TEXAS GUARANTEED STUDENT LOAN CORPORATION

Financial Statements and Federal Awards Programs in Accordance with OMB Circular A-133

Years Ended September 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

TEXAS GUARANTEED STUDENT LOAN CORPORATION

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Independent Auditors' Report

The Board of Directors
Texas Guaranteed Student Loan Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Texas Guaranteed Student Loan Corporation (TG), which comprise the consolidated statements of financial position as of September 30, 2014 and 2013, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Texas Guaranteed Student Loan Corporation as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014 on our consideration of TG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TG's internal control over financial reporting and compliance.

KPMG LLP

Austin, Texas
November 26, 2014

Texas Guaranteed Student Loan Corporation
Consolidated Statements of Financial Position
_(in 000's)_

	September 30, 2014			September 30, 2013		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Assets						
Current Assets:						
Cash & Cash Equivalents	$ 11,055	$ 31,816	$ 42,871	$ 6,395	$ 27,960	$ 34,355
Receivables						
Due from Department of Education	2,180	33,968	36,148	2,395	30,229	32,624
Accrued Interest & Other	1,003	6,171	7,174	1,292	7,818	9,110
Investments	156,879	285,660	442,539	130,573	292,197	422,770
Interfund Receivables, Payables	1,972	(1,972)	-	2,158	(2,158)	-
Other Current Assets	1,391	-	1,391	1,317	-	1,317
Total Current Assets	174,480	355,643	530,123	144,130	356,046	500,176
Noncurrent Assets:						
Capital Assets, Net	43,088	-	43,088	43,582	-	43,582
Interfund Default Aversion Fee Refund Allowance	(30,823)	30,823	-	(37,774)	37,774	-
Total Noncurrent Assets	12,265	30,823	43,088	5,808	37,774	43,582
Total Assets	$ 186,745	$ 386,466	$ 573,211	$ 149,938	$ 393,820	$ 543,758
Liabilities and Net Assets						
Current Liabilities:						
Accounts Payable and Accrued Liabilities	$ 12,023	$ 75	$ 12,098	$ 9,711	$ 180	$ 9,891
Due to Department of Education	-	32,994	32,994	-	31,031	31,031
Total Current Liabilities	12,023	33,069	45,092	9,711	31,211	40,922
Noncurrent Liabilities:						
Allowance for Non-reinsured Loan Defaults	-	159,440	159,440	-	184,330	184,330
Other	1,127	-	1,127	1,496	-	1,496
Total Noncurrent Liabilities	1,127	159,440	160,567	1,496	184,330	185,826
Total Liabilities	13,150	192,509	205,659	11,207	215,541	226,748
Net Assets:						
Temporarily Restricted Net Assets	-	193,957	193,957	-	178,279	178,279
Unrestricted Net Assets	173,595	-	173,595	138,731	-	138,731
Total Net Assets	173,595	193,957	367,552	138,731	178,279	317,010
Total Liabilities & Net Assets	$ 186,745	$ 386,466	$ 573,211	$ 149,938	$ 393,820	$ 543,758

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

Texas Guaranteed Student Loan Corporation
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
(in 000's)

	Fiscal Year Ended September 30, 2014			Fiscal Year Ended September 30, 2013		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Unrestricted						
Revenues						
Account Maintenance Fee	$ 9,052	$ -	$ 9,052	$ 9,919	$ -	$ 9,919
Default Aversion Fee (net of $2,516 and $2,153 refund provision)	3,914	-	3,914	6,070	-	6,070
Recovery Revenue	109,106	-	109,106	111,683	-	111,683
Net Decrease in the Fair Value of Investments	(2,114)	-	(2,114)	(16,777)	-	(16,777)
Investment Interest	4,319	-	4,319	11,631	-	11,631
Other Revenue	2,308	-	2,308	1,325	-	1,325
Release of Temporarily Restricted Net Assets	-	6,699	6,699	-	(19,467)	(19,467)
Total Revenues	126,585	6,699	133,284	123,851	(19,467)	104,384
Expenses						
Operations	82,018	-	82,018	85,671	-	85,671
Public Benefits	9,697	-	9,697	61,663	-	61,663
Provision for Loan Defaults	-	2,705	2,705	-	(25,539)	(25,539)
Default Aversion Expense (net of $2,516 and $2,153 anticipated refunds)	-	3,914	3,914	-	6,070	6,070
Other Expenses	6	80	86	46	2	48
Total Expenses	91,721	6,699	98,420	147,380	(19,467)	127,913
Net Change in Unrestricted Net Assets before Extraordinary Item	34,864	-	34,864	(23,529)	-	(23,529)
Extraordinary Item	-	-	-	(248,062)	-	(248,062)
Net Change in Unrestricted Net Assets after Extraordinary Item	34,864	-	34,864	(271,591)	-	(271,591)
Temporarily Restricted						
Recovery Revenue	-	16,713	16,713	-	15,741	15,741
Net Decrease in the Fair Value of Investments	-	(2,596)	(2,596)	-	(6,619)	(6,619)
Investment Interest	-	5,604	5,604	-	6,872	6,872
Other Revenue	-	2,656	2,656	-	1,971	1,971
Release of Temporarily Restricted Net Assets	-	(6,699)	(6,699)	-	19,467	19,467
Net Change in Temporarily Restricted Net Assets	-	15,678	15,678	-	37,432	37,432
Change in Net Assets	34,864	15,678	50,542	(271,591)	37,432	(234,159)
Net Assets, Beginning	138,731	178,279	317,010	410,322	140,847	551,169
Net Assets, Ending	$ 173,595	$ 193,957	$ 367,552	$ 138,731	$ 178,279	$ 317,010

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

Texas Guaranteed Student Loan Corporation
Consolidated Statements of Cash Flows
(in 000's)

	Fiscal Year Ended September 30, 2014			Fiscal Year Ended September 30, 2013		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Cash Flows from Operating Activities:						
Claims Payments	$ -	$ (738,995)	$ (738,995)	$ -	$ (810,637)	$ (810,637)
Claims Reinsurance Received	-	704,422	704,422	-	775,752	775,752
Defaulted Loan Collections	-	435,530	435,530	-	425,461	425,461
ED Share of Defaulted Loan Collections	-	(321,981)	(321,981)	-	(312,841)	(312,841)
Operating Fund Share of Defaulted Loan Collections	109,208	(94,965)	14,243	110,475	(95,671)	14,804
Fees Received	6,314	2,952	9,266	7,349	2,811	10,160
Proceeds from Other Revenues	2,421	2,634	5,055	1,093	1,621	2,714
Payments to Suppliers for Goods and Services	(31,356)	-	(31,356)	(34,501)	-	(34,501)
Payments to Employees	(46,859)	-	(46,859)	(44,221)	-	(44,221)
Other Operating Costs	-	4,404	4,404	-	1,537	1,537
Interest Received	4,493	5,914	10,407	13,602	7,145	20,747
Interest Paid on Margin Facility	-	-	-	-	(1)	(1)
Public Benefits	(6,470)	-	(6,470)	(61,663)	-	(61,663)
Other	-	-	-	2	-	2
Extraordinary Item	-	-	-	(248,062)	-	(248,062)
Net Cash Provided By (Used In) Operating Activities	37,751	(85)	37,666	(255,926)	(4,823)	(260,749)
Cash Flows from Investing Activities:						
Purchases of Investments	(53,317)	(67,366)	(120,683)	(86,900)	(97,651)	(184,551)
Proceeds from Maturity or Sale of Investments	24,897	71,307	96,204	345,203	90,092	435,295
Proceeds from Sale of Assets	2	-	2	-	-	-
Purchases of Property, Plant and Equipment	(4,673)	-	(4,673)	(5,523)	-	(5,523)
Net Cash Provided By (Used In) Investing Activities	(33,091)	3,941	(29,150)	252,780	(7,559)	245,221
Cash Flows from Financing Activities:						
Proceeds from Margin Facility	-	-	-	1,960	5,146	7,106
Principal Payments on Margin Facility	-	-	-	(1,960)	(5,146)	(7,106)
Net Cash Used In Financing Activities	-	-	-	-	-	-
Increase (Decrease) in Cash and Cash Equivalents	4,660	3,856	8,516	(3,146)	(12,382)	(15,528)
Cash and Cash Equivalents, Beginning	6,395	27,960	34,355	9,541	40,342	49,883
Cash and Cash Equivalents, Ending	$ 11,055	$ 31,816	$ 42,871	$ 6,395	$ 27,960	$ 34,355
Change in Net Assets	$ 34,864	$ 15,678	$ 50,542	$ (271,591)	$ 37,432	$ (234,159)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:						
Depreciation	5,357	-	5,357	4,865	-	4,865
Net Change in the Fair Value of Investments	2,114	2,596	4,710	16,777	6,619	23,396
Other	157	-	157	48	-	48
Change in Assets & Liabilities:						
Receivables	504	(2,092)	(1,590)	1,980	(3,050)	(1,070)
Other Assets	(74)	-	(74)	462	-	462
Interfund Receivables, Payables	(6,765)	6,765	-	(10,088)	10,088	-
Accounts Payable & Accrued Liabilities	1,594	(105)	1,491	1,621	83	1,704
Due to Department of Education	-	1,963	1,963	-	985	985
Allowance for Non-Reinsured Loan Defaults	-	(24,890)	(24,890)	-	(56,980)	(56,980)
Total Adjustments	2,887	(15,763)	(12,876)	15,665	(42,255)	(26,590)
Net Cash Provided By (Used In) Operating Activities	$ 37,751	$ (85)	$ 37,666	$ (255,926)	$ (4,823)	$ (260,749)

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

1] ORGANIZATION AND OPERATIONS

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

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

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

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

	FYE 2014	FYE 2013
Four-Year	$4,645,123	$6,032,050
Two-Year	529,349	681,584
Proprietary	579,747	728,781
Consolidation	7,806,570	7,663,402
Total	$13,560,789	$15,105,817

Subsidiary: Education Assistance Services, Inc. (EAS) is a for-profit, wholly-owned subsidiary established in 1995 for the furtherance of TG's student loan and higher education mission. After being dormant, EAS began its most recent operations in FY 2009 as a collections agency, with revenue primarily from TG's outsourced collections activities. In June 2014, TG made the decision to discontinue its outsourcing to collection agencies, including EAS, no later than September 30, 2014. Absent the TG outsourcing contract, TG's Board of Directors discontinued EAS' operations in June 2014 resulting in termination of its contracts and staff to again become dormant, with its capital assets consisting primarily of furniture and equipment being valued at estimated market for pending sale. The Operating Fund financial statements reflect the financial position, results of operations, and cash flows of TG consolidated with that of EAS, eliminating all inter-company balances and transactions. The loss resulting from liquidating EAS collections operations is included in the Operating Fund's Operations Expenses.

Selected EAS financial data is as follows (in 000s):

	FY 2014	FY 2013
Current Assets	$803	$938
Capital Assets	-	164
Total Liabilities	219	200
Net Assets	584	902
Operating Revenues	3,620	3,731
Operating Expenses	3,381	3,675
Loss from Liquidation	557	-

EAS operations have generated deferred tax assets, which have been fully reserved, including nearly $7 million in Net Operating Loss carry forwards expiring from 2016 to 2028.

2] SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Escrow Accounts: In connection with its potential non-FFELP collections activities, TG is required to maintain separate escrow accounts for certain clients to ensure their collected funds are not comingled with TG's Cash and Cash Equivalents. As these funds would belong to TG clients, the cash would be netted with the corresponding liability to TG's clients and as a result not be reflected on a gross basis in the accompanying financial statements. There were no funds held in escrow accounts during FY 2014 or 2013.

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

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

TG's Operating Fund is authorized to invest directly in: US Government obligations, including agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions of any state; corporate notes and bonds subject to ratings limitations; certain collateralized mortgage obligations; commercial paper; repurchase agreements; certificates of deposit; Securities and Exchange Commission (SEC)-registered no-load money market. Average maturities will depend upon cash flow requirements of TG and the safety, liquidity, and yield parameters set forth in TG's policy.

TG's Operating Fund is also authorized to invest via externally managed funds in: fixed income foreign securities subject to ratings limitations; domestic equities; foreign equities dollar denominated; non-dollar denominated equities including emerging market equities; marketable alternative strategies with a two year liquidity and non-marketable alternative strategies. Allocations to each asset class are defined by Board approved policy.

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

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

Revenue Recognition:

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

Default Aversion Fee (DAF) — DAF equal to 1 percent of delinquent loan principal and interest is earned by TG's Operating Fund and paid by TG's Federal Fund upon the loan holder's initial first-time regulatory required request for default aversion assistance. DAF is refundable in the event of future loan default. Accordingly, an Interfund Default Aversion Refund Allowance has been established from discounted projections of future defaults.

Recovery Revenue — Upon default claim payment, TG is statutorily required to pursue collection on behalf of the federal government, receiving commissions based upon collection method; 16 percent for borrower payments and 10 percent for consolidation collections. Rehabilitation collections were commissioned through June 30, 2014 at 18.5 percent of principal, up to 18.5 percent in collection cost, and accrued interest. Thereafter, rehabilitation collections are commissioned at up to 16 percent collection cost, and accrued interest. Rehabilitation collections are subject to discount upon sale to a participating lender, which is borne by TG and netted against recovery revenue. Including these collection methods, as well as loans collected through federal income tax offsets and Federal Direct Loan Program consolidations which do not flow through TG cash, TG collected approximately $667 and $673 million on defaulted student loans in FY 2014 and FY 2013, respectively.

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

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

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

***Public Benefits Program*:** In FY 2014, TG's public benefits program provided scholarships and grants totaling $2.4 and $6.9 million, respectively plus administrative costs. In FY 2013, TG fulfilled the remaining $22 million of its $25 million pledge to the Texas Higher Education Coordinating Board for the purpose of establishing the Texas – Science, Technology, Engineering and Mathematics program (T-STEM), paid its contribution commitment of $30 million to the TEXAS Grant program which provides higher education scholarships for qualified students, and distributed other scholarship and grant public benefits totaling $9.2 million.

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

Functionalization of Expenses

For the years ended September 30, 2014 and 2013, supporting service expense for TG are approximately $14 million and $15 million, respectively, of total TG operations expenses of $82.0 million and $85.7 million respectively.

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

Risk Management: In addition to FFELP guarantee activity risks, TG is exposed to: various risks of loss related to torts; theft of, damage to, and destruction of, assets; business interruption; errors and omissions; job-related illnesses or injuries to employees; and natural disasters, for which it carries commercial insurance at levels consistent with that of the prior fiscal year. Risk retention is substantially confined to customarily nominal policy deductibles, with the exception of typically higher deductible limits for directors' and officers' liability, cyber liability, and umbrella coverage, as well as the retrospective rating of job-related illnesses or injuries to employees' policy premiums. Resulting risk management liabilities, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There were no claims that exceeded insurance coverage in FY 2014 or FY 2013.

Income taxes: As an organization described in Internal Revenue Code (IRC) section 501(c)(3), TG is exempt from federal and state income tax on income from activities related to its exempt purpose. No material amounts of unrelated business income were earned in the FY 2014 and FY 2013. Accordingly, no accrual for income taxes is included in the financial statements.

Reclassification: Reclassification of certain prior year amounts in the cash flow statement has been made to conform to current year presentation.

3] REINSURANCE

TG paid claims totaling approximately $739 million and $811 million for FY 2014 and FY 2013, including default claims totaling $636 million and $717 million, respectively. Claims paid are eligible for reinsurance from ED, typically at 95 percent of the claim paid amount. Reinsurance rates are dependent upon annual default rates ("Trigger Rates") and the underlying loan origination date. Claims exceeding 5 percent and 9 percent Trigger Rates receive reduced reinsurance generally at 85 percent and 75 percent, respectively. Annual Trigger Rates are calculated by dividing claims paid during the year, after adding back loan rehabilitations, by the original guarantee amount of loans in repayment at the preceding fiscal year end. The annual Trigger Rate was 2.67 percent and 3.02 percent for FY 2014 and FY 2013, respectively. Due to less than 100 percent ED claims reinsurance, TG's Federal Fund maintains an Allowance for Non-reinsured Loan Defaults equal to the net present value of the unreinsured portion of all estimated future claims on its existing guaranteed student loan portfolio.

In the unlikely event all outstanding guaranteed loans default simultaneously, resulting in the highest Trigger Rate, and therefore minimum reinsurance rate, the maximum credit risk exposure to TG approximates $3.20 billion at September 30, 2014, net of federal reinsurance.

4] INVESTMENTS

Fair Market of Financial Instruments:

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

Fair Value Hierarchy:

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

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

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

- *Level 1* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that TG has the ability to access at the measurement date.
- *Level 2* inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means. Inputs and valuation techniques used by a third-party valuation service to measure investment fair value include prices quoted by various pricing organizations and are used by TG's investment custodian as well as TG's investment system provider. These prices are compared to a secondary source by TG on a sample basis to validate reasonableness.
- *Level 3* inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect TG's assumptions based on the best information available in the circumstances. At FYE 2014 and 2013, no investment values are based upon Level 3 inputs.

Limitations:
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. There were no transfers between Level 1 and Level 2 during FY 2014 and 2013.

TG's investments are as follows (in 000s):

FYE 2014	OPERATING FUND				FEDERAL FUND			
	Amortized	Fair Value			Amortized	Fair Value		
	Cost	Level 1	Level 2	Total	Cost	Level 1	Level 2	Total
Cash & Cash Equivalents	$11,055	$11,055		$11,055	$31,816	$31,816		$31,816
Investments								
US Treasury Notes	27,421	26,751		26,751	78,699	78,315		78,315
US Agency Obligations:								
Agency	37,301		$37,055	37,055	209,935		$207,345	207,345
Mortgage Backed	19,676		21,289	21,289				
Total Agency	56,977		58,344	58,344	209,935		207,345	207,345
Municipalities	17,492		17,644	17,644				
Certificate of Deposits	1,200		1,201	1,201				
Equities:								
Stocks/ETF's	39,301	39,016		39,016				
Mutual Funds	14,016	13,923		13,923				
Total Equities	53,317	52,939		52,939				
Total Investments	$156,407	$79,690	$77,189	$156,879	$288,634	$78,315	$207,345	$285,660

Maturities of non-equity Investments at par value are as follows (in 000s):

	Operating Fund	Federal Fund
Within one year	$17,720	$68,691
One through five years	69,011	162,702
Five through ten years	12,911	57,658
Total	$99,642	$289,051

FYE 2013	OPERATING FUND				FEDERAL FUND			
	Amortized	Fair Value			Amortized	Fair Value		
	Cost	Level 3	Level 2	Total	Cost	Level 1	Level 2	Total
Cash & Cash Equivalents	$6,395	$6,395		$6,395	$27,960	$27,960		$27,960
Investments								
US Treasury Notes	31,676	31,251		31,251	73,588	73,489		73,489
US Agency Obligations:								
Agency	50,245		$51,033	51,033	219,459		$218,708	218,708
Mortgage Backed	27,138		28,900	28,900				
Total Agency	77,383		79,933	79,933	219,459		218,708	218,708
Municipalities	17,492		17,460	17,460				
Certificate of Deposits	1,680		1,929	1,929				
Total Investments	$128,231	$31,251	$99,322	$130,573	$293,047	$73,489	$218,708	$292,197

5] CAPITAL ASSETS

Capital Assets include the following (in 000s):

	FYE 2014	FYE 2013
Operating Fund		
Land	$3,315	$3,315
Building & Improvements	34,442	34,467
Furniture & Equipment	16,338	15,293
Software	11,096	11,116
Software Construction	18,005	16,180
Vehicles	74	74
Other	248	
Capital Assets	83,518	80,445
Accumulated Depreciation	(40,430)	(36,863)
Capital Assets, Net	$43,088	$43,582

Capital Assets include $0.74 million and $0.39 million in accrued purchases at FYE 2014 and FYE 2013, respectively. Depreciation expense was $5.36 and $4.87 for FYE 2014 and 2013, respectively.

6] ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities include the following (in 000s):

	FYE 2014		FYE 2013	
	Operating Fund	Federal Fund	Operating Fund	Federal Fund
Trade Payables	$1,985	$75	$2,075	$180
Compensated Absences	2,109		2,058	
Performance Awards	3,895		4,952	
Public Benefits	3,227			
Other	807		626	
Total	$12,023	$75	$9,711	$180

7] SHORT-TERM FINANCING

Margin Facility: TG's investment Prime Broker provides borrowing capacity, with certain exceptions, at 95 percent of TG's U.S. Treasury and U.S. Agency investment portfolio fair value, and up to 95 percent of other portfolio investments, subject to Federal Reserve regulations. Outstanding balances bear interest at the Broker Call Rate minus 3/8 percent or 1.625 percent for Operating and 1.375 percent for Federal, at September 30, 2014, with payments required to the extent that outstanding principal and interest exceeds the borrowing capacity level.

While the facility was not accessed in FY 2014, it was accessed from one to four days in FY 2013, to facilitate cash management. There was no outstanding balance under this facility at September 30, 2014 or September 30, 2013.

Line of Credit: In March 2014, TG renewed its $5 million, no commitment fee, unsecured line of credit with its depository institution, bearing interest due monthly at the institution's prime rate plus 1 percent, which totaled 4.25 percent, at September 30, 2014. Outstanding Principal is due upon expiration at March 31, 2015, or upon depository relationship termination if earlier. The facility was not accessed in FY 2014 or FY 2013.

8] RETIREMENT BENEFITS

TG maintains a defined contribution retirement plan, the TGSLC Money Purchase Pension Plan and Trust (the Plan), which covers substantially all employees. While employees do not contribute to the Plan, TG's contributions to the Plan are generally based on nine percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately $38.2 million and $36.8 million, respectively, at Plan year end June 30, 2014, and approximately $37.9 million and $36.1 million, respectively, at Plan year end June 30, 2013. Total TG contributions, in accordance with this Plan requirement, were approximately $3.2 million and $3.1 million for Plan years 2014 and FY 2013, respectively. Plan amendments are subject to the Plan's Board of Trustees' approval, and TG's Board of Directors' ratification. Eligible employees may also elect to participate in the TG-sponsored 403b plan through payroll deduction. Other than certain administrative costs, the 403b plan is employee funded.

9] LEASE COMMITMENTS

TG obtains various equipment under operating lease agreements, with terms generally not exceeding 12 months. Rent expense for FY 2014 and FY 2013 was approximately $0.30 million and $0.44 million, respectively.

10] CONTINGENCIES

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

11] SUBSEQUENT EVENTS

TG has evaluated subsequent events through November 26, 2014, the date the financial statements were available to be issued, and concluded there were no events or transactions during this period that would require recognition or disclosure in the financial statements.

KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Texas Guaranteed Student Loan Corporation:

We have audited, in accordance with the 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, the consolidated financial statements of Texas Guaranteed Student Loan Corporation (TG), which comprise the consolidated statement of financial position as of September 30, 2014, and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered TG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of TG's internal control. Accordingly, we do not express an opinion on the effectiveness of TG's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TG's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the TG's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TG's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Austin, Texas
November 26, 2014

KPMG LLP
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Directors
Texas Guaranteed Student Loan Corporation:

Report on Compliance for Each Major Federal Program

We have audited Texas Guaranteed Student Loan Corporation's (TG) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on TG's major federal program for the year ended September 30, 2014. TG's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for TG's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of TG's compliance.

Opinion on the Major Federal Program

In our opinion, TG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended September 30, 2014.

Report on Internal Control Over Compliance

Management of TG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered TG's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TG's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of TG as of and for the year ended September 30, 2014, and have issued our report thereon dated November 26, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Austin, Texas
November 26, 2014

TEXAS GUARANTEED STUDENT LOAN CORPORATION

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2014

Federal Grantor Program Title	**CFDA Number**		**Revenues (Expenditures)**
U.S. Department of Education, Guaranteed Student Loan Program	84.032G		
Due from ED:			
Account maintenance fee		$	9,051,609
Reinsurance			708,161,159
Subtotal			717,212,768
Due to ED:			
Program income – recoveries rehabilitation, and repurchase			(487,355,341)
Other			80,706
Subtotal			(487,274,635)
Total		$	229,938,133

See accompanying independent auditors' report.

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the schedule) summarizes the activity of all federal award programs of Texas Guaranteed Student Loan Corporation (TG). For purposes of the schedule, federal awards include all grants, contracts and similar agreements entered into directly between TG and agencies and departments of the federal government.

The accompanying schedule is presented using the accrual basis of accounting, which is described in note 2 to TG's financial statements.

(2) Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule may not agree with the amounts reported in the related federal financial reports filed because of accruals.

(3) Federal Student Loan Programs

The Federal Family Education Loan Program (FFELP) under which TG operates was established by Congress and is administered by the U.S. Department of Education (ED) as a means of making loans available to students attending colleges, universities and postsecondary educational and vocational schools. FFELP provides for TG to guarantee the repayment of principal and accrued interest to lenders for eligible student loans. TG was responsible for processing loans submitted for guarantee and issuing loan guarantees through the legislative discontinuation of FFELP loan originations in July 2010. For its residual loan portfolio, TG remains responsible for providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, and collecting loans on which default claims have been paid. TG also informs schools, students, lenders, secondary markets and servicers of FFELP requirements. At September 30, 2014, outstanding guaranteed student loans total approximately $14 billion.

TEXAS GUARANTEED STUDENT LOAN CORPORATION

Schedule of Findings and Questioned Costs

Year Ended September 30, 2014

Section I - Summary of Auditors' Results:

a) The type of report issued on the financial statements: **Unmodified**

b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None reported** Material weaknesses: **None**

c) Noncompliance which is material to the financial statements: **None reported**

d) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **None**

e) The type of report issued on compliance for major programs: **Unmodified opinion**

f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **None reported**

g) Identification of Major Federal Program**:** **U.S. Department of Education Guaranteed Student Loan Program CFDA 84.032G**

h) Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **yes**

Section II – Financial Statement Findings:

None reported

Section III – Federal Award Findings and Questioned Costs:

None reported