



ANNUAL FINANCIAL REPORT

FISCAL YEAR 2016

September 1, 2015 – August 31, 2016





State Office of Risk Management

300 W. 15TH, AUSTIN, TEXAS 78701 / P.O. BOX 13777, AUSTIN, TEXAS 78711-3777
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Ladies and Gentlemen:

TOMAS GONZALEZ

We are pleased to submit the annual financial report of the State Office of Risk Management for the year ended August 31, 2016, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Texas Comptroller of Public Accounts.

EXECUTIVE
DIRECTOR:

STEPHEN S.
VOLLBRECHT, J.D.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) 34, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the state auditor as part of the audit of the State of Texas *Comprehensive Annual Financial Report* (CAFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Stuart B. Cargile at (512) 936-1523.

Sincerely,

Stephen S. Vollbrecht
J.D., M.A., AINS, AIS, PCP
State Risk Manager, Executive Director

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EXHIBITS

EXHIBIT I
COMBINED BALANCE SHEET / STATEMENT OF NET POSITION - Governmental Funds
For the Fiscal Year Ended August 31, 2016

	GOVERNMENTAL FUND TYPES	GOVERNMENTAL FUNDS TOTAL
	GENERAL	TOTAL
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 3):		
Cash on Hand	\$	\$
Cash in Bank	4,500.00	4,500.00
Legislative Appropriations	4,326,119.26	4,326,119.26
Interfund Receivables (Note 12)		
Consumable Inventories		
Prepaid Items	12,338.51	12,338.51
Total Current Assets	4,342,957.77	4,342,957.77
Non-Current Assets:		
Capital Assets (Note 2)		
Depreciable		
Furniture and Equipment		
Less Accumulated Depreciation		
Amortized Assets - Intangible:		
Computer Software		
Less Accumulated Amortization		
Total Non-Current Assets	0.00	0.00
TOTAL ASSETS	\$ 4,342,957.77	\$ 4,342,957.77
LIABILITIES AND FUND BALANCES		
Current Liabilities:		
Payables from:		
Accounts Payable	\$ 77,434.23	\$ 77,434.23
Payroll Payable	682,380.83	682,380.83
Interfund Payable (Note 12)		
Employees' Compensable Leave (Note 5)		
Claims and Judgments (Note 5)		
Total Current Liabilities	759,815.06	759,815.06
Non-Current Liabilities:		
Employees' Compensable Leave (Note 5)		
Claims and Judgments (Note 5)		
Total Non-Current Liabilities	0.00	0.00
TOTAL LIABILITIES	\$ 759,815.06	\$ 759,815.06

State Office of Risk Management (479)
Unaudited

CAPITAL ASSETS ADJUSTMENTS	LONG-TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF NET POSITION
\$	\$	\$	\$
			0.00
			4,500.00
			4,326,119.26
			0.00
			0.00
			12,338.51
0.00	0.00	0.00	4,342,957.77
264,409.20			264,409.20
(205,102.27)			(205,102.27)
16,451.60			16,451.60
(16,451.60)			(16,451.60)
59,306.93	0.00	0.00	59,306.93
\$ 59,306.93	\$ 0.00	\$ 0.00	\$ 4,402,264.70
\$	\$	\$	\$
			77,434.23
			682,380.83
			0.00
	293,705.36		293,705.36
	41,268,000.00		41,268,000.00
0.00	41,561,705.36	0.00	42,321,520.42
	203,472.71		203,472.71
	55,523,888.08		55,523,888.08
0.00	55,727,360.79	0.00	55,727,360.79
\$ 0.00	\$ 97,289,066.15	\$ 0.00	\$ 98,048,881.21

EXHIBIT I (concluded)

COMBINED BALANCE SHEET / STATEMENT OF NET POSITION - Governmental Funds

For the Fiscal Year Ended August 31, 2016

	<u>GOVERNMENTAL FUND TYPES</u>	<u>GOVERNMENTAL FUNDS TOTAL</u>
	<u>GENERAL</u>	
FUND FINANCIAL STATEMENT		
FUND BALANCES (DEFICITS):		
Nonspendable	\$ 12,338.51	\$ 12,338.51
Committed	3,570,804.20	3,570,804.20
TOTAL FUND BALANCES	<u>\$ 3,583,142.71</u>	<u>\$ 3,583,142.71</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,342,957.77</u>	<u>\$ 4,342,957.77</u>

GOVERNMENT-WIDE STATEMENT OF NET POSITION

Net Position:

Invested Capital Assets, Net of Related Debt

Unrestricted

Total Net Position

State Office of Risk Management (479)
Unaudited

CAPITAL ASSETS ADJUSTMENTS	LONG-TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF NET POSITION
\$	\$	\$	\$ 12,338.51
			3,570,804.20
			\$ 3,583,142.71
59,306.93	(97,289,066.15)		59,306.93
\$ <u>59,306.93</u>	\$ <u>(97,289,066.15)</u>	\$ <u>0.00</u>	\$ <u>(93,646,616.51)</u>

EXHIBIT II
COMBINED STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND
BALANCE / STATEMENT OF ACTIVITIES - Governmental Funds
For the Fiscal Year Ended August 31, 2016

	GENERAL	GOVERNMENTAL FUNDS TOTAL
REVENUES:		
Legislative Appropriations:		
Original Appropriations Revenue (GR)	\$	\$
Additional Appropriations Revenue (GR)	60,934.65	60,934.65
Licenses, Fees and Permits (PR)	1,382.00	1,382.00
Sales of Goods and Services (PR)	623,990.04	623,990.04
Other Revenues (GR)	48,454,684.17	48,454,684.17
Total Revenues	\$ 49,140,990.86	\$ 49,140,990.86
EXPENDITURES		
Salaries and Wages	\$ 6,238,137.23	\$ 6,238,137.23
Payroll Related Costs	1,983,949.31	1,983,949.31
Professional Fees and Services	1,253,929.91	1,253,929.91
Travel	163,285.94	163,285.94
Materials and Supplies	260,852.19	260,852.19
Communication and Utilities	63,208.16	63,208.16
Repairs and Maintenance	37,352.04	37,352.04
Rentals and Leases	22,030.06	22,030.06
Printing and Reproduction	6,102.75	6,102.75
Claims and Judgments	38,578,787.95	38,578,787.95
Other Expenditures	1,151,310.23	1,151,310.23
Depreciation and Amortization Expense		
Total Expenditures/Expenses	\$ 49,758,945.77	\$ 49,758,945.77
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (617,954.91)	\$ (617,954.91)
OTHER FINANCING SOURCES (USES):		
Sale of Capital Assets	\$	\$
Gain (Loss) on Sale of Capital Assets		
Inc (Dec) in Net Position Due to Interagency Transfer		
Total Other Financing Sources (Uses)	\$ 0.00	\$ 0.00
Net Change in Fund Balance/Net Position	\$ (617,954.91)	\$ (617,954.91)
Fund Financial Statement-Fund Balances		
Fund Balance - September 1, 2015	\$ 4,292,075.41	\$ 4,292,075.41
Restatements	(90,977.79)	(90,977.79)
Appropriation Lapsed		
FUND BALANCES - August 31, 2016	\$ 3,583,142.71	\$ 3,583,142.71

GOVERNMENT-WIDE STATEMENT OF NET POSITION

Net Position/Net Change in Net Position

Net Position, September 1, 2015

Restatements

Net Position, September 1, 2015 as Restated

Net Position, August 31, 2016

State Office of Risk Management (479)
Unaudited

CAPITAL ASSETS ADJUSTMENTS	LONG-TERM LIABILITIES ADJUSTMENTS	OTHER ADJUSTMENTS	STATEMENT OF ACTIVITIES
\$	\$	\$	\$ 0.00
			60,934.65
			1,382.00
			623,990.04
			<u>48,454,684.17</u>
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 49,140,990.86</u>
\$	\$ (24,543.99)	\$	\$ 6,213,593.24
			1,983,949.31
			1,253,929.91
			163,285.94
			260,852.19
			63,208.16
			37,352.04
			22,030.06
			6,102.75
	1,243,010.15		39,821,798.10
			1,151,310.23
<u>21,632.22</u>			<u>21,632.22</u>
<u>\$ 21,632.22</u>	<u>\$ 1,218,466.16</u>	<u>\$ 0.00</u>	<u>\$ 50,999,044.15</u>
<u>\$ (21,632.22)</u>	<u>\$ (1,218,466.16)</u>	<u>\$ 0.00</u>	<u>\$ (1,858,053.29)</u>
\$	\$	\$	\$ 0.00
			0.00
			0.00
<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
			<u>\$ (1,858,053.29)</u>
			\$ 4,292,075.41
			(90,977.79)
			0.00
			<u>\$ 2,343,044.33</u>
<u>(21,632.22)</u>	<u>(1,218,466.16)</u>	<u>0.00</u>	
80,939.15	(96,070,599.99)		(95,989,660.84)
<u>80,939.15</u>	<u>(96,070,599.99)</u>	<u>0.00</u>	<u>(95,989,660.84)</u>
<u>\$ 59,306.93</u>	<u>\$ (97,289,066.15)</u>	<u>\$ 0.00</u>	<u>\$ (93,646,616.51)</u>

EXHIBIT VI
COMBINED STATEMENT OF FIDUCIARY NET POSITION
For the Fiscal Year Ended August 31, 2016

	AGENCY FUNDS (Exhibit J-1)	TOTALS
ASSETS		
Current Assets:		
Cash in State Treasury	\$ 0.00	\$ 0.00
Total Current Assets	<u>0.00</u>	<u>0.00</u>
TOTAL ASSETS	<u>0.00</u>	<u>0.00</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	0.00	0.00
Funds Held For Others	<u>0.00</u>	<u>0.00</u>
Total Current Liabilities	<u>0.00</u>	<u>0.00</u>
TOTAL LIABILITIES	<u>0.00</u>	<u>0.00</u>
Total Net Position	<u>\$ 0.00</u>	<u>\$ 0.00</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ENTITY

The State Office of Risk Management (SORM) was created, effective September 1, 1997, to administer the government employees workers' compensation insurance and the state risk management programs. The functions previously performed by the Workers' Compensation Division of the Office of the Attorney General (OAG) and the functions previously performed by the Risk Management Division of the Texas Workers' Compensation Commission were consolidated to form this new agency. The State Office of Risk Management was administratively attached to the OAG so the OAG would provide facilities and administrative services for SORM. All records, equipment, and supplies in the custody of the Worker's Compensation Division of the Attorney General Office as it existed on August 31, 1997, were transferred to SORM during fiscal year 1998.

The financial records of the State Office of Risk Management comply with State statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

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

B. FUND STRUCTURE

The accompanying financial statements are presented on the basis of funds, each of which is considered a separate accounting entity.

GOVERNMENTAL FUND TYPES & GOVERNMENT-WIDE ADJUSTMENT FUND TYPES

General Fund

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those required to be accounted for in another fund.

FIDUCIARY FUND TYPES

Agency Funds

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

COMPONENT UNITS

No component units have been identified.

C. BASIS OF ACCOUNTING

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

Governmental fund types are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period that they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end.

The state of Texas considers receivables collected within 60 days after fiscal year-end to be available and recognizes them as revenues of the current year for fund financial statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types convert modified accrued basis to full accrued basis of accounting. The following activities are recognized in these fund types:

- Capital assets
- Accumulated depreciation
- Unpaid employee compensable leave
- The outstanding debt service principal and interest on long-term liabilities
- Capital leases
- Long-term claims and judgments
- Full accrual revenues and expenses
- Pension amounts in governmental activities

D. BUDGET AND BUDGETARY ACCOUNTING

The budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor (the General Appropriations Act).

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

E. ASSETS, LIABILITIES, AND FUND BALANCES/NET POSITION

ASSETS

Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Inventories

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally using the last-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental and proprietary fund types. The cost of these items is expensed when the items are used or consumed

Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all “exhaustible” assets. “Inexhaustible” assets (such as works of art and historical treasures) are not depreciated. Road and highway infrastructure is depreciated over the estimate of average useful life of a grouping of assets using composite method. Other depreciable assets are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated capital assets are reported at acquisition value. Depreciation is charged to operations over the estimated useful life of each asset using the straight-line method.

LIABILITIES

Accounts Payable

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

Other Payables

Other Payables are the accrual at year-end of expenditure transactions not included in any other payable descriptions. The major component is salaries.

Employees’ Compensable Leave Balances

Employees’ compensable leave balances represent the liability that becomes “due” upon the occurrence of relevant events such as resignations, retirements and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net position. These obligations are normally paid from the same funding source from which each employee’s salary or wage compensation was paid.

FUND BALANCE/NET POSITION

“Fund balance” is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the governmental fund statements. “Net position” is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources on the government-wide, proprietary and fiduciary fund statements.

Fund Balance Components

Fund Balance for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund financial statements.

Nonspendable

Nonspendable fund balance includes amounts not available to be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.

Restricted

Restricted fund balance includes those resources that have constraints placed on their use through external parties such as creditors, grantors, contributors, laws or regulations of other governments, or by law through constitutional provisions or enabling legislation.

Committed

Committed fund balance can be used only for specific purposes pursuant to constraints imposed through legislation passed into law by a formal action of the Texas Legislature, the state's highest level of decision making authority.

Assigned

Assigned fund balance includes amounts constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (1) the Texas Legislature or (2) a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Unassigned

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

Net Investment in Capital Assets

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

Restricted Net Position

Restricted net position results when constraints placed on net resources are either externally imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

INTERFUND ACTIVITIES AND BALANCES

The agency may have the following types of transactions between funds:

Transfers: Legally required transfers that are reported when incurred as "transfers in" by the recipient fund and as "transfers out" by the disbursing fund.

Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

Interfund Receivables and Payables: Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter, the balance is classified as “current.” Balances for repayment due in two or more years are classified as “noncurrent.”

Interfund Sales and Purchases – Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund (interfund services provided) and expenditures or expenses of the disbursing fund (interfund services used).

The composition of the agency interfund activities and balances are presented in Note 12, if applicable.

State Office of Risk Management (479)
Unaudited

NOTE 2: CAPITAL ASSETS

Revenue received from the sale of Surplus Property has been transferred to Unappropriated General Revenue in accordance with HB7, Sec. 20.

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

	PRIMARY GOVERNMENT							Balance 8/31/16
	Balance 9/1/15	Adjustments	Reclassifications			Additions	Deletions	
			Completed CPI	Inc-Int'agy Trans	Dec-Int'agy Trans			
Governmental Activity								
Depreciable Assets:								
Furniture and Equipment	\$ 289,025.52	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ (24,616.32)	\$ 264,409.20
Total Depreciable Assets at Historical Cost:	289,025.52	0.00	0.00	0.00	0.00	0.00	(24,616.32)	264,409.20
Less Accumulated Depreciation for:								
Furniture and Equipment	(208,086.37)	0.00	0.00	0.00	0.00	(21,632.22)	24,616.32	(205,102.27)
Total Accumulated Depreciation	(208,086.37)	0.00	0.00	0.00	0.00	(21,632.22)	24,616.32	(205,102.27)
Depreciable Assets, Net	<u>80,939.15</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(21,632.22)</u>	<u>0.00</u>	<u>59,306.93</u>
Amortizable Assets - Intangible:								
Computer Software	\$ 16,451.60	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 16,451.60
Total Amortizable Assets - Intangible	16,451.60	0.00	0.00	0.00	0.00	0.00	0.00	16,451.60
Less Accumulated Amortization for:								
Computer Software	(16,451.60)	0.00	0.00	0.00	0.00	0.00	0.00	(16,451.60)
Total Accumulated Amortization	(16,451.60)	0.00	0.00	0.00	0.00	0.00	0.00	(16,451.60)
Amortizable Assets - Intangible, Net	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Governmental Activities Capital Assets, Net:	<u>\$ 80,939.15</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (21,632.22)</u>	<u>\$ 0.00</u>	<u>\$ 59,306.93</u>

NOTE 3: DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS

Deposits of Cash in Bank

As of August 31, 2016, the carrying amount of deposits was \$4,500.00 as presented below.

Governmental and Business-Type Activities	
CASH IN BANK - CARRYING AMOUNT	\$ 4,500.00
Less: Certificates of Deposit included in carrying amount and reported as Cash Equivalent	0.00
Less: Uninvested Securities Lending Cash Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Less: Securities Lending CD Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Total Cash in Bank per AFR	\$ 4,500.00

Governmental Funds Current Assets Cash in Bank	\$ 4,500.00
Governmental Funds Current Assets Restricted Cash in Bank	0.00
Governmental Funds Non-Current Assets Restricted Cash in Bank	0.00
Proprietary Funds Current Assets Cash in Bank	0.00
Proprietary Funds Current Assets Restricted Cash in Bank	0.00
Proprietary Funds Non-Current Assets Restricted Cash in Bank	0.00
Cash in Bank per AFR	\$ 4,500.00

Fiduciary Funds	
CASH IN BANK - CARRYING AMOUNT	\$ 0.00
Less: Certificates of Deposit included in carrying amount and reported as Cash Equivalent	0.00
Less: Uninvested Securities Lending Cash Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Less: Securities Lending CD Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Total Cash in Bank per AFR	\$ 0.00
Fiduciary Funds Cash in Bank	\$ 0.00
Fiduciary Funds Restricted Cash in Bank	0.00
Cash in Bank per AFR	\$ 0.00

Discrete Component Unit	
CASH IN BANK - CARRYING AMOUNT	\$ 0.00
Less: Certificates of Deposit included in carrying amount and reported as Cash Equivalent	0.00
Less: Uninvested Securities Lending Cash Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Less: Securities Lending CD Collateral included in carrying amount and reported as Securities Lending Collateral	0.00
Total Cash in Bank per AFR	\$ 0.00
Discrete Component Unit Current Assets Cash in Bank	\$ 0.00
Discrete Component Unit Current Assets Restricted Cash in Bank	0.00
Discrete Component Unit Noncurrent Assets Restricted Cash in Bank	0.00
Cash in Bank Per AFR	\$ 0.00

These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net position as part of the "cash and cash equivalents" and "securities lending collateral" accounts.

As of Aug. 31, 2016, the total bank balance was as follows:

Governmental and Business-Type Activities	\$4,500.00	Fiduciary Funds	\$0.00	Discrete Component Units	\$0.00
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Investments

As of August 31, 2016, the fair value of investments was \$0.00 as presented below.

Governmental and Business-Type Activities	
	Fair Value
U.S. Government	
U.S. Treasury Securities	\$ 0.00
U.S. Treasury Strips	0.00
U.S. Treasury TIPS	0.00
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Salle Mae, etc.)	0.00
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co.)	0.00
Corporate Obligations	0.00
Corporate Asset and Mortgage-Backed Securities	0.00
Equity	0.00
International Obligations (Govt. and Corp.)	0.00
International Equity	0.00
Repurchase Agreement	0.00
Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)	0.00
Fixed Income Money Market and Bond Mutual Fund	0.00
Other Commingled Funds	0.00
International Other Commingled Funds	0.00
Other Commingled Funds (Texpool)	0.00
Commercial Paper	0.00
Real Estate	0.00
Derivatives	0.00
Alternative Investments	0.00
Misc. (Political Subdivision, bankers' acceptance, negotiable CD)	0.00
Total Investments	\$ 0.00
Reconciliation of Investments per Exhibits - Governmental and Business-Type Activities	0.00
Governmental Funds Current Assets Short-Term Investments	0.00
Governmental Funds Noncurrent Assets Investments	0.00
Proprietary Funds Current Assets Restricted Short-Term Investments	0.00
Proprietary Funds Noncurrent Assets Restricted Short-Term Investments	0.00
Investments per Exhibits	\$ 0.00

Fiduciary Funds	
	Fair Value
U.S. Government	
U.S. Treasury Securities	\$ 0.00
U.S. Treasury Strips	0.00
U.S. Treasury TIPS	0.00
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Salle Mae, etc.)	0.00
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co.)	0.00
Corporate Obligations	0.00
Corporate Asset and Mortgage-Backed Securities	0.00
Equity	0.00
International Obligations (Govt. and Corp.)	0.00
International Equity	0.00
Repurchase Agreement	0.00
Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)	0.00
Fixed Income Money Market and Bond Mutual Fund	0.00
Other Commingled Funds	0.00
International Other Commingled Funds	0.00
Other Commingled Funds (Texpool)	0.00

Commercial Paper	0.00
Securities Lending Collateral Investment Pool	0.00
Real Estate	0.00
Derivatives	0.00
Alternative Investments	0.00
Misc. (Political Subdivision, bankers' acceptance, negotiable CD)	0.00
Total Investments	\$ 0.00
Reconciliation of Investments per Exhibits - Fiduciary Funds	0.00
Fiduciary Funds Short-Term Investments	0.00
Fiduciary Funds Restricted Short-Term Investments	0.00
Investments per Exhibits	\$ 0.00

Discrete Component Unit	Fair Value
U.S. Government	
U.S. Treasury Securities	\$ 0.00
U.S. Treasury Strips	0.00
U.S. Treasury TIPS	0.00
U.S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Salle Mae, etc.)	0.00
U.S. Government Agency Obligations (Texas Treasury Safekeeping Trust Co.)	0.00
Corporate Obligations	0.00
Corporate Asset and Mortgage-Backed Securities	0.00
Equity	0.00
International Obligations (Govt. and Corp.)	0.00
International Equity	0.00
Repurchase Agreement	0.00
Repurchase Agreement (Texas Treasury Safekeeping Trust Co.)	0.00
Fixed Income Money Market and Bond Mutual Fund	0.00
Other Commingled Funds	0.00
International Other Commingled Funds	0.00
Other Commingled Funds (Texpool)	0.00
Commercial Paper	0.00
Securities Lending Collateral Investment Pool	0.00
Real Estate	0.00
Derivatives	0.00
Alternative Investments	0.00
Misc. (Political Subdivision, bankers' acceptance, negotiable CD)	0.00
Total Investments	\$ 0.00
Reconciliation of Investments per Exhibits - Discrete Component Units	0.00
Discretely Presented Component Units Current Assets Short-Term Investments	0.00
Discretely Presented Component Units Noncurrent Assets Short-Term Investments	0.00
Investments per Exhibits	\$ 0.00

NOTE 4: SHORT-TERM DEBT (Not Applicable)

NOTE 5: LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

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

<u>Governmental Activity</u>	<u>Balance 09/01/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 08/31/16</u>	<u>Amounts Due Within One Year</u>	<u>Amounts Due Thereafter</u>
Claims & Judgments	\$ 95,548,877.93	\$ 39,898,000.00	\$ 38,654,989.85	\$ 96,791,888.08	\$ 41,268,000.00	\$ 55,523,888.08
Compensable Leave	521,722.06	494,558.19	519,102.18	497,178.07	293,705.36	203,472.71
Total Governmental Activities	<u>\$ 96,070,599.99</u>	<u>\$ 40,392,558.19</u>	<u>\$ 39,174,092.03</u>	<u>\$ 97,289,066.15</u>	<u>\$ 41,561,705.36</u>	<u>\$ 55,727,360.79</u>

Claims & Judgments

The State of Texas is exposed to risks of loss related to injuries to state employees. Claims are filed by state employees through the State Office of Risk Management. The State does not carry commercial insurance, but instead, uses the General Revenue Fund to account for its risk financing activities. Claims expenditures are recognized in the financial statements when payment is made to the employee. Claims liabilities are recognized when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The projected costs to the State presented in this note are based on a actuarial review of the State's Workers' Compensation Program. Accordingly, changes in the State's claims handling procedures, changes in the rate of inflation and other societal and economic factors, and changes in State law could affect the ultimate settlement of these claims liabilities.

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Position. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

NOTE 6: BONDED INDEBTEDNESS (Not Applicable)

NOTE 7: DERIVATIVES (Not Applicable)

NOTE 8: LEASES (Not Applicable)

NOTE 9: DEFINED BENEFIT PENSION PLANS AND DEFINED CONTRIBUTION PLAN (Not Applicable)

NOTE 10: DEFERRED COMPENSATION (Not Applicable)

NOTE 11: POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Not Applicable)

NOTE 12: INTERFUND ACTIVITY AND TRANSACTIONS (Not Applicable)

NOTE 13: CONTINUANCE SUBJECT TO REVIEW (Not Applicable)

NOTE 14 - ADJUSTMENTS TO FUND BALANCES AND NET POSITION

During fiscal year 2016, an adjustment was made which required the restatement of Exhibit II and an adjustment to the General Fund (Fund 0001) as shown and discussed below:

- (a) This restatement in the general funds is to correct consumable inventories and materials and supplies reported in the prior fiscal year.

	General Funds (Fund 0001)	Total (Exh. II)
Fund Bal/Net Position Sept. 1, 2015	\$4,292,075.41	\$4,292,075.41
(a) Restatements/Adjustments	(90,977.79)	(90,977.79)
Fund Bal/Net Position Sept. 1, 2015 as Restated	\$4,201,097.62	\$4,201,097.62

NOTE 15: CONTINGENCIES AND COMMITMENTS

Sick Leave

Each full-time employee accrues sick leave at the rate of eight hours per month with no maximum limit to the number of hours that can be accumulated. Part-time employees earn sick leave at a rate proportionate to the number of hours worked. Sick leave is paid to the employee only in the event of illness or to the employee's estate in the event of his/her death while employed by the Agency. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement, or 336 hours, whichever is less. The Office's policy is to recognize the cost of any sick leave when paid. Experience indicates the probability of a material effect on any given year's operations, as a result of death or abnormally high rate of illness, is minimal.

NOTE 16: SUBSEQUENT EVENTS (Not Applicable)

NOTE 17: RISK MANAGEMENT

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

	Claims and Judgments			
	Beginning Balance	Increases	Decreases	Ending Balance
2016	\$ 95,548,877.93	\$ 39,898,000.00	\$ 38,654,989.85	\$ 96,791,888.08
2015	\$ 114,108,557.35	\$ 38,576,000.00	\$ 57,135,679.42	\$ 95,548,877.93

Risk Management

These amounts are entirely workers' compensation claim payments, both indemnity (wage replacement) payments and payment of medical services. These are completely contained, and are the only items included, in strategy 2.1.1 of Agency 479's bill pattern. Claims liabilities are recognized when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The projected costs to the State presented in Note 5 are based on an actuarial review of the State's Workers' Compensation Program. Accordingly, changes in the State's claims handling procedures, changes in the rate of inflation and other societal and economic factors, and changes in State law could affect the ultimate settlement of these claims liabilities.

NOTE 18: MANAGEMENT'S DISCUSSION AND ANALYSIS (Not Applicable)

NOTE 19: THE FINANCIAL REPORTING ENTITY (Not Applicable)

NOTE 20: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Not Applicable)

NOTE 21: (Not Applicable)

NOTE 22: DONOR RESTRICTED ENDOWMENTS (Not Applicable)

NOTE 23: EXTRAORDINARY AND SPECIAL ITEMS (Not Applicable)

NOTE 24: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES (Not Applicable)

NOTE 25: TERMINATION BENEFITS (Not Applicable)

NOTE 26: SEGMENT INFORMATION (Not Applicable)

NOTE 27: SERVICE CONCESSION ARRANGEMENTS (Not Applicable)

NOTE 28: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES (Not Applicable)

NOTE 29: TROUBLED DEBT RESTRUCTURING (Not Applicable)

NOTE 30: NON-EXCHANGE FINANCIAL GUARANTEES (Not Applicable)

EXHIBIT J-1
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES:
All Agency Funds
For the fiscal year ended August 31, 2016

	Balances September 1, 2015	Additions	Deductions	Balances August 31, 2016
OTHER AGENCY FUNDS				
<u>Departmental Suspense Fund (0900) U/F (0900,9015,9016)</u>				
Assets				
Cash in State Treasury	\$ 0.00	\$ 1,476.77	\$ 1,476.77	\$ 0.00
Total Assets	\$ 0.00	\$ 1,476.77	\$ 1,476.77	\$ 0.00
Liabilities				
Accounts Payable	\$ 0.00	\$ 282.41	\$ 282.41	\$ 0.00
Funds Held in Custody for Others	\$ 0.00	\$ 1,476.77	\$ 1,476.77	\$ 0.00
Total Liabilities	\$ 0.00	\$ 1,759.18	\$ 1,759.18	\$ 0.00
<u>Direct Deposit Correction (0980) U/F (0980,9014)</u>				
Assets				
Cash in State Treasury	\$ 0.00	\$ 65,344.95	\$ 65,344.95	\$ 0.00
Total Assets	\$ 0.00	\$ 65,344.95	\$ 65,344.95	\$ 0.00
Liabilities				
Funds Held in Custody for Others	\$ 0.00	\$ 65,344.95	\$ 65,344.95	\$ 0.00
Total Liabilities	\$ 0.00	\$ 65,344.95	\$ 65,344.95	\$ 0.00
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash in State Treasury	\$ 0.00	\$ 66,821.72	\$ 66,821.72	\$ 0.00
Total Assets	\$ 0.00	\$ 66,821.72	\$ 66,821.72	\$ 0.00
LIABILITIES				
Accounts Payable	\$ 0.00	\$ 282.41	\$ 282.41	\$ 0.00
Funds Held in Custody for Others	\$ 0.00	\$ 66,821.72	\$ 66,821.72	\$ 0.00
Total Liabilities	\$ 0.00	\$ 67,104.13	\$ 67,104.13	\$ 0.00

Appropriated fund is noted as (XXXX), USAS D23 fund is noted as U/F (XXXX)



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