NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

FINANCIAL STATEMENTS FOR THE
YEARS ENDED AUGUST 31, 2016 AND 2015 AND
INDEPENDENT AUDITOR'S REPORT

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Texas Higher Education Authority, Inc.

Report on the Financial Statements

We have audited the accompanying statements of net position of North Texas Higher Education Authority, Inc. (the Authority) as of August 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of August 31, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplementary information on pages 38-41 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas
February 1, 2017

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

North Texas Higher Education Authority, Inc. (the "Authority"), a nonprofit corporation acting on behalf of the Cities of Arlington and Denton, Texas, was originally created under the Texas Non-Profit Corporation Act in 1971 under the name of Dallas Schools Foundation. That corporation was dormant from its incorporation in 1971 until 1978 when it was reorganized and its Articles of Incorporation were amended to change its name and purpose to the present name and purpose. In September 2015 following the passage of HB 3245 during the 84^{th} Texas legislative session and upon the Authority's request to simplify its organizational structure, the City of Denton passed a resolution to rescind its "on behalf of" support of the Authority, and the City of Arlington reaffirmed the Authority to "act on its behalf in the exercise of the powers enumerated under Section 53B.47 of the Texas Education Code to further educational opportunities."

The Authority is authorized to provide funds for the acquisition of eligible loans made to students at post-secondary educational institutions and provide procedures for the servicing of such loans. The Authority currently owns student loans established by the Higher Education Act under the Federal Family Education Loan Program ("FFELP"). Loans provided under FFELP include Subsidized and Unsubsidized Stafford ("Stafford"), Supplemental Loans for Students ("SLS"), Parent Loans for Undergraduate Students and Graduate / Professional Student Loans ("PLUS"), and Consolidation Loans ("Consolidated").

This report includes three financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as defined by the Governmental Accounting Standards Board. The statement of net position presents the financial position of the Authority at the end of the fiscal year and includes all assets and liabilities of the Authority. The statement of revenues, expenses, and changes in net position presents the Authority's results of operations. The statement of cash flows provides a view of the sources and uses of the Authority's cash resources.

The Authority has a "borrower incentive" program for which a portion of eligible borrowers' principal balance of their student loan(s) is written-off when the borrower meets stipulated payment requirements. In 2016, the Authority began presenting the borrower incentive loan write-offs as a line item expense on its revenues, expenses, and changes in net position. Previously, borrower incentive loan write-offs were recorded as a reduction of student loan income. As such, reclassifications have been made to the 2015 and 2014 financial statements that present the amounts of loan writes-offs that went to this program to conform along with the 2016 format. These reclassifications had no effect on total net position or change in net position. See note 5 to the basic financial statements for further discussion of the Authority's borrower incentive program. The Authority's activities and highlights discussed below include some analysis and comparisons of net position and results of operations that are based on these reclassifications.

AUTHORITY ACTIVITY AND HIGHLIGHTS

The Authority purchases student loans from a variety of financial institutions. However, due to the changes in the HERA and elimination of the FFELP, student loan purchases have declined since 2008.

	2016	2015	2014	2013	2012
Student Loan Purchases	$36.7 mil.	$3.1 mil.	$9.2 mil.	$9.8 mil.	$25.6 mil.

For further discussion of the Authority's loan acquisition program see Note 3 to the basic financial statements. Also see discussion of "**Turbulence in the Financial Markets**" below.

Financing for the program is provided through the issuance of tax-exempt and taxable debt and the recycling of funds. However, due to the decline in student loan purchases the Authority has not issued any debt since 2012.

CONDENSED NET POSITION	2016	2015	2014
Cash, cash equivalents and investments	$ 70,871,025	$ 101,834,974	$ 104,853,835
Accrued interest receivable	14,766,142	14,554,440	16,331,925
Student loans receivable	743,218,034	815,164,898	940,116,913
Other	61,612	66,144	72,398
TOTAL ASSETS	$ 828,916,813	$ 931,620,456	$ 1,061,375,071
Current liabilities	$ 100,230,902	$ 129,117,067	$ 112,568,132
Long-term liabilities	542,613,131	621,685,871	773,991,611
TOTAL LIABILITIES	$ 642,844,033	$ 750,802,938	$ 886,559,743
Unrestricted	$ 69,242,049	$ 66,133,442	$ 64,368,030
Restricted	116,830,731	114,684,076	110,447,298
TOTAL NET POSITION	$ 186,072,780	$ 180,817,518	$ 174,815,328

CONDENSED REVENUES, EXPENSES AND CHANGE IN NET POSITION	2016	2015	2014
Operating Revenues:			
Interest on student loans	$ 31,413,656	$ 35,128,522	$ 39,478,976
Interest on investments	343,124	122,229	97,386
Unrealized gain on investments	155,095	0	0
	$ 31,911,875	$ 35,250,751	$ 39,576,362
Nonoperating revenues:			
Government interest and special allowance	(11,566,998)	(13,892,557)	(15,803,550)
TOTAL REVENUE	$ 20,344,877	$ 21,358,194	$ 23,772,812
Operating Expenses:			
Interest on bonds	$ 8,414,895	$ 8,083,458	$ 9,454,500
Loan servicing fees paid to Higher Education Servicing Corp.	2,405,030	2,749,097	3,154,300
Payments for administrative and operating costs to Higher Education Servicing Corporation	2,586,397	2,763,192	2,960,704
Trustee fees	132,365	140,526	159,372
Borrower incentive loan write-offs	1,154,897	1,266,785	1,283,346
Miscellaneous expense	396,031	352,946	432,437
Total Operating Expenses:	15,089,615	15,356,004	17,444,659
CHANGE IN NET POSITION	$ 5,255,262	$ 6,002,190	$ 6,328,153

AUTHORITY FINANCIAL HIGHLIGHTS

Total assets and liabilities increased (decreased) for the fiscal years 2016 and 2015 as follows:

	2016	Percent Change from 2015	2015	Percent Change from 2014
Decrease in assets:	($ 102.7 mil.)	(11%)	($ 129.8 mil.)	(12.2%)
Decrease in liabilities:	($ 108.0 mil.)	(14.4%)	($ 135.8 mil.)	(15.3%)
Increase in net position:	$ 5.3 mil.	2.9%	$ 6.0 mil.	3.4%

The above decreases are mostly due to decreased student loans, decreased investments, decreased income due on student loans, and decreased Authority debt.

The increase in net position was mostly due to increased non operating revenue. Also, the Authority paid less loan servicing fees and administrative fees due to its decreasing student loan portfolio which contributed to the increase in net position. These fees are paid to Higher Education Servicing Corporation ("HESC"). See "Related Entities" under note 1 to the basic financial statements for further discussion of HESC's administration support functions for the Authority. In 2016, the Authority paid $107.7 million of bonds, but bond interest increased $331,437 due to a substantial increase to bond rates. The increase in interest due to the higher bond rates was greater than the decrease in interest due the pay-off of the bonds. The increase in bond interest mitigated somewhat the increase in net position. Non operating revenue is discussed below.

In 2015, the increase in net position was mostly due to increased non operating revenue and decreased interest expense on debt. Also, the Authority paid less loan servicing fees and administrative fees due to its decreasing student loan portfolio. The decrease in interest expense was mostly due to the pay-off of $135.1 million of the Authority's bonds. Bond rates increased slightly in 2015 which mitigated somewhat the decreased interest expense.

The majority of net position is restricted for debt service or for the purchase of student loans, but as of August 31, 2016, approximately $69.2 million is available for unrestricted purposes.

Further evaluation of some of the Authority's major asset and liability categories is as follows:

	2016	Percent Change from 2015	2015	Percent Change from 2014
Decrease in cash, cash equivalents, and investments:	($ 31.0 mil.)	(30.4%)	($ 3.0 mil.)	(2.9%)
Decrease in student loans:	($ 72.0 mil.)	(8.8%)	($125.0 mil.)	(13.3%)
(Decrease) increase in net short term liabilities:	($ 28.9 mil.)	(22.4%)	$ 16.6 mil.	14.7%
Decrease in net long term liabilities:	($ 79.1 mil.)	(12.7%)	($152.3 mil.)	(19.7%)

AUTHORITY FINANCIAL HIGHLIGHTS – CONTINUED

The elimination of the FFELP has impacted the Authority's ability to acquire loans (See **Turbulence in the Financial Markets** below). In 2016, the Authority acquired $36.7 million of loans, but net reductions (payoffs less capitalized interest) of student loans were $108.7 million. Acquisitions in 2016 included a portfolio for $34 million from one lender. In 2015, the Authority acquired $3.1 million of loans, but net reductions of student loans were $128.1 million.

Collections from borrowers are held in "Redemption Funds" and used to pay down bonds. Bond indenture covenants require "excess funds" (amounts remaining after debt service payments) not used to acquire loans to be used to pay down bonds at specified redemption dates. The Authority has not issued any debt since 2012, and in 2016, 2015, and 2014 used "excess funds" to pay $107.7 million, $135.1 million, and $188.2 million, respectively, of bonds. In 2016, the decrease in net short term liabilities is mostly due to a decrease in short term bonds payable of $28.6 million. Decreased special allowance payable (paid to the Education Department) also contributed to the decrease, but higher interest due on bonds (discussed above) mitigated the decrease somewhat. See discussion of special allowance income in note 1 to the basic financial statements. The decrease in net long term liabilities is due to a decrease in long term bonds payable of $79 million. See further discussions of "Bonds Payable" in note 4 to the basic financial statements below.

In 2015, the increase in net short term liabilities was due an increase in short term bonds payable of $17.3 million mitigated somewhat by decreases to interest due on bonds and to special allowance payable.

OPERATING ACTIVITIES

Revenues:

	2016	Percent Change from 2015	2015	Percent Change from 2014
Decrease in Operating Revenue:	($3.3 mil.)	(9.5%)	($4.3 mil.)	(10.9%)

Operating revenues for the Authority are derived entirely from interest earned on student loans, cash equivalents, and investments.

Net decrease to yield on student loans:

	2016	Percent Change from 2015	2015	Percent Change from 2014
Decrease in interest earned from student loans:	($ 3,694,930)		($ 4,342,831)	
Net decrease in amortization of deferred premium and discount:	($ 19,936)		($ 7,623)	
Net decrease to yield on student loans:	($ 3,714,866)	(10.6%)	($ 4,350,454)	(11.0%)

OPERATING ACTIVITIES – CONTINUED

Revenues – Continued:

Since 2011, variable rates on student loans issued before July 1, 2006 ("older loans") have changed by only a few basis points. In 2016, these rates decreased .01% from 2015 and in 2015 these rates decreased .02% from 2014. Variable rates on the majority of loans issued after June 30, 2006 ("newer loans") have remained the same since 2007. Interest earned on student loans decreased in 2016 and 2015 mostly due to the decrease of the Authority's student loan portfolio. In 2016, the $34 million acquisition of one loan portfolio (discussed above) mitigated somewhat the decrease in interest earned on student loans. Slight decreases or increases to the rates ("older loans") have slightly impacted interest earned. The decrease to amortization of loan premium has also helped mitigate somewhat the decrease to interest earned on student loans.

The variable student loan interest rates are set annually on July 1 based on the 91-day T-Bill rate. Interest rates on Consolidation loans are fixed at time of disbursement. Student loan rates are outlined as follows:

	2016	2015	2014
Variable rates on student loans:	1.72% to 8.50%	1.73% to 8.50%	1.75% to 8.50%

In the past, the Authority paid a loan acquisition premium when acquiring loans from financial institutions. These premiums were capitalized and amortized over the life of the related loans. The amortization expense is recorded as an adjustment to the yield of the loans purchased (see further discussion of "Deferred Loan Acquisition Premiums" in note 1 to the basic financial statements). Changes in law have decreased yields on student loans, thus since 2010, the Authority has not paid any premium on loans purchased and has acquired some loan portfolios at a discount. Since 2014, the amortization of the discount has been more than the amortization of premium which results in slight increases to the yield on student loans.

Since 2010, investment rates have not changed much, but in 2016 rates increased substantially. Rate increases on the Authority's money market investments ranged from 100% to over 200%. Also in 2016, the Authority increased its investment in certificates of deposit (CDs) by $14 million. Rates on the CDs are higher than rates on its money market funds. In 2016, due to the $34 million portfolio acquisition (discussed above), investments and cash equivalents decreased $31 million. However interest earned on investments and cash equivalents increased $220,895 (180.7%) due to the higher rates and increased investments in CDs. See note 2 to the basic financial statements for further discussion of the Authority's investments.

In 2015, rates on the Authority's money market investments increased slightly from 2014 and the Authority increased investments in CDs by $145,000. Interest earned on investments and cash equivalents increased $24,843 (25.5%) due to the higher rates.

OPERATING ACTIVITIES – CONTINUED

Revenues:

Investment yields are outlined as follows:

	2016	2015	2014
Average yield on investments for year:	0.37%	0.12%	0.07%

Non-operating revenue is discussed below.

Expenses:

	2016	Percent Change from 2015	2015	Percent Change from 2014
Decrease in Operating Expenses:	($266,389)	(1.7%)	($2.1 mil.)	(12%)

The major categories of the Authority's operating expenses are interest on debt, loan servicing fees, program administration fees, and borrower incentive loan write-offs. In 2016, loan servicing fees decreased 12.5%, program administration fees decreased 6.4%, and borrower incentive loan write-offs decreased 8.8%. However interest expense increased 4.1% which mitigated somewhat the decrease in operating expenses. The Authority paid $107.7 million of bonds, but as noted above, the increased interest is due to a substantial increase to bond rates.

In 2015, interest expense decreased 14.5%, loan servicing fees decreased 12.8%, program administration fees decreased 6.7%, and borrower incentive loan write-offs decreased 1.3%. The decrease to interest expense is due to the pay down of $135.1 million of bonds. Higher bond rates mitigated the decrease somewhat. See note 4 to the financial statements for further discussion of the Authority's bonds.

The pay down of bonds is helping to mitigate increased interest due to rising bond rates. Average rates are as follows:

	2016	2015	2014
Average tax-exempt bond rate:	1.47%	1.20%	1.16%
Average taxable bond rate:	1.15%	0.94%	0.91%

The Authority has engaged HESC to provide servicing for the student loan portfolio. HESC maintains contracts with two student loan servicing bureaus who service Authority loans ("sub-servicers"). In 2006, HESC also began providing full life-of-loan servicing to the Authority and rates charged by HESC are slightly lower than rates charged by the other two bureaus. In 2016 and 2015, loan servicing fees decreased $344,067 and $405,203, respectively. The decreases are mostly due to the Authority's decreasing student loan portfolio, but in 2016, the decrease was mitigated somewhat due to increased fees paid on the $34 million portfolio acquisition. Rates charged by HESC and one of the sub-servicing bureaus are comparable and are slightly less than rates charged by the other sub-servicing bureau. As of August 31, 2016, 91.6% of the Authority's loans were being serviced by HESC and the sub-servicing bureau with the lower rates which contributes somewhat to decreased loan servicing fees. See "Related Entities" under note 1 to the basic financial statements for further discussion of HESC's loan servicing functions for the Authority.

OPERATING ACTIVITIES – CONTINUED

Expenses – Continued

In addition to providing student loan servicing, HESC is the program administrator for the Authority. In general, administration fees paid to HESC are based on rates stipulated by the Authority's bond covenants and applied to the student loan balances for each bond series. The Authority's decreasing student loan portfolio decreases administration fees, but bond covenants on some of the Authority's refunding bonds require that the Authority pay higher rates for administration fees as the parity ratios on these bonds increase (limited to stated maximum rates). Due to pay down of bonds, parity ratios on the Authority's refunding bonds are increasing. In 2016 and 2015, administration fees decreased $176,795 and $197,512, respectively, due to the Authority's decreasing student loan portfolio. The decrease in administration fees is mitigated somewhat by the higher fees paid from the refunding bonds due to their increasing parity ratios. In 2016, the decreased fees were also mitigated somewhat due to increased fees paid on the $34 million portfolio acquisition. See "Related Entities" under note 1 to the basic financial statements for further discussion of HESC's administrative support functions for the Authority.

The Authority has a "borrower incentive" program for certain eligible borrowers who meet stipulated payment requirements in which, a portion of the borrowers' student loan balance is written off. In 2016 and 2015, borrower incentive write offs decreased $111,888 and $16,561, respectively, due to the Authority's decreasing student loan portfolio. See further discussion of the Authorities "borrower incentive program" in Note 5 to the basic financial statements.

The Authority is subject to provisions for arbitrage rebate and excess earnings liabilities. Decreasing bond rates increase the likelihood for higher arbitrage liability for tax-exempt financings. However, decreasing yields on investments decrease the likelihood for higher arbitrage liability. Decreasing bond rates also increase the likelihood of excess earnings liability associated with tax-exempt financings. However, decreasing non-operating revenue decreases the likelihood of excess earnings liability. The Authority did not incur any excess earnings or arbitrage liabilities in 2016 and 2015, or 2014. See Note 6 to the financial statements for further discussion of the Authority's excess earnings and arbitrage rebate liabilities.

OPERATING ACTIVITIES – CONTINUED

Non-operating Revenue

Non-operating revenue for the Authority is derived entirely from interest subsidy and special allowance paid by the U.S. Government. The program of subsidized interest and special allowance is further discussed in note 1 to the financial statements.

	2016	Percent Change from 2015	2015	Percent Change from 2014
Increase in non-operating revenue:	$2,325,559	16.7%	$1,910,993	12.1%

Since 2007, special allowance income had been decreasing substantially due to declining Commercial Paper, Treasury Bill, and one-month LIBOR rates and due to a major provision in the Higher Education Reconciliation Act (HERA) of 2005. Since January 2010, while low, these rates remained relatively unchanged through 2014 but began an upward trend in 2015 that continued in 2016. See discussion of the effect of these rates on special allowance income under '**Turbulence in the Financial Market**' under Economic Factors and Outlook below.

Due to the provision in the HERA, loans disbursed after April 1, 2006 ("post 4/1/06" loans) are subject to a rebate of a portion of the interest collected on the loans (referred to as "excess interest") when the loans earn at rates above the federally established "special allowance lender rates" referred to as "special allowance rates." The majority of the Authority's decreasing portfolio are the post 4/1/06 loans that are subject to the "excess interest" payments. As such, in 2016 and 2015, the Authority paid substantially less "excess interest," which in turn, increases special allowance income. In 2016 and 2015, special allowance income increased $3.3 million and $2.8 million, respectively. The slight decreases to the variable rates on student loans (mostly on "older loans" as noted in the discussion of Operating Revenue above) increases special allowance income somewhat for the Authority.

In 2016 and 2015, interest subsidy decreased $992,663 (27.4%) and $895,872 (19.8%), respectively. The decreases are due to the declining balances of subsidized loans in school, grace, or deferment status. In 2016 and 2015, the balance of these loans decreased $10.8 million and $17.3 million, respectively, from 2015 and 2014 (respectively). See further discussion of ***Interest Subsidy and Special Allowance*** payments on student loans in note 1 to the financial statements.

ECONOMIC FACTORS AND OUTLOOK

Turbulence in the Financial Markets

Due to the decline in the financial and bond markets in the latter half of fiscal year 2008 and in fiscal year 2009, Treasury Bills (T-Bill), Commercial Paper (CP), and one-month LIBOR rates decreased from September 30, 2008 through December 31, 2009. Since January 2010, the downward spiral ended and the rates, while low, remained relatively unchanged through 2014. In 2015, the rates began an upward trend, which continued in 2016. In 2016, T-Bill and one-month LIBOR rates increased 400% and 160%, respectively from rates in 2015. The average bond equivalent rates of the 91-day T-Bill and the average bond equivalent rates of the 1-month LIBOR are shown:

	T-Bill Rates	One-Month LIBOR
Qtr. Ending 6/30/13:	0.05%	0.20%
Qtr. Ending 9/30/13:	0.03%	0.19%
Qtr. Ending 12/31/13:	0.07%	0.17%
Qtr. Ending 3/31/14:	0.05%	0.16%
Qtr. Ending 6/30/14:	0.03%	0.15%
Qtr. Ending 9/30/14:	0.02%	0.16%
Qtr. Ending 12/31/14:	0.03%	0.16%
Qtr. Ending 3/31/15:	0.02%	0.17%
Qtr. Ending 6/30/15:	0.02%	0.19%
Qtr. Ending 9/30/15:	0.06%	0.20%
Qtr. Ending 12/31/15:	0.14%	0.26%
Qtr. Ending 3/31/16:	0.30%	0.44%
Qtr. Ending 6/30/16:	0.27%	0.45%
Qtr. Ending 9/30/16:	0.31%	0.52%

The above rates directly affect the amount of Special Allowance (SA) income earned on the Authority's student loans. Since 2007, the declining rates have resulted in substantially reduced special allowance income for the Authority, but increases to the rates in 2015 and 2016 have resulted increased special allowance income.

Legislative changes in 2007 require that some student loans (loans disbursed after April 1, 2006) are subject to a rebate of a portion of the interest collected on the loans (referred to as "excess interest") when the loans earn at rates above the "special allowance rates." Increasing one-month LIBOR rates (shown above) raises the special allowance rates, which in turn, decreases excess interest. In 2016, 2015, and 2014, the Authority paid $15 million, $18 million, and $21 million of excess interest, respectively, to the Education Department, which off-sets Special Allowance Income on the Authority's books. (See further discussion of "excess interest" payments in note 1 to the basic financial statements).

Low T-Bill rates have also resulted in substantially reduced investment income but recent upward trends to these rates have helped to increase investment income.

OUTLOOK

Elimination of FFEL Program

In March 2010, President Obama signed into law H.R. 4872 (the "Health Care & Education Affordability Reconciliation Act of 2010" or "HCEARA") which terminates originations of student loans under the Federal Family Education Loan Program (FFELP) in favor of the government-run Federal Direct Loan Program beginning July 1, 2010. After June 30, 2010, no new FFELP loans (including Consolidation Loans) may be made or insured under the FFELP and no funds may be expended under the Higher Education Act to make or insure loans under the FFELP for which the first disbursement is after June 30, 2010. FFELP loans originated under the Higher Education Act prior to July 1, 2010, which have been purchased or could be purchased by the Authority, continue to be subject to the provisions of the FFELP.

The elimination of the FFELP has impacted the Authority and FFELP lenders. Lenders could still add to (make additional disbursements) FFELP loans that were initially made prior to July 1, 2010 and the Authority can continue to acquire these loans. Many of the Authority's "lender partners" have historically originated student loans which the Authority has purchased, but due to the elimination of FFELP, the volume of loans available to acquire from its lender partners has declined dramatically since 2008. In 2014 the Authority acquired substantially all of the remaining FFELP Loans that were held by its lender partners. The Authority does not anticipate purchasing any substantially "large" balances of loan portfolios. However, if the Authority finds some "large" portfolios available, the Authority will analyze and consider acquiring such portfolios and use unrestricted funds for these acquisitions. See "Net Position" under Note 1 to the basic financial statements for further discussion of the Authority's unrestricted funds.

The Authority has regularly financed its eligible loan purchases on a long-term basis through the issuance of revenue bonds secured by the eligible loans it has purchased with the proceeds of such bonds. Due to the elimination of the FFELP, the Authority has not issued any debt since 2012 (which was used to refund older bonds) and does not anticipate issuing any debt in 2017. The Authority has been substantially paying down debt since 2009 and anticipates continuing this trend in 2017.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF NET POSITION
AUGUST 31, 2016 AND 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents--restricted (Note 2)	$ 275,576	$ 169,156
Investments (Note 2)	23,168,769	63,752,284
Investments--restricted (Note 2)	36,244,082	37,668,534
Accrued interest and other accounts receivable	928,569	23,034
Accrued interest and other accounts receivable--restricted	13,573,532	14,093,890
Prepaid expenses--restricted	61,612	66,144
Student loan notes receivable (Note 3)	6,498,438	0
Student loan notes receivable--restricted (Note 3)	127,361,065	144,136,990
Total current assets	208,111,643	$ 259,910,032
LONG-TERM ASSETS:		
Investments--(Note 2)	11,182,598	245,000
Accrued interest and other accounts receivable	31,714	0
Accrued Interest and other accounts receivable--restricted	232,327	437,516
Student loan notes receivable (Note 3)	27,557,628	2,115,772
Student loan notes receivable--restricted (Note 3)	581,800,903	668,912,136
Total long-term assets	620,805,170	671,710,424
TOTAL ASSETS	$ 828,916,813	$ 931,620,456
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES - Payable from non-restricted assets:		
Accounts payable	$ 14,206	$ 2,360
Accrued special allowance payable	246,352	4,920
Total current liabilities payable from non-restricted assets	260,558	7,280
CURRENT LIABILITIES--Payable from restricted assets:		
Accounts payable	592,268	652,292
Accrued interest payable	990,001	877,844
Accrued special allowance payable	2,037,987	2,672,295
Accrued other liabilities	6,088	7,356
Bonds payable (Note 4)	96,344,000	124,900,000
Total current liabilities payable from restricted assets	99,970,344	129,109,787
Total current liabilities	100,230,902	129,117,067
LONG-TERM LIABILITIES--Payable from restricted assets:		
Bonds payable, less unamortized original issue discounts of $953,869 and $1,006,129, respectively (Note 4)	542,613,131	621,685,871
Excess earnings and arbitrage liabilities (Note 6)	0	0
Total long-term liabilities payable from restricted assets	542,613,131	621,685,871
Total liabilities	642,844,033	750,802,938
NET POSITION:		
Restricted	116,830,731	114,684,076
Unrestricted	69,242,049	66,133,442
Total net position	186,072,780	180,817,518
Total Liabilities and net position	$ 828,916,813	$ 931,620,456

The Notes to Basic Financial Statements are
an integral part of these statements

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Interest on student loans	$ 31,413,656	$ 35,128,522
Interest on cash equivalents and investments	343,124	122,229
Unrealized gain on investments (Note 2)	155,095	0
Total operating revenues	31,911,875	35,250,751
OPERATING EXPENSES:		
Interest on bonds	8,414,895	8,083,458
Loan servicing fees paid to Higher Education Servicing Corporation (Note 1)	2,405,030	2,749,097
Payments for administrative and operating costs to Higher Education Servicing Corporation (Note 1)	2,586,397	2,763,192
Trustee fees	132,365	140,526
Borrower incentive loan write-offs (Note 5)	1,154,897	1,266,785
Miscellaneous expense	396,031	352,946
Total operating expenses	15,089,615	15,356,004
OPERATING INCOME	16,822,260	19,894,747
NONOPERATING REVENUES AND EXPENSES:		
Government subsidy on student loans	2,627,406	3,620,069
Special allowance income	(14,194,404)	(17,512,626)
Total nonoperating revenues and expenses	(11,566,998)	(13,892,557)
CHANGE IN NET POSITION	5,255,262	6,002,190
NET POSITION—Beginning of year	180,817,518	174,815,328
NET POSITION—End of year	$ 186,072,780	$ 180,817,518

The Notes to Basic Financial Statements are
an integral part of these statements

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	$ (37,667,609)	$ (3,108,567)
Student loan repayments	121,021,025	141,618,539
Payment to vendors	(10,264,451)	(11,285,237)
Interest paid on bonds and lines of credit	(8,250,477)	(8,166,160)
Cash received for student loan and investment interest	23,523,731	27,205,458
Deferred loan acquisition discounts received	53,200	-
Net cash provided by operating activities	88,415,419	146,264,033
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments held by Trustee	382,977,970	301,292,430
Purchases of Investments	(351,752,506)	(298,384,069)
Net cash provided by investing activities	31,225,464	2,908,361
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Repayment of Bonds	(107,681,000)	(135,059,000)
Proceeds from government subsidy on student loans	2,733,817	3,820,376
Payments of special allowance	(14,587,280)	(18,044,271)
Net cash used in noncapital financing activities	(119,534,463)	(149,282,895)
CHANGE IN CASH AND CASH EQUIVALENTS	106,420	(110,501)
CASH & CASH EQUIVALENTS---Beginning of year	169,156	279,657
CASH & CASH EQUIVALENTS---End of year	$ 275,576	$ 169,156

The Notes to Basic Financial Statements are
an integral part of these statements

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income:	$ 16,822,260	$ 19,894,747
Adjustments to reconcile operating income to net cash provided by operating activities:		
Unrealized (gain) loss on investments	(155,095)	0
Amortization of original issue discounts	52,260	52,260
Change in assets and liabilities:		
Decrease (increase) in accrued interest and other accounts receivable	(318,112)	1,577,175
Decrease in student loan notes receivable--net	71,946,864	124,952,016
Decrease in prepaid expenses	4,532	6,254
(Decrease) in accounts payable	(48,178)	(84,118)
Increase (decrease) in accrued and other liabilities	(1,269)	662
Increase (decrease) in accrued interest payable	112,157	(134,963)
Net cash provided by operating activities	$ 88,415,419	$ 146,264,033

The Notes to Basic Financial Statements are
an integral part of these statements

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity— The North Texas Higher Education Authority, Inc. (the “Authority”) is a nonprofit corporation organized on September 28, 1978 under the laws of the State of Texas and reports as a governmental entity. The Authority’s Board of Directors is composed of six members appointed by the City of Arlington, Texas. The Authority’s present purpose is to promote student access to higher education. The Authority provides funds for the purchase of student loans from participating lenders at the post-secondary educational level and provides procedures for the servicing of such loans as required for continued participation in the Federal Family Education Loan Program (FFELP) under the Higher Education Act of 1965, as amended. Funding for the Authority has been provided by the sale of tax-exempt bonds and through other forms of indebtedness. Proceeds of the bonds are used to purchase student loans, originated by eligible lenders under the FFELP made to eligible students for attendance at eligible institutions.

Related Entities— Higher Education Servicing Corporation (“HESC”) is a tax-exempt nonprofit Texas Corporation that services the student loans for the Authority. HESC is responsible for student loan processing, collecting, accounting and reporting, as well as providing corporate office space and administrative support functions for the Authority under the terms of a servicing agreement. The Authority has no employees. HESC and the Authority have separate Boards of Directors.

Under the terms of the servicing agreement, HESC uses an “in-house” student loan servicing system to perform duties involving student loan processing and collection services on some of the Authority’s student loans. HESC also contracts with two third-party student loan servicers (sub-servicers) who also perform student loan processing and collecting services on some of the Authority’s student loans for HESC under the terms of servicing agreements. The Authority remits to HESC stipulated amounts for services rendered in the administration of the agreements and for providing services as described above.

Measurement Focus, Basis of Accounting and Basis of Presentation— The Authority applies all applicable Governmental Accounting Standards Board (“GASB”) pronouncements for enterprise funds. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting wherein revenues are recognized when earned and expenses are recognized when incurred. Enterprise funds are used to account for the operations and financial position of a governmental entity that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the expenses of providing goods and services on a continuing basis be financed or recovered primarily through user charges.

Description of Funds— The accounts of the Authority are organized on the basis of funds, which are set up in accordance with the related bond indentures. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. These requirements do not result in any restrictions on the use of assets for the general purpose of the respective bond issues. Accordingly, separate funds are not considered necessary for financial reporting purposes. At the time that a bond series has been fully repaid or is permitted by the bond indentures, assets can be transferred to another series with outstanding debt or to a “surplus” fund. The clearing fund is used to process student loan collections among debt issues.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents— The Authority considers all non-interest bearing highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investment Policy— In accordance with the Authority's investment policy and its bond indentures, funds not invested in student loans are generally invested in one of the following investment types:

- Money market funds which are registered with and regulated by the Securities and Exchange Commission ("SEC") and are rated AAAm or an equivalent rating by at least one nationally recognized rating service and include in their investment objectives to have a dollar weighted average stated maturity of 90 days or fewer and seek to maintain a stable net asset value of $1 per share.

- FDIC insured interest-bearing time deposits with maturities of five years or less in banks located within the State of Texas or invested through a broker that has its main office or a branch office in the State of in Texas, is selected by the Authority, and arranges for the deposits in one or more FDIC insured depository institutions, wherever located, for the account of the Authority.

The Authority records money market investments at cost, and records interest bearing time deposits at fair value on its statements of net position. Changes in fair value are reported in the statements of revenues, expenses and changes in net position. The Authority continually monitors the fair value of its investments.

Allowance for Loan Losses— The guarantee of student loans is contingent upon the loans being serviced within the "due diligence" requirements of the guarantors. The Authority has established cure and recovery procedures to be applied to loans that have lost their guarantee. The allowance for loan losses is a provision for the loans for which cure and recovery are expected to be unsuccessful and was based on historical analysis and management review of accounts.

Deferred Loan Acquisition Premiums and Discounts— Before 2011, the Authority normally paid loan acquisition premiums and transfer fees when acquiring loans from financial institutions. Due to declining non operating revenues on student loans, in 2011, the Authority stopped paying premiums on loans acquired and acquired some loan portfolios at a discount (paid less than par value). These premiums, discounts, and fees are capitalized and amortized using the sum of the months' digits method, which approximates the interest method, over the life of the related loans, which have been estimated by the Authority to be 43 months. The amortization expense has been recorded as an adjustment to the yield of the loans purchased. These premiums, discounts, and fees are included with student loan notes receivable in the accompanying statements of net position.

Bond Issue Costs and Original Issue Discounts— Original issue discounts are capitalized and are being amortized over the term of the bonds using the straight-line method, which approximates the interest method. The amortization expense has been recorded as an adjustment to interest expense on the bonds payable. Losses incurred on advance refundings are deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. Bond issue costs are expensed as incurred.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Trustees— The Authority contracts with two Banks to serve as Trustees. Wells Fargo Bank, National Association, and BOKF, National Association, dba Bank of Texas, as trustees, perform the duties involving the acquisition and holding of student loans in the Authority's name, the investment and disbursement of funds as directed by the Authority, and the servicing and redemption of the bonds under each of the trust indentures.

Excess Income— All income of the Authority after payment of expenses, debt service, and the creation of reserves will be utilized for the purchase of additional student loan notes, the purpose permitted by Section 148 of the Internal Revenue Code ("IRC") or, upon dissolution or liquidation of the Authority, will be transferred to the U.S. Treasury. The Authority has no plans to liquidate or dissolve.

Income Taxes— As an organization described in IRC Section 501c(3), the Authority is exempt from federal income taxes under IRC Section 501(a). However, income generated by activities unrelated to the purposes for which the Authority was created will be subject to tax. The Authority had no unrelated business income in 2016 and 2015.

Capitalization of Interest— Students have the option of deferring the interest payments on unsubsidized loans during in-school, grace or deferment periods. Therefore, the Authority capitalizes interest on some student loan notes receivable.

Interest Subsidy and Special Allowance— During the in-school, grace, and deferment periods, the U.S. government pays the Authority interest on subsidized Stafford student loans on behalf of the borrower. Additionally, some consolidation loans are eligible for subsidy during periods of deferment. When the repayment period begins, the borrower is responsible for interest payments. No interest is paid on behalf of the borrower for the unsubsidized Stafford and PLUS programs. In addition, for certain eligible loans, the U.S. government pays a special allowance to lenders participating in the FFELP at the end of each quarter, representing supplemental interest on the average outstanding principal balance (for the quarter) of insured loans at an annual rate that is determined periodically and is based on certain current interest rates exceeding a predetermined rate. Treasury bill and one-month LIBOR rates directly affect the amount of special allowance earned. These rates decreased substantially from 2007 through 2009 and remained somewhat steady through 2014. In 2015, the rates began an upward trend, that continued in 2016. In 2016, Treasury bill rates increased 400% and one-month LIBOR rates increased 160%. The higher rates contributed to increased special allowance income.

Legislative changes in fiscal 2007 require that some student loans (loans disbursed after April 1, 2006) are subject to rebate of a portion of the interest collected on the loans (referred to as "excess interest") when the loans earn at rates above the special allowance rates. Decreasing one-month LIBOR rates decreases the special allowance rates, which in turn, increases excess interest. Increasing one-month LIBOR rates increases the special allowance rates, which in turn, decreases excess interest. In 2016 and 2015, the Authority's student loan portfolio decreased $72 million and $125 million, respectively. A substantial amount of the student loans paid (much of which was due to being consolidated by the Education Department) are the loans that were subject to the excess interest payments.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interest Subsidy and Special Allowance— continued

Since the balance of these loans have decreased, less excess interest was paid, which in turn, increases special allowance income. Additionally, the higher one-month LIBOR rates in 2015 and 2016 further decreased excess interest paid. In 2016 and 2015, the Department of Education withheld $14,998,067 and $17,998,067, respectively, of excess interest from the Authority's quarterly interest benefits and special allowance billings. This "excess interest" off-sets Special Allowance Income in the Authority's Statement of Revenues, Expenses, and Changes in Net Position.

In addition to interest on student loans, interest subsidy and special allowance earned on student loans in the accompanying financial statements (non-operating revenues) are as follows:

	2016	2015
Interest Subsidy	$ 2,627,406	$ 3,620,069
Special Allowance	($14,194,404)	($17,512,626)
Total non–operating revenue	($11,566,998)	($13,892,557)

The interest subsidy and special allowance are accrued as earned.

The Federal Family Education Loan programs in which the Authority participates are subject to audit in accordance with the provisions of the U.S. Office of Management and Budget *Compliance Supplement*. Pursuant to the provisions of the Compliance Supplement, the major federal financial assistance programs were tested for compliance with applicable grant requirements through August 31, 2016 and 2015. The provisions of the Compliance Supplement do not limit the Authority or other federal agencies or audit officials from making or contracting for audits and evaluations of federal financial assistance programs. As a result, final expenditure reports of grants and contracts submitted to granting agencies in current and prior years are subject to audit and adjustment by such agencies. The effect of such adjustments, if any, is not deNTterminable at this time.

Net Position— The net position of the Authority is classified into two categories: unrestricted and restricted. Unrestricted net position includes net position available for the operations of the Authority and activities not accounted for in the bond funds. Restricted net position consists of the bond funds and the clearing account.

Operating Revenues and Expenses— Bond and note issuance is the principal source of the funds necessary to carry out the purposes of the Authority, which are to acquire and service student loans. The Authority's revenue is derived primarily from income on student loans, and secondarily, from investment income. The primary costs of the program are interest expense on bonds, program administration fees, and loan servicing fees. Therefore loan income, net investment income, interest expense, administrative fees, and loan servicing fees are shown as operating revenues and expenses in the statements of revenue, expenses and changes in net position. Federal funds received consisting of interest subsidies and special allowance income are considered non-operating revenue.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Risk Management - The Authority is exposed to various risks of loss related to errors and omissions. Coverage for these various risks of loss is obtained through commercial insurance. Commercial insurance is purchased in an amount that is sufficient to cover the Authority's risk of loss. There have been no claims filed against the Authority in the past three years, and there has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk.

Reclassification - Certain reclassifications have been made to prior period balances to conform to current period presentation. These reclassifications had no impact on change in net position or net position.

New Accounting Standard - The GASB issued Statement No. 72, Fair Value Measurement and Application which was effective for the 2016 year for the Authority. The Statement requires investments covered by the standard to be recorded at fair value with changes in fair value recorded through the statement of revenues, expenses and changes in net position. The implementation of GASB 72 impacted the Authority's investments in certificates of deposit.

2. CASH AND INVESTMENTS

Certificates of deposit and money market mutual funds are presented as investments for disclosure purposes. At August 31, 2016 and 2015, the carrying amount and bank balances of the Authority's cash and deposits was $22,546,716 and $35,392,849, respectively. All of the bank balances were covered by federal depository insurance or collateralized with securities held by the Authority's agent in the Authority's name.

The Authority may purchase investments as authorized by its indentures, the investment policy approved annually by the Board of Directors, and the Public Funds Investment Act. These investments include but are not limited to direct obligations of the United States and certain U.S. government agencies, obligations guaranteed by the United States and certain U.S. government agencies, bank demand deposits and interest-bearing bank time deposits with a maturity of ten years or less that are secured by pledges of government securities or are issued by banks rated Aa or AA by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively. Money market mutual funds are authorized investments if they are regulated by the SEC, have a dollar-weighted average stated maturity of 90 days or less, and include in their investment objective the maintenance of a stable net asset value of $1 for each share. The Authority may also invest in a state government investment pool – "Texas Local Government Investment Pool" (TexPool), which is a pool managed by the State of Texas and is an approved investment type under the Public Funds Investment Act. The Authority does not invest in investments other than those authorized by its investment policy.

Interest rate risk— Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of the investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Authority has no specific limitations with respect to this metric.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS – CONTINUED

The Authority's investments as of August 31, 2016 and 2015 are classified as follows:

Investment Type	2016 Amount	Weighted Average Maturity
Certificates of Deposit	$ 14,369,595	738 days
Money Market Mutual Funds	33,954,714	20 days
Total investments	$ 48,324,309	

Investment Type	2015 Amount	Weighted Average Maturity
Certificates of Deposit	245,000	1,533 days
Money Market Mutual Funds	$ 66,197,124	19 days
Total investments	$ 66,442,124	

Credit risk— Generally credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the Authority's investment policy or debt agreements, and the actual rating for each investment type as of August 31, 2016 and 2015.

Investment Type	Balance August 31, 2016	Balance August 31, 2015	Minium Legal Rating	Rating as of August 31, 2016	Rating as of August 31, 2015
Certificates of Deposit	$14,369,595	$245,000	N/A	Not rated	Not rated
Money market mutual funds	$33,954,714	$66,197,124	AAAm	AAAm, Aaa-mf	AAAm, Aaa-mf

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS – CONTINUED

Concentration of Credit Risk— The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer. As of August 31, 2016, the Authority invests the majority of its funds in two money market funds, an Insured Cash Sweep (ICS) Account which is a FDIC insured interest-bearing bank deposit account, and certificates of deposit. The majority of the certificates of deposit are invested with a broker that has a main branch office in the State of Texas, arranges the deposits in various FDIC insured depository institutions, wherever located, for the account of the Authority, and with maturities of five years or less. As of August 31, 2016 and 2015, Authority investments which totaled more than 5% of its total investments are:

	2016	2015
Wells Fargo Advantage Treasury Money Market Fund:	$ 9,550,541	$ 9,790,795
Fidelity Institutional Prime Money Market Fund:	$ 24,297,357	$ 56,406,329
Southwest Bank ICS deposit account (FDIC insured):	$ 21,484,140	$ 34,633,448

Fair Value—In accordance with GASB 72 – Fair Value Measurement and Application (“GASB 72”), NTHEA defines fair value as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. GASB 72 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1, the highest on the hierarchy, indicates assets/liabilities with the most transparent and tangible valuation techniques. A Level 1 financial instrument typically has quoted prices and active markets. This type of instrument has the most verifiable and reliable fair value measurement.

Level 2 instruments require more involvement in valuing than Level 1 instruments. Level 2 inputs are inputs that, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. For example, an interest rate swap uses known, public data, such as interest rates and the contract terms can be used to calculate a value of the interest rate swap. The instrument can be valued indirectly using observable data. Another example would be using quoted prices for similar assets or liabilities in active markets. The investments held by NTHEA are categorized as Level 2 and fair value is based on quoted prices in inactive markets.

Level 3 uses unobservable inputs for an asset or liability and indicates use of valuation techniques and data that may not be verifiable. These types of instruments involve a great deal of assumptions and estimates. Examples may include infrequently traded asset backed securities or investments in privately owned companies.

Investments—Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of net position. Unrealized gains and losses are included in the statements of revenues, expenses and changes in net position. The Authority recorded an unrealized gain on investments of $155,095 which represents the increase in fair value of its certificates of deposits for the year ended August 31, 2016.

2. FAIR VALUE ASSET CLASSIFICATION

The following table presents the classification of the assets by level at August 31, 2016 and 2015:

	Quoted Prices Level 1	Significant Other Inputs: Level 2	Significant Non-Observable Inputs: Level 3	Total
Investments:				
2016				
Money Market Funds August 31, 2016	$ -	$ 33,954,714	$ -	$33,954,714
FDIC Insured Deposit Accounts August 31, 2016	-	$ 22,271,140	-	$22,271,140
FDIC Insured Certificates of Deposit August 31, 2016	-	$ 14,369,595	-	$14,369,595
2015				
Money Market Funds August 31, 2015	$ -	$ 66,197,124	$ -	$66,197,124
FDIC Insured Deposit Accounts August 31, 2015	-	$ 35,223,693	-	$35,223,693
FDIC Insured Certificates of Deposit August 31, 2015	-	$ 245,000	-	$ 245,000

All assets have been valued using a market approach. There were no changes in the valuation techniques used during the current year. The money market funds bear interest at variable rates. As of August 31, 2016, the rates paid ranged from .01% to 0.42%. The rates on the FDIC insured deposit accounts are set by the depository banks and are subject to change from time to time. As of August 31, 2016 the rates ranged from 0.45% to 1.10%.

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

3. STUDENT LOAN NOTES RECEIVABLES

Student loan notes receivable consist of the following at August 31, 2016 and 2015:

	2016				
Series	Student Loan Notes Receivable Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums Less: Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2012-1	$ 247,944,344	$ -	$ -	$ (139,897)	$ 247,804,447
2011-1	111,374,588	-	-	(62,881)	111,311,707
2010-2	58,366,469	-	-	(32,941)	58,333,528
2010-1	72,436,083	-	-	(40,877)	72,395,206
2003-2	92,343,182	-	(8,763)	(52,103)	92,282,316
2003	21,605,591	-	-	(12,190)	21,593,401
2002	105,610,180	-	-	(59,589)	105,550,591
Surplus Fund	34,119,290	-	(43,974)	(19,250)	34,056,066
Unallocated Collections	-	(109,228)		-	(109,228)
Total	$ 743,799,727	$ (109,228)	$ (52,737)	$ (419,728)	$ 743,218,034

	2015				
Series	Student Loan Notes Receivable Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums Less: Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2012-1	$ 286,608,319	$ -	$ -	$ (179,348)	$ 286,428,971
2011-1	125,630,245	-	-	(78,614)	125,551,631
2010-2	66,561,890	-	-	(41,652)	66,520,238
2010-1	87,713,255	-	-	(54,887)	87,658,368
2003-2	102,452,354	-	(31,734)	(64,110)	102,356,510
2003	24,655,867	-	-	(15,429)	24,640,438
2002	120,021,462	-	-	(75,104)	119,946,358
Surplus Fund	2,123,049	-	(5,948)	(1,329)	2,115,772
Unallocated Collections	-	(53,388)		-	(53,388)
Total	$ 815,766,441	$ (53,388)	$ (37,682)	$ (510,473)	$ 815,164,898

All student loans currently held were made in accordance with Title IV, Part B of the Higher Education Act of 1965, as amended. The Authority purchases five types of loans: Stafford, Unsubsidized Stafford, SLS, PLUS and Consolidated. PLUS loans are made to parents of dependent undergraduate students and effective July 1, 2006, PLUS loans can also be made to graduate and professional students. SLS loans (no longer available, effective July 1, 1994) were made to graduate and professional students. Consolidated loans are made to borrowers for the purpose of consolidating their repayment obligations. The Authority originated Consolidation loans until the second quarter of 2008, but changes in law decreased yields on these loans made after July 1, 2008, and the Authority stopped making them as they would have no longer been financially feasible.

3. STUDENT LOAN NOTES RECEIVABLES – CONTINUED

The student loan notes receivable represent loans to students who, when the loans were originated by lending institutions, were enrolled in post-secondary institutions. In general, the notes bear interest at fixed and variable rates ranging from 1.625% to 12% depending upon the type and date of origination of the individual loan and are payable by the student following a specified grace period after graduation or termination from the institution. The repayment period is generally 10 years for all FFELP loans (excluding consolidated loans), however the terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over an average period of 5 to 10 years. Consolidated loans may be repaid up to a maximum of 30 years.

Installment repayment of Stafford and Unsubsidized Stafford loans begins after a grace period of six or nine months following the date that the student completes his or her course of study, leaves school or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. Repayment of PLUS loans begins within 60 days of disbursement (no grace period). Repayment of Consolidated loans begins within 60 days after the borrower's liability on all loans being consolidated has been discharged.

Student loan notes receivable purchased by the Authority have been either insured or reinsured by the U.S. government or guaranteed by the Texas Guaranteed Student Loan Corporation and United Student Aid Funds, Inc. Student loan notes that do not conform to the terms of the purchase agreement between the Authority and the original lender may be returned to the lending institution for reimbursement of principal, interest and costs incurred while held by the Authority. The guarantors are protected by federal reinsurance from the Federal Guaranteed Student Loan Program under the Department of Education. Generally, the Department of Education pays the guarantor 97% of the balance of the defaulted student loans. However, that rate is graduated downward to 78% as the guarantor's annual payments of defaulted loans increase. The federal reinsurance percentage is restored to 100% at the beginning of each annual reporting period. The loans are guaranteed provided that the original lender with respect to such loans has met applicable program requirements. Owned loans that have lost their U.S. Department of Education guarantee due to the failure of the original lender, the Authority, or their servicer to follow prescribed collection (due diligence) procedures can reacquire their guaranteed status if they are subsequently returned to a repayment status. Original lenders have warranted to the Authority that the student loan notes have met these requirements and are valid obligations of the student borrowers.

The Authority has established cure and recovery procedures to be applied to loans that have lost their guarantee. The allowance for loan losses is a provision for the loans for which cure and recovery are expected to be unsuccessful and was based on historical analysis and management review of accounts. Also, as discussed above, generally guarantors pay 97% of the balances of defaulted student loans. As such, the Authority includes in its computation of the allowance for loan losses an estimated amount of the 3% write-off of balances of defaulted loans that are not paid by the guarantors. For the years ended August 31, 2016 and 2015, the allowance for loan losses is $419,728 and $510,473, respectively. In the opinion of management, this allowance is considered adequate.

Net student loan notes receivable approximate fair value as the loans are guaranteed payment at the carrying value and a special allowance payment is received for loans below the current market rate of interest.

3. STUDENT LOAN NOTES RECEIVABLES – CONTINUED

A summary of the Authority's student loan activity for the years ended August 31, 2016 and 2015 is as follows:

	2016	2015
Loans purchased	$ 36,726,949	$ 3,108,567
Amounts collected	(121,021,025)	(141,618,539)
Adjustments (capitalized interest\write-off)	12,347,212	13,557,956
Total change in Student Loan Notes Receivable- net	$ (71,946,864)	$ (124,952,016)

Student Loan Purchase Commitments— In addition to the student loans already purchased, the Authority was contractually committed to its participating lending institutions to purchase student loans under commitment agreements. These agreements require the lending institution to offer student loans to the Authority. In 2014, the Authority acquired substantially all of the remaining FFELP Loans that were held by its participating lending institutions. In 2016 and 2015, the Authority was not contractually committed to acquire any student loans under commitment agreements.

4. BONDS PAYABLE

The following table summarizes the balances due, interest mode, interest rate, and date of maturity on the bonds payable as of August 31, 2016 and 2015:

Bond Series	2016	2015	Interest Mode	Average Interest Rate % (2016)	Date of maturity or defeasement
2002A	$ 75,450,000	$ 88,050,000	Variable	0.57	April 1, 2041
2002B	10,300,000	11,400,000	Variable	0.72	April 1, 2041
2003A-3	14,950,000	18,800,000	Variable	0.57	October 1, 2042
2003-2A	74,800,000	86,500,000	Variable	0.58	October 1, 2043
2003-2B	8,850,000	10,100,000	Variable	0.73	October 1, 2043
2010-1 A-2	66,150,000	80,090,000	Variable	1.43	July 1, 2030
2010-2 A-1	51,340,000	60,320,000	Variable	1.53	April 1, 2037
2011-1	101,865,000	115,570,000	Variable	1.63	April 1, 2040
2012-1	236,206,000	276,762,000	Variable	1.37	December 1, 2034
Total	$ 639,911,000	$ 747,592,000			
Unamortized original issue discounts	(953,869)	(1,006,129)			
	$ 638,957,131	$ 746,585,871			

4. BONDS PAYABLE – CONTINUED

2002 Debt Issue— On March 4, 2002, the Authority issued $155,000,000 of Student Loan Revenue Bonds, consisting of Series 2002 A-1, A-2, A-3 ($138,000,000) and Series 2002B ($17,000,000). The Series 2002 Bonds were issued as Auction Rate Certificates and interest on the Series 2002 Bonds is not exempt from gross income of the certificate owners for federal income tax purposes. In April 2006, all of the Series 2002 Bonds were converted to variable rate demand obligations. The Authority has paid 2002 Bonds:

Year	Bond	Amount paid	Bond	Amount paid
2014	A	$34,200,000	B	$ 4,100,000
2015	A	$15,750,000	B	$ 1,500,000
2016	A	$12,600,000	B	$ 1,100,000

Interest from the 2002 Bonds is payable monthly and at stated maturity dates. Interest rates for the years ended August 31, 2016 and 2015 are:

Year	Bond	Range	Average	Bond	Range	Average
2016	A	0.392% to 0.712%	0.57%	B	0.542% to 0.862%	0.72%
2015	A	0.352% to 0.392%	0.37%	B	0.502% to 0.542%	0.53%

The Series 2002 A-1, A-2, and A-3 Bonds were rated “Aaa” by Moody’s Investors Service. The Series 2002B Bonds were rated “A2” by Moody’s. Moody’s is expected to review its rating on an ongoing basis.

2003 Debt Issue— On January 16, 2003, the Authority issued $103,400,000 of Student Loan Revenue Bonds, of which $73,400,000 (A-1 & A-2) was used in refunding $35,000,000 from the 2000A Series Bonds, $18,900,000 from the 1993B Series Bonds, and $19,500,000 from the 1993CD Series Bonds. The refunding portion of the 2003 Bonds were issued as Auction Rate Certificates and interest on the refunding bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. The 2003 Issue also included $30,000,000 in new proceeds (A-3) issued as Auction Rate Certificates and interest on these bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. $18,900,000 of the refunding bonds matured October 1, 2005. In April 2006, the remaining Series 2003 Bonds were converted to variable rate demand obligations. In August 2008, $34,000,000 of the refunding bonds was advance refunded by Series 2008ABC and the Authority paid $10,500,000 of the refunding bonds (not refunded). The remaining $10,000,000 refunding bonds became “bank bonds” in October 2008. In 2010 and 2009, the Authority paid $8,000,000 and $1,000,000, respectively, of the “bank bonds”. On November 1, 2013, the Authority paid the remaining $1,000,000 of refunding “bank bonds”. The Authority has paid 2003 A-3 Bonds:

Year	Bond	Amount paid
2014	A-3	$ 7,450,000
2015	A-3	$ 3,750,000
2016	A-3	$ 3,850,000

Interest from the 2003 A-3 Bonds is payable monthly and at stated maturity dates. Interest rates for the years ended August 31, 2016 and 2015 are:

4. BONDS PAYABLE – CONTINUED

Year	Bond	Range	Average
2016	A-3	0.394% to 0.712%	0.57%
2015	A-3	0.354% to 0.403%	0.37%

The Series 2003 A-3 Bonds were rated “Aaa” by Moody’s Investors Service. Moody’s is expected to review its rating on an ongoing basis.

2003-2 Debt Issue—On December 3, 2003, the Authority issued $150,000,000 of Student Loan Revenue Bonds consisting of Series 2003-2 A-1 and A-2: ($135,000,000) and Series 2003-2 B: ($15,000,000). The 2003-2 Bonds were issued as Auction Rate Certificates and interest on the Bonds is not exempt from gross income of the certificate owners for federal income tax purposes. In April 2006, all of the Series 2003-2 Bonds were converted to variable rate demand obligations. The Authority has paid 2003-2 Bonds:

Year	Bond	Amount paid	Bond	Amount paid
2014	A	$33,700,000	B	$ 3,650,000
2015	A	$14,800,000	B	$ 1,250,000
2016	A	$11,700,000	B	$ 1,250,000

Interest from the 2003-2 Bonds is payable monthly and at stated maturity dates. Interest rates for the years ended August 31, 2016 and 2015 are:

Year	Bond	Range	Average	Bond	Range	Average
2016	A	0.394% to 0.712%	0.58%	B	0.544% to 0.862%	0.73%
2015	A	0.354% to 0.403%	0.37%	B	0.504% to 0.553%	0.53%

The Series 2003-2 A-1 and A-2 Bonds were rated “Aaa” by Moody’s Investors Service. The Series 2003-2B Bonds were rated “A2” by Moody’s. Moody’s is expected to review its rating on an ongoing basis.

2010-1 Debt Issue—On May 25, 2010, the Authority issued $207,200,000 of Student Loan Revenue Bonds, consisting of Series 2010-1 A-1 ($113,960,000) and 2010-1 A-2 ($93,240,000) of which $168,315,000 was used to pay off the Authority’s lines of credit with Bank of America and Frost Bank and $38,885,000 is “new money” used to acquire loans. Interest on the Series 2010-1 Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. The Authority has paid 2010-1 Bonds:

Year	Bond	Amount paid
2011	A-1	$27,545,000
2012	A-1	$28,245,000
2013	A-1	$32,025,000
2014	A-1	$19,725,000
2015	A-1	$ 6,420,000 (final A-1 bonds)
2015	A-2	$13,150,000
2016	A-2	$13,940,000

4. BONDS PAYABLE – CONTINUED

Interest from the 2010-1 A-2 Bonds is payable on January 1, April 1, July 1, October 1, and at stated maturity dates. Interest rates for the years ended August 31, 2016 and 2015 are:

Year	Bond	Range	Average
2016	A-2	0.394% to 0.712%	0.57%
2015	A-2	1.135% to 1.184%	1.16%
2015	A-1	0.635% to 0.635%**	0.64%**

** The average interest rate for the A-1 bonds is for the period September 1, 2014 through January 1, 2015.

The Series 2010-1 A-1 and A-2 Bonds were rated “AAAsf” by Standard and Poor’s and “AAAsf” by Fitch Ratings. Standard and Poor’s and Fitch Ratings are expected to review their ratings on an ongoing basis.

2010-2 Debt Issue—On October 28, 2010, the Authority issued $125,050,000 of Student Loan Revenue Bonds (Series 2010-2 (A-1)), which was used to advance refund the remaining balance of the Series 2008A bonds. Interest on the Series 2010-2 Bonds is tax exempt from gross income of the certificate owners for federal income tax purposes. The Authority has paid 2010-2 Bonds:

Year	Amount paid
2011	$ 9,795,000
2012	$16,895,000
2013	$15,360,000
2014	$12,690,000
2015	$ 9,990,000
2016	$ 8,980,000

Interest from the 2010-2 Bonds is payable on January 1, April 1, July 1, October 1, and at stated maturity dates. Interest rates for the years ended August 31, 2016 and 2015 are:

Year	Range	Average
2016	1.284% to 1.646%	1.53%
2015	1.234% to 1.284%	1.27%

The Series 2010-2 Bonds were rated “AAAsf” by Standard and Poor’s and “AAAsf” by Fitch Ratings. Standard and Poor’s and Fitch Ratings are expected to review their ratings on an ongoing basis.

4. BONDS PAYABLE – CONTINUED

2011-1 Debt Issue—On February 24, 2011, the Authority issued $210,200,000 of Student Loan Revenue Bonds (Series 2011-1), which was used to advance refund the 1991 C and F bonds, 1996 A and C bonds, 2006A bonds, and the remaining balances of the 2006 B and C bonds. Interest on the Series 2011-1 Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. The Authority has paid 2011-1 Bonds:

Year	Amount paid
2011	$ 6,187,000
2012	$26,728,000
2013	$25,408,000
2014	$18,762,000
2015	$17,545,000
2016	$13,705,000

Interest from the 2011-1 Bonds is payable on January 1, April 1, July 1, October 1, and at stated maturity dates. Interest rates for the years ended August 31, 2016 and 2015 are:

Year	Range	Average
2016	1.384% to 1.746%	1.63%
2015	1.335% to 1.384%	1.37%

The Series 2011-1 Bonds were rated "AA+" by Standard and Poor's and "AAAsf" by Fitch Ratings. Standard and Poor's and Fitch Ratings are expected to review their ratings on an ongoing basis.

2012-1 Debt Issue—On July 24, 2012, the Authority issued $463,200,000 of Student Loan Revenue Bonds (Series 2012-1), which was used to advance refund the remaining balances of the 1998A, 2000B, 2001, 2004, 2005CD, 2007AB, and 2010E bonds. Interest on the Series 2012-1 Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. The Authority has paid 2012-1 Bonds:

Year	Amount paid
2013	$83,588,000
2014	$51,946,000
2015	$50,904,000
2016	$40,556,000

Interest from the Bonds is payable on the first of each month and at stated maturity dates. Interest rates for the years ended August 31, 2016 and 2015 are:

Year	Range	Average
2016	1.193% to 1.494%	1.37%
2015	1.153% to 1.189%	1.18%

The Series 2012-1 Bonds were rated "AA+" by Standard and Poor's and "AAAsf" by Fitch Ratings. Standard and Poor's and Fitch Ratings are expected to review their ratings on an ongoing basis.

4. BONDS PAYABLE – CONTINUED

The following is a summary of debt service requirements at August 31, 2016:

Fiscal Year	Principal	Interest	Total
2017	$ 96,344,000	$ 8,595,482	$ 104,939,482
2018	83,255,000	8,608,317	$ 91,863,317
2019	77,000,000	8,613,475	$ 85,613,475
2020	75,250,000	8,388,153	$ 83,638,153
2021	72,950,000	7,835,580	$ 80,785,580
2022-2026	191,710,000	21,897,427	$ 213,607,427
2027-2031	36,202,000	2,603,105	$ 38,805,105
2032-2036	7,200,000	394,895	$ 7,594,895
	$ 639,911,000	$ 66,936,435	$ 706,847,435

Rates for all the Authority's bonds are indexed to either the three-month or one-month LIBOR rate and are re-set monthly or quarterly (depending on the bond) by the Trustee.

The following is a summary of changes in revenue bonds payable by the Authority for the years ended August 31, 2016 and 2015:

	Balance at beginning of year	Issued	Repaid or Defeased	Balance at end of year
2016	$ 747,592,000	$ -	$ (107,681,000)	$ 639,911,000
2015	$ 882,651,000	$	$ (135,059,000)	$ 747,592,000

The bonds may be redeemed prior to their stated maturity only in authorized denominations. Upon proper notice, bonds may be redeemed in whole or part by lot, at par plus accrued interest to the date of redemption, without premium, at the option of the Authority and with the permission of the credit provider. There are no defeased bonds outstanding as of August 31, 2016.

The Authority is subject to financial covenants imposed by the various bond indentures requiring such things as compliance with certain ratios. Management believes that the Authority was in compliance with all significant financial covenants and bond indentures during 2016 and 2015.

4. BONDS PAYABLE – CONTINUED

The Bonds are limited obligations of the Authority payable solely from revenue received by the Authority from the assets contained in each trust estate created under an indenture including payments on student loans and investment earnings. Neither the faith and credit nor the taxing power or any revenue of the State of Texas or any political subdivision thereof are pledged to the payment of the bond principal and interest thereon. The bonds are not a general obligation of the Authority, and the individual board members are not liable.

5. BORROWER INCENTIVE PROGRAM

The Authority has a "borrower incentive" program in place in which eligible borrowers who, after making a stipulated number of on time payments, a portion of the principal balance of their student loans(s) is written-off and such portion is reported as "paid". Also, for certain eligible borrowers who pay the balance of their student loans(s) to below $600 (total balance of all the borrower's loans must be below $600), the remaining balance of the borrower's loan(s) is written-off and reported as "paid in full". In 2016 and 2015, borrower incentive write-offs that went to this program were $1,154,897 and $1,266,785, respectively.

6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES

All of the Authority's outstanding tax exempt bonds (interest on the bonds is tax exempt from gross income of the certificate owners for federal income tax purposes) are subject to federal government "excess interest" rebate laws. These laws limit the earnings on the loans (loan yield) by an organization that issues tax exempt bonds for the purpose of acquiring FFELP student loans. For the years ended August 31, 2016 and 2015, the Authority made a provision for excess interest of $0 and $0, respectively. The indentures require such excess earnings to be placed in an "excess earnings account" and held until the amount is due to the U.S. Treasury. Federal government excess earnings laws allow for loan forgiveness programs to be employed to reduce the excess earnings amounts that must be remitted to the U.S. Treasury when the bonds are redeemed. The Authority has a loan forgiveness program in which borrowers' debt is "forgiven" when the debt is reduced to a threshold amount and the borrowers meet all other requirements of the program. The excess earnings liability (for each bond series) is calculated annually on a date set by the Authority and on the bond maturity date. The excess earnings are periodically adjusted when the calculations reveal the current amount of student loans to be forgiven if the bonds were redeemed.

All of the Authority's outstanding tax exempt bonds are subject to federal government arbitrage rebate laws. These laws limit the earnings rate on funds received by an organization that issues tax exempt bonds. For the years ended August 31, 2016 and 2015, the Authority made a provision for arbitrage rebate of $0 and $0, respectively. The provision recognizes revenues above the rebate limit, which must be remitted to the federal government. The indentures require such arbitrage earnings to be placed in an "arbitrage rebate account" and held until the amount is paid to the U.S. Treasury. The arbitrage liability (for each bond series) is calculated annually on a date set by the Authority and on the bond maturity date. The arbitrage earnings are periodically adjusted when the

6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES - CONTINUED

calculations reveal the current amount of liability if the bonds were redeemed. The arbitrage rebate laws require that generally on every 5th anniversary of the bond issue, payment of 90% of the amount of the liability (if any) must be remitted to the U.S. Treasury. No payment was required in 2016 and 2015.

A liability for excess earnings over the allowable spread between the loan yield and bond yield and for excess earnings over the allowable spread between the earnings rate on funds and bond yield has been included in the financial statements when such liability is incurred. Mostly due to substantially decreasing yields on student loans and investment rates since 2007, as of 2013, the Authority's excess earnings liabilities have been eliminated. The write-offs of student loans that went to the loan forgiveness program (prior to 2013) contributed somewhat to the elimination.

7. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The Authority has one segment that meets the reporting requirements of GASB Statement No. 34.

The outstanding debt payable by the Authority consists mostly of Student Loan Revenue Bonds. Related debt covenants provide that the outstanding debt is payable from the eligible loans pledged under the debt covenants, amounts deposited in the accounts pledged under the debt covenants, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds.

7. SEGMENT INFORMATION – CONTINUED

Summary financial information for the Student Loan Revenue Bonds as of August 31, 2016 and 2015 is as follows:

	Surplus Fund		Bond Funds		Total	
	2016	2015	2016	2015	2016	2015
Condensed Statements of Net Position						
Assets:						
Current assets	$ 30,731,460	$ 63,780,906	$ 177,380,183	$ 196,129,126	$ 208,111,643	$ 259,910,032
Noncurrent assets	38,771,940	2,360,772	582,033,230	669,349,652	620,805,170	671,710,424
Total assets	69,503,400	66,141,678	759,413,413	865,478,778	828,916,813	931,620,456
Liabilities:						
Current liabilities	261,351	8,236	99,969,551	129,108,831	100,230,902	129,117,067
Noncurrent liabilities	-	-	542,613,131	621,685,871	542,613,131	621,685,871
Total liabilities	261,351	8,236	642,582,682	750,794,702	642,844,033	750,802,938
Net position:						
Restricted	-	-	116,830,731	114,684,076	116,830,731	114,684,076
Unrestricted	69,242,049	66,133,442	-	-	69,242,049	66,133,442
Total net position	69,242,049	66,133,442	116,830,731	114,684,076	186,072,780	180,817,518
Total liabilities and net position	$ 69,503,400	$ 66,141,678	$ 759,413,413	$ 865,478,778	$ 828,916,813	$ 931,620,456

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

7. SEGMENT INFORMATION – CONTINUED

	Surplus Fund		Bond Funds		Total	
	2016	2015	2016	2015	2016	2015
Condensed Statements of Revenues, Expenses and Changes in Net Position						
Operating revenues	$ 1,093,104	$ 208,013	$ 30,818,771	$ 35,042,738	$ 31,911,875	$ 35,250,751
Operating expenses	360,032	122,033	14,729,583	15,233,971	15,089,615	15,356,004
Total operating income (loss)	733,072	85,980	16,089,188	19,808,767	16,822,260	19,894,747
Nonoperating revenue	(424,465)	(25,686)	(11,142,533)	(13,866,871)	(11,566,998)	(13,892,557)
Change in net position	308,607	60,294	4,946,655	5,941,896	5,255,262	6,002,190
Net position—beginning of year	66,133,442	64,368,030	114,684,076	110,447,298	180,817,518	174,815,328
Transfer from Bonds to Surplus	2,800,000	1,705,118	(2,800,000)	(1,705,118)	-	-
Net position—end of year	$ 69,242,049	$ 66,133,442	$ 116,830,731	$ 114,684,076	$ 186,072,780	$ 180,817,518
Condensed Statements of Cash Flows						
Net cash provided (used) by:						
Operating activities	$ (29,610,029)	$ 2,402,116	$ 118,025,448	$ 143,861,917	$ 88,415,419	$ 146,264,033
Noncapital financing activities	(190,983)	(27,101)	(119,343,480)	(149,255,794)	(119,534,463)	(149,282,895)
Investing activities	29,801,012	(2,375,015)	1,424,452	5,283,376	31,225,464	2,908,361
Change in cash and cash equivalents	-	-	106,420	(110,501)	106,420	(110,501)
Cash and cash equivalents - beginning of year	-	-	169,156	279,657	169,156	279,657
Cash and cash equivalents - end of year	$ 0	$ 0	$ 275,576	$ 169,156	$ 275,576	$ 169,156

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF NET POSITION INFORMATION
AUGUST 31, 2016

	Debt Issue									Total Issues
								Surplus	Clearing	and Other
ASSETS	**2012-1**	**2011-1**	**2010-2**	**2010-1**	**2003-2**	**2,003**	**2,002**	**Fund**	**Fund**	**Funds**
Cash and cash equivalents					$ 46,472	$ 29,929	$ 91,896		$ 107,279	$ 275,576
Investments - nonrestricted -- current								23,168,769		23,168,769
Investments - nonrestricted -- long-term								11,182,598		11,182,598
Investments - restricted -- current	8,184,934	6,589,721	3,597,168	5,858,547	4,750,403	1,721,628	4,779,920		761,761	36,244,082
Accrued interest and other accounts receivable	4,534,771	1,733,961	1,034,033	2,171,846	1,560,023	348,622	1,579,288	960,283	843,315	14,766,142
Unremitted student loan principal and interest collections due (to) from Clearing Fund	345,756	166,274	19,615	203,313	265,450	100,422	365,887	135,059	(1,601,776)	-
Amounts due (to) from other funds	-	-	-	-	-	-	-	-	-	-
Student loan notes receivable - net	247,804,447	111,311,707	58,333,528	72,395,206	92,282,316	21,593,401	105,550,591	34,056,066	(109,228)	743,218,034
Prepaid expenses	21,986	5,405	1,667	7,500	5,625	6,204	12,600	625		61,612
Total assets	$ 260,891,894	$ 119,807,068	$ 62,986,011	$ 80,636,412	$ 98,910,289	$ 23,800,206	$ 112,380,182	$ 69,503,400	$ 1,351	$ 828,916,813
LIABILITIES AND NET POSITION										
LIABILITIES:										
Accounts payable	$ 182,459	$ 105,438	$ 56,865	$ 37,024	$ 88,918	$ 21,813	$ 98,398	$ 14,208	$ 1,351	$ 606,474
Accounts payable	303,858	306,326	145,546	176,139	16,923	2,959	38,250			990,001
Accounts payable	793,552	232,315	91,638	437,406	215,695	58,514	208,867	246,352		2,284,339
Accounts payable	731	730	731	731	791	792	791	791		6,088
Accounts payable	235,252,131	101,865,000	51,340,000	66,150,000	83,650,000	14,950,000	85,750,000			638,957,131
Total liabilities	236,532,731	102,509,809	51,634,780	66,801,300	83,972,327	15,034,078	86,096,306	261,351	1,351	642,844,033
Net position	24,359,163	17,297,259	11,351,231	13,835,112	14,937,962	8,766,128	26,283,876	69,242,049	-	186,072,780
TOTAL LIABILITIES AND NET POSITION	$ 260,891,894	$ 119,807,068	$ 62,986,011	$ 80,636,412	$ 98,910,289	$ 23,800,206	$ 112,380,182	$ 69,503,400	$ 1,351	$ 828,916,813

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF NET POSITION INFORMATION
AUGUST 31, 2015

	Debt Issue									Total Issues
								Surplus	Clearing	and Other
ASSETS	**2012-1**	**2011-1**	**2010-2**	**2010-1**	**2003-2**	**2,003**	**2,002**	**Fund**	**Fund**	**Funds**
Cash and cash equivalents					$ 112,607	$ 29,309	$ 27,240			$ 169,156
Investments - nonrestricted -- current								63,752,284		63,752,284
Investments - nonrestricted -- long-term								245,000		245,000
Investments - restricted -- current	9,175,118	5,755,532	3,912,192	6,877,454	4,593,469	1,836,538	5,018,030		500,201	37,668,534
Accrued interest and other accounts receivable	4,774,406	1,690,096	1,116,988	2,427,932	1,681,485	384,606	1,649,539	23,034	806,354	14,554,440
Unremitted student loan principal and interest collections due (to) from Clearing Fund	277,718	87,966	42,813	157,035	346,148	74,725	260,663	4,963	(1,252,031)	-
Amounts due (to) from other funds	-	-	-	-	-	-	-	-	-	-
Student loan notes receivable - net	286,428,971	125,551,631	66,520,238	87,658,368	102,356,510	24,640,438	119,946,358	2,115,772	(53,388)	815,164,898
Prepaid expenses	25,725	6,198	1,667	7,500	5,625	6,204	12,600	625		66,144
Total assets	$ 300,681,938	$ 133,091,423	$ 71,593,898	$ 97,128,289	$ 109,095,844	$ 26,971,820	$ 126,914,430	$ 66,141,678	$ 1,136	$ 931,620,456
LIABILITIES AND NET POSITION										
LIABILITIES:										
Accounts payable	$ 197,692	$ 110,494	$ 61,170	$ 61,923	$ 93,442	$ 22,579	$ 103,856	$ 2,360	$ 1,136	$ 654,652
Accrued interest payable	264,973	275,407	133,356	163,271	13,474	2,524	24,839			877,844
Accrued Special Allowance payable	1,042,536	305,357	125,517	566,359	279,151	75,707	277,668	4,920		2,677,215
Accrued other liabilities	883	883	883	883	956	956	956	956		7,356
issue discount of $1,006,129	275,755,871	115,570,000	60,320,000	80,090,000	96,600,000	18,800,000	99,450,000			746,585,871
Total liabilities	277,261,955	116,262,141	60,640,926	80,882,436	96,987,023	18,901,766	99,857,319	8,236	1,136	750,802,938
Net position	23,419,983	16,829,282	10,952,972	16,245,853	12,108,821	8,070,054	27,057,111	66,133,442	-	180,817,518
TOTAL LIABILITIES AND NET POSITION	$ 300,681,938	$ 133,091,423	$ 71,593,898	$ 97,128,289	$ 109,095,844	$ 26,971,820	$ 126,914,430	$ 66,141,678	$ 1,136	$ 931,620,456

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2016

	Debt Issue 2012-1	2011-1	2010-2	2010-1	2003-2	2,003	2002	Non Restricted Surplus Fund	Total Funds
REVENUES									
Interest on student loans	$ 11,012,696	$ 4,219,807	$ 2,272,913	$ 4,578,425	$ 3,934,307	$ 981,654	$ 3,742,529	$ 671,325	$ 31,413,656
Interest on investments	23,083	16,559	10,196	19,418	2,080	1,874	3,230	266,684	343,124
Unrealized gain on investments								155,095	155,095
Government Subsidy on Student Loans	928,940	321,153	207,439	456,078	313,433	71,692	305,527	23,144	2,627,406
Special allowance income	(5,357,042)	(1,577,117)	(628,508)	(2,921,900)	(1,450,102)	(391,361)	(1,420,765)	(447,609)	(14,194,404)
Total revenues	6,607,677	2,980,402	1,862,040	2,132,021	2,799,718	663,859	2,630,521	668,639	20,344,877
OPERATING EXPENSES									
Interest on bonds	3,572,661	1,768,184	847,776	1,052,144	533,317	96,549	544,264	-	8,414,895
Loan servicing fees	868,286	260,341	232,714	382,868	295,405	67,294	256,608	41,514	2,405,030
Administrative & operating costs paid to Higher Education Servicing Corporation	668,880	296,784	186,000	80,388	478,200	114,204	568,800	193,141	2,586,397
Trustee fees	28,470	12,351	10,746	10,746	23,247	19,359	25,946	1,500	132,365
Borrower incentive loan write-offs	481,065	126,295	134,030	167,724	120,250	25,425	97,979	2,129	1,154,897
Miscellaneous expense	49,135	48,470	52,515	48,892	25,158	24,954	25,159	121,748	396,031
Total Operating expenses	5,668,497	2,512,425	1,463,781	1,742,762	1,475,577	347,785	1,518,756	360,032	15,089,615
CHANGE IN NET POSITION	939,180	467,977	398,259	389,259	1,324,141	316,074	1,111,765	308,607	5,255,262
NET POSITION--Beginning of year	23,419,983	16,829,282	10,952,972	16,245,853	12,108,821	8,070,054	27,057,111	66,133,442	180,817,518
Assets transferred to (from) other Bond Series				(2,800,000)	1,505,000	380,000	(1,885,000)	2,800,000	-
NET POSITION--End of year	$ 24,359,163	$ 17,297,259	$ 11,351,231	$13,835,112	$ 14,937,962	$ 8,766,128	$ 26,283,876	$ 69,242,049	$ 186,072,780

NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

OTHER SUPPLEMENTARY INFORMATION
COMBINING SCHEDULE – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION
FOR THE YEAR ENDING AUGUST 31, 2015

	Debt Issue 2012-1	2011-1	2010-2	2010-1	2003-2	2,003	2002	Non Restricted Surplus Fund	Total Funds
REVENUES									
Interest on student loans	$ 12,709,861	$ 4,600,451	$ 2,533,318	$ 5,542,655	$ 4,314,464	$ 1,098,214	$ 4,219,593	$ 109,966	$ 35,128,522
Interest on investments	7,226	5,060	3,063	6,170	947	580	1,136	98,047	122,229
Government Subsidy on Student Loans	1,242,666	433,820	288,291	629,729	435,578	101,825	479,533	8,627	3,620,069
Special allowance income	(6,819,019)	(1,970,382)	(819,807)	(3,754,055)	(1,812,912)	(494,137)	(1,808,001)	(34,313)	(17,512,626)
Total revenues	7,140,734	3,068,949	2,004,865	2,424,499	2,938,077	706,482	2,892,261	182,327	21,358,194
OPERATING EXPENSES									
Interest on bonds	3,603,052	1,697,559	829,232	1,043,344	409,896	78,225	422,150	-	8,083,458
Loan servicing fees	1,021,679	295,632	270,033	451,753	328,994	78,656	293,067	9,283	2,749,097
Administrative & operating costs paid to Higher Education Servicing Corporation	800,004	339,996	174,000	102,000	561,996	132,000	630,000	23,196	2,763,192
Trustee fees	33,688	14,382	10,857	11,216	23,357	19,469	26,057	1,500	140,526
Borrower incentive loan write-offs	507,749	166,088	154,438	155,694	130,958	18,513	131,621	1,724	1,266,785
Miscellaneous expense	48,387	47,269	51,676	48,336	22,316	26,316	22,316	86,330	352,946
Total Operating expenses	6,014,559	2,560,926	1,490,236	1,812,343	1,477,517	353,179	1,525,211	122,033	15,356,004
CHANGE IN NET POSITION	1,126,175	508,023	514,629	612,156	1,460,560	353,303	1,367,050	60,294	6,002,190
NET POSITION--Beginning of year	22,294,377	16,321,827	10,438,912	17,334,266	9,805,209	7,962,199	26,290,508	64,368,030	174,815,328
Assets transferred to (from) other Bond Series	(569)	(568)	(569)	(1,700,569)	843,052	(245,448)	(600,447)	1,705,118	-
NET POSITION--End of year	$ 23,419,983	$ 16,829,282	$ 10,952,972	$ 16,245,853	$ 12,108,821	$ 8,070,054	$ 27,057,111	$ 66,133,442	$ 180,817,518