

**DEPARTMENT OF  
SAVINGS AND MORTGAGE LENDING**

*ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2016*

**UPDATED**



**Caroline C. Jones  
Commissioner**

**Department of Savings and Mortgage Lending – Agy 450  
UNAUDITED**

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# DEPARTMENT of SAVINGS & MORTGAGE LENDING

Caroline C. Jones, Commissioner

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November 18, 2016

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Texas Comptroller  
Ursula Parks, Director, Legislative Budget Board  
Lisa Collier, First Assistant, State Auditor

Ladies and Gentlemen:

We are pleased to submit the updated Annual Financial Report of the Department of Savings and Mortgage Lending for the year ended August 31, 2016, in compliance with Texas Government Code Annotated, Section 2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

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

If you have any questions, please contact Antonia Antov, at 512-475-1296.

Sincerely,

A handwritten signature in cursive script that reads "Caroline C. Jones".

Caroline C. Jones  
Commissioner

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Department of Savings and Mortgage Lending

Exhibit I — Combined Balance Sheet/Statement of Net Assets — Governmental Funds

August 31, 2016

	<u>Governmental Fund Types</u>			Long-Term Liabilities Adjustments	Other Adjustments	Statement of Net Assets
	General Funds	Governmental Funds Total	Capital Assets Adjustments			
<b>ASSETS</b>						
Current Assets:						
Cash & Cash Equivalents (Note 3)						
Cash in Bank	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash in State Treasury	407,078.29	407,078.29				407,078.29
Cash Equivalents	11,522,540.94	11,522,540.94				11,522,540.94
Receivables from:						
Accounts Receivable	25,275.00	25,275.00				25,275.00
Interest and Dividends						
Due From Other Agencies	5,307.68	5,307.68				5,307.68
Consumable Inventories	11,694.97	11,694.97				11,694.97
Total Current Assets	<u>11,971,896.88</u>	<u>11,971,896.88</u>				<u>11,971,896.88</u>
Non-Current Assets:						
Capital Assets (Note 2):						
Non-Depreciable or Non-amortizable			615.00			
Depreciable or Amortizable, Net			1,619.31			
Total Non-Current Assets			<u>2,234.31</u>			<u>0</u>
Total Assets	<u>\$ 11,971,896.88</u>	<u>\$ 11,971,896.88</u>	<u>\$ 2,234.31</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 11,971,896.88</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Current Liabilities:						
Payables from:						
Accounts	\$ 86,367.85	\$ 86,367.85	\$ -	\$ -	\$ -	\$ 86,367.85
Payroll	407,078.29	407,078.29				407,078.29
Due To Other Agencies	30,811.48	30,811.48				30,811.48
Employees' Compensable Leave				332,398.91		332,398.91
Total Current Liabilities	<u>524,257.62</u>	<u>524,257.62</u>		<u>332,398.91</u>		<u>856,656.53</u>
Non-Current Liabilities						
Employees' Compensable Leave				234,509.35		234,509.35
Total Non-Current Liabilities				<u>234,509.35</u>		<u>234,509.35</u>
Total Liabilities	<u>524,257.62</u>	<u>524,257.62</u>		<u>566,908.26</u>		<u>1,091,165.88</u>
<b>Fund Financial Statement</b>						
Fund Balances (Deficits):						
Nonspendable for Inventory	11,694.97	11,694.97				11,694.97
Committed	11,435,944.29	11,435,944.29				11,435,944.29
Unassigned						
Total Fund Balances	<u>11,447,639.26</u>	<u>11,447,639.26</u>				<u>11,447,639.26</u>
Total Liabilities and Fund Balances	<u>\$ 11,971,896.88</u>	<u>\$ 11,971,896.88</u>				
Government-Wide Statement of Net Assets						
Net Assets						
Invested in Capital Assets, Net of Related Debt			2,234.31			2,234.31
Unrestricted				(566,908.26)		(566,908.26)
Total Net Assets			<u>\$ 2,234.31</u>	<u>\$ (566,908.26)</u>	<u>\$ 0.00</u>	<u>\$ 10,882,965.31</u>

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

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**Department of Savings and Mortgage Lending**  
**Exhibit II — Combined Statement of Revenues, Expenditures and Changes in Fund Balances/**  
**Statement of Activities — Governmental Funds**  
**For the Fiscal Year Ended August 31, 2016**

	General Funds	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustment s	Statement of Activities
<b>REVENUES</b>						
Licenses, Fees & Permits (PR)	7,929,431.68	7,929,431.68				7,929,431.68
Interest and Other Investment Income (PR)	20,960.67	20,960.67				20,960.67
Settlement of Claims (GR)	60,000.00	60,000.00				60,000.00
Other (GR)	9,773.72	9,773.72				9,773.72
Total Revenues	<u>8,020,166.07</u>	<u>8,020,166.07</u>				<u>8,020,166.07</u>
<b>EXPENDITURES</b>						
Salaries and Wages	3,711,405.77	3,711,405.77		10,431.14		3,721,836.91
Payroll Related Costs	1,223,128.14	1,223,128.14				1,223,128.14
Professional Fees and Services	47,934.31	47,934.31				47,934.31
Travel	271,117.36	271,117.36				271,117.36
Materials and Supplies	63,961.74	63,961.74				63,961.74
Communication and Utilities	60,896.30	60,896.30				60,896.30
Repairs and Maintenance	61,200.58	61,200.58				61,200.58
Rentals and Leases	4,130.31	4,130.31				4,130.31
Printing and Reproduction	467.48	467.48				467.48
Other Expenditures	151,220.30	151,220.30				151,220.30
Capital Outlay	6,872.32	6,872.32	(6,872.32)			
Depreciation Expense			1,700.37			1,700.37
Total Expenditures/Expenses	<u>5,602,334.61</u>	<u>5,602,334.61</u>	<u>(5,171.95)</u>	10,431.14		<u>5,607,593.80</u>
Excess (Deficiency) of Revenues over Expenditures	<u>2,417,831.46</u>	<u>2,417,831.46</u>	5,171.95	(10,431.14)		<u>2,412,572.27</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer In	\$ 5,575,828.11	\$ 5,575,828.11				\$ 5,575,828.11
Transfer Out	(5,574,587.41)	(5,574,587.41)				(5,574,587.41)
Inc (Dec) in Net Assets Due to Interagency Transfer			(6,790.51)			(6,790.51)
Total Other Financing Sources (Uses)	<u>1,240.70</u>	<u>1,240.70</u>	<u>(6,790.51)</u>			<u>(5,549.81)</u>
Net Change in Fund Balances/Net Assets	<u>2,419,072.16</u>	<u>2,419,072.16</u>				<u>2,419,072.16</u>
Fund Balances, September 1, 2015	9,028,567.10	9,028,567.10				9,028,567.10
Restatements						
Fund Balances, September 1, 2015, as Restated	<u>9,028,567.10</u>	<u>9,028,567.10</u>				<u>9,028,567.10</u>
Appropriations Lapsed						
Fund Balances, August 31, 2015	<u>\$ 11,447,639.26</u>	<u>\$ 11,447,639.26</u>				<u>\$ 11,447,639.26</u>
<b>Government-Wide Statement of Net Assets</b>						
Net Assets/Net Change in Net Assets		<u>11,447,639.26</u>	<u>(1,618.56)</u>	<u>(10,431.14)</u>		<u>11,435,589.56</u>
Net Assets, September 1, 2015			3,852.87	(442,793.21)		(438,940.34)
Restatements				(113,683.91)		
Net Assets, September 1, 2015, as Restated			<u>3,852.87</u>	<u>(556,477.12)</u>		<u>(552,624.25)</u>
Net Assets, August 31, 2016		<u>\$ 11,447,639.26</u>	<u>\$ 2,234.31</u>	<u>\$ (566,908.26)</u>	<u>\$ 0.00</u>	<u>\$ 10,882,965.31</u>

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



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**Department of Savings and Mortgage Lending**  
**Exhibit VI — Combined Statement of Net Assets — Fiduciary Funds**  
**August 31, 2016**

	<b>Private-Purpose Trust Funds (Exhibit I-1)</b>	<b>Agency Funds (Exhibit J-1)</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and Cash Equivalents (Note 3)			
Cash in Bank	\$	\$	\$
Cash in State Treasury		572.00	\$ 572.00
Cash Equivalents	3,888,878.27	11,659.43	3,900,537.70
Receivables from:			
Accounts Receivable	780.00		780.00
Interest and Dividends	16,428.97		16,428.97
Total Assets	<u>\$ 3,906,087.24</u>	<u>\$ 12,231.43</u>	<u>\$ 3,918,318.67</u>
<b>LIABILITIES</b>			
Payables from:			
Accounts	\$ 24.84	3,510.79	\$ 24.84
Funds Held For Others		8,720.64	8,720.64
Total Liabilities	<u>\$ 24.84</u>	<u>\$ 12,231.43</u>	<u>\$ 8,745.48</u>
<b>NET ASSETS</b>			
Held in Trust For			
Mortgage Broker Recovery Fund Cla	3,906,062.40		3,906,062.40
Total Net Assets	<u>\$ 3,906,062.40</u>	<u>\$ 0.00</u>	<u>\$ 3,906,062.40</u>

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

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**Department of Savings and Mortgage Lending**  
**Exhibit VII — Combined Statement of Changes in Fiduciary Net Position**  
**For the Fiscal Year Ended August 31, 2016**

	<b>Private-Purpose Trust Funds (Exhibit I-2)</b>	<b>Totals</b>
For the Fiscal Year Ended August 31, 2016		
<b>ADDITIONS</b>		
Investment Income		
From Investing Activities:		
Interest and Investment Income	\$ 39,666.56	\$ 39,666.56
Total Investing Income (Loss)	39,666.56	39,666.56
Less Investing Activities Expense		
Net Income from Investing Activities	39,666.56	39,666.56
From Securities Lending Activities:		
Securities Lending Income		
Less Securities Lending Expense:		0.00
Net Income from Securities Lending Activities		0.00
Total Net Investment Income (Loss)	39,666.56	39,666.56
Capital Share and Individual Account Transactions		
Net Capital Share and Individual Account Transactions		
Other Additions		
Other Revenue	71,561.69	71,561.69
Transfers In	381.69	381.69
Total Other Additions	71,943.38	71,943.38
Total Additions	\$ 111,609.94	\$ 111,609.94
<b>DEDUCTIONS</b>		
Other Expense	\$ 232.27	\$ 232.27
Transfers Out	1,622.39	1,622.39
Total Deductions	1,854.66	1,854.66
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>109,755.28</b>	<b>109,755.28</b>
<b>NET ASSETS</b>		
Net Assets, September 1, 2015	3,796,307.12	3,796,307.12
Restatements		
Net Assets, September 1, 2015, as Restated	3,796,307.12	3,796,307.12
Net Assets, August 31, 2016	\$ 3,906,062.40	\$ 3,906,062.40

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

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1: Summary of Significant Accounting Policies

#### ENTITY

The Department of Savings and Mortgage Lending (the Department) is a regulatory agency of the State of Texas and its financial records comply with state statutes and regulations, including compliance with the Texas Comptroller of Public Accounts Reporting Requirements for State Agencies.

The Department administers the Texas Savings Bank Act and the Texas Savings and Loan Act, which provide for regulation and supervision of state chartered state savings banks and savings and loan associations, the Mortgage License Act, which provides for licensing and inspecting mortgage originators, the Mortgage Banker Registration Act, which provides for registering mortgage bankers, and the Mortgage Servicers Act, which provides for registering mortgage servicers. Major functions of the Department are chartering, regulating, and examining thrift institutions, and licensing and inspecting residential mortgage loan originators. The chief executive officer of the Department, the Savings and Mortgage Lending Commissioner of Texas, is appointed by the Finance Commission of Texas with advice and consent of the Texas Senate. The Commissioner serves an open-ended term at the pleasure of the Finance Commission. The Commission, which operates under the Texas Banking Act of 1995, as amended, consists of eleven members appointed by the Governor with the advice and consent of the Texas Senate. The composition of the Finance Commission is as follows: two state banker, one state savings and loan executive, one consumer credit executive, one residential mortgage loan originator, and six public members, one of whom must be a certified public accountant. The Governor appoints the presiding officer.

The Department does not have any component units.

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

#### FUND STRUCTURE

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

#### Governmental Fund Types and Government-Wide Adjustment Fund Types

##### General Fund

The general fund (Fund 1007/Fund 2970) is the principal operating fund used to account for most of the agency's general activities. It accounts for all financial resources except those accounted for in other funds.

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**Capital Assets Adjustment Fund Type**

The capital assets adjustment fund (Fund 0998) will be used to convert governmental fund types' capital assets from modified accrual to full accrual.

**Long-Term Liabilities Adjustment Fund Type**

The long-term liabilities adjustment fund (Fund 0997) will be used to convert governmental fund types' debt from modified accrual to full accrual.

**Fiduciary Fund Types**

**Agency Fund**

Mortgage Appeal Trust Fund (Fund 2831/Fund 3969) is used to collect payments from licensed individuals requesting administrative hearing to deposit against hearing costs.

**Private Purpose Trust Fund**

Mortgage Recovery Trust Fund (Fund 1831/Fund 3968) is held by the Commissioner in trust for carrying out the purposes of the fund. The fund is used to reimburse aggrieved persons to whom a court awards actual damages because of certain acts committed by a licensed residential mortgage loan originator licensed under the Mortgage License Act.

**Basis of Accounting**

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

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that build the government-wide financial statements are accounted for using the full accrual basis method of accounting. This includes capital assets, accumulated depreciation, unpaid employee compensable leave, and full accrual revenues and expenses. The activity will be recognized in these fund types.

Private-purpose trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

**Budgets and Budgetary Accounting**

The budget is prepared annually and represents amounts approved by the Finance Commission according to Finance Code, Sec. 16.003.

## Assets, Liabilities and Fund Balances/Net Assets

### Assets

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#### **Cash and Cash Equivalents**

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

#### **Inventories**

Consumable inventories include postage and supplies on hand at year-end. Inventories are valued at cost, generally utilizing the last-in, first-out method. The consumption method of accounting is used to account for inventories that appear in the governmental fund types. The cost of these items is expensed when the items are consumed.

#### **Capital Assets**

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year should be capitalized. They are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all “exhaustible” assets. “Inexhaustible” assets such as works of art are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight line method.

### Liabilities

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#### **Accounts Payable**

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

#### **Current Payables - Other**

Other Payables are the accrual at year end of expenditure transactions not included in any of the other payable descriptions.

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

Employees' compensable leave balances represent the liability that becomes due upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net assets.

### Fund Balance/Net Assets

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The difference between fund assets and liabilities is “Net Assets” on the government-wide proprietary and fiduciary fund statements, and the “Fund Balance” is the difference between fund assets and liabilities on the governmental fund statements.

#### **Fund Balance Components**

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

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## Department of Savings and Mortgage Lending – Agy 450

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

Restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.

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

Assigned fund balance includes amounts constrained by the state’s intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the Texas Legislature or a body (i.e. 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 fund balance is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

### **Invested In Capital Assets, Net Of Related Debt**

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

### **Restricted Net Assets**

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation.

### **Unrestricted Net Assets**

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

### **Interfund Activities and Balances**

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The agency has the following types of transactions between funds:

- (1) Transfers: Legally required transfers that are reported when incurred as “transfers in” by the recipient fund and as “transfers out” by the disbursing fund.

The composition of the agency’s interfund activities and balances are presented in Note 12.

**Department of Savings and Mortgage Lending – Agy 450**  
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**NOTE 2: Capital Assets**

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

<b>PRIMARY GOVERNMENT</b>						
<b>GOVERNMENTAL ACTIVITIES</b>	Balance 9/1/2015	Increases - Interagy Xfers In	Decrease- Interagy Xfers Out	Additions	Deletions	Balance 8/31/2016
<b>Non-Depreciable Assets</b>						
Other Assets	\$ 615.00					\$ 615.00
<b>Total Non-Depreciable Assets</b>	<b>\$ 615.00</b>					<b>\$ 615.00</b>
<b>Depreciable Assets</b>						
Furniture and Equipment	\$ 53,449.81		\$(6,872.32)	\$6,872.32	\$(5,000.00)	\$ 48,449.81
<b>Total Depreciable Assets at Historical Costs</b>	<b>\$ 53,449.81</b>		<b>\$(6,872.32)</b>	<b>\$6,872.32</b>	<b>\$(5,000.00)</b>	<b>\$ 48,449.81</b>
<b>Less Accumulated Depreciation for:</b>						
Furniture and Equipment	\$(50,211.94)		\$ 81.81	\$(1,700.37)	\$5,000.00	\$(46,830.50)
<b>Total Accumulated Depreciation</b>	<b>\$(50,211.94)</b>		<b>\$ 81.81</b>	<b>\$(1,700.37)</b>	<b>\$5,000.00</b>	<b>\$(46,830.50)</b>
<b>Depreciable Assets, Net</b>	<b>\$ 3,237.87</b>		<b>\$(6,790.51)</b>	<b>\$ 5,171.95</b>	<b>\$ -</b>	<b>\$ 1,619.31</b>
<b>Amortizable Assets – Intangible</b>						
Computer Software	\$ 23,718.21					\$ 23,718.21
<b>Total Amortizable Assets – Intangible</b>	<b>\$ 23,718.21</b>					<b>\$ 23,718.21</b>
<b>Less Accumulated Depreciation for:</b>						
Computer Software	\$(23,718.21)					\$(23,718.21)
<b>Total Accumulated Amortization</b>	<b>\$(23,718.21)</b>					<b>\$(23,718.21)</b>
<b>Amortizable Assets, Net</b>	<b>\$ -</b>					<b>-</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 3,852.87</b>		<b>\$(6,790.51)</b>	<b>\$5,171.95</b>	<b>\$ -</b>	<b>\$ 2,234.31</b>

**NOTE 3: Deposits, Investments, and Repurchase Agreements**

The Department of Savings and Mortgage Lending reports investments held in the Texas Treasury Safekeeping Trust Company. The investments are authorized by 81<sup>st</sup> Legislature, HB 2774. The Texas Treasury Safekeeping Trust Company is authorized by statute to make investments following the “prudent person rule”. There were no significant violations of legal provisions during the period.



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**Deposits of Cash in Bank**

As of August 31, 2016, the carrying amount of deposits was as presented below:

<b>Governmental and Business-Type Activities</b>	
CASH IN BANK – CARRYING AMOUNT	\$0.00
Total Cash in Bank per AFR	\$0.00
<b>Fiduciary Funds</b>	
CASH IN BANK – CARRYING AMOUNT	\$3,458,432.48
Less: Certificates of Deposit included in carrying amount and reported as Cash Equivalent	\$3,458,432.48
Total Cash in Bank per AFR	\$0.00

These amounts consist of all cash in local banks. These amounts are included on the combined statement of net assets as part of the “cash and cash equivalents” account.

As of August 31, 2016, the total **bank balance** was as follows:

Governmental and Business-Type Activities	\$0.00	Fiduciary Funds	\$0.00
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**Custodial credit risk** for deposits is the risk that, in the event of the failure of a depository financial institution, the agency 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. The agency does not have a deposit policy for custodial credit risk as the bank balances are not exposed to such risk.

**Investments**

As of August 31, 2016, the fair value of investments was as presented below:

<b>Governmental and Business-Type Activities</b>		<b>Fair Value</b>
Repurchase Agreement(Texas Treasury Safekeeping Trust Co)		\$11,522,540.94
Total Investments		\$11,522,540.94
Reconciliation of Investments per Exhibits – Governmental and Business-Type Activities		\$11,522,540.94
Governmental Funds Cash Equivalents Misc		\$11,522,540.94
Investments per Exhibits		\$11,522,540.94
<b>Fiduciary Funds</b>		
Repurchase Agreement(Texas Treasury Safekeeping Trust Co)		\$442,105.22
Non-negotiable Certificates of Deposit		\$3,458,432.48
Total Investments		\$3,900,537.70
Reconciliation of Investments per Exhibits – Fiduciary Activities		\$3,900,537.70
Fiduciary Funds Cash Equivalents Misc		\$3,900,537.70
Investments per Exhibits		\$3,900,537.70

**Credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2016, the agency’s credit quality distribution for securities with credit risk exposure was as follows:

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***Standard & Poor's***

<b>Fund Type</b>	<b>GAAP Fund</b>	<b>Investment Type</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BB</b>
01	1007	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$11,522,540.94			
09	0831	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$11,659.43			
20	0831	Repurchase Agreement (Texas Treasury Safekeeping Trust Co) Non-negotiable Certificates of Deposit	\$430,445.79 \$3,458,432.48			

**NOTE 4: Short-Term Debt**

Not applicable.

**NOTE 5: Long-Term Liabilities**

**Changes In Long-Term Liabilities**

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

Governmental Activities	Balance 09-1-2015	Adjustment/Restatement	Additions	Reductions	Balance 08-31-2016	Amounts Due Within One Year
Compensable Leave	\$ 442,793.21	\$113,683.91	\$ 489,537.11	\$ 479,105.97	\$ 566,908.26	\$ 332,398.91
Total Governmental Activities	\$ 442,793.21	\$113,683.91	\$ 489,537.11	\$ 479,105.97	\$ 566,908.26	\$ 332,398.91

**Employees' Compensable Leave**

A state employee is entitled to be paid for all unused vacation time, 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. Upon termination or death, all unpaid overtime balances must be paid in full. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types.

Compensatory leave is allowed for exempt employees who are not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is non-transferable. For these reasons, this category is reported as a current liability.

For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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**NOTE 6: Bonded Indebtedness**

Not applicable.

**NOTE 7: Derivative Instruments**

Not applicable.

**NOTE 8: Leases**

Not applicable.

**NOTE 9: Defined Benefit Pension Plans and Defined Contribution Plan**

Not applicable.

**NOTE 10: Deferred Compensation**

Not applicable.

**NOTE 11: Post Employment Health Care and Life Insurance Benefits**

Not applicable.

**NOTE 12: Interfund Activity and Transactions**

Individual balances and activity at August 31, 2016, follows:

Current Portion	Current Interfund Receivable	Current Interfund Payable	Purpose
GENERAL (01)			
Appd Fund 0001, D23 Fund 0001	-0-	-0-	
Total Interfund Receivable/Payable	-0-	-0-	

Non-Current Portion	Non-Current Interfund Receivable	Non-Current Interfund Payable	Purpose
GENERAL (01)			
Appd Fund 0001, D23 Fund 0001	-0-	-0-	
Total Interfund Receivable/Payable	-0-	-0-	

**NOTE 13: Continuance Subject to Review**

Under the Texas Sunset Act, the Department will be abolished effective September 1, 2019, unless continued in existence by the 86th Legislature as provided by the Act. If abolished, the agency may continue until September 1, 2020, to close out its operations.

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**NOTE 14: Adjustments to Fund Balances/Net Assets**

The fiscal year 2016 beginning balance of the Department's Compensable Leave has been adjusted to include the compensatory leave for fiscal year 2015 (see note 5). Even though the compensatory leave is not being paid out at termination, it is still considered a current liability, as it could be used within one-year from the date earned.

**NOTE 15: Contingencies and Commitments**

The Department has no known contingent liabilities arising from claims.

The Departments has no known contingencies or contractual commitments related to derivatives.

**NOTE 16: Subsequent Events**

Not applicable.

**NOTE 17: Risk Management**

Not applicable.

**NOTE 18: Management Discussion and Analysis**

**Recovery Fund Transfer**

Texas Finance Code, §§156.501, 156.502 establishes the mortgage recovery fund and specifies that if the balance remaining in this private-purpose trust fund (USAS D23 fund 1831 & D23 fund 2968) at the end of a calendar year is more than \$3.5 million, the amount of money in excess of that amount shall be available to the Commissioner to offset the expenses of participating in and sharing information with the Nationwide Mortgage Licensing System and Registry in accordance with Fin. Code, Chapter 180. The excess as of December 31, 2015, was 321,007.30, 1,240.70 of which was transferred to the operating fund (USAS D23 fund 2970) in August 2016, to offset eligible expenses.

**NOTE 19: The Financial Reporting Entity**

The Finance Commission of Texas oversees the activities of the Department of Savings and Mortgage Lending, the Texas Department of Banking, and the Office of Consumer Credit Commissioner. The Commission consists of eleven members appointed by the Governor with the advice and consent of the Texas Senate. The Commission's operating expenditures, mostly Commission members' travel, are allocated between the three agencies.

The agencies occupy the jointly owned Finance Commission Building. Department of Banking pays the building maintenance costs and utilities and is reimbursed by the other two agencies.

The Department of Savings and Mortgage Lending pays all costs related to the shared receptionist and is reimbursed by the other two agencies.

Amounts due to and due from other agencies at August 31, 2016, are reported in the financials.

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**NOTE 20: Stewardship, Compliance and Accountability**

Not applicable.

**NOTE 21: Not applicable to the AFR**

Not applicable.

**NOTE 22: Donor-Restricted Endowments**

Not applicable.

**NOTE 23: Extraordinary and Special Items**

Not applicable.

**NOTE 24: Disaggregation of Receivable and Payable Balances**

Not applicable.

**NOTE 25: Termination Benefits**

Not applicable.

**NOTE 26: Segment Information**

Not applicable.

**NOTE 27: Service Concession Arrangements**

Not applicable.

**NOTE 28: Deferred Outflows of Resources and Deferred Inflows of Resources**

Not applicable.

**NOTE 29: Troubled Debt Restructuring**

Not applicable.

**NOTE 30: Non-Exchange Financial Guarantees**

Not applicable.

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**Department of Savings and Mortgage Lending**

**Exhibit A-1 — Combining Balance Sheet — All General and Consolidated Funds**

**August 31, 2016**

	<u>General</u> <u>Oper Fund-</u> <u>TTSTC</u> <u>(1007)*</u> <u>U/F (1007)</u>	<u>General</u> <u>Oper Fund-</u> <u>TTSTC</u> <u>(9999)*</u> <u>U/F (2970)</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash & Cash Equivalents (Note 3)			
Cash in Bank	\$ -	\$ -	\$ -
Cash in State Treasury	407,078.29	-	407,078.29
Cash Equivalents		11,522,540.94	11,522,540.94
Receivables from:			
Accounts Receivable		25,275.00	25,275.00
Due From Other Agencies	5,307.68		5,307.68
Consumable Inventories	11,694.97		11,694.97
Total Current Assets	<u>424,080.94</u>	<u>11,547,815.94</u>	<u>11,971,896.88</u>
Non-Current Assets			
Total Non-Current Assets			
Total Assets	<u>\$ 424,080.94</u>	<u>\$ 11,547,815.94</u>	<u>\$ 11,971,896.88</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Current Liabilities:			
Payables from			
Accounts	\$ 85,962.21	\$ 405.64	\$ 86,367.85
Payroll	407,078.29		407,078.29
Due To Other Agencies	30,811.48		30,811.48
Total Current Liabilities	<u>523,851.98</u>	<u>405.64</u>	<u>524,257.62</u>
Non-Current Liabilities			
Total Non-Current Liabilities			
Total Liabilities	<u>523,851.98</u>	<u>405.64</u>	<u>524,257.62</u>
Fund Balances (Deficits):			
Nonspendable for Inventory	11,694.97		11,694.97
Committed	(111,466.01)	11,547,410.30	11,435,944.29
Assigned			
Unassigned			
Total Fund Balances	<u>(99,771.04)</u>	<u>11,547,410.30</u>	<u>11,447,639.26</u>
Total Liabilities and Fund Balances	<u>\$ 424,080.94</u>	<u>\$ 11,547,815.94</u>	<u>\$ 11,971,896.88</u>

\* GAAP Fund is noted as (XXXX), USAS D23 U/F (XXXX)

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**Department of Savings and Mortgage Lending**

**Exhibit A-2 — Combining Statement of Revenues, Expenditures and Changes in Fund Balances -**

**All General and Consolidated Funds**

**For the Fiscal Year Ended August 31, 2016**

	<u>General</u> <u>Oper Fund</u> <u>(1007)*</u> <u>U/F (1007)</u>	<u>General</u> <u>Oper Fund-TTSTC</u> <u>(0831)*</u> <u>U/F (2970)</u>	<u>Total</u>
<b>REVENUES</b>			
Liscense, Fees & Permits (PR)	\$ -	\$ 7,929,431.68	7,929,431.68
Interest and Other Investment Income (PR)		20,960.67	20,960.67
Settlement of Claims (GR)		60,000.00	60,000.00
Other (GR)		9,773.72	9,773.72
Total Revenues	<u>\$ -</u>	<u>\$ 8,020,166.07</u>	<u>\$ 8,020,166.07</u>
<b>EXPENDITURES</b>			
Salaries and Wages	\$ 3,711,405.77	\$ -	\$ 3,711,405.77
Payroll Related Costs	1,223,128.14		1,223,128.14
Professional Fees and Services	47,934.31		47,934.31
Travel	271,117.36		271,117.36
Materials and Supplies	63,961.74		63,961.74
Communication and Utilities	60,896.30		60,896.30
Repairs and Maintenance	61,200.58		61,200.58
Rentals and Leases	4,130.31		4,130.31
Printing and Reproduction	467.48		467.48
Other Expenditures	147,280.98	3,939.32	151,220.30
Capital Outlay	6,872.32		6,872.32
Total Expenditures	<u>\$ 5,598,395.29</u>	<u>\$ 3,939.32</u>	<u>\$ 5,602,334.61</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (5,598,395.29)</u>	<u>\$ 8,016,226.75</u>	<u>\$ 2,417,831.46</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$ 5,574,587.41	\$ 1,240.70	\$ 5,575,828.11
Transfers Out		(5,574,587.41)	(5,574,587.41)
Total Other Financing Sources (Uses)	<u>\$ 5,574,587.41</u>	<u>\$ (5,573,346.71)</u>	<u>\$ 1,240.70</u>
Net Change in Fund Balances	<u>\$ (23,807.88)</u>	<u>\$ 2,442,880.04</u>	<u>\$ 2,419,072.16</u>
<b>Fund Financial Statement - Fund Balances</b>			
Fund Balances, September 1, 2015	\$ (75,963.16)	\$ 9,104,530.26	\$ 9,028,567.10
Restatements			
Fund Balances, September 1, 2015, as Restated	<u>\$ (75,963.16)</u>	<u>\$ 9,104,530.26</u>	<u>\$ 9,028,567.10</u>
Appropriations Lapsed	\$ -	\$ -	\$ -
Fund Balances, August 31, 2015	<u>\$ (99,771.04)</u>	<u>\$ 11,547,410.30</u>	<u>\$ 11,447,639.26</u>

\* GAAP Fund is noted as (XXXX), USAS D23 U/F (XXXX)



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**Department of Savings and Mortgage Lending**

**Exhibit I-1 — Combining Statement of Fiduciary Net Position — Private-Purpose Trust Funds**

**August 31, 2016**

	<b>Mortgage Broker Recovery Trust Fund (0831)* U/F (1831)</b>	<b>Mortgage Broker Recovery Trust Fund-TTSTC (0831)* U/F (3968)</b>	<b>Totals</b>
<b>ASSETS</b>			
Cash and Cash Equivalents			
Cash in State Treasury	\$	\$	\$
Cash Equivalents		3,888,878.27	3,888,878.27
Receivables from:			
Accounts Receivable		780.00	780.00
Interest and Dividends		16,428.97	16,428.97
Total Assets	<u>\$ 0.00</u>	<u>\$ 3,906,087.24</u>	<u>\$ 3,906,087.24</u>
<b>LIABILITIES</b>			
Payables from:			
Accounts	\$ -	\$ 24.84	\$ 24.84
Total Liabilities	<u>\$ 0.00</u>	<u>\$ 24.84</u>	<u>\$ 24.84</u>
<b>NET ASSETS</b>			
Held in Trust For:			
Mortgage Originator Recovery Fund †	<u>0</u>	<u>3,906,062.40</u>	<u>3,906,062.40</u>
Total Net Assets	<u><u>\$ 0.00</u></u>	<u><u>\$ 3,906,062.40</u></u>	<u><u>\$ 3,906,062.40</u></u>

\* GAAP Fund is noted as (XXXX), USAS D23 U/F (XXXX)

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**Department of Savings and Mortgage Lending**

**Exhibit I-2 — Combining Statement of Changes in Fiduciary Net Position —**

**Private-Purpose Trust Funds**

**For the Fiscal Year Ended August 31, 2016**

	Mortgage Broker Recovery Trust Fund (0831)* U/F (1831)	Mortgage Broker Recovery Trust Fund (0831)* U/F (3968)	Totals
<b>ADDITIONS</b>			
Investment Income			
From Investing Activities:			
Interest and Investment Income	\$ -	\$ 39,666.56	\$ 39,666.56
Total Investing Income (Loss)	\$ -	\$ 39,666.56	\$ 39,666.56
Less Investing Activities Expense			\$ -
Net Income from Investing Activities	\$ -	\$ 39,666.56	\$ 39,666.56
Total Net Investment Income (Loss)	\$ -	\$ 39,666.56	\$ 39,666.56
Other Additions			
Other Revenue	\$ 381.69	\$ 71,180.00	\$ 71,561.69
Transfer In		381.69	\$ 381.69
Total Other Additions	\$ 381.69	\$ 71,561.69	\$ 71,943.38
Total Additions	\$ 381.69	\$ 111,228.25	\$ 111,609.94
<b>DEDUCTIONS</b>			
Settlement of Claims			\$ -
Other Expense		\$ 232.27	\$ 232.27
Transfer Out	381.69	1,240.70	1,622.39
Total Deductions	\$ 381.69	\$ 1,472.97	\$ 1,854.66
<b>INCREASE (DECREASE) IN NET ASSETS</b>	\$ -	\$ 109,755.28	\$ 109,755.28
<b>NET ASSETS</b>			
Net Assets, September 1, 2015	\$ -	\$ 3,796,307.12	\$ 3,796,307.12
Restatements			
Net Assets, September 1, 2015, as Restated	\$ -	\$ 3,796,307.12	\$ 3,796,307.12
Net Assets, August 31, 2016	\$ -	\$ 3,906,062.40	\$ 3,906,062.40

\* GAAP Fund is noted as (XXXX), USAS D23 U/F (XXXX)

Department of Savings and Mortgage Lending

Exhibit J-1 — Combining Statement of Changes in Assets and Liabilities— Agency Funds

August 31, 2016

	Beginning Balance 9/1/2015	Additions	Deductions	Ending Balance 8/31/2016
<b>Agency Fund 0807*, U/F (8070)</b>				
<b>Child Support Addenda Deducts - Suspense</b>				
<b>ASSETS</b>				
Cash in State Treasury	\$ 572.00	\$ 1,944.00	\$ 1,944.00	\$ 572.00
Total Assets	<u>\$ 572.00</u>	<u>\$ 1,944.00</u>	<u>\$ 1,944.00</u>	<u>\$ 572.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	572.00	1,944.00	1,944.00	572.00
Total Liabilities	<u>\$ 572.00</u>	<u>\$ 1,944.00</u>	<u>\$ 1,944.00</u>	<u>\$ 572.00</u>
<b>Agency Fund 0831*, U/F (2831)</b>				
<b>HB 955 Appeal of License Fees</b>				
<b>ASSETS</b>				
Cash in State Treasury	\$ 2,325.00	\$ 5,093.62	\$ 7,418.62	\$ .00
Total Assets	<u>\$ 2,325.00</u>	<u>\$ 5,093.62</u>	<u>\$ 7,418.62</u>	<u>\$ .00</u>
<b>LIABILITIES</b>				
Payables from:				
Accounts	\$ 500.00	\$ 4,593.62	\$ 5,093.62	\$ .00
Funds Held for Others	1,825.00	5,093.62	6,918.62	-
Total Liabilities	<u>\$ 2,325.00</u>	<u>\$ 9,687.24</u>	<u>\$ 12,012.24</u>	<u>\$ .00</u>
<b>Agency Fund 0831*, U/F (3969)</b>				
<b>HB 955 Appeal of License Fees-TTSTC</b>				
<b>ASSETS</b>				
Cash in Bank	\$ .00	\$ .00	\$ .00	\$ .00
Cash Equivalents	14,746.91	6,686.24	9,773.72	11,659.43
Total Assets	<u>\$ 14,746.91</u>	<u>\$ 6,686.24</u>	<u>\$ 9,773.72</u>	<u>\$ 11,659.43</u>
<b>LIABILITIES</b>				
Payables from:				
Accounts	\$ .00	3,542.89	\$ 32.10	\$ 3,510.79
Funds Held for Others	14,746.91	6,686.24	13,284.51	8,148.64
Total Liabilities	<u>\$ 29,960.82</u>	<u>\$ 10,229.13</u>	<u>\$ 13,316.61</u>	<u>\$ 11,659.43</u>

\* GAAP Fund is noted as (XXXX), USAS D23 U/F (XXXX)