

# Note 1

## Summary of Significant Accounting Policies

### **BASIS OF PRESENTATION**

The accompanying financial statements of the State of Texas have been prepared to conform with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

### **FINANCIAL REPORTING ENTITY**

For financial reporting purposes, the State of Texas has included all funds, account groups, agencies, boards, commissions, authorities, colleges and universities, 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 which would generally be considered part of the state are included. 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, and general administrative services.

The reporting entity for the state is in accordance with the criteria established by the Governmental Accounting Standards Board. A brief summary of the nature of significant component units and their relationship to the State of Texas is discussed in Note 22. These financial statements present the State of Texas (the primary government) and its component units.

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



### **FUND STRUCTURE**

The state uses funds and account groups to report on 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. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and li-

abilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

State transactions are recorded in the fund types and account groups described below.

### **Governmental Fund Types**

The *General Fund* is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those required to be accounted for in another fund. *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. *Debt Service Funds* account for the accumulation of resources for, and the

payment of, general long-term debt principal and interest. *Capital Projects Funds* account for all financial resources used for the acquisition, repair, renovation, or construction of major capital facilities other than those financed by proprietary or similar trust funds.

### **Proprietary Fund Types**

*Enterprise Funds* account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the state is that the cost of providing goods or services to the general public on a continuing basis be financed, or recovered, primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate. The detailed activity of this fund type is reflected in Note 19.

*Internal Service Funds* are used to account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The Employees Life, Accident, and Health Insurance Benefits Fund, presented on the Combined Statements, is used to account for the services provided by the Group Insurance program to other agencies of the reporting entity.

### **Fiduciary Fund Types**

*Fiduciary Funds* account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When these assets are held under the terms of a formal trust agreement, either a *pension trust fund*, an *expendable trust fund* or *nonexpendable trust fund* is used. The terms “nonexpendable” and “expendable” refer to whether or not the government is under an obligation to maintain the trust principal. *Agency funds* generally account for assets that the government holds on behalf of others as their agent. Additional information about pension trust funds can be found in Note 9. GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*,

was fully implemented during fiscal year 1997. The Statement requires Pension Plan investments to be reported at fair value rather than at cost. GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*, was not implemented simultaneously with GASB 25.

GASB Statement 26 relating to postemployment health care plans became effective for Fiscal 1997. This statement applies to the measurement and reporting approach to be used for postemployment health care plans administered by a defined benefit health care plan in a pension trust fund. This statement is currently not applicable for the state of Texas since the health care plans are reported in fund types other than the pension trust funds.

### **Account Groups**

The *General Fixed Assets Account Group* accounts for all fixed assets of the state other than those accounted for in proprietary funds, trust funds and college and university fund groups. This is a self-balancing management control and accountability listing that does not reflect available financial resources.

The *General Long-Term Debt Account Group* accounts for obligations that are not recorded as current liabilities such as bonds, notes, employees’ compensable leave, capital leases and other long-term debt expected to be financed through governmental fund types and expendable trust funds. This is a self-balancing accounting record which does not require current expenditure of governmental fund financial resources. Unmatured long-term debt relating to proprietary and similar trust funds and colleges and universities is accounted for within the respective funds.

### **College and University Fund Groups**

*Current Funds* account for resources that will be expended for operating purposes. Funds over which the governing boards retain full control are accounted for as current unrestricted. This group includes Educational and General, Designated, and Auxiliary Enter-

prise Funds. Current Restricted Funds may only be utilized for externally-restricted purposes.

*Fiduciary Funds* include Loan, Endowment, and Agency funds. Loan funds account for resources available for loans to students, staff, and faculty. Endowment and similar funds are comparable to trust funds in that they must be administered in accordance with the terms of the applicable agreements. Agency funds are those funds of students and organizations held by the universities as custodian.

*Plant Funds* include four subgroups: Unexpended, Renewals and Replacements, Retirement of Indebtedness, and Investment in Plant. Plant funds account for assets that have been or will be invested in property, plant, and equipment and that are reserved to retire debt issued to finance plant facilities.

### **Component Units**

The fund types of the individual discrete component units are available from the component unit's separately issued financial statements.

Two new component units have been reported. These entities include a blended presentation for the Friends of the Texas Historical Commission and a discrete presentation for the Texas Universities Health Plan, Inc. (TUHP). The Interim Legislative Study Committee and the Hospital Equipment Financing Council are no longer shown as component units, as it has been determined that they are not legally separate from the State. The Texas National Research Laboratory Commission Financing Corporation was dissolved and is no longer included as a blended component unit.

## **BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental and expendable trust funds are accounted for using 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 generally are in-

cluded 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.

All proprietary fund types, nonexpendable trust funds, and pension trust funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental and expendable trust funds. 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. Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the modified accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Revenues susceptible to accrual are sales taxes, franchise taxes, unemployment taxes, motor fuels taxes, fuel production taxes, alcoholic beverage taxes, interest revenue, and charges for services. Licenses, fees, and permits are not susceptible to accrual because they are not measurable until received. Exceptions to the modified accrual basis include: employees' compensable leave, the unmatured debt service (principal and interest) on general long-term debt, and claims and judgments, which are not recognized until actual payment is made.

Proprietary fund types, pension trust funds, and nonexpendable trust funds are reported on the accrual basis. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recog-

nized at the time liabilities are incurred. In reporting the financial activity of its proprietary funds, the state applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

College and university funds are presented on the accrual basis of accounting except depreciation expense related to plant fund assets is not recorded.

### **Total (Memorandum Only) Columns**

The total columns on the general purpose financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP, nor is such data comparable to a consolidation.

### **Budgets and Budgetary Accounting**

The State Constitution requires the State 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 Constitution also requires the State Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes. Bills that include an appropriation may not be sent to the Governor for consideration until the State Comptroller has certified that appropriated amounts are within the amounts estimated to be available in the affected funds. Lack of certification by the State Comptroller must be approved by a four-fifths majority in both houses.

The state’s budget is prepared on a cash basis every two years. The State Constitution limits appropriation bills to two years in duration. The Governor’s Budget Office and Legislative Budget Board (LBB) initiate the process by submitting separate budget requests to the Legislature. Upon final passage of the appropriations bill by the Legislature, it is sent to the State Comptroller for certification. If the bill is certified by the State Comptroller, it 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 a specific line-item appropriation, 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 State Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

The state also monitors its statewide budget by establishing the legal level of control at the agency level to ensure that expenditures are not made in excess of budgetary authority. Within each agency, procedures are used to ensure that expenditures do not exceed their total budget at any level desired, but the State Comptroller ultimately ensures that each total authorized agency budget is not exceeded.

The level of legal control for budgeted special revenue is documented in a report titled “Budgeted Special Revenue GAAP Funds”, not included herein. This separate document includes the budget to actual comparison for each budgeted special revenue GAAP fund. State agencies cannot exceed approved appropriations. However, in certain emergency situations the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves. Supplemental (Emergency) Appropriations of \$154,888,790 were approved during the fiscal year to provide for sufficient funding for several agencies. 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.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual presents budget to actual comparisons for agencies which have a legal basis of control as defined by the state’s appropriation bill. These agencies operate from the General Revenue Fund or from various budgeted Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service or Capital Projects Funds, as they do not have defined one-year appropriation limits. The state’s Trust Funds and other individual funds which are held outside the state’s treasury are not subject to appropriation. A reconciliation of the General and Special Revenue Funds budgetary fund balances to the GAAP basis General and Special Revenue fund balances is presented in Note 18, along with explanations of variances between budget and actual.

The Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual presents budget to actual comparisons for two major special revenue funds and a group comprised of all other special revenue funds. Functional budgetary expenditure comparisons are made selectively for the Available School Fund and the State Highway Fund.

### **Cash and Temporary Investments**

For reporting purposes, this account includes cash on hand, cash in local banks, cash in the Treasury, and short-term investments. Other investments that management intends to liquidate within the next fiscal year are also included. Cash in local banks is primarily held by enterprise funds and colleges and universities. Cash balances of most state funds are pooled and invested by the Treasury Operations of the Comptroller of Public Accounts (Treasury). Interest earned is deposited in the General Revenue Fund and specified funds designated by law.

GASB Statement 28 was implemented during Fiscal Year 1997. This statement relates to the accounting treatment for securities lending transactions.

### **Cash and Cash Equivalents**

The statement of cash flows for proprietary and nonexpendable trust funds shows the change in cash and cash equivalents during the fiscal year. For the purposes of this statement 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 their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with an original maturity of three months or less are considered cash equivalents. Restricted securities held as collateral for Securities Lending are not included as cash equivalents for the purpose of the statement of cash flows.

The balance sheet category “cash and temporary investments” may include investments which are considered short-term, but do not meet the definition of cash equivalents for purposes of the cash flow statement.

### **Investments**

Investments have a maturity of greater than one year and are generally valued at cost or amortized cost. Fair value, however, is used for investments in pension trust funds, investments received as gifts, and also for investments in the deferred compensation agency fund. Premiums and discounts are amortized using the straight-line basis or the effective interest method over the life of the investment.

### **Receivables**

Receivables for governmental, expendable trust, and agency funds consist mainly of interest, taxes, and amounts due from other governments. Receivables for proprietary, nonexpendable trust, and pension trust funds consist mainly of investment income and loans, while college and university funds include mainly tu-

ition and federal receivables. All receivables are shown net of uncollectable amounts.

### **Inventories**

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.

Inventories for governmental fund types are accounted for using the purchase method of accounting. The cost of these items is recognized as an expenditure at the time of purchase. These assets are offset by a fund balance reserve that indicates they do not constitute "available spendable resources." The consumption method of accounting is used to account for inventories that appear in the proprietary fund types. The cost of these items is expensed when the items are consumed.

### **Restricted Assets**

Restricted assets include monies or other resources, the use of which is 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.

### **Fixed Assets**

Fixed assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the General Fixed Assets Account Group. They are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. For financial reporting purposes, depreciation is not recorded on general fixed assets. All fixed assets acquired by proprietary funds or trust funds are reported in those funds at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported in those

funds at fair value on the acquisition date. Depreciation is charged to operations of the funds over the estimated useful life of each asset, generally using the straight-line method. Fixed assets are depreciated for the following useful lives: 15-50 years for buildings; 4-15 years for furniture and equipment; 3-6 years for vehicles; and up to 10 years for other assets.

College and university plant fund assets, including those of the Permanent University Fund, are recorded at cost. Donated assets are valued at their estimated fair value on the date donated. Depreciation is not recorded. However, to ensure that the principal of endowments is kept intact, depreciation is recorded on buildings that are the investment of Endowment and similar funds.

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, estimated historical costs have been used. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

*Land improvements* (infrastructure) include assets such as highways, curbs, sidewalks, fences, bridges, and lighting systems. These assets generally are immovable and of value only to the state. Infrastructure is only capitalized in the proprietary, trust, and college and university funds.

*Capitalization of interest* incurred during the construction of general fixed assets is not recorded in the governmental fund types and fiduciary funds, except for those trust funds where the measurement focus is on income determination or capital maintenance. 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.

### **Long-Term Debt**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment

early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group. Long-term liabilities and related interest payments, expected to be financed from proprietary funds and university funds, are recorded in those funds.

With the exception of deep discount bonds (zero coupon bonds, capital appreciation bonds, compound interest bonds), the bonds payable are reported at par. Deep discount bonds pay no interest until maturity. The bonds are priced so that the payment of face value at maturity will yield both principal and interest at the effective rate for the bonds. Deep discount bonds are reported in the General Long-Term Debt Account Group at par less unamortized discount.

### **Employees' Compensable Leave Balances**

The compensable leave balance represents the amount of employees' unused vacation time at the fiscal year end. This amount is the aggregate of the compensable leave hours of each component unit multiplied by the average salary rate for all employees of that unit. Amounts of leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts.

Employees accrue vacation time at a rate of 7 to 14 hours per month depending on the number of years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 168 hours to 376 hours depending on the number of years of service.

The liability of governmental fund types is recorded in the General Long-Term Debt Account Group. The liability for proprietary, nonexpendable

trusts, and college and university fund types is recorded within the individual fund.

### **Employee Sick Leave**

Sick leave is accrued at a rate of 8 hours per month with no limit on the amount that can be carried over to the next fiscal year. Accumulated sick leave is not paid upon employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave up to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for the member's sick leave that has accumulated and is unused on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. However, 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.

### **Fund Equity**

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds. Reserves represent those portions of fund equity which are legally segregated for a specific future use, or which are not available for appropriation and expenditure at a balance sheet date.

For Fiscal year 1997, pursuant to paragraphs 118-121 of the National Council on Governmental Accounting Statement (NCGAS) 1, that portion of fund balance which was available for appropriation and expenditure at the balance sheet date, and which was appropriated for future fiscal years, is included as Unreserved - Undesignated Fund balance. This is a change from prior years when the portion of fund bal-

ance at the balance sheet date, which was re-appropriated for periods beginning after the balance sheet date, was classified as a “reserve for future operations.” This presentation, though less conservative, more accurately reflects the availability of these funds to be directed by the Legislature through the budgetary process. Note 13 provides additional detail on amounts included in Reserves.

## Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds, trust funds, and college and university 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.

## Interfund Transactions

The state has numerous transactions between and within fund types, including expenditures and transfers of resources. Quasi-external transactions are charges for services rendered by one fund to another. They are accounted for as revenues and expenditures/expenses.

Transactions that constitute reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Interagency transactions have been analyzed using the above criteria for interfund transactions and have been classified as reimbursements, transfers or revenues and expenditures/expenses as appropriate. Interagency transactions occurring within the same fund have been eliminated.

## Risk Financing

GASB Statement 30 related to risk financing has been implemented during fiscal year 1997. This statement provides that claim liabilities include adjustment expenditures/expenses and that estimated recoveries on settled claims be deducted from the liability for unpaid claims. Liabilities associated with the implementation of GASB 30 had no significant impact to the state. For additional information see Note 20.

# Note 2

## Property, Plant, and Equipment

Composition of Property, Plant, and Equipment at August 31, 1997  
(In Thousands)

| Assets                         | General<br>Fixed Assets<br>Account<br>Group | Proprietary<br>Funds | Trust<br>and<br>Agency<br>Funds | College and<br>University<br>Fund<br>Groups | Component<br>Units |
|--------------------------------|---|----------------------|---------------------------------|---|--------------------|
| Land                           | \$ 410,852                                  | \$ 589               | \$ 53,126                       | \$ 336,317                                  | \$ 154             |
| Buildings                      | 2,816,576                                   | 3,314                | 31,654                          | 6,206,628                                   | 6,399              |
| Land Improvements              |   | 457,878              | 132                             | 819,280                                     |                    |
| Furniture and Equipment        | 1,676,486                                   | 10,022               | 1,911                           | 2,977,937                                   | 54,246             |
| Vehicles, Boats and Aircraft   | 538,832                                     | 898                  | 8                               |   | 38                 |
| Less: Accumulated Depreciation |   | (7,603)              | (15)                            | (36,603)                                    | (8,365)            |
| Construction in Progress       | 2,160,019                                   |                      |                                 | 1,214,690                                   |                    |
| Other                          | 8,418                                       | 669                  |                                 | 927,077                                     | 6,309              |
| Totals                         | <u>\$ 7,611,183</u>                         | <u>\$ 465,767</u>    | <u>\$ 86,816</u>                | <u>\$ 12,445,326</u>                        | <u>\$ 58,781</u>   |



**Changes in the General Fixed Assets Account Group**  
For the Year Ended August 31, 1997 (In Thousands)

| <b>Assets</b>                | <b>Balances<br/>9/1/96</b> | <b>Reclassifications</b> | <b>Additions</b>  | <b>Deletions</b>  | <b>Balances<br/>8/31/97</b> |
|------------------------------|----------------------------|--------------------------|-------------------|-------------------|-----------------------------|
| Land                         | \$ 379,442                 | \$ 16,035                | \$ 19,739         | \$ 4,364          | \$ 410,852                  |
| Buildings                    | 2,519,150                  | 165,162                  | 145,653           | 13,389            | 2,816,576                   |
| Furniture and Equipment      | 1,627,121                  | 903                      | 234,200           | 185,738           | 1,676,486                   |
| Vehicles, Boats and Aircraft | 503,764                    | 2,342                    | 69,290            | 36,564            | 538,832                     |
| Construction in Progress     | 2,190,258                  | (156,905)                | 157,823           | 31,157            | 2,160,019                   |
| Other                        | 9,376                      | (27)                     | 476               | 1,407             | 8,418                       |
| <b>Totals</b>                | <b>\$ 7,229,111</b>        | <b>\$ 27,510</b>         | <b>\$ 627,181</b> | <b>\$ 272,619</b> | <b>\$ 7,611,183</b>         |

## Note 3

### Deposits, Investments, and Repurchase Agreements

#### LEGAL AND CONTRACTUAL PROVISIONS

##### Authority for Investments

All monies in funds established in the Treasury Operations of the Comptroller of Public Accounts (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 time deposits, repurchase agreements, reverse repurchase agreements, obligations of the United States, and obligations of various federal credit organizations.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping 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 year 1997. This trust company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, 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, as well as colleges and universities, are authorized to invest funds not depos-

ited with the Treasury. Allowable investments at the four largest investing entities are summarized below:

- The Teacher Retirement System is authorized to make investments following the “prudent person rule.”
- The Texas Education Agency may make investments under the “prudent person rule.” Authorized investments include U.S. Government or agency obligations and securities, obligations of the State of Texas and the University of Texas, corporate stocks and obligations, bonds of political subdivisions of Texas, bonds of the World Bank and the Inter-American, African and Asian Development Banks, and first lien real estate mortgage securities insured or guaranteed in whole or in part by the U.S. Government or its agencies.
- The Employees Retirement System, with certain restrictions, may make investments under the “prudent person rule.” Authorized investments include U.S. Government securities, corporate bonds, stocks, and commercial paper.
- Most investments held by the University of Texas System are maintained in pools or “funds.” The primary standard for making investment decisions for all of these funds is the “prudent person rule.” Investments authorized, with certain restrictions, include common and preferred stock, corporate obligations, commercial paper, bankers’ acceptances, repurchase agreements, U.S.

Government and agency obligations, bonds of the State of Texas and political subdivisions, University of Texas or Texas A&M University bonds or notes, and unaffiliated investment funds.

### Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by the pledging of securities valued at market excluding accrued interest to the Treasury. Generally, the list of eligible securities includes all United States Treasury obligations, 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 domiciled in the state, the Federal Reserve Bank of Dallas or one of its branches, or in the vault of the Treasury.

The Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance at 2 p.m. each banking day. During fiscal year 1997, no depository holding state funds failed.

State agencies and college and universities, with deposits of public funds that are not managed by the Treasury, are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law. However, retirement systems are exempt by statute from this requirement.

### Deposits

At August 31, 1997, the carrying amount of deposits for the state, which included all cash in banks, and a portion of cash in treasury and short-term investments (cash equivalents) was \$557.9 million. This amount is included on the balance sheet as part of the Cash and Temporary Investments account. The Cash and Temporary Investments account including component units is composed of the following:

### Cash and Temporary Investments (In Thousands)

|   |                             |
|---|-----------------------------|
| Unrestricted Cash and Temporary Investments:      |                             |
| Cash on Hand                                      | \$ 33,097                   |
| Cash in Local Banks                               | 495,449                     |
| Cash in Treasury                                  | 6,165,807                   |
| Short-Term Investments                            | 9,042,072                   |
| Cash in Federal Treasury                          | 815,954                     |
| Total Unrestricted Cash and Temporary Investments | <u>\$ 16,552,379</u>        |
| Restricted Cash and Temporary Investments:        |                             |
| Restricted Cash in Local Banks                    | \$ 42,539                   |
| Restricted Cash in State Treasury                 | 339,010                     |
| Restricted Short-Term Investments                 | 158,049                     |
| Total Restricted Cash and Temporary Investments   | <u>\$ 539,598</u>           |
| Total Cash and Temporary Investments              | <u><u>\$ 17,091,977</u></u> |

A portion of the short-term investments are combined, for purposes of this note, in the investments category.

The bank balance for the state, which is categorized in the following paragraphs, was \$643.0 million.

Bank balances representing deposits of State of Texas entities, including the Treasury, in the amount of \$596.6 million were either fully insured by the FDIC or were secured by collateral held by the state or by the state's agent in the state's name.

State funds totaling \$38.2 million were collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.

State funds totaling \$8.2 million were either not collateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the state's name.

The carrying amount of deposits for component units that are presented discretely in the financial statements was \$47.2 million and the bank balance was \$57.6 million. These component units were audited by other auditors. Of these deposits, \$56.0 million was fully insured. A total of \$1.5 million was collateralized. A total of \$0.1 million was either not collateralized or

collateralized with securities held by the pledging financial institution's trust department or agent, but not in the state's name.

## Investments

The schedules below disclose the carrying value and fair value of the state's investments by type and category of credit risk. The first schedule discloses the investments held by the Primary Government. The second schedule discloses the investments held by component units that are presented discretely in the financial statements. The categories of credit risk are as follows:

- A. Insured or registered or securities held by the state or its agent in the state's name.
- B. Uninsured and unregistered, with securities held by the counterparty trust department or agent in the state's name.
- C. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the state's name.

Certain investments in mutual funds cannot be categorized because they are not evidenced by securities that exist in physical or book entry form.

### Investments Held by Primary Government (In Thousands)

|   | Category<br>A         | Category<br>B    | Category<br>C       | Carrying<br>Value     | Fair<br>Value           |
|---|-----------------------|------------------|---------------------|-----------------------|-------------------------|
| U.S Government Investments  | \$ 27,091,989         | \$ 49,357        | \$ 247,433          | \$ 27,388,779         | \$ 27,768,681           |
| Corporate Stock   | 46,693,861            |                  |                     | 46,693,861            | 52,440,142              |
| Corporate Obligations   | 11,854,932            |                  | 1,257,994           | 13,112,926            | 13,242,432              |
| Political Subdivision Bonds   | 213,638               | 15,325           |                     | 228,963               | 234,369                 |
| Repurchase Agreements   | 8,936,283             | 3,083            | 152,919             | 9,092,285             | 9,105,788               |
| Foreign Securities  | 8,227,470             |                  | 12,655              | 8,240,125             | 8,251,298               |
| Commercial Paper  | 1,468,648             |                  | 634,619             | 2,103,267             | 2,101,015               |
| Other Investments   | 5,386,324             | 11               | 1,088,408           | 6,474,743             | 6,633,047               |
| Total Categorized Investments   | <u>\$ 109,873,145</u> | <u>\$ 67,776</u> | <u>\$ 3,394,028</u> | <u>\$ 113,334,949</u> | <u>\$ 119,776,772</u>   |
| Uncategorized Investments:  |                       |                  |                     |                       |                         |
| Investments Held by Broker-Dealers under Reverse Repurchase Agreements: |                       |                  |                     |                       |                         |
| U.S Government Securities   |                       |                  |                     | \$ 59,392             | \$ 60,041               |
| Securities Lending  |                       |                  |                     | 3,751,030             | 4,370,548               |
| Real Estate and Mortgages   |                       |                  |                     | 1,326,501             | 1,406,217               |
| Other Uncategorized Investments   |                       |                  |                     | 2,952,040             | 3,006,902               |
| Total Long - and Short - Term Investments                               |                       |                  |                     | <u>\$ 121,423,912</u> | * <u>\$ 128,620,480</u> |

\* The difference in the total carrying value of investments and that on the combined balance sheet represents the current portion of investments that is included in Cash and Temporary Investments.

\* Pension trust fund investments are now reported at fair value, as required by GASB 25.

### Investments Held by Discrete Component Units (In Thousands)

|                               | Category<br>A       | Category<br>B | Category<br>C | Carrying<br>Value   | Fair<br>Value       |
|-------------------------------|---------------------|---------------|---------------|---------------------|---------------------|
| U.S. Government Investments   | \$ 472,363          | \$            | \$            | \$ 472,363          | \$ 472,426          |
| Corporate Stock               | 292,059             |               |               | 292,059             | 292,059             |
| Corporate Obligations         | 240,716             |               |               | 240,716             | 240,716             |
| Other Fixed Income Securities | 365,695             |               |               | 365,695             | 365,695             |
| Miscellaneous Agreements      | 100,014             |               |               | 100,014             | 95,500              |
| Total Categorized Investments | <u>\$ 1,470,847</u> | <u>\$ 0</u>   | <u>\$ 0</u>   | <u>\$ 1,470,847</u> | <u>\$ 1,466,396</u> |
| Uncategorized Investments     |                     |               |               | <u>\$ 136,955</u>   | <u>\$ 136,906</u>   |

## Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Texas Treasury Safekeeping Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Proceeds are invested by the state in securities that mature at or almost at the same time as the reverse repurchase agreement and the proceeds from those securities will be 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 fair value. As of August 31, 1997, the maturity dates of investments coincide with the maturity dates of the related reverse repurchase agreements. The fair value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing a margin against a decline in fair value of the securities. If the purchaser defaults on this obligation to resell these securities to the Treasury or provide securities or cash of equal value, the Treasury would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. To minimize the risk of default by the dealers on their obligations to resell these securities to the state, all securities backing the repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at August 31, 1997, was \$60,237,756, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$59,426,632. Therefore, the Treasury had no credit exposure at year end.

## Securities Lending

The Texas Education Agency (TEA), the Teacher Retirement System (TRS), the University of Texas System (the System), and the Employees Retirement System (ERS) participate in a security lending program as authorized by state statute. Under this program, 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, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent. ERS receives collateral equal to 100% of the fair value plus accrued income on its loaned securities. TEA, TRS, and the System receive collateral equal to 102% of the fair value plus accrued income for domestic corporate securities and 105% of the fair value for international securities on loan. TRS and the System receive collateral in the amount of 102% plus accrued interest for domestic governmental securities. TEA receives collateral in excess of 100% of the fair value plus accrued interest for domestic governmental securities. There is a simultaneous agreement to return the collateral for the same securities in the future. Securities lending transactions are reported in accordance with GASB Statement No. 28, which was implemented during Fiscal Year 1997.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify the state if the borrowers fail to return the securities.

At year end there was no credit risk exposure to the state because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. The relationship between the maturities of investments made with cash collateral generally matched the 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.

The state's aggregate amount of securities out on loan to broker-dealers at August 31, 1997, was approximately \$4.6 billion. The Teacher Retirement System began their securities loan program in February 1991 and had \$1.2 billion of securities out on loan to broker-dealers at August 31, 1997. The Employees Retirement System began their program in July 1991 and had securities of \$1 billion out on loan to broker-dealers at August 31, 1997. The University of Texas System began their program in September 1995 and had securities of \$434.9 million out on loan to broker-dealers at August 31, 1997. The Texas Education Agency began their program in February 1993 and had securities of \$2 billion out on loan to broker-dealers at August 31, 1997.

Reconciliation of deposits and investments including component units to balance sheet amounts for Cash, Temporary Investments, and Investments (in thousands) is as follows:

| Reconciliation of Deposits and Investments<br>(In Thousands)   |                              |
|--|------------------------------|
| Unrestricted Assets:   |                              |
| Cash on Hand   | \$ 33,097                    |
| Carrying Amount of Deposits                                    | 515,336                      |
| Cash in State Treasury   | 6,165,807                    |
| Investments  | <u>115,379,167</u>           |
| Total Unrestricted Cash, Temporary Investments and Investments | <u>\$ 122,093,407</u>        |
| Restricted Assets:   |                              |
| Carrying Amount of Deposits                                    | \$ 42,539                    |
| Cash in State Treasury   | 339,010                      |
| Investments  | <u>1,153,802</u>             |
| Total Restricted Cash, Temporary Investments and Investments   | <u>\$ 1,535,351</u>          |
| Total Cash, Temporary Investments and Investments              | \$ 123,628,758               |
| Cash in Federal Treasury                                       | <u>815,954</u>               |
| Total Cash, Temporary Investments and Investments              | <u><u>\$ 124,444,712</u></u> |
| Combined Balance Sheet Presentation:                           |                              |
| Cash and Temporary Investments                                 | \$ 16,552,379                |
| Investments  | 106,356,982                  |
| Restricted Asset - Cash and Temporary Investments              | 200,588                      |
| Restricted Asset - Cash in State Treasury                      | 339,010                      |
| Restricted Asset - Investments                                 | <u>995,753</u>               |
| Total Cash, Temporary Investments and Investments              | <u><u>\$ 124,444,712</u></u> |

## Derivatives

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. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps, and mortgage derivatives.

Texas agencies and universities invest in mortgage derivatives. These mortgage derivatives are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, Planned Amortization Class (PACs) and Collateralized Mortgage Obligations (CMOs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. Texas agencies and universities had total investments in Collateralized Mortgage Obligations at carrying value of \$9.2 billion or 7.52% of the state's total investments as of August 31, 1997, with a fair value of \$9.4 billion. Several smaller universities also hold mortgage derivatives that are high risk. The majority of these investments were purchased prior to fiscal year 1995.

In 1995, the Texas Legislature took steps to limit state entities' and local governments' ability to invest in high risk derivatives by amending the Public Funds Investment Act. These statutory limitations do not apply to certain funds, such as public retirement systems, funds invested by the Treasury, institutions of higher education having total endowments of at least \$95 million, and funds invested by the Veteran's Land Board.

## Note 4

### Tax and Revenue Anticipation Notes

On August 30, 1996, \$2.9 billion in the State of Texas Tax and Revenue Anticipation Notes (TRAN),

Series 1996 were sold for the purpose of coordinating the cash flow of the state for the fiscal year ended August 31, 1997. Issuance of the TRAN enhances the state's ability to make timely payments of expenditures which are payable from the General Revenue Fund. The Series 1996 were repaid during fiscal year 1997 and bore interest at 4.75% and were priced to yield 3.996%.

On September 2, 1997, the State Comptroller sold \$2.9 billion of State of Texas TRAN, Series 1997A. The TRAN are dated September 2, 1997 and mature on August 31, 1998. The TRAN bear interest at 4.75% and were priced to yield 3.881%. The notes are not subject to redemption prior to maturity. On August 27, 1997, good faith funds in the amount of \$29 million were received and the associated liability was recorded. The \$2.896 billion balance was received on September 2, 1997.

## Note 5

### General Long-Term Debt

During the fiscal year ended August 31, 1997, the following changes occurred in liabilities reported in the General Long-Term Debt Account Group below.

*Advances From Other Funds* account for the LoanStar Energy Program. A long-term liability is created showing moneys advanced to the General Services Commission from the Office of the Governor. The li-

ability is liquidated in future years by energy savings attributable to the projects funded by the LoanStar Program.

*Notes Payable* consists of amounts used for the purchase of mainframe computer equipment and electrical substation equipment. The debt service requirements for Notes Payable in the General Long-Term Debt Account Group are as follows (in thousands):

|                    |    |                |
|--------------------|----|----------------|
| 1998               | \$ | 26,608         |
| 1999               |    | 22,468         |
| 2000               |    | 15,965         |
| 2001               |    | 13,489         |
| 2002               |    | 12,866         |
| 2003 and Beyond    |    | 171,329        |
| Total Requirements | \$ | <u>262,725</u> |

*Revenue Bonds and General Obligation Bonds Payable* 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. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Tort claims are covered under the Texas Tort Claims Act. Individual claims above \$10,000 or numerous separate claims from the same individual or entity that in total exceed \$10,000 must be approved by the State Legislature before being paid.

| General Long-Term Debt<br>(In Thousands) |                          |                   |                     |                 |                          |
|--|--------------------------|-------------------|---------------------|-----------------|--------------------------|
|  | Balance<br>Sept. 1, 1996 | Increases         | Decreases           | Adjustments     | Balance<br>Aug. 31, 1997 |
| Advances From Other Funds                | \$                       | \$                | \$                  | \$ 3,363        | \$ 3,363                 |
| Notes and Loans Payable                  | 143,956                  | 68,264            | 33,659              | (4,081)         | 174,480                  |
| Revenue Bonds Payable                    | 900,911                  | 47,492            | 60,852              |                 | 887,551                  |
| General Obligation Bonds Payable         | 4,548,165                | 174,629           | 337,195             |                 | 4,385,599                |
| Claims and Judgments                     | 365,725                  | 163,942           | 270,248             |                 | 259,419                  |
| Employees' Compensable Leave             | 354,299                  | 430,712           | 413,259             |                 | 371,752                  |
| Capital Lease Obligations                | 86,195                   | 5,066             | 11,150              | 4,341           | 84,452                   |
| Total General Long Term Debt             | <u>\$ 6,399,251</u>      | <u>\$ 890,105</u> | <u>\$ 1,126,363</u> | <u>\$ 3,623</u> | <u>\$ 6,166,616</u>      |

*Employees' Compensable Leave* is the state's liability for all unused vacation time accrued by its employees that is payable as severance pay under specified conditions. This obligation is paid only at the time of termination using future resources.

*Capital Lease Obligations* are described in detail in Note 7. The adjustment amount shown is for restatements of prior year balances.

## Note 6

### Bonded Indebtedness

#### **DESCRIPTION OF BOND ISSUES**

The State of Texas has 313 bond issues outstanding as of August 31, 1997. Details for these issues can be found in the Supplementary Bond Schedules.

#### **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.

During fiscal year 1997, \$229.0 million of general revenue was required for the general obligation debt service payments of the Texas Public Finance Authority and the Constitutional Appropriation Bonds. All other debt service requirements for general obligation bonds were covered by primary revenue sources.

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

**The Texas Agricultural Finance Authority**, a public authority created within the Department of Agriculture, has the authority to issue bonds to provide financial assistance for the expansion, development, and diversification of agricultural businesses.

**The Department of Commerce** has the authority to issue general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, and to provide loans to finance the commercialization of new and improved products and processes.

**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 General Land Office/Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing, or home improvements.

**The 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 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 bonds bought from the political subdivisions, repayments of purchased water storage contracts, and earnings on temporary investments.

**Constitutional Appropriation Bonds** are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund which is dedicated to the University of Texas and Texas A&M University Systems. Debt service payments on bonds issued are limited to the \$87.5 million in general revenue available for debt service each year.

**The Texas National Research Laboratory Commission** issued general obligation bonds to finance the development and operation of the Superconducting Super Collider research facility within the state. The bonds are payable from funds appropriated to the Texas Public Finance Authority.

# State of Texas

## Changes in Bonds Payable

(Amounts in Thousands)

|   | Bonds<br>Outstanding<br>9/1/96 | Bonds<br>Issued     | Bonds<br>Matured<br>or Retired | Bonds<br>Refunded | Bonds<br>Outstanding<br>8/31/97 |
|---|--------------------------------|---------------------|--------------------------------|-------------------|---------------------------------|
| <b>GENERAL OBLIGATION BONDS</b>                   |                                |                     |                                |                   |                                 |
| Self-Supporting:                                  |                                |                     |                                |                   |                                 |
| Texas Higher Education Coordinating Board Bonds   | \$ 523,495                     | \$ 6,066            | \$ 29,040                      | \$                | \$ 500,521 (A)                  |
| Veterans' Land & Housing Bonds                    | 1,451,907                      | 52,685              | 63,185                         | 22,355            | 1,419,052 (A)                   |
| Park Development Bonds                            | 37,326                         | 739                 | 2,065                          |                   | 36,000 (A)                      |
| Water Development Bonds                           | 367,240                        | 125,228             | 11,010                         |                   | 481,458                         |
| Total, Self-Supporting                            | <u>2,379,968</u>               | <u>184,718</u>      | <u>105,300</u>                 | <u>22,355</u>     | <u>2,437,031</u>                |
| Not Self-Supporting:                              |                                |                     |                                |                   |                                 |
| Constitutional Appropriation Bonds                | 52,930                         | 26,750              | 7,555                          |                   | 72,125                          |
| Texas Public Finance Authority Bonds              | 2,473,347                      | 90,139              | 84,900                         | 134,610           | 2,343,976 (A)                   |
| Water Development Bonds                           | 62,090                         | 25,000              | 1,040                          |                   | 86,050 (A)                      |
| Total, Not Self-Supporting Bonds                  | <u>2,588,367</u>               | <u>141,889</u>      | <u>93,495</u>                  | <u>134,610</u>    | <u>2,502,151</u>                |
| Subtotal, General Obligation Bonds                | 4,968,335                      | 326,607             | 198,795                        | 156,965           | 4,939,182                       |
| Less Issuance Discount                            | (3,588)                        |                     | 2,068                          |                   | (5,656)                         |
| Gain/(Loss) on Refunding                          | (2,602)                        | 270                 |                                |                   | (2,332)                         |
| Total, General Obligation Bonds                   | <u>4,962,145</u>               | <u>326,877</u>      | <u>200,863</u>                 | <u>156,965</u>    | <u>4,931,194</u>                |
| <b>REVENUE BONDS</b>                              |                                |                     |                                |                   |                                 |
| Self-Supporting:                                  |                                |                     |                                |                   |                                 |
| Permanent University Fund Bonds:                  |                                |                     |                                |                   |                                 |
| Texas A&M University                              | 302,697                        | 858                 | 14,950                         |                   | 288,605                         |
| University of Texas                               | 542,885                        |                     | 23,685                         |                   | 519,200                         |
| College & University Revenue Bonds                | 1,466,224                      | 178,962             | 80,693                         | 40,863            | 1,523,630                       |
| Texas Public Finance Authority Bonds              | 211,348                        |                     | 11,774                         |                   | 199,574 (A)                     |
| Texas Department of Commerce (TSBIDC) Bonds       | 99,335                         |                     |                                |                   | 99,335                          |
| Texas Higher Education Coordinating Board Bonds   | 58,786                         | 1,160               | 2,395                          | 4,675             | 52,876 (A)                      |
| Texas Hospital Equipment Financing Council Bonds  | 11,400                         |                     |                                | 250               | 11,150                          |
| Texas Dept of Housing and Community Affairs Bonds | 1,087,054                      | 270,788             | 25,929                         | 202,655           | 1,129,258                       |
| Texas Turnpike Authority Bonds                    | 415,370                        | 448,395             | 7,250                          |                   | 856,515                         |
| Water Development Bonds                           | 972,355                        | 235,000             | 40,515                         | 15,450            | 1,151,390                       |
| Total, Self-Supporting                            | <u>5,167,454</u>               | <u>1,135,163</u>    | <u>207,191</u>                 | <u>263,893</u>    | <u>5,831,533</u>                |
| Not Self-Supporting:                              |                                |                     |                                |                   |                                 |
| Texas Department of Criminal Justice              | 208,655                        |                     | 11,075                         |                   | 197,580 (A)                     |
| National Guard Armory Board                       | 29,085                         |                     | 2,375                          |                   | 26,710 (A)                      |
| Texas Public Finance Authority Bonds              | 381,372                        | 46,332              | 27,933                         |                   | 399,771 (A)                     |
| Total, Not Self-Supporting                        | <u>619,112</u>                 | <u>46,332</u>       | <u>41,383</u>                  | <u>0</u>          | <u>624,061</u>                  |
| Subtotal, Revenue Bonds                           | 5,786,566                      | 1,181,495           | 248,574                        | 263,893           | 6,455,594                       |
| Plus Premium                                      | 11,336                         | 4                   | 459                            |                   | 10,881                          |
| Less Issuance Discount                            | (10,543)                       | 377                 | 7,336                          |                   | (17,502)                        |
| Gain/(Loss) on Refunding                          | (5,253)                        |                     | 3,240                          |                   | (8,493)                         |
| Total, Revenue Bonds                              | <u>5,782,106</u>               | <u>1,181,876</u>    | <u>259,609</u>                 | <u>263,893</u>    | <u>6,440,480</u>                |
| <b>GRAND TOTAL</b>                                | <u>\$ 10,744,251</u>           | <u>\$ 1,508,753</u> | <u>\$ 460,472</u>              | <u>\$ 420,858</u> | <u>\$ 11,371,674</u>            |

(A) Included in General Long-Term Debt for General Obligation Bonds Payable (\$ 4,385,599) and, along with \$ 11,040 in College and University Revenue Bonds, for Revenue Bonds Payable (\$ 887,551).



# State of Texas

## Debt Service Requirements

(Amounts in Thousands)

|                                    | 1998                | 1999                | 2000                | 2001                | 2002                | 2003<br>and Beyond   | Total<br>Requirements |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|
| <b>GENERAL OBLIGATION BONDS</b>    |                     |                     |                     |                     |                     |                      |                       |
| Self-Supporting:                   |                     |                     |                     |                     |                     |                      |                       |
| Texas Higher Education             |                     |                     |                     |                     |                     |                      |                       |
| Coordinating Board Bonds           | \$ 58,727           | \$ 55,283           | \$ 57,505           | \$ 60,948           | \$ 62,666           | \$ 454,566           | \$ 749,695            |
| Veterans' Land & Housing Bonds     | 161,376             | 163,370             | 164,123             | 163,705             | 153,180             | 1,914,102            | 2,719,856             |
| Park Development Bonds             | 4,123               | 4,202               | 4,200               | 4,202               | 4,201               | 32,184               | 53,112                |
| Water Development Bonds            | 42,921              | 43,955              | 44,962              | 45,114              | 45,334              | 650,318              | 872,604               |
| Total, Self-Supporting             | <u>267,147</u>      | <u>266,810</u>      | <u>270,790</u>      | <u>273,969</u>      | <u>265,381</u>      | <u>3,051,170</u>     | <u>4,395,267</u>      |
| Not Self-Supporting:               |                     |                     |                     |                     |                     |                      |                       |
| Constitutional Appropriation Bonds | 11,495              | 11,524              | 11,568              | 11,562              | 10,610              | 32,167               | 88,926                |
| Texas Public Finance               |                     |                     |                     |                     |                     |                      |                       |
| Authority Bonds                    | 232,046             | 230,871             | 230,204             | 229,915             | 229,862             | 2,597,899            | 3,750,797             |
| Water Development Bonds            | 6,427               | 7,145               | 7,176               | 7,159               | 7,146               | 114,090              | 149,143               |
| Total, Not Self-Supporting Bonds   | <u>249,968</u>      | <u>249,540</u>      | <u>248,948</u>      | <u>248,636</u>      | <u>247,618</u>      | <u>2,744,156</u>     | <u>3,988,866</u>      |
| Total General Obligation Bonds     | <u>517,115</u>      | <u>516,350</u>      | <u>519,738</u>      | <u>522,605</u>      | <u>512,999</u>      | <u>5,795,326</u>     | <u>8,384,133</u>      |
| <b>REVENUE BONDS</b>               |                     |                     |                     |                     |                     |                      |                       |
| Self-Supporting:                   |                     |                     |                     |                     |                     |                      |                       |
| Permanent University               |                     |                     |                     |                     |                     |                      |                       |
| Fund Bonds:                        |                     |                     |                     |                     |                     |                      |                       |
| Texas A&M University               | 32,466              | 33,247              | 33,523              | 33,577              | 33,548              | 251,107              | 417,468               |
| University of Texas                | 54,267              | 54,271              | 54,268              | 54,271              | 50,412              | 510,058              | 777,547               |
| College and University             |                     |                     |                     |                     |                     |                      |                       |
| Revenue Bonds                      | 177,688             | 174,485             | 171,985             | 165,841             | 162,578             | 1,416,308            | 2,268,885             |
| Texas Department of                |                     |                     |                     |                     |                     |                      |                       |
| Commerce (TSBIDC) Bonds            | 4,967               | 4,967               | 4,967               | 4,967               | 4,967               | 217,709              | 242,544               |
| Texas Higher Education             |                     |                     |                     |                     |                     |                      |                       |
| Coordinating Board Bonds           | 5,643               | 6,274               | 5,886               | 6,731               | 7,466               | 64,829               | 96,829                |
| Texas Hospital Equipment           |                     |                     |                     |                     |                     |                      |                       |
| Financing Council Bonds            | 558                 | 558                 | 558                 | 558                 | 558                 | 12,823               | 15,613                |
| Texas Department of Housing and    |                     |                     |                     |                     |                     |                      |                       |
| Community Affairs Bonds            | 88,273              | 89,003              | 86,881              | 88,227              | 82,966              | 2,189,035            | 2,624,385             |
| Texas Public Finance               |                     |                     |                     |                     |                     |                      |                       |
| Authority Bonds                    | 29,808              | 29,761              | 29,700              | 29,638              | 29,578              | 154,197              | 302,682               |
| Texas Turnpike Authority Bonds     | 54,346              | 54,351              | 57,037              | 54,436              | 54,435              | 1,445,462            | 1,720,067             |
| Water Development Bonds            | 109,524             | 109,184             | 107,852             | 105,873             | 103,019             | 1,414,293            | 1,949,745             |
| Total, Self-Supporting Bonds       | <u>557,540</u>      | <u>556,101</u>      | <u>552,657</u>      | <u>544,119</u>      | <u>529,527</u>      | <u>7,675,821</u>     | <u>10,415,765</u>     |
| Not Self-Supporting:               |                     |                     |                     |                     |                     |                      |                       |
| Texas Department of                |                     |                     |                     |                     |                     |                      |                       |
| Criminal Justice Bonds             | 23,119              | 23,089              | 23,104              | 21,261              | 21,275              | 181,752              | 293,600               |
| National Guard Armory Board        | 3,994               | 4,002               | 4,006               | 4,009               | 4,016               | 15,797               | 35,824                |
| Texas Public Finance               |                     |                     |                     |                     |                     |                      |                       |
| Authority Bonds                    | 45,948              | 38,441              | 38,506              | 38,515              | 38,251              | 436,578              | 636,239               |
| Total, Not Self-Supporting Bonds   | <u>73,061</u>       | <u>65,532</u>       | <u>65,616</u>       | <u>63,785</u>       | <u>63,542</u>       | <u>634,127</u>       | <u>965,663</u>        |
| Total Revenue Bonds                | <u>630,601</u>      | <u>621,633</u>      | <u>618,273</u>      | <u>607,904</u>      | <u>593,069</u>      | <u>8,309,948</u>     | <u>11,381,428</u>     |
| <b>GRAND TOTAL</b>                 | <u>\$ 1,147,716</u> | <u>\$ 1,137,983</u> | <u>\$ 1,138,011</u> | <u>\$ 1,130,509</u> | <u>\$ 1,106,068</u> | <u>\$ 14,105,274</u> | <u>\$ 19,765,561</u>  |

# State of Texas

## Miscellaneous Bond Information

(Amounts in Thousands)

| Description of Issue                              | Bonds             | Range of<br>Interest Rates |       | Maturities    |              | First<br>Call<br>Date |
|---|-------------------|----------------------------|-------|---------------|--------------|-----------------------|
|   | Issued<br>to Date |                            |       | First<br>Year | Last<br>Year |                       |
| GENERAL OBLIGATION BONDS                          |                   |                            |       |               |              |                       |
| Self-Supporting:                                  |                   |                            |       |               |              |                       |
| Texas Higher Education Coordinating Board Bonds   | \$ 692,456        | 0.05                       | 10.40 | 1972          | 2021         | 08/01/86              |
| Veterans' Land & Housing Bonds                    | 2,145,958         | 3.00                       | 10.25 | 1985          | 2033         | 12/01/93              |
| Park Development Bonds                            | 40,980            | 3.60                       | 6.00  | 1994          | 2016         | 10/01/2002            |
| Water Development Bonds                           | 540,918           | 2.50                       | 12.20 | 1991          | 2035         | 08/01/98              |
| Total, Self-Supporting Bonds                      | 3,420,312         |                            |       |               |              |                       |
| Not Self-Supporting:                              |                   |                            |       |               |              |                       |
| Constitutional Appropriation Bonds                | 84,175            | 3.50                       | 6.25  | 1995          | 2005         | N/A                   |
| Texas Public Finance Authority Bonds              | 3,488,816         | 2.90                       | 9.63  | 1989          | 2020         | 10/01/97              |
| Water Development Bonds                           | 88,435            | 3.85                       | 7.50  | 1993          | 2020         | 08/01/2002            |
| Total, Not Self-Supporting Bonds                  | 3,661,426         |                            |       |               |              |                       |
| Total, General Obligation Bonds                   | 7,081,738         |                            |       |               |              |                       |
| REVENUE BONDS                                     |                   |                            |       |               |              |                       |
| Self-Supporting:                                  |                   |                            |       |               |              |                       |
| Permanent University Fund Bonds:                  |                   |                            |       |               |              |                       |
| Texas A&M University                              | 419,130           | 2.70                       | 13.33 | 1992          | 2011         | 07/01/97              |
| University of Texas                               | 894,190           | 4.00                       | 9.50  | 1989          | 2013         | 07/01/98              |
| College & University Revenue Bonds                | 2,159,205         | 2.25                       | 10.00 | 1960          | 2019         | 04/01/67              |
| Texas Public Finance Authority Bonds              | 310,380           | 4.00                       | 9.00  | 1992          | 2016         | 08/01/2006            |
| Texas Department of Commerce (TSBIDC) Bonds       | 750,000           | VAR                        | VAR   | 1989          | 2026         | 07/15/86              |
| Texas Higher Education Coordinating Board Bonds   | 79,230            | 6.40                       | 7.85  | 1995          | 2025         | 10/01/2001            |
| Texas Hospital Equipment Financing Council Bonds  | 62,200            | VAR                        | VAR   | 2005          | 2005         | 07/06/88              |
| Texas Dept of Housing and Community Affairs Bonds | 1,860,928         | 3.30                       | 10.27 | 1985          | 2028         | 09/01/86              |
| Texas Turnpike Authority Bonds                    | 995,295           | 3.25                       | 7.50  | 1981          | 2025         | 01/01/87              |
| Water Development Bonds                           | 1,362,755         | 3.75                       | 7.63  | 1989          | 2019         | 04/01/92              |
| Total, Self-Supporting Bonds                      | 8,893,313         |                            |       |               |              |                       |
| Not Self-Supporting:                              |                   |                            |       |               |              |                       |
| Texas Department of Criminal Justice              | 242,820           | 3.00                       | 8.75  | 1989          | 2014         | 10/01/89              |
| National Guard Armory Board Bonds                 | 52,460            | 3.75                       | 9.50  | 1981          | 2014         | 10/01/89              |
| Texas Public Finance Authority Bonds              | 554,279           | 3.00                       | 7.50  | 1991          | 2017         | 02/01/94              |
| Total, Not Self-Supporting Bonds                  | 849,559           |                            |       |               |              |                       |
| Total, Revenue Bonds                              | 9,742,872         |                            |       |               |              |                       |
| GRAND TOTAL                                       | \$ 16,824,610     |                            |       |               |              |                       |

**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. The bonds are payable from state appropriations.

### General Obligation Bonds - Authorized But Unissued

The Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 1997, the following amounts of general obligation bonds other than Constitutional Appropriation Bonds were authorized but unissued:

| General Obligation Bonds<br>Authorized But Unissued<br>(In Thousands) |                     |
|---|---------------------|
| <b>Self-Supporting:</b>   |                     |
| Agriculture Water Conservation Bonds                                  | \$ 181,000          |
| Texas Agricultural Finance Authority Bonds                            | 33,000              |
| Texas Department of Commerce Bonds                                    | 45,000              |
| Farm and Ranch Loan Bonds   | 474,900             |
| Park Development Bonds  | 16,310              |
| Veterans Land and Housing Bonds                                       | 955,002             |
| Water Development Bonds   | 780,800             |
| College Student Loan Bonds  | 225,000             |
|   | <u>2,711,012</u>    |
| <b>Not Self-Supporting:</b>   |                     |
| Texas Public Finance Authority Bonds                                  | 338,340             |
| Water Development Bonds   | 307,010             |
|   | <u>645,350</u>      |
| Total General Obligation Bonds  | <u>\$ 3,356,362</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. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations:

- Texas Department of Criminal Justice Bonds

- National Guard Armory Board Bonds
- Texas Public Finance Authority Bonds

The purpose and primary pledged revenue sources of each type of revenue 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 Hospital Equipment Financing Council** issued bonds to provide loans to qualifying hospitals for the purchase of health-related equipment. The loan repayments, as well as investment earnings, are pledged to debt service on the bonds.

**The Texas Department of Criminal Justice** operates several prison facilities constructed with bond proceeds issued by private financing corporations. Debt service payments are payable from rental revenues received from the Department. Once the bonds have been redeemed, title to the facilities will rest with the state.

**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 low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

**The National Guard Armory Board** issues bonds 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, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from specified

pledged revenues, primarily occupant-agency rentals collected.

**The Texas Public Finance Authority** issued bonds to establish the Texas Workers' Compensation Insurance Fund which will be operated as an insurance carrier. Debt service is financed through a maintenance tax surcharge on the reported gross premiums of insurers providing workers' compensation coverage in the state. The Authority has also issued bonds on behalf of other state agencies and universities.

**The Texas Small Business Industrial Development Corporation**, a non-profit corporation managed by the Department of Commerce, issues industrial development loans to businesses and political subdivisions. The bonds are obligations of the corporation, payable and collateralized solely by the revenues and assets pledged in trust indentures and sales contracts.

**The Texas Turnpike Authority** issues revenue bonds to finance the construction, maintenance, repair, and operation of Texas toll roads and bridges. The bonds are payable from tolls and other pledged revenues of the Authority.

**The Texas Water Development Board** issues bonds for the Water Pollution Control Revolving Fund commonly referred to as the State Revolving Fund. The proceeds are used to provide financial assistance to political subdivisions to construct waste water treatment facilities. Political subdivisions bonds are pledged for debt service requirements of the bonds.

**The Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board the majority of existing political subdivision bonds held. The political subdivision bonds are pledged for debt service requirements of the bonds.

**Permanent University Fund Bonds** are issued by the University of Texas and Texas A&M University Systems to build, equip, or buy buildings or other permanent improvements. Revenue from investments of the Permanent University Fund is pledged to secure the payment of interest and principal. The book value of the Fund at August 31, 1997, excluding real estate, was \$4,974,351. A comparison between the legal debt limits and the actual bonds outstanding at that date follows:

| Permanent University Fund Bonds<br>(In Thousands) |                      |                         |                            |
|---|----------------------|-------------------------|----------------------------|
|   | Legal<br>Debt Limits | Actual Bonds<br>Payable | Authorized<br>But Unissued |
| University of Texas System                        | \$ 994,870           | \$ 519,200              | \$ 475,670                 |
| Texas A&M University System                       | 497,435              | 288,605                 | 208,830                    |
| Totals  | <u>\$ 1,492,305</u>  | <u>\$ 807,805</u>       | <u>\$ 684,500</u>          |

**Miscellaneous College and University Revenue Bonds** are issued by colleges and universities and include (a) various series secured by pledged revenues from auxiliary enterprises and (b) various series secured by pledged student tuition and fees. Numerous revenue bond series have been issued by 16 state colleges and universities, and university systems.

### Demand Bonds

The Texas Hospital Equipment Financing Council (THEFC) and the Texas Small Business Industrial Development Corporation (TSBIDC) issued revenue bonds subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The principal balances outstanding on these bonds at August 31, 1997, are \$11,150,000 and \$99,335,000, respectively.

THEFC has entered into a liquidity agreement with Fuji Bank, Limited to purchase bonds "put" that are not resold. The Bank becomes the owner of the bonds and the Council makes interest payments until the Bank sells the bonds or the Council has funds avail-

able to redeem the bonds. The agreement requires the Council to use available funds on a weekly basis to redeem bonds. The liquidity agreement with the Bank is scheduled to expire on April 1, 2000.

TSBIDC has entered into an irrevocable letter of credit agreement between TSBIDC, TEXCAP, National Westminster Bank Plc and Credit Suisse which expires October 15, 1998. The letter of credit secures the demand bonds. The bondholder may tender the bonds for repurchase 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 the letter of credit. TSBIDC does not have a takeout agreement as part of this letter of credit or as a separate arrangement.

### Early Extinguishment of Debt

Entities which had early debt extinguishments in fiscal year 1997 are as follows:

| Early Extinguished Debt Issues<br>(In Thousands) |                   |
|--|-------------------|
| General Land Office                              | \$ 22,355         |
| Public Finance Authority                         | 89,565            |
| Texas Higher Education Coordinating Board        | 4,675             |
| Texas Hospital Equipment Financing Council       | 250               |
| Department of Housing and Community Affairs      | 202,655           |
| Midwestern State University                      | 1,605             |
| Water Development Board                          | 15,450            |
| Total  | <u>\$ 336,555</u> |

The source of funds used for the extinguishments included loan repayments, bond proceeds, and other available funds.

### Advance Refunding

During fiscal year 1997, five entities advance re-funded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

| Advance Refunding Issues<br>(In Thousands) |                                       |                          |  |                            |
|--|---------------------------------------|--------------------------|--|----------------------------|
|  | Par Value<br>of<br>Refunding<br>Issue | Par<br>Value<br>Refunded | Cash Flow<br>Difference<br>Increase<br>(Reduction) | Economic<br>Gain<br>(Loss) |
| Texas Public Finance Authority             | \$ 45,005                             | \$ 45,045                | \$ (195)   | \$ 1,527                   |
| Lamar University System                    | 11,230                                | 10,320                   | (696)  | 424                        |
| Texas A & M University System              | 8,295                                 | 7,670                    | (655)  | 480                        |
| Texas Tech University                      | 11,695                                | 13,038                   | 728  | 110                        |
| University of North Texas                  | 8,230                                 | 8,230                    | (692)  | 571                        |
| Total                                      | <u>\$ 84,455</u>                      | <u>\$ 84,303</u>         | <u>\$ (1,510)</u>                                  | <u>\$ 3,112</u>            |

### Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the State Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the State Treasury Safekeeping Trust Company to defease \$1,053,495 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. As of August 31, 1997, the following amounts of defeased bonds, at par, remained outstanding:

| Defeased Bonds Outstanding<br>(In Thousands) |                     |
|--|---------------------|
| General Obligation Bonds:                    |                     |
| State Agencies                               | \$ 1,771,247        |
| Revenue Bonds:                               |                     |
| State Agencies                               | 523,937             |
| Colleges and Universities                    | 925,381             |
| Total  | <u>\$ 3,220,565</u> |

## Note 7

### Capital Leases

The state has entered into long-term capital leases to buy certain fixed assets. The fixed 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 fund types, the asset is recorded in the General Fixed Assets Account Group and the liability is recorded in the General Long-Term Debt Account Group. Capital leases of the enterprise fund or other proprietary fund types are accounted for and reported entirely within the individual fund. The assets and liabilities from capital leases for college and university funds are recorded in the Investment in Plant Fund.

The following is a summary of the future minimum lease payments for capital leases:

| Capital Lease Payments<br>(In Thousands)       |  |                                    |   |
|--|--|------------------------------------|---|
| Year Ending<br>August 31, 1997                 | Primary Government                         |                                    | Discretely<br>Presented<br>Component<br>Units |
|  | General<br>Long-Term Debt<br>Account Group | College and<br>University<br>Funds |   |
| 1998   | \$ 13,188                                  | \$ 2,343                           | \$ 48   |
| 1999   | 12,744                                     | 1,467                              | 12  |
| 2000   | 12,238                                     | 737                                |   |
| 2001   | 11,569                                     | 228                                |   |
| 2002   | 8,036                                      | 182                                |   |
| 2003 and beyond                                | 82,951                                     | 682                                |   |
| Total Minimum Lease Payments                   | 140,726                                    | 5,639                              | 60  |
| Less Interest                                  | 56,274                                     | 680                                | 7   |
| Present Value of Net Minimum<br>Lease Payments | <u>\$ 84,452</u>                           | <u>\$ 4,959</u>                    | <u>\$ 53</u>                                  |

This table is an analysis of the property acquired under capital leases by asset category at August 31, 1997 (in thousands):

| Assets Under Capital Leases<br>(In Thousands) |  |                                    |   |
|---|--|------------------------------------|---|
| Class of<br>Property                          | Primary Government                       |                                    | Discretely<br>Presented<br>Component<br>Units |
|   | General<br>Fixed Assets<br>Account Group | College and<br>University<br>Funds |   |
| Land  | \$ 2,076                                 | \$                                 | \$  |
| Buildings                                     | 66,610                                   | 1,971                              |   |
| Furniture and Equipment                       | 33,108                                   | 8,787                              | 185   |
| Vehicles, Boats, etc.                         |  | 383                                |   |
| Totals  | <u>\$101,794</u>                         | <u>\$11,141</u>                    | <u>\$ 185</u>                                 |

## Note 8

### Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis, that have been classified as operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases as of August 31, 1997:

| Noncancelable Operating Leases<br>(In Thousands)   |                                  |                    |
|--|----------------------------------|--------------------|
| Minimum<br>Future Rentals<br>As of August 31, 1997 | Minimum Future<br>Lease Payments |                    |
|  | Primary<br>Government            | Component<br>Units |
| 1998   | \$ 130,887                       | \$ 10,894          |
| 1999   | 98,793                           | 9,910              |
| 2000   | 72,818                           | 7,730              |
| 2001   | 54,276                           | 6,945              |
| 2002   | 45,448                           | 6,165              |
| 2003 and beyond                                    | 71,162                           | 14,683             |
| Total  | <u>\$ 473,384</u>                | <u>\$ 56,327</u>   |

## Note 9

### Retirement Systems

The State of Texas administers six defined benefit public employee retirement systems (PERS) which are included in the state's financial statements as pension trust funds. The six plans are administered by three agencies which issue separate financial reports, the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission. These reports are audited as individual entities with a separate opinion issued for each. The schedules presented in this note are for the year ended August 31, 1997. Amounts and types of securities held by the retirement systems are included in Note 3.

The state has also established an optional retirement program for agencies and institutions of higher education. Participation in the optional retirement program provides for the purchase of annuity contracts. The contributory percentages of participant salaries provided by each participant and the state were 6.65% for the participant and 6.00% for the state. In addition, the Texas Higher Education Coordinating Board and institutions of higher education contributed 2.50% from operating funds for this retirement program. Since these are individual annuity contracts, the state has no additional or unfunded liability for this program.

#### Implementation of GASB Statement Number 25

GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, was implemented by ERS and TRS for the fiscal year ended August 31, 1996 and by the Fire Fighters' Relief and Retirement Fund for the fiscal year ended August 31, 1997. All pension fund investments in this statement are reported at fair value on the trade date.

Implementation of GASB Statement Number 25 also has significant impact on the traditional presentation of the pension trust funds' basic financial statements. A Combining Statement of Plan Net Assets is presented in addition to the traditional Balance Sheet. Also presented is a Statement of Changes in Plan Net Assets for all of the pension trust funds. This statement places the focus on "Net Assets Held in Trust for Pension Benefits", rather than "Fund Balance." Additional required supplementary information schedules of funding progress and employer contributions provide historical trend information on the actuarially determined funded status of the plans and the annual required contributions of the employers from a long-term, on-going perspective and the progress made in accumulating sufficient assets to pay benefits when due.

An actuarial evaluation as of August 31, 1997, was performed for all of the pension funds with the exception of the Fire Fighters' Relief and Retirement Fund. The actuarial evaluations of the funds show that any unfunded accrued liabilities will be fully amortized within guidelines set by state law. The "pension benefit obligation" is a standardized disclosure measure of total projected benefits estimated to be payable in the future as a result of employee service to date, with the portion attributable to credited service to date calculated with projected salary increases. Stated differently, it is benefits attributable to retirees, beneficiaries, and terminated employees entitled to benefits and current covered employees, as a result of their credited service to date. The pension benefit obligation at August 31, 1997, for the state as a whole, determined through actuarial valuation as of that date, was \$61.9 billion. The state's net assets available for benefits on that date (valued at fair value) were \$77.5 billion, leaving an overfunded pension benefit obligation of \$15.6 billion.

GASB Statement 26 relating to post employment health care plans became effective for Fiscal Year 1997. This statement applies to the measurement and reporting approach to be used for post employment health care plans administered by a defined health care plan in a pension trust fund. This statement is currently not applicable for the state of Texas since the health care plans are reported in fund types other than the pension trust funds.

GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*, was not implemented simultaneously with GASB 25. The effective date of GASB Statement 27 is for periods beginning after June 15, 1997.

## **Description of Plans**

### **Employees Retirement System of Texas**

The Board of Trustees of the Employees Retirement System of Texas is the administrator of the Employees Retirement System of Texas (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECO), and Judicial Retirement System of Texas Plan One and Plan Two (JRS). Each of these plans is considered to be a single employer defined benefit pension plan.

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. Additional payment options are available. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. With the exception of the Judicial Retirement Plan Two, contribution requirements are not actuarially determined. The Employees Retirement System's contribution requirement, calculated using entry age normal actuarial cost method, is established through state statute.

### **Employees Retirement System of Texas Plan**

The Employees Retirement System of Texas Plan covers elected class members, employee class members and commissioned peace officers and custodial officers. The elected class members are vested after eight years of creditable service and may retire at age 50 with 12 years of service or at age 60 with eight years of service. Employee class retirement benefits vest after five years of credited service and may retire at age 60 with five years of service or at any age when the combination of age and service (including months) total 80. Commissioned peace officers and custodial officers may retire at age 55 with 10 years or at age 50 with 20 years of service. For the employee class the monthly benefit is equal to a percentage of final average compensation multiplied by years and months of service. The percentage for fiscal year 1997 was 2.25% of the final average compensation multiplied by the years of service. Final average compensation is equal to the average of the highest 36 months of salary out of the member's established service.

For elected class the monthly benefit is equal to a percentage of the current state salary of a district judge multiplied by years and months of service.

Membership in the employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by the Teacher Retirement System and the Judicial Retirement System.

The funding policy requires monthly contributions by both the state and employees. For the biennium ending August 31, 1997, the contributions required by the state and members are 6.00% of payroll.

The entry age actuarial cost method was used to perform the August 31, 1997, actuarial valuation. For the plan in effect on September 1, 1997, the System's normal cost is 13.87% of payroll. The plan had assets in excess of actuarial accrued liabilities of \$399,379,232 as of this date. The assets in excess of



accrued liabilities will be used to cover the difference between normal cost and contributions in the future.

### **Law Enforcement and Custodial Officer Supplemental Retirement Plan**

The Law Enforcement and Custodial Officer Supplemental Retirement System covers statutorily certified custodial officers employed by the Department of Criminal Justice - Institutional Division who have planned contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50 with 20 years of service or with reduced benefits once they complete 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The total monthly benefit is equal to a percentage of final average compensation multiplied by years and months of service. Final average compensation is equal to the average of the highest 36 months of salary out of the member's established service. The percentage value used to calculate benefits is the rate of the employee class plus 0.5% subject to a maximum of 100%. The monthly benefit payable from this fund is equal to the excess of the total benefit, as described above, over the regular benefit payable to the member from the Employees Retirement System. Employees are required to make contributions to this fund at the rate of a regular state employee.

For the bienniums ending August 31, 1995 and August 31, 1997, the state has not and will not be required to contribute to this fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement.

The entry age actuarial cost method was used to perform the August 31, 1997, actuarial valuation. For the plan in effect on September 1, 1997, the fund's nor-

mal cost is 2.28% of payroll. The plan had assets in excess of actuarial accrued liabilities of \$105,656,250. The assets in excess of accrued liabilities will be used to cover the difference between normal cost and contributions in the future.

### **Judicial Retirement System of Texas Plans One and Two**

The Judicial Retirement System of Texas Plans One and Two cover 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 August 31, 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. 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 at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50% of the salary for the position from which the member retired increased by 10% of final compensation if in office within one year of benefit commencement.

State law requires employees to contribute 6 % of their compensation and the state to make appropriations from the General Revenue Fund sufficient to administer the *Judicial Retirement System Plan One*. The system is funded on a pay-as-you-go basis. The contribution requirements are not actuarially determined. There are no actuarial valuations and, therefore, no actuarial cost method.

The funding policy of the *Judicial Retirement System Plan Two* requires contributions by members and the state. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the pension benefit obligation. For the 1997 fiscal year, the required contribution by the state is 16.83% of payroll.

The entry age actuarial cost method was used to perform the August 31, 1997, actuarial valuation. For the plan in effect on September 1, 1997, the System's normal cost was 22.14% of payroll. The plan had an unfunded actuarial accrued liability of \$4,259,871. The unfunded actuarial accrued liability at the August 31, 1997 valuation date will be fully amortized 21.09 years from the August 31, 1997 valuation date.

### Teacher Retirement System of Texas

The Teacher Retirement System of Texas is the administrator of a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employer (unless the employer is a senior college, medical school, or a state agency in which case the employer is considered the State of Texas) but are the liability of the State of Texas. The Teacher Retirement System of Texas administers retirement, proportional retirement, disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. The benefit and contribution provisions of this plan are authorized by state law and may be amended by the Texas Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code Title 8, Section 822.002, are covered by the system.

A member is vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met. The normal service retirement is at age 65 with five years of service, age 60 with 20 years of service, and age 50 with 30 years of service. Reduced service requirement is age 55 with five years of service and any age below 50 with 30 years of service. The standard life annuity benefit formula is 2% of average annual salary for the best three years of service multiplied by the years of service. At normal retirement age, the minimum monthly standard annuity is the greater of \$150, or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

At August 31, 1997, the number of participating employing districts was as follows:

|   |              |
|---|--------------|
| Public Schools                              | 1,092        |
| Colleges, Universities, and Medical Schools | 98           |
| Educational State Agencies                  | 5            |
| Total                                       | <u>1,195</u> |

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy:

The State Constitution requires the Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than ten percent of the aggregate annual compensation of all members of the System during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

For fiscal year 1997, the state's contribution rate is 6% of active member payroll and the member's contribution rate is 6.4%. For the plan in effect on September 1, 1997, normal cost was 11.03% of covered

payroll. Contributions are sufficient to meet normal costs and the unfunded accrued liability of \$145,850,791 will be funded over a period of .6 years according to the actuarial evaluation performed August 31, 1997.

### Fire Fighters' Pension Commission

The Fire Fighters' Pension Commission is the administrator of the Fire Fighters' Relief and Retirement Fund, a cost-sharing multiple-employer pension system established and administered by the State of Texas to provide pension benefits for fire fighters who serve without pay. Senate Bill No. 411, 65th Legislature, Regular Session, created The Fire Fighters' Relief and Retirement Fund and established contribution and benefit provisions. At August 31, 1997, there were 144 member fire departments participating in the pension system.

The funding policy requires monthly contributions of at least \$12 for each member fire fighter. This amount was not actuarially determined. Additional contributions by the member fire departments may be necessary to pay for unfunded prior service costs, and

also to pay for "buy backs" of vested contributions required by the state.

Eligible members include volunteer fire fighters who are members in good standing of a qualifying fire fighting unit. Members are vested, beginning with the fifth year of service, at 5% per year of service for the first 10 years and 10% for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times his governing body's average contribution over his years of service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7% compounded annually.

The fund had assets in excess of pension benefit obligations of \$9,070,000 as of August 31, 1997 based on the actuarial evaluation performed August 31, 1996. Actuarial evaluations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include

| Retirement Systems' Membership   |                |                |               |            |            |              |
|--|----------------|----------------|---------------|------------|------------|--------------|
|  | TRS            | ERS            | LECO          | JRS1       | JRS2       | FPC**        |
| Retirees and Beneficiaries Currently Receiving Benefits  | 158,421        | 37,912         | 2,290         | 441        | 12         | 871          |
| Terminated Employees Entitled to Benefits But Not Yet Receiving Them   | 7,163          | 27,578         | 6             | 42         | 40         | 1,147        |
| Current Employees:   |                |                |               |            |            |              |
| Fully Vested   | 393,687        | 84,172         | 1,175         | 155        | 6          |              |
| Non-Vested   | 285,062        | 75,094         | 39,461        | 10         | 353        |              |
| Vested and Non-Vested  |                |                |               |            |            | 3,987        |
| Total Members  | <u>844,333</u> | <u>224,756</u> | <u>42,932</u> | <u>648</u> | <u>411</u> | <u>6,005</u> |
| Annual Covered Payroll<br>(In Thousands)*  | \$ 17,044,480  | \$ 4,523,229   | \$ 1,169,568  | \$ 14,845  | \$ 35,034  | \$ 0         |
| <p>* Total payroll amounts are substantially the same as covered payroll.</p> <p>** This total does not include 799 retirees and beneficiaries that have been in the TLFFRA (Texas Local Firefighters Retirement Act) fund before merging into S.B. 411.</p> |                |                |               |            |            |              |

## Funding Status - All Public Employee Retirement Systems

(In Thousands)

|   | TRS           | ERS           | LECO       | JRS1         | JRS2      | FPC       | TOTAL         |
|---|---------------|---------------|------------|--------------|-----------|-----------|---------------|
| Pension Benefit Obligation:   |               |               |            |              |           |           |               |
| Annuitants Currently Receiving Benefits and Terminated Employees Not Yet Receiving Benefits | \$ 22,853,179 | \$ 4,737,068  | \$ 136,198 | \$ 254,578   | \$ 5,162  | \$ 8,964  | \$ 27,995,149 |
| Current Employees:  |               |               |            |              |           |           |               |
| Accumulated Employee Contributions*   | 11,501,590    | 2,294,420     |            | 10,016       | 10,774    |           | 13,816,800    |
| Employer-Financed Vested  | 14,569,933    | 3,951,474     | 49,095     | 78,218       | 1,363     | 4,098     | 18,654,181    |
| Employer-Financed Non Vested  | 1,014,166     | 258,127       | 145,841    | 3,039        | 27,929    | 2,993     | 1,452,095     |
| Total Pension Benefit Obligation  | \$ 49,938,868 | \$ 11,241,089 | \$ 331,134 | \$ 345,851   | \$ 45,228 | \$ 16,055 | \$ 61,918,225 |
| Net Assets Available for Benefits, at Fair Value**  | \$ 62,160,928 | \$ 14,752,157 | \$ 551,124 |              | \$ 48,447 | \$ 25,125 | \$ 77,537,781 |
| Assets in Excess of Pension Benefit Obligation  | \$ 12,222,060 | \$ 3,511,068  | \$ 219,990 |              | \$ 3,219  | \$ 9,070  |               |
| Unfunded Pension Benefit Obligation   |               |               |            | \$ (345,851) |           |           |               |
| Change in Pension Benefit Obligation Due to Assumption Changes                              | \$ (195,859)  | —             | —          | —            | —         | —         | \$ (195,859)  |
| Change in Pension Benefit Obligation Due to Legislative Changes                             | \$ 1,761,276  | \$ 943,831    | \$ (4,072) | —            | —         | —         | \$ 2,701,035  |

\* Includes allocated investment income for TRS

\*\* Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Fair value presentation is a change from book value due to the implementation of GASB Statement 25.

a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

### Funding Status and Progress

The amount shown above as pension benefit obligation is a standardized disclosure measure of the present value of credited pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The pension benefit obligation is the actuarial present value of credited projected benefits and is intended to help users assess the systems' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due,

and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the systems. The pension benefit obligation is based on the projected unit credit actuarial cost method; therefore, it is not consistent with the annual actuarial valuation results. The pension benefit obligation is a disclosure requirement of the Governmental Accounting Standards Board and should not be confused with the information from the actuarial valuation.

The pension benefit obligation as of August 31, 1997, for each system is based on the plan in effect on that date. The significant actuarial assumptions used to determine the pension benefit obligation as of August 31,

## Actuarial Assumptions

|   | TRS          | ERS          | LECO         | JRS1  | JRS2  | FPC*** |
|---|--------------|--------------|--------------|-------|-------|--------|
| Rate of Return on Present and Future Assets Compounded Annually | 8.00%        | 8.00%        | 8.00%        | 8.00% | 8.00% | 8.25%  |
| Salary Increases:*  |              |              |              |       |       |        |
| Inflation   | 4.00%        | 4.00%**      | 4.00%        | 4.00% | 6.00% | —      |
| Merit, Promotion and Longevity Rates                            | Graded Rates | Graded Rates | Graded Rates | 2.50% | 0.50% | —      |
| Combined  | —            | —            | —            | 6.50% | 6.50% | —      |
| Payroll Growth:   |              |              |              |       |       |        |
| Across the Board  | 4.00%        | 4.00%        | 4.00%        | 4.00% | 4.00% | —      |
| Merit, Promotion, and Longevity                                 | —            | 1.00%        | 0.50%        | 2.50% | 2.50% | —      |
| Growth in Employees   | —            | —            | —            | —     | —     | —      |
| Post-Retirement Benefit Increases for:                          |              |              |              |       |       |        |
| Employee Class Members  | —            | —            | —            | —     | —     | —      |
| Elected Class Members   | —            | 6.00%        | —            | —     | —     | —      |
| Judicial Class Members  | —            | —            | —            | 6.00% | —     | —      |
| Administrative Expense (Percentage of Assets)                   | —            | 0.15%        | 0.15%        | —     | 0.50% | —      |

\* Average salary increase represents non-legislators only.

\*\* The inflation rate for the elected class is 4%.

\*\*\* Benefits are not based on the salaries of members.

1997, are the same as those used to prepare the actuarial valuations except that the calculation of the pension benefit obligation excludes the payroll growth assumption. Significant actuarial assumptions are presented on the following pages.

### Contributions Required and Contributions Made

All statutorily required contributions to the pension funds were made in fiscal year 1997. The table on the following page summarizes contribution information for all pension plans for the past three years.

### Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten year historical information designed to provide information about the progress made in accumulating sufficient assets to pay benefits when due as presented in the annual financial report for the Fire Fighters' Pension Commission.

Included in the audited financial reports for the Employees Retirement and Judicial Retirement Systems of Texas and the Teacher Retirement System of Texas are:

- (1) Schedules of funding progress that includes 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 of the employer (ARC) and the contributions made by the employers in relation to the ARC.

The tables on the following page present three-year trend information, except for employer contributions, expressed as percentages of annual covered payroll which are presented in the pension contribution table.

## Pension Contributions

|  | TRS              | ERS            | LECO          | JRS1              | JRS2****     | FPC*****     |
|--|------------------|----------------|---------------|-------------------|--------------|--------------|
| Contributions Made:  |                  |                |               |                   |              |              |
| By Employees**   | \$ 1,020,444,733 | \$ 255,190,711 |               | \$ 905,025        | \$ 1,857,910 |              |
| % of Current Year<br>Covered Payroll<br>(Statutorily Required) | 6.4%             | 6.0%           |               | 6.0%              | 6.2%         |              |
| By Employers   | \$ 956,666,937   | \$ 251,310,122 | \$ 0          | \$ 15,344,064 *** | \$ 5,125,172 | \$ 1,377,042 |
| % of Current Year<br>Covered Payroll*                          |                  |                |               |                   |              |              |
| 1997   | 6.00%            | 6.00%          | 0.00%         | 107.70%           | 17.00%       | N/A          |
| 1996   | 6.00%            | 6.10%          | 0.00%         | 94.40%            | 16.80%       | N/A          |
| 1995   | 7.31%            | 6.45%          | 0.00%         | 72.80%            | 15.20%       | N/A          |
| Total Contributions  | \$ 1,977,111,670 | \$ 506,500,833 | \$ 0          | \$ 16,249,089     | \$ 6,983,082 | \$ 1,377,042 |
| % of Current Year<br>Covered Payroll                           | 12.40%           | 12.00%         | 0.00%         | 113.70%           | 23.20%       | N/A          |
| Normal Costs   | \$ 1,759,629,386 | \$ 627,230,327 | \$ 26,633,293 | N/A               | \$ 7,757,662 | \$ 738,327   |
| % of Current Year<br>Covered Payroll                           | 11.03%           | 13.87%         | 2.28%         | N/A               | 22.14%       | N/A          |
| Amortization of<br>Unfunded Liability                          | \$ 217,482,284   | N/A            | N/A           | \$ 343,332,619    | \$ 4,259,871 | N/A          |
| % of Current Year<br>Covered Payroll                           | 1.37%            | N/A            | N/A           | 2,312.8%          | 12.20%       | N/A          |

\* Contribution requirements for JRS2 are actuarially determined. TRS's and ERS's contribution requirements based on actuarial evaluations are established by state statute.

\*\* This amount may differ slightly from the statutorily required contribution amounts due to "buy backs" of vested benefits.

\*\*\* The state's contribution is shown as \$16,249,089 in ERS's audited Annual Financial Report. Member contributions are credited directly to General Revenue. The total contribution to the system is made directly from General Revenue; therefore, ERS considers the state contribution to be the total contribution.

\*\*\*\* The plan had an unfunded actuarial accrued liability of \$4,259,871. Because the total contribution does not exceed the normal cost, no amortization of the unfunded liability will occur during fiscal year 1998.

\*\*\*\*\* FPC normal cost is based upon 8-31-96 actuarial valuation since FPC does valuations every other year.

## Analysis of Funding Progress

| Three Year<br>Trend  | TRS     | ERS    | JRS1       | JRS2   | LECO   | FPC    |
|--|---------|--------|------------|--------|--------|--------|
| Net Assets Available for Benefits Expressed as a % of the Pension Benefit Obligation (Percentage Funded):      |         |        |            |        |        |        |
| 1997   | 124.5%  | 131.2% | 0.0%       | 107.1% | 166.4% | 156.0% |
| 1996*  | 110.4%  | 127.2% | 0.0%       | 106.7% | 150.4% | 128.0% |
| 1995   | 88.6%   | 107.5% | 0.0%       | 95.1%  | 164.9% | 104.4% |
| Assets in Excess of Pension Benefit Obligation(PBO)/(Unfunded) PBO Expressed as a % of Annual Covered Payroll: |         |        |            |        |        |        |
| 1997   | 71.7%   | 77.6%  | (2,329.7)% | 9.2%   | 18.8%  | N/A    |
| 1996*  | 29.5%   | 64.3%  | (1,749.0)% | 7.7%   | 14.4%  | N/A    |
| 1995   | (32.0)% | 17.5%  | (1,439.3)% | (5.1)% | 15.3%  | N/A    |

\* The significant difference in fiscal year 1996 ERS and TRS was due to the change from book value to fair value presentation as a result of the implementation of GASB Statement 25. FPC implemented GASB 25 in fiscal year 1997.

## Note 10

### Deferred Compensation

The state's deferred compensation plan complies with the Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary un-

til future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, all property and rights purchased with those amounts and all

income attributed to those amounts, property, or rights are solely the property and rights of the state, subject only to the claims of the state's general creditors. Participant's rights under the plan are equal to those of the general creditors of the state in an amount equal to the fair market value of the deferred compensation account for each participant.

The state has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The state believes it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

The deferred compensation plan balances are recorded in an agency fund at market value. The balance sheet displays the plan assets with a corresponding liability to employees for deferred compensation and accumulated earnings thereon. The market value as of August 31, 1997, of the aggregate deferred compensation plan assets and corresponding liability was \$285,748,090.

The state also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the state nor does the state have a liability related to this plan.

## Note 11

### Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state administers four programs which provide certain health care and life insurance benefits for retired employees, their spouses, and beneficiaries. Benefits are authorized by statute and contributions are determined by the General Appropriation Act.

The Employees Retirement System (ERS) administers the program for retirees under the jurisdiction of ERS or the Teacher Retirement System (TRS). Retirees with at least 10 years of state service are eligible for

health care and life insurance benefits. Public school district retirees are not eligible for this program. Retirees who elected to participate in the Optional Retirement Program are also eligible for these benefits, providing that contributions have not been withdrawn.

For the year ended August 31, 1997, the state contributed the following amounts monthly for health care and life insurance for state employee retirees covered by ERS and TRS: "Retiree Only", \$186.31; "Retiree and Spouse", \$292.13; "Retiree and Children", \$257.16; and "Retiree and Family", \$362.98. Additionally, 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.

The University of Texas System and the Texas A&M University System provide separate post-employment health care and life insurance coverages to their retirees, surviving spouses, and their beneficiaries.

TRS administers a program which 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) provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles of \$1,800 with Part A Medicare and \$4,500 without. Funding for free basic coverage is provided based upon public school district payroll. The State of Texas and active school employee contribution rates are .50% and .25% of school district payroll respectively.

The cost of state retirees' health care and life insurance benefits and the Texas Public School Retired Employees' Group Insurance Program (TRS-Care) is 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.

Expenditures recognized for fiscal year 1997 for retiree health and life insurance benefits paid for by the state are shown on the following page.

## Post Employment Health Care and Life Insurance

| <b>Benefits Provided Through:</b>                               | <b>Number of Retirees</b> | <b>Cost*</b>      |
|---|---------------------------|-------------------|
| Employee Retirement System                                      | \$ 46,423                 | \$ 114,397        |
| University of Texas System                                      | 8,218                     | 12,270            |
| Texas A&M University System                                     | 4,301                     | 14,030            |
| Teacher Retirement System<br>(Public School District Employees) | <u>117,606</u>            | <u>67,616</u>     |
| Total   | <u>\$ 176,548</u>         | <u>\$ 208,313</u> |

\* In thousands

## Note 12

### Interfund Transactions

Accruals resulting from transactions between the governmental organizations of the state are recorded as Interfund Transactions. Short-term loans are classified as Interfund Receivables and Interfund Payables.

Long-term loans are classified as Advances From and Advances To Other Funds. Due From and Due To Other Funds include accrued quasi-external transactions, reimbursements, and transfers. Interagency transactions occurring within the same fund have been eliminated. The detail of these accruals by fund type as of August 31, 1997, is below:

### Interfund Balances

(In Thousands)

| <b>Fund Type</b>  | <b>Due From</b> | <b>Due To</b>  | <b>Interfund<br/>Receivables</b> | <b>Interfund<br/>Payables</b> | <b>Advances<br/>From</b> | <b>Advances<br/>To</b> |
|---|-----------------|----------------|----------------------------------|-------------------------------|--------------------------|------------------------|
| General   | \$178,536       | \$ 347,891     | \$ 56                            | \$                            | \$                       | \$ 13,606              |
|   | <u>178,536</u>  | <u>347,891</u> | <u>56</u>                        |                               |                          | <u>13,606</u>          |
| Special Revenue:  |                 |                |                                  |                               |                          |                        |
| Available School Fund   | 133,389         | 4              | 711                              |                               |                          |                        |
| State Highway Fund  | 315             | 2,238          |                                  | 520                           |                          |                        |
| Veterans Land Board Loan Program Fund                         | 1,090           | 1,095          |                                  |                               |                          |                        |
| Water Development Fund  |                 | 2              |                                  |                               |                          |                        |
| Telecommunications Infrastructure Fund                        |                 |                | 9                                |                               |                          |                        |
| Water Assistance Fund   |                 | 112            |                                  |                               |                          |                        |
| Agriculture Trust Fund  |                 | 122            |                                  |                               |                          |                        |
| Other Special Revenue Funds                                   | <u>2,555</u>    | <u>1,839</u>   |                                  | <u>279</u>                    |                          |                        |
|   | <u>137,349</u>  | <u>5,412</u>   | <u>720</u>                       | <u>799</u>                    | <u>0</u>                 | <u>0</u>               |
| Debt Service:   |                 |                |                                  |                               |                          |                        |
| Student Loan Revenue Bond Fund                                | 248             |                |                                  |                               |                          |                        |
| Economically Distressed Area Interest<br>and Sinking Fund     | <u>2</u>        |                |                                  |                               |                          |                        |
|   | <u>250</u>      | <u>0</u>       | <u>0</u>                         | <u>0</u>                      | <u>0</u>                 | <u>0</u>               |
| Capital Projects:   |                 |                |                                  |                               |                          |                        |
| General Services Commission Office Building<br>Project Funds  | 51,749          |                |                                  |                               |                          |                        |
| Tx. Public Finance Authority Administration<br>Project Funds  |                 | 75,377         |                                  |                               |                          |                        |
| Tx. National Guard Armory Board Project Funds                 |                 | 140            |                                  |                               |                          |                        |
| Tx. Mental Health and Retardation Facilities<br>Project Funds | 10,520          | 1,002          |                                  |                               | 3,512                    |                        |
| Tx. Youth Commission Facilities Project Funds                 | 10,262          |                |                                  |                               |                          |                        |
| Tx. Department of Criminal Justice Prison<br>Project Funds    | 8,640           |                |                                  |                               |                          |                        |
| Tx Parks & Wildlife Project Funds                             |                 | 1              | 23                               |                               |                          |                        |
|   | <u>81,171</u>   | <u>76,520</u>  | <u>23</u>                        | <u>0</u>                      | <u>3,512</u>             | <u>0</u>               |

(continued)



# Interfund Balances (concluded)

(In Thousands)

| Fund Type                                       | Due From         | Due To            | Interfund<br>Receivables | Interfund<br>Payables | Advances<br>From | Advances<br>To   |
|---|------------------|-------------------|--------------------------|-----------------------|------------------|------------------|
| Expendable Trust:                               |                  |                   |                          |                       |                  |                  |
| Unemployment Trust Fund                         | \$ 61,360        | \$ 59,116         | \$                       | \$                    | \$               | \$               |
| Manufactured Homeowners Recovery Trust Fund     |                  | 38                |                          |                       |                  |                  |
| Children's Trust Fund                           |                  | 411               |                          |                       |                  |                  |
| State Employees Cafeteria Plan Trust Fund       |                  | 143               |                          |                       |                  |                  |
| Other Expendable Trust Funds                    |                  | 11                |                          |                       |                  |                  |
|   | <u>61,360</u>    | <u>59,719</u>     | <u>0</u>                 | <u>0</u>              | <u>0</u>         | <u>0</u>         |
| Enterprise:                                     |                  |                   |                          |                       |                  |                  |
| Texas Lottery                                   |                  | 171,255           |                          |                       |                  |                  |
| Texas Dept. of Housing & Community Affairs      | 5                |                   |                          |                       |                  |                  |
| Texas Water Development Board                   |                  |                   |                          |                       |                  |                  |
| Primary Government                              | 5,561            | 6,806             |                          |                       |                  |                  |
| Texas Turnpike Authority                        | 75               |                   |                          |                       |                  |                  |
| Other Enterprise Funds                          | 114              | 1                 |                          |                       |                  |                  |
|   | <u>5,755</u>     | <u>178,062</u>    | <u>0</u>                 | <u>0</u>              | <u>0</u>         | <u>0</u>         |
| Internal Service Funds:                         |                  |                   |                          |                       |                  |                  |
| Employee Insurance Benefit Fund                 | 192              | 337               |                          |                       |                  |                  |
|   | <u>192</u>       | <u>337</u>        | <u>0</u>                 | <u>0</u>              | <u>0</u>         | <u>0</u>         |
| NonExpendable:                                  |                  |                   |                          |                       |                  |                  |
| Permanent School Fund                           | 4                | 133,543           |                          |                       |                  |                  |
|   | <u>4</u>         | <u>133,543</u>    | <u>0</u>                 | <u>0</u>              | <u>0</u>         | <u>0</u>         |
| Pension Trust Funds:                            |                  |                   |                          |                       |                  |                  |
| State Employee Retirement System                |                  |                   |                          |                       |                  |                  |
| Trust Account Fund                              | 484              | 125               |                          |                       |                  |                  |
| Law Enforcement and Custodial Officer           |                  |                   |                          |                       |                  |                  |
| Supplement Retirement Fund                      |                  | 83                |                          |                       |                  |                  |
| Judicial Retirement System Plan Two Trust Fund  |                  | 11                |                          |                       |                  |                  |
| Tx Statewide Emergency Svc. Persons             |                  |                   |                          |                       |                  |                  |
| Retirement Trust Fund                           | 1                |                   |                          |                       |                  |                  |
| Deferred Compensation Administrative Trust Fund | 25               | 4                 |                          |                       |                  |                  |
| TexaSaver Administrative Trust Fund             |                  | 4                 |                          |                       |                  |                  |
|   | <u>510</u>       | <u>227</u>        | <u>0</u>                 | <u>0</u>              | <u>0</u>         | <u>0</u>         |
| General Long Term Debt                          |                  |                   |                          |                       |                  |                  |
| General Long Term Debt Account Group            |                  |                   |                          |                       | 3,363            |                  |
|   | <u>0</u>         | <u>0</u>          | <u>0</u>                 | <u>0</u>              | <u>3,363</u>     | <u>0</u>         |
| Agency Funds:                                   |                  |                   |                          |                       |                  |                  |
| General Revenue Fund                            | 74,358           |                   |                          |                       |                  |                  |
| Holding Trust Fund                              |                  | 442               |                          |                       |                  |                  |
| Departmental Suspense Fund                      |                  | 357               |                          |                       |                  |                  |
| County/Political Subdivision Road Trust Account |                  | 260               |                          |                       |                  |                  |
| Other Agency Funds                              | 375              | 3,385             |                          |                       |                  |                  |
|   | <u>74,733</u>    | <u>4,444</u>      | <u>0</u>                 | <u>0</u>              | <u>0</u>         | <u>0</u>         |
| Colleges and Universities:                      |                  |                   |                          |                       |                  |                  |
| Educational and General Funds                   | 197,617          | 23,708            |                          |                       | 1,460            |                  |
| Designated Funds                                | 53,752           | 37,188            |                          |                       | 3,252            |                  |
| Auxiliary Enterprise Funds                      | 1,498            | 1,298             |                          |                       |                  |                  |
| Restricted Funds                                | 36,789           | 14,043            |                          |                       |                  |                  |
| Loan Funds                                      | 158              | 3,476             |                          |                       |                  |                  |
| Endowment Funds                                 |                  | 26,125            |                          |                       |                  |                  |
| Unexpended Plant Funds                          | 67,033           | 1,279             |                          |                       |                  |                  |
| Renewal and Replacement Funds                   | 13,674           | 7                 |                          |                       |                  |                  |
| Retirement of Indebtedness Funds                | 4,596            | 1,890             |                          |                       |                  |                  |
| Investment in Plant                             |                  |                   |                          |                       | 2,019            |                  |
| Agency Funds                                    | 5                | 378               |                          |                       |                  |                  |
|   | <u>375,122</u>   | <u>109,392</u>    | <u>0</u>                 | <u>0</u>              | <u>6,731</u>     | <u>0</u>         |
| Component Units:                                |                  |                   |                          |                       |                  |                  |
| Governmental                                    |                  |                   |                          |                       |                  |                  |
| Other Component Unit                            | 375              | 347               |                          | 1,054                 |                  |                  |
|   | <u>375</u>       | <u>347</u>        | <u>0</u>                 | <u>1,054</u>          | <u>0</u>         | <u>0</u>         |
| Proprietary                                     |                  |                   |                          |                       |                  |                  |
| Primary Government                              | 43               |                   |                          |                       |                  |                  |
| Other Component Unit                            | 592              | 98                | 1,054                    |                       |                  |                  |
|   | <u>635</u>       | <u>98</u>         | <u>1,054</u>             | <u>0</u>              | <u>0</u>         | <u>0</u>         |
| Totals  | <u>\$915,992</u> | <u>\$ 915,992</u> | <u>\$ 1,853</u>          | <u>\$ 1,853</u>       | <u>\$ 13,606</u> | <u>\$ 13,606</u> |

## Fund Balances and Retained Earnings - Reserved and Designated

Fund Balances and Retained Earnings - Reserved and Designated \*

\* A 1997 classification change was made for fund balance reservations. Reserve Accounts are limited to funds which are not available for appropriation. This includes encumbrances, inventories, imprest accounts, advances, trust, pledged, local, and constitutionally dedicated funds. (Refer to fund equity section of Note 1)

## Note 14

### Adjustments to Fund Balances/Retained Earnings

During fiscal year 1997, certain accounting changes and adjustments were made which required the restatement of fund balances or retained earnings as shown and discussed below:

- A. These are miscellaneous restatements and other changes necessary to correct for accounting errors in the prior period that resulted in either a reclassification of fund type or the over or understatement of revenues and/or expenditures.
- B. Activity that was previously reported in the General Fund is now being reported in a Proprietary Fund.
- C. Activity that was previously reported in a Special Revenue Fund is now being reported within the General Fund.
- D. Activity that was previously reported in an Agency Fund is now being reported within the General Fund.
- E. Fund erroneously not reported in 1996.

- F. The adoption of GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, resulted in a change from reporting investments at cost to reporting investments at fair market value. A restatement was necessary to reflect the fair market value of investments included in the beginning fund balance.
- G. Correction in presentation of federal grant program.

## Note 15

### Contingent Liabilities

The state has been named as defendant in routine legal proceedings which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into six categories to facilitate disclosures.

#### Restatements of Fund Balances/Retained Earnings

(In Thousands)

|  | General Fund      | Other Governmental Funds | Proprietary Funds   | Fiduciary Funds     | Colleges and Universities | Discrete Component Units | Total                 |
|--|-------------------|--------------------------|---------------------|---------------------|---------------------------|--------------------------|-----------------------|
| Fund Balances/Retained Earnings, September 1, 1996             | \$ 375,032        | \$ 3,998,218             | \$ 1,352,461        | \$74,268,861        | \$ 19,687,727             | \$ 853,173               | \$ 100,535,472        |
| Restatements:  |                   |                          |                     |                     |                           |                          |                       |
| A.   | (15,485)          | (10,617)                 | 953                 | (9,027)             | 32,632                    | (32)                     | (1,576)               |
| B.   |                   | (135)                    | 135                 |                     |                           |                          | 0                     |
| C.   | 12,185            | (12,185)                 |                     |                     |                           |                          | 0                     |
| D.   | 1,477             |                          |                     |                     |                           |                          | 1,477                 |
| E.   |                   | 238                      |                     |                     |                           |                          | 238                   |
| F.   |                   |                          |                     | 2,177               |                           |                          | 2,177                 |
| G.   |                   |                          |                     |                     |                           | (812)                    | (812)                 |
| Net Restatements   | (1,823)           | (22,699)                 | 1,088               | (6,850)             | 32,632                    | (844)                    | 1,504                 |
| Fund Balances/Retained Earnings, September 1, 1996 as Restated | <u>\$ 373,209</u> | <u>\$ 3,975,519</u>      | <u>\$ 1,353,549</u> | <u>\$74,262,011</u> | <u>\$ 19,720,359</u>      | <u>\$ 852,329</u>        | <u>\$ 100,536,976</u> |

### **Protested Tax Payments**

The State Comptroller's Office, at August 31, 1997, had received maintenance taxes, premium taxes, surtaxes, franchise taxes, sales, insurance, and various other fees under protest. Total protested deposits amounted to \$85,827,553. Plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, and pipeline utility taxes totaling \$290,703,807. The outcome of this litigation cannot be determined. Additionally, protested gas utilities gross receipts tax amounted to \$976,967 which is deposited to the Departmental Suspense Account by the Railroad Commission. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

### **Unpaid Claims and Lawsuits**

A variety of cases with claims totaling \$1,688,302,986 have been filed which 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 which may be significant to individual state agencies. The Texas Department of Public Safety is involved in numerous lawsuits and faces a potential liability of \$65,600,000. The Texas Department of Insurance is involved in several lawsuits and have identified potential liabilities of up to \$14,197,104. The Texas Natural Resource Conservation Commission faces a potential liability of \$5,250,000 from contractual claims and lawsuits. The Texas Department of Transportation faces a potential liability of \$407,319,740 from litigation and contractual claims. The Texas Department of Mental Health and Mental Retardation has identified lawsuits with a potential liability of \$36,243,753. The Texas Workers' Compensation Commission is facing a potential liability of \$23,500,000 from lawsuits.

### **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 from federal drawdowns. The Water Development Board has made loan commitments totaling \$251,632,172 as of August 31, 1997.

### **Federal Assistance**

The Texas Department of Human Services has received notice of \$18,092,913 in potential sanctions from the federal government. These sanctions and audit exceptions were generated due to noncompliance with requirements for Food Stamp and AFDC eligibility, and could result in future reductions in federal cost reimbursements. The Audit Resolution Unit indicates that federal grantor agency audits identified questioned costs for which the Texas Workforce Commission is contingently liable in the amount of \$14,026,249. Texas Southern University could also face potential refunds to its federal grantor agency or reductions in future cost reimbursements of \$13,603,625. This amount was identified by the United States Department of Education as a result of the University's noncompliance with federal requirements for its student financial assistance programs.

The state also receives other federal financial assistance which 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 disallowances as a result of the audits may become a liability of the state. The state estimates that the ultimate disallowances pertaining to these grants, if any, 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 investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities 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.

## Guaranteed Debt

At August 31, 1997, \$11,055,177,806 in debt had been guaranteed for 1059 issues in 519 school districts in the state.

# Note 16

## Subsequent Events

The State of Texas obtained a settlement in January of 1998 in its lawsuit against the tobacco industry for the state's costs of providing health care to those afflicted with tobacco-related health problems. Under the terms of the settlement, Texas will receive \$15.3 billion over 25 years.

In order to create more responsible and efficient state government, the 75th Legislature, Regular Session, moved several programs among state agencies and created new state agencies. These changes were effective September 1, 1997.

The State Office of Risk Management was created to administer the government employees' workers' compensation insurance and the state risk management programs. These functions were previously performed by the Office of the Attorney General and the Texas Workers' Compensation Commission.

The administration for Oil Overcharge Funds was moved from the Governor's Office to the General Services Commission.

The Department of Insurance is now responsible for the State Fire Marshal's Office, which is charged with inspecting and providing technical assistance to fire departments. These functions were previously performed by the Texas Commission on Fire Protection.

The Texas Department of Commerce was abolished. All activities, assets, liabilities, facilities, and contracts were assumed by the newly created Texas Department of Economic Development. The Capital Certified Development Corporation became a private corporation and will no longer be included in the activities of the Texas Department of Economic Development.

The National Guard Armory Board's name has been changed to the Texas Military Facilities Commission.

The Texas Turnpike Authority became a division of the Texas Department of Transportation except for certain functions left locally as the North Texas Tollway Authority. The State Auditor's Office determined that the North Texas Tollway Authority should pay \$14,760,056 in funds that belong to the Texas Turnpike Authority Division of the Texas Department of Transportation.

The Texas Healthy Kids Corporation (Corporation) was created as a non-profit corporation to provide health benefits for primary and preventive health care for children. The Corporation received both direct appropriations and start-up funding through the Texas Department of Insurance.

The Council on Sex Offender Treatment was made a department within the Texas Department of Health.

The Capital Access Fund was created to provide loan loss reserves to banks for loans to small and medium sized businesses and non-profit organizations.

The funding comes from transferring excess funds from the Texas Exporters Loan Fund and the Texas Rural Economic Development Fund.

On November 5, 1997, a constitutional amendment was approved by the voters of the State of Texas to allow the Texas Water Development Board to transfer existing bond authorizations between the categories of water supply, water quality, flood control, or state participation. This will maximize the use of existing funds and allow a more efficient operation of the bond programs.

Pursuant to GASB Statement No. 31, investments which had been carried on the books at cost were restated to market value on September 1, 1997, and fund balances were adjusted accordingly.

State agencies have issued or have been authorized to issue over \$1.3 billion in new bonds and commercial paper since August 31, 1997. This routine activity finances juvenile correction programs, state facilities, the State History Museum, public health laboratory project, housing assistance programs, water quality programs, and refunding of tollways.

## Note 17

### Related Parties

Many of the colleges, universities, and state agencies included in this report have foundations, alumni associations, or affiliated organizations which were established for the purpose of benefiting or working on behalf of these state entities. The Texas A&M Foundation coordinates private support for Texas A&M University and the Texas A&M System component members. The Foundation provided \$17.6 million in financial support in the fiscal year ended August 31, 1997.

## Note 18

### Budgetary-GAAP Reporting Reconciliation

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a

#### Reconciliation of Budgetary Basis to GAAP (In Thousands)

|   | General           | Special Revenue   | Totals            |
|---|-------------------|-------------------|-------------------|
| Excess (Deficits) of Revenues, Expenditures and Other Sources (Uses) - Budgetary Basis  | \$ 411,196        | \$ 214,457        | \$ 625,653        |
| Basis Differences:  |                   |                   |                   |
| Receivables, Deferred Revenues and Deferred Charges   | 195,410           | (13,683)          | 181,727           |
| Timing Differences:   |                   |                   |                   |
| Encumbrances - Net  | 58,384            | 54,424            | 112,808           |
| Perspective Differences:  |                   |                   |                   |
| Agency Fund Receipts Reported As Revenue  | (58,663)          |                   | (58,663)          |
| Agency Fund Disbursements Reported As Expenditures  | 58,663            |                   | 58,663            |
| Entity Differences:   |                   |                   |                   |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Unbudgeted Funds, Programs, and Activities |                   | 50,074            | 50,074            |
| Totals - GAAP Basis   | <u>\$ 664,990</u> | <u>\$ 305,272</u> | <u>\$ 970,262</u> |

budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of these differences is required and is presented below.

The major reconciling items are due to the following:

### **Basis Differences**

Revenues are prepared on the cash basis of accounting. Expenditures are reported on the accrual basis except that they are adjusted for beginning and ending encumbrances as discussed under Timing Differences. The GAAP Statements are presented on the modified accrual basis of accounting. Therefore, deferred revenues, receivables, and deferred charges are included as reconciling items.

### **Timing Differences**

Encumbrances outstanding at year end represent commitments to expend current year funds in a subsequent year. Therefore, beginning and ending encumbrances are included as reconciling items.

### **Perspective Differences**

Appropriated expenditures include certain funds reported in the Agency Fund type. The budgeted activity for these fund types has been included in the Budget Statement.

### **Entity Differences**

Revenue and appropriated budgets are not adopted for some Special Revenue funds that are reported on the GAAP Statements. These funds are not included in the Budget Statement.

### **Variances**

Differences between budget and actual data are due to unbudgeted actual transactions including interfund transfers and authorized expenditures paid

from receipts in excess of the estimated appropriated revenue.

The following expenditure categories had variances and are detailed by expenditure function in General Revenue and by individual fund in Special Revenue.

### **Variances - Expenditures in Excess of Appropriations by Function for General Fund**

- **General Government Expenditures (GR)** - Actual expenditures include expenditures authorized by the Legislature that are not included in the expenditure budget. These amounts include \$137 million for the purpose of paying interest relating to tax and revenue anticipation notes issued by the Treasury. An additional \$80 million of expenditures in the Department of Information Resources relates to expenditures for purchases of goods and services sold to other state agencies.

### **Variances - Expenditures in Excess of Appropriations (by Fund) for Special Revenue Funds**

- **Available School Fund** - The variance of \$58 million was offset primarily by a \$168 million appropriation transfer-in from the Foundation School Fund. Such transfers of funding within appropriations are permitted, but are not budgeted. Appropriations are allocated between these two funds and the appropriation transfer-in was necessary to adjust the initial allocation.
- **State Highway Fund** - The variance of \$47 million is a result of allowing expenditures to be made above budgeted expenditures from the beginning cash balance in the fund. Such increases in expenditure authority are not included in budgeted expenditures since the budgeted beginning cash balance is included in Other Financing Sources. In fiscal year 1997, the fund's budget

was increased by \$97 million to be financed from the beginning cash balance.

- **Other Special Revenue Funds** - The \$51 million total variance is due to additional authorized expenditures in the State Textbook Fund. The expenditures are funded by approximately \$69 million from prior year unexpended balances.

## Note 19

### Segment Information for Enterprise Funds

The State of Texas has 11 enterprise funds. The nature of the goods and services produced by each of these funds is described below:

**Texas Prepaid Higher Education Tuition Board - Texas Tomorrow Fund** offers a program which allows Texas families to lock in the cost of

tomorrow's college tuition and required fees at today's prices.

**The Texas Lottery**, created by statute, operates lottery games for the State of Texas. Net proceeds from the Lottery are deposited to an unobligated General Fund.

**The Texas Department of Housing and Community Affairs** enterprise funds are comprised of the *Revenue Bonds Fund*, *RTC Compliance Fund*, and *Housing Programs Fund*. The Revenue Bonds Fund issues revenue bonds and uses the proceeds to increase the availability of safe and affordable housing to persons and families with low to moderate incomes. The department also has contracted with RTC to provide monitoring of multi-family properties. The RTC Compliance Fund accounts for the receipt of the monitoring fees and the cost to provide the monitoring services. The Housing Programs Fund focuses on increasing the availability of affordable housing for very low and low to moderate income persons and families.

### Segment Information for Enterprise Funds For the Year Ended August 31, 1997 (In Thousands)

|   | <b>Texas Prepaid<br/>Higher Education<br/>Tuition Board</b> | <b>Texas<br/>Lottery</b> | <b>Texas<br/>Department of<br/>Housing and<br/>Community<br/>Affairs</b> | <b>Texas<br/>Hospital<br/>Equipment<br/>Financing<br/>Council</b> | <b>Texas<br/>Water<br/>Development<br/>Board</b> |
|---|---|--------------------------|--|---|--|
| Operating Revenues                                    | \$ 197,364  | \$ 3,760,506             | \$ 95,054  | \$ 540  | \$ 125,974                                       |
| Depreciation and Amortization                         | 5   | 1,044                    | 707  |   | 437  |
| Operating Income (Loss)                               | 1,659   | 1,179,215                | 3,991  | 28  | 43,019   |
| Operating Transfers-In                                |   |                          |  |   | 1,082  |
| Operating Transfers-Out                               |   | (1,179,798)              |  |   | (6,369)  |
| Net Income (Loss)                                     | 1,812   |                          | 8,027  | 28  | 39,099   |
| Net Working Capital                                   | 153,630   | 26,166                   | 71,009   | 9,807   | 332,530  |
| Total Assets  | 486,118   | 385,662                  | 1,263,012  | 11,331  | 2,261,718  |
| Fund Equity   | 2,869   | 20,172                   | 67,813   | 148   | 936,586  |
| Bonds Payable and Other<br>Long-Term Liabilities      | 481,810   |                          | 1,145,327  | 11,150  | 1,310,169  |
| Property, Plant, and Equipment:                       |   |                          |  |   |  |
| Additions   | 20  | 2,576                    | 352  |   |  |
| Deletions   |   |                          |  |   |  |
| Current Capital Contribution,<br>and Transfers        |   |                          |  |   | 68,636   |
| Operating Grants, Entitlements<br>and Shared Revenues |   |                          |  |   |  |



**The Texas Hospital Equipment Financing Council** issues revenue bonds to finance or refinance the cost of certain health related equipment by participating health care facilities in the State of Texas.

**The Texas Water Development Board - *The Texas Water Development Funds, Agricultural Water Conservation Funds, and Water Pollution Control Revolving Funds*** issue general obligation debt, and use advances from revenue bond proceeds and capitalization grants from the Federal Government to provide financial assistance to political subdivisions in the State of Texas for water-related projects.

**The Texas Turnpike Authority** issues revenue bonds to finance the construction, maintenance, repair, and operation of Texas toll roads and bridges. The bonds are payable from tolls and other pledged revenues of the Authority.

**The Texas Department of Criminal Justice - Institutional Division** enterprise fund accounts for the

proceeds of commissary operations and other miscellaneous revenues.

The following four agencies are included in the Other Enterprise Funds column in the financial tables.

**The General Services Commission Surplus Property Fund** distributes federal government surplus personal property to eligible public agencies and non-profit educational and public health institutions in Texas.

**The Texas Department of Commerce - *The Texas Economic Development Program*** is an economic development bank that gives eligible Texas cities a funding source to make loans to local businesses for new business recruitment.

**The Parks and Wildlife Foundation of Texas, Inc.** is a non-profit corporation created to assist the Texas Parks and Wildlife Department in projects such as acquiring, restoring, and endowing public land sites.

Segment Information for Enterprise Funds (concluded)  
For the Year Ended August 31, 1997 (In Thousands)

|   | Texas<br>Turnpike<br>Authority | Texas<br>Department<br>of Criminal<br>Justice | Other<br>Enterprise<br>Funds | Primary<br>Government<br>Totals | Component<br>Units | Grand<br>Total |
|---|--------------------------------|---|------------------------------|---------------------------------|--------------------|----------------|
| Operating Revenues                                    | \$ 55,973                      | \$ 51,017                                     | \$ 8,150                     | \$ 4,294,578                    | \$ 654,431         | \$ 4,949,009   |
| Depreciation and Amortization                         |                                | 314   | 119                          | 2,626                           | 16,328             | 18,954         |
| Operating Income (Loss)                               | 44,149                         | 589   | 647                          | 1,273,297                       | 71,694             | 1,344,991      |
| Operating Transfers-In                                |                                |   | 115                          | 1,197                           |                    | 1,197          |
| Operating Transfers-Out                               |                                |   | (383)                        | (1,186,550)                     | (1,583)            | (1,188,133)    |
| Net Income (Loss)                                     | 25,761                         | 2,160   | 637                          | 77,524                          | 87,996             | 165,520        |
| Net Working Capital                                   | 19,370                         | 20,402  | 4,300                        | 637,214                         | 27,937             | 665,151        |
| Total Assets  | 1,157,147                      | 24,438  | 11,655                       | 5,601,081                       | 2,130,645          | 7,731,726      |
| Fund Equity   | 208,866                        | 21,413  | 5,311                        | 1,263,178                       | 895,468            | 2,158,646      |
| Bonds Payable and Other                               |                                |   |                              |                                 |                    |                |
| Long-Term Liabilities                                 | 916,115                        |   | 5,400                        | 3,869,971                       | 944,076            | 4,814,047      |
| Property, Plant, and Equipment:                       |                                |   |                              |                                 |                    |                |
| Additions   | 59,139                         | 462   | 271                          | 62,820                          | 6,958              | 69,778         |
| Deletions   |                                | (88)  | (42)                         | (130)                           | (1,193)            | (1,323)        |
| Current Capital Contribution,<br>and Transfers        |                                |   |                              | 68,636                          |                    | 68,636         |
| Operating Grants, Entitlements<br>and Shared Revenues |                                |   |                              |                                 |                    |                |

**The Texas Preservation Board Capitol Gift Shops Enterprise Fund** - accounts for the Board's operations of the Capitol Gift Shop and the Capitol Bookstore.

The following agencies are included in the Component Units column in the financial tables.

**Texas Agricultural Finance Authority** was created by the Texas Legislature as a public authority within the Department of Agriculture and provides financial assistance for the expansion, development, and diversification of producing, processing, marketing, and exporting of Texas agricultural products.

**The Texas Economic Development Corporation (TEDC)** was created to assist, promote, develop, and advance international trade and domestic business in the State of Texas.

**The Texas Small Business Industrial Development Corporation (TSBIDC)** was chartered in 1983 under the Development Corporation Act of 1979 to enhance commercial opportunities throughout the State of Texas.

**The Capital Certified Development Corporation (CCDC)** was created as a non-profit corporation to assist and promote growth and the development of small business in the State of Texas pursuant to the Small Business Investment Act.

**The Texas Water Resources Finance Authority** was created by the Texas Legislature in 1987 for the purpose of increasing the availability of financing for water-related projects.

**The Texas State Affordable Housing Corporation** was established to provide services and assist in the elimination of the causes of poverty through the development of programs designed to promote home ownership and improve the conditions under which people live.

**The State Bar of Texas** has two enterprise funds. *The Book Fund* publishes and prints legal text for sale

to members. *The Tex-Lex Fund* provides access to a database of legal information for member use.

**The Texas Workers' Compensation Insurance Fund** was created and authorized by statute to issue workers' compensation insurance in Texas.

**The Texas Guaranteed Student Loan Corporation** processes loans submitted for guarantee, issues loan guarantees, provides collection assistance to lenders for delinquent loans, pays lender claims for loans in default, and collects loans on which default claims have been paid.

**The Surplus Lines Stamping Office** was created by the Texas Legislature to assist the Texas Department of Insurance in the regulation of surplus lines insurance. The Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the office.

**The M.D. Anderson Cancer Center Outreach Corporation's** mission is to benefit the University of Texas M.D. Anderson Cancer Center (UTMDACC) through whatever means determined by the Board of Directors, including, but not limited to, making distributions or providing services to UTMDACC. The corporation emphasizes clinical, educational, and scientific aspects of cancer care.

**The Texas Universities Health Plan, Inc.** is a non-profit corporation organized and administered for the purpose of assisting and acting on behalf of the University of Texas System in the establishing and operating of a health maintenance organization.

## Note 20

### Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

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 that have been incurred, but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

The Texas Employees Uniform Group Insurance Program (UGIP) provides health, life, accidental death and dismemberment (AD&D), disability, and dental insurance coverage to state and higher education employees, retirees, and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization (HMO) contracts. Effective September 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The UGIP also includes HMO's to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMO's. The state retains no risk beyond the payments of premiums. The life, AD&D, and disability insurance coverages are provided with Blue Cross and Blue Shield of Texas, Inc. under a fully-insured contract on a full transfer of risk basis. In fiscal year 1993 the ERS

contracted two dental plans, the dental maintenance organization (DMO) and the indemnity plan. Both plans are fully insured with all risk transferred to the respective carriers.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health, and medical malpractice on a funded or pay-as-you-go basis. These self-insurance plans are reported in the Designated Fund under the Unrestricted Current Fund. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported) but unpaid 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. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liabilities balances during fiscal years ending August 31, 1996 and August 31, 1997:

| <b>Changes in Claims Liability Balances</b><br>For the Years Ending August 31, 1996 and August 31, 1997 (In Thousands) |                              |                  |                  |                           |
|--|------------------------------|------------------|------------------|---------------------------|
|  | <b>Beginning<br/>Balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>Balance</b> |
| 1997   | \$ 677,295                   | \$ 1,250,128     | \$ 1,106,293     | \$ 821,130                |
| 1996   | \$ 867,873                   | \$ 1,029,198     | \$ 1,219,776     | \$ 677,295                |

## Note 21

### 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. Collectibility 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 August 31, 1997, the re-determination hearings process had an estimated \$991 million of which \$687 million was applicable to illegal drug tax cases.

## Note 22

### Component Units

Component Units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units are reported for the year ended August 31, 1997 unless indicated otherwise. Complete financial statements of the component units which issued separate financial statements can be obtained from their respective administrative offices. The component units of the state are as follows:

#### Blended Component Units

The state is financially accountable for these legally separate entities. These component units are reported as if they were 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 Special Revenue Funds with the financial data of the state.

**Facilities Financing Corporations** are private non-profit corporations associated with the Texas Department of Criminal Justice. The corporations are created to finance the construction of prison units within the state. These prison units are built under the lease purchase finance method as approved by the Texas Board of Criminal Justice. The following corporations have issued bonds which are outstanding as of August 31, 1997:

- Lockhart Correctional Facilities Finance Corporation
- Texas Correctional Facilities Finance Corporation
- East Texas Criminal Justice Facilities Finance Corporation
- Texas Community Detention Facilities Finance Corporation

**Texas Turnpike Authority** is an agency of the State of Texas authorized by the Texas Turnpike Authority Act to construct, maintain, and operate turnpike projects, and to issue turnpike revenue bonds. The state is financially accountable for the agency through board appointment and imposition of will. Nine of the twelve members of the Board of Directors are appointed by the Governor. Under the terms of the Act, the revenue bonds issued by the Authority shall not be deemed to constitute a debt or a pledge of the faith and credit of the state. The Turnpike Authority is reported for the year ended December 31, 1996.

**The Parks and Wildlife Foundation of Texas, Inc.** was incorporated in 1991 as a non-profit corporation to assist the Parks and Wildlife Department in carrying out its authorized purposes as set forth in the Texas Parks and Wildlife Code. The Foundation is governed by a group of trustees; the majority of whom are appointed by the Chairman of the Texas Parks and Wildlife Department. The Foundation is reported for the year ended April 30, 1997.

**Texas Transportation Corporations** were created to perform many functions normally undertaken by the Texas Department of Transportation. The corporations are legally separate, however, the Department exercises sufficient authority over assets, operations, and management to warrant their inclusion in the state's reporting entity. The combined financial transactions of the corporations have been presented in the special revenue funds.

**Special Purpose Corporations** are established for the purpose of holding title to property acquired through foreclosure or deed in lieu of foreclosure in order to protect the Teacher Retirement System's investments. These corporations remit the profits from the management and sale of the property to the System. Corporate directors are subject to appointment and removal by the Board of Trustees. Since these corporations serve solely the interest of the System, their financial transactions are blended into the System's financial statements.

### **Texas General Land Office**

**School Land Board** consists of the Commissioner of the Texas General Land Office, who serves as chairman; a citizen of the state appointed by the Governor; and a citizen of the state appointed by the Attorney General. The Board is in charge of the sale and lease of Permanent School Fund land under Texas Natural Resource Code, Chapter 32.

**Boards for Lease** consists of the Commissioner of the Texas General Land Office, who serves as chair; a citizen of the state appointed by the Governor; and the president or chairman of the board or agency or head of the department charged with the responsibility of the management or control of land owned by or held in trust for the use and benefit of the department, agency, or board. The Board is in charge of leasing land owned or held in trust for the use and benefit of the agency under Texas Natural Resource Code, Chapter 34. The agencies currently under the Boards for

Lease are the Texas Parks and Wildlife Department and the Texas Department of Criminal Justice.

**Coastal Coordination Council** consists of the Commissioner of the Texas General Land Office, who serves as the chair; the chair of the Texas Parks and Wildlife Commission; the chair of the Texas Natural Resource Conservation Commission; a member of the Railroad Commission; and two gubernatorial appointees who serve two-year terms. The two appointees consist of a local elected official and a coastal resident. The Texas General Land Office is the lead agency for assisting the Council. The Council has been charged by the Legislature (Texas Natural Resource Code, Chapter 33, Subchapter F) with overseeing the development and implementation of the Texas Coastal Management Plan.

**Texas Recycling Market Development Board** was created to identify incentives and disincentives for creating recycling markets in Texas, to analyze the state's waste management policies and existing and potential markets for recyclable materials, to develop public education projects, and to establish a comprehensive statewide strategy to expand recycling markets. The Texas General Land Office is to provide ongoing research and assistance to the Board. The four-member Board includes the Commissioner of the Texas General Land Office, the Chairman of the Texas Natural Resource Conservation Commission, the Executive Director of the General Services Commission, and the Executive Director of the Texas Department of Commerce.

**Friends of the Texas Historical Commission, Inc.** is a legally separate entity created exclusively for the support and benefit of, and to assist in carrying out the authorized purposes of the Texas Historical Commission. The Friends of the Texas Historical Commission is governed by a nine member board, eight of whom are appointed by the Commissioners of the Texas Historical Commission. The remaining one

board member is appointed by the other board member themselves.

## **Colleges and Universities**

**Foundations of Colleges & Universities** are legally separate organizations which have been included in the financial statements due to board appointment and fiscal accountability with the university. These foundations are listed with the university with which they are associated. The financial data of these components can be obtained through the universities noted.

### **Texas A&M University System**

Texas A&M Research Foundation  
The Stiles Farm Foundation  
The Heep Foundation  
The Ardella Helm Estate

### **The University of Texas System**

Hogg Foundation for Mental Health  
Ima Hogg Foundation  
Robertson Poth Foundation  
Winedale Stagecoach Inn  
Law Publications, Inc.  
University Care Plus  
Continuing Legal Education, Inc.  
U.T. Southwestern Health Systems, Inc.  
East Texas Quality Care Network  
Family Healthcare Centers, Inc  
M. D. Anderson Physician's Network  
Physician's Referral Service Trust Fund  
U.T.H.S.C. at San Antonio University  
Physician's Group  
The University of Texas Investment  
Management Company

### **Texas Tech University**

Texas Tech University Foundation  
Texas Tech University Research Foundation

### **Texas Tech University Health Science Center**

Texas Tech Medical Foundation  
Texas Tech Physicians Associates

## **Discrete Component Units**

The state is financially accountable for these legally separate entities; however, they do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely reported in the Component Unit's column of the combined financial statements. Documentation of their financial data is maintained in the Comptroller's files or at the agency on whose report they were presented.

**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 the public responsibilities of the legal profession are more 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, 1997.

**Texas Guaranteed Student Loan Corporation** is a public non-profit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the Governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one time appropriation of \$1.5 million to fund initial startup operations. The Corporation is reported for the year ended September 30, 1997.

**Texas Workers' Compensation Insurance Fund (Fund)** is a corporate body created to sell workers' compensation insurance in the state. The Fund's Board of Directors is composed of nine members appointed by the Governor and confirmed by the Senate. The state is financially accountable for the Fund; the

Fund was capitalized by a \$300 million bond issue authorized by state law. The Fund is reported for the year ended December 31, 1996.

**Texas Appraiser Licensing and Certification Board (TALCB)** was statutorily created as an independent subdivision of the Texas Real Estate Commission and is a legally separate entity from the primary government. The board members of the TALCB are appointed by the Governor. The Texas Real Estate Commission (TREC) provides administrative support to TALCB, but has no authority to approve or modify the TALCB's budget or to set their fees. Although TALCB is not fiscally dependent on TREC, to exclude them would result in presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Therefore, they are presented as a discrete component unit of the State of Texas.

**Texas State Affordable Housing Corporation (TSAHC)** was incorporated under the Texas Non-Profit Corporation Act and is legally separate from the state. The Corporation is governed by a nine-member board consisting of board members of the Department of Housing and Community Affairs as appointed by the Governor with the advice and consent of the Senate. The Corporation was established to provide services and assistance in eliminating poverty or causes of poverty through the development of programs designed to promote home ownership and improve the conditions under which people live. Since the governing body of TSAHC is not substantively the same as that of the state, and TSAHC benefits primarily the Texas citizens, it is presented as a discrete component unit in the financial statements of the State of Texas.

**Surplus Lines Stamping Office (Office)** is a non-profit corporation created by the Texas Legislature to assist the Texas Department of Insurance in the regulation of surplus lines insurance. The Commissioner of Insurance appoints the board. The Office assesses each surplus lines insurance agent a stamping

fee for the administrative funding of the Office. The Department of Insurance sets the fee amount to be assessed the agents. The Office is reported for the year ended December 31, 1996.

**The Texas Economic Development Corporation (TEDC)** was created to assist, promote, develop, and advance economic development in the State of Texas. TEDC, a non-profit corporation, assumes all of the assets, liabilities, equity, and activities of the Texas Economic Development Foundation. TEDC is not fiscally dependent on the Texas Department of Commerce, however, it would be misleading to exclude them from the primary government's financial statements. The Texas Department of Commerce's Policy Board members serve as the directors of the TEDC. The entity's services primarily benefit the Texas citizenry.

**Texas Small Business Industrial Development Corporation (TSBIDC)** was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the State of Texas. The Texas Department of Commerce (Department) is the oversight agency for TSBIDC and is its reporting entity. The Department's Policy Board members serve ex officio as the directors of the TSBIDC; however, the services provided by this entity are not solely for the benefit of the Department.

**The Capital Certified Development Corporation (CCDC)** was created as a non-profit corporation to assist and promote growth and the development of small businesses in the State of Texas pursuant to the Small Business Investment Act. The Texas Department of Commerce (Department) is authorized by statute to enter into a management agreement with the CCDC to perform day-to-day activities of the corporation. CCDC is fiscally dependent on the Department but does not provide services exclusively for it.

**Texas Agricultural Finance Authority (TAFA)** was created by the Texas Legislature as a public authority within the Department of Agriculture. Seven of

the nine members of the Board of Directors are appointed by the Governor with the advice and consent of the Senate. The Commissioner of Agriculture administers the Authority with the assistance of the Board. The Authority was created for the purpose of providing financial assistance for the expansion, development, and diversification of agricultural businesses.

**The Texas Water Resources Finance Authority** was created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. The Authority is governed by a Board of Directors composed of the six members of the Texas Water Development Board. The Authority's operations are wholly managed by the Board through a sales and servicing agreement.

**M.D. Anderson Cancer Center Outreach Corporation** (Outreach) is governed by a body appointed by the president of University of Texas M. D. Anderson Cancer Center (UTMDACC). Outreach's mission is to benefit UTMDACC by providing, directly or indirectly, assistance and benefits, financial or otherwise, to UTMDACC through whatever means are determined by the Board of Directors, including, but not limited to, making distributions or providing services to UTMDACC. In accomplishment of such purposes, the corporation will emphasize clinical, educational, and scientific aspects of cancer care throughout the United States and in foreign countries.

**The Texas Universities Health Plan, Inc.** (TUHP) is governed by a body appointed by the University of Texas System. TUHP is a non-profit corporation organized and administered for the purpose of assisting and acting on behalf of the University of Texas System in establishing and operating a health maintenance organization. The TUHP is reported for the year ended December 31, 1996.

## **Related Organizations**

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

### **Texas Department of Insurance**

**The Life, Accident, Health, and Hospital Service Industry Guaranty 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. The Commissioner shall appoint a board of directors of the association consisting of nine members.

**The Texas Health Insurance Risk Pool (Pool)** was created to provide access to quality health care at minimum cost to the public, to relieve the insurable population of the disruptive cost of sharing coverage, and to maximize reliance on strategies of managed care proven by the private sector. The Pool is governed by a Board of Directors composed of nine members appointed by the Commissioner. The Pool is not currently active.

**The Texas Title Insurance Guaranty Association** was created for the purpose of providing funds for the protection of holders of "covered claims." This shall apply to all title insurance written by title insurance companies authorized to do business in this state. The nine member Board of Directors shall be appointed by the Commissioner.

**The Texas Workers' Compensation Insurance Facility** was created for the purpose of providing workers' compensation coverages for employers in the state. The Commissioner shall appoint five voting members to represent members of the facility and four voting members shall be appointed by the Governor



with the advice and consent of the Senate to represent the general public. Funds of this state shall not be appropriated or expended for payment of any costs or expenses incurred in the operation or maintenance of the fund as administered by the Facility.

**The Texas Manufacturing Institute (Institute)** consists of governmental agencies, educational institutions, and other entities involved in the promotion of manufacturing throughout the state. The Institute is governed by a policy board composed of one member appointed by each member institution. There is no benefit or burden relationship between the Institute and the state as reported by the Texas Department of Commerce.

**The Texas Growth Fund (Fund)** was created with investment from several state agencies for the purpose of encouraging economic development in the state. The Fund is managed by a Board of Trustees consisting of four public members appointed by the Governor and one member from and elected by the membership of the Boards of Regents of the University of Texas System and the Texas A&M University System, The Boards of Trustees of the Teacher Retirement System and the Employees Retirement System of Texas, and the Texas State Board of Education.

**College and University Foundations** are legally separate organizations which are affiliated with the universities either through board appointment or through the programs and services provided to the universities. These foundations are established to support programs of, or perform functions for, the universities

with which they are associated. The larger foundations are listed below with the associated universities. Other foundations meeting the same criteria are not specifically identified.

**The University of Texas System**

Business School Foundation  
Law School Foundation  
University of Texas Foundation  
Ex-student's Association

**Texas A&M University System**

Texas A&M University Development Foundation  
Texas A&M University Kingsville Foundation  
Tarleton State University Foundation  
Texas A&M University-Corpus Christi  
Foundation  
West Texas A&M University Foundation  
Texas A&M University at Galveston  
Development Foundation  
Texas A&M International University Foundation

**University of Houston System**

University of Houston Foundation  
The UHS Foundation  
The University of Houston College of  
Business Foundation  
The University of Houston Law Foundation  
The Association for Community Television  
The University of Houston Alumni Organization

