Texas Guaranteed Student Loan Corporation

Annual Financial Report

Fiscal Year 2013

October 1, 2012 – September 30, 2013

TEXAS GUARANTEED STUDENT LOAN CORPORATION
ANNUAL FINANCIAL REPORT
September 30, 2013

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TG™

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December 10, 2013

Honorable Rick Perry, Governor
Honorable Susan Combs, State Comptroller
Ursula Parks, Acting Director, Legislative Budget Board
John Keel, CPA, State Auditor

We are pleased to submit the Annual Financial Report of the Texas Guaranteed Student Loan Corporation (TG) as of and for the year ended September 30, 2013, in compliance with the TEX.GOV'T CODE ANN 2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

We expect the accompanying Annual Financial Report will be considered for audit by the State Auditor as part of the audit of the State's Comprehensive Annual Financial Report; therefore, no opinion as to presentation in conformity with generally accepted accounting principles has been expressed on the consolidated financial statements, the notes thereto, nor the Schedule of Federal Award contained in this report. TG's annual independent financial audit has been finalized by KPMG LLP with a copy of the report thereon being forwarded to the State Auditor's Office.

Sincerely,

Mark J. Zarsky, CPA
Assistant Vice-President
Controller

Texas Guaranteed Student Loan Corporation
Consolidated Statements of Financial Position
Exhibit I

	September 30, 2013			September 30, 2012		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Assets						
Current Assets						
Cash & Cash Temporary Investments:						
Cash in Bank	$ 6,395,000	$ 27,960,000	$ 34,355,000	$ 9,541,000	$ 40,342,000	$ 49,883,000
Investments	130,573,000	292,197,000	422,770,000	405,653,000	291,257,000	696,910,000
Interfund Receivables, Payables	2,158,000	(2,158,000)	-	1,118,000	(1,118,000)	-
Federal Receivables	2,395,000	30,229,000	32,624,000	2,635,000	30,105,000	32,740,000
Interest and Other Receivables	1,292,000	7,818,000	9,110,000	3,031,000	4,892,000	7,923,000
Other Current Assets	1,317,000	-	1,317,000	1,778,000	-	1,778,000
Total Current Assets	144,130,000	356,046,000	500,176,000	423,756,000	365,478,000	789,234,000
Non-current Assets						
Capital Assets:						
Land	3,315,000		3,315,000	3,315,000		3,315,000
Building and Leasehold Improvements	34,467,000		34,467,000	34,143,000		34,143,000
Furniture and Equipment	15,292,000		15,292,000	14,621,000		14,621,000
Vehicles	74,000		74,000	74,000		74,000
Software	11,116,000		11,116,000	10,587,000		10,587,000
Software Construction	16,181,000		16,181,000	12,942,000		12,942,000
Less: Accumulated Depreciation	(36,863,000)		(36,863,000)	(32,765,000)		(32,765,000)
Interfund Default Aversion Fee Refund Allowance	(37,774,000)	37,774,000	-	(46,822,000)	46,822,000	-
Total Non-current Assets	5,808,000	37,774,000	43,582,000	(3,905,000)	46,822,000	42,917,000
Total Assets	$ 149,938,000	$ 393,820,000	$ 543,758,000	$ 419,851,000	$ 412,300,000	$ 832,151,000
Liabilities and Net Assets						
Current Liabilities						
Federal Payables	$ -	$ 31,031,000	$ 31,031,000	$ -	$ 30,046,000	$ 30,046,000
Accounts Payable	9,711,000	180,000	9,891,000	8,362,000	97,000	8,459,000
Total Current Liabilities	9,711,000	31,211,000	40,922,000	8,362,000	30,143,000	38,505,000
Non-current Liabilities						
Allowance for Non-reinsured Loan Defaults	-	184,330,000	184,330,000	-	241,310,000	241,310,000
Other	1,496,000	-	1,496,000	1,167,000	-	1,167,000
Total Non-current Liabilities	1,496,000	184,330,000	185,826,000	1,167,000	241,310,000	242,477,000
Total Liabilities	11,207,000	215,541,000	226,748,000	9,529,000	271,453,000	280,982,000
Net Assets:						
Temporarily Restricted Net Assets	-	178,279,000	178,279,000	-	140,847,000	140,847,000
Unrestricted Net Assets	138,731,000	-	138,731,000	410,322,000	-	410,322,000
Total Net Assets	138,731,000	178,279,000	317,010,000	410,322,000	140,847,000	551,169,000
Total Liabilities & Net Assets	$ 149,938,000	$ 393,820,000	$ 543,758,000	$ 419,851,000	$ 412,300,000	$ 832,151,000

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

Texas Guaranteed Student Loan Corporation
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Exhibit IV

	Fiscal Year Ended September 30, 2013			Fiscal Year Ended September 30, 2012		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Unrestricted						
Revenues						
Federal Revenue	$ 127,672,000	$ -	$ 127,672,000	$ 117,500,000	$ -	$ 117,500,000
Sales of Goods and Services	1,325,000	-	1,325,000	1,026,000	-	1,026,000
Net Decrease in the Fair Value of Investments	(16,777,000)	-	(16,777,000)	(4,899,000)	-	(4,899,000)
Investment Interest	11,631,000	-	11,631,000	14,782,000	-	14,782,000
Default Aversion Fee Refunds	-	-	-	17,162,000	-	17,162,000
Release of Temporarily Restricted Net Assets	-	(19,467,000)	(19,467,000)	-	60,635,000	60,635,000
Total Revenues	123,851,000	(19,467,000)	104,384,000	145,571,000	60,635,000	206,206,000
Expenses						
Operations:						
Salaries and Wages	45,604,000	-	45,604,000	42,445,000	-	42,445,000
Payroll Related Costs	14,269,000	-	14,269,000	13,317,000	-	13,317,000
Professional Fees and Services	11,408,000	-	11,408,000	12,181,000	-	12,181,000
Travel	1,599,000	-	1,599,000	1,599,000	-	1,599,000
Materials and Supplies	1,287,000	-	1,287,000	1,318,000	-	1,318,000
Communications and Utilities	1,004,000	-	1,004,000	1,054,000	-	1,054,000
Repairs and Maintenance	3,519,000	-	3,519,000	3,500,000	-	3,500,000
Rentals and Leases	445,000	-	445,000	589,000	-	589,000
Printing and Reproduction	305,000	-	305,000	335,000	-	335,000
Depreciation	4,865,000	-	4,865,000	4,879,000	-	4,879,000
Other Operating Expenses	1,366,000	-	1,366,000	2,237,000	-	2,237,000
Public Benefits	61,663,000	-	61,663,000	21,932,000	-	21,932,000
Provision for Loan Defaults	-	(25,539,000)	(25,539,000)	-	55,939,000	55,939,000
Default Aversion Expense (net of $2,153,000 and $6,802,000 anticipated refunds)	-	6,070,000	6,070,000	-	4,695,000	4,695,000
Other Expenses	46,000	2,000	48,000	41,000	1,000	42,000
Total Expenses	147,380,000	(19,467,000)	127,913,000	105,427,000	60,635,000	166,062,000
Net Change in Unrestricted Net Assets before Extraordinary Item	(23,529,000)	-	(23,529,000)	40,144,000	-	40,144,000
Extraordinary Item	(248,062,000)	-	(248,062,000)	-	-	-
Net Change in Unrestricted Net Assets after Extraordinary Item	(271,591,000)	-	(271,591,000)	40,144,000	-	40,144,000
Temporarily Restricted						
Federal Revenue	-	15,741,000	15,741,000	-	14,864,000	14,864,000
Net Decrease in the Fair Value of Investments	-	(6,619,000)	(6,619,000)	-	(3,789,000)	(3,789,000)
Investment Interest	-	6,872,000	6,872,000	-	7,690,000	7,690,000
Other Revenue	-	1,971,000	1,971,000	-	892,000	892,000
Default Aversion Fee Refunds	-	-	-	-	80,506,000	80,506,000
Release of Temporarily Restricted Net Assets	-	19,467,000	19,467,000	-	(60,635,000)	(60,635,000)
Net Change in Temporarily Restricted Net Assets	-	37,432,000	37,432,000	-	39,528,000	39,528,000
Change in Net Assets	(271,591,000)	37,432,000	(234,159,000)	40,144,000	39,528,000	79,672,000
Net Assets, Beginning	410,322,000	140,847,000	551,169,000	370,178,000	101,319,000	471,497,000
Net Assets, Ending	$ 138,731,000	$ 178,279,000	$ 317,010,000	$ 410,322,000	$ 140,847,000	$ 551,169,000

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

Texas Guaranteed Student Loan Corporation
Consolidated Statements of Cash Flows
Exhibit V

	Fiscal Year Ended September 30, 2013			*Fiscal Year Ended September 30, 2012*		
	Operating Fund	***Federal Fund***	***Total***	***Operating Fund***	***Federal Fund***	***Total***
Cash Flows from Operating Activities:						
Claims Payments	$ -	$ (810,637,000)	$ (810,637,000)	$ -	$ (884,229,000)	$ (884,229,000)
Claims Reinsurance Received	-	775,752,000	775,752,000	-	878,251,000	878,251,000
Defaulted Loan Collections	-	425,461,000	425,461,000	-	413,177,000	413,177,000
ED Share of Defaulted Loan Collections	-	(312,841,000)	(312,841,000)	-	(311,307,000)	(311,307,000)
Operating Fund Share of Defaulted Loan Collections	110,475,000	(95,671,000)	14,804,000	101,008,000	(86,403,000)	14,605,000
Fees Received (Paid)	7,349,000	2,811,000	10,160,000	9,839,000	(37,000)	9,802,000
Proceeds from Other Revenues	1,093,000	1,621,000	2,714,000	1,109,000	823,000	1,932,000
Payments to Suppliers for Goods and Services	(34,501,000)	-	(34,501,000)	(36,189,000)	(248,000)	(36,437,000)
Payments to Employees	(44,221,000)	-	(44,221,000)	(41,685,000)	-	(41,685,000)
Other Operating Costs	-	1,537,000	1,537,000	-	7,300,000	7,300,000
Interest Received	13,602,000	7,145,000	20,747,000	14,849,000	7,950,000	22,799,000
Interest Paid on Margin Facility	-	(1,000)	(1,000)	-	(1,000)	(1,000)
Public Benefits	(61,663,000)	-	(61,663,000)	(21,932,000)	-	(21,932,000)
Interest Paid on Note Payable	-	-	-	(79,000)	-	(79,000)
Other	2,000	-	2,000	37,000	-	37,000
Extraordinary Item	(248,062,000)	-	(248,062,000)	-	-	-
Net Cash (Used In) Provided By Operating Activities	(255,926,000)	(4,823,000)	(260,749,000)	26,957,000	25,276,000	52,233,000
Cash Flows from Investing Activities:						
Purchases of Investments	(86,900,000)	(97,651,000)	(184,551,000)	(138,664,000)	(71,410,000)	(210,074,000)
Proceeds from Maturity or Sale of Investments	345,203,000	90,092,000	435,295,000	125,002,000	62,355,000	187,357,000
Net Cash Provided By (Used In) Investing Activities	258,303,000	(7,559,000)	250,744,000	(13,662,000)	(9,055,000)	(22,717,000)
Cash Flows from Financing Activities:						
Proceeds from Margin Facility	1,960,000	5,146,000	7,106,000	-	10,656,000	10,656,000
Principal Payments on Margin Facility	(1,960,000)	(5,146,000)	(7,106,000)	-	(10,656,000)	(10,656,000)
Proceeds from Sale of Assets	-	-	-	1,000	-	1,000
Purchases of Property, Plant and Equipment	(5,523,000)	-	(5,523,000)	(4,424,000)	-	(4,424,000)
Principal Payments on Note Payable	-	-	-	(2,636,000)	-	(2,636,000)
Net Cash Used In Financing Activities	(5,523,000)	-	(5,523,000)	(7,059,000)	-	(7,059,000)
(Decrease) Increase in Cash and Cash Equivalents	(3,146,000)	(12,382,000)	(15,528,000)	6,236,000	16,221,000	22,457,000
Cash and Cash Equivalents, Beginning	9,541,000	40,342,000	49,883,000	3,305,000	24,121,000	27,426,000
Cash and Cash Equivalents, Ending	$ 6,395,000	$ 27,960,000	$ 34,355,000	$ 9,541,000	$ 40,342,000	$ 49,883,000
Change in Net Assets	$ (271,591,000)	$ 37,432,000	$ (234,159,000)	$ 40,144,000	$ 39,528,000	$ 79,672,000
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used in) Operating Activities:						
Depreciation	4,865,000	-	4,865,000	4,879,000	-	4,879,000
Net Decrease in the Fair Value of Investments	16,777,000	6,619,000	23,396,000	4,899,000	3,789,000	8,688,000
Other	48,000	-	48,000	28,000	-	28,000
Change in Assets & Liabilities:			-			-
Receivables	1,980,000	(3,050,000)	(1,070,000)	503,000	31,776,000	32,279,000
Other Assets	462,000	-	462,000	67,000	-	67,000
Interfund Receivables, Payables	(10,088,000)	10,088,000	-	(18,309,000)	18,298,000	(11,000)
Accounts Payable & Accrued Liabilities	1,621,000	83,000	1,704,000	606,000	(248,000)	358,000
Due to Department of Education	-	985,000	985,000	(5,860,000)	(88,397,000)	(94,257,000)
Allowance for Non-Reinsured Loan Defaults	-	(56,980,000)	(56,980,000)	-	20,530,000	20,530,000
Total Adjustments	15,665,000	(42,255,000)	(26,590,000)	(13,187,000)	(14,252,000)	(27,439,000)
Net Cash (Used In) Provided By Operating Activities	$ (255,926,000)	$ (4,823,000)	$ (260,749,000)	$ 26,957,000	$ 25,276,000	$ 52,233,000

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

Note 1: Summary of Significant Accounting Policies

A. Entity

Structure: The Texas Guaranteed Student Loan Corporation (TG) is a fiscal year (FY) ended (FYE) September 30, Texas nonprofit corporation, organized in 1980 to operate as a guaranty agency in the Federal Family Education Loan Program (FFELP), with initial loan guarantee operations beginning in 1981. In conjunction with the Extraordinary Item described below, TG's state enabling statute was substantially revised resulting in TG's conversion from public to private non-profit status effective September 3, 2013, with no further financial contribution obligations to the State.

Purpose: FFELP was established by the Higher Education Act as amended (HEA) and is administered by the U.S. Department of Education (ED) to make loans available to students attending eligible colleges, universities, and postsecondary educational and vocational schools by guaranteeing the repayment of principal and accrued interest to participating lenders. TG issued guarantees on such loans until Congress discontinued FFELP loan originations in FY 2010. For its residual FFELP loan portfolio, TG remains responsible for providing assistance to delinquent borrowers, paying eligible lender guarantee claims for defaulted loans, and subsequently collecting the defaulted loans on behalf of ED. TG continues to inform schools, students, lenders, secondary markets, and servicers of FFELP requirements.

TG also provides default aversion services and financial literacy curriculum to postsecondary institutions, and engages in outreach activities to make students and parents aware of the student aid programs and other means to promote access to higher education. In addition, TG provides significant public benefit philanthropic support within Texas and the higher education-related community.

Portfolio: Original Principal Outstanding of guaranteed student loans, by school type, at fiscal year end (FYE), are as follows (in 000s):

	FYE 2013	FYE 2012
Four Year	$6,032,050	$7,029,487
Two Year	681,584	788,055
Proprietary	728,781	854,089
Consolidation	7,663,402	8,230,013
Total	$15,105,817	$16,901,644

The student loan industry, supported by ED, has established a conduit program, in which non-consolidation FFELP loans originated subsequent to September 2003, meeting certain eligibility criteria, may be sold into short-term commercial paper-backed facilities. Such loans are subject to being "put" to ED, resulting in their removal from TG's portfolio, if the underlying commercial paper fails to refinance, or upon individual loans reaching a defined level of delinquency through September 2014. At FYE 2013, $1.38 billion of TG's portfolio is in this conduit, with $22 million being "put" in FY 2013.

Subsidiary: Education Assistance Services, Inc. (EAS) is a for-profit, wholly-owned subsidiary established in 1995 for the furtherance of TG's student loan and higher education mission. EAS began its current operations in FY 2009, after being dormant, with $3.5 million of investments from TG through September 30, 2013. EAS operates as a collection agency, with commissions earned from collection of TG portfolio-defaulted student loans as its primary revenue. The Operating Fund financial statements reflect the financial position, results of operations, and cash flows of TG consolidated with that of EAS, eliminating all inter-company balances and transactions.

Selected EAS financial data is as follows:

	FYE 2013	FYE 2012
Current Assets	$938,000	$659,000
Capital Assets	164,000	240,000
Total Liabilities	195,000	298,000
Stockholder's Equity	907,000	601,000
Operating Revenues	3,731,000	3,179,000
Operating Expenses	3,675,000	3,336,000
Net Income (Loss)	56,000	(157,000)

EAS operations have generated deferred tax assets, which have been fully reserved, including $6.8 million in Net Operating Loss carry forwards expiring from 2016 to 2027.

B. Fund Structure

Major Funds – TG's *Operating Fund* is the property of the guaranty agency and its unrestricted net assets incur substantially all FFELP operational costs, as well as costs related to financial aid awareness initiatives, related outreach activities, other student financial aid activities as selected by the guaranty agency, and other non-FFELP activities. TG's *Federal Fund* finances FFELP insurance activities and Default Aversion Fees from its temporarily restricted net assets under HEA provisions and is subject to recall by Congressional action.

C. Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with standards issued by the Financial Accounting Standards Board, and are presented in conformity with United States Generally Accepted Accounting Principles (GAAP).

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management estimates include useful lives in depreciating Capital Assets, anticipated Allowance for Non-reinsured Loan Defaults, and Interfund Default Aversion Fee Refund Allowance based upon historical loan segment performance. Actual results could differ from those estimates.

Income taxes: As an organization described in Internal Revenue Code (IRC) section 501(c)(3), TG is exempt from federal and state income tax on income from activities related to its exempt purpose. No material amounts of unrelated income were earned in the FY 2013 and FY 2012. Accordingly, no accrual for income taxes is included in the financial statements.

D. Budgets and Budgetary Accounting (not applicable)

E. Assets, Liabilities, and Fund Equity

Cash and cash equivalents: For purposes of the statement of cash flows, TG considers as cash equivalents, certificates of deposits with original maturity of three months or less, overnight repurchase agreements, and all money market account and mutual fund assets. All balances in TG's depository institution accounts are fully insured by the Federal Deposit Insurance Corporation (FDIC), with any amounts exceeding such insurance levels subject to daily sweep into repurchase agreements. In addition, TG's depository institution provides $3 million in pledged collateral.

Escrow Accounts: In connection with its potential non-FFELP collections activities, TG is required to maintain separate escrow accounts for certain clients to ensure their collected funds are not comingled with TG's Cash and Cash Equivalents. As these funds would belong to TG clients, the cash would be netted with the corresponding liability to TG's clients and as a result not be reflected on a gross basis in the accompanying financial statements. There were no funds held in escrow accounts during FY 2013 or 2012.

Investments: Investments are reported at fair value in the statements of financial position, with net increase or decrease in fair value included in the statements of revenues, expenses, and changes in net assets. Fair value is determined by readily available current market values.

Fair Value Measurements - TG applies the provisions of Accounting Standards Codification Topic 820, (ASC Topic 820), *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and liabilities that are recognized or disclosed as fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

TG's Operating Fund is authorized to invest in: US Government obligations, including agencies and instrumentalities; State of Texas direct obligations; State of Israel obligations; certificates of deposit of financial institutions with Texas main or branch offices, as well as, subject to certain restrictions, obligations of states, agencies, counties, cities, and other political subdivisions of any state; certain collateralized mortgage obligations; commercial paper; direct and reverse repurchase agreements; and Securities and Exchange Commission (SEC)-registered no-load money market and mutual funds and investment pools. Individual investment maturities are limited to a maximum of 10 years from date of purchase, and may be collateralized using longer dated investments. Government direct-issue mortgage-backed securities may carry a stated final maturity up to 30 years, with an average life not greater than 10 years. Repurchase agreement maximum maturities are limited to 120 days. Average maturities will depend upon cash flow requirements of TG and the safety, liquidity, and yield parameters set forth in TG's policy.

TG's Federal Fund investments are limited by HEA provisions to US Government obligations, including agencies and instrumentalities, and State of Texas direct obligations, as well as, subject to certain restrictions, obligations of states, agencies, counties, and other political subdivisions of any state; no-load money market and mutual funds; and direct and reverse repurchase agreements investing exclusively in obligations described herein.

Capital Assets: Capital Assets are recorded at cost. Depreciation is provided on the straight-line method using estimated useful lives of three to 10 years for vehicles, equipment, furniture, and software, and 40 years for buildings. Purchased software is capitalized in accordance with the capital asset policy. Internally developed software costs incurred during the development stage are capitalized and amortized over the software's useful life, which is typically five years, subject to impairment.

Reinsurance:

TG paid claims totaling approximately $811 million and $884 million for FY 2013 and FY 2012, including default claims totaling $717 million and $784 million, respectively. Claims paid are eligible for reinsurance from ED, typically at 95 percent of the claim paid amount. Reinsurance rates are dependent upon annual default rates ("Trigger Rates") and the underlying loan origination date. Claims exceeding 5 percent and 9 percent Trigger Rates receive reduced reinsurance generally at 85 percent and 75 percent, respectively. Annual Trigger Rates are calculated by dividing claims paid during the year, after adding back loan rehabilitations, by the original guarantee amount of loans in repayment at the preceding fiscal year end. The annual Trigger Rate was 3.02 percent and 3.13 percent for FY 2013 and FY 2012, respectively. Due to less than 100 percent ED claims reinsurance, TG's Federal Fund maintains an Allowance for Non-reinsured Loan Defaults equal to the net present value of the unreinsured portion of all estimated future claims on its existing guaranteed student loan portfolio.

In the unlikely event all outstanding guaranteed loans default simultaneously, resulting in the highest Trigger Rate, and therefore minimum reinsurance rate, the maximum credit risk exposure to TG approximates $3.49 billion at September 30, 2013, net of federal reinsurance.

F. Revenues and Expenses

Revenue Recognition:

Account Maintenance Fee (AMF) — AMF is paid quarterly by ED to TG's Operating Fund equal to 0.015 percent of TG's quarter-end guarantee portfolio's original principal balance outstanding, resulting in an annual rate of 0.06 percent.

Default Aversion Fee (DAF) — DAF equal to 1 percent of delinquent loan principal and interest is earned by TG's Operating Fund and currently paid by TG's Federal Fund upon the loan holder's initial first-time regulatory required request for default aversion assistance. DAF is refundable in the event of future loan default. Accordingly, an Interfund Default Aversion Refund Allowance has been established from discounted projections of future defaults, the methodology of which was enhanced in FY 2012. This change in estimate resulted in a non-cash decrease in the allowance, of which $17.1 million relating to previous years activity is reported in Nonoperating Revenue.

In FY 2012, ED determined that TG's Federal Fund, rather than ED, would receive all prior and future refunds of ED-paid DAF. This non-recurring event resulted in the Federal Fund's recognition as Nonoperating Revenue $53.5 million in prior DAF refunds previously held in TG's Federal Fund pending settlement to ED and reported as Current Liabilities Due to Department of Education-Default Aversion Fee Refunds. In addition, $44.2 million in estimated future Operating Fund refunds of ED-paid DAF was recognized in the Federal Fund as Noncurrent Assets Interfund Default Aversion Fee Refund Allowance and Nonoperating Revenue. The Operating Fund reported this change in ED-paid DAF refund recipient, reclassifying this amount from Noncurrent Liabilities Due to the Department of Education Default Aversion Fee Refund Allowance to Noncurrent Assets Interfund Default Aversion Fee Refund Allowance in FY 2012.

Recovery Revenue — Upon default claim payment, TG is statutorily required to pursue collection on behalf of the federal government, receiving commissions based upon collection method: 16 percent for borrower payments, 10 percent for consolidation collections, and 18.5 percent of principal, in addition to interest and up to 18.5 percent collection cost, less discount if any, for rehabilitation collections. Including these methods as well as loans collected through federal income tax offsets and Federal Direct Loan Program consolidations, TG collected approximately $673 million on defaulted student loans, in both FY 2013 and 2012.

Public Benefits Program: TG authorized the annual distribution of up to 5 percent of its available Operating Fund balance for scholarship and grant public benefits totaling $9.2 million and $8.4 million excluding administrative costs in FY 2013 and 2012. In addition, in FY 2013, TG fulfilled the remaining $22 million of its $25 million pledge to the Texas Higher Education Coordinating Board for the purpose of establishing the Texas - Science, Technology, Engineering and Mathematics program (T-STEM), and paid its contribution commitment of $30 million to the TEXAS Grant program which provides higher education scholarships for qualified students.

Note 2: Capital Assets

Capital Assets include the following:

	FYE 2013	FYE 2012
Operating Fund		
Land	$3,315,000	$3,315,000
Building & Improvements	34,467,000	34,143,000
Furniture & Equipment	15,293,000	14,621,000
Software	11,116,000	10,587,000
Software Construction	16,180,000	12,942,000
Vehicles	74,000	74,000
Capital Assets	80,445,000	75,682,000
Accumulated Depreciation	(36,863,000)	(32,765,000)
Capital Assets, Net	$43,582,000	$42,917,000

Capital Assets include $0.39 million and $0.31 million in accrued purchases at FYE 2013 and FYE 2012, respectively. Depreciation expense was $4.87 and $4.88 for FYE 2013 and 2012, respectively.

Note 3: Investments

Fair Market of Financial Instruments:

The carrying value of all financial instruments in the statements of financial position approximates estimated fair value. Cash and cash equivalents, receivables, payables and accrued expenses approximate fair value due to their short-tem nature. Investments are measured using quoted market prices multiplied by the quantity held when quoted market prices are available.

Fair Value Hierarchy:

TG applies the provisions of ASC Topic 820, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The statement requires certain additional disclosures, as set forth below. The provisions of ASC Topic 820 apply to other accounting pronouncements that require or permit fair value measurements. ACS Topic 820:

- Defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date; and
- Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of hierarchy are defined as follows:

- *Level 1* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that TG has the ability to access at the measurement date.
- *Level 2* inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means. Inputs and valuation techniques used by a third-party valuation service to measure investment fair value include prices quoted by various pricing organizations and are used by TG's investment custodian as well as TG's investment system provider. These prices are compared to a secondary source by TG on a sample basis to validate reasonableness.

- *Level 3* inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect TG's assumptions based on the best information available in the circumstances. At FYE 2013 and 2012, no investment values are based upon Level 3 inputs.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. There were no transfers between Level 1 and Level 2 during FY 2013 and 2012.

TG's investments are as follows:

FYE 2013	OPERATING FUND				FEDERAL FUND			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents	$6,395,000			$6,395,000	$27,960,000			$27,960,000
Investments								
US Treasury Notes	$31,251,000			$31,251,000	$73,489,000			$73,489,000
US Agency Obligations:								
Agency		$51,033,000		51,033,000		$218,708,000		218,708,000
Mortgage Backed		28,900,000		28,900,000				
Total Agency		79,933,000		79,933,000		218,708,000		218,708,000
Municipalities		17,460,000		17,460,000				
Certificate of Deposits		1,929,000		1,929,000				
Total Investments	$31,251,000	$99,322,000		$130,573,000	$73,489,000	$218,708,000		$292,197,000

FYE 2012	OPERATING FUND				FEDERAL FUND			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents	$9,541,000			$9,541,000	$40,342,000			$40,342,000
Investments								
US Treasury Notes	$92,270,000			$92,270,000	$69,320,000			$69,320,000
US Agency Obligations:								
Agency		$174,218,000		174,218,000		$217,459,000		217,459,000
Mortgage Backed		84,336,000		84,336,000				
Total Agency		258,554,000		$258,554,000		217,459,000		217,459,000
Municipalities		35,148,000		$35,148,000		4,478,000		4,478,000
Corporate Bonds		17,515,000		$17,515,000				
Certificate of Deposits		2,166,000		$2,166,000				
Total Investments	$92,270,000	$313,383,000		$405,653,000	$69,320,000	$221,937,000		$291,257,000

Note 4: Short Term Liabilities

Accounts Payable and Accrued Liabilities include the following:

	FYE 2013		FYE 2012	
	Operating Fund	Federal Fund	Operating Fund	Federal Fund
Trade Payables	$2,075,000	$180,000	$2,432,000	$97,000
Compensated Absences	2,058,000		2,038,000	-
Performance Awards	4,952,000		3,659,000	-
Other	626,000		233,000	-
Total	$9,711,000	$180,000	$8,362,000	$97,000

Margin Facility: TG's investment Prime Broker provides borrowing capacity, with certain exceptions, at 95 percent of TG's U.S. Treasury and U.S. Agency investment portfolio fair value, and up to 95 percent of other portfolio investments, subject to Federal Reserve regulations. Outstanding balances bear interest at the Broker Call Rate minus 3/8 percent or 1.625 percent, at September 30, 2013, with payments required to the extent that outstanding principal and interest exceeds the borrowing capacity level.

The facility was accessed several times in FY 2013 and FY 2012, from a minimum of one day to a maximum of four days, to facilitate cash management. There was no outstanding balance under this facility at September 30, 2013 or September 30, 2012.

Line of Credit: In January 2013, TG renewed its $5 million, no commitment fee, unsecured line of credit with its depository institution, bearing interest at the institution's prime rate plus 1 percent, which totaled 4.25 percent, at September 30, 2013. The facility, which expires in March 2014, unless the depository relationship is terminated earlier, has not been accessed.

Note 5: Long Term Liabilities

Non-current liabilities include the following, net of the Current Portion:

	FYE 2011	Additions	Payments/ Deletions	FYE 2012	Additions	Payments/ Deletions	FYE 2013	Current Portion
Operating Fund								
Due to ED:								
DAF Refund	$50,080,0000		$(50,080,000)	$0				
Notes Payable:								
Building Note	2,637,000		(2,637,000)	0				
Other	6,046,000	$5,572,000	(4,754,000)	6,864,000	$7,140,000	$(5,498,000)	$8,506,000	$7,010,000
Federal Fund								
Allow. for Loan Defaults	220,780,000	58,611,000	(38,081,000)	241,300,000	3,330,000	(60,300,000)	184,330,000	

Other: Other noncurrent liabilities consist primarily of accrued compensated absences and amounts due under TG's corporate performance award. The current portion of these liabilities is reported as a component of accounts payable and accrued liabilities. A summary of change in employees' compensable leave balances for fiscal 2013 which reflect employees' accrued rights to future compensated absences, are as follows:

	Current	Noncurrent	Total
Balance, 9/30/12	$2,038,000	$1,167,000	$3,205,000
Additions - Increases	908,000	1,285,000	2,193,000
Deductions - Decreases	(888,000)	(1,167,000)	(2,055,000)
Balance, 9/30/13	$2,058,000	$1,285,000	$3,343,000

Note 6: Bonded Indebtedness (not applicable)

Note 7: Derivative Instruments (not applicable)

Note 8: Leases
TG obtains various equipment under operating lease agreements. Rent expense for FY 2013 and FY 2012 was approximately $0.44 million and $0.58 million, respectively. Future minimum lease payments under the agreements total $0.01 million in FY 2014.

Note 9: Retirement Plans (administering Agencies only)
TG maintains a defined contribution retirement plan, the TGSLC Money Purchase Pension Plan and Trust (the Plan), which covers substantially all employees. While employees do not contribute to the Plan, TG's contributions to the Plan are generally based on nine percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately $37.9 million and $36.1 million, respectively, in the Plan year ended June 30, 2013, and approximately $38.8 million and $37.6 million, respectively, in the Plan year ended June 30, 2012. Total TG contributions, in accordance with this Plan requirement, were approximately $3.1 million and $3.2 million for FY 2013 and FY 2012, respectively. Plan amendments are subject to the Plan's Board of Trustees' approval, and TG's Board of Directors' ratification. Eligible employees may also elect to participate in the TG-sponsored 403b plan through payroll deduction. Other than certain administrative costs, the 403b plan is employee funded.

Note 10: Deferred Compensation (administering agencies only-not applicable)

Note 11: Post Employment Health Care and Life Insurance Benefits (UT and A&M only- not applicable)

Note 12: Interfund Balances/Activities
Interfund Activities: Interfund activity depicts transactions between TG's Operating and Federal funds as stipulated in the legislation, regulation and requirements governing FFELP.

Interfund Receivables, Payables — The interfund balance is primarily related to September net Recovery Revenue and DAF due the Operating Fund.

Interfund Default Aversion Fee Refund Allowance — This interfund balance consists of the anticipated future DAF refunds due the Federal Fund.

Note 13: Continuance Subject to Review (not applicable)

Note 14: Adjustments to Fund Balance/Net Assets (not applicable)

Note 15: Contingencies and Commitments

In the ordinary course of business, TG is subject to a range of claims, administrative proceedings (including reviews by federal agencies which may result in refunds or adjustments), and legal proceedings, such as lawsuits that relate to contractual allegations, employment related matters, and actions brought or threatened by third parties, under various state and federal laws and regulations. Although it is not possible to predict with certainty the outcome or costs of these matters, TG management believes that these matters will not have a material adverse effect on its financial position, results of operations, or cash flows.

Note 16: Subsequent Events TG has evaluated subsequent events through November 27, 2013, the date the financial statements were issued, and concluded there were no events or transactions during this period that would require recognition or disclosure in the financial statements.

Note 17: Risk Management

Risk Management: In addition to FFELP guarantee activity risks, TG is exposed to: various risks of loss related to torts; theft of, damage to, and destruction of, assets; business interruption; errors and omissions; job-related illnesses or injuries to employees; and natural disasters, for which it carries commercial insurance at levels consistent with that of the prior fiscal year. Risk retention is substantially confined to customarily nominal policy deductibles, with the exception of typically higher deductible limits for directors' and officers' liability, cyber liability, and umbrella coverage, as well as the retrospective rating of job-related illnesses or injuries to employees' policy premiums. Resulting risk management liabilities, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There were no claims that exceeded insurance coverage in FY 2013 or FY 2012.

Note 18: Management Discussion and Analysis (not applicable)

Note 19: The Financial Reporting Entity (not applicable)

Note 20: Stewardship, Compliance and Accountability (not applicable)

Note 21: Not Applicable to the AFR

Note 22: Donor Restricted Endowments (not applicable)

Note 23: Special and Extraordinary Items In conjunction with the substantial revision of TG's State enabling statute, in September 2013 TG funded a one-time, non-recurring $248 million State of Texas endowment for the State's Veterans Education Assistance program to provide higher education support to qualified veterans and qualified members of their families.

Note 24: Disaggregation of Receivable and Payable Balances (not applicable)

Note 25: Termination Benefits (not applicable)

Note 26: Segment Information
Information as of and for the fiscal year ended September 30, 2013:

	Operating Fund	Federal Fund
Revenues	$123,851,000	$17,965,000
Depreciation	4,865,000	
Net Change in Net Assets before Extraordinary Item	(23,529,000)	37,432,000
Extraordinary Item	(248,062,000)	
Transfers - In		
Transfers - Out		
Net Change in Net Assets after Extraordinary Item	(271,591,000)	37,432,000
Net Working Capital	134,419,000	324,835,000
Total Assets	149,938,000	393,820,000
Fund Equity	138,731,000	178,279,000
Bonds Payable & Other Long Term Liabilities	1,496,000	184,330,000
Capital Assets:		
Additions	5,579,000	
Deletions/Adjustments	(816,000)	
Current Capital Contributions and Transfers		
Operating Grants, Entitlements, & Shared Revenues		

Texas Guaranteed Student Loan Corporation
Schedule of Expenditures of Federal Awards - Schedule 1A
Fiscal Year Ended September 30, 2013

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	CFDA Number	Identifying Number	Pass Through From: Agency/ Univ. #	Pass Through From: Agencies or Univ. Amount	Pass Through From: Non-State Entities Amount	Direct Program Amount	Total PT From & Direct Program	Pass Through To: Agency/ Univ. #	Pass Through To: Agencies or Univ. Amount	Pass Through To: Non-State Entities Amount	Revenue/ (Expenditures)/ (Transfers) Amount	Total PT To & Direct Program
Student Financial Assistant Cluster												
U.S. Department of Education												
Direct Programs:												
Federal Family Education Loan Program	84.032											
Account Maintenance Fee						$9,919,000	$9,919,000				$9,919,000	$9,919,000
Reinsurance						775,876,000	775,876,000				$775,876,000	775,876,000
Recoveries, Rehabilitation and Repurchases						(480,309,000)	(480,309,000)				(480,309,000)	(480,309,000)
Other						(143,000)	(143,000)				(143,000)	(143,000)
TOTAL FEDERAL FINANCIAL ASSISTANCE						$305,343,000	$305,343,000				$305,343,000	$305,343,000

Note 1 - Non-Monetary Assistance (not applicable)

Note 2 - Reconciliation of Federal Revenues and Expenditures to Total Federal Financial Assistance

Per Consolidated Statements of Revenues, Expenses & Changes in Net Assets:

	Combined Operating & Federal Fund
Federal Revenues	$143,413,000
Reconciling Items:	
Gross Recovery Revenue	(568,431,000)
Repurchases & Refunds	(39,302,000)
Default Aversion Expense	(6,070,000)
Claims Paid	775,876,000
Other	(143,000)
	$305,343,000

Notes to the Schedule of Federal Awards:

Guaranteed Student Loans
At September 30, 2013 principal balance outstanding of guaranteed student loans totaled approximately $15 billion.