

**NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED AUGUST 31, 2020 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.  
Arlington, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of North Texas Higher Education Authority, Inc. (the Authority), as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *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 audit. We conducted our audit 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of August 31, 2020, and the changes in its financial position and its cash flows for the year 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 as listed in the table of contents 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 combining schedules of statement of net position information and statement of revenues, expenses and changes in net position information (combining schedules), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules are the responsibility of management and were derived from and relate 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 combining schedules are 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 also have issued our report dated January 15, 2021, 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 solely 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 the effectiveness of Authority's 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.

**BKD, LLP**

Fort Worth, Texas  
January 15, 2021

# **NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)**

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North Texas Higher Education Authority, Inc. (the "Authority") is a nonprofit corporation originally acting on behalf of the Cities of Arlington and Denton, Texas. In September 2015, following the passage of HB 3245 during the 84th 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 ("Consolidation").

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 generally accepted accounting principles 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. See *Note 5* to the basic financial statements for further discussion of the Authority's borrower incentive program.

### **AUTHORITY ACTIVITY AND HIGHLIGHTS**

The Authority has purchased student loans from a variety of financial institutions over the years. However, due to changes in the Higher Education Reconciliation Act ("HERA") of 2005 and the elimination of the FFELP in 2010, student loan purchases have dramatically declined. The year ended August 31, 2018, was unusual in that two student loan lenders released their FFELP portfolios for sale and were acquired by the Authority. Student loan purchases were \$4.2 mil. and \$2.7 mil. during the years ended August 31, 2020, and 2019, respectively.

See discussion of "**Turbulence in the Financial Markets**" and "**Elimination of the FFEL Program**" under **ECONOMIC FACTORS AND OUTLOOK** 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 new bonds since 2012. During 2018, two existing bond portfolios were acquired from one lender and the Authority incurred a direct placement note in order to acquire the portfolio of the other lender. In 2020, the Authority refinanced existing tax-free bond issuances with a short-term line of credit while market conditions post-COVID-19 are evaluated for long-term financing options.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

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### CONDENSED NET POSITION

Cash, cash equivalents and investments	\$	55,266,160.71
Accrued interest receivable		29,622,832.60
Student loans receivable		754,654,619.68
LOC receivable from HESC		3,006,002.31
Other		82,076.28
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>842,631,691.58</b>
Current liabilities	\$	55,410,619.09
Long-term liabilities		580,318,477.57
<b>TOTAL LIABILITIES</b>		<b>635,729,096.66</b>
DEFERRED INFLOWS OF RESOURCES		
Related to discount on loans purchased		6,633,298.13
Unrestricted		31,663,599.23
Restricted		168,605,697.56
<b>TOTAL NET POSITION--end of year</b>	<b>\$</b>	<b>200,269,296.79</b>

At the beginning of the 2019 fiscal year, the Authority entered into a line of credit agreement with Higher Education Servicing Corporation ("HESC") such that the Authority would extend a \$10 million line of credit over the course of three years to HESC for the financing of its private student loan program. In May 2019, HESC exercised \$3 million of the line of credit and began accruing interest expense that it remits to the Authority on a quarterly basis.

### CONDENSED REVENUES, EXPENSES AND CHANGE IN NET POSITION

Operating Revenues:		
Interest on student loans		\$ 33,896,953.66
Nonoperating revenues and expenses:		
Interest on investments		1,051,501.06
Unrealized gain on investments		226,256.76
Government interest and special allowance		(7,929,987.21)
Interest on bonds		(14,356,212.05)
Income from deferred inflows of resources		847,061.68
Total nonoperating revenues and expenses:		(20,161,379.76)
<b>TOTAL REVENUE AND NONOPERATING EXPENSES</b>		<b>\$ 13,735,573.90</b>
Operating Expenses:		
Loan servicing fees paid to Higher Education Servicing Corporation		3,367,227.14
Payments for administrative and operating costs to Higher Education Servicing Corporation		4,013,027.01

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

Trustee fees	173,623.49
Borrower incentive loan write-offs	897,643.57
Letter of credit fees	327,935.00
Miscellaneous expense	<u>530,077.34</u>
Total Operating Expenses:	<u>9,309,533.55</u>
CHANGE IN NET POSITION	<u>\$ 4,426,040.35</u>

### AUTHORITY FINANCIAL HIGHLIGHTS

Total assets and liabilities increased (decreased) for the fiscal year 2020 as follows:

	<u>2020</u>	<u>Percent Change</u> <u>from 2019</u>
Change in assets:	(\$111.9 mil.)	(11.7%)
Change in liabilities:	(\$115.4 mil.)	(15.4%)
Increase in net position:	\$ 4.4 mil.	2.3%

The above decreases are mostly due to decreased student loan balances outstanding, increased income due on student loans, and decreased Authority debt.

The increase in net position was due to decreased operating and non-operating revenue, partially offset by lower operating expenses. The Authority paid lower loan servicing fees due to its decreased student loan portfolio while incurring higher special allowance interest expense at the same time as having recognized lower interest income on student loans and investments which contributed to the increase in net position. The Authority paid \$0.6 million less in servicing/administration fees and \$11.6 million less in bond interest, which increased net position. The Authority paid \$116.6 million of principal on bonds, and bond interest decreased due to a decrease in bond rates. Loan servicing and administration fees are paid to HESC.

The majority of net position is restricted for debt service or for the purchase of student loans, but as of August 31, 2020, approximately \$31.7 million is available for unrestricted purposes.

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

	<u>2020</u>	<u>Percent Change</u> <u>from 2019</u>
Increase (decrease) in cash, cash equivalents, current investments:	(\$ 12.6 mil.)	(21.3%)
Increase (decrease) in student loans:	(\$ 97.8 mil.)	(11.5%)
Increase (decrease) in net short term liabilities:	(\$ 23.6 mil.)	(20.6%)
Increase (decrease) in net long term liabilities:	(\$ 91.8 mil.)	(14.4%)

The elimination of the FFELP has impacted the Authority's ability to acquire loans (see "**Turbulence in the Financial Markets**" below). In 2020, the Authority acquired \$4.2 million of loans from primarily claim repurchases with net student loan reductions (payoffs less capitalized interest) of \$101.6 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.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

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### AUTHORITY FINANCIAL HIGHLIGHTS – CONTINUED

The Authority has not issued new bonds since 2012, although it assumed existing debt and borrowed on a bank direct placement note in 2018 to fund its acquisitions. In 2020, the Authority refinanced existing tax-free bond issuances with a short-term line of credit while market conditions post-COVID-19 are evaluated. In 2020, the Authority used excess funds to pay \$116.6 million of bonds and other borrowings. In 2020, the decreases in net short term liabilities over the prior year were mostly due to decreases in short term bonds payable of \$24 million. In 2020, the decreases in net long term liabilities are due to decreases in long term bonds payable of \$91.8 million. See further discussions of “Bonds Payable” in *Note 4* to the basic financial statements.

In 2020, the decrease in cash and current investments of \$12.6 million was the net of an increase in the Authority’s unrestricted funds more than offset by a decrease in investments in restricted portfolio funds.

### OPERATING ACTIVITIES

#### Revenues:

	<u>2020</u>	Percent Change from <u>2019</u>
Increase (decrease) in Operating Revenue:	(\$6.3 million)	(14.8%)

Operating revenues for the Authority are derived entirely from interest earned on student loans.

Net increase (decrease) to yield on student loans:

	<u>2020</u>	Percent Change from <u>2019</u>
Increase (decrease) in interest earned from student loans:	(\$5,085,033.51)	
Net change in amortization of deferred premium and discount:	<u>(\$ 351,156.34)</u>	
Net increase (decrease) to yield on student loans:	<u>(\$ 5,436,189.85)</u>	(13.6%)

Since 2011, variable rates on student loans issued before July 1, 2006 (“older loans”) had changed by only a few basis points however interest rates have had greater increases in recent years. In 2020, rates increased 0.43% over 2019. Variable rates on the majority of loans issued after June 30, 2006 (“newer loans”) have remained the same since 2007. Interest earned by the Authority on student loans increased in 2020 due to lower student loan portfolio balances partially offset by slightly higher interest rates.

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:

	<u>2020</u>	<u>2019</u>
Variable rates on student loans:	4.06% to 8.50%	3.63% 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).



# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

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### AUTHORITY FINANCIAL HIGHLIGHTS – CONTINUED

Changes in law have decreased yields on student loans, thus since 2010, the Authority had not paid any premium on loans purchased and had acquired some loan portfolios at a discount. However, with the Bank of North Dakota acquisition in 2018, a \$4.6 million premium was paid for the loans and is being amortized on a predetermined schedule. From 2014 until early 2018, the amortization of discount exceeded the amortization of premiums resulting in slight increases to the yield on student loans, however with the 2018 acquisitions, the amortization of premium and discount have both increased non-cash expenses and reduced the excess revenues for the subsequent fiscal years.

Non-operating revenue is discussed below.

<b>Expenses:</b>	<u>2020</u>	<u>Percent Change</u> <u>from 2019</u>
Increase (decrease) in Operating Expenses:	(\$12.0 million)	(33.8%)

The major categories of the Authority’s operating expenses are loan servicing fees, program administration fees, and borrower incentive loan write-offs. In 2020, the decrease in operating expenses is due to decreases in loan servicing fees, which decreased \$0.6 million (-14.5%) and borrower incentive loan write-offs decreased \$0.1 million (-13.5%).

The Authority has engaged Higher Education Servicing Corporation (“HESC”) to provide servicing for the student loan portfolio. HESC maintains contracts with two student loan servicing bureaus who service some of the Authority’s loans as sub-servicers. In 2006, HESC also began providing full life-of-loan servicing to the Authority with rates charged by HESC being lower than rates charged by the other two bureaus. In 2020, loan servicing fees decreased \$570,644 (-14.5%) over prior year. The decrease is due to the declining balances of student loan portfolios. As of August 31, 2020, 57.6% of the Authority’s loans were being serviced by HESC. See “Related Entities” under *Note 1* to the basic financial statements for further discussion of HESC’s loan servicing functions for the Authority.

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, therefore the computed fees directly correlate with the portfolio balances. In 2016 and 2015, the fees were deemed to be substantially below fair value for compensation of program administration. As such, in the last quarter of 2016, the NTHEA Board approved a resolution to increase the rates stipulated by the bonds to a level that would be more in line with industry standard rates, and the additional program fees resulting from the increased rates would be paid from the Authority’s unrestricted funds. In 2017, NTHEA began paying administration fees based on the higher rates. 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 in which, for certain eligible borrowers who meet stipulated payment requirements, a portion of their student loan balance is written off. In 2020, borrower incentive write-offs decreased \$140,588 over prior year. Annual decreases are mostly due to the decreasing eligible loans in the Authority’s student loan portfolio. See further discussion of the Authority’s borrower incentive program in *Note 5* to the basic financial statements.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

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### OPERATING ACTIVITIES – CONTINUED

The Authority’s tax-exempt financings are subject to federal government arbitrage and excess earnings liabilities. Decreasing bond rates increase the likelihood for higher arbitrage and excess earnings liabilities for tax-exempt financings. However, decreasing yields on investments and decreasing non-operating revenue decreases the likelihood for higher arbitrage and excess earning liabilities. As discussed above, in 2020, investment rates and non-operating revenue decreased which decreased the likelihood of arbitrage liabilities. The Authority did not incur a liability in 2020. See *Note 6* to the financial statements for further discussion of the Authority’s excess earnings and arbitrage rebate liabilities.

### Non-operating Revenue (Expense)

Non-operating revenue for the Authority is derived from interest on cash equivalents and investments, change in fair value of investments, interest expense, 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.

	<u>2020</u>	Percent Change <u>from 2019</u>
Change in non-operating revenue:	\$3.8 million	14%

The decrease in net non-operating expense was primarily due to a decrease in interest rates on debt, which decreased \$11.6 million (-45.1%), offset by increases in special allowance expense of \$7.1 million (235.7%) and decreases in interest on cash and investments and unrealized gain on investments (\$780 thousand (38%).

Since 2010, investment rates had not changed much, but in 2016 rates increased substantially and the upward trend continued through 2018. The trend reversed in 2019 and especially in 2020 due to the COVID-19 global pandemic, however many of the Authority’s investment interest rates are locked for the duration of the investment primarily those for certificates of deposit (CDs). Rates on the Authority’s money market investments decreased 70% from 2018 to 2020. As older CDs have matured, newer CDs being offered were at lower interest rates than the Authority’s Insured Cash Sweep account at Simmons Bank therefore proceeds from matured CDs are reinvested in the Insured Cash Sweep account. Interest earned on investments and cash equivalents decreased \$0.8 million (78%) in 2020 due to the lower money market interest rates. See *Note 2* to the basic financial statements for further discussion of the Authority’s investments.

Investment yields are outlined as follows:

	<u>2020</u>	<u>2019</u>
Average yield on investments for year:	1.20%	1.83%

The Authority paid \$116.6 million of bond principal, while also incurring a decrease in bond rates therefore lowering the interest expense for the year. The pay down of bonds is helping to reduce expenses in addition to bond interest due to falling bond rates. Average rates are as follows:

	<u>2020</u>	<u>2019</u>
Average tax-exempt bond rate:	3.03%	3.08%
Average taxable bond rate:	1.80%	2.98%

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

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### Non-operating Revenue (Expense) - Continued

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 2005's HERA. Since January 2010, while low, these rates remained relatively unchanged through 2014 but began an upward trend in 2015 that continued until the global pandemic of the spring of 2020 when interest rates fell dramatically. 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 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 made up of post 4/1/06 loans that are subject to the excess interest payments. As such, in 2020 the Authority paid substantially more excess interest which in turn decreases special allowance income. In 2020, special allowance income decreased (\$7.1) million.

In 2020, interest subsidy decreased (\$371,974) (-14.6%). The current year decreases were due to the declining balances of subsidized loans in school, grace, or deferment status. In 2020, the balance of these loans decreased \$6.8 million, from 2019. 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 Market

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), 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 through the first quarter of calendar year 2019 when rates again declined. In 2020, T-Bill rates decreased 94.6% and one-month LIBOR rates decreased 92.3% respectively from rates in 2019. The average bond equivalent rates of the 91-day T-Bill and the average bond equivalent rates of the one-month LIBOR are shown:

	<u>T-Bill</u> <u>Rates</u>	<u>One-Month</u> <u>LIBOR</u>
Qtr. Ending 9/30/18:	2.08%	2.14%
Qtr. Ending 12/31/18:	2.38%	2.39%
Qtr. Ending 3/31/19:	2.45%	2.54%
Qtr. Ending 6/30/19:	2.37%	2.48%
Qtr. Ending 9/30/19:	2.04%	2.21%
Qtr. Ending 12/31/19:	1.61%	1.82%
Qtr. Ending 3/31/20:	1.11%	1.44%
Qtr. Ending 6/30/20:	0.15%	0.37%
Qtr. Ending 9/30/20:	0.11%	0.17%

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

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The above rates directly affect the amount of Special Allowance income earned on the Authority's student loans. Since 2007, the declining rates had resulted in substantially reduced special allowance income for the Authority, but increases to the rates from 2015 to 2019 then resulted in increased special allowance income only to have reversed direction in 2020.

As referenced above, legislative changes enacted 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 2020, the Authority paid \$10.1 million of excess interest to the Education Department which offsets Special Allowance Income on the Authority's books. (See further discussion of excess interest payments in Note 1 to the basic financial statements).

### 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 terminated origination 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) could be made or insured under FFELP, and no funds could be expended under the Higher Education Act to make or insure loans under FFELP for which the first disbursement was after June 30, 2010. FFELP loans originated under the Higher Education Act prior to July 1, 2010, which had been purchased or could be purchased by the Authority, continue to be subject to the provisions of FFELP. The elimination of FFELP has impacted the Authority and FFELP lenders. Lenders could still add to or make additional disbursements to FFELP loans that were initially made prior to July 1, 2010 and the Authority could continue to acquire these loans. Many of the Authority's lender partners had historically originated student loans which the Authority would purchase, but due to the elimination of FFELP, the volume of loans available to acquire from its lender partners declined dramatically since 2008. In 2014, the Authority acquired substantially all of the remaining FFELP Loans that were held by its lender partners.

On January 2, 2018, the Authority consummated the acquisition of a \$241.7 million portfolio from one lender. The Authority went on to acquire the remaining \$4.0 million of FFELP loans from that same lender in April 2018. The Authority obtained a short-term line of credit to acquire this portfolio which was refinanced into a five-year direct placement note in July 2018. Additionally, the Authority acquired three portfolios with student loan balances of \$206.6 million from another lender in February 2018. These three other portfolios were part of trust indentures with existing debt that the Authority assumed at the February acquisition date.

Should the Authority find other available portfolios, it will analyze and consider acquiring such portfolios and may use unrestricted funds and/or borrow 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, other than obtaining the short-term line of credit which was then refinanced into a direct placement note as noted above, the Authority has not issued any debt since 2012. The Authority has been substantially paying down debt since 2009 and anticipates continuing this trend in 2021. The Authority did not issue any new debt in 2020 however it refunded the two 2010 indentures.

## NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) YEAR ENDED AUGUST 31, 2020 (with 2019 Comparative Totals) (UNAUDITED)

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The short-term refinancing of the two 2010 indentures will mature in November 2021, so there will be a long-term financing solution determined by the end of the next fiscal year. Please see ***Subsequent Events*** at the end of the "***Notes to Basic Financial Statements***" for more information.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF NET POSITION AUGUST 31, 2020

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### ASSETS

#### CURRENT ASSETS

Cash (Note 2)	\$ 52,257.28
Investments - non restricted (Note 2)	24,002,715.96
Investments--restricted (Note 2)	23,131,206.23
Accrued interest and other accounts receivable	582,400.40
Accrued interest and principal for LOC Note Receivable from HESC	3,006,002.31
Accrued interest and other accounts receivable--restricted	28,980,613.23
Prepaid expenses--restricted	82,076.28
Student loan notes receivable (Note 3)	567,099.82
Student loan notes receivable--restricted (Note 3)	120,021,263.53
Total current assets	<u>200,425,635.04</u>

#### LONG-TERM ASSETS:

Investments--(Note 2)	8,079,981.24
Accrued Interest and other accounts receivable	3,383.57
Accrued Interest and other accounts receivable--restricted	56,435.40
Student loan notes receivable (Note 3)	2,287,151.86
Student loan notes receivable--restricted (Note 3)	631,779,104.47
Total long-term assets	<u>642,206,056.54</u>

#### TOTAL ASSETS

\$ 842,631,691.58

### LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

#### CURRENT LIABILITIES - Payable from non-restricted assets:

Accounts payable	\$ 14,530.13
Accrued special allowance payable	6,255.68
Total current liabilities payable from non-restricted assets	<u>20,785.81</u>

#### CURRENT LIABILITIES--Payable from restricted assets:

Accounts payable	1,696,779.04
Accrued interest payable	605,817.91
Accrued special allowance payable	2,313,959.00
Accrued other liabilities	4,005.89
Bonds payable (Note 4)	50,769,272.48
Lines of credit & Notes Payable (Note 4)	87,126,000.29
Total current liabilities payable from restricted assets	<u>142,515,834.61</u>
Total current liabilities	<u>142,536,620.42</u>

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF NET POSITION (CONTINUED) AUGUST 31, 2020

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### LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION – CONTINUED

Bonds payable, less unamortized original issue discounts of \$1,068,965 (Note 4)	347,840,476.54
Lines of credit & Notes Payable (Note 4)	<u>145,351,999.70</u>
Total long-term liabilities payable from restricted assets	<u>493,192,476.24</u>
Total liabilities	<u>635,729,096.66</u>
DEFERRED INFLOWS OF RESOURCES	
Related to discount on loans purchased	6,633,298.13
NET POSITION:	
Restricted	168,605,697.56
Unrestricted	<u>31,663,599.23</u>
Total net position	<u>200,269,296.79</u>
Total Liabilities and net position	<u>\$ 842,631,691.58</u>

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEAR ENDED AUGUST 31, 2020

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OPERATING REVENUES:	
Interest on student loans	\$ 33,896,953.66
Total operating revenues	<u>33,896,953.66</u>
OPERATING EXPENSES:	
Loan servicing fees paid to Higher Education Servicing Corporation (Note 1)	3,367,227.14
Payments for administrative and operating costs to Higher Education Servicing Corporation (Note 1)	4,013,027.01
Trustee fees	173,623.49
Borrower incentive loan write-offs (Note 5)	897,643.57
Letter of credit fees	327,935.00
Miscellaneous expense	530,077.34
Total operating expenses	<u>9,309,533.55</u>
OPERATING INCOME	24,587,420.11
NONOPERATING REVENUES AND EXPENSES:	
Interest on cash equivalents and investments	1,051,501.06
Income from Deferred Inflows of Resources	847,061.68
Unrealized gain (loss) on investments (Note 2)	226,256.76
Interest on bonds, line of credit and notes payable	(14,356,212.05)
Government subsidy on student loans	2,174,170.15
Special allowance income	(10,104,157.36)
Total nonoperating revenues and expenses	<u>(20,161,379.76)</u>
CHANGE IN NET POSITION	<u>4,426,040.35</u>
NET POSITION—Beginning of year	<u>195,843,256.44</u>
NET POSITION—End of year	<u>\$ 200,269,296.79</u>



# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2020

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Student loan and interest purchases	\$ (8,847,470.53)
Student loan principal and interest repayments	136,489,212.65
Payment to vendors	<u>(8,473,860.12)</u>
Net cash provided by operating activities	<u>119,167,882.00</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash received for investment interest	913,094.00
Proceeds from maturities of investments held by Trustee	617,403,499.67
Purchases of Investments	<u>(600,205,773.00)</u>
Net cash provided by investing activities	<u>18,110,820.67</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from issuances of bonds & lines of credit	1,230,000.00
Repayment of bonds & lines of credit	(116,590,139.00)
Interest paid on bonds and lines of credit	(16,031,914.49)
Proceeds from government subsidy on student loans	2,290,247.59
Payments of special allowance	<u>(8,431,958.99)</u>
Net cash used in noncapital financing activities	<u>(137,533,764.89)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(255,062.22)
CASH ---Beginning of year	<u>307,319.50</u>
CASH ---End of year	<u>\$ 52,257.28</u>

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## STATEMENT OF CASH FLOWS (CONTINUED) YEAR ENDED AUGUST 31, 2020

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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income:	\$ 24,587,420.11
Adjustments to reconcile operating income to net cash provided by operating activities:	
Amortization of discount on loans purchased	(847,061.68)
Borrower Benefit Loan Write Offs	897,643.57
Capitalization of interest on student loan notes receivable	(14,864,586.30)
Change in assets and liabilities:	
Decrease (increase) in accrued interest and other accounts receivable	(2,874,299.34)
Decrease (increase) in student loan notes receivable—net	112,330,737.78
Decrease (increase) in prepaid expenses	12,504.30
Increase (decrease) in accounts payable	(76,018.26)
Increase (decrease) in accrued and other liabilities	<u>1,542.82</u>
Net cash provided by operating activities	<u>\$ 119,167,882.00</u>
NONCASH INVESTMENT, CAPITAL AND FINANCING ACTIVITIES	
Bonds paid by issuance of line of credit	<u>\$ 65,170,000.00</u>

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 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 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 bonds and through other forms of indebtedness. Proceeds of the bonds and other debt are used to purchase student loans, originated by eligible lenders under 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 more than half of the Authority’s student loans. HESC contracts with two third-party student loan servicers as sub-servicers who perform student loan processing and collection services on the remainder 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. Total paid to HESC was \$7,380,254 for the year ended August 31, 2020.

**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 using the flow of economic resources measurement focus and uses 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 is financed and operated in a manner similar to a 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 when permitted by the bond indenture, assets can be transferred to another series with outstanding debt or to a “surplus” fund. A clearing fund is used to process student loan collections among debt issues.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**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 Texas, as 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 and Insured Cash Sweep (ICS) Account at cost, and records interest-bearing time deposits at fair value on its statement of net position. Changes in fair value are reported in the statement of revenues, expenses and change in net position. The Authority continually monitors the fair value of its investments.

**Allowance for Doubtful Accounts**— 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 doubtful accounts is a provision for the loans for which cure and recovery are expected to be unsuccessful and is 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 estimated life of the related loans. 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 statement of net position.

**Bond Issue Costs and Original Issue Discounts**— Original issue discounts are capitalized and 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 new debt, whichever is shorter. Bond issue costs are expensed as incurred.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 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 2020.

**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 FFELP at the end of each quarter, representing supplemental interest on the average outstanding principal balance of insured loans (for the quarter) 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. In 2015, these rates began an upward trend that continued until rates dropped sharply in 2020 due to the global COVID-19 pandemic. In 2020, Treasury bill rates decreased 95% and one-month LIBOR rates decreased 92%. The lower rates contributed to decreased 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 2020, the Authority's student loan portfolio had a net decrease of \$97.8 million. 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. Since the balance of these loans have decreased, less excess interest was paid which in turn decreases special allowance income. In 2020, the Department of Education withheld \$8,411,003 of excess interest from the Authority's quarterly interest benefits and special allowance billings. This excess interest offsets Special Allowance Income in the Authority's Statement of Revenues, Expenses, and Changes in Net Position.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED *Interest Subsidy and Special Allowance— continued*

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:

	<u>2020</u>
Interest Subsidy	\$ 2,174,170.15
Special Allowance	<u>(\$ 10,104,157.36)</u>
	<u>(\$ 7,929,987.21)</u>

The interest subsidy and special allowance are accrued as earned.

The Federal Family Education Loan program in which the Authority participates is 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, 2020. 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 determinable at this time.

**Net Position**— The net position of the Authority is classified into two categories: unrestricted and restricted. Unrestricted net position includes net positions 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 that are only expendable for servicing and administration fees, interest and principal payments on the associated bonds as well as direct expenses specifically identifiable to the bond issuance.

**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. The primary costs of the program are program administration fees and loan servicing fees. Therefore loan income, administrative fees, and loan servicing fees are shown as operating revenues and expenses in the statement of revenue, expenses and changes in net position. Federal funds received consisting of interest subsidies and special allowance income are considered non-operating revenue as is interest expense on bonds and notes and investment return.

**Deferred Inflows of Resources**— When the Authority acquired the student loan note receivable assets and bond indenture liabilities of two existing portfolios from the South Texas Higher Education Authority in 2018, the net difference between the cash paid and the existing net assets of the two portfolios at the time of purchase was classified as a Deferred Inflow in the Liability section of the Statement of Net Position. As those two portfolios add to their net assets, an amortization entry equal to the earnings is posted to the Deferred Inflows each fiscal quarter in order to realize the increased net asset value of the acquisition over time. The initial deferred inflows of resources was \$8.6M. Amortization of deferred inflows was equal to \$847,061.68 in 2020.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

**Use of Estimates**— The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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.

### 2. CASH AND INVESTMENTS

Certificates of deposit and money market mutual funds including the ICS Account are presented as investments for disclosure purposes. At August 31, 2020, the carrying amount and bank balances of the Authority's cash and deposits was \$23,154,550. 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.

At the beginning of the 2019 fiscal year, the Authority entered into a line of credit agreement with Higher Education Servicing Corporation (HESC) such that the Authority would extend a \$10 million line of credit over the course of three years to HESC for the financing of its private student loan program. It is a three-year revolving note starting in September 2018 and maturing in August 2021 at an interest rate of three-month LIBOR plus 100 bps. In May 2019, HESC exercised \$3 million of the line of credit and began accruing interest expense that it remits to the Authority on a quarterly basis.

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" (aka 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 to 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, 2020 are classified as follows:

Investment Type	Amount	Weighted Average Maturity
Money market mutual funds	\$ 22,071,815.33	21 days
ICS deposit account	23,102,293.06	N/A
Certificates of deposit	10,039,795.04	590 days
Total investments	\$ 55,213,903.43	

**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, 2020.

Investment Type	Balance August 31, 2020	Minimum	
		Legal Rating	Rating as of August 31, 2020
Certificates of Deposit	\$ 10,039,795.04	N/A	Not rated
FDIC Insured Deposits	\$ 23,102,293.06	N/A	Not rated
Money market mutual funds	\$ 22,071,815.33	AAAm	AAAm, Aaa-mf

**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, 2020, the majority of the Authority's funds were invested in three 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 two brokers that have offices 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, 2020, Authority investments which totaled more than 5% of its total investments are:

Morgan Stanley Institutional Money Market Fund	\$ 8,547,583.05
Invesco Government & Agency Money Market Fund	13,235,119.40
Simmons Bank ICS deposit account (FDIC insured)	23,102,293.06

**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



# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

### 2. CASH AND INVESTMENTS – CONTINUED

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 statement of net position. Investments in money market mutual funds and ICS Account are carried at amortized cost. Unrealized gains and losses are included in the statement of revenues, expenses, and changes in net position. The Authority recorded unrealized gains of \$226,257 on investments, representing the increases in fair value of its certificates of deposit for the year ended August 31, 2020.

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, 2020, the rates paid on money market funds ranged from 0.01% to 0.90%. 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, 2020, the rates on the FDIC insured deposit accounts ranged from 0.55% to 2.50%. The rates on the FDIC insured certificates of deposit are set at the time of the purchase of said certificates. As of August 31, 2020, the rates on the FDIC insured certificates of deposit ranged from 2.09% to 2.42%.

**Fair Value Asset Classification** -- The following table presents the classification of the assets by level at August 31, 2020:

Investments	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3	Fair Value
Money Market Funds (a)	\$ -	\$ -	\$ -	\$ 22,071,815.33
FDIC Insured Deposit Account (a)	-	-	-	23,102,293.06
FDIC Insured Certificates of Deposit	-	10,039,795.04	-	10,039,795.04
Total	\$ -	\$ 10,039,795.04	\$ -	\$ 55,213,903.43

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

### 2. CASH AND INVESTMENTS – CONTINUED

(a) Money Market Funds and FDIC Insured Deposit Accounts shown in the above table are comprised of ICS Account and Operating Accounts at Simmons Bank. Cash and money markets are excluded from the fair value hierarchy as they are not subject to fair value measurement guidance. They are stated at cost, which approximates fair value and are included above to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of net position.

### 3. STUDENT LOAN NOTES RECEIVABLES

Student loan notes receivable consist of the following at August 31, 2020:

Series	Student Loan Notes Receivable	Collections Not Yet Applied	Deferred Loan Acquisition Premiums Less: Accumulated Amortization	Allowance For Doubtful Accounts	Net Receivable
2002	\$ 64,735,744.23	\$ -	\$ -	\$ (47,031.50)	\$ 64,688,712.73
2003	12,386,427.70	-	-	(8,998.93)	12,377,428.77
2003-2	59,021,391.43	-	-	(42,863.43)	58,978,528.00
2011-1	70,379,878.00	-	-	(51,134.51)	70,328,743.49
2012-1	145,556,985.61	-	-	(105,758.59)	145,451,227.02
ST 2012-1	102,194,143.29	-	-	(74,135.38)	102,120,007.91
ST 2013-1	43,910,929.72	-	-	(31,902.06)	43,879,027.66
2018A BOA	179,228,136.04	-	2,648,144.75	(130,232.06)	181,746,048.73
2020 BOA LOC	71,957,989.78	-	325,851.00	(52,278.57)	72,231,562.21
Surplus Fund	2,856,051.16	-	275.49	(2,074.97)	2,854,251.68
Unallocated Collections	-	(918.52)	-	-	(918.52)
<b>Total</b>	<b>\$ 752,227,676.96</b>	<b>\$ (918.52)</b>	<b>\$ 2,974,271.24</b>	<b>\$ (546,410.00)</b>	<b>\$ 754,654,619.68</b>

All student loans currently held were made in accordance with Title IV, Part B of the Higher Education Act of 1965, as amended. All of the student loans held were purchased with funds available from issuance of bonds as discussed in *Note 4* and are therefore pledged to the related bond. Any and all interest and principal payments from the student loan receivables are used to pay down the interest and principal of the bond liabilities. The Authority purchases five types of loans: Subsidized Stafford, Unsubsidized Stafford, SLS, PLUS and Consolidation. 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. Consolidation 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.

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 1.83% to 12% depending upon the type and date of origination of

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 3. STUDENT LOAN NOTES RECEIVABLES – CONTINUED

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 Consolidation 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. Consolidation loans may be repaid up to a maximum of 30 years.

Installment repayment of Subsidized and Unsubsidized Stafford loans begins after a grace period of six 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 Consolidation 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 primarily insured or reinsured by the U.S. government or guaranteed by the Trellis Corporation (formerly known as TG and 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. 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 doubtful accounts is a provision for the loans for which cure and recovery are expected to be unsuccessful and is 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 doubtful accounts an estimated amount of the 3% write-off of balances of defaulted loans that are not paid by the guarantors. At August 31, 2020, the allowance for doubtful accounts is \$546,410. 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.

A summary of the Authority’s student loan activity for the year ended August 31, 2020 is as follows:

Loans purchased	\$	4,233,788.36
Amounts collected		(115,157,869.06)
Adjustments (capitalized interest or write-offs)		<u>13,080,321.65</u>
Total change in Student Loan Notes Receivable - net	\$	<u>(97,843,759.05)</u>

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

### 4. BONDS PAYABLE

The following table summarizes the balances due, interest mode, interest rate, and date of maturity on the bonds and notes payable as of August 31, 2020:

Bond Series		Interest Mode	Average Interest Rate (2020)	Date of maturity or defeasement
2002A	\$ 35,850,000.00	Variable	1.39%	April 1, 2041
2002B	\$ 4,700,000.00	Variable	1.54%	April 1, 2041
2003A-3	\$ 7,750,000.00	Variable	1.36%	October 1, 2042
2003-2A	\$ 36,400,000.00	Variable	1.36%	October 1, 2043
2003-2B	\$ 3,750,000.00	Variable	1.51%	October 1, 2043
2011-1	\$ 56,682,000.00	Variable	2.79%	April 1, 2040
2012-1	\$ 126,374,000.00	Variable	2.13%	December 1, 2034
ST 2012-1 (A-2)	\$ 8,546,762.41	Variable	2.54%	October 1, 2024
ST 2012-1 (A-3)	\$ 81,820,000.00	Variable	2.54%	October 1, 2046
ST 2013-1	\$ 37,805,951.56	Variable	1.73%	December 3, 2029
2018A BOA	\$ 173,112,000.00	Variable	1.62%	July 9, 2023
2020 BOA LOC	\$ 59,366,000.00	Variable	1.07%	November 23, 2021
Total	\$ 632,156,713.97			
Unamortized original issue discounts	\$ (1,068,964.95)			
	\$ 631,087,749.02			

**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
2020	A	\$ 7,650,000	B	\$ 1,150,000

Interest from the 2002 Bonds is payable monthly and at stated maturity dates. Interest rates for the year ended August 31, 2020 are:

Year	Bond	Range	Average	Bond	Range	Average
2020	A	0.355% to 2.401%	1.389%	B	0.505% to 2.551%	1.539%

**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 the 2000A Series Bonds, 1993B Series Bonds, and 1993CD Series Bonds. The refunding portion of the 2003 Bonds were issued as Auction Rate Certificates and interest on the refunding bonds was 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.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 4. BONDS PAYABLE – CONTINUED

The Authority has paid 2003 A-3 Bonds:

<u>Year</u>	<u>Amount paid</u>
2020	\$ 1,300,000

Interest from the 2003 A-3 Bonds is payable monthly and at stated maturity dates. Interest rates for the year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	0.358% to 2.372%	1.357%

**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:

<u>Year</u>	<u>Bond</u>	<u>Amount paid</u>	<u>Bond</u>	<u>Amount paid</u>
2020	A	\$ 7,600,000	B	\$ 1,050,000

Interest from the 2003-2 Bonds is payable monthly and at stated maturity dates. Interest rates for the year ended August 31, 2020 are:

<u>Year</u>	<u>Bond</u>	<u>Range</u>	<u>Average</u>	<u>Bond</u>	<u>Range</u>	<u>Average</u>
2020	A	0.358% to 2.372%	1.357%	B	0.508% to 2.522%	1.507%

**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 was "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:

<u>Year</u>	<u>Bond</u>	<u>Amount paid</u>
2020	A-2	\$ 3,485,000 (prior to refinance)

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 year ended August 31, 2020 are:

<u>Year</u>	<u>Bond</u>	<u>Range</u>	<u>Average</u>
2020	A-2	2.809% to 3.219%	2.98%

The Series 2010-1 A-2 Bonds were refinanced along with the Series 2010-2 Bonds into the 2020 Bank of America Line of Credit in March 2020.

**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:

<u>Year</u>	<u>Amount paid</u>
2020	\$ 2,550,000 (prior to refinance)

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 4. BONDS PAYABLE – CONTINUED

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 year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	2.909% to 3.319%	3.08%

The Series 2010-2 Bonds were refinanced along with the Series 2010-1 A-2 Bonds into the 2020 Bank of America Line of Credit in March 2020.

**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 2006B 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:

<u>Year</u>	<u>Amount paid</u>
2020	\$ 8,206,000

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 year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	1.396% to 3.419%	2.787%

The Series 2011-1 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.

**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:

<u>Year</u>	<u>Amount paid</u>
2020	\$21,194,000

Interest from the Bonds is payable on the first of each month and at stated maturity dates. Interest rates for the year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	1.156% to 3.230%	2.127%

The Series 2012-1 Bonds were rated “AA+sf” 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.

**STHEA 2012-1 Debt Issue**— On February 9, 2018, the Authority assumed the remaining balance of Student Loan Revenue Bonds (Series 2012-1) originally issued by the South Texas Higher Education Authority (“STHEA”), the original issue was for \$276 million but had a balance of \$128,375,237 (A-2 \$46,555,237 and A-3 \$81,820,000) at the time of acquisition. Interest on the Series STHEA 2012-1 Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 4. BONDS PAYABLE – CONTINUED

The Authority has paid STHEA 2012-1 Bonds:

<u>Year</u>	<u>Amount paid</u>	<u>Bond</u>
2020	\$ 13,141,942	A-2

Interest from the Bonds is payable on January 1, April 1, July 1, October 1, and at stated maturity dates. Interest rates for the year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	1.146% to 3.169%	2.539%

The Series STHEA 2012-1 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.

**STHEA 2013-1 Debt Issue**— On February 9, 2018, the Authority assumed the remaining balance of Student Loan Revenue Bonds (Series 2013-1) originally issued by the South Texas Higher Education Authority (“STHEA”), the original issue was for \$104.3 million but had a balance of \$54,230,091 at the time of acquisition. Interest on the Series STHEA 2013-1 Bonds is not tax exempt from gross income of the certificate owners for federal income tax purposes. The Authority has paid STHEA 2013-1 Bonds:

<u>Year</u>	<u>Amount paid</u>
2020	\$ 5,365,197

Interest from the Bonds is payable on the first of each month and at stated maturity dates. Interest rates for the year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	0.756% to 2.700%	1.726%

The Series STHEA 2013-1 Bonds were rated “AA+sf” by Standard and Poor’s and “BBsf” by Fitch Ratings. Standard and Poor’s and Fitch Ratings are expected to review their ratings on an ongoing basis.

**2018A Direct Placement Note**— On January 2, 2018, the Authority entered a short-term line of credit arrangement with Bank of America and then refinanced it on July 10, 2018, to a five-year direct placement note in order to acquire the FFELP portfolio held by the Bank of North Dakota as well as a small portfolio of unencumbered FFELP student loans that was part of the South Texas Higher Education Authority acquisition. The original line of credit was funded with \$269,450,000 but had a balance of \$250,360,000 at the time of refinancing. Interest on the Series 2018A note is not tax exempt from gross income for federal income tax purposes. The Authority has paid 2018A note payments:

<u>Year</u>	<u>Amount paid</u>
2020	\$ 36,864,000

Interest from the Note is payable on the first business day of each month. Interest rates for the year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	0.686% to 2.619%	1.616%

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

### 4. BONDS PAYABLE – CONTINUED

**2020 Line of Credit**— On March 12, 2020, the Authority entered a short-term line of credit arrangement with Bank of America expiring on December 1, 2020, in order to refinance its tax-exempt bonds (2010-1 A-2 and 2010-2) outstanding. The new line of credit balance of \$66,400,000 refinanced prior debt of \$65,170,000. Interest on the Series 2020 line of credit is not tax exempt from gross income for federal income tax purposes. The Authority has paid 2020 note payments:

<u>Year</u>	<u>Amount paid</u>
2020	\$ 7,034,000

Interest from the Line of Credit is payable on the first business day of each month. Interest rates for the year ended August 31, 2020 are:

<u>Year</u>	<u>Range</u>	<u>Average</u>
2020	0.889% to 1.756%	1.069%

**Debt Service Requirements** -- The following is a summary of all bond debt service requirements at August 31, 2020:

Fiscal Year	Principal	Interest	Total
2021	\$ 50,769,272.02	\$ 3,930,492.20	\$ 54,699,764.22
2022	\$ 50,861,145.39	\$ 4,532,879.23	\$ 55,394,024.62
2023	\$ 49,843,922.48	\$ 4,211,315.96	\$ 54,055,238.45
2024	\$ 48,847,044.03	\$ 3,848,521.18	\$ 52,695,565.22
2025	\$ 47,192,578.85	\$ 3,447,200.02	\$ 50,639,778.87
2026 thru 2030	\$ 149,217,346.83	\$ 5,986,544.63	\$ 155,203,891.45
2031 thru 2035	\$ 2,947,403.91	\$ 38,976.75	\$ 2,986,380.66
	<b>\$ 399,678,713.51</b>	<b>\$ 25,995,929.98</b>	<b>\$ 425,674,643.49</b>

The following is a summary of all note debt service requirements at August 31, 2020 under existing note terms for the 2018 Direct Placement Note and the 2020 Line of Credit:

Fiscal Year	Principal	Interest	Total
2021	\$ 87,126,000.29	\$ 1,768,973.61	\$ 88,894,973.90
2022	\$ 30,693,599.98	\$ 1,107,304.19	\$ 31,800,904.17
2023	\$ 114,658,399.73	\$ 954,090.85	\$ 115,612,490.58
	<b>\$ 232,478,000.00</b>	<b>\$ 3,830,368.66</b>	<b>\$ 236,308,368.66</b>

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

The following is a summary of changes in revenue bonds payable by the Authority for the year ended August 31, 2020:

Balance at beginning of year	Refinanced	Repaid or Defeased	Balance at end of year	Current Portion
\$ 537,540,852.97	\$ (65,170,000.00)	\$ (72,692,139.00)	\$ 399,678,713.97	\$ 50,769,272.02



# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 4. BONDS PAYABLE – CONTINUED

The following is a summary of changes in notes payable by the Authority for the year ended August 31, 2020:

Balance at beginning of year	Issued	Repaid or Defeased	Balance at end of year	Current Portion
\$ 209,976,000.00	\$ 66,400,000.00	\$ (43,898,000.00)	\$ 232,478,000.00	\$ 87,126,000.29

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, 2020.

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, after making a stipulated number of on-time payments, and who have the outstanding portion of the principal balance of their student loans(s) below \$600 (total balance of all the borrower's loans must be below \$600), the remaining balance of the borrower's loan(s) is forgiven and reported as "paid in full." In 2020, borrower incentive write-offs that went to this program were \$897,644.

### 6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES

Any of the Authority's outstanding tax-exempt bonds (interest on the bonds being 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 year ended August 31, 2020, the Authority made no provision for excess interest. 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.

Any 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. Arbitrage provisions recognize 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.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

### 6. EXCESS EARNINGS AND ARBITRAGE LIABILITIES -- CONTINUED

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 calculations reveal the current amount of liability if the bonds were redeemed. The arbitrage rebate laws require that generally on every 5<sup>th</sup> anniversary of the bond issue, payment of 90% of the amount of the liability (if any) must be remitted to the U.S. Treasury.

For the year ended August 31, 2020, the Authority made no provision for arbitrage rebate and no payment was required. For the year ending August 31, 2020, there were no tax-exempt bonds outstanding.

### 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.

Summary financial information for the Student Loan Revenue Bonds as of August 31, 2020 is as follows:

<b>Condensed Statements of Net Position</b>	<b>Surplus Fund</b>	<b>Bond Funds</b>	<b>Total</b>
Assets:			
Current assets	\$ 27,940,910.82	\$ 172,484,724.22	\$ 200,425,635.04
Noncurrent assets	10,370,516.67	631,835,539.87	642,206,056.54
Total assets	<u>\$ 38,311,427.49</u>	<u>\$ 804,320,264.09</u>	<u>\$ 842,631,691.58</u>
Liabilities:			
Current liabilities	\$ 14,530.13	\$ 142,522,090.29	\$ 142,536,620.42
Noncurrent liabilities	-	493,192,476.24	493,192,476.24
Total liabilities	<u>14,530.13</u>	<u>635,714,566.53</u>	<u>635,729,096.66</u>
Deferred Inflows of Resources	<u>6,633,298.13</u>	-	<u>6,633,298.13</u>
Net position:			
Restricted	-	168,605,697.56	168,605,697.56
Unrestricted	31,663,599.23	-	31,663,599.23
Total net position	<u>31,663,599.23</u>	<u>168,605,697.56</u>	<u>200,269,296.79</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 38,311,427.49</u>	<u>\$ 804,320,264.09</u>	<u>\$ 842,631,691.58</u>

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## NOTES TO BASIC FINANCIAL STATEMENTS

### 7. SEGMENT INFORMATION -- CONTINUED

<b>Condensed Statement of Revenues, Expenses And Changes in Net Position</b>	<u>Surplus Fund</u>	<u>Bond Funds</u>	<u>Total</u>
Operating revenues	\$ 149,087.54	\$ 33,747,866.12	\$ 33,896,953.66
Operating expenses	1,253,401.92	8,056,131.63	9,309,533.55
Total operating income (loss)	(1,104,314.38)	25,691,734.49	24,587,420.11
Nonoperating revenue (expense)	1,798,280.12	(21,959,659.88)	(20,161,379.76)
Change in net position	693,965.74	3,732,074.61	4,426,040.35
Net position—beginning of year	\$ 30,969,633.49	\$164,873,622.95	\$ 195,843,256.44
Net position—end of year	<u>\$ 31,663,599.23</u>	<u>\$168,605,697.56</u>	<u>\$ 200,269,296.79</u>

<b>Condensed Statements of Cash Flows</b>	<u>Surplus Fund</u>	<u>Bond Funds</u>	<u>Total</u>
Net cash provided (used) by:			
Operating activities	\$ (2,878,309.30)	\$ 122,046,191.30	\$119,167,882.00
Noncapital financing activities	(12,987.69)	(137,520,777.20)	(137,533,764.89)
Investing activities	2,891,296.99	15,219,523.68	18,110,820.67
Change in cash and cash equivalents	\$ -	\$ (255,062.22)	\$ (255,062.22)
Cash and cash equivalents - beginning of year	\$ -	\$ 307,319.50	\$ 307,319.50
Cash and cash equivalents - end of year	<u>\$ -</u>	<u>\$ 52,257.28</u>	<u>\$ 52,257.28</u>

# **NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.**

## **NOTES TO BASIC FINANCIAL STATEMENTS**

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### **8. SUBSEQUENT EVENTS**

The Authority had previously entered into a short-term line of credit arrangement with Bank of America to refinance its remaining outstanding tax-exempt bonds (the 2010-1 and 2010-2 issuances). The original line of credit was set to expire on December 1, 2020, but an extension was negotiated that has the line of credit maturing on November 23, 2021.

# NORTH TEXAS HIGHER EDUCATION AUTHORITY, INC.

## OTHER SUPPLEMENTARY INFORMATION COMBINING SCHEDULE – STATEMENT OF NET POSITION INFORMATION AUGUST 31, 2020

ASSETS	Debt Issue											Surplus Fund	Clearing Fund	Total Issues and Other Funds
	2002	2003	2003-2	2010-1	2010-2	2011-1	2012-1	ST 2012-1	ST 2013-1	2018A BOA	2020 BOA LOC			
Cash and cash equivalents	\$ 9,811.03	1,439.93	12,735.53	-	-	-	-	24,218.87	4,051.92	-	-	-	-	\$ 52,257.28
Investments - nonrestricted -- current	-	-	-	-	-	-	-	-	-	-	-	24,002,715.96	-	24,002,715.96
Investments - nonrestricted -- long-term	-	-	-	-	-	-	-	-	-	-	-	8,079,981.24	-	8,079,981.24
Investments - restricted -- current	1,680,635.55	1,011,045.01	2,227,937.84	-	-	2,484,363.39	3,363,988.39	2,902,881.73	1,265,490.03	5,530,266.80	2,662,303.36	-	2,294.13	23,131,206.23
Accrued interest and other accounts receivable	2,169,658.05	485,281.12	2,030,041.60	-	-	2,407,529.39	4,876,523.30	4,783,091.27	2,078,486.83	5,553,851.40	3,388,535.41	3,155,644.94	697,139.45	31,625,782.76
Student loan notes receivable - net	64,688,712.73	12,377,428.77	58,978,528.00	-	-	70,328,743.49	145,451,227.02	102,120,007.91	43,879,027.66	181,746,048.73	72,231,562.21	2,854,251.68	(918.52)	754,654,619.68
Prepaid expenses	13,278.00	6,882.00	6,303.00	-	-	5,678.02	12,444.06	7,320.55	10,053.02	18,676.63	678.00	763.00	-	82,076.28
<b>Total assets</b>	<b>\$ 68,562,095.36</b>	<b>13,882,076.83</b>	<b>63,255,545.97</b>	<b>-</b>	<b>-</b>	<b>75,226,314.29</b>	<b>153,704,182.77</b>	<b>109,837,520.33</b>	<b>47,237,109.46</b>	<b>192,848,843.56</b>	<b>78,283,078.98</b>	<b>38,093,356.82</b>	<b>698,515.06</b>	<b>\$ 841,628,639.43</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>														
<b>LIABILITIES:</b>														
Accounts payable	\$ 75,502.63	11,592.14	56,973.00	-	-	71,372.33	167,278.94	312,982.89	123,050.41	129,009.66	56,837.75	8,194.36	(304,537.09)	708,257.02
Accrued interest payable	8,817.49	847.76	4,563.84	-	-	134,090.61	117,644.61	178,374.18	23,012.48	95,612.02	42,854.92	-	-	605,817.91
Accrued Special Allowance payable	143,266.59	37,569.62	149,738.41	-	-	164,503.76	497,905.55	232,143.08	92,308.94	686,687.81	309,835.24	6,255.68	-	2,320,214.68
Accrued other liabilities	392.58	392.58	392.58	-	-	392.58	392.58	392.58	392.58	392.58	785.16	80.09	-	4,005.89
Bonds payable, less unamortized original \$1,068,965 and \$1,261,348, respectively (Note 4)	40,550,000.00	7,750,000.00	40,150,000.00	-	-	56,682,000.00	125,629,171.00	89,762,803.71	38,085,774.30	173,112,000.00	59,366,000.00	-	-	631,087,749.01
<b>Total liabilities</b>	<b>40,777,979.29</b>	<b>7,800,402.10</b>	<b>40,361,667.83</b>	<b>-</b>	<b>-</b>	<b>57,052,359.28</b>	<b>126,412,392.68</b>	<b>90,486,696.44</b>	<b>38,324,538.71</b>	<b>174,023,702.07</b>	<b>59,776,313.07</b>	<b>14,530.13</b>	<b>(304,537.09)</b>	<b>634,726,044.51</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>														
Related to discount on loans purchased	-	-	-	-	-	-	-	-	-	-	-	6,633,298.13	-	6,633,298.13
<b>NET POSITION</b>	<b>27,858,000.61</b>	<b>6,084,948.45</b>	<b>22,928,116.91</b>	<b>-</b>	<b>-</b>	<b>18,253,958.55</b>	<b>27,389,212.29</b>	<b>19,477,242.86</b>	<b>8,960,626.95</b>	<b>19,043,227.65</b>	<b>18,610,363.29</b>	<b>31,663,599.23</b>	<b>-</b>	<b>200,269,296.79</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 68,635,979.90</b>	<b>13,885,350.55</b>	<b>63,289,784.74</b>	<b>-</b>	<b>-</b>	<b>75,306,317.83</b>	<b>153,801,604.97</b>	<b>109,963,939.30</b>	<b>47,285,165.66</b>	<b>193,066,929.72</b>	<b>78,386,676.36</b>	<b>38,311,427.49</b>	<b>(304,537.09)</b>	<b>\$ 841,628,639.43</b>

# 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, 2020

	Debt Issue								ST 2012-1	ST 2013-1	2018A BOA	2020 BOA LOC	Surplus Fund	Total Funds
	2002	2003	2003-2	2010-1	2010-2	2011-1	2012-1							
<b>REVENUES</b>														
Interest on student loans	\$ 2,448,954.79	583,081.43	2,599,174.51	1,241,847.31	856,730.60	2,940,302.24	6,897,598.43	4,366,142.48	1,936,685.14	8,657,285.44	1,220,063.75	149,087.54	33,896,953.66	
Interest on investments	20,108.16	15,003.55	28,182.95	25,469.97	18,772.82	28,975.49	43,127.15	41,237.63	10,609.16	66,269.22	10,020.11	1,590,786.53	1,898,562.74	
Unrealized gain on investments	-	-	-	-	-	-	-	-	-	-	-	226,256.76	226,256.76	
Government Subsidy on Student Loans	109,291.36	28,970.30	133,192.49	90,540.86	52,987.49	128,588.37	361,105.51	546,557.41	231,236.51	388,197.20	102,473.74	1,028.91	2,174,170.15	
Special allowance income	(493,529.13)	(173,609.13)	(547,586.35)	(525,987.37)	(146,343.63)	(536,031.53)	(2,161,742.04)	(959,166.08)	(380,046.45)	(3,309,282.19)	(851,041.38)	(19,792.08)	(10,104,157.36)	
<b>Total revenues</b>	<b>2,084,825.18</b>	<b>453,446.15</b>	<b>2,212,963.60</b>	<b>831,870.77</b>	<b>782,147.28</b>	<b>2,561,834.57</b>	<b>5,140,089.05</b>	<b>3,994,771.44</b>	<b>1,798,484.36</b>	<b>5,802,469.67</b>	<b>481,516.22</b>	<b>1,947,367.66</b>	<b>28,091,785.95</b>	
<b>EXPENSES</b>														
Interest on bonds	642,222.46	119,608.04	646,695.19	608,847.62	480,057.13	1,668,455.14	3,132,955.86	2,588,368.31	708,551.11	3,427,417.58	333,033.61	-	14,356,212.05	
Loan servicing fees	153,172.69	36,723.63	175,712.06	79,748.15	65,557.95	152,726.49	400,862.72	921,066.28	464,819.93	760,524.27	148,967.34	7,345.63	3,367,227.14	
Administrative & operating costs paid to Higher Education Servicing Corporation	344,199.96	65,835.00	305,400.00	22,668.31	77,012.25	257,360.04	386,120.04	532,815.34	228,203.72	723,193.48	106,946.71	963,272.16	4,013,027.01	
Trustee fees	26,014.08	19,426.32	23,314.32	7,975.03	12,141.70	10,814.32	15,566.96	20,200.92	12,500.00	23,491.24	678.60	1,500.00	173,623.49	
Borrower incentive loan write-offs	110,761.08	27,040.70	102,440.51	103,060.63	49,518.07	89,517.21	298,508.20	-	-	8,481.24	107,503.23	812.70	897,643.57	
Miscellaneous expense	10,004.60	10,004.60	10,004.60	13,850.26	41,350.26	37,504.60	37,504.60	37,504.60	37,504.60	10,004.60	332,303.59	280,471.43	858,012.34	
<b>Total expenses</b>	<b>1,286,374.87</b>	<b>278,638.29</b>	<b>1,263,566.68</b>	<b>836,150.00</b>	<b>725,637.36</b>	<b>2,216,377.80</b>	<b>4,271,518.38</b>	<b>4,099,955.45</b>	<b>1,451,579.36</b>	<b>4,953,112.41</b>	<b>1,029,433.08</b>	<b>1,253,401.92</b>	<b>23,665,745.60</b>	
<b>CHANGE IN NET POSITION</b>	<b>798,450.31</b>	<b>174,807.86</b>	<b>949,396.92</b>	<b>(4,279.23)</b>	<b>56,509.92</b>	<b>345,456.77</b>	<b>868,570.67</b>	<b>(105,184.01)</b>	<b>346,905.00</b>	<b>849,357.26</b>	<b>(547,916.86)</b>	<b>693,965.74</b>	<b>4,426,040.35</b>	
<b>NET POSITION--Beginning of year</b>	<b>27,751,150.30</b>	<b>6,580,140.59</b>	<b>20,617,119.99</b>	<b>6,957,792.82</b>	<b>12,148,256.64</b>	<b>17,908,501.78</b>	<b>26,520,641.62</b>	<b>19,582,426.87</b>	<b>8,613,721.95</b>	<b>18,193,870.39</b>	<b>-</b>	<b>30,969,633.49</b>	<b>195,843,256.44</b>	
Assets transferred to (from) other Bond Series	(691,600.00)	(670,000.00)	1,361,600.00	(6,953,513.59)	(12,204,766.56)	-	-	-	-	-	19,158,280.15	-	-	
<b>NET POSITION--End of year</b>	<b>27,858,000.61</b>	<b>6,084,948.45</b>	<b>22,928,116.91</b>	<b>-</b>	<b>-</b>	<b>18,253,958.55</b>	<b>27,389,212.29</b>	<b>19,477,242.86</b>	<b>8,960,626.95</b>	<b>19,043,227.65</b>	<b>18,610,363.29</b>	<b>31,663,599.23</b>	<b>200,269,296.79</b>	