

**Texas Higher Education Coordinating Board**  
(An Agency of the State of Texas)

**Annual Financial Report**

*(With Independent Auditors' Report Thereon)*

For the Fiscal Year Ended August 31, 2016



**60x30TX**

The logo consists of the text "60x30TX" in a bold, sans-serif font. The "60" and "30" are dark grey, the "x" is blue, and the "TX" is red. Below the text is a horizontal bar with a blue section on the left containing a white star, and a red section on the right.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

Year Ended August 31, 2016

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KPMG LLP  
Suite 1900  
111 Congress Avenue  
Austin, TX 78701-4091

## Independent Auditors' Report

The Board of Trustees  
Texas Higher Education Coordinating Board:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Texas Higher Education Coordinating Board (THECB), an Agency of the State of Texas, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise THECB's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Texas Higher Education Coordinating Board, as of August 31, 2016, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.



### *Emphasis of Matter*

As discussed in Note 1, the financial statements of THECB are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Texas that is attributable to the transactions of THECB. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2016, and the changes in its financial position for the year ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that management's discussion and analysis, the schedule of budgeted and actual revenues and expenditures, the schedule of changes in THECB's net pension liability and related ratios, and the schedule of employer contributions on pages 5-16 and 54-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 16, 2017 on our consideration of THECB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering THECB's internal control over financial reporting and compliance.

**KPMG LLP**

Austin, Texas  
June 16, 2017

## **TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency of the State of Texas)

### Management's Discussion and Analysis

August 31, 2016

The following is a discussion and analysis of Texas Higher Education Coordinating Board's (hereinafter referred to as THECB) financial performance for the year ended August 31, 2016. Use this section in conjunction with THECB's basic financial statements, which follow this section.

#### **Financial Highlights – 2016**

- The assets and deferred outflows of THECB exceeded its liabilities and deferred inflows of resources at the end of the fiscal year 2016, resulting in a net position of \$810.1 million for the governmental activities.
- Unrestricted net position, which may be used to meet THECB's future obligations, was negative \$29.6 million at the end of fiscal year 2016.
- Net position included \$103.4 million restricted for Debt Service and \$567.1 million restricted for loan and grant programs. Net position restricted for unappropriated was \$169.3 million.
- THECB's total liabilities of \$1.1 billion included \$987.0 million for bonds payable.
- As of August 31, 2016, THECB's governmental funds reported combined fund balances of \$1.8 billion, of which 67.9% is designated as nonspendable fund balance and 32.1% is designated as restricted fund balance.
- THECB's primary revenue source is funding from the State of Texas through legislative appropriations of \$1.7 billion and THECB's primary expenditures are grants to institutions of \$1.7 billion.

#### **Financial Highlights – 2015**

- The assets and deferred outflows of THECB exceeded its liabilities and deferred inflows of resources at the end of the fiscal year 2015, resulting in a net position of \$813.9 million for the governmental activities.
- Unrestricted net position, which may be used to meet THECB's future obligations, was negative \$31.6 million at the end of fiscal year 2015, which was due to implementation of new reporting requirements included in Governmental Accounting Standards Board (GASB) Statement No. 68.
- Net position included \$97.2 million restricted for Debt Service and 467.7 million restricted for loan and grant programs. Net position restricted for unappropriated was \$280.6 million.
- THECB's total liabilities of \$958.3 million included \$885 million for bonds payable.
- As of August 31, 2015, THECB's governmental funds reported combined fund balances of \$1.7 billion, of which 65.3% is designated as nonspendable fund balance and 34.7% is designated as restricted fund balance.
- THECB's primary revenue source is funding from the State of Texas through legislative appropriations of \$1.4 billion and THECB's primary expenditures are grants to institutions of \$1.6 billion.

# **TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency of the State of Texas)

Management's Discussion and Analysis

August 31, 2016

## **Overview of the Financial Statements**

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

This financial report presents THECB's financial position and activities in the following three components: (1) MD&A, (2) the basic financial statements and the (3) required supplementary information. The basic financial statements include government-wide financial statements, fund financial statements, and notes to financial statements that provide more detailed information to supplement the basic financial statements.

### **Government-wide financial statements**

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

The Statement of Net Position combines the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets, liabilities, deferred inflows and outflows of resources. Net position, which is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, represents one measure of THECB's financial health.

The Statement of Activities presents information showing how THECB's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as expenses for future compensable leave balances. This statement also presents a government wide format of expenses, charges for services, operating grants and contributions and net expenses for Governmental activities. The activities are further broken down by function and program. The second section of the Statement of Activities shows general revenues not associated with a particular program but provides resources for THECB's programs and operations.

### **Fund financial statements**

Fund Financial Statements present financial information in a form more familiar to experienced users of governmental financial statements. However, these statements focus on the major funds. A fund is a separate accounting entity with a self-balancing set of accounts. THECB uses funds to keep track of sources of funding and spending related to specific activities. Use these statements to find more detailed information about THECB's most significant activities. All of THECB's funds can be divided into the following two categories: governmental funds and fiduciary funds.

# TEXAS HIGHER EDUCATION COORDINATING BOARD

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## Management's Discussion and Analysis

August 31, 2016

**Governmental Funds** - A majority of THECB's activities is reported in governmental funds. Reporting of these funds focuses on how money flows in and out of the funds and any amounts remaining at year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of THECB's general governmental operations and the basic services it provides. This information should help determine the level of resources available for THECB's programs. The reconciliation following the Fund Financial Statements explains the differences between the governmental activities, reported in the Government-wide Statement of Net Position and the Government-wide Statement of Activities and the governmental funds.

THECB maintains the following three governmental fund types: General fund, Special Revenue funds and Debt Service fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Texas Opportunity Plan Fund and the Student Loan Auxiliary Fund, and the Debt Service Fund, all of which are considered to be major funds. Data from other nonmajor governmental funds are combined into a single aggregated presentation entitled Nonmajor Governmental Funds.

**Fiduciary Funds** - Fiduciary Funds are used to account for resources held for the benefit of parties outside THECB. THECB is the trustee for these funds, and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All THECB fiduciary activities are reported in separate Statements of Fiduciary Net Position. Since the resources of the fiduciary funds are not available to support THECB's own programs they are not reflected in the government-wide financial statements.

**Notes to the financial statements** – The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements.

**Other information** – In addition to the basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information (RSI) that further explains and supports the information presented in the financial statements. The RSI provides a comparison to budget and demonstrates budgetary compliance and changes in net pension liability and related ratios.

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**Financial Analysis of the Government-Wide Financial Statement – Net Position**

The following table reflects a summary of Net Position for the fiscal years ended August 31, 2016 and 2015:

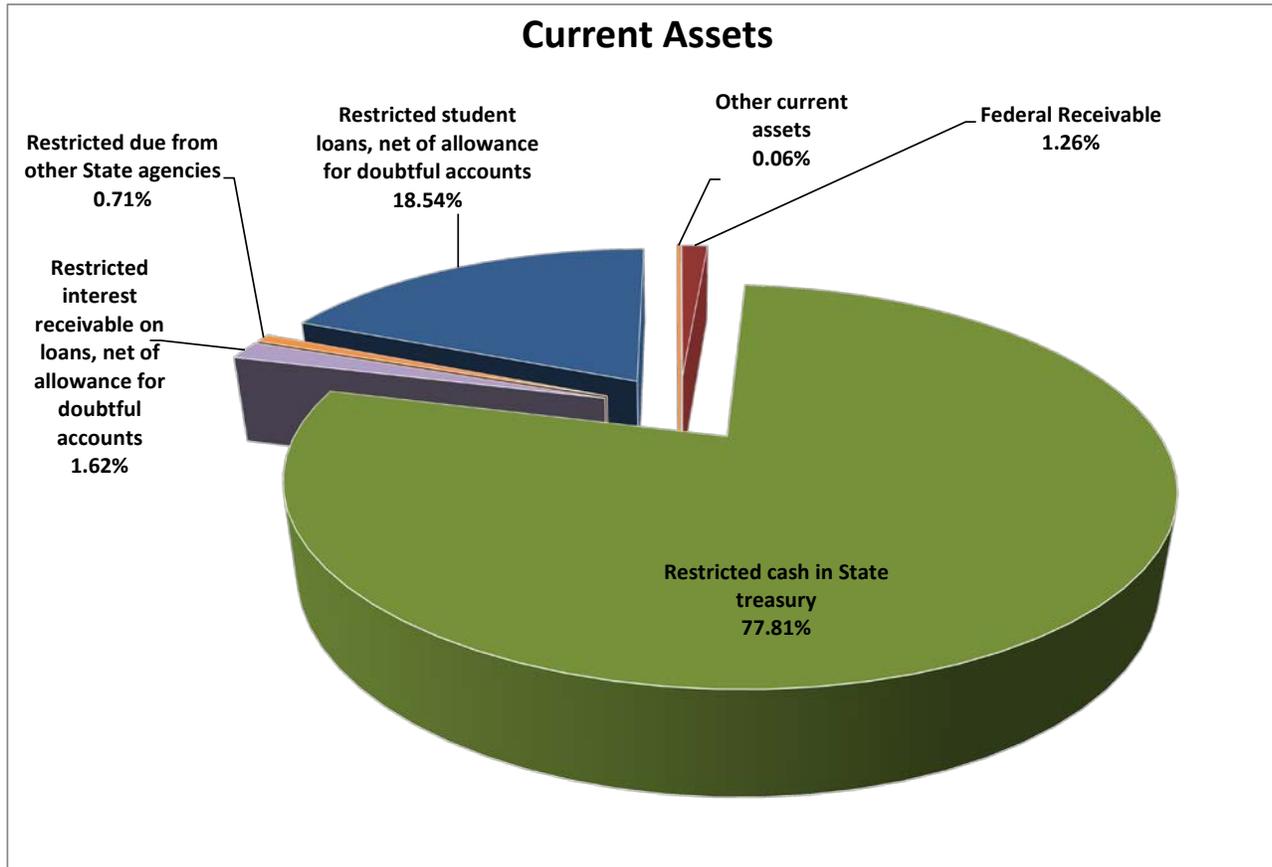
	<b>Net Position</b>	
	<b>August 31, 2016 and 2015</b>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets	\$ 565,921,973	459,277,733
Capital assets	63,110	29,128
Other non-current assets	1,305,142,895	1,312,986,394
Total assets	<u>1,871,127,978</u>	<u>1,772,293,255</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources	3,673,447	2,825,536
Total deferred outflows of resources	<u>3,673,447</u>	<u>2,825,536</u>
<b>LIABILITIES</b>		
Current liabilities	105,532,322	101,101,233
Noncurrent liabilities	952,675,095	857,179,239
Total liabilities	<u>1,058,207,417</u>	<u>958,280,472</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources	6,445,936	2,910,452
Total deferred inflows of resources	<u>6,445,936</u>	<u>2,910,452</u>
<b>NET POSITION</b>		
Net Investment in capital assets	63,110	29,128
Restricted	839,714,619	845,502,501
Unrestricted	(29,629,657)	(31,603,762)
Total net position	<u>\$ 810,148,072</u>	<u>813,927,867</u>

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Net position may serve as a useful indicator of a government's financial position. For THECB, assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$810.1 million at the end of the 2016 fiscal year, a decrease of \$3.8 million from prior year or 0.5%. The largest portion of THECB's net position is restricted for debt service, loans and grants, and unappropriated which represent \$839.7 million.

Total assets were \$1.9 billion in fiscal year 2016, representing a 5.6% increase from fiscal year 2015. The change was primarily driven by higher student loan demand causing an increase in loan receivables balances in fiscal year 2016. Total liabilities increased to \$1.1 billion from \$958.3 million, representing a 10.4% change from the prior fiscal year. The change in total liabilities was primarily due to year-over-year increases in bonds payable.

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**Statement of Activities**

The following table reflects a summary of the changes in Net Position for the fiscal year ended August 31, 2016 and 2015:

**Changes in Net Position  
For the Years ended August 31, 2016 and 2015**

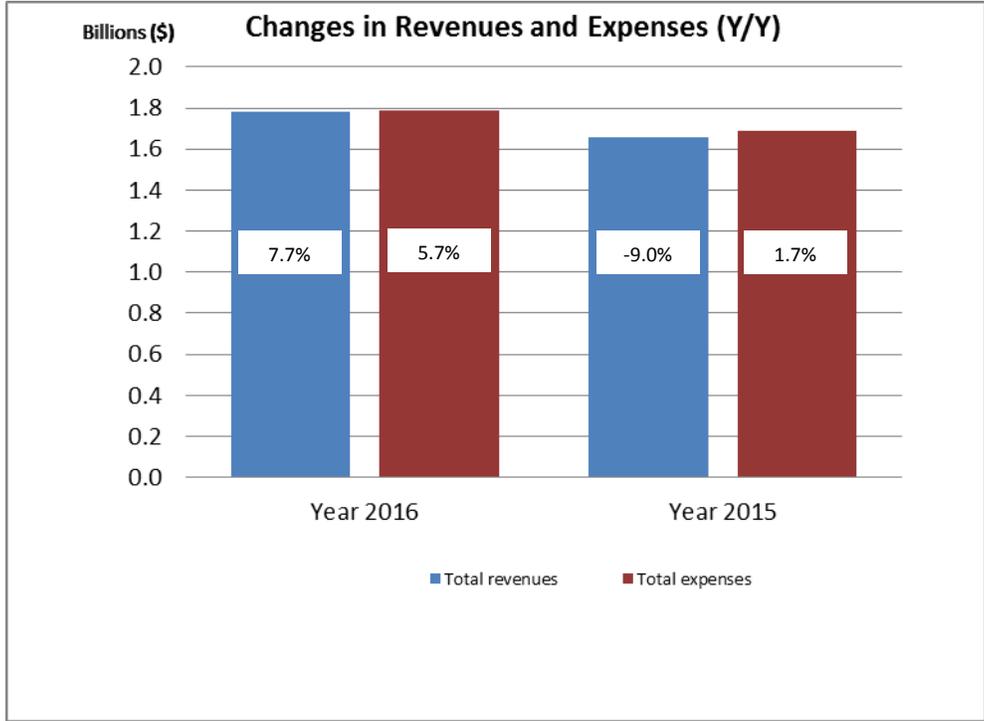
	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services	\$ 953,149	690,700
Operating grants and contributions	124,820,133	210,277,417
General revenues	<u>1,655,539,093</u>	<u>1,443,392,295</u>
Total revenues	<u>1,781,312,375</u>	<u>1,654,360,412</u>
Program expenses:		
General administration	29,805,140	30,335,614
Financial assistance – loans	53,347,225	92,574,607
Financial assistance – institutions	1,686,939,196	1,552,870,663
Financial assistance – students	<u>15,000,609</u>	<u>13,833,919</u>
Total expenses	<u>1,785,092,170</u>	<u>1,689,614,803</u>
Change in net position	(3,779,795)	(35,254,391)
Beginning net position	<u>813,927,867</u>	<u>849,182,258</u>
Ending net position	<u>\$ 810,148,072</u>	<u>813,927,867</u>

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In the current fiscal year, total governmental net position of THECB decreased by \$3.8 million. Revenue increased by \$127.0 million or 7.7% while expenses increased by \$95.5 million or 5.7%. The change in revenue is primarily due to an increase in grant funding through legislative appropriations. The increase in expenses was the result of more grant payments made to institutions during fiscal year 2016.

Approximately \$1.7 billion of revenue was from legislative appropriations from the State of Texas, which increased from year 2015 by \$212.1 million or 14.7%. For fiscal year 2016, legislative appropriations amounted to approximately 92.9% of total revenues (87.3% in fiscal year 2015). Operating Grants and Contributions amounted to 7.0% of total revenues. Financial assistance to institutions represented the majority of expenses at \$1.7 billion, or 96.1% of the total financial assistance expenses.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

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### **Financial Analysis of THECB's Funds**

As noted earlier, THECB uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

#### ***Governmental Funds***

The focus of THECB's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing THECB's financing requirements.

THECB's governmental funds conform to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. It establishes accounting and financial reporting standards for governmental funds by classifying fund balances into specifically defined classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. It also clarifies existing governmental fund type definitions.

The financial performance of THECB as a whole is reflected in its governmental funds. At the end of the current fiscal year, THECB's governmental funds reported combined ending fund balances of \$1.8 billion, an increase of \$97.9 million from fiscal year 2015 fund balance or 5.6%. \$1.2 billion or 67.9% of the fund balance constitutes nonspendable fund balance in fiscal year 2016. \$589.6 million or 32.1% is made up of restricted fund balance in fiscal year 2016.

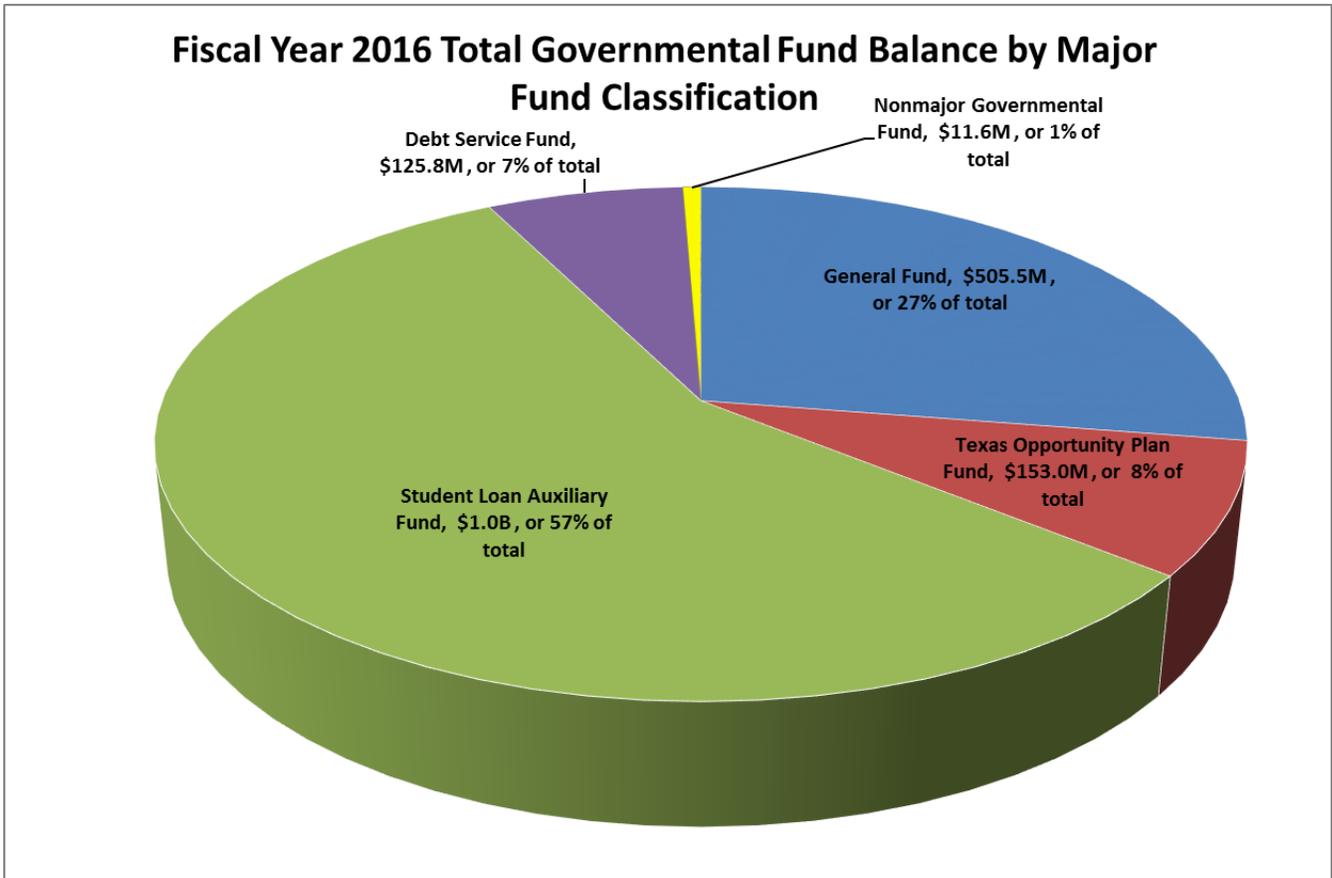
**TEXAS HIGHER EDUCATION COORDINATING BOARD**

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Management's Discussion and Analysis

August 31, 2016

The following graph illustrates the composition of the \$1.8 billion in total governmental fund balance by major fund category for fiscal year 2016.



The General Fund is used to account for all financial resources of the THECB except those required to be accounted for in another fund. At the end of the current fiscal year, \$325.4 million or 64.4% in fund balance constituted restricted fund balance and \$180.1 million or 35.6% represented nonspendable fund balance. The total General Fund balance for fiscal year 2016 was \$505.5 million, which is \$0.5 million lower than fiscal year 2015, a decrease of 0.1%. The decrease was primarily due to lower unappropriated cash balances partially offset by increases in appropriated cash and student loans.

The Texas Opportunity Plan Fund (TOP) and the Student Loan Auxiliary Fund (SLA) special revenue funds are used to account for the proceeds of bond issues and repayment of student loans in excess of what is required to be deposited in the Debt Service Fund to make loans to students attending Texas colleges and universities. At the end of the current fiscal year, the fund balance for the TOP and the SLA fund was \$1.2 billion.

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The Debt service Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal and interest. At the end of the current fiscal year, restricted fund balance for debt service was \$125.8 million as compared to \$122.5 million for 2015. The year-over-year increase of \$3.3 million was primarily the result of higher cash balances from loan repayments.

Nonmajor Governmental Funds are made up of special revenue funds including the Student Loan Revenue Bond fund (1697) and funds related to the Permanent Health Fund for Higher Education (0810, 0824, and 0825). The Student Loan Revenue Bond funds are used to account for repayments of student loans in excess of what is required to be deposited in the Debt Service Fund. Distribution of a portion of the earnings from the Permanent Health Fund for Higher Education are transferred to THECB into special revenue funds 0810, 0824, 0825 and used for health care related education. In fiscal year 2016, fund balance for nonmajor governmental funds was \$11.6 million as compared to \$11.9 million for fiscal year 2015. The decrease was primarily due to lower cash balances carried at year-end for grant programs.

OTHER INFORMATION

**General Fund budgetary highlights**

During the current fiscal year, actual revenues were \$143.9 million lower than the final budgeted amount of \$1.9 billion. The decrease from budget was primarily the result of lower collected revenues from the B-On-Time program. Actual general fund expenditures were \$119.0 million lower than the final budgeted amount of \$1.8 billion. The decrease can be primarily attributed to lower actual expenditures for the B-On-Time program.

**Capital Assets**

THECB's capital assets at year end totaled \$63 thousand (net of accumulated depreciation). Capital assets include furniture and equipment. Net capital assets increased by \$34 thousand as a result of new capital assets purchased, partially offset by scheduled depreciation. Additional details on capital assets can be found in Note 4. Capital asset balances are as follows:

**Capital Assets, Net of Accumulated Depreciation**

**August 31, 2016 and 2015**

**(in thousands)**

	<u>2016</u>	<u>2015</u>
Furniture and equipment	<u>\$63</u>	<u>29</u>

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August 31, 2016

**Debt Administration**

At the end of the current fiscal year, THECB reported \$987 million in outstanding debt. The table below reflects the outstanding debt at August 31, 2016 and 2015. Additional information can be found in Note 8.

**Outstanding Debt  
General Obligation Bonds  
(in thousands)**

	<u>2016</u>	<u>2015</u>
Bonds outstanding, beginning of year	\$885,045	\$867,671
Bonds issued	150,000	68,130
Bonds retired/refunded	(56,370)	(54,115)
Deferred adjustments, net	<u>8,331</u>	<u>3,359</u>
Bonds outstanding, end of year	<u>\$987,006</u>	<u>\$885,045</u>

In 2016, new debt was issued for \$150 million. Total bonded indebtedness for the fiscal year 2016 increased by \$102 million or 11.5% primarily due to new bond issues exceeding principal payments on outstanding debt.

Ratings at August 31, 2016 of the THECB's obligations for various debt instruments are as follows:

<u>Debt</u>	<b>Moody's Investors Service , Inc.</b>	<b>Standard and Poor's</b>
<b><u>General Obligation Bonds:</u></b>		
Col Stud Loan Bds Ser'07A&B	Aaa	AAA
Col Stud Loan Bds Ser'08A,B & C	Aaa	AAA
Col Stud Loan Bds Ser'09	Aaa	AAA
Col Stud Loan Bds Ser'10	Aaa	AAA
Col Stud Loan Rfd Bds Ser'10	Aaa	AAA
Col Stud Loan Bds Ser 2011A	Aaa	AAA
Col Stud Loan Rfd Bds Ser 2011B	Aaa	AAA
Col Stud Loan Rfd Bds Ser 2011C	Aaa	AAA
Col Stud Loan Bds Ser 2012	Aaa	AAA
Col Stud Loan Rfd Bds Ser 2013A	Aaa	AAA
Col Stud Loan Bds Ser 2013B	Aaa	AAA
Col Stud Loan Bds Ser 2014	Aaa	AAA
Col Stud Loan Bds Ser 2015	Aaa	AAA

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**Economic Factors and Next Year's Budget**

Our 2017 fiscal year budget is guided by our state's higher education plan called, *60x30TX*, which aims to promote access, affordability, quality, success, and cost efficiency in the state's institutions of higher education with a goal of producing a globally competent workforce that positions Texas as an international leader in an increasingly complex world economy.

**REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of THECB's finances, as well as demonstrate accountability for funds the agency receives. If you have questions about any information provided by this report or need additional information, please contact THECB Financial Services Division, 1200 East Anderson Lane, Austin, Texas 78752 or (512) 427-6100 or on the web at <http://www.thecb.state.tx.us/>.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
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Statement of Activities

For the Year Ended August 31, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	\$
Prepaid Items	56,115
Federal Receivable	7,152,243
Restricted cash in State treasury	439,377,673
Restricted accounts receivable	104,897
Restricted interest receivable	197,098
Restricted due from other funds	943,417
Restricted due from other State agencies	4,032,095
Restricted student loans, net of allowance for doubtful accounts	104,916,751
Restricted interest receivable on loans, net of allowance for doubtful accounts	9,141,684
Total current assets	<u>565,921,973</u>
Noncurrent assets:	
Student loans, net of allowance for doubtful accounts	1,024,141,891
Restricted interest receivable on loans, net of allowance for doubtful accounts	91,039,176
Restricted student loans, net of allowance for doubtful accounts	20,691,255
Restricted cash in State treasury - unappropriated	169,270,573
Depreciable capital assets:	
Furniture and equipment	811,837
Accumulated depreciation	<u>(748,727)</u>
Net depreciable capital assets	63,110
Total noncurrent assets	<u>1,305,206,005</u>
Total assets	<u>1,871,127,978</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows of Resources	3,673,447
Total Deferred Outflows of Resources	<u>3,673,447</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	14,015,377
Interest payable	3,744,722
Due to other funds	943,417
Due to other State agencies	16,495,570
Bonds payable	69,575,514
Employees' compensable leave	757,722
Total current liabilities	<u>105,532,322</u>
Noncurrent liabilities:	
Bonds payable	917,430,013
Employees' compensable leave	860,046
Net Pension Liability	27,383,808
Arbitrage rebate liability	7,001,228
Total noncurrent liabilities	<u>952,675,095</u>
Total liabilities	<u>1,058,207,417</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows of Resources	6,445,936
Total Deferred Inflows of Resources	<u>6,445,936</u>
<b>NET POSITION</b>	
Net Investment in capital assets	63,110
Restricted for:	
Debt service	103,381,663
Loan and grant programs	567,062,383
Unappropriated	169,270,573
Unrestricted	<u>(29,629,657)</u>
Total net position	<u>\$ 810,148,072</u>

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
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Statement of Activities

For the Year Ended August 31, 2016

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Change in Net Position - Governmental Activities
Governmental activities:				
General administration	\$ 29,805,140	85,061	1,552,504	(28,167,575)
Financial assistance - loans	53,347,225	—	68,395,802	15,048,577
Financial assistance - institutions	1,686,939,196	686,270	54,930,210	(1,631,322,716)
Financial assistance - students	15,000,609	181,818	(58,383)	(14,877,174)
Total governmental activities	\$ 1,785,092,170	953,149	124,820,133	(1,659,318,888)
General revenues:				
Legislative appropriations				1,655,539,093
Total general revenues				1,655,539,093
		Net change in position		(3,779,795)
		Net position at beginning of year		813,927,867
		Net position at end of year		\$ 810,148,072

See accompanying notes to the financial statements.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
(An Agency of the State of Texas)

Balance Sheet – Governmental Funds

August 31, 2016

	General Fund	Texas Opportunity Plan Fund	Student Loan Auxiliary Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash in State treasury	\$ 174,485,798	10,041,611	117,580,241	125,641,812	11,628,211	439,377,673
Due from other funds	—	940,751	2,666	—	—	943,417
Due from other State agencies	4,031,506	—	—	—	589	4,032,095
Prepaid Items	56,115	—	—	—	—	56,115
Accounts receivables	—	102,339	—	2,558	—	104,897
Federal receivables	7,152,243	—	—	—	—	7,152,243
Interest receivable	83	34	—	189,253	7,728	197,098
Student loans, net of allowance for doubtful accounts	179,523,280	129,442,638	839,929,642	—	854,337	1,149,749,897
Interest receivable on loans net of allowance for doubtful accounts	547,488	12,499,511	87,008,197	—	125,664	100,180,860
Cash in State treasury - unappropriated	169,270,573	—	—	—	—	169,270,573
<b>TOTAL ASSETS</b>	<b>\$ 535,067,086</b>	<b>153,026,884</b>	<b>1,044,520,746</b>	<b>125,833,623</b>	<b>12,616,529</b>	<b>1,871,064,868</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 13,502,700	—	—	—	512,677	14,015,377
Due to other funds	—	—	943,417	—	—	943,417
Due to other State agencies	16,022,177	—	—	—	473,393	16,495,570
Total liabilities	29,524,877	—	943,417	—	986,070	31,454,364
<b>FUND BALANCES</b>						
Nonspendable	180,126,883	141,942,149	926,937,839	—	980,001	1,249,986,872
Restricted	325,415,226	11,084,735	116,639,490	125,833,623	10,650,458	589,623,532
Committed	100	—	—	—	—	100
<b>TOTAL FUND BALANCES</b>	<b>505,542,209</b>	<b>153,026,884</b>	<b>1,043,577,329</b>	<b>125,833,623</b>	<b>11,630,459</b>	<b>1,839,610,504</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 535,067,086</b>	<b>153,026,884</b>	<b>1,044,520,746</b>	<b>125,833,623</b>	<b>12,616,529</b>	<b>1,871,064,868</b>

See accompanying notes to the financial statements.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
(An Agency of the State of Texas)

Governmental Funds

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

For the Year Ended August 31, 2016

Total fund balances - Governmental Funds	\$ 1,839,610,504
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	63,110
Amounts reported as deferred outflows and inflows of resources related to pensions are not reported in the funds.	(2,772,489)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(1,026,753,053) *</u>
Total net position - Governmental Activities	<u>\$ 810,148,072</u>

\* current portion \$74,077,958 and noncurrent portion \$952,675,095

See accompanying notes to the financial statements.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
(An Agency of the State of Texas)

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

For the Year Ended August 31, 2016

	General Fund	Texas Opportunity Plan Fund	Student Loan Auxiliary Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Legislative appropriation revenues	\$ 1,655,539,093	—	—	—	—	1,655,539,093
Tax revenues	—	—	—	—	—	—
Federal revenues	6,613,026	6,918	22,937	22,860	245	6,665,986
Federal grant pass-through revenues	27,224,129	—	—	—	—	27,224,129
Intergovernmental revenues	16,795,192	—	—	—	3,144,582	19,939,774
Licenses, fees and permits	2,362,256	1,052,832	2,680,289	—	2,048	6,097,425
Interest and investment income	1,120,014	10,754,172	48,348,767	2,246,333	2,334,755	64,804,041
Other revenues (expenditures), net	1,041,927	—	—	—	—	1,041,927
<b>Total revenues, net</b>	<b>1,710,695,637</b>	<b>11,813,922</b>	<b>51,051,993</b>	<b>2,269,193</b>	<b>5,481,630</b>	<b>1,781,312,375</b>
<b>EXPENDITURES</b>						
General administration	31,075,464	—	—	—	—	31,075,464
Financial assistance - loans	(4,415,059)	6,395,944	15,980,112	—	65,171	18,026,168
Financial assistance - institutions	1,681,671,917	5,000	—	—	5,262,279	1,686,939,196
Financial assistance - students	15,000,609	—	—	—	—	15,000,609
Debt service:						
Principal	—	—	89,016	56,280,984	—	56,370,000
Interest	—	—	50,881	44,954,637	—	45,005,518
Other financing fees	—	278,052	253,500	—	—	531,552
<b>Total expenditures</b>	<b>1,723,332,931</b>	<b>6,678,996</b>	<b>16,373,509</b>	<b>101,235,621</b>	<b>5,327,450</b>	<b>1,852,948,507</b>
Excess (deficiency) of revenues over expenditures	(12,637,294)	5,134,926	34,678,484	(98,966,428)	154,180	(71,636,132)
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of Tax Exempt Debt	—	—	150,000,000	—	—	150,000,000
Premium on sale of bonds	—	—	19,502,971	—	—	19,502,971
Transfers in	12,117,474	—	—	102,252,535	—	114,370,009
Transfers out	—	(13,378,573)	(100,562,006)	—	(429,430)	(114,370,009)
<b>Total other financing sources (uses)</b>	<b>12,117,474</b>	<b>(13,378,573)</b>	<b>68,940,965</b>	<b>102,252,535</b>	<b>(429,430)</b>	<b>169,502,971</b>
Net change in fund balances	(519,820)	(8,243,647)	103,619,449	3,286,107	(275,250)	97,866,839
Fund balances at beginning of the year	506,062,029	161,270,531	939,957,880	122,547,516	11,905,709	1,741,743,665
Fund balances at the end of the year	\$ 505,542,209	153,026,884	1,043,577,329	125,833,623	11,630,459	1,839,610,504

See accompanying notes to the financial statements.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
(An Agency of the State of Texas)

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

For the Year Ended August 31, 2016

Net change in fund balances - Governmental Funds	\$	97,866,839
Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.		33,982
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		(113,132,971)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>11,452,355</u>
Change in net position - Governmental Activities	\$	<u><u>(3,779,795)</u></u>

See accompanying notes to the financial statements.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency of the State of Texas)

Statement of Fiduciary Net Position

For the Year Ended August 31, 2016

Assets	
Current assets:	
Restricted:	
Cash in State Treasury	\$ 375,409
Interest and Dividends Receivable	<u>14</u>
Total current assets	<u>375,423</u>
Total assets	<u><u>\$ 375,423</u></u>
Liabilities	
Current liabilities:	
Funds held for others	<u>\$ 375,423</u>
Total current liabilities	<u>375,423</u>
Total liabilities	<u><u>\$ 375,423</u></u>

See accompanying notes to the financial statements.

# TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

## (1) Summary of Significant Accounting Policies

### A. Reporting Entity

The Texas Legislature (Legislature) created the Texas Higher Education Coordinating Board (THECB) in 1965. THECB is presently governed by a board composed of 9 members. The board members serve up to a six-year term and are appointed by the Governor with the advice and consent of the Texas Senate. The Governor also appoints the chairman and vice-chairman and the Board appoints the Commissioner.

THECB is an agency of the State of Texas (State) and is included in the State comprehensive annual financial report. The financial statements of THECB are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Texas that is attributable to the transactions of THECB. THECB's financials do not present fairly the financial position of the State of Texas as of August 31, 2016 nor the changes in its financial position. THECB's general fund is included within the State of Texas General Fund, the Texas Opportunity Plan and Student Loan Auxiliary major funds are included within the State of Texas nonmajor special revenue funds, and the Debt Service Fund is included within the State of Texas nonmajor debt service funds.

### B. Organizational Purpose

The Coordinating Board adopted a new strategic plan for higher education in 2015 called 60x30TX. With the 60x30TX strategic plan, Texas is focused on student success over the next 15 years. The new plan is firmly founded on the critical need that Texas produces an educated workforce that is able to adapt to change and compete at the highest levels, nationally and internationally. 60x30TX emphasizes all forms of post high school education, from undergraduate certificates to associate and bachelor's degrees, to graduate and professional education.

The plan contains four student-centered goals:

- The Overarching Goal: 60x30
  - At least 60 percent of Texans ages 25-34 will have a certificate or degree.
- The Second Goal: Completion
  - At least 550,000 students in 2030 will complete a certificate, associate, bachelor's, or master's from an institution of higher education in Texas.
- The Third Goal: Marketable Skills
  - All graduates from Texas public institutions of higher education will have completed programs with identified marketable skills.
- The Fourth Goal: Student Debt
  - Undergraduate student loan debt will not exceed 60 percent of first-year wages for graduates of Texas public institutions.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

### C. Government-Wide and Fund Financial Statements

The accompanying financial statements of THECB have been prepared to conform with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of THECB. The effect of interfund activity has been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Governmental activities are supported by state appropriations, state and federal grants, interest earnings, and other user service charges. Direct expenses are those that are clearly identifiable with a specific function. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. Program revenues include 1) grants and state contributions that are restricted to meeting the operational or capital requirements of a particular function, and 2) charges to customers or applicants for services provided by a given function. Appropriations are properly reported as general revenues rather than program revenues. Interest earnings are included in operating grants and contributions on the Statement of Activities as interest relates to student loans.

Separate financial statements are presented for governmental funds and fiduciary funds. In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – And Management’s Discussion And Analysis – for State And Local Governments* (GASB Statement No. 34), the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

#### Government-wide financial statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles, as are the private purpose trust funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include charges for services and operating grants and contributions.

# TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

## Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Operating statements of these funds present resources (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balances. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available.

THECB includes student loan notes receivable and related interest receivable in the governmental fund financial statements even though they are noncurrent as these assets represent a significant operational purpose of THECB. Nonspendable fund balance is reported in the governmental funds in an amount equal to the student loan notes receivable and related interest receivable.

All revenue associated with the current fiscal period and collected within sixty days is considered to be susceptible to accrual and has been recognized as revenue in the current fiscal period. Grant funds are considered to be earned when all eligibility requirements have been met and to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received in advance, they are recorded as unearned revenue. Expenditures and other uses of financial resources are recognized when the related liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and arbitrage are recorded only when payment has matured.

The accounts of THECB are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for the purpose of carrying on specific activities in accordance with laws, regulations, bond indentures, or other appropriate requirements.

## Governmental Funds

Governmental Funds are those through which most governmental functions of THECB are financed. The acquisition, use and balances of THECB's expendable financial resources, and the related liabilities are accounted for through the Governmental Fund Types. The following are THECB major governmental funds:

- The General Fund is THECB's primary operating fund. It is used to account for all financial resources of THECB except those required to be accounted for in another fund.
- The Texas Opportunity Plan Fund (TOP) and the Student Loan Auxiliary Fund (SLA) special revenue funds are used to account for the proceeds of bond issues and repayment of student loans in excess of what is required to be deposited in the Debt Service Fund to make loans to students attending Texas colleges and universities. The TOP fund reflects bonds issued prior to 1992 and the funds are used to make Hinson-Hazlewood loans. The SLA fund is for bond activity subsequent to 1992 and is used to make Hinson-Hazlewood loans and B-On-Time loans. The primary revenue source is interest on student loans and the expenditures include items related to the student loans such as change in allowance for doubtful accounts.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

- The Debt Service fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest. The accounts used by THECB during fiscal year 2016 consisted of the following: Texas College Student Loan Bonds Interest and Sinking Account, and the Student Loan Revenue Bond Interest and Sinking Account.
- Nonmajor Governmental Funds are made up of special revenue funds including the Student Loan Revenue Bond fund (1697) and funds related to the Permanent Health Fund for Higher Education (0810, 0824, and 0825). The Student Loan Revenue Bond funds are used to account for repayments of student loans in excess of what is required to be deposited in the Debt Service Fund. The Permanent Health Fund for Higher Education is a permanent fund established by the Legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account is held within the state treasury outside of the general fund. Distribution of a portion of the earnings on the account are transferred to THECB into special revenue funds 0810, 0824, 0825 and used for health care related education.

### Fiduciary Funds

Fiduciary funds account for assets held by THECB as an agent for individuals, private organizations, other governmental units, and/or other funds. They contain an agency fund and a private-purpose trust fund.

- Agency funds have no equity, assets equal liabilities, and do not include revenues or expenditures for general operations of THECB. The agency fund used by THECB during fiscal year 2016 was the Child Support Deductions Suspense Account.
- Private-purpose trust funds are used to account for all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments. The trust fund used by the THECB during fiscal year 2016 consisted of the Baylor College of Medicine Permanent Endowment Fund.

### **E. Financial Statement Elements**

#### Cash

All cash is held by the State Treasury and an agent of the State Treasury.

#### Interest Receivable

Interest receivable consists of interest earned or accrued that is not due to be received until after the balance sheet date. Interest receivable is derived from interest due from the State Treasury for the interest bearing cash and loans issued from the student loan program and is reported net of allowance for doubtful accounts.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

Prepaid Items

Prepaid items consist of postage paid in advance of the related services being received using the consumption method of accounting. Prepaid items reported in the general fund are offset by a nonspendable fund balance which indicates that they are not in a spendable form.

Student Loan Notes Receivable

Federal and state student loans are reported at their outstanding principal balances net of the allowance for doubtful accounts. Student loans are recorded at cost when disbursed and are serviced by THECB throughout the life of the loan – school, grace, and repayment.

Allowance for Doubtful Accounts

The allowance for doubtful accounts includes the estimated amount of student loans that will be forgiven or will not be collected due to default. The allowance is calculated based on loan status and loan type and current collection trends. Guarantees of certain loans are provided by U.S. Department of Education and U.S. Department of Health and Human Services.

Capital Assets

Capital assets, which include furniture and equipment, are reported in the governmental activities column in the government-wide financial statements. THECB generally defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated life greater than one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets of THECB are depreciated using the straight-line method over the following estimated useful lives:

<u>Classification</u>	<u>Useful Life</u>
Furniture and Equipment	1 to 15

Transfers and Interfund Receivables and Payables

Transfers occur when resources of one fund are transferred to another. Legally required transfers are reported when incurred as “Transfers In” by the recipient fund and as “Transfers Out” by the disbursing fund.

Transactions occur between funds for goods provided and services rendered. These receivables and payables are classified as “due from/to other funds” on the fund-level statements when they are expected to be liquidated within one year.

Restricted Assets

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

### Deferred Outflows of Resources (Deferred Inflows of Resources)

Deferred Outflows of Resources (Deferred Inflows of Resources) are the consumption or acquisition of net assets in one period that are applicable to future periods. Recognition of revenues and expenses is deferred until the future period to which the inflows and outflows are related. THECB reports deferred inflows of resources and deferred outflows of resources related to the recognition of THECB's share of the state's Net Pension Liability. Deferred inflows/outflows related to pensions are reported on the statement of net assets. For more pension information, refer to Note 15.

### Accounts Payable

Accounts payable represents the liability for the value of assets or services received at year-end for which payment is pending.

### Employees' Compensable Leave Balances

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.

### Bonds Payable

General obligation bonds payable are reported separately as either current or non-current in the Statement of Net Position. Serial interest bonds payable are recorded net of discounts and premiums in the Statement of Net Position.

In the fund financial statements, governmental funds recognize bond premiums, discounts, and issuance costs during the current period. The face amount of debt issued is reported as other financing sources in the fund received and expenditures for payment of principal and interest are recorded in the Debt Service Funds when paid. Premiums received on debt issued are reported as other financing sources while discounts on debt issued are reported as other financing uses. Issuance costs, whether or not withheld from the debt proceeds received, are reported as Student Loan Auxiliary Fund or Texas Opportunity Plan Fund expenditures.

### Discounts and Premiums on Debt

Discounts and premiums on debt for bond series 2010 and prior are recognized using the straight-line method which is not substantially different than the effective interest method over the life of the bonds in the Statements of Net Position and Activities. Prepayments on the bonds using the straight line method result in the proportionate amortization during the current year of the remaining balance of discounts and premiums on debt. The effective interest method is used for discounts and premiums on debt for bond series 2011 and thereafter in the Statement of Net Position and Activities.

## **TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

### Net Pension Liability

Net Pension Liability represents THECB's proportionate share of the state's liability to employees for benefits provided through the Employees Retirement System of Texas defined benefit pension plan.

### Arbitrage Rebate Liability

Arbitrage rebate liability is earned interest revenue on unspent bond proceeds in excess amounts allowed by Federal regulations. The amount represents the estimated payable at year end in the Statements of Net Position.

### Appropriations

Appropriations are revenues approved by the Legislature for designated programs. Appropriations are recognized as revenue when they become available from the State to fund current expenditures.

### State and Intergovernmental Revenues and Receivables

State and intergovernmental revenues and related receivables arise primarily through funding received from State grants. Revenues and receivables are earned through expenditures of money for grant purposes.

### Interest Subsidy and Special Allowance (Federal Revenue)

During the in-school, grace, and deferment periods, the U.S. Government pays THECB interest on subsidized Stafford student loans on behalf of the borrower. When the repayment period begins, the borrower is responsible for interest payments. The interest subsidy and special allowance are accrued as earned.

### Use of Estimates

Management of THECB has made some estimates and assumptions relating to the reporting of the useful life of assets and for the allowance of doubtful accounts to prepare these financial statements in conformity with the U.S. generally accepted accounting principles. Actual results could differ from those estimates.

### Taxes

As a state government, THECB is exempt from federal income taxes and state sales tax.

### Fund Balance

The Fund Balance is the difference between funds' assets and liabilities on the governmental fund statements. Fund balances for governmental funds are classified into 6 categories noted below.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

- Nonspendable  
This represents prepaid expenses and long term contract and receivables that are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. For fund level financial presentation, all nonspendable sources are combined into one category.
- Restricted  
This represents amounts related to those resources that have constraints placed on their use through external parties or by law through constitutional provisions.
- Committed  
This represents amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Board, THECB's highest level of decision making authority.
- Assigned  
This represents amounts that are constrained by the THECB's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (1) the Board 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  
This represents amounts that are the residual classification for the general funds. 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.

### GASB 54 Note Disclosures

- A. The THECB spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balances.
- B. See GASB 54 Fund Balance classification by purpose table at the end of note 1.
- C. Significant encumbrances are reported in Note 11 of this financial report.
- D. There are no stabilization arrangements with THECB.
- E. The State of Texas does not have a minimum fund balance policy.

### Net Position

Net investment in capital assets consists of capital assets, net of accumulated depreciation. No capital assets were financed with long term debt. THECB reports net position as restricted when constraints placed on net position are externally imposed. Restrictions are imposed by bond covenants and grant requirements for state and federal programs. Unappropriated net position consist of legislative appropriation reductions for appropriated funds received through statutory requirement where the cash reductions were retained by the THECB at fiscal year-end. The unappropriated net position balance will remain on the THECB's books until the legislature can either re-purpose or re-appropriate these funds. Unrestricted net position consists of a net position that does not meet the definition of net investment in capital assets or restricted net position.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2016

GASB 54 Fund Balance Classification by Purpose (as of August 31, 2016)

	General Fund	Texas Opportunity Plan Fund	Student Loan Auxiliary Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable - Prepaids</b>						
State Loan Programs	56,115					56,115
<b>Nonspendable - Long Term Contracts and Receivables</b>						
Armed Services Scholarships	7,773,359					7,773,359
Student Loans		141,942,149	926,937,839		980,001	1,069,859,989
Teach for Texas Programs	1,283,457					1,283,457
Texas B-on-Time Prog Private	51,734,685					51,734,685
Texas B-on-Time Program Public	119,279,267					119,279,267
Nonspendable - Long Term Contracts and Receivables Subtotal	180,070,768	141,942,149	926,937,839		980,001	1,249,930,757
<b>Committed:</b>						
Petty Cash	100					100
<b>Restricted:</b>						
Accelerate TX CC Grants	2,400,312					2,400,312
Armed Services Scholarships	677,568					677,568
Autism Program	1,720,204					1,720,204
Baylor College of Medicine	1,667,912				7	1,667,919
Central Administration	431,930					431,930
College Readiness and Success	403,915					403,915
College Work Study Program	671,527					671,527
Debt Service				125,833,623		125,833,623
Dental Education - LRP	110,000					110,000
Developmental Ed Program	668,847					668,847
Family Practice Residency	143,563					143,563
Federal Programs	268,500					268,500
GME Expansion	12,405,000					12,405,000
Graduate Medical Education	366,436					366,436
Information Resources	336,937					336,937
License Plate Scholarships	117,275					117,275
Math & Science - LRP	1,287,500					1,287,500
Mental Health - LRP	850,000					850,000
Minority Health Research/Ed					4,688,403	4,688,403
Nursing & Allied Health					5,874,141	5,874,141
Nursing Faculty - LRP	340,332					340,332
Other Programs	377,966					377,966
Physician - LRP	35,057,574					35,057,574
Planning/Info/Evaluation	240,227					240,227
Primary Care Innovation Progra	2,100,000					2,100,000
Prof Nursing Shortage Reduction	2,986,485					2,986,485
Public Community/Jr Colleges	173,254					173,254
Student Loans		11,084,735	116,639,490		87,907	127,812,132
Teach for Texas Programs	2,552,714					2,552,714
Texas B-on-Time Prog Private	775,917					775,917
Texas B-on-Time Program Public	78,198,448					78,198,448
Texas Education Opportunity Grant	325,993					325,993
T-STEM Scholarship	7,550,971					7,550,971
TX Grant Program	121,052					121,052
TX Teacher Residency Program	473,460					473,460
Workforce, Acad Affairs, & Rsch	341,407					341,407
Unappropriated	169,272,000					169,272,000
Restricted Subtotal	325,415,226	11,084,735	116,639,490	125,833,623	10,650,458	589,623,532
<b>Total Governmental Funds</b>	<b>505,542,209</b>	<b>153,026,884</b>	<b>1,043,577,329</b>	<b>125,833,623</b>	<b>11,630,459</b>	<b>1,839,610,504</b>

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**(2) Reconciliation of Government-Wide and Fund Financial Statements**

**(a) Explanation of Certain Differences between the Governmental Fund Balance Sheet and Government-Wide Statement of Net Position.**

Total fund balance reported in THECB's fund-level governmental funds balance sheet differs from the net position reported in governmental activities within the government-wide financial statements. The differences result from the long-term economic resources measurement focus in the government-wide financial Statement of Net Position versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below:

Total fund balances - Governmental funds	\$	1,839,610,504
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Capital assets, depreciable	811,837	
Less accumulated depreciation	<u>(748,727)</u>	
Total capital assets		63,110
Amounts reported as deferred outflows and inflows of resources related to pensions are not reported in the funds		
Deferred outflows of resources	3,673,447	
Deferred inflows of resources	<u>(6,445,936)</u>	
Total deferred pension amounts		(2,772,489)
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds payable, net	(987,005,527)	
Net pension liability	(27,383,808)	
Interest payable	(3,744,722)	
Employees' compensable leave	(1,617,768)	
Arbitrage rebate liability	<u>(7,001,228)</u>	
Total long-term liabilities		<u>(1,026,753,053) *</u>
* current portion \$74,077,958 and noncurrent portion \$952,675,095		
Total net position - governmental activities	\$	<u><u>810,148,072</u></u>

**(b) Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances, and the Government-Wide Statement of Activities.**

The net change in fund balances of governmental funds differs from the change in net position for governmental activities as reported in the Statement of Activities. The differences result from the long-term economic resources measurement focus in the government-wide Statement of Net

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Position versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below:

Net change in fund balances - Governmental funds \$ 97,866,839

Governmental funds report capital outlay as expenditures.

In the Statement of Activities, the cost of assets is allocated over the estimated useful life of the asset and reported as depreciation expense.

Capital outlay	45,998	
Depreciation expense	<u>(12,016)</u>	
		33,982

Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but are deferred and amortized throughout the period during which the related debt is outstanding in the Statement of Activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Repayment of bond principal	56,370,000	
Bonds issued	(150,000,000)	
Premium on bonds issued	<u>(19,502,971)</u>	
		(113,132,971)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Pension-related expenses	1,156,688	
Employees' compensable leave	79,654	
Interest and other	10,829,230	
Arbitrage rebate	<u>(613,217)</u>	
		<u>11,452,355</u>

Change in net position - Governmental activities \$ (3,779,795)

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**(3) Deposits and Investments**

Deposits of Cash held in the State Treasury:

On August, 31, 2016, THECB's restricted cash balance amounted to \$608.6 million and is comprised as follows:

**Restricted**

General Fund

Cash in State Treasury \$ 343,756,371

Special Revenue Funds

Texas Opportunity Plan 10,041,611

Student Loan Auxiliary 117,580,241

Debt Service Fund 125,641,812

Nonmajor Governmental Funds 11,628,211

\$ 608,648,246

As of August 31, 2016, the carrying amount of deposits for governmental activities was \$608.6 million. These amounts consist of cash in the State Treasury for which the State makes the related investment decisions. As of August 31, 2016, the total bank balance for governmental activities was \$606.7 million.

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, THECB will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. THECB nor the state have a deposit policy for custodial credit risk however, the state's security lending program is subject to custodial credit risk.

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**(4) Capital Assets**

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

	<b>PRIMARY GOVERNMENT</b>			
	Balance 09/01/15	Additions	Deletions	Balance 08/31/16
<b>GOVERNMENTAL ACTIVITIES</b>				
Depreciable Assets				
Furniture and Equipment	\$ 822,962	45,998	(57,123)	811,837
Total Depreciable Assets	<u>822,962</u>	<u>45,998</u>	<u>(57,123)</u>	<u>811,837</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	(793,834)	(12,016)	57,123	(748,727)
Total Accumulated Depreciation	<u>(793,834)</u>	<u>(12,016)</u>	<u>57,123</u>	<u>(748,727)</u>
Depreciable Assets, Net	<u>29,128</u>	<u>33,982</u>	<u>-</u>	<u>63,110</u>
Governmental Activities Capital Assets, Net	<u>\$ 29,128</u>	<u>33,982</u>	<u>-</u>	<u>63,110</u>

Depreciation expense of \$12,016 was allocated to General Administration in the Statement of Activities for the Governmental Activities.

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**(5) Student Loan Notes Receivable and Guarantee Agencies**

Student loan notes receivable consist of the following as of August, 31, 2016:

	<u>General Fund</u>	<u>Texas Opportunity Plan Fund</u>	<u>Student Loan Auxiliary Fund</u>	<u>Nonmajor Governmental Student Loan Fund</u>	<u>Total</u>
Student loan notes receivable	\$ 250,833,091	170,014,800	945,604,112	2,370,779	1,368,822,782
Less: Allowance for doubtful accounts	(71,309,811)	(40,572,162)	(105,674,470)	(1,516,442)	(219,072,885)
Student loan notes receivable, net	<u>\$ 179,523,280</u>	<u>129,442,638</u>	<u>839,929,642</u>	<u>854,337</u>	<u>1,149,749,897</u>
Beginning allowance	\$ 101,067,834	40,305,241	94,466,419	1,739,694	237,579,188
Write offs - Loan Principal	(156,034)	(2,235,113)	(788,191)	(184,684)	(3,364,022)
Write offs - Loan Forgiveness	(24,163,712)	-	(27,098)	-	(24,190,810)
Provisions for uncollectible loan principal	5,947,563	2,502,034	11,996,242	(38,568)	20,407,271
Provisions for uncollectible loan forgiveness	(11,385,840)	-	27,098	-	(11,358,742)
Ending allowance for doubtful accounts	<u>\$ 71,309,811</u>	<u>40,572,162</u>	<u>105,674,470</u>	<u>1,516,442</u>	<u>219,072,885</u>
Interest receivable on student loans	\$ 2,743,647	32,376,820	116,727,454	1,351,850	153,199,771
Less: Allowance for doubtful accounts	(2,196,159)	(19,877,309)	(29,719,257)	(1,226,186)	(53,018,911)
Interest receivable on student loans, net	<u>\$ 547,488</u>	<u>12,499,511</u>	<u>87,008,197</u>	<u>125,664</u>	<u>100,180,860</u>
Beginning allowance	\$ 1,523,696	21,532,188	26,521,081	1,446,624	51,023,589
Write offs - Loan Interest	(18,052)	(5,356,632)	(888,424)	(325,567)	(6,588,675)
Provisions for uncollectible loan interest	690,515	3,701,753	4,086,600	105,129	8,583,997
Ending allowance for doubtful accounts	<u>\$ 2,196,159</u>	<u>19,877,309</u>	<u>29,719,257</u>	<u>1,226,186</u>	<u>53,018,911</u>

The student loan notes receivable represents loans to students who, when the loans were originated, were enrolled in post-secondary institutions. In general, the notes bear interest and are payable by the student following a specified grace period after graduation or termination from the institution.

THECB administers the Hinson-Hazlewood College Student Loan Program (HHCSLP), created subsequent to the 1965 federal Higher Education Act, which established the federally guaranteed student loan program. HHCSLP provides low-interest loans to undergraduate, graduate and professional resident students attending post-secondary schools in Texas. Provisions of the Texas Education Code stipulate that HHCSLP is intended for students with insufficient resources to finance their college education.

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HHCSLP administers several state non-guaranteed loan programs: College Access Loans (CAL), Texas B-On-Time Loan Program (BOT), Health Education Loan Program (HELP) and Texas Armed Services Scholarship Program (TASSP). The College Access Loan Program provides alternative educational loans to Texas students who are unable to meet the cost of attendance. The CAL may be used to cover part or all of the student's Expected Family Contribution (EFC). The amount of federal aid that a student is eligible for (regardless of whether actually accepted) must be deducted from the cost of attendance in determining the CAL loan amount. The Texas B-On-Time Loan Program provides non-interest bearing loans to eligible students to enable them to attend colleges and universities in Texas. Additionally, the Texas B-On-Time Loan Program provides loan forgiveness incentive to those qualifying students. House Bill 700 was approved in the 84<sup>th</sup> legislature relating to the B-On-Time (BOT) loan program. This bill became effective September 1, 2015 and will phase out this program by the end of fiscal year 2020. As of September 1, 2016, only renewal loans will be issued. After fiscal year 2019, no BOT loans will be issued. Any remaining loans after this time will continue to be serviced until they are fully paid off. The Health Education Loan Program provided educational loans to Texas students enrolled in the following programs of study: medicine, osteopathy, dentistry, podiatry, veterinary medicine, pharmacy, public health, nursing, and allied health. Loan origination through this program ceased in fiscal year 2010, but the Board continues to service loans that it made through this program. The TASSP provides loans to eligible students who are attending colleges and universities in Texas and entering the armed services after graduation. The TASSP provides loan forgiveness incentive to those qualifying students. These loan programs are reported in the Student Loan Auxiliary Fund and the General Fund. The state non-guaranteed loans represent 99% of student loans receivable at August 31, 2016.

HHCSLP also provided federally guaranteed loans: Federal Family Education Loan Program (FFELP) Subsidized Stafford, Federal Family Education Loan Program (FFELP) Unsubsidized Stafford Loan, and the Federal Health Education Assistance Loan (HEAL) Program. (Effective June 30, 2010, the Board is no longer permitted to originate FFELP loans under these federally guaranteed loan programs due to the implementation of the Health Care and Education Reconciliation Act of 2010). The purpose of the Federal Family Education Loan Program (FFELP) Subsidized Stafford Loan was to provide low interest educational loans that enabled a student to pay the cost of attendance at a public or private, non-profit college or university. The federal government continues to pay the interest on these loans while a student is in school, during a grace period, and during authorized periods of deferment. The purpose of the Federal Family Education Loan Program (FFELP) Unsubsidized Stafford Loan was to provide low interest educational loans that enabled a student to pay the cost of attendance at a public or private, non-profit college or university. The Unsubsidized Stafford Loan borrower is responsible for interest that accrues while in school, during a grace period, or during authorized periods of deferment or forbearance. The purpose of the Federal Health Education Assistance (HEAL) Loan was to provide low interest educational loans to eligible graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, or in programs in health administration, and clinical psychology. Federally guaranteed loans are protected by federal reinsurance from the U.S. Department of Education for all FFELP loans and by the U.S. Department of Health and Human Services for all HEAL loans. The loans are guaranteed provided applicable program requirements have been met. Management of THECB believes that the student loan notes have met these requirements and are valid obligations of the student borrowers. Federal loans are reported in the Texas Opportunity Plan Fund, and the Student Loan Auxiliary Fund. The federally guaranteed loans represent 1% of student loans receivable at August 31, 2016. Loan origination through HEAL program ceased in fiscal year 1993, and loan origination through the FFELP programs ceased in fiscal year 2010. The Board continues to service loans that it made through these programs.

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**(6) Interfund Transfers**

THECB experienced transfers between different funds within the agency, which are consistent with the activities of the fund making the transfer. The Texas Opportunity Plan (TOP), the Student Loan Auxiliary (SLA), and the nonmajor governmental funds transfer funds to the debt service fund to cover debt service payments and/or reserve amounts required by bond indentures. Any excess funds in the debt service fund are transferred to the general fund to cover loan related expenses and/or the TOP, SLA, and nonmajor governmental funds for additional loans and grants.

Individual balances at August 31, 2016, were as follows:

<b>Transfers Out:</b>	<b>Transfers In:</b>		
	<b>General</b>	<b>Debt Service</b>	<b>Total</b>
Texas Opportunity Plan	\$ 12,117,474	1,261,099	13,378,573
Student loan Auxiliary	-	100,562,006	100,562,006
Non-Major Governmental Funds	-	429,430	429,430
	<u>\$ 12,117,474</u>	<u>102,252,535</u>	<u>114,370,009</u>

**(7) Summary of Long-Term Liabilities**

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

<b>Government Activities</b>	<b>Balance 9/1/2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 8/31/2016</b>	<b>Amounts Due Within One Year</b>
General Obligations					
Bonds Payable	\$ 826,965	150,000	(56,370)	920,595	58,445
Deferred Credits	58,080	8,331	-	66,411	11,131
Compensable Leave	1,697	1,098	(1,177)	1,618	758
Arbitrage Rebate Liability	6,388	613	-	7,001	-
Net Pension Liability	31,228	6,234	(10,078)	27,384	-
Total Governmental Activities	<u>\$ 924,358</u>	<u>166,275</u>	<u>(67,625)</u>	<u>1,023,008</u>	<u>70,334</u>

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**(8) Long-Term Debt and Arbitrage Rebate**

**(a) Bonds Payable**

THECB issues bonds for educational loans to eligible Texas college students. Payments received on the student loans are applied to the debt service on the bonds. As of August 31, 2016, bonds payable consisted of 16 (sixteen) general obligation issues for student loans totaling \$920.6 million. Bond issue dates for all College Student Bonds range from 2007 to 2015. Interest on bonds is payable periodically.

Proceeds from the issuance of bonds will be used to fund an ongoing student loan program which provides low interest loans to eligible students at institutions of higher education in the State and to pay for costs of issuance related to the Bonds.

The State Constitution limits the amount of bonds that can be issued by THECB. As of August 31, 2016, THECB has approximately \$1.2 billion remaining in authorized but unissued debt. Management believes THECB is in compliance with the various bond covenants as of August 31, 2016.

Throughout its history, THECB has issued refunding bonds from time to time when there has been an operational or economic gain for THECB. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt has been removed from THECB's general ledger. As of August 31, 2016, there is no defeased debt in escrow.

General Obligation Bonds

All bonds are on a parity basis and are secured by the following pledged collateral:

1. All monies received from loan and interest payments and the interest thereon.
2. Bond proceeds, if required, and to the extent permitted by the Act.
3. First monies coming into the Treasury of the State not otherwise appropriated by the State Constitution, if necessary.

**(b) Arbitrage Rebate**

Bonds issued after 1986 are subject to arbitrage rebate requirements imposed by section 148 (f) of the Internal Revenue Code of 1986. That provision of the Code requires that any excess earnings from the investment of proceeds of a tax-exempt bond, be rebated to the federal government no later than every five years after the date of issue. In effect, any excess amounts, i.e., earnings that represent a yield higher than the yield on the bonds, will be required to be repaid to the United States government. It is estimated that \$7.0 million in excess earnings may become due to the federal government at some point in the future. This estimate, however, does not take into account predictions of the next year's activity. Therefore, at the time payment is due to the United States government, it is probable that this figure will have changed and cannot be reasonably determined at this time what amount, if any, may be due.

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**(c) Changes in Bonded Indebtedness**

A summary of changes in bond indebtedness relating to THECB's governmental activities for the year ended August 31, 2016 is as follows (amounts in thousands):

<u>Description of Issue</u>	<u>Bonds Outstanding 9/1/2015</u>	<u>Bonds Issued</u>	<u>Bonds Matured or Retired</u>	<u>Bonds Refunded or Extinguished</u>	<u>Bonds Outstanding 8/31/2016</u>	<u>Amounts Due Within One Year</u>
<u>General Obligation Bonds:</u>						
COL STUD LOAN BDS SER'07A	\$ 61,675		2,570		59,105	2,700
COL STUD LOAN RFD BDS SER'07B	19,485		6,900		12,585	5,900
COL STUD LOAN BDS SER'08A	65,300		2,500		62,800	2,630
COL STUD LOAN RFD BDS SER'08B	20,390		7,070		13,320	6,275
COL STUD LOAN RFD BDS SER'08C	11,985		5,840		6,145	6,145
COL STUD LOAN BDS SER'09	65,130		2,380		62,750	2,475
COL STUD LOAN BDS SER'10	106,835		3,590		103,245	3,740
COL STUD LOAN RFD BDS SER'10	6,140		3,000		3,140	3,140
COL STUD LOAN BDS SER'11A	115,570		3,235		112,335	3,400
COL STUD LOAN RFD BDS SER'11B	1,870		760		1,110	565
COL STUD LOAN RFD BDS SER'11C	6,570				6,570	-
COL STUD LOAN BDS SER'12	85,615		515		85,100	3,905
COL STUD LOAN RFD BDS SER'13A	78,530		18,010		60,520	-
COL STUD LOAN BDS SER'13B	113,740				113,740	17,570
COL STUD LOAN BDS SER'14	68,130				68,130	-
COL STUD LOAN BDS SER'15					150,000	-
		150,000				
<b>Total General Obligation Bonds</b>	<b>826,965</b>	<b>150,000</b>	<b>56,370</b>	<b>-</b>	<b>920,595</b>	<b>58,445</b>
<u>Deferred Adjustments:</u>						
Unamortized Premium	58,937				67,198	11,201
Unamortized Discount	(405)				(385)	(21)
Unamortized Gain from Refunding	112				79	33
Unamortized Loss from Refunding	(564)				(481)	(83)
<b>Total Bonded Indebtedness</b>	<b>\$ 885,045</b>				<b>987,006</b>	<b>69,576</b>

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**(d) Debt Service Requirements**

As of August 31, 2016, the debt service requirements of bonded indebtedness to maturity are as follows (amounts in thousands):

<b>Year ended August 31:</b>		<b>Principal</b>	<b>Interest</b>	<b>Requirements</b>
2017	\$	58,445	44,937	103,382
2018		60,460	42,023	102,483
2019		63,715	39,014	102,729
2020		50,395	35,769	86,164
2021		51,995	33,144	85,139
2022 – 2026		253,865	126,412	380,277
2027 – 2031		254,435	63,757	318,192
2032 – 2036		127,285	13,571	140,856
Total	\$	<u>920,595</u>	<u>398,627</u>	<u>1,319,222</u>

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**(e) Miscellaneous Bond Information**

A summary of miscellaneous bond information relating to THECB's governmental activities for the year ended August 31, 2016 is as follows (amounts in thousands):

Description of Issue	Bonds Issued To Date	Range of Interest Rates		Terms of Variable Interest Rates	Scheduled Maturities		First Call Date
					First Year	Last Year	
<u>General Obligation Bonds:</u>							
COL STUD LOAN BDS SER'07A	72,805,000	5.00%	5.25%		2011	2031	08/01/2021 (A,B)
COL STUD LOAN RFD BDS SER'07B	26,165,000	4.50%	5.00%		2014	2018	N/A
COL STUD LOAN BDS SER'08A	74,115,000	5.00%	5.50%		2012	2032	08/01/2018 (A,B)
COL STUD LOAN RFD BDS SER'08B	27,335,000	5.00%	5.50%		2014	2018	N/A
COL STUD LOAN RFD BDS SER'08C	45,265,000	5.25%	5.25%		2009	2017	N/A
COL STUD LOAN BDS SER'09	71,730,000	4.00%	5.00%		2013	2033	08/01/2019 (A,B)
COL STUD LOAN BDS SER'10	113,580,000	3.00%	5.00%		2014	2034	08/01/2020 (A,B)
COL STUD LOAN RFD BDS SER'10	51,865,000	3.00%	5.00%		2011	2017	N/A
COL STUD LOAN BDS SER'11A	118,650,000	5.00%	5.00%		2015	2036	(A,B)
COL STUD LOAN RFD BDS SER'11B	27,020,000	2.00%	5.00%		2012	2018	N/A
COL STUD LOAN RFD BDS SER'11C	6,570,000	5.00%	5.00%		2019	2022	N/A
COL STUD LOAN BDS SER'12	85,615,000	3.00%	5.50%		2016	2035	08/01/2022 (A)
COL STUD LOAN RFD BDS SER'13A	98,550,000	2.00%	5.00%		2014	2023	N/A
COL STUD LOAN BDS SER'13B	113,740,000	4.00%	5.50%		2019	2030	08/01/2023 (A)
COL STUD LOAN BDS SER'14	68,130,000	4.00%	6.00%		2019	2030	08/01/2024 (A)
COL STUD LOAN BDS SER'15	150,000,000	4.00%	5.00%		2020	2034	08/01/2025 (A)
Total General Obligation Bonds	<u>\$ 1,151,135,000</u>						

**NOTE A:** Bonds having stated maturities after this date are subject to optional redemption on this date, or on any payment date thereafter.

**NOTE B:** Additionally, the term bonds maturing on the following dates, are subject to mandatory redemption prior to maturity beginning on August 1 of each of the years listed below and continuing each subsequent year until scheduled maturity:

Description of Issue	Scheduled Maturity Date	First Redemption Date
	August 1,	
<u>General Obligation Bonds:</u>		
COL STUD LOAN BDS SER'07A	2023	2022
COL STUD LOAN BDS SER'07A	2025	2024
COL STUD LOAN BDS SER'07A	2028	2026
COL STUD LOAN BDS SER'07A	2031	2029
COL STUD LOAN BDS SER'08A	2026	2025
COL STUD LOAN BDS SER'08A	2028	2027
COL STUD LOAN BDS SER'08A	2032	2029
COL STUD LOAN BDS SER'09	2033	2031
COL STUD LOAN BDS SER'10	2034	2031
COL STUD LOAN BDS SER'11A	2031	2027
COL STUD LOAN BDS SER'11A	2036	2032

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Notes to Financial Statements

Year Ended August 31, 2016

**(9) Operating Lease Obligations**

Included in expenditures are assets leased on a long-term basis that have been classified as operating leases. Amounts of rent paid or due under operating leases of \$1.4 million were expended during the year ending August 31, 2016 in the General Fund.

The terms of the facility lease contract allow for the total monthly rent to be annually adjusted for changes in the Consumer Price Index (CPI). The future minimum lease rental payments presented below follow the straight line method in accordance with GASB.

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

<b>Year Ended August 31:</b>	<b>Amount</b>
2017	1,440,500
2018	1,440,500
2019	1,440,500
2020	1,440,500
Total minimum future lease rental payments	\$ <u>5,762,000</u>

**(10) Optional Retirement Plan**

THECB administers and contributes to an Optional Retirement Plan (ORP), which is a defined contribution retirement plan. The governing board of each participating institution of higher education administers its own ORP, with the THECB acting as the plan sponsor. The ORP plan participants contribute 6.65% of their salary to ORP, and THECB contributes 8.50% for non-grandfathered participants and grandfathered (participants whose first date of participation in ORP is prior to September 1, 1995 are grandfathered). The Optional Retirement Program provides for the purchase of 403(b)(1) annuity contracts and 403(b)(7) mutual funds.

The total employee ORP contributions for year ending August 31, 2016 was \$112,347 and THECB's matching contribution was \$143,602.

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**(11) Contingent Liabilities**

**(a) Litigation**

A number of claims against THECB are pending with respect to various matters arising in the normal course of THECB's operations. Legal counsel and THECB's management are of the opinion that settlement of these claims and pending litigation will not have a material effect on THECB's financial statements.

**(b) Federal and State Financial Assistance Programs**

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

**(c) Arbitrage**

THECB's financial advisor has determined that THECB has earned interest revenue on unused bond proceeds in excess of amounts allowed by applicable federal regulations. THECB may be required to rebate funds to the federal government at a future date.

**(d) Continuance Subject to Review**

Texas Education Code, Sec. 61.0211. SUNSET PROVISION. The Texas Higher Education Coordinating Board is subject to Chapter 325, Government Code (Texas Sunset Act). Unless continued in existence as provided by that chapter, the board is abolished and this chapter expires September 1, 2025.

**(e) Significant Encumbrances**

As of August 31, 2016, THECB had significant encumbered expenditures in governmental funds for signed contracts and purchase orders as presented in the table below\*:

	General Fund	Texas Opportunity Plan Fund	Nonmajor Governmental Funds
Encumbrances	\$28,257,725	\$821,663	\$3,165,192

\*Significant encumbrances are individual contracts greater than \$100K.

**(12) Risk Financing and Related Insurance**

THECB is exposed to a variety of potential civil claims and assumes certain risks associated with tort and liability claims resulting from the performance of its duties. It is agency policy to periodically assess the proper combination of commercial insurance and assumption of risk to address potential liability claims. Currently there is no purchase of commercial insurance.

Workers' compensation claims are paid in accordance with the provisions of the State Office of Risk Management, through an assessment payment in a closed and non-voluntary pool of risks with other

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Year Ended August 31, 2016

agencies. THECB's assessment for fiscal year 2016 was \$22,095. For unemployment compensation claims, the State, and THECB by extension, is generally self-insured, and funds such liabilities on a pay-as-you-go basis. THECB's unemployment compensation total payments for fiscal year 2016 were \$8,382.

THECB's liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities will be reevaluated periodically taking into account current settlements, frequency of claims, past experience, and economic factors.

**(13) Subsequent Events**

- (a) On December 13, 2016, THECB sold general obligation bonds totaling \$158 million in principal. The proceeds will be used to fund an ongoing student loan program which provides low interest loans to eligible Texas college students.
- (b) After fiscal year end 2016, the unappropriated cash balance increased from \$169 million to \$194 million as of June 12, 2017.

**(14) Deferred Inflows and Outflows of Resources**

As of August 31, 2016, THECB reported deferred outflows of resources and deferred inflows of resources in the Statement of Net Position as presented in the table below:

**Deferred Outflows and Deferred Inflows of Resources  
Statement of Net Position  
As of August 31, 2016**

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension (Note 15)	\$ 3,673,447	\$ 6,445,936

THECB reported \$6.4 million in deferred inflows of resources and \$3.7 million in deferred outflows of resources related to the recognition of THECB's share of the state's Net Pension Liability.

Changes in reported deferred outflows of resources result from: change in assumptions on Net Pension Liability; amortization of the effect of changes in assumptions during the current fiscal period; the difference between the actual and projected investment return; amortization of the difference between the actual and projected investment return; state contributions recorded during the measurement period; state contributions made in the current fiscal period, but after the measurement date; difference between the agency's contributions and the proportionate share of contributions; and netting of deferred inflows and outflows in different measurement periods related to the difference between projected and actual investment return.

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Changes in reported deferred inflows of resources result from: the effects on Net Pension Liability due to differences between actual and expected experiences; amortization of the effect of the difference between the actual and expected experience in the current fiscal period; changes in assumptions on Net Pension Liability; amortization of the effect of changes in assumptions during the current fiscal period; change in proportion & contribution difference; amortization of the effect of change in proportion and contribution difference; and netting of deferred inflows and outflows in different measurement periods related to the difference between projected and actual investment return. Refer to note 15 for additional information on pensions.

### (15) Pensions – Employees Retirement Plan

Employees of the Texas Higher Education Coordinating Board (THECB) are under the coverage of the Employees Retirement System of Texas Plan (ERS Plan).

#### **Employees Retirement System's (ERS) plan**

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. In addition to the state of Texas, the employers of the ERS plan include various component units of the state. The Employees Retirement System and the Texas Treasury Safekeeping Trust Company, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS plan. The Employees Retirement System of Texas Plan (ERS Plan) is considered a single employer defined benefit plan under GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*.

ERS plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who included in the coverage of Teacher Retirement System of Texas, Judicial Retirement System Plan I (JRS 1) and Plan II (JRS II). Elected class includes elected state officials not included in the coverage of JRS 1 and JRS II, and members of the Legislature and district and criminal district attorneys.

The benefit and contribution provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. The monthly benefit may vary by membership class.

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

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Year Ended August 31, 2016

The ERS plan provides disability annuities and death and survivor benefits for employees of the State of Texas. For occupational disability, members must have at least one month of service and make retirement contributions in the month they become permanently disabled; the benefits are the same as those under the standard service retirement, except the standard annuity is equal to not less than 35% of the monthly compensation regardless of the years of service credit or age. For non-occupational disability, members must have at least 10 years of Employee Class service credit and be a contributing member at the time of permanent disability; the retirement benefits are actuarially reduced from normal retirement eligibility based on age and length of service. State employees with at least 10 years of ERS service credit are eligible for death benefits based on salary and service with death benefits paid to beneficiaries according to a life annuity, lump sum payment, or 10-year guaranteed annuity option.

The ERS plan's membership as of the measurement date of Aug. 31, 2015 is presented in the table below:

**Employees Retirement System's Membership**

	<b>ERS</b>
Retirees and Beneficiaries Currently	
Receiving Benefits	100,003
Terminated Employees Entitled to	
Benefits But Not Yet Receiving Them	101,122
Current Employees	
Vested and Non-Vested	<u>142,409</u>
Total Members	<u><u>343,534</u></u>

The contribution rates for the state and the members for the ERS plan for the measurement period of fiscal year 2015 are presented in the table below:

**Required Contribution Rates**

Fiscal Year	Plan	Employer			Members		
		Employee Class	Elected Class – Legislators	Elected Class – Other	Employee Class	Elected Class – Legislators	Elected Class – Other
2015	ERS	8.00%	8.00%	8.00%	6.90%	8.00%	6.90%

The amount of THECB's contributions recognized by the ERS plan during the fiscal year 2015 measurement period was \$1,032,886. This amount represents THECB's 0.206 percent proportionate share of the collective amounts for the state of Texas. The contribution percentage is based on ERS figures of actual contributions from each of the state agencies as a percentage of the total state contributions.

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The total pension liability is determined by an annual actuarial valuation. The methods and assumptions applied, except discount rate, in the actuarial valuation were based on an experience study covering the five-year period from September 1, 2006 through August 31, 2011. There is a slight modification in the assumption of withdraw rate of member contributions in the fiscal 2015 valuation. Higher percentage of individuals was assumed to withdraw their contributions when terminating due to higher member contribution level. Additionally, the actuarial valuation as of August 31, 2015 also incorporates the most significant across-the-board pay increases budgeted by the state Legislature for the current fiscal 2014-2015 biennium. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2015:

**Actuarial Methods and Assumptions**

	ERS Plan
Actuarial Valuation Date	August 31, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Open
Actuarial Assumptions:	
Discount Rate	6.86%
Investment Rate of Return	8.0%
Inflation	3.5%
Salary Increase	0% to 11.5%
Mortality	1994 Group Annuity Mortality Table with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.
Cost-of-living Adjustments	None - Employee 3.5% - Elected

A single blended discount rate of 6.86% was applied to measure the total pension liability. The 6.86% discount rate incorporated an 8% long-term expected rate of return on pension plan investments and 3.79% 20-year municipal bond rate based on Federal Reserve Statistical Release H. 15. The long-term expected investment rate of return was applied to projected benefit payments through fiscal 2053 and the municipal bond rate was applied to all benefit payments thereafter.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projected cash flows from the employers are based on contributions for the most recent five

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Year Ended August 31, 2016

year period as of the measurement date, adjusted on consideration of subsequent events. There have been indicators of Legislature’s commitment to increase funding for the pension fund. The Legislature passed House Bill No. 9 in the 84th legislative session during fiscal 2015 to increase the member contribution rates for fiscal 2016 and 2017. The state contribution rates also increased as the result of this legislative session. The Legislature also maintained some changes made by Senate Bill 1459 in the 83rd legislative session. Considering these above events, the projected employer contributions are based on fiscal 2015 funding level.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan’s investment portfolio are presented below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Arithmetic Real Rate of Return</b>
Global Equity	55%	4.02%
Global Credit	10%	0.19%
Intermediate Treasuries	15%	0.18%
Real Estate	10%	0.43%
Infrastructure	4%	0.25%
Hedge Funds	5%	0.35%
Cash	1%	0.00%
<b>Total</b>	<b>100%</b>	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of THECB’s net pension liability. The result of the analysis is presented in the table below:

**Sensitivity of THECB’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

<b>1% Decrease (5.86%)</b>	<b>Current Discount Rate (6.86%)</b>	<b>1% Increase (7.86%)</b>
\$ 36,565,603	\$ 27,383,808	\$ 19,686,409

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Year Ended August 31, 2016

The amounts shown in this schedule represent THECB's 0.206 percent proportionate share of the collective amounts for the state of Texas. The contribution percentage is based on ERS figures of actual contributions from each of the state agencies as a percentage of the total state contributions.

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 31 and 67. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. Employees Retirement System issues a stand-alone audited Comprehensive Annual Financial Report (CAFR). More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal year 2015 CAFR:

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

THECB's total pension liability is based on an actuarial valuation performed as of August 31, 2015. For fiscal year 2016 reporting, the measurement date of THECB's net pension liability is August 31, 2015. The schedule of changes in THECB's net pension liability for the fiscal year ending August 31, 2016 is presented below:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
<b>Balances as of 8/31/2014</b>	\$ 85,323,742	\$ 54,095,674	\$ 31,228,068
<b>Changes for the year:</b>			
Service cost	2,541,376	-	2,541,376
Interest	4,899,959	-	4,899,959
Benefit changes	(181,303)	-	(181,303)
Difference between expected and actual experience	(587,766)	-	(587,766)
Changes of assumptions	(7,078,285)	-	(7,078,285)
Contributions - employer	-	1,032,886	(1,032,886)
Contributions - member	-	953,962	(953,962)
Net investment income	-	117,534	(117,534)
Benefit payments, including refunds of employee contributions	(4,230,025)	(4,230,025)	-
Administrative expense	-	(45,080)	45,080
Change in Proportional Percentage	(1,378,939)	-	(1,378,939)
Net changes	(6,014,983)	(2,170,723)	(3,844,260)
<b>Balances as of 8/31/2015</b>	\$ 79,308,759	\$ 51,924,951	\$ 27,383,808

The amounts shown in this schedule represent THECB's 0.206 percent proportionate share of the collective amounts for the state of Texas. The contribution percentage is based on ERS figures of actual contributions from each of the state agencies as a percentage of the total state contributions.

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Year Ended August 31, 2016

The change of discount rate and slight change in assumption of the withdrawal rate of member contributions at termination are the assumption changes during the current measurement period. There have been no changes to the benefit terms of the plan since the prior measurement date. THECB's proportion of the entire ERS plan was 0.206 percent in fiscal 2016 as compared to 0.216 in the prior measurement period.

For the fiscal year ending August 31, 2016, THECB recognized pension expense of \$247,782.

At August 31, 2016, THECB reported deferred outflows of resources and deferred inflows of resources from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$	\$ 615,337
Changes of assumptions	995,917	4,880,061
Net difference between projected and actual investment return	1,242,801	
Change in proportion & contribution difference		950,538
Contributions subsequent to the measurement date	1,434,729	
Total	<u>\$ 3,673,447</u>	<u>\$ 6,445,936</u>

The \$1,434,729 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

Year ended August 31:

2017	\$ (2,027,851)
2018	(2,499,337)
2019	(465,526)
2020	785,496
Total	<u>\$ (4,207,218)</u>

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Year Ended August 31, 2016

**(16) Related Organizations**

The College for All Texans (CFAT) Foundation is a Texas non-profit organization that is organized to support THECB program initiatives. CFAT is a legally separate, fiscally independent entity for which the THECB appoints a voting majority of the board, but the THECB is not financially accountable to the foundation nor can it impose its will on CFAT. There is no financial benefit or burden relationship between THECB and the foundation, therefore, CFAT has been classified as a related organization.

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(An Agency for the State of Texas)

General Fund

Schedule of Budgeted and Actual Revenues and Expenditures

Year Ended August 31, 2016

(Unaudited)

	<u>Budgetary Amounts</u>		<u>Actual Amount</u>	<u>Final to Actual Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Legislative appropriations	\$ 1,656,787,146	1,659,691,784	1,655,539,093	(4,152,691)
Federal revenues	5,009,128	5,009,128	6,613,026	1,603,898
Federal pass-through revenues	27,604,218	27,604,218	27,224,129	(380,089)
State pass-through revenues	—	—	(287,354)	(287,354)
Intergovernmental revenues	162,198,613	162,198,613	16,795,192	(145,403,421)
Licenses, fees and permits	108,668	108,668	2,362,256	2,253,588
Interest and investment income	—	—	1,120,014	1,120,014
Other revenues	2,500	2,500	1,329,281	1,326,781
Total revenues	<u>1,851,710,273</u>	<u>1,854,614,911</u>	<u>1,710,695,637</u>	<u>(143,919,274)</u>
<b>Expenditures</b>				
General administration	25,278,370	25,278,370	31,075,464	(5,797,094)
Financial assistance - loans	—	—	(4,415,059)	4,415,059
Financial assistance - institutions	1,683,244,946	1,683,244,946	1,681,671,917	1,573,029
Financial assistance - students	133,845,593	133,845,593	15,000,609	118,844,984
Total expenditures	<u>1,842,368,909</u>	<u>1,842,368,909</u>	<u>1,723,332,931</u>	<u>119,035,978</u>
Excess (deficit) of revenues over Expenditures	<u>9,341,364</u>	<u>12,246,002</u>	<u>(12,637,294)</u>	<u>(24,883,296)</u>
<b>Other financing sources (uses)</b>				
Transfer in	(9,341,364)	(9,341,364)	12,117,474	21,458,838
Total other financing sources (uses)	<u>(9,341,364)</u>	<u>(9,341,364)</u>	<u>12,117,474</u>	<u>21,458,838</u>
Net change in fund balance	<u>—</u>	<u>2,904,638</u>	<u>(519,820)</u>	<u>(3,424,458)</u>
Fund balances at beginning of the year	<u>506,062,029</u>	<u>506,062,029</u>	<u>506,062,029</u>	<u>—</u>
Fund balance at the end of the year	<u>\$ 506,062,029</u>	<u>508,966,667</u>	<u>505,542,209</u>	<u>(3,424,458)</u>

See accompanying independent auditor's report

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency for the State of Texas)

General Fund

Notes to Schedule of Budgeted and Actual Revenues and Expenditures

Year Ended August 31, 2016

(Unaudited)

**1. General Budget Policies**

The budget is prepared biennially following generally accepted accounting principles (GAAP) and represents appropriations authorized by the Legislature and approved by the Governor. The budget authority to spend state funds, as detailed in the General Appropriations Act, is then used as a basis for THECB's annual operating budget. The proposed annual operating budget is submitted to the Commissioner of Higher Education who recommends an annual operating budget to the nine (9) member Board at its regular quarterly meeting held in July of each year. The nine (9) member Board approves the annual operating budget, including sources of funds and detailed expenditures of all funds administered by the agency. Obligations may be incurred and disbursements made only as authorized by the approved budget. Subsequent changes in the budget must have the approval of the Commissioner of Higher Education or designee.

The State monitors its statewide budget by establishing the legal level of control at the agency to ensure that expenditures are not made in excess of budgetary authority. Within THECB, procedures are used to ensure that expenditures do not exceed their total budget at the division level, but the State Comptroller ultimately ensures that each total authorized agency budget is not exceeded. Unencumbered appropriations are generally subject to lapse sixty days after the end of the fiscal year for which they were appropriated.

THECB prepares its annual operating budget based on the modified accrual basis. The accompanying schedules of Budgeted and Actual Revenues and Expenditures compare the agency's legally adopted budget with actual data in accordance with THECB's basis of budgeting.

**2. Budget Amendments**

The original and final budget is presented in the accompanying financial statements. The original budget for the General Fund was amended during Fiscal Year 2016 for required changes that were received for the appropriation year 2016.

**3. Legally Adopted Budgets**

Certain revenues and expenditures, including Debt Service, the Texas Opportunity Plan Fund, and the Student Loan Auxiliary Fund, are not budgeted by the Legislature. The activity for these programs have been excluded from the Schedule of Budgeted to Actual Revenues and Expenditures.

All funds that have excess of expenditures over appropriations variance is a result of direct funding from either appropriated transfers-in and/or beginning cash balances. Other variances due to presenting data on a budgetary basis of accounting can be attributed to a net increase in accruals which include prior year amounts.

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Pension Plan Information  
For the Year Ended August 31, 2016  
(Unaudited)

**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Employees Retirement System of Texas Plan**  
For the last ten fiscal years

Fiscal year ending August 31,	2016	2015
<b>Total Pension Liability</b>		
Service Cost	\$ 2,541,376	\$ 2,460,643
Interest on the Total Pension Liability	4,899,959	5,019,061
Benefit Changes	(181,303)	-
Difference between Expected and Actual Experience of the Total Pension Liability	-	(546,281)
Assumption Changes	(7,078,285)	2,589,384
Benefit Payments and Refunds	(4,230,025)	(4,240,134)
Change in Proportional Percentage	(1,378,939)	-
<b>Net Change in Total Pension Liability</b>	(6,014,983)	5,282,673
<b>Total Pension Liability - Beginning</b>	85,323,742	80,041,070
<b>Total Pension Liability - Ending</b>	\$ 79,308,759	\$ 85,323,743
<b>Plan Fiduciary Net Position</b>		
Contributions - Employer	\$ 1,032,886	\$ 1,041,394
Contributions - Member	953,962	929,869
Pension Plan Net Investment Income	117,534	7,023,588
Benefit Payments and Refunds	(4,230,025)	(4,240,134)
Pension Plan Administrative Expense	(45,080)	(43,611)
<b>Net Change in Plan Fiduciary Net Position</b>	(2,170,723)	4,711,106
<b>Plan Fiduciary Net Position - Beginning</b>	54,095,674	49,384,569
<b>Plan Fiduciary Net Position - Ending</b>	\$ 51,924,951	\$ 54,095,675
<b>Net Pension Liability - Beginning</b>	31,228,068	30,656,501
<b>Net Pension Liability - Ending</b>	\$ 27,383,808	\$ 31,228,068
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	64.40%	63.40%
<b>Covered Employee Payroll</b>	\$ 12,694,868	\$ 12,860,805
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	215.71%	242.82%

See accompanying independent auditors' report

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

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Pension Plan Information

For the Year Ended August 31, 2016

(Unaudited)

**Notes to schedule:**

1. THECB's proportional percentage decreased from fiscal 2014 (prior measurement period) to fiscal 2015 (current measurement period).
2. The change in the total pension liability due to the change in the single discount rate is included as an assumption change.
3. The covered employee payroll is the actual annual payroll for fiscal 2015 - the measurement period.
4. The impact of House Bill 9 passed by the 84th Legislature is included as a benefit change.
5. This schedule is intended to present 10 years of information. Currently only two years of information is available. Information for future years will be added when it becomes available

**Schedule of Employer Contributions**

For the last ten fiscal years\*

Fiscal year ending August 31,	2016	2015
Actuarially determined contributions	\$ 1,403,215	\$ 1,591,790
Contributions in relation to the actuarially determined contributions	1,417,576	1,080,602
Contribution deficiency (excess)	(14,361)	511,188
Covered-employee payroll	13,916,733	13,281,333
Contributions as a percentage of covered-employee payroll	10.20%	8.14%

\* This schedule is intended to present 10 years of data. Currently only two years of information is available. Information for future years will be added when it becomes available.

See accompanying independent auditors' report

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency for the State of Texas)

Pension Plan Information

For the Year Ended August 31, 2016

(Unaudited)

**Notes to Schedule of Contributions**

**Valuation Date** Actuarially determined contribution rates are calculated as of August 31, 2015.

**Methods and Assumptions Used to Determine Contribution Rates**

Actuarial Cost Method Entry Age Normal

Amortization Method Level Percentage of Payroll, Open

Remaining Amortization

Period 31 years

Asset Valuation Method 20% of market plus 80% of expected actuarial value

Inflation 3.5%

Salary Increases 0% to 11.5%

Investment Rate of Return 8.0%

Retirement Age Experience-based rates specific to the class of employees.

Last updated for the 2013 valuation based on an experience study of the 5-year period from Sept. 1, 2006 through Aug. 31, 2011

Mortality 1994 Group Annuity Mortality with no setback for males and Set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

**Other Information:**

1. Actuarially determined contributions are adjusted for actual payroll and administrative expenses.
2. Members and employers contribute based on statutorily fixed rates.
3. Beginning in fiscal 2016, the Actuarially Determined Contribution will include the impact of House Bill 9 passed by the 84th Legislature.

See accompanying independent auditors' report



KPMG LLP  
Suite 1900  
111 Congress Avenue  
Austin, TX 78701-4091

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Trustees  
Texas Higher Education Coordinating Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Texas Higher Education Coordinating Board (THECB), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise THECB's basic financial statements, and have issued our report thereon dated June 16, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered THECB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of THECB's internal control. Accordingly, we do not express an opinion on the effectiveness of THECB's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether THECB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of THECB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering THECB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Austin, Texas  
June 16, 2017