



**TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency of the State of Texas)

Financial Statements

For the year ended August 31, 2011

(With Independent Auditors' Report Thereon)

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

Year Ended August 31, 2011

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KPMG LLP  
811 Main Street  
Houston, TX 77002

## Independent Auditors' Report

The Board of Trustees  
Texas Higher Education Coordinating Board:

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, 2011, which collectively comprise the THECB's basic financial statements as listed in the table of contents. These financial statements are the responsibility of THECB's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of THECB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 THECB, as of August 31, 2011, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1(E) to the financial statements, THECB has presented the governmental fund statements fund balances in accordance with the classifications of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2012, on our consideration of THECB's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedule of budgeted and actual revenues and expenditures on pages 5-16 and 49-50 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.

KPMG LLP

June 7, 2012

## **TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency of the State of Texas)

### Management's Discussion and Analysis

August 31, 2011

The following is a discussion and analysis of Texas Higher Education Coordinating Board's (hereinafter referred to as THECB) financial performance, providing an overview of THECB's financial position and activities as of and for the year ended August 31, 2011. Please read it in conjunction with THECB's basic financial statements, which follow this section.

#### **Financial Highlights – 2011**

- The assets of THECB exceeded its liabilities at the end of the fiscal year 2011, resulting in \$584.9 million of net assets for the governmental activities.
- Unrestricted net assets, which may be used to meet THECB's future obligations, was \$0.7 million or 0.1% of total net assets at the end of fiscal year 2011.
- Net assets in the amount of \$101.5 million or 17.3% of total net assets was restricted for Debt Service and \$457.8 million, or 78.3% of net assets was restricted for loans and grant programs. Net assets restricted for unappropriated was \$24.8 million, or 4.2% of total net assets.
- THECB's total liabilities of \$863.5 million include \$830.0 million for bonds payable.
- During the fiscal year ending August 31, 2011, House Bill 4 was passed by the 82<sup>nd</sup> legislature. THECB received mandated budget reductions totaling \$117.2 million for the fiscal year.
- As of August 31, 2011, THECB's governmental funds reported combined fund balances of \$496.4 million, of which less than 1% is designated as nonspendable or committed fund balance.
- THECB's primary revenue source is funding from the State of Texas through legislative appropriations and American Recovery and Reinvestment Act (ARRA) of \$1.6 billion and THECB's primary expenditures are grants to institutions of \$1.7 billion.

#### **Financial Highlights – 2010**

- The assets of THECB exceeded its liabilities at the end of the fiscal year 2010, resulting in \$563.0 million of net assets for the governmental activities.
- Unrestricted net assets, which may be used to meet THECB's future obligations, was \$0.7 million or 0.1% of total net assets at the end of fiscal year 2010.
- Net assets in the amount of \$102.9 million or 18.3% of total net assets was restricted for Debt Service and \$459.2 million, or 81.6% of net assets was restricted for loans and grant programs.
- THECB's total liabilities of \$847.2 million include \$770.1 million for bonds payable.
- As of August 31, 2010, THECB's governmental funds reported combined fund balances of \$468.7 million, of which less than 1% is designated as nonspendable or committed fund balance.

## **TEXAS HIGHER EDUCATION COORDINATING BOARD**

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- THECB's primary revenue source is funding from the State of Texas through legislative appropriations and American Recovery and Reinvestment Act (ARRA) of \$2.1 billion and THECB's primary expenditures are grants to institutions of \$2.0 billion.

### **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 Assets 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 Assets combines the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets and liabilities. Net assets, which are the difference between THECB's assets and liabilities, represent one measure of THECB's financial health.

The Statement of Activities presents information showing how THECB's net assets changed during the most recent fiscal year. All changes in net assets 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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**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 Assets 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 non-major governmental funds are combined into a single aggregated presentation entitled Non-major 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 Assets. 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.

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**Financial Analysis of the Government-Wide Financial Statement**

**Net Assets**

The following table reflects a summary of Net Assets for the fiscal year ended August 31, 2011 and 2010:

**Texas Higher Education Coordinating Board  
Net Assets  
August 31, 2011 and 2010**

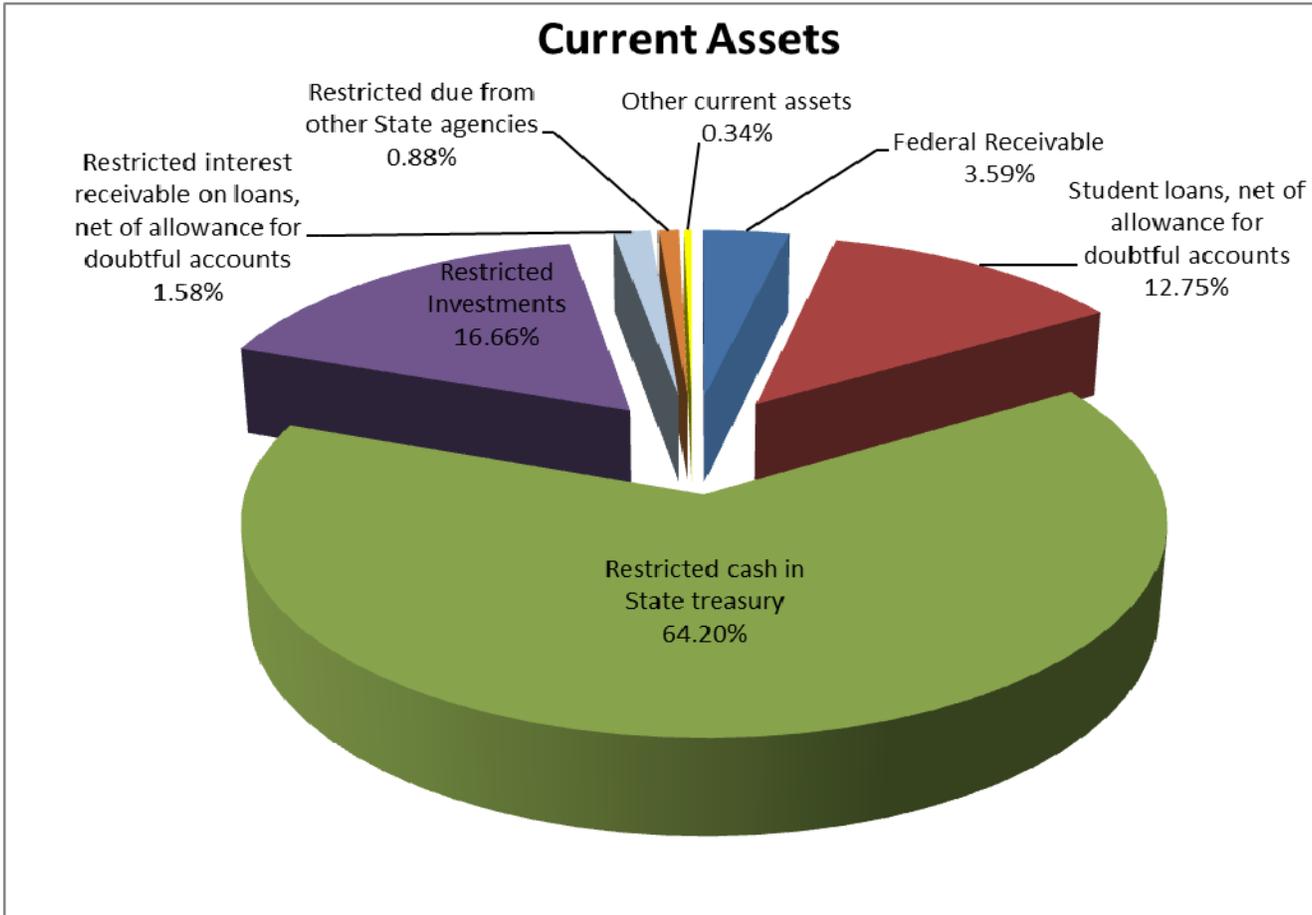
	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets	\$ 573,075,973	611,974,712
Capital assets	134,733	213,094
Other non-current assets	875,259,587	797,994,353
Total assets	<u>1,448,470,293</u>	<u>1,410,182,159</u>
 <b>LIABILITIES</b>		
Current liabilities	94,098,540	140,521,487
Noncurrent liabilities	769,444,882	706,704,011
Total liabilities	<u>863,543,422</u>	<u>847,225,498</u>
 <b>NET ASSETS</b>		
Invested in capital assets	134,733	213,094
Restricted	584,047,110	562,080,391
Unrestricted	745,028	663,176
Total net assets	<u>\$ 584,926,871</u>	<u>562,956,661</u>

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Net assets may serve as a useful indicator of a government's financial position. For THECB, assets exceeded liabilities by \$584.9 million at the end of the 2011 fiscal year, an increase of \$22 million from prior year or 3.9%. The largest portion of THECB's net assets is restricted for debt service, loans and grants, and unappropriated which represent \$584 million.

Total assets increased to \$1.45 billion from \$1.41 billion, representing a 2.7% change from fiscal year 2010. The changes were primarily the result of new loans issued during the year exceeding repayments, which increased loan receivable balances. Total liabilities increased to \$863.5 million from \$847.2 million, representing a 1.9% 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 Assets for the fiscal year ended August 31, 2011 and 2010:

**Texas Higher Education Coordinating Board  
Changes in Net Assets  
For the Years ended August 31, 2011 and 2010**

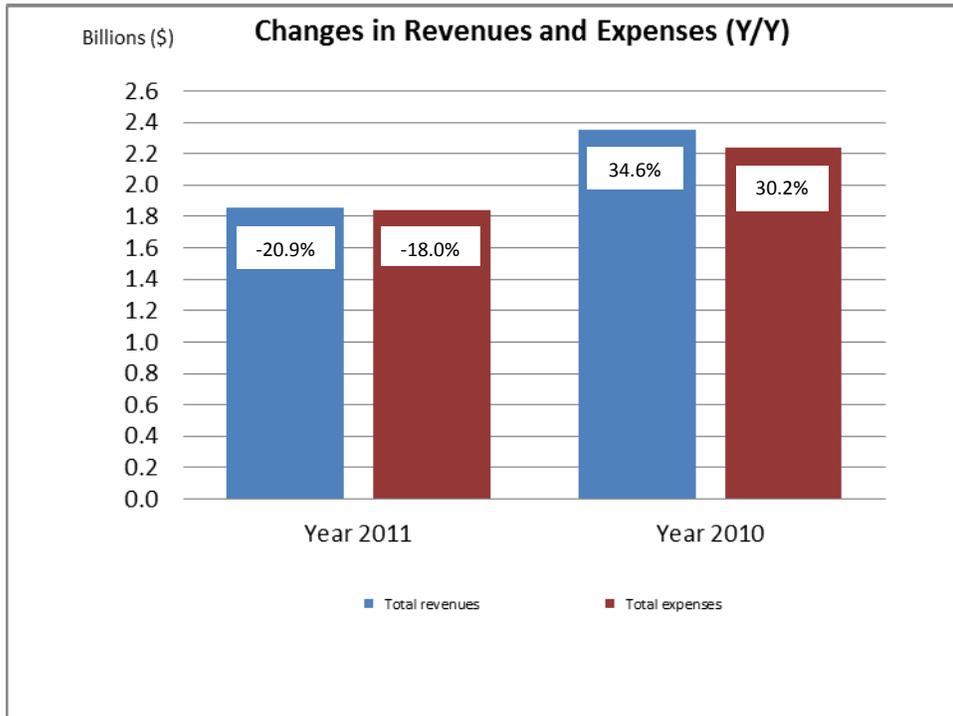
	<u>2011</u>	<u>2010</u>
Program revenues:		
Charges for services	\$ 987,575	484,162
Operating grants and contributions	374,400,699	785,568,770
General revenues	<u>1,484,056,015</u>	<u>1,563,477,707</u>
Total revenues	<u>1,859,444,289</u>	<u>2,349,530,639</u>
Program expenses:		
General administration	35,884,167	33,487,508
Financial assistance – loans	83,803,451	80,335,268
Financial assistance – institutions	1,689,695,963	1,984,186,308
Financial assistance – students	<u>28,090,498</u>	<u>143,236,265</u>
Total expenses	<u>1,837,474,079</u>	<u>2,241,245,349</u>
Change in net assets	21,970,210	108,285,290
Beginning net assets	<u>562,956,661</u>	<u>454,671,371</u>
Ending net assets	<u>\$ 584,926,871</u>	<u>562,956,661</u>

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In the current fiscal year, total governmental net assets of THECB increased by \$22.0 million. Revenue decreased by \$490.1 million or 20.9% while expenses decreased by \$403.8 million or 18.0%. Revenues and expenses decreased on a year-over-year basis, primarily due to a reduction in federal funding in fiscal year 2011 related to ARRA. To a lesser extent, revenues also decreased as a result of less legislative appropriation revenues in fiscal year 2011, driven by mandated budget reductions.

Approximately \$1.5 billion of revenue was from legislative appropriations from the State of Texas, which decreased from year 2010 by \$79.4 million or 5.1%. For fiscal year 2011, legislative appropriations amounted to approximately 79.8% of total revenues (66.5% in fiscal year 2010). Operating Grants and Contributions amounted to 20.1% of total revenues. Financial assistance to institutions represented the majority of expenses at \$1.7 billion, or 93.8% of the total financial assistance expenses.

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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.

Starting in fiscal year 2011, the agency adopted 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 \$496.4 million, an increase of \$27.7 million from 2010 or 5.9%. Substantially, all of the \$496.4 million of the fund balance constitutes restricted fund balance as compared to \$468.7 million in 2010, which is available for administration (excluding prepaid items), debt service, and loans and grants.

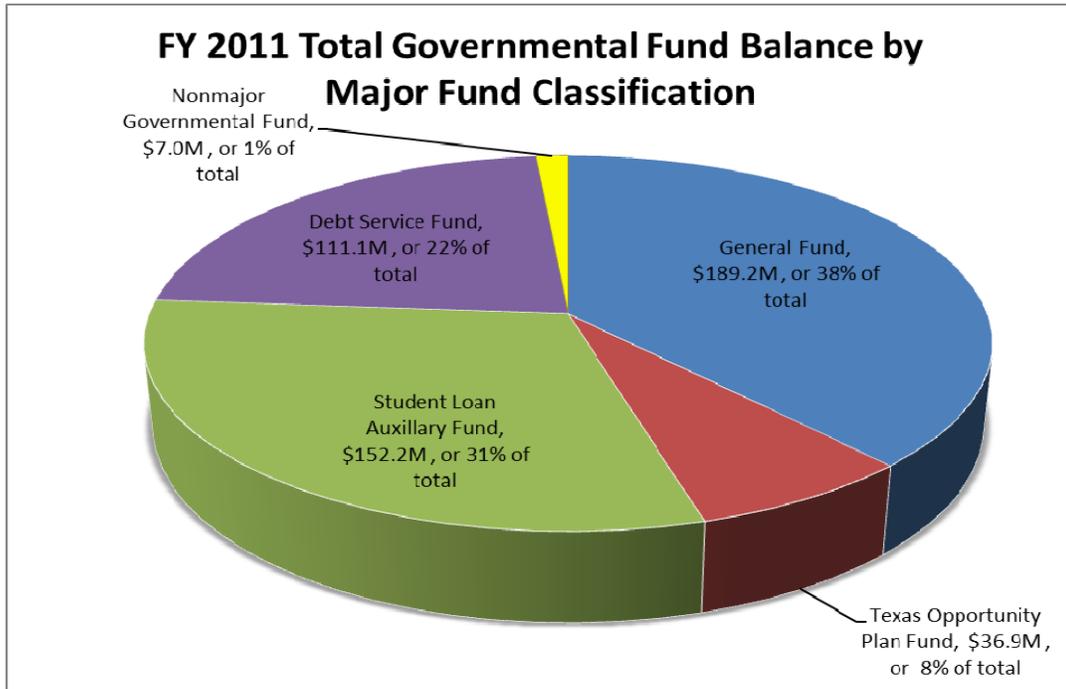
The graph below illustrates the composition of the \$496.4 million in total governmental fund balance by major fund category for fiscal year 2011.

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The General Fund is used to account for all financial resources of THECB except those required to be accounted for in another fund. At the end of the current fiscal year, restricted fund balance was \$189.1 million, while the total general fund balance was \$189.2 million. Comparatively, restricted and total general fund balance held flat year-over-year.

The General Fund contains ARRA funds. In fiscal year 2011, ARRA revenues were \$134.6 million, or 7.6% of total General Fund revenues. Similarly, ARRA expenditures were \$134.6 million, or 7.5% of total General Fund expenditures.

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, restricted fund balance for the TOP and the SLA fund was \$189.1 million, an increase of \$21.8 million from \$167.3 million in 2010. The increase was driven by higher cash balances as a result of new bond proceeds.

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 \$111.1 million as compared to \$106.2 million for 2010. The increase was primarily due to collections from loan repayments exceeding debt service payments in fiscal year 2011.

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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 are used for health care related education. In fiscal year 2011, restricted fund balance for nonmajor governmental funds was \$7.0 million as compared to \$6.0 million for fiscal year 2010. The change was primarily due to higher cash balances carried at year-end for grant programs as well as an increase in grant accruals booked with other state entities.

**OTHER INFORMATION**

**General Fund budgetary highlights**

During the current fiscal year, actual revenues were \$184.7 million higher than the final budgeted amount of \$1.6 billion. The difference was primarily due to actual revenues received in the current fiscal year 2011 for ARRA. Budgeted revenues related to ARRA were recorded in the prior fiscal year 2010, based on the biennial budget.

Actual general fund expenditures were \$168.4 million higher than final budgeted amount of \$1.6 billion. The primary difference is due to fiscal year 2010 ARRA grants expended in fiscal year 2011.

**Capital Assets**

THECB's capital assets at year end totaled \$134,733 (net of accumulated depreciation). Capital assets include furniture, equipment, and intangible assets. Net capital assets decreased by \$78,361 primarily due to 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, 2011 and 2010  
(in thousands)**

	<u>2011</u>	<u>2010</u>
Furniture and equipment	<u>\$135</u>	<u>213</u>

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

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Management's Discussion and Analysis

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**Debt Administration**

At the end of the current fiscal year, THECB reported \$830.0 million in outstanding debt. The table below reflects the outstanding debt at August 31, 2011 and 2010. Additional information can be found in Note 8.

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

	<u>2011</u>	<u>2010</u>
Bonds outstanding at August 31, net	\$770,122	\$717,644
Bonds issued	152,240	165,445
Bonds retired/refunded	(99,705)	(128,010)
Deferred adjustments, net	7,311	15,043
Bonds outstanding at August 31, net	<u>829,968</u>	<u>770,122</u>

In 2011, the Board approved two current bond refundings for \$33.6 million that were issued to refinance all outstanding maturities of the Board's 2002 bonds totaling \$36.5 million. Additionally, new debt was issued for \$118.6 million. Total bonded indebtedness for the fiscal year 2011 increased by \$59.8 million or 7.8% primarily due to new bond issues exceeding principal payments on outstanding debt.

Ratings as of August 31, 2011 of the THECB's obligations for various debt instruments are as follows:

<u>Debt</u>	<u>Moody's Investors Service, Inc.</u>	<u>Standard and Poor's</u>
<b><u>General Obligation Bonds:</u></b>		
Col Stud Loan Bds Ser'99	Aaa	AA+
Col Stud Loan Bds Ser'02	Aaa	AA+
Var Rt Col Stud Loan Rfd Bds Ser'03	Aaa1/VMIG1	AA+/A1+
Var Rt Col Stud Loan Rfd Bds Ser'04	Aaa1/VMIG1	AA+/A1+
Var Rt Col Stud Loan Rfd Bds Ser'06	Aaa1/VMIG1	AA+/A-1+
Col Stud Loan Bds Ser'07A&B	Aaa	AA+
Col Stud Loan Bds Ser'08A,B & C	Aaa	AA+
Col Stud Loan Bds Ser'09	Aaa	AA+
Col Stud Loan Bds Ser'10	Aaa	AA+
Col Stud Loan Rfd Bds Ser'10	Aaa	AA+
Col Stud Loan Bds Ser 2011A	Aaa	AA+
Col Stud Loan Rfd Bds Ser 2011B	Aaa	AA+
Col Stud Loan Rfd Bds Ser 2011C	Aaa	AA+

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

Our 2012 fiscal year budget is guided by our state's higher education plan, *Closing the Gaps by 2015*, which aims to close the educational gaps within Texas and between Texas and other leading states in student participation, student success, and institutional excellence and research.

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**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 Business & Finance 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 Net Assets

For the Year Ended August 31, 2011

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	\$
Prepaid Items	64,253
Federal Receivable	20,595,731
Student loans, net of allowance for doubtful accounts	73,054,738
Restricted cash in State treasury	367,864,750
Restricted cash in Bank	7,253
Restricted Investments	95,496,086
Restricted accounts receivable	1,569,553
Restricted interest receivable	325,687
Restricted due from other State agencies	5,056,326
Restricted interest receivable on loans, net of allowance for doubtful accounts	9,041,596
Total current assets	573,075,973
Noncurrent assets:	
Student loans, net of allowance for doubtful accounts	748,238,072
Interest receivable on loans, net of allowance for doubtful accounts	18,948,958
Restricted Investments	8,567,910
Restricted interest receivable on loans, net of allowance for doubtful accounts	71,358,174
Restricted cash in State treasury - unappropriated	24,759,775
Depreciable capital assets:	
Furniture and equipment	948,538
Accumulated depreciation	(813,805)
Net depreciable capital assets	134,733
Deferred issuance costs, net of amortization	3,386,698
Total noncurrent assets	875,394,320
Total assets	1,448,470,293
<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities:	
Accounts payable	16,515,970
Interest payable	2,690,005
Due to other State agencies	11,352,854
Deferred revenues	4,076
Bonds payable	62,611,533
Employees' compensable leave	924,102
Total current liabilities	94,098,540
Noncurrent liabilities:	
Bonds payable	767,356,690
Employees' compensable leave	810,771
Arbitrage rebate liability	1,277,421
Total noncurrent liabilities	769,444,882
Total liabilities	863,543,422
<b>NET ASSETS</b>	
Invested in capital assets	134,733
Restricted for:	
Debt service	101,477,462
Loan and grant programs	457,809,873
Unappropriated	24,759,775
Unrestricted	745,028
Total net assets	\$ 584,926,871

See accompanying notes to the financial statements.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

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Statement of Activities

For the Year Ended August 31, 2011

		<u>Program Revenues</u>		<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Change in Net Assets - Governmental Activities</u>
Governmental activities:				
General administration	\$ 35,884,167	345,317	7,363,347	(28,175,503)
Financial assistance - loans	83,803,451	—	110,783,359	26,979,908
Financial assistance - institutions	1,689,695,963	527,518	219,751,148	(1,469,417,297)
Financial assistance - students	28,090,498	114,740	36,502,845	8,527,087
Total governmental activities	<u>\$ 1,837,474,079</u>	<u>987,575</u>	<u>374,400,699</u>	<u>(1,462,085,805)</u>
	General revenues:			
				1,484,056,015
				<u>1,484,056,015</u>
			Net change in assets	21,970,210
			Net assets at beginning of year	<u>562,956,661</u>
			Net assets at end of the year	<u>\$ 584,926,871</u>

See accompanying notes to the financial statements.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**  
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Balance Sheet – Governmental Funds

August 31, 2011

	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	\$ 163,900,512	37,208,013	152,772,557	6,744,645	7,239,023	367,864,750
Cash in Bank	—	—	—	7,253	—	7,253
Investments	—	—	—	104,063,996	—	104,063,996
Due from other State agencies	4,772,134	—	—	—	284,192	5,056,326
Prepaid Items	64,253	—	—	—	—	64,253
Accounts receivables	1,568,831	—	—	722	—	1,569,553
Federal receivables	20,595,731	—	—	—	—	20,595,731
Interest receivable	15,636	44	—	305,876	4,131	325,687
Student loans, net of allowance for doubtful accounts	71,589,108	147,618,756	599,484,553	—	2,600,393	821,292,810
Interest receivable on loans net of allowance for doubtful accounts	272,153	24,777,629	74,033,428	—	265,518	99,348,728
Cash in State treasury - unappropriated	24,759,775	—	—	—	—	24,759,775
<b>TOTAL ASSETS</b>	<b>\$ 287,538,133</b>	<b>209,604,442</b>	<b>826,290,538</b>	<b>111,122,492</b>	<b>10,393,257</b>	<b>1,444,948,862</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 15,117,707	308,710	538,201	—	551,352	16,515,970
Due to other State agencies	11,352,854	—	—	—	—	11,352,854
Deferred revenues	71,865,337	172,396,385	673,517,981	—	2,865,911	920,645,614
Total liabilities	98,335,898	172,705,095	674,056,182	—	3,417,263	948,514,438
<b>FUND BALANCES</b>						
Nonspendable-Prepaid Items	64,253	—	—	—	—	64,253
Restricted	189,137,882	36,899,347	152,234,356	111,122,492	6,975,994	496,370,071
Committed	100	—	—	—	—	100
<b>TOTAL FUND BALANCES</b>	<b>189,202,235</b>	<b>36,899,347</b>	<b>152,234,356</b>	<b>111,122,492</b>	<b>6,975,994</b>	<b>496,434,424</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 287,538,133</b>	<b>209,604,442</b>	<b>826,290,538</b>	<b>111,122,492</b>	<b>10,393,257</b>	<b>1,444,948,862</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 Assets

For the Year Ended August 31, 2011

Total fund balances - Governmental Funds	\$	496,434,424
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		134,733
Student loan notes receivable and interest receivable are not available and are reported in the funds as deferred revenue		920,641,538
Other long-term assets are not available as current period resources and are not reported in the funds		3,386,698
Long-term liabilities are not due and payable in the current period and are not reported in the funds		<u>(835,670,522)</u>
Total net assets - governmental activities	\$	<u><u>584,926,871</u></u>

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, 2011

	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	\$ 1,484,056,015	—	—	—	—	1,484,056,015
Tax revenues	14,680,193	—	—	—	—	14,680,193
Federal revenues	166,812,889	30,314	162,668	8,563	1,656	167,016,090
Federal grant pass-through revenues	40,700,442	—	—	—	—	40,700,442
State grant pass-through revenues	33,832,503	—	—	—	—	33,832,503
Intergovernmental revenues	25,753,492	—	—	—	3,471,381	29,224,873
Licenses, fees and permits	2,701,646	1,363,143	7,867,519	(18)	41,782	11,974,072
Interest and investment income	670,993	12,222,975	34,541,813	1,558,929	2,557,808	51,552,518
Collections (disbursements) of student loan receivables, net	(18,425,742)	21,708,220	(58,292,735)	—	540,692	(54,469,565)
Other revenues(expenses), net	1,639,408	—	—	—	—	1,639,408
Unappropriated revenues	24,759,775	—	—	—	—	24,759,775
<b>Total revenues, net</b>	<b>1,777,181,614</b>	<b>35,324,652</b>	<b>(15,720,735)</b>	<b>1,567,474</b>	<b>6,613,319</b>	<b>1,804,966,324</b>
<b>EXPENDITURES</b>						
General administration	35,880,121	—	695	—	3,626	35,884,442
Financial assistance - loans	37,853,995	5,226,957	12,970,877	—	171,350	56,223,179
Financial assistance - institutions	1,684,902,025	2,000	—	—	4,791,938	1,689,695,963
Financial assistance - students	28,090,498	—	—	—	—	28,090,498
Debt service:						
Principal	—	—	—	63,185,000	—	63,185,000
Interest	—	—	—	26,858,809	—	26,858,809
Other financing fees	—	—	1,283,039	—	—	1,283,039
<b>Total expenditures</b>	<b>1,786,726,639</b>	<b>5,228,957</b>	<b>14,254,611</b>	<b>90,043,809</b>	<b>4,966,914</b>	<b>1,901,220,930</b>
Excess (deficiency) of revenues over expenditures	(9,545,025)	30,095,695	(29,975,346)	(88,476,335)	1,646,405	(96,254,606)
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of Tax Exempt Debt	—	—	118,650,000	—	—	118,650,000
Bond proceeds for refunding debt	—	—	—	33,590,000	—	33,590,000
Premium on sale of bonds	—	—	6,345,000	2,896,643	—	9,241,643
Payment to escrow for refunding debt	—	(150,018)	—	(37,399,643)	—	(37,549,661)
Sale of Capital Assets	8,400	—	—	—	—	8,400
Transfers in	9,543,547	—	—	94,268,989	—	103,812,536
Transfers out	—	(30,155,803)	(72,940,783)	—	(715,950)	(103,812,536)
<b>Total other financing sources (uses)</b>	<b>9,551,947</b>	<b>(30,305,821)</b>	<b>52,054,217</b>	<b>93,355,989</b>	<b>(715,950)</b>	<b>123,940,382</b>
Net change in fund balances	6,922	(210,126)	22,078,871	4,879,654	930,455	27,685,776
Fund balances at beginning of the year	189,195,313	37,109,473	130,155,485	106,242,838	6,045,539	468,748,648
Fund balances at the end of the year	\$ 189,202,235	36,899,347	152,234,356	111,122,492	6,975,994	496,434,424

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, 2011

Net change in fund balances - Governmental Funds	\$	27,685,776
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.		(78,361)
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 assets.		(59,979,912)
Disbursements (collections) of student loans receivable, net, in governmental fund are not a revenue source on the statement of activities.		54,469,565
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>(126,858)</u>
Change in net assets - Governmental activities	\$	<u><u>21,970,210</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 Assets

For the Year Ended August 31, 2011

	<u>Agency Funds</u>
Assets	
Current assets:	
Restricted:	
Cash in State Treasury	\$ 360,617
Interest and Dividends Receivable	<u>6</u>
Total current assets	<u>360,623</u>
Total assets	<u>\$ 360,623</u>
Liabilities	
Current liabilities:	
Funds held for others	\$ <u>360,623</u>
Total current liabilities	<u>360,623</u>
Total liabilities	<u>\$ 360,623</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, 2011

## (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 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, 2011 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

THECB's mission is to work with a wide array of constituencies to provide the people of Texas the widest access to higher education of the highest quality, and in the most efficient manner, guided by the state's higher education plan, *Closing the GAPS by 2015*. In order to carry out its mission, THECB performs three major functions:

- Establishing state higher education policy; planning for the future of Texas higher education; and gathering, analyzing, and interpreting information and data on higher education,
- Coordinating degree programs at higher education institutions and the construction of major facilities at public higher education institutions, except community colleges, and
- Administering state and federal programs to expand access, raise quality, improve efficiency, and increase research in higher education.

### 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 assets 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.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2011

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 not properly included among program revenues and are reported instead as general 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.

#### 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. Deferred revenue is reported in the governmental funds in an amount equal to the student loan notes receivable and related interest receivable. Collections (disbursements) of student loans receivable are reported as revenue, net.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2011

All revenue associated with the current fiscal period and collected within one-year 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 deferred 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 equity, 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.
- 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 2011 consisted of the following: Texas College Student Loan Bonds Interest and Sinking Account, and the Student Loan Revenue Bond Interest and Sinking Account.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2011

- 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. It contains agency fund and private-purpose trust funds.

- 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 2011 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 2011 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.

#### Investments

Investments held in Texas Treasury Safekeeping Trust Company at fair value.

#### 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, investments 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, 2011

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, equipment, and intangibles, 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

The term depreciation (and related forms of the term) includes amortization of intangible assets.

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.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2011

### 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.

### Accounts Payable

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

### Deferred Revenue and Collections (Disbursements) on Student Loan Receivables

Deferred revenues in the government-wide and fund financial statements consist of revenues that have been received but have not met the criteria for recognition. Also included in deferred revenue in the fund financial statements is an amount to offset student loan notes receivables and related interest receivable reported in the funds as they are a significant operational asset. Changes in the student loan notes receivable and related interest receivable balances are reflected in the governmental fund statement of revenues, expenditures and changes in fund balances as revenue – collections (disbursements) on student loans receivable.

### 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 Assets.

### Bonds Payable

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

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 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 expenditures.

## **TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2011

### Deferred Issuance Costs

Deferred issuance costs on bonds are amortized using the straight-line interest method over the contractual life of the bonds in the Statements of Net Assets and Activities. Payments on the bonds result in the proportionate amortization during the current year of the remaining balance of discounts and premiums on debt.

### 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 Assets 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 Assets.

### 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 Assets and Activities.

### 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 purpose.

### 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.

## TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2011

### 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 5 categories: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

- Nonspendable  
This represents amounts not available to be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- Restricted  
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 (see following page).
- C. Significant encumbrances are reported in Note 11 of this financial report.
- D. There are no stabilization arrangements with THECB.
- E. The THECB does not have a minimum fund balance policy.

### Net Assets

Invested in Capital Assets consists of capital assets, net of accumulated depreciation. No capital assets were financed with long term debt. THECB reports net assets as restricted when constraints placed on net assets are externally imposed. Restrictions are imposed by bond covenants and grant requirements for state and federal programs. Unappropriated net assets consist of legislative appropriation reductions for appropriated funds received through statutory requirement where the cash reductions

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

(An Agency for the State of Texas)

Notes to Financial Statements

Year Ended August 31, 2011

were retained by the THECB at fiscal year-end. The unappropriated net asset balance will remain on the THECB's books until the legislature can either re-purpose or re-appropriate these funds. Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets or Restricted Net Assets.

GASB 54 Fund Balance Classification by Purpose (as of August 31<sup>st</sup>, 2011)

	General Fund	Texas Opportunity Plan Fund	Student Loan Auxiliary Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable - Prepaids</b>						
Hinson-Hazlewood Loan Program	\$ 64,253					64,253
<b>Committed:</b>						
Petty Cash	100					100
<b>Restricted:</b>						
ABE Community College Grants	7,392,946					7,392,946
Advanced Research Program	475,549					475,549
Central Administration	306,895					306,895
Certified Ed Aide Program	989,874					989,874
Close The Gaps	339,593					339,593
College Readiness Initiatives	15,266,693					15,266,693
Conferences	231,580					231,580
Debt Service				111,122,492		111,122,492
Dental Education - LRP	448,871					448,871
Developmental Ed Program	2,605,819					2,605,819
Doctoral Incentive Program	103,162					103,162
Early High School Grad Program	1,861,045					1,861,045
Family Practice Residency	937,707					937,707
Federal Programs	415,159					415,159
Hospital Nursing Education	327,240					327,240
Minority Health Research/Ed					2,870,327	2,870,327
Nursing & Allied Health					4,017,749	4,017,749
OAG Attorney – LRP	155,468					155,468
Other Programs	438,176				10	438,186
Physician - LRP	22,228,857					22,228,857
Prof Nursing Shortage Reduction	1,530,009					1,530,009
Promote Participation & Success	778,708					778,708
Student Financial Aid Programs	77,323,256					77,323,256
Student Loans		36,899,347	152,234,356		87,908	189,221,611
Teach for Texas Programs	4,667,083					4,667,083
Top 10% Scholarships	25,554,417					25,554,417
Unappropriated	24,759,775					24,759,775
<b>Total Governmental Funds</b>	<b>\$ 189,202,235</b>	<b>36,899,347</b>	<b>152,234,356</b>	<b>111,122,492</b>	<b>6,975,994</b>	<b>496,434,424</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 Assets.**

Total fund balance reported in THECB's fund-level governmental funds balance sheet differs from the net assets 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 assets versus the current financial resources measurement focus of the governmental fund balance sheets. The differences are shown below:

Total fund balances - Governmental funds		\$	496,434,424
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			
Capital assets, depreciable	948,538		
Less accumulated depreciation	<u>(813,805)</u>		
			134,733
Student loan notes receivable and interest receivable are not available and are reported in the funds as deferred revenue			920,641,538
Other long-term assets are not available as current period resources and are not reported in the funds			3,386,698
Long-term liabilities are not due and payable in the current period and are not reported in the funds			
Bonds payable, net	(829,968,223)		
Interest payable	(2,690,005)		
Employees' compensable leave	(1,734,873)		
Arbitrage rebate liability	<u>(1,277,421)</u>		
			<u>(835,670,522)</u>
Total net assets - governmental activities		\$	<u>584,926,871</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 assets 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 assets

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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 \$ 27,685,776

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.

Loss on disposal of capital assets	(8,604)	
Depreciation expense	<u>(69,757)</u>	(78,361)

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 Assets.

Bond issuance costs	767,070	
Repayment of bond principal	63,185,000	
Bonds issued	(152,240,000)	
Premium on bonds issued	(9,241,643)	
Payment to escrow for refunding debt	<u>37,549,661</u>	(59,979,912)

Disbursements (collections) of student loans receivable, net, in governmental funds are not a revenue source on the Statement of Activities

54,469,565

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.

Employees' compensable leave	78,636	
Interest and other	275,990	
Arbitrage rebate	<u>(481,484)</u>	(126,858)

Change in net assets - Governmental activities \$ 21,970,210

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**(3) Deposits and Investments**

Deposits of Cash held in the State Treasury:

On August, 31, 2011, THECB's restricted cash balance amounted to \$392.6 million and is comprised as follows:

**Restricted**

General Fund

Cash in State Treasury                   \$     188,660,287

Special Revenue Funds

Texas Opportunity Plan                   37,208,013

Student Loan Auxiliary                   152,772,557

Debt Service Fund                         6,744,645

Nonmajor Governmental Funds           7,239,023

\$     392,624,525

As of August 31, 2011, the carrying amount of deposits for governmental activities was \$392.6 million. These amounts consist of cash in the State Treasury for which the State makes the related investment decisions. As of August 31, 2011, the total bank balance for governmental activities was \$391.0 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.

On August 31, 2011, THECB's deposits in the State Treasury amount to \$391.0 million. Of that amount, \$391.0 million was fully collateralized by securities held with a trustee in the state's name, as reported to THECB by the Comptroller of Public Accounts of the State of Texas.

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Investments – Governmental Activities

THECB is authorized to invest in direct obligations of or unconditionally guaranteed by the United States which are scheduled to mature prior to the date money must be available for use for its intended purpose under Article III, Section 50b et seq. of the State Constitution, as amended (the "Constitutional Provision") and Chapter 52, Texas Education Code, as amended ("Chapter 52").

The investment agreement between THECB, the Comptroller of Public Accounts and Texas Safekeeping Trust Company (TTSTC) requires debt service funds to be invested with TTSTC. The Comptroller is the sole officer, director, and shareholder of the trust company (Section 404.104 of the Texas Government Code).

As of August 31, 2011, the TTSTC had uninvested cash in bank deposits of \$7,253, representing the carrying amount of deposits. The following schedule reflects the bank balance and carrying amount of deposits held by TTSTC.

<u>Cash Type</u>	<u>Debt Service Fund</u>
Cash in Bank	\$ 7,253

As of August 31, 2011, the fair value of investments held with TTSTC was \$104,063,996 as presented below:

<u>Investment Type</u>	<u>Debt Service Fund</u>
U.S. Treasury Notes	\$ 104,063,996

Interest Rate Risk– Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. To minimize the risk of interest rate fluctuations, the THECB holds U.S. government obligations. Interest rate risk is further mitigated by holding investments to maturity.

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**(4) Capital Assets**

A summary of changes in Capital Assets for the year ended August 31, 2011, is presented below:

	<b>PRIMARY GOVERNMENT</b>			Balance 08/31/11
	Balance 09/01/10	Additions	Deletions	
<b>GOVERNMENTAL ACTIVITIES</b>				
Depreciable Assets				
Furniture and Equipment	\$ 1,260,699	-	(355,943)	904,756
Total Depreciable Assets	1,260,699	-	(355,943)	904,756
Less Accumulated Depreciation for:				
Furniture and Equipment	(1,047,605)	(69,757)	347,339	(770,023)
Total Accumulated Depreciation	(1,047,605)	(69,757)	347,339	(770,023)
Depreciable Assets, Net	213,094	(69,757)	(8,604)	134,733
Amortizable Assets - Intangible				
Computer Software	43,782	-	-	43,782
Total Amortizable Assets - Intangible	43,782	-	-	43,782
Less Accumulated Amortization for:				
Computer Software	(43,782)	-	-	(43,782)
Total Accumulated Amortization	(43,782)	-	-	(43,782)
Amortizable Assets - Intangible, Net	-	-	-	-
Governmental Activities Capital Assets, Net	213,094	(69,757)	(8,604)	134,733

Depreciation expense of \$69,757 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 at August, 31, 2011:

	<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	\$ 141,958,481	185,000,539	672,253,640	4,358,895	1,003,571,555
Less: Allowance for doubtful accounts	<u>(70,369,373)</u>	<u>(37,381,783)</u>	<u>(72,769,087)</u>	<u>(1,758,502)</u>	<u>(182,278,745)</u>
Student loan notes receivable, net	\$ <u>71,589,108</u>	<u>147,618,756</u>	<u>599,484,553</u>	<u>2,600,393</u>	<u>821,292,810</u>
Beginning allowance	\$ 54,058,221	42,874,439	66,889,693	1,732,525	165,554,878
Write offs - Loan Principal	(74,887)	(7,691,234)	(586,086)	(23,479)	(8,375,686)
Write offs - Loan Forgiveness	(20,383,391)	-	(2,354,965)	-	(22,738,356)
Provisions for uncollectible loan principal	2,672,930	2,198,578	7,865,480	49,456	12,786,444
Provisions for uncollectible loan forgiveness	<u>34,096,500</u>	<u>-</u>	<u>954,965</u>	<u>-</u>	<u>35,051,465</u>
Ending allowance for doubtful accounts	\$ <u>70,369,373</u>	<u>37,381,783</u>	<u>72,769,087</u>	<u>1,758,502</u>	<u>182,278,745</u>
Interest receivable on student loans	\$ 614,065	43,327,675	90,344,557	1,353,882	135,640,179
Less: Allowance for doubtful accounts	<u>(341,912)</u>	<u>(18,550,046)</u>	<u>(16,311,129)</u>	<u>(1,088,364)</u>	<u>(36,291,451)</u>
Interest receivable on student loans, net	\$ <u>272,153</u>	<u>24,777,629</u>	<u>74,033,428</u>	<u>265,518</u>	<u>99,348,728</u>
Beginning allowance	\$ 136,270	30,386,311	14,545,656	1,003,148	46,071,385
Write offs - Loan Interest	(22,705)	(14,828,287)	(340,366)	(35,901)	(15,227,259)
Provisions for uncollectible loan interest	<u>228,347</u>	<u>2,992,022</u>	<u>2,105,839</u>	<u>121,117</u>	<u>5,447,325</u>
Ending allowance for doubtful accounts	\$ <u>341,912</u>	<u>18,550,046</u>	<u>16,311,129</u>	<u>1,088,364</u>	<u>36,291,451</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.

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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.

HHCSLP administers several state non-guaranteed loan programs: College Access Loans (CAL), Texas B-On-Time Loan Program (BOT) and Health Education Loan Program (HELP). The College Access Loan Program provides alternative education 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); students do not have to demonstrate financial need. However, the amount of federal aid for which you are eligible 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. 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. These loan programs are reported in the Student Loan Auxiliary Fund and the General Fund. The state non-guaranteed loans represent 96% of student loans receivable at August 31, 2011.

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 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 4% of student loans receivable

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at August 31, 2011. Loan origination through these programs ceased in fiscal year 2010, but the Board continues to service loans that it made through these programs.

The Teach for Texas (TFT) and Be On Time (BOT) conditional grant programs are included in the General Fund. The TFT program provides repayment assistance for eligible classroom teachers and the BOT program provides repayments assistance for eligible students. If the recipient fails to satisfy any or all of the conditions or requirements prescribed in the promissory note and in the agreement, the “grant” automatically converts to a loan and the loan is repaid in installments over a period of up to 15 years.

**(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, 2011, were as follows:

	<b>Transfers In:</b>			
<b>Transfers Out:</b>	<b>General</b>	<b>Debt Service</b>	<b>Non-Major</b>	<b>Total</b>
Texas Opportunity Plan	\$ 61,002	30,094,801	-	30,155,803
Student loan Auxiliary	9,482,545	63,458,238	-	72,940,783
Non-Major Governmental Funds	-	715,950	-	715,950
	<u>\$ 9,543,547</u>	<u>94,268,989</u>	<u>-</u>	<u>103,812,536</u>

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

During the year ended August 31, 2011, the following changes occurred in liabilities (in thousands):

<b>Governmental Activities</b>	<b>Balance 9/01/2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 8/31/2011</b>	<b>Amounts Due Within One Year</b>
General obligation					
bonds payable	\$ 746,380	152,240	(99,705)	798,915	59,430
Deferred credits	23,742	7,311	—	31,053	3,181
Compensable leave	1,814	1,302	(1,381)	1,735	924
Arbitrage rebate liability	796	481	—	1,277	—
Total governmental activities	<u>\$ 772,732</u>	<u>161,334</u>	<u>(101,086)</u>	<u>832,980</u>	<u>63,535</u>

**(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, 2011 bonds payable consisted of 15 (fifteen) general obligation issues for student loans totaling \$798.9 million. Bond issue dates for all College Student Bonds range from August 1999 to July 2011. 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. At August 31, 2011, THECB has approximately \$275.5 million remaining in authorized but unissued debt. Management believes THECB is in compliance with the various bond covenants at August 31, 2011.

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, 2011, there is no defeased debt in escrow.

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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 \$1.3 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.

**(c) Deferred Issuance Costs**

Deferred Issuance Costs at August 31, 2011, consist of the following:

	<u>Amount</u>
Deferred issuance costs	\$ 6,665,885
Less: Accumulated amortization	<u>3,279,187</u>
Deferred issuance costs, net	<u>\$ 3,386,698</u>

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**(d) Changes in Bonded Indebtedness**

A summary of changes in bond indebtedness relating to THECB's governmental activities for the year ended August 31, 2011 is as follows (amounts in thousands):

Description of Issue	Bonds Outstanding 9/1/10	Bonds Issued & Accretion	Bonds Matured or Retired	Bonds Refunded or Extinguished	Bonds Outstanding 8/31/11	Amounts Due Within One Year
<u>General Obligation Bonds:</u>						
COL STUD LOAN BDS SER'99	27,310	-	8,555	-	18,755	7,985
COL STUD LOAN BDS SER'02	44,600	-	8,080	36,520	-	-
VAR RT RFD BDS SER'03	75,000	-	-	-	75,000	-
VAR RT RFD BDS SER'04	52,765	-	35,445	-	17,320	3,110
VAR RT RFD BDS SER'06	72,005	-	-	-	72,005	18,430
COL STUD LOAN BDS SER'07A	72,805	-	2,015	-	70,790	2,115
COL STUD LOAN BDS SER'07B	26,165	-	-	-	26,165	-
COL STUD LOAN BDS SER'08A	74,115	-	-	-	74,115	2,030
COL STUD LOAN BDS SER'08B	27,335	-	-	-	27,335	-
COL STUD LOAN BDS SER'08C	37,105	-	4,525	-	32,580	4,760
COL STUD LOAN BDS SER'09	71,730	-	-	-	71,730	-
COL STUD LOAN BDS SER'10	113,580	-	-	-	113,580	-
COL STUD LOAN RFD BDS SER'10	51,865	-	4,565	-	47,300	13,335
COL STUD LOAN BDS SER'11A	-	118,650	-	-	118,650	-
COL STUD LOAN RFD BDS SER'11B	-	27,020	-	-	27,020	7,665
COL STUD LOAN RFD BDS SER'11C	-	6,570	-	-	6,570	-
Total General Obligation Bonds	<u>746,380</u>	<u>152,240</u>	<u>63,185</u>	<u>36,520</u>	<u>798,915</u>	<u>59,430</u>
<u>Deferred Adjustments:</u>						
Unamortized Premium	\$ 24,160	-	-	-	30,876	3,158
Unamortized Discount	(361)	-	-	-	(2)	-
Unamortized Gain from Refunding	207	-	-	-	397	64
Unamortized Loss from Refunding	(264)	-	-	-	(218)	(41)
<b>Total Bonded Indebtedness</b>	<u>\$ 770,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>829,968</u>	<u>62,611</u>

**(e) Debt Service Requirements**

As of August 31, 2011, the debt service requirements of bonded indebtedness to maturity are as follows (amounts in thousands):

Year ended August 31:	Principal	Interest	Total Requirements
2012	\$ 59,430	31,824	91,254
2013	58,525	29,964	88,489
2014	49,385	28,944	78,329
2015	51,000	27,031	78,031
2016	50,410	24,628	75,038
2017-2021	133,090	98,872	231,962
2022-2026	108,965	71,147	180,112
2027-2031	134,215	41,795	176,010
2032-2036	78,895	10,680	89,575
2037-2041	75,000	337	75,337
Total	<u>\$ 798,915</u>	<u>365,222</u>	<u>1,164,137</u>

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**(f) Miscellaneous Bond Information**

A summary of miscellaneous bond information relating to THECB's governmental activities for the year ended August 31, 2011 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	Note
				First Year	Last Year		
<u>General Obligation Bonds:</u>							
COLSTUD LOAN BDS SER'99	75,000	4.50% - 5.25%	N/A	2004	2023	8/1/13	(A,B)
COLSTUD LOAN BDS SER'02	75,000	4.75% - 5.00%	N/A	2007	2026	8/1/12	(A,B)
COLSTUD LOAN BDS SER'07A	72,805	5.00% 5.25%	N/A	2011	2031	8/1/17	(A,B)
COLSTUD LOAN RFD BDC SER'07B	26,165	4.50% 5.00%	N/A	2014	2018	N/A	(A,B)
COLSTUD LOAN BDS SER'08A	74,115	5.00% 5.50%	N/A	2012	2032	8/1/18	(A,B)
COLSTUD LOAN RFD BDC SER'08B	27,335	5.00% 5.50%	N/A	2014	2018	N/A	(A,B)
COLSTUD LOAN RFD BDC SER'08C	45,265	5.25% 5.25%	N/A	2009	2017	N/A	(A,B)
COLSTUD LOAN BDC SER'09	71,730	4.00% 5.00%	N/A	2013	2033	N/A	(A,B)
COLSTUD LOAN BDC SER'10	113,580	3.00% 5.00%	N/A	2014	2034	8/1/20	(A,B)
COLSTUD LOAN RFD BDC SER'10	51,865	3.00% 5.00%	N/A	2011	2017	N/A	
COLSTUD LOAN BDC SER'11A	118,650	5.00% 5.00%	N/A	2015	2036	8/1/21	(A,B)
COLSTUD LOAN RFD BDC SER'11B	27,020	2.00% 5.00%	N/A	2012	2018	N/A	
COLSTUD LOAN RFD BDC SER'11C	6,570	5.00% 5.00%	N/A	2019	2022	N/A	
VAR RT RFD BDS SER'03	178,190	Variable	Annually	2006	2038	7/1/04	(C,D)
VAR RT RFD BDS SER'04	52,765	Variable	Monthly	2011	2016	8/1/04	(C,D)
VAR RT RFD BDS SER'06	72,005	Variable	Annually	2012	2017	8/1/06	(C,D)
TOTAL	<u>\$ 1,088,060</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:

General Obligation Bonds : Description of Issue	Scheduled Maturity Date	First Redemption Date
COLSTUD LOAN BDS SER'99	2018	2016
COLSTUD LOAN BDS SER'99	2023	2019
COLSTUD LOAN BDS SER'02	2021	2016
COLSTUD LOAN BDS SER'02	2026	2022
COLSTUD LOAN BDS SER'07A	2023	2022
COLSTUD LOAN BDS SER'07A	2025	2024
COLSTUD LOAN BDS SER'07A	2028	2026
COLSTUD LOAN BDS SER'07A	2031	2029
COLSTUD LOAN BDS SER'08A	2026	2025
COLSTUD LOAN BDS SER'08A	2028	2027
COLSTUD LOAN BDS SER'08A	2032	2029
COLSTUD LOAN BDS SER'09	2033	2031
COLSTUD LOAN BDS SER'10	2034	2032
COLSTUD LOAN BDS SER'11A	2031	2027
COLSTUD LOAN BDS SER'11A	2036	2032

**NOTE C:** Bonds are subject to optional redemption following the end of any Variable Rate Period beginning with this date.

**NOTE D:** Additionally, all bonds (other than Purchased Bonds) are subject to special mandatory redemption upon the occurrence of an "Event of Termination" as defined in the Bond Resolution. Purchased Bonds are subject to special mandatory redemption (1) provided that all Purchased Bonds then outstanding shall be redeemed in full on the Amortization End Date, or (2) upon the occurrence of an "Event of Default" under the Liquidity Agreement unless such redemption is waived by the Liquidity Provider.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

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Notes to Financial Statements

Year Ended August 31, 2011

**(g) Early Extinguishment**

During fiscal year 2011, the THECB sold general obligation refunding bonds totaling \$33.6 million. They were issued as College Student Loan Refunding Bonds Series 2011B and College Student Loan Refunding Bonds Series 2011C. Both series of bonds closed on July 21, 2011. The proceeds from the 2011B and 2011C Refunding Bonds were used to refund all outstanding maturities of the State of Texas College Student Loan Bonds, Series 2002 in the aggregate principal amount of \$36.5 million. Net proceeds for the issue were \$36.5 million. A payment of \$184,382 was made for issuance costs.

The debt service requirements on the Series 2011B refunding bonds are \$30.1 million. THECB realized an economic gain of \$2.3 million on this transaction.

The debt service requirements on the Series 2011C refunding bonds are \$9.7 million. THECB realized an economic gain of \$1.1 million on this transaction.

The change in net cash flows that resulted for the Series 2011B bonds was an increase of \$820,176. An accounting gain of \$184,282 which will be deferred and amortized in accordance with GASB Statement No.7, was recognized on this refunding.

The change in net cash flows that resulted for the Series 2011C bonds was an increase of \$209,485. An accounting gain of \$44,929 which will be deferred and amortized in accordance with GASB Statement No.7, was recognized on this refunding.

**(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 expensed during the year ending August 31, 2011 in the General Fund.

The facility lease was renewed as of April 2010 wherein the terms of the contract allow for the total monthly rent to be adjusted for changes in the Consumer Price Index (CPI) beginning on July 1, 2011 and every year thereafter. The future minimum lease rental payments presented below follow the straight line method in accordance with GASB.

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Year Ended August 31, 2011

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>
2012	\$ 1,432,761
2013	1,432,761
2014	1,432,761
2015	1,432,761
2016	1,432,761
2017-2020	<u>5,731,045</u>
Total minimum future lease rental payments	\$ <u><u>12,894,850</u></u>

**(10) Employee Health and Retirement Benefits**

THECB contributes to the Employees Retirement System of Texas (ERS) and the Optional Retirement Plan (ORP), which are defined benefit pension plans, which provides service retirement, disability retirement benefits, and death benefits to plan members and beneficiaries. Under provisions in State law, plan members are required to contribute 6.5% of their salary to ERS and THECB contributes an amount equal to 6.95% of THECB's covered payroll. The ORP plan members contribute 6.65% of their salary to ORP, and The CB contributes 6.4% for non-grandfathered members and 8.50% to grandfathered (participants whose 1st date of participation in ORP is prior to September 1, 1995 are grandfathered). The total employee ERS contribution for the year ending August 31, 2011 was \$936,092 and THECB's matching contribution was \$1,007,965. The total employee ORP contribution for year ending August 31, 2011 was \$98,879 and THECB's matching contribution was \$108,699.

Employees of THECB are offered health insurance paid by the State. Employees have options to add spouse or children to the plan and pay a portion of the expense. Based on an allocation from the State, total health benefits for the year ending August 31, 2011 was \$1.6 million as determined by the State, and is primarily included in general administration expense.

**(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.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

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Notes to Financial Statements

Year Ended August 31, 2011

**(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.

**(d) Continuance Subject to Review**

Under the Texas Sunset Act, THECB will be abolished effective September 1, 2015, unless continued in existence by the 84th Legislature as provided by the Act. If abolished, THECB may continue until September 1, 2016, to close out its operations. The Sunset Commission has performed a review of THECB and is recommending the continuance of the agency for an additional 12 years. This recommendation is subject to Legislative approval in the 2013 session.

**(e) Significant Encumbrances**

As of August 31<sup>st</sup>, 2011, THECB had significant encumbered expenditures in governmental funds for signed contracts and purchase orders as presented in the table below\*:

	<b>General Revenue Fund</b>	<b>Nonmajor Governmental Funds</b>
Encumbrances	\$49,209,208	\$2,187,596

\*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 agencies. THECB's assessment for fiscal year 2011 was \$26,637. 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 2011 were \$51,163.

**TEXAS HIGHER EDUCATION COORDINATING BOARD**

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Notes to Financial Statements

Year Ended August 31, 2011

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) At an election held on November 8, 2011, the citizens of the State voted to approve an additional amendment to Article III of the State Constitution (i.e., Section 50b-7), which authorizes the Board to issue College Student Loan Bonds in an aggregate principal amount of outstanding bonds that at all times must be equal to or less than the \$1,860,000,000 in aggregate principal amount of College Student Loan Bonds previously authorized by any other provision or former provision of the State Constitution.
- (b) After fiscal year end 2011, the unappropriated cash balance increased from \$24.8M to \$37.2M at the time of publishing this financial statement. It is not know at this time as to the timing of a decision nor the future disposition of these funds.
- (c) During the January 2012 board meeting, the THECB passed a resolution authorizing the issuance of up to \$175 million of new bonds.

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

General Fund  
Schedule of Budgeted and Actual Revenues and Expenditures  
Year Ended August 31, 2011  
(Unaudited)

	Budgetary Amounts		Actual Amount	Final to Actual Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Legislative appropriations	\$ 1,616,890,375	1,485,753,355	1,484,056,015	(1,697,340)
Tax revenues	15,640,000	16,840,000	14,680,193	(2,159,807)
Federal revenues	8,638,027	8,638,027	166,812,889	158,174,862
Federal pass-through revenues	39,901,366	39,901,366	40,700,442	799,076
State pass-through revenues	26,894,271	26,894,271	33,832,503	6,938,232
Intergovernmental revenues	32,190,500	32,277,275	25,753,492	(6,523,783)
Licenses, fees and permits	584,000	584,000	2,701,646	2,117,646
Interest and investment income	—	—	670,993	670,993
Other revenues	60,000	60,000	1,639,408	1,579,408
Unappropriated revenues	—	—	24,759,775	24,759,775
Total revenues	<u>1,740,798,539</u>	<u>1,610,948,294</u>	<u>1,795,607,356</u>	<u>184,659,062</u>
<b>Expenditures</b>				
General administration	25,474,485	24,665,009	35,880,121	(11,215,112)
Financial assistance - loans	—	—	37,853,995	(37,853,995)
Financial assistance - institutions	1,504,298,814	1,371,333,937	1,684,902,025	(313,568,088)
Financial assistance - students	219,472,535	220,766,810	28,090,498	192,676,312
Capital outlay	1,575,828	1,575,828	—	1,575,828
Total expenditures	<u>1,750,821,662</u>	<u>1,618,341,584</u>	<u>1,786,726,639</u>	<u>(168,385,055)</u>
Excess (deficit) of revenues over Expenditures	<u>(10,023,123)</u>	<u>(7,393,290)</u>	<u>8,880,717</u>	<u>16,274,007</u>
<b>Other financing sources (uses)</b>				
Sale of Capital Assets	—	—	8,400	(8,400)
Transfer in	10,023,123	10,023,123	9,543,547	(479,576)
Total other financing sources (uses)	<u>10,023,123</u>	<u>10,023,123</u>	<u>9,551,947</u>	<u>(487,976)</u>
Net change in fund balance	<u>—</u>	<u>2,629,833</u>	<u>18,432,664</u>	<u>15,786,031</u>
Fund balance at the beginning of the year	<u>189,195,313</u>	<u>189,195,313</u>	<u>189,195,313</u>	<u>—</u>
Fund balance at the end of the year	<u>\$ 189,195,313</u>	<u>191,825,146</u>	<u>207,627,977</u>	<u>15,786,031</u>

Note - collections (disbursements) of student loans receivable, net, is not included above

since it is not a budgetary item.

(18,425,742)

Fund Balance for General Fund (Governmental Funds):

\$ 189,202,235

See accompanying independent auditor's report

# TEXAS HIGHER EDUCATION COORDINATING BOARD

(An Agency for the State of Texas)

Notes to the Schedule of Budgeted and Actual Revenues and Expenditures

Year Ended August 31, 2011

## 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 2011 for required changes that were received for the appropriation year 2011.

## 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 has 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.



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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Texas Higher Education Coordinating Board (THECB) as of and for the year ended August 31, 2011, which collectively comprise THECB's basic financial statements and have issued our report thereon dated June 7, 2012. Our report was modified to include the adoption of provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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.

**Internal Control over Financial Reporting**

Management of THECB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered THECB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of THECB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of THECB's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether THECB's financial statements are free of 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*.

This report is intended solely for the information and use of THECB management, the Board of Trustees, others within the entity, and the State of Texas Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 7, 2012