Section – Revenue Capacity Information
Texas Gross State Product by Industry
Last Ten Years

(Amounts in Millions of Dollars)

NAICS* Industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture, Forestry and Fishing	\$ 6,394	\$ 7,457	\$ 8,094	\$ 9,877	\$ 9,239	\$ 7,377	\$ 10,796	\$ 9,780	\$ 9,343	\$ 9,406
% Change	(1.2)	16.6	8.5	22.0	(6.5)	(20.2)	46.3	(9.4)	(4.5)	0.7
Mining and Natural Resources	44,072	39,219	57,915	68,246	91,263	104,406	114,134	138,422	140,546	155,873
% Change	(2.1)	(11.0)	47.7	17.8	33.7	14.4	9.3	21.3	1.5	10.9
Construction	40,259	41,871	43,474	45,648	51,826	56,004	55,981	58,852	57,037	56,986
% Change	9.6	4.0	3.8	5.0	13.5	8.1	(0.0)	5.1	(3.1)	(0.1)
Manufacturing	92,273	94,462	93,158	119,023	125,538	145,867	154,117	158,802	151,912	156,604
% Change	(0.4)	2.4	(1.4)	27.8	5.5	16.2	5.7	3.0	(4.3)	3.1
Trade, Transportation and Utilities	160,790	164,723	170,757	181,594	193,039	211,185	224,491	231,317	230,987	240,644
% Change	3.6	2.4	3.7	6.3	6.3	9.4	6.3	3.0	(0.1)	4.2
Information	36,992	36,531	36,040	38,545	39,599	40,638	43,536	46,333	46,669	48,627
% Change	3.6	(1.2)	(1.3)	7.0	2.7	2.6	7.1	6.4	0.7	4.2
Financial Activities	125,929	128,219	133,438	137,453	145,853	154,859	165,748	171,415	171,146	177,790
% Change	7.9	1.8	4.1	3.0	6.1	6.2	7.0	3.4	(0.2)	3.9
Professional and Business Services	82,196	83,937	88,719	93,306	105,004	115,343	128,501	140,779	142,571	149,610
% Change	12.7	2.1	5.7	5.2	12.5	9.8	11.4	9.6	1.3	4.9
Educational and Health Services	46,797	51,380	54,761	59,439	62,343	66,232	71,121	75,924	80,666	86,609
% Change	10.9	9.8	6.6	8.5	4.9	6.2	7.4	6.8	6.2	7.4
Leisure and Hospitality Services	23,993	25,492	26,479	27,877	29,755	32,485	34,557	36,773	37,322	39,105
% Change	4.3	6.2	3.9	5.3	6.7	9.2	6.4	6.4	1.5	4.8
Other Private Services	18,106	18,679	19,644	19,889	21,168	22,386	23,957	25,113	25,381	26,366
% Change	3.3	3.2	5.2	1.2	6.4	5.8	7.0	4.8	1.1	3.9
Government, including Schools	84,448	91,512	96,326	100,759	107,439	113,513	121,650	129,973	133,859	138,523
% Change	5.2	8.4	5.3	4.6	6.6	5.7	7.2	6.8	3.0	3.5
TOTAL	\$762,250	\$783,483	\$828,805	\$901,657	\$982,065	\$1,070,295	\$1,148,590	\$1,223,482	\$1,227,439	\$1,286,143
% Change	5.2	2.8	5.8	8.8	8.9	9.0	7.3	6.5	0.3	4.8
TOTAL (in 2000 Chained Dollars)	745,325	760,588	770,975	806,005	828,417	869,379	907,358	925,492	915,305	946,603
% Change	2.5	2.0	1.4	4.5	2.8	4.9	4.4	2.0	(1.1)	3.4

* North American Industry Classification System

Source: U. S. Bureau of Economic Analysis (BEA) – BEA periodically revises its personal income and gross product data for periods up to five years.

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Legal Debt Margin Information
Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	2001	2002	2003	2004	2005
Debt Service Limit*	\$ 1,265,625	\$ 1,308,045	\$ 1,318,449	\$ 1,344,627	\$ 1,405,937
Total Net Debt Service Applicable to Limit	<u>484,448</u>	<u>580,012</u>	<u>626,185</u>	<u>622,433</u>	<u>620,989</u>
Legal Debt Service Margin	<u>\$ 781,177</u>	<u>\$ 728,033</u>	<u>\$ 692,264</u>	<u>\$ 722,194</u>	<u>\$ 784,948</u>
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	38.3%	44.3%	47.5%	46.3%	44.2%

	2006	2007	2008	2009	2010
Debt Service Limit*	\$ 1,518,628	\$ 1,664,884	\$ 1,773,089	\$ 1,795,118	\$ 1,759,856
Total Net Debt Service Applicable to Limit	<u>545,725</u>	<u>605,518</u>	<u>1,450,498</u>	<u>1,464,078</u>	<u>1,443,705</u>
Legal Debt Service Margin	<u>\$ 972,903</u>	<u>\$ 1,059,366</u>	<u>\$ 322,591</u>	<u>\$ 331,040</u>	<u>\$ 316,151</u>
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	35.9%	36.4%	81.8%	81.6%	82.0%

Legal Debt Service Margin Calculation for Fiscal 2010

Unrestricted General Revenue fiscal 2008	\$ 36,866,229
Unrestricted General Revenue fiscal 2009	34,711,114
Unrestricted General Revenue fiscal 2010	34,014,030
Debt Service Limit*	1,759,856
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from GR	478,658
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	<u>965,047</u>
Total Net Debt Service Applicable to Limit	<u>1,443,705</u>
Legal Debt Service Margin	<u>\$ 316,151</u>

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Ratio of Outstanding Debt by Type

Last Nine Fiscal Years*

(Amounts in Millions, Except Percentage Data and Per Capita)

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases			
2002	\$ 3,081	\$ 809	\$ 98	\$ 52	\$ 2,671	\$ 8,264	\$ 1,607	\$ 20	\$ 16,602	2.6%	763
2003	3,185	739	103	52	2,599	9,277	1,889	23	17,867	2.8%	807
2004	3,116	679	116	48	2,719	10,844	1,920	12	19,454	2.8%	864
2005	3,972	632	262	44	2,815	11,749	1,614	14	21,102	2.8%	920
2006	4,479	1,152	331	15	2,739	12,378	1,741	12	22,847	2.8%	972
2007	6,757	2,031	216	11	2,775	12,304	2,029	14	26,137	2.9%	1,095
2008	8,061	3,445	340	10	2,708	13,370	2,437	14	30,385	3.2%	1,250
2009	9,745	3,287	150	8	2,927	15,488	2,348	13	33,966	3.7%	1,369
2010	10,086	5,620	761	15	2,944	17,043	3,103	14	39,586	4.0%	1,568

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the outstanding debt information is available only beginning in 2002.

Source: 2002-10 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years*

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bonded Debt (General										
Obligation Bonds Only)	\$ 5,271	\$ 5,756	\$ 5,784	\$ 5,835	\$ 6,787	\$ 7,218	\$ 9,532	\$ 10,768	\$ 12,672	\$ 13,029
Percentage Bonded Debt										
Change From Prior Year	2.5%	9.2%	0.5%	0.9%	16.3%	6.4%	32.1%	13.0%	17.7%	2.8%
Tax Collections	27,045	25,123	25,939	27,976	29,830	33,867	36,670	41,256	37,654	35,868
Percentage Bonded Debt to										
Tax Collections	19.5%	22.9%	22.3%	20.9%	22.8%	21.3%	26.0%	26.1%	33.7%	36.3%
Resident Population	21.4	21.8	22.1	22.5	22.8	23.4	23.9	24.3	24.8	25.3
General Bonded Debt										
Per Capita	\$ 247	\$ 265	\$ 262	\$ 259	\$ 298	\$ 308	\$ 399	\$ 443	\$ 511	\$ 515

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collection amounts are taken from the 2001-10 state of Texas financial statements.

Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS
Statistical Section – Debt Capacity Information
Pledged Revenue Bond Coverage
Last Nine Fiscal Years*

(Amounts in Thousands, Except Ratio Data)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES					
Pledged Revenue Bond Amount	\$ 93,796	\$ 93,942	\$ 101,178	\$ 150,119	\$ 81,011
Operating Expenditures	2,257	11,772	2,525	15,540	1,452
Net Available Revenue	<u>\$ 91,539</u>	<u>\$ 82,170</u>	<u>\$ 98,653</u>	<u>\$ 134,579</u>	<u>\$ 79,559</u>
Debt Service –					
Principal	\$ 70,230	\$ 74,106	\$ 77,058	\$ 84,087	\$ 86,056
Interest	41,996	37,478	33,314	26,115	25,764
Total Debt Service	<u>\$ 112,226</u>	<u>\$ 111,584</u>	<u>\$ 110,372</u>	<u>\$ 110,202</u>	<u>\$ 111,820</u>
Coverage Ratio	0.8	0.7	0.9	1.2	0.7
BUSINESS-TYPE ACTIVITIES					
Pledged Revenue Bond Amount	\$ 7,236,922	\$ 6,401,630	\$ 7,049,189	\$ 8,369,686	\$ 9,088,841
Operating Expenditures	207,852	536,191	885,294	839,699	364,043
Net Available Revenue	<u>\$ 7,029,070</u>	<u>\$ 5,865,439</u>	<u>\$ 6,163,895</u>	<u>\$ 7,529,987</u>	<u>\$ 8,724,798</u>
Debt Service –					
Principal	\$ 242,174	\$ 490,032	\$ 440,036	\$ 532,128	\$ 623,346
Interest	355,997	371,983	492,366	503,958	537,104
Total Debt Service	<u>\$ 598,171</u>	<u>\$ 862,015</u>	<u>\$ 932,402</u>	<u>\$ 1,036,086</u>	<u>\$ 1,160,450</u>
Coverage Ratio	11.8	6.8	6.6	7.3	7.5
COMPONENT UNITS**					
Pledged Revenue Bond Amount	\$ 25,863	\$ 16,215	\$ 11,781	\$ 13,524	\$ 13,704
Operating Expenditures	625		349	225	264
Net Available Revenue	<u>\$ 25,238</u>	<u>\$ 16,215</u>	<u>\$ 11,432</u>	<u>\$ 13,299</u>	<u>\$ 13,440</u>
Debt Service –					
Principal	\$ 13,000	\$ 12,130	\$ 11,050	\$	\$ 5,840
Interest	6,875	5,463	2,937	3,628	4,940
Total Debt Service	<u>\$ 19,875</u>	<u>\$ 17,593</u>	<u>\$ 13,987</u>	<u>\$ 3,628</u>	<u>\$ 10,780</u>
Coverage Ratio	1.3	0.9	0.8	3.7	1.2
Total Combined Coverage Ratio	9.8	6.0	5.9	6.7	6.9

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the pledged revenue bond information is available only beginning in 2002.

** Component units were revised from 2003 to 2007 to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures include capital outlay expenditures.

Source: 2002-10 state of Texas annual financial statements and bond reporting system

2007	2008	2009	2010
\$ 5,765,826	\$ 6,748,490	\$ 6,640,110	\$ 5,522,453
6,881,279	7,447,496	7,233,759	6,085,684
<u>\$ (1,115,453)</u>	<u>\$ (699,006)</u>	<u>\$ (593,649)</u>	<u>\$ (563,231)</u>
\$ 104,077	\$ 112,250	\$ 156,490	\$ 168,785
66,822	118,203	152,025	147,501
<u>\$ 170,899</u>	<u>\$ 230,453</u>	<u>\$ 308,515</u>	<u>\$ 316,286</u>
(6.5)	(3.0)	(1.9)	(1.8)
\$ 9,869,477	\$ 10,225,735	\$ 10,700,325	\$ 11,514,734
1,457,567	11,698,563	8,481,872	9,202,811
<u>\$ 8,411,910</u>	<u>\$ (1,472,828)</u>	<u>\$ 2,218,453</u>	<u>\$ 2,311,923</u>
\$ 683,150	\$ 420,487	\$ 455,540	\$ 482,474
560,359	558,666	620,323	703,116
<u>\$ 1,243,509</u>	<u>\$ 979,153</u>	<u>\$ 1,075,863</u>	<u>\$ 1,185,590</u>
6.8	(1.5)	2.1	2.0
\$ 13,034	\$ 10,971	\$ 62,397	\$ 63,667
91	552	1,051	1,332
<u>\$ 12,943</u>	<u>\$ 10,419</u>	<u>\$ 61,346</u>	<u>\$ 62,335</u>
\$ 5,485	\$ 5,090	\$ 78,793	\$ 42,762
5,051	3,610	16,926	5,194
<u>\$ 10,536</u>	<u>\$ 8,700</u>	<u>\$ 95,719</u>	<u>\$ 47,956</u>
1.2	1.2	0.6	1.3
5.1	(1.8)	1.1	1.2

STATE OF TEXAS
Statistical Section – Demographic and Economic Information
Texas Nonfarm Employment Detail: Number of Jobs
Calendar Years 2001-2010

Employment by Industry	2001	2002	2003	2004	2005
GOODS-PRODUCING					
Natural Resources and Mining	153,075	145,433	146,733	153,083	166,067
Construction	580,550	568,075	552,008	544,850	567,417
Manufacturing					
Durables	648,318	592,359	560,662	560,224	570,609
Nondurables	378,649	356,408	339,305	330,718	326,758
Total, Goods-Producing	<u>1,760,592</u>	<u>1,662,275</u>	<u>1,598,708</u>	<u>1,588,875</u>	<u>1,630,851</u>
SERVICE-PROVIDING					
Trade, Transportation, and Utilities					
Wholesale Trade	473,582	463,559	458,704	463,486	477,687
Retail Trade	1,108,635	1,094,023	1,069,957	1,084,650	1,110,033
Transportation and Warehousing	354,150	340,765	339,836	350,970	361,537
Utilities	50,800	51,503	48,436	47,336	45,742
Information	270,006	249,494	233,908	225,108	223,342
Financial Activities					
Finance and Insurance	405,258	410,396	417,412	425,731	436,640
Real Estate and Rental and Leasing	172,609	169,654	168,396	169,994	173,252
Professional and Business Services					
Professional, Scientific and Technical	469,257	453,460	449,248	465,930	491,229
Management, Administrative, and Support	630,760	607,940	604,585	629,778	665,488
Educational and Health Services					
Educational Services, Private	129,883	131,386	132,293	136,271	140,670
Health Care and Social Assistance	911,884	951,864	987,315	1,014,046	1,043,822
Leisure and Hospitality	836,025	847,492	859,658	885,650	907,592
Other Services	354,722	356,311	355,617	353,617	348,167
Government					
Federal Civilian	178,324	178,933	180,364	180,587	182,044
State	334,214	342,323	342,104	340,359	349,301
Local	1,073,695	1,104,686	1,123,624	1,134,638	1,152,737
Total, Service-Providing	<u>7,753,804</u>	<u>7,753,789</u>	<u>7,771,457</u>	<u>7,908,151</u>	<u>8,109,283</u>
Total Nonfarm Employment	<u>9,514,396</u>	<u>9,416,064</u>	<u>9,370,165</u>	<u>9,497,026</u>	<u>9,740,134</u>

* Data in the table are annual averages. Data for 2010 include estimates for the final month. Prior years are subject to annual benchmark revisions.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Source: Texas Workforce Commission and Texas Comptroller of Public Accounts

2006	2007	2008	2009*	2010*
185,933	207,642	230,167	205,900	216,083
605,892	648,050	673,242	595,500	563,275
600,203	613,095	607,625	536,967	523,264
324,305	320,897	316,742	302,900	308,569
<u>1,716,333</u>	<u>1,789,684</u>	<u>1,827,776</u>	<u>1,641,267</u>	<u>1,611,191</u>
498,275	518,982	528,950	500,542	486,505
1,132,803	1,161,524	1,174,400	1,144,625	1,140,238
374,852	387,540	392,462	371,527	369,990
44,361	45,537	47,313	47,973	48,624
221,792	220,983	217,217	205,133	191,500
451,407	461,760	461,742	453,175	454,428
177,126	182,215	185,275	175,633	172,364
520,651	558,211	586,383	559,458	553,600
715,507	744,039	749,884	690,167	709,600
143,152	146,794	148,742	150,658	157,383
1,073,315	1,107,048	1,138,450	1,184,734	1,230,542
941,342	980,225	1,006,367	1,005,533	1,017,267
348,125	355,317	363,017	360,975	363,042
185,417	186,343	191,158	197,000	208,024
353,574	359,324	364,684	369,877	367,509
1,167,801	1,189,325	1,223,158	1,252,923	1,271,367
<u>8,349,500</u>	<u>8,605,167</u>	<u>8,779,202</u>	<u>8,669,933</u>	<u>8,741,983</u>
<u>10,065,833</u>	<u>10,394,851</u>	<u>10,606,978</u>	<u>10,311,200</u>	<u>10,353,174</u>

STATE OF TEXAS

**Statistical Section – Demographic and Economic Information
Texas and U.S. Selected Statistics**

Last Ten Years

**Texas and U.S. Population, Total Personal Income and Per Capita Income
Last Ten Years**

Year	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
	Texas		U.S.		Texas		U.S.		Texas		U.S.	
	Value	Percent Change	Value	Percent Change	Value	Percent Change	Value	Percent Change	Value	Percent Change	Value	Percent Change
2001	21,333	1.8%	285,082	1.0%	622,217	4.2%	8,878,830	5.4%	29,167	2.3%	31,145	4.4%
2002	21,711	1.8%	287,804	1.0%	628,274	1.0%	9,054,702	2.0%	28,938	(0.8)%	31,461	1.0%
2003	22,058	1.6%	290,326	0.9%	652,610	3.9%	9,369,072	3.5%	29,586	2.2%	32,271	2.6%
2004	22,418	1.6%	293,046	0.9%	696,796	6.8%	9,928,790	6.0%	31,082	5.1%	33,881	5.0%
2005	22,802	1.7%	295,753	0.9%	756,683	8.6%	10,476,669	5.5%	33,185	6.8%	35,424	4.6%
2006	23,369	2.5%	298,593	1.0%	824,281	8.9%	11,256,516	7.4%	35,272	6.3%	37,698	6.4%
2007	23,838	2.0%	301,580	1.0%	882,881	7.1%	11,899,853	5.7%	37,037	5.0%	39,458	4.7%
2008	24,304	2.0%	304,375	0.9%	967,449	9.6%	12,379,745	4.0%	39,806	7.5%	40,673	3.1%
2009*	24,782	2.0%	307,007	0.9%	955,264	(1.3)%	12,165,474	(1.7)%	38,546	(3.2)%	39,626	(2.6)%
2010*	25,252	1.9%	309,991	1.0%	991,010	3.7%	12,469,368	2.5%	39,245	1.8%	40,225	1.5%

* Prior years are subject to revisions. 2010 numbers include some forecast model quarterly estimates for the latter part of the year.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts

**Texas and U.S. Employment and
Unemployment Rates**

Last 10 Years

(Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas		U.S.		Texas	U.S.
	Value	Percent Change	Value	Percent Change	Value	Value
2001	9,514	0.9%	131,830	0.0%	4.8%	4.7%
2002	9,416	(1.0)%	130,340	(1.1)%	6.3%	5.8%
2003	9,370	(0.5)%	129,996	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,419	1.1%	6.0%	5.5%
2005	9,740	2.6%	133,699	1.7%	5.3%	5.1%
2006	10,066	3.3%	136,098	1.8%	4.9%	4.6%
2007	10,395	3.3%	137,604	1.1%	4.4%	4.6%
2008	10,607	2.0%	137,046	(0.4)%	4.9%	5.8%
2009*	10,311	(2.8)%	131,970	(3.7)%	7.5%	9.2%
2010*	10,352	0.4%	130,263	(1.3)%	8.2%	9.6%

* 2009 and 2010 numbers are subject to benchmark revisions. 2010 Texas numbers include an estimate for the final month of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics – historical data was revised

STATE OF TEXAS
Statistical Section – Operating Information
Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FUNCTION										
General Government	13,472	13,362	13,607	13,034	13,435	12,999	13,438	13,155	13,720	13,801
Education	124,871	129,767	133,857	134,456	140,367	144,636	146,944	152,121	156,375	159,918
Employee Benefits	309	314	315	302	292	294	302	311	325	344
Teacher Retirement Benefits	418	437	441	440	451	444	445	454	476	496
Health and Human Services	53,023	53,420	52,238	49,288	48,389	49,097	50,910	53,161	56,067	58,071
Public Safety and Corrections	52,133	52,405	53,231	51,473	51,397	51,564	50,889	50,340	52,165	53,209
Transportation	14,926	14,845	14,717	14,078	14,551	14,744	14,748	14,148	13,257	12,692
Natural Resources and Recreation	8,172	8,370	8,299	7,990	8,053	8,018	8,014	8,264	8,484	8,646
Regulatory Services	3,933	3,973	3,882	3,779	3,882	3,869	3,828	3,891	4,048	4,052
Total FTEs	<u>271,257</u>	<u>276,893</u>	<u>280,587</u>	<u>274,840</u>	<u>280,817</u>	<u>285,665</u>	<u>289,518</u>	<u>295,845</u>	<u>304,917</u>	<u>311,229</u>
Percentage Change	0.4%	2.1%	1.3%	(2.0)%	2.2%	1.7%	1.3%	2.2%	3.1%	2.1%

Source: Texas State Auditor's Office

STATE OF TEXAS
Statistical Section – Operating Information
Capital Asset Statistics by Function
Last Six Fiscal Years

Function	2005	2006	2007	2008	2009	2010
GENERAL GOVERNMENT						
Number of Texas Facilities Commission Owned Facilities	71	75	75	137	137	133
State Real Property Inventory in Acres	2,446,418	2,425,037	1,322,123	1,325,319	1,329,671	1,342,038
EDUCATION						
Number of School Districts (Independent and Common)	1,037	1,033	1,031	1,031	1,031	1,030
Number of Students	4,383,871	4,505,572	4,576,933	4,671,493	4,749,571	4,847,844
Number of Higher Education Institutions	145	145	145	145	145	148
HEALTH AND HUMAN SERVICES						
Number of State Mental Health Facilities	39	39	39	39	39	39
Number of State Hospitals	10	10	10	11	11	11
PUBLIC SAFETY AND CORRECTIONS						
Number of State Prisons – Texas Department of Criminal Justice only	106	106	106	112	113	112
Number of Available Beds (Capacity)	155,277	156,520	156,652	160,622	159,656	159,656
Number of Authorized Vehicular State Patrol Units	1,095	1,195	1,281	1,281	1,494	1,811
TRANSPORTATION						
Centerline Miles of Highways*	79,645	79,696	79,849	79,975	80,066	79,903
Number of Bridges**	32,421	33,322	32,996	33,118	33,393	33,679
NATURAL RESOURCES AND RECREATION						
Number of State Parks Managed	117	112	110	93	93	93
Number of Park Acreage	610,319	608,716	602,892	605,470	614,790	604,799

* Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

** Number of bridges is the bridges owned by the state. Texas Department of Transportation also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency websites (complete capital asset statistics by function for all data presented only available from 2005-10)

STATE OF TEXAS
Statistical Section – Operating Information
Operating Indicators by Function
Last Six Fiscal Years

Function	2005	2006	2007	2008	2009	2010
GENERAL GOVERNMENT / REGULATORY SERVICES						
Number of Tax Returns Processed	3,796,940	3,904,659	4,251,103	4,054,947	4,471,082	4,594,272
Number of Licenses Issued	1,494,693	1,554,754	1,166,069	1,243,330	1,310,014	1,314,903
EDUCATION						
Average Daily School Attendance (ADA)	4,099,615	4,205,729	4,260,406	4,326,176	4,420,134	4,506,950
Percent of Students Passing TAKS Test*	62%	67%	70%	72%	74%	77%
Texas Higher Education Enrollments	1,184,373	1,211,582	1,228,897	1,264,286	1,366,436	1,464,081
Higher Education Degrees Awarded**	185,326	188,258	193,321	198,298	209,868	N/A
HEALTH AND HUMAN SERVICES						
Number of Medicaid Clients Served	2,779,373	2,873,786	2,832,214	2,877,203	3,002,731	3,296,439
Number of TANF Clients Served ***	219,045	172,776	145,838	125,309	113,786	121,290
Number of Immunizations ****	6,381,835	11,617,682	12,827,417	12,771,928	9,607,193	13,019,184
PUBLIC SAFETY AND CORRECTIONS						
Number of New Prison Population	73,815	74,170	73,525	74,283	72,738	72,315
Number of Prison Population Released	69,846	71,214	72,032	72,002	72,218	71,063
Average Daily Prison Population	151,448	151,734	152,805	155,588	155,432	154,315
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,628	1,689	1,709	1,825	1,814
TRANSPORTATION						
Number of Construction Contracts Processed for Letting	989	1,075	877	694	710	1,169
Number of Lane Miles Receiving Roadway Surface Improvements: – By Contract	18,554	15,811	13,197	8,462	15,671	16,160
– Via State Sources	7,318	6,406	5,984	6,344	5,910	6,718
Number of Vehicles Registered	19,624,460	20,609,866	21,432,773	24,359,319	24,607,246	21,570,282
NATURAL RESOURCES AND RECREATION						
Number of State Parks Visits (in Millions)	5.2	5.0	4.9	4.3	4.5	4.4
Number of Parks and Wildlife Licenses Issued*****	2,626,957	2,625,225	2,665,045	2,892,695	2,932,002	2,749,336

* “TAKS” stands for “Texas Assessment of Knowledge and Skills.” The “Percent of Students Passing TAKS test” is from the 2009-10 Texas Education Agency Academic Excellence Indicator System report at: <http://www.tea.state.tx.us/perfreport/aeis/2010/state.pdf>. These scores represent the “TAKS Met 2010 Standard (Sum of All Grades Tested)(Standard Accountability Standard).”

** The 2010 degrees conferred will not be available until later in 2011.

*** Temporary Assistance for Needy Families (TANF) fiscal 2010 is based on data through November 2010, but will not be finalized until March 2011.

**** The number of immunizations is lower in 2009 due to a revision to automated system initiated by the Centers for Disease Control and Prevention, which made it unable to capture doses administered data. A new mechanism will be available in future years to fully capture this data.

***** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency websites (complete operating indicators by function for all data presented only available from 2005-10)

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