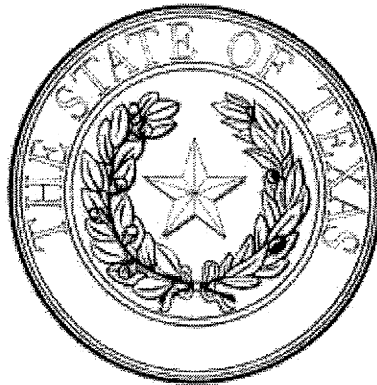


**TEXAS DEPARTMENT OF
SAVINGS AND MORTGAGE LENDING**

***ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2011***



**Douglas B. Foster
Commissioner**

**Texas Department of Savings and Mortgage Lending – Agy 450
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Douglas B. Foster
Commissioner

TEXAS DEPARTMENT OF SAVINGS & MORTGAGE LENDING

October 1, 2011

Honorable Rick Perry, Governor
Honorable Susan Combs, Texas Comptroller
John O'Brien, Director, Legislative Budget Board
John Keel, CPA, State Auditor

Lady and Gentlemen:

We are pleased to submit the Annual Financial Report of the Texas Department of Savings and Mortgage Lending for the year ended August 31, 2011, 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 "Douglas B. Foster".

Douglas B. Foster
Commissioner

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Texas Department of Savings and Mortgage Lending
 Exhibit I — Combined Balance Sheet/Statement of Net Assets — Governmental Funds
 August 31, 2011

	Governmental Fund Types			Long-Term Liabilities Adjustments	Other Adjustments	Statement of Net Assets
	General Funds	Governmental Funds Total	Capital Assets Adjustments			
ASSETS						
Current Assets:						
Cash & Cash Equivalents (Note 3)						
Cash in Bank	\$ 200.00	\$ 200.00	\$	\$	\$	\$ 200.00
Cash in State Treasury	420,489.81	420,489.81				420,489.81
Cash Equivalents	3,206,829.19	3,206,829.19				3,206,829.19
Legislative Appropriations						
Receivables from:						
Accounts Receivable	96,363.00	96,363.00				96,363.00
Interest and Dividends	252.80	252.80				252.80
Consumable Inventories	15,684.35	15,684.35				15,684.35
Total Current Assets	<u>3,745,444.27</u>	<u>3,745,444.27</u>				<u>3,745,444.27</u>
Non-Current Assets:						
Capital Assets (Note 2):						
Non-Depreciable or Non-amortizable			615.00			
Depreciable or Amortizable, Net			10,950.96			
Total Non-Current Assets			<u>11,565.96</u>			<u>0</u>
Total Assets	<u>\$ 3,745,444.27</u>	<u>\$ 3,745,444.27</u>	<u>\$ 11,565.96</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 3,745,444.27</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Current Liabilities:						
Payables from:						
Accounts	\$ 70,989.03	\$ 70,989.03	\$	\$	\$	\$ 70,989.03
Payroll	419,544.13	419,544.13				419,544.13
Due To Other Agencies	17,629.06	17,629.06				17,629.06
Employees' Compensable Leave				278,976.18		278,976.18
Total Current Liabilities	<u>508,162.22</u>	<u>508,162.22</u>		<u>278,976.18</u>		<u>787,138.40</u>
Non-Current Liabilities						
Employees' Compensable Leave				209,616.38		209,616.38
Total Non-Current Liabilities				<u>209,616.38</u>		<u>209,616.38</u>
Total Liabilities	<u>508,162.22</u>	<u>508,162.22</u>		<u>488,592.56</u>		<u>996,754.78</u>
Fund Financial Statement						
Fund Balances (Deficits):						
Nonspendable for Inventory	15,684.35	15,684.35				15,684.35
Committed	3,221,597.70	3,221,597.70				3,221,597.70
Unassigned						
Total Fund Balances	<u>3,237,282.05</u>	<u>3,237,282.05</u>				<u>3,237,282.05</u>
Total Liabilities and Fund Balances	<u>\$ 3,745,444.27</u>	<u>\$ 3,745,444.27</u>				
Government-Wide Statement of Net Assets						
Net Assets						
Invested in Capital Assets, Net of Related Debt			11,565.96			11,565.96
Unrestricted				(488,592.56)		(488,592.56)
Total Net Assets			<u>\$ 11,565.96</u>	<u>\$ (488,592.56)</u>	<u>\$ 0.00</u>	<u>\$ 2,760,255.45</u>

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

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Texas 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, 2011**

	General Funds	Governmental Funds Total	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Activities
REVENUES						
Legislative Appropriations						
Licenses, Fees & Permits (PR)	6,635,925.73	6,635,925.73				6,635,925.73
Interest and Other Investment Income (GR)	10,884.27	10,884.27				10,884.27
Total Revenues	<u>6,655,706.89</u>	<u>6,655,706.89</u>				<u>6,655,706.89</u>
EXPENDITURES						
Salaries and Wages	3,277,702.92	3,277,702.92		27,124.48		3,304,827.40
Payroll Related Costs	878,087.30	878,087.30				878,087.30
Professional Fees and Services	25,853.98	25,853.98				25,853.98
Travel	396,202.07	396,202.07				396,202.07
Materials and Supplies	162,372.14	162,372.14				162,372.14
Communication and Utilities	53,223.08	53,223.08				53,223.08
Repairs and Maintenance	158,047.46	158,047.46				158,047.46
Rentals and Leases	4,328.35	4,328.35				4,328.35
Printing and Reproduction	2,412.59	2,412.59				2,412.59
Other Expenditures	111,996.53	111,996.53				111,996.53
Capital Outlay	11,330.67	11,330.67	(11,330.67)			
Depreciation Expense			3,754.43			3,754.43
Total Expenditures/Expenses	<u>5,081,557.09</u>	<u>5,081,557.09</u>	<u>(7,576.24)</u>	<u>27,124.48</u>		<u>5,101,105.33</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,574,149.80</u>	<u>1,574,149.80</u>	<u>7,576.24</u>	<u>(27,124.48)</u>		<u>1,554,601.56</u>
OTHER FINANCING SOURCES (USES)						
Transfer In	\$ 3,467,004.52	\$ 3,467,004.52				\$ 3,467,004.52
Transfer Out	(3,385,933.00)	(3,385,933.00)				(3,385,933.00)
Total Other Financing Sources (Uses)	<u>81,071.52</u>	<u>81,071.52</u>				<u>81,071.52</u>
Net Change in Fund Balances/Net Assets	<u>1,655,221.32</u>	<u>1,655,221.32</u>				<u>1,655,221.32</u>
Fund Financial Statement - Fund Balances						
Fund Balances, September 1, 2010	1,582,060.73	1,582,060.73				1,582,060.73
Restatements						
Fund Balances, September 1, 2010, as Restated	<u>1,582,060.73</u>	<u>1,582,060.73</u>				<u>1,582,060.73</u>
Appropriations Lapsed						
Fund Balances, August 31, 2011	<u>\$ 3,237,282.05</u>	<u>\$ 3,237,282.05</u>				<u>\$ 3,237,282.05</u>
Government-Wide Statement of Net Assets						
Net Assets/Net Change in Net Assets		<u>3,237,282.05</u>	<u>7,576.24</u>	<u>(27,124.48)</u>		<u>3,217,733.81</u>
Net Assets, September 1, 2010			3,989.72	(461,468.08)		(457,478.36)
Restatements						
Net Assets, September 1, 2010, as Restated			<u>3,989.72</u>	<u>(461,468.08)</u>		<u>(457,478.36)</u>
Net Assets, August 31, 2011		<u>\$ 3,237,282.05</u>	<u>\$ 11,565.96</u>	<u>\$ (488,592.56)</u>	<u>\$ 0.00</u>	<u>\$ 2,760,255.45</u>

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

UNAUDITED

Texas Department of Savings and Mortgage Lending
Exhibit VI — Combined Statement of Net Assets — Fiduciary Funds
August 31, 2011

	Private-Purpose Trust Funds (Exhibit I-1)	Agency Funds (Exhibit J-1)	Totals
ASSETS			
Cash and Cash Equivalents (Note 3)			
Cash in State Treasury	\$ -	\$ 872.00	\$ 872.00
Cash Equivalents	3,545,846.92	5,971.90	3,551,818.82
Receivables from:			
Accounts Receivable	1,740.00		1,740.00
Interest and Dividends	564.12		564.12
Total Assets	\$ 3,548,151.04	\$ 6,843.90	\$ 3,554,994.94
LIABILITIES			
Payables from:			
Accounts	\$ 29.52	\$ -	\$ 29.52
Funds Held For Others		6,843.90	6,843.90
Total Liabilities	\$ 29.52	\$ 6,843.90	\$ 6,873.42
NET ASSETS			
Held in Trust For			
Mortgage Broker Recovery Fund Claims	3,548,121.52		3,548,121.52
Total Net Assets	\$ 3,548,121.52	\$ 0.00	\$ 3,548,121.52

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

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Texas Department of Savings and Mortgage Lending
Exhibit VII — Combined Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended August 31, 2011

	Private-Purpose Trust Funds (Exhibit I-2)	Totals
ADDITIONS		
Investment Income		
From Investing Activities:		
Interest and Investment Income	\$ 16,080.87	\$ 16,080.87
Total Investing Income (Loss)	16,080.87	16,080.87
Less Investing Activities Expense		
Net Income from Investing Activities	16,080.87	16,080.87
From Securities Lending Activities:		
Securities Lending Income		
Net Income from Securities Lending Activities		
Total Net Investment Income (Loss)	16,080.87	16,080.87
Capital Share and Individual Account Transactions		
Net Capital Share and Individual Account Transactions		
Other Additions		
Other Revenue	136,194.41	136,194.41
Total Other Additions	136,194.41	136,194.41
Total Additions	\$ 152,275.28	\$ 152,275.28
DEDUCTIONS		
Settlement of Claims	\$ 22,225.00	\$ 22,225.00
Transfers Out	81,071.52	81,071.52
Total Deductions	104,560.06	104,560.06
INCREASE (DECREASE) IN NET ASSETS	47,715.22	47,715.22
NET ASSETS		
Net Assets, September 1, 2010	3,500,406.30	3,500,406.30
Restatements		
Net Assets, September 1, 2010, as Restated	3,500,406.30	3,500,406.30
Net Assets, August 31, 2011	\$ 3,548,121.52	\$ 3,548,121.52

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

**Texas Department of Savings and Mortgage Lending – Agy 450
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Summary of Significant Accounting Policies

ENTITY

The Texas 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, and the Mortgage Broker License Act, which provides for licensing and inspecting mortgage brokers and loan officers, and the Mortgage Banker Registration Act, which provides for registering mortgage bankers. Major functions of the Department are chartering, regulating, and examining thrift institutions, and licensing and inspecting mortgage brokers and loan officers. 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 nine members appointed by the Governor with the advice and consent of the Texas Senate. The composition of the Finance Commission is as follows: one banking executive, one savings institution executive, one consumer credit executive, one mortgage broker, and five public members selected on the basis of recognized business ability, including one Certified Public Accountant.

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 0001 & Fund 0831) are the principal operating funds used to account for most of the agency's general activities. They account for all financial resources except those accounted for in other funds.

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.

Texas Department of Savings and Mortgage Lending – Agy 450
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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 Broker/Loan Officer Hearing Security Trust Fund (Fund 0840/Fund 2831) is used to collect payments from mortgage brokers or loan officers requesting administrative hearing to deposit against hearing costs.

Private Purpose Trust Fund

Mortgage Broker Recovery Trust Fund (Fund 0848/Fund 1831) 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 mortgage broker or loan officer licensed under the Mortgage Broker 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 biennially and represents appropriations authorized by the Legislature and approved by the Governor (the General Appropriations Act).

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

Texas Department of Savings and Mortgage Lending – Agy 450
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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.

Reservations of Fund Balance

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

Texas Department of Savings and Mortgage Lending – Agy 450
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Reserved for Encumbrances

This represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Reserved for Consumable Inventories

This represents the amount of supplies and postage held to be used in the next fiscal year.

Fiduciary Assets Held in Trust for Mortgage Broker Recovery Fund Claims

This private purpose trust fund is reserved for reimbursement of aggrieved persons to whom a court awards actual damages because of certain acts committed by a mortgage broker or loan officer who was licensed under the Mortgage Broker License Act.

Unreserved/Undesignated

This represents the unreserved balance at year-end.

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 bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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.

**Texas 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, 2011 is presented below:

GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT				Balance 8/31/2011
	Balance 9/1/2010	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	86,289.19		11,330.67		97,619.86
Total Depreciable Assets at Historical Costs	86,298.19	0.00	11,330.67		97,619.86
Less Accumulated Depreciation for:					
Furniture and Equipment	(82,914.47)		(3,754.43)	0	(86,668.90)
Total Accumulated Depreciation	(82,914.47)	0.00	(3,754.43)	0	(86,668.90)
Depreciable Assets, Net	3,374.72	0.00	7,576.24	0	10,950.96
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	3,989.72	0.00	7,576.24	0.00	11,565.96

NOTE 3: Deposits, Investments, and Repurchase Agreements

The Texas 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 08/31/2011, the carrying amount of deposits was \$200.00 as presented below:

Governmental and Business-Type Activities	
CASH IN BANK – CARRYING AMOUNT	\$200.00
Total Cash in Bank per AFR	\$200.00
Fiduciary Funds	
CASH IN BANK – CARRYING AMOUNT	\$2,645,929.26
Less: Certificates of Deposit included in carrying amount and reported as Cash Equivalent	\$2,645,929.26
Total Cash in Bank per AFR	\$0.00

Texas Department of Savings and Mortgage Lending – Agy 450
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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 08/31/2011, the total **bank balance** was as follows:

Governmental and Business-Type Activities	\$200.00	Fiduciary Funds	\$2,645,929.26
-------------------------------------------	----------	-----------------	----------------

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 08/31/2011, the fair value of investments was as presented below:

Governmental and Business-Type Activities	Fair Value
Repurchase Agreement(Texas Treasury Safekeeping Trust Co)	\$3,206,829.19
Total Investments	\$3,206,829.19
Reconciliation of Investments per Exhibits – Governmental and Business-Type Activities	\$3,206,829.19
Governmental Funds Cash Equivalents Misc	\$3,206,829.19
Investments per Exhibits	\$3,206,829.19
Fiduciary Funds	
Repurchase Agreement(Texas Treasury Safekeeping Trust Co)	\$905,889.56
Non-negotiable Certificates of Deposit	\$2,645,929.26
Total Investments	\$3,551,818.82
Reconciliation of Investments per Exhibits – Fiduciary Activities	\$3,551,818.82
Fiduciary Funds Cash Equivalents Misc	\$3,551,818.82
Investments per Exhibits	\$3,551,818.82

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of 08/31/2011, 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	0831	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$3,206,829.19			
09	0831	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$5,971.90			
20	0831	Repurchase Agreement (Texas Treasury Safekeeping Trust Co)	\$899,917,66			
		Non-negotiable Certificates of Deposit	\$2,645,929.26			

**Texas Department of Savings and Mortgage Lending – Agy 450
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NOTE 4: Short-Term Debt

Not applicable.

NOTE 5: Long-Term Liabilities

Changes In Long-Term Liabilities

During the year ended August 31, 2011, the following changes occurred in liabilities.

Governmental Activities	Balance 09-1-2010	Additions	Reductions	Balance 08-31-2011	Amounts Due Within One Year
Compensable Leave	\$ 461,468.08	\$ 584,808.03	\$ 557,683.55	\$ 488,592.56	\$ 278,976.18
Total Governmental Activities	\$ 461,468.08	\$ 584,808.03	\$ 557,683.55	\$ 488,592.56	\$ 278,976.18

Employees' Compensable Leave

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

NOTE 6: Bonded Indebtedness

Not applicable.

NOTE 7: Capital Leases

Not applicable.

NOTE 8: Operating Leases

Not applicable.

NOTE 9: Retirement Plans

Not applicable.

NOTE 10: Deferred Compensation

Not applicable.

NOTE 11: Post Employment Health Care and Life Insurance Benefits

Not applicable.

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NOTE 12: Interfund Activity and Transactions

Individual balances and activity at August 31, 2011, 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-	

Interfund Transfers	Transfer In	Transfer Out	Purpose*
GENERAL (01)			
Appd Fund 0001, D23 Fund 0001			
Agy 902, D23 Fund 0001	\$3,385,933.00	\$3,385,933.00	Bridge Loan Transfer
Total Transfers for Fund 0001	\$3,385,933.00	\$3,385,933.00	
Appd Fund 0831, D23 Fund 0831	-0-	-0-	
Agy 450, D23 Fund 1831	\$81,071.52	-0-	Exp. Offset
Total Transfers for Fund 0831	\$81,071.52	\$0.00	
Total Transfers for General Funds	\$3,467,004.52	\$3,385,933.00	
PRIVATE-PURPOSE TRUST FUND (20)			
Appd Fund 0831, D23 Fund 1831			
Agy 450, D23 Fund 0831		\$81,071.52	Exp. Offset
Total Transfers for Fund 1831	-0-	\$81,071.52	
Total Transfers for Private-Purpose Trust Funds	-0-	\$81,071.52	

Legislative Transfers	Legislative Transfer In	Legislative Transfer Out
GENERAL (01)		
Appd Fund 0001, D23 Fund 0001	-0-	-0-
Total Legislative Transfers	-0-	-0-

*Details on these transfers can be found in Note 18. Management Discussion and Analysis.

NOTE 13: Continuance Subject to Review

Under the Texas Sunset Act, the Department will be abolished effective September 1, 2013, unless continued in existence by the 83rd Legislature as provided by the Act. If abolished, the agency may continue until September 1, 2014 to close out its operations.

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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

Self-Directed Semi-Independent Status (SDSI)

The 81st legislature gave the Department self-directed and semi-independent (SDSI) status as a financial regulatory agency. According to the legislative changes, the Department received a “bridge loan” from the Comptroller of Public Accounts in September 2010, equal to ½ of the Department’s annual budget, and returned it to Comptroller of Public Accounts in July 2011. Similar activity is not expected in fiscal year 2012.

The activity described above is presented in Note 12. Interfund Activity and Transactions.

Recovery Fund Transfer

Texas Finance Code, §§156.501, 156.502 establishes the mortgage broker recovery fund and specifies that if the balance remaining in this private-purpose trust fund (USAS D23 fund 1831) 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 \$81,071.52 as of December 31, 2010, was transferred to the operating fund (USAS D23 fund 0831) in August, 2011, as presented in Note 12. Interfund Activity and Transactions.

NOTE 19: The Financial Reporting Entity

The Finance Commission of Texas oversees the activities of the Texas Department of Savings and Mortgage Lending, the Texas Department of Banking, and the Office of Consumer Credit Commissioner. The Commission consists of nine 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.

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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, 2011 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.

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Texas Department of Savings and Mortgage Lending
Exhibit A-1 — Combining Balance Sheet — All General and Consolidated Funds
August 31, 2011

	<u>General</u> <u>Gen Rev</u> <u>(0001)*</u> <u>U/F (0001)</u>	<u>General</u> <u>Oper Fund</u> <u>(0831)*</u> <u>U/F (0831)</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash & Cash Equivalents (Note 3)			
Cash in Bank	\$	\$ 200.00	\$ 200.00
Cash in State Treasury		420,489.81	420,489.81
Cash Equivalents		3,206,829.19	3,206,829.19
Legislative Appropriations			-
Receivables from:			
Accounts Receivable		96,363.00	96,363.00
Interest and Dividends		252.80	252.80
Due From Other Agencies		5,625.12	5,625.12
Consumable Inventories		15,684.35	15,684.35
Total Current Assets		<u>3,745,444.27</u>	<u>3,745,444.27</u>
Non-Current Assets			
Total Non-Current Assets			
Total Assets	<u>\$.00</u>	<u>\$ 3,745,444.27</u>	<u>\$ 3,745,444.27</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Current Liabilities:			
Payables from			
Accounts	\$	\$ 70,989.03	\$ 70,989.03
Payroll		419,544.13	419,544.13
Due To Other Agencies		17,629.06	17,629.06
Total Current Liabilities		<u>508,162.22</u>	<u>508,162.22</u>
Non-Current Liabilities			
Total Non-Current Liabilities			
Total Liabilities		<u>508,162.22</u>	<u>508,162.22</u>
Fund Balances (Deficits):			
Nonspendable for Inventory		15,684.35	15,684.35
Committed		3,221,597.70	3,221,597.70
Unassigned			
Total Fund Balances		<u>3,237,282.05</u>	<u>3,237,282.05</u>
Total Liabilities and Fund Balances	<u>\$.00</u>	<u>\$ 3,745,444.27</u>	<u>\$ 3,745,444.27</u>

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

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Texas 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, 2011

	<u>General Fund (0001)* U/F (0001)</u>	<u>General Fund (0831)* U/F (0831)</u>	<u>Total</u>
REVENUES			
Legislative Appropriations	\$ -	\$ -	\$ -
Liscense, Fees & Permits (PR)		6,635,925.73	6,635,925.73
Interest and Other Investment Income (GR)		10,884.27	10,884.27
Other (GR)		8,896.89	8,896.89
Total Revenues	<u>\$ -</u>	<u>\$ 6,655,706.89</u>	<u>\$ 6,655,706.89</u>
EXPENDITURES			
Salaries and Wages	\$ -	\$ 3,277,702.92	\$ 3,277,702.92
Payroll Related Costs		878,087.30	878,087.30
Professional Fees and Services		25,853.98	25,853.98
Travel		396,202.07	396,202.07
Materials and Supplies		162,372.14	162,372.14
Communication and Utilities		53,223.08	53,223.08
Repairs and Maintenance	19,208.00	138,839.46	158,047.46
Rentals and Leases		4,328.35	4,328.35
Printing and Reproduction		2,412.59	2,412.59
Other Expenditures		111,996.53	111,996.53
Capital Outlay		11,330.67	11,330.67
Total Expenditures	<u>\$ 19,208.00</u>	<u>\$ 5,062,349.09</u>	<u>\$ 5,081,557.09</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (19,208.00)</u>	<u>\$ 1,593,357.80</u>	<u>\$ 1,574,149.80</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 3,385,933.00	\$ 81,071.52	\$ 3,467,004.52
Transfers Out	(3,385,933.00)		(3,385,933.00)
Legislative Transfers In			
Legislative Transfers Out			
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ 81,071.52</u>	<u>\$ 81,071.52</u>
Net Change in Fund Balances	<u>\$ (19,208.00)</u>	<u>\$ 1,674,429.32</u>	<u>\$ 1,655,221.32</u>
Fund Financial Statement - Fund Balances			
Fund Balances, September 1, 2010	\$ 19,208.00	\$ 1,562,852.73	\$ 1,582,060.73
Restatements			
Fund Balances, September 1, 2010, as Restated	<u>\$ 19,208.00</u>	<u>\$ 1,562,852.73</u>	<u>\$ 1,582,060.73</u>
Appropriations Lapsed	\$ -	\$ -	\$ -
Fund Balances, August 31, 2011	<u>\$ -</u>	<u>\$ 3,237,282.05</u>	<u>\$ 3,237,282.05</u>

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

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Texas Department of Savings and Mortgage Lending
Exhibit I-1 — Combining Statement of Fiduciary Net Assets — Private-Purpose Trust Funds
August 31, 2011

	Mortgage Broker Recovery Trust Fund (0831)* U/F (1831)	Totals
ASSETS		
Cash and Cash Equivalents		
Cash in State Treasury	\$	\$
Cash Equivalents	3,545,846.92	3,545,847
Receivables from:		
Accounts Receivable	1,740.00	1,740.00
Interest and Dividends	564.12	
Total Assets	\$ 3,548,151.04	\$ 3,548,151.04
LIABILITIES		
Payables from:		
Accounts	\$ 29.52	\$ 29.52
Total Liabilities	\$ 29.52	\$ 29.52
NET ASSETS		
Held in Trust For:		
Mortgage Originator Recovery Fund Claims	3,548,121.52	3,548,121.52
Total Net Assets	\$ 3,548,121.52	\$ 3,548,121.52

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

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Texas 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, 2011

	Mortgage Broker Recovery Trust Fund (0831)* U/F (1831)	Totals
ADDITIONS		
Investment Income		
Interest and Investment Income	\$ 16,080.87	\$ 16,080.87
Total Investing Income (Loss)	\$ 16,080.87	\$ 16,080.87
Less Investing Activities Expense		\$ -
Net Income from Investing Activities	\$ 16,080.87	\$ 16,080.87
From Securities Lending Activities:		
Net Income from Securities Lending Activities		\$ -
Total Net Investment Income (Loss)	\$ 16,080.87	\$ 16,080.87
Other Additions		
Other Revenue	\$ 136,194.41	\$ 136,194.41
Transfer In	-	-
Total Other Additions	\$ 136,194.41	\$ 136,194.41
Total Additions	\$ 152,275.28	\$ 152,275.28
DEDUCTIONS		
Settlement of Claims	\$ 22,225.00	\$ 22,225.00
Other Expense	\$ 1,263.54	\$ 1,263.54
Transfer Out	81,071.52	81,071.52
Total Deductions	\$ 104,560.06	\$ 104,560.06
INCREASE (DECREASE) IN NET ASSETS	\$ 47,715.22	\$ 47,715.22
NET ASSETS		
Net Assets, September 1, 2010	\$ 3,500,406.30	\$ 3,500,406.30
Restatements		
Net Assets, September 1, 2010, as Restated	\$ 3,500,406.30	\$ 3,500,406.30
Net Assets, August 31, 2011	\$ 3,548,121.52	\$ 3,548,121.52

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

Texas Department of Savings and Mortgage Lending
Exhibit J-1 — Combining Statement of Changes in Assets and Liabilities— Agency Funds
August 31, 2011

	Beginning Balance 9/1/2010	Additions	Deductions	Ending Balance 8/31/2011
Agency Fund 0807*, U/F (8070)				
Child Support Addenda Deducts - Suspense				
ASSETS				
Cash in State Treasury	\$ 872.00	\$ 10,464.00	\$ 10,464.00	\$ 872.00
Total Assets	<u>\$ 872.00</u>	<u>\$ 10,464.00</u>	<u>\$ 10,464.00</u>	<u>\$ 872.00</u>
LIABILITIES				
Funds Held for Others	872.00	10,464.00	10,464.00	872.00
Total Liabilities	<u>\$ 872.00</u>	<u>\$ 10,464.00</u>	<u>\$ 10,464.00</u>	<u>\$ 872.00</u>
Agency Fund 0831*, U/F (2831)				
HB 955 Appeal of License Fees				
ASSETS				
Cash in State Treasury	\$ 190.11	\$ 5,005.47	\$ 5,195.58	\$.00
Cash Equivalents	9,345.33	13,452.34	16,825.77	5,971.90
Total Assets	<u>\$ 9,535.44</u>	<u>\$ 18,457.81</u>	<u>\$ 22,021.35</u>	<u>\$ 5,971.90</u>
LIABILITIES				
Funds Held for Others	9,535.44	18,457.81	22,021.35	\$ 5,971.90
Total Liabilities	<u>\$ 9,535.44</u>	<u>\$ 18,457.81</u>	<u>\$ 22,021.35</u>	<u>\$ 5,971.90</u>

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