

**DEPARTMENT OF
SAVINGS AND MORTGAGE LENDING**

*ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2015*



**Caroline C. Jones
Commissioner**

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

This page intentionally left blank.



DEPARTMENT of SAVINGS & MORTGAGE LENDING

Caroline C. Jones, Commissioner

October 1, 2015

Honorable Greg Abbott, Governor
Honorable Glenn Hegar, Texas Comptroller
Ursula Parks, Director, Legislative Budget Board
John Keel, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of the Department of Savings and Mortgage Lending for the year ended August 31, 2015, 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

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

This page intentionally left blank.

Department of Savings and Mortgage Lending – Agy 450
UNAUDITED

Table of Contents

Combined Financial Statements

Exhibit I – Combined Balance Sheet/Statement of Net Assets – Governmental Funds	1
Exhibit II – Combined Statement of Revenues, Expenditures and Changes in Fund Balance	2
Exhibit VI – Combined Statement of Net Assets – Fiduciary Funds	3
Exhibit VII – Combined Statement of Changes in Fiduciary Net Assets	4

Notes to the Financial Statements

NOTE 1: Summary of Significant Accounting Policies	6
NOTE 2: Capital Assets	10
NOTE 3: Deposits, Investments, and Repurchase Agreements	10
NOTE 4: Short-Term Debt	12
NOTE 5: Long-Term Liabilities	12
NOTE 6: Bonded Indebtedness	12
NOTE 7: Capital Leases	12
NOTE 8: Operating Leases	12
NOTE 9: Retirement Plans	12
NOTE 10: Deferred Compensation	12
NOTE 11: Post Employment Health Care and Life Insurance Benefits	13
NOTE 12: Interfund Activity and Transactions	13
NOTE 13: Continuance Subject to Review	13
NOTE 14: Adjustments to Fund Balance/Net Assets	13
NOTE 15: Contingencies and Commitments	13
NOTE 16: Subsequent Events	13
NOTE 17: Risk Management	13
NOTE 18: Management Discussion and Analysis	13
NOTE 19: The Financial Reporting Entity	14
NOTE 20: Stewardship, Compliance and Accountability	14
NOTE 21: Not applicable to the AFR	14
NOTE 22: Donor-Restricted Endowments	14
NOTE 23: Extraordinary and Special Items	14
NOTE 24: Disaggregation of Receivable and Payable Balances	14
NOTE 25: Termination Benefits	14
NOTE 26: Segment Information	14
NOTE 27: Service Concession Arrangements	15
NOTE 28: Deferred Outflows of Resources and Deferred Inflows of Resources	15
NOTE 29: Troubled Debt Restructuring	15
NOTE 30: Non-Exchange Financial Guarantees	15

Combining Financial Statements

Exhibit A-1 – Combining Balance Sheet – All General and Consolidated Funds	17
Exhibit A-2 – Combining Statement of Revenues, Expenditures and Changes in Fund Balance	18
Exhibit I-1 – Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds	19
Exhibit I-2 – Combining Statement of Changes of Fiduciary Net Assets – Private-Purpose Trust Funds	20
Exhibit J-1 – Combining Statement of Changes in Assets and Liabilities – Agency Funds	21

UNAUDITED

Department of Savings and Mortgage Lending

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

August 31, 2015

	<u>Governmental Fund Types</u>		Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Net Assets
	General Funds	Governmental Funds Total				
ASSETS						
Current Assets:						
Cash & Cash Equivalents (Note 3)						
Cash in Bank	\$ 18,500.50	\$ 18,500.50	\$	\$	\$	\$ 18,500.50
Cash in State Treasury	441,943.57	441,943.57				441,943.57
Cash Equivalents	9,063,354.48	9,063,354.48				9,063,354.48
Receivables from:						
Accounts Receivable	23,150.75	23,150.75				23,150.75
Interest and Dividends						
Due From Other Agencies	6,121.11	6,121.11				6,121.11
Consumable Inventories	8,074.78	8,074.78				8,074.78
Total Current Assets	<u>9,561,145.19</u>	<u>9,561,145.19</u>				<u>9,561,145.19</u>
Non-Current Assets:						
Capital Assets (Note 2):						
Non-Depreciable or Non-amortizable			615.00			
Depreciable or Amortizable, Net			3,237.87			
Total Non-Current Assets			<u>3,852.87</u>			<u>0</u>
Total Assets	<u>\$ 9,561,145.19</u>	<u>\$ 9,561,145.19</u>	<u>\$ 3,852.87</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 9,561,145.19</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Current Liabilities:						
Payables from:						
Accounts	\$ 76,588.38	\$ 76,588.38	\$	\$	\$	\$ 76,588.38
Payroll	441,559.24	441,559.24				441,559.24
Due To Other Agencies	14,430.47	14,430.47				14,430.47
Employees' Compensable Leave				209,568.51		209,568.51
Total Current Liabilities	<u>532,578.09</u>	<u>532,578.09</u>		<u>209,568.51</u>		<u>742,146.60</u>
Non-Current Liabilities						
Employees' Compensable Leave				233,224.70		233,224.70
Total Non-Current Liabilities				<u>233,224.70</u>		<u>233,224.70</u>
Total Liabilities	<u>532,578.09</u>	<u>532,578.09</u>		<u>442,793.21</u>		<u>975,371.30</u>
Fund Financial Statement						
Fund Balances (Deficits):						
Nonspendable for Inventory	8,074.78	8,074.78				8,074.78
Committed	9,020,492.32	9,020,492.32				9,020,492.32
Unassigned						
Total Fund Balances	<u>9,028,567.10</u>	<u>9,028,567.10</u>				<u>9,028,567.10</u>
Total Liabilities and Fund Balances	<u>\$ 9,561,145.19</u>	<u>\$ 9,561,145.19</u>				
Government-Wide Statement of Net Assets						
Net Assets						
Invested in Capital Assets, Net of Related Debt			3,852.87			3,852.87
Other						
Unrestricted				(442,793.21)		(442,793.21)
Total Net Assets			<u>\$ 3,852.87</u>	<u>\$ (442,793.21)</u>	<u>\$ 0.00</u>	<u>\$ 8,589,626.76</u>

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

UNAUDITED

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, 2015

	General Funds	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustment s	Statement of Activities
REVENUES						
Licenses, Fees & Permits (PR)	6,275,305.49	6,275,305.49				6,275,305.49
Interest and Other Investment Income (GR)	4,053.07	4,053.07				4,053.07
Other (PR - Chg for Serv, Operating)						
Total Revenues	<u>6,343,977.91</u>	<u>6,343,977.91</u>				<u>6,343,977.91</u>
EXPENDITURES						
Salaries and Wages	3,792,688.75	3,792,688.75		(32,673.32)		3,760,015.43
Payroll Related Costs	1,090,993.60	1,090,993.60				1,090,993.60
Professional Fees and Services	54,384.84	54,384.84				54,384.84
Travel	322,493.04	322,493.04				322,493.04
Materials and Supplies	47,614.42	47,614.42				47,614.42
Communication and Utilities	60,395.81	60,395.81				60,395.81
Repairs and Maintenance	32,121.15	32,121.15				32,121.15
Rentals and Leases	3,696.57	3,696.57				3,696.57
Printing and Reproduction	969.55	969.55				969.55
Other Expenditures	119,802.39	119,802.39				119,802.39
Depreciation Expense			1,618.56			1,618.56
Total Expenditures/Expenses	<u>5,525,160.12</u>	<u>5,525,160.12</u>	<u>1,618.56</u>	<u>(32,673.32)</u>		<u>5,494,105.36</u>
Excess (Deficiency) of Revenues over Expenditures	<u>818,817.79</u>	<u>818,817.79</u>	<u>(1,618.56)</u>	<u>32,673.32</u>		<u>849,872.55</u>
OTHER FINANCING SOURCES (USES)						
Transfer In	\$ 5,591,433.30	\$ 5,591,433.30				\$ 5,591,433.30
Transfer Out	(5,580,389.93)	(5,580,389.93)				(5,580,389.93)
Total Other Financing Sources (Uses)	<u>11,043.37</u>	<u>11,043.37</u>				<u>11,043.37</u>
Net Change in Fund Balances/Net Assets	<u>829,861.16</u>	<u>829,861.16</u>				<u>829,861.16</u>
Fund Balances, September 1, 2014	8,198,705.94	8,198,705.94				8,198,705.94
Restatements						
Fund Balances, September 1, 2014, as Restated	<u>8,198,705.94</u>	<u>8,198,705.94</u>				<u>8,198,705.94</u>
Appropriations Lapsed						
Fund Balances, August 31, 2015	<u>\$ 9,028,567.10</u>	<u>\$ 9,028,567.10</u>				<u>\$ 9,028,567.10</u>
Government-Wide Statement of Net Assets						
Net Assets/Net Change in Net Assets		<u>9,028,567.10</u>	<u>(1,618.56)</u>	<u>32,673.32</u>		<u>9,059,621.86</u>
Net Assets, September 1, 2014			7,089.99	410,119.89		417,209.88
Restatements						
Net Assets, September 1, 2014, as Restated			<u>7,089.99</u>	<u>410,119.89</u>		<u>417,209.88</u>
Net Assets, August 31, 2015		<u>\$ 9,028,567.10</u>	<u>\$ 5,471.43</u>	<u>\$ 442,793.21</u>	<u>\$ 0.00</u>	<u>\$ 9,476,831.74</u>

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

UNAUDITED

Department of Savings and Mortgage Lending
Exhibit VI — Combined Statement of Net Assets — Fiduciary Funds
August 31, 2015

	Private-Purpose Trust Funds (Exhibit I-1)	Agency Funds (Exhibit J-1)	Totals
ASSETS			
Cash and Cash Equivalents (Note 3)			
Cash in Bank	\$	\$	\$
Cash in State Treasury		2,897.00	\$ 2,897.00
Cash Equivalents	3,783,805.48	14,746.91	3,798,552.39
Receivables from:			
Accounts Receivable	520.00		520.00
Interest and Dividends	11,998.23		11,998.23
Total Assets	<u>\$ 3,796,323.71</u>	<u>\$ 17,643.91</u>	<u>\$ 3,813,967.62</u>
LIABILITIES			
Payables from:			
Accounts	\$ 16.59	500.00	\$ 16.59
Funds Held For Others		17,143.91	17,143.91
Total Liabilities	<u>\$ 16.59</u>	<u>\$ 17,643.91</u>	<u>\$ 17,160.50</u>
NET ASSETS			
Held in Trust For			
Mortgage Broker Recovery Fund Claims	3,796,307.12		3,796,307.12
Total Net Assets	<u>\$ 3,796,307.12</u>	<u>\$ 0.00</u>	<u>\$ 3,796,307.12</u>

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

UNAUDITED

Department of Savings and Mortgage Lending

Exhibit VII — Combined Statement of Changes in Fiduciary Net Assests

For the Fiscal Year Ended August 31, 2015

	Private-Purpose Trust Funds (Exhibit I-2)	Totals
ADDITIONS		
Investment Income		
From Investing Activities:		
Interest and Investment Income	\$ 29,937.93	\$ 29,937.93
Total Investing Income (Loss)	29,937.93	29,937.93
Less Investing Activities Expense		
Net Income from Investing Activiies	29,937.93	29,937.93
From Securities Lending Activities:		
Securities Lending Income		
Less Securities Lending Expense:		0.00
Net Income from Securities Lending Activities		
Total Net Investment Income (Loss)	29,937.93	29,937.93
Capital Share and Individual Account Transactions		
Net Capital Share and Individual Account Transactions		
Other Additions		
Other Revenue	70,362.44	70,362.44
Transfers In	1,049.50	1,049.50
Total Other Additions	71,411.94	71,411.94
Total Additions	\$ 101,349.87	\$ 101,349.87
DEDUCTIONS		
Other Expense	\$ 92.70	\$ 92.70
Transfers Out	12,092.87	12,092.87
Total Deductions	13,225.07	13,225.07
INCREASE (DECREASE) IN NET ASSETS	88,124.80	88,124.80
NET ASSETS		
Net Assets, September 1, 2014	3,708,182.32	3,708,182.32
Restatements		
Net Assets, September 1, 2014, as Restated	3,708,182.32	3,708,182.32
Net Assets, August 31, 2015	\$ 3,796,307.12	\$ 3,796,307.12

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

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

This page intentionally left blank.

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.

Department of Savings and Mortgage Lending – Agy 450

UNAUDITED

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

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

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

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

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.

Department of Savings and Mortgage Lending – Agy 450
UNAUDITED

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

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

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
UNAUDITED

NOTE 2: Capital Assets

A summary of changes in Capital Assets for the year ended August 31, 2015, is presented below:

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT				Balance 8/31/2015
	Balance 9/1/2014	Adjustments & Reclass	Additions	Deletions	
Non-Depreciable Assets					
Other Assets	615.00				615.00
Total Non-Depreciable Assets	615.00				615.00
Depreciable Assets					
Furniture and Equipment	53,449.81				53,449.81
Total Depreciable Assets at Historical Costs	53,449.81	0.00	0.00	0.00	53,449.81
Less Accumulated Depreciation for:					
Furniture and Equipment	(48,593.38)		(1,618.56)		(50,211.94)
Total Accumulated Depreciation	(48,593.38)	0.00	(1,618.56)		(50,211.94)
Depreciable Assets, Net	4,856.43	0.00	(1,618.56)	0.00	3,237.87
Amortizable Assets – Intangible					
Computer Software	23,718.21				23,718.21
Total Amortizable Assets – Intangible	23,718.21	0.00			23,718.21
Less Accumulated Depreciation for:					
Computer Software	(23,718.21)				(23,718.21)
Total Accumulated Amortization	(23,718.21)	0.00			(23,718.21)
Amortizable Assets, Net	0.00	0.00			0.00
Governmental Activities Capital Assets, Net	5,471.43	0.00	(1,618.56)	0.00	3,852.87

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 81st 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.

Deposits of Cash in Bank

As of August 31, 2015, the carrying amount of deposits was as presented below:

Governmental and Business-Type Activities	
CASH IN BANK – CARRYING AMOUNT	\$18,500.50
Total Cash in Bank per AFR	\$18,500.50
Fiduciary Funds	
CASH IN BANK – CARRYING AMOUNT	\$3,450,455.89
Less: Certificates of Deposit included in carrying amount and reported as Cash Equivalent	\$3,450,455.89
Total Cash in Bank per AFR	\$0.00

Department of Savings and Mortgage Lending – Agy 450
UNAUDITED

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, 2015, the total **bank balance** was as follows:

Governmental and Business-Type Activities	\$18,500.50	Fiduciary Funds	\$0.00
---	-------------	-----------------	--------

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, 2015, the fair value of investments was as presented below:

Governmental and Business-Type Activities	Fair Value
Repurchase Agreement(Texas Treasury Safekeeping Trust Co)	\$9,063,354.48
Total Investments	\$9,063,354.48
Reconciliation of Investments per Exhibits – Governmental and Business-Type Activities	\$9,063,354.48
Governmental Funds Cash Equivalents Misc	\$9,063,354.48
Investments per Exhibits	\$9,063,354.48
Fiduciary Funds	
Repurchase Agreement(Texas Treasury Safekeeping Trust Co)	\$348,096.50
Non-negotiable Certificates of Deposit	\$3,450,455.89
Total Investments	\$3,798,552.39
Reconciliation of Investments per Exhibits – Fiduciary Activities	\$3,798,552.39
Fiduciary Funds Cash Equivalents Misc	\$3,798,552.39
Investments per Exhibits	\$3,798,552.39

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of August 31, 2015, the agency’s credit quality distribution for securities with credit risk exposure was as follows:

Standard & Poor’s

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BB
01	1007	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$9,063,354.48			
09	0831	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$14,746.91			
20	0831	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$333,349.59			
		Non-negotiable Certificates of Deposit	\$3,450,455.89			

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

NOTE 4: Short-Term Debt

Not applicable.

NOTE 5: Long-Term Liabilities

Changes In Long-Term Liabilities

During the year ended August 31, 2015, the following changes occurred in liabilities.

Governmental Activities	Balance 09-1-2014	Additions	Reductions	Balance 08-31-2015	Amounts Due Within One Year
Compensable Leave	\$ 410,119.89	\$ 258,986.05	\$ 226,312.73	\$ 442,793.21	\$ 209,568.51
Total Governmental Activities	\$ 410,119.89	\$ 258,986.05	\$ 226,312.73	\$ 442,793.21	\$ 209,568.51

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. 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.

NOTE 6: Bonded Indebtedness

Not applicable.

NOTE 7: Derivative Instruments

Not applicable.

NOTE 8: Leases

Not applicable.

NOTE 9: Pension Plans

Not applicable.

NOTE 10: Deferred Compensation

Not applicable.

NOTE 11: Post Employment Health Care and Life Insurance Benefits

Not applicable.

Department of Savings and Mortgage Lending – Agy 450

UNAUDITED

NOTE 12: Interfund Activity and Transactions

Individual balances and activity at August 31, 2015, 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.

NOTE 14: Adjustments to Fund Balances/Net Assets

Not applicable.

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.

Department of Savings and Mortgage Lending – Agy 450
UNAUDITED

Code, Chapter 180. The excess as of December 31, 2014, was 225,767.04, 11,043.37 of which was transferred to the operating fund (USAS D23 fund 2970) in August 2015, 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, 2015, are reported in the financials.

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.

Department of Savings and Mortgage Lending – Agy 450
UNAUDITED

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.

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

This page intentionally left blank.

UNAUDITED

Department of Savings and Mortgage Lending

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

August 31, 2015

	<u>General</u> <u>Oper Fund-</u> <u>TTSTC</u> <u>(1007)*</u> <u>U/F (1007, 9000)</u>	<u>General</u> <u>Oper Fund-</u> <u>TTSTC</u> <u>(9999)*</u> <u>U/F (2970)</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash & Cash Equivalents (Note 3)			
Cash in Bank	\$ -	\$ 18,500.50	\$ 18,500.50
Cash in State Treasury	441,943.57	-	441,943.57
Cash Equivalents		9,063,354.48	9,063,354.48
Receivables from:			
Accounts Receivable		23,150.75	23,150.75
Interest and Dividends			
Due From Other Funds			
Due From Other Agencies	6,121.11		6,121.11
Consumable Inventories	8,074.78		8,074.78
Total Current Assets	<u>456,139.46</u>	<u>9,105,005.73</u>	<u>9,561,145.19</u>
Non-Current Assets			
Total Non-Current Assets			
Total Assets	<u>\$ 456,139.46</u>	<u>\$ 9,105,005.73</u>	<u>\$ 9,561,145.19</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Current Liabilities:			
Payables from			
Accounts	\$ 76,112.91	\$ 475.47	\$ 76,588.38
Payroll	441,559.24		441,559.24
Due To Other Funds			
Due To Other Agencies	14,430.47		14,430.47
Total Current Liabilities	<u>532,102.62</u>	<u>475.47</u>	<u>532,578.09</u>
Non-Current Liabilities			
Total Non-Current Liabilities			
Total Liabilities	<u>532,102.62</u>	<u>475.47</u>	<u>532,578.09</u>
Fund Balances (Deficits):			
Nonspendable for Inventory	8,074.78		8,074.78
Committed	(84,037.94)	9,104,530.26	9,020,492.32
Assigned			
Unassigned			
Total Fund Balances	<u>(75,963.16)</u>	<u>9,104,530.26</u>	<u>9,028,567.10</u>
Total Liabilities and Fund Balances	<u>\$ 456,139.46</u>	<u>\$ 9,105,005.73</u>	<u>\$ 9,561,145.19</u>

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

UNAUDITED

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, 2015

	<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>
REVENUES			
Liscense, Fees & Permits (PR)	\$ (200.00)	\$ 6,275,505.49	6,275,305.49
Contribution to Employee's Benefit Funds (PR)			
Interest and Other Investment Income (PR)			
Interest and Other Investment Income (GR)		4,053.07	4,053.07
Land Income (PR)			
Settlement of Claims (GR)		60,000.00	60,000.00
Other (GR)		4,619.35	4,619.35
Total Revenues	<u>\$ (200.00)</u>	<u>\$ 6,344,177.91</u>	<u>\$ 6,343,977.91</u>
EXPENDITURES			
Salaries and Wages	\$ 3,792,688.75	\$ -	\$ 3,792,688.75
Payroll Related Costs	1,090,993.60		1,090,993.60
Professional Fees and Services	54,384.84		54,384.84
Travel	322,493.04		322,493.04
Materials and Supplies	47,614.42		47,614.42
Communication and Utilities	60,395.81		60,395.81
Repairs and Maintenance	32,121.15		32,121.15
Rentals and Leases	3,696.57		3,696.57
Printing and Reproduction	969.55		969.55
Other Expenditures	116,629.44	3,172.95	119,802.39
Capital Outlay			
Total Expenditures	<u>\$ 5,521,987.17</u>	<u>\$ 3,172.95</u>	<u>\$ 5,525,160.12</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (5,522,187.17)</u>	<u>\$ 6,341,004.96</u>	<u>\$ 818,817.79</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 5,580,389.93	\$ 11,043.37	\$ 5,591,433.30
Transfers Out		(5,580,389.93)	(5,580,389.93)
Total Other Financing Sources (Uses)	<u>\$ 5,580,389.93</u>	<u>\$ (5,569,346.56)</u>	<u>\$ 11,043.37</u>
Net Change in Fund Balances	<u>\$ 58,202.76</u>	<u>\$ 771,658.40</u>	<u>\$ 829,861.16</u>
Fund Financial Statement - Fund Balances			
Fund Balances, September 1, 2014	\$ (134,165.92)	\$ 8,332,871.86	\$ 8,198,705.94
Restatements			
Fund Balances, September 1, 2014, as Restated	<u>\$ (134,165.92)</u>	<u>\$ 8,332,871.86</u>	<u>\$ 8,198,705.94</u>
Appropriations Lapsed	\$ -	\$ -	\$ -
Fund Balances, August 31, 2015	<u>\$ (75,963.16)</u>	<u>\$ 9,104,530.26</u>	<u>\$ 9,028,567.10</u>

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

UNAUDITED

Department of Savings and Mortgage Lending

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

August 31, 2015

	Mortgage Broker Recovery Trust Fund (0831)* U/F (1831)	Mortgage Broker Recovery Trust Fund-TTSTC (0831)* U/F (3968)	Totals
ASSETS			
Cash and Cash Equivalents			
Cash in State Treasury	\$	\$	\$
Cash Equivalents		3,783,805.48	3,783,805.48
Receivables from:			
Accounts Receivable		520.00	520.00
Interest and Dividends		11,998.23	11,998.23
Total Assets	<u>\$ 0.00</u>	<u>\$ 3,796,323.71</u>	<u>\$ 3,796,323.71</u>
LIABILITIES			
Payables from:			
Accounts	<u>\$ -</u>	<u>\$ 16.59</u>	<u>\$ 16.59</u>
Total Liabilities	<u>\$ 0.00</u>	<u>\$ 16.59</u>	<u>\$ 16.59</u>
NET ASSETS			
Held in Trust For:			
Mortgage Originator Recovery Fund Claims	<u>0</u>	<u>3,796,307.12</u>	<u>3,796,307.12</u>
Total Net Assets	<u><u>\$ 0.00</u></u>	<u><u>\$ 3,796,307.12</u></u>	<u><u>\$ 3,796,307.12</u></u>

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

UNAUDITED

Department of Savings and Mortgage Lending

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

Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2015

	Mortgage Broker Recovery Trust Fund (0831)* U/F (1831)	Mortgage Broker Recovery Trust Fund (0831)* U/F (3968)	Totals
ADDITIONS			
Investment Income			
From Investing Activities:			
Interest and Investment Income	\$ -	\$ 29,937.93	\$ 29,937.93
Total Investing Income (Loss)	\$ -	\$ 29,937.93	\$ 29,937.93
Less Investing Activities Expense			\$ -
Net Income from Investing Activities	\$ -	\$ 29,937.93	\$ 29,937.93
Management Fees			\$ -
Total Net Investment Income (Loss)	\$ -	\$ 29,937.93	\$ 29,937.93
Other Additions			
Other Revenue	\$ -	\$ 70,362.44	\$ 70,362.44
Transfer In	1,049.50		\$ 1,049.50
Total Other Additions	\$ 1,049.50	\$ 70,362.44	\$ 71,411.94
Total Additions	\$ 1,049.50	\$ 100,300.37	\$ 101,349.87
DEDUCTIONS			
Settlement of Claims	\$ 1,039.50		\$ 1,039.50
Other Expense	\$ 10.00	\$ 82.70	\$ 92.70
Transfer Out		12,092.87	12,092.87
Total Deductions	\$ 1,049.50	\$ 12,175.57	\$ 13,225.07
INCREASE (DECREASE) IN NET ASSETS	\$ -	\$ 88,124.80	\$ 88,124.80
NET ASSETS			
Net Assets, September 1, 2014	\$ -	\$ 3,708,182.32	\$ 3,708,182.32
Restatements			
Net Assets, September 1, 2014, as Restated	\$ -	\$ 3,708,182.32	\$ 3,708,182.32
Net Assets, August 31, 2015	\$ -	\$ 3,796,307.12	\$ 3,796,307.12

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