AUDIT REPORT

Tennessee Student Assistance Corporation

For the Year Ended
June 30, 2006

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit
Division of State Audit

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STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

July 26, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Robert Ruble, Executive Director
Tennessee Student Assistance Corporation
1950 Parkway Towers
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Student Assistance Corporation for the year ended June 30, 2006. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The corporation's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/to
07/015

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit

Tennessee Student Assistance Corporation

For the Year Ended June 30, 2006

AUDIT OBJECTIVES

The objectives of the audit were to consider the corporation's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

TSAC Management Failed to Maintain Adequate Controls and Oversight of Entries to Its Accounting Records, Increasing the Risks of Errors in Financial Statements and the Possibility That Fraud, Waste, and Abuse Could Occur and Not Be Detected Timely

The controls over the accounting system did not prevent or detect errors in a timely manner. The Tennessee Student Assistance Corporation's loans receivable account was overstated by $2,309,332.04, and a cancellation of loans receivable account (expenditure) was understated by $1,819,738.06. Also, adjusting journal entries were not properly approved (page 10).

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2006

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Student Assistance Corporation
For the Year Ended June 30, 2006

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Student Assistance Corporation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Student Assistance Corporation was chartered by the General Assembly in 1947 to aid residents of the state who desire to further their education beyond high school. The corporation is responsible for administering several student financial assistance programs supported by federal and state funds. These programs include the Federal Stafford Loan Program, Federal Parent Loans for Undergraduate Students (FPLUS), Robert C. Byrd, Honors Scholarship Program, Tennessee Student Assistance Award Program, Christa McAuliffe Scholarship Program, Ned McWherter Scholars Program, Minority Teaching Fellows Program, Tennessee Teaching Scholars Program, and Dependent Children's Scholarship Program.

ORGANIZATION

The corporation is governed by a board of directors, and the executive director is responsible for implementing the board's policy. The board includes the Governor, the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Commissioner of Education, the Executive Director of the Tennessee Higher Education Commission, the Chancellor of the Tennessee Board of Regents, and the President of the University of Tennessee.

The corporation contracted with GuaranTec, LLP, of Jacksonville, Florida, to service its Federal Stafford Loan, FPLUS, and Consolidated Loan programs. The loan servicer is responsible for processing and approving new loans and default claims from lenders. The loan servicer also collects payments on defaulted loans from borrowers and is responsible for processing and collecting bankruptcy claims from borrowers.

An organization chart for the corporation is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 2005, through June 30, 2006, and was conducted 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.

Financial statements are presented for the year ended June 30, 2006, and for comparative purposes, the year ended June 30, 2005. The corporation has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 60 of the State of Tennessee Accounting and Reporting System (allotment code 332.04) and a portion of fund 25 (allotment codes 332.03, 332.05, and 332.07).

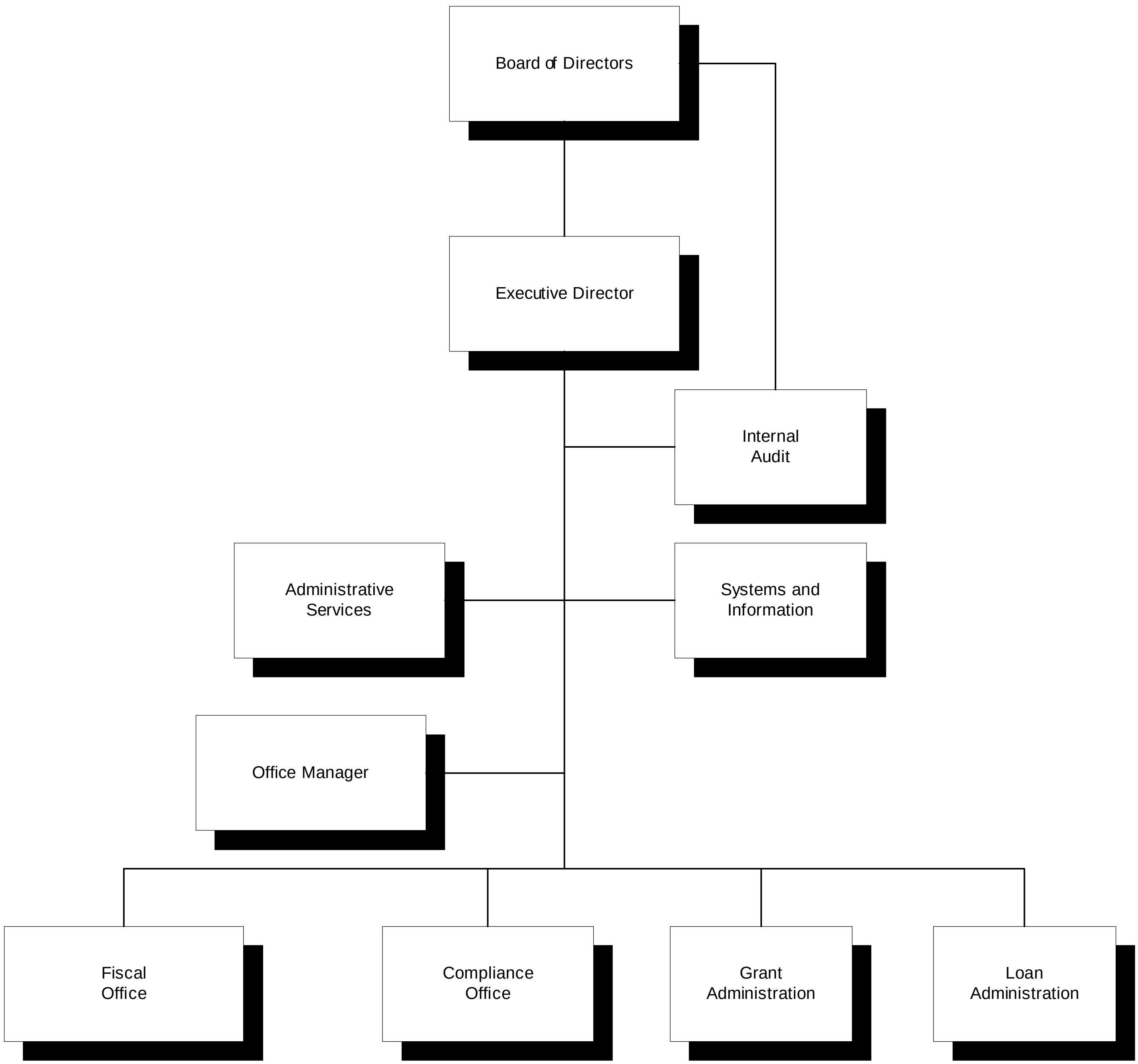
OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the corporation's internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering

TENNESSEE STUDENT ASSISTANCE CORPORATION
ORGANIZATION CHART



federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

AUDIT COMMITTEE

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;
2. evaluating management's assessment of risk and the agency's system of internal controls;
3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;
4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;

5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

The board of directors of the Tennessee Student Assistance Corporation appointed an audit committee in fiscal year 2005. In response to the "State of Tennessee Audit Committee Act of 2005," the board of directors approved an audit committee charter on November 28, 2006. The audit committee charter was approved by the Comptroller of the Treasury on November 28, 2006. Additionally, the audit committee has reviewed the board and agency's conflict-of-interest policies, which require conflict-of-interest forms to be completed annually.

At the end of audit fieldwork on December 21, 2006, the audit committee had reviewed a code of conduct for the corporation and the agency's process for monitoring compliance with laws and regulations. In addition, the internal auditor had begun the corporation's formal risk management assessment process.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Tennessee Student Assistance Corporation filed its compliance report and implementation plan on June 28, 2006.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the corporation's financial statements for the year ended June 30, 2006, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing opinions on the financial statements, as required by 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. A reportable condition, along with the recommendation and management's response, is detailed in the Finding and Recommendation section of this report. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered unqualified opinions on the corporation's financial statements.

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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*

December 21, 2006

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The following reportable condition was noted:

- TSAC management failed to maintain adequate controls and oversight of entries to its accounting records, increasing the risks of errors in financial statements and the possibility that fraud, waste, and abuse could occur and not be detected timely

The condition is described in the Finding and Recommendation section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the corporation's financial statements are free of material misstatement, we performed tests of the corporation's 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*.

We did, however, note certain less significant instances of noncompliance, which we have reported to the corporation's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the corporation's board of directors, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA
Director

AAH/to

FINDING AND RECOMMENDATION

TSAC management failed to maintain adequate controls and oversight of entries to its accounting records, increasing the risks of errors in financial statements and the possibility that fraud, waste, and abuse could occur and not be detected timely

Finding

Management and staff of the Tennessee Student Assistance Corporation (TSAC) did not have adequate controls over its accounting records and accounting system. There were inadequate reviews of the accounting records, there was no management oversight and approval of the accounting manager's journal entries, and the accounting manager did not perform periodic reconciliations between the corporation's general ledger and subsidiary records. As a result, there were errors in account balances that were not detected in a timely manner, incorrect adjustments were made to the accounting records, and the corporation's financial statements contained significant misstatements.

TSAC administers state supported programs of student financial aid in conformity with Acts of the Tennessee General Assembly and applicable federal laws and regulations. TSAC personnel also perform such other duties as may from time to time be required by the General Assembly or the Governor.

TSAC's accounting system is designed to measure economic activities of the student financial aid programs and summarizes and reports information about these activities to internal and external decision makers. Management maintains the detailed financial aid records in the system's subsidiary ledgers which support the corporation's general ledger.

Based on our review and testwork, we found that TSAC's accounting manager failed to record prior-year adjustments to the general ledger, which resulted in an incorrect beginning balance in the loan receivable account for the Minority Teachers Fellow Program. Specifically, we found that the general ledger's beginning balance in the program's loan receivable account was overstated by $1,572,951, the interest receivable account was understated by $489,490, the cumulative note cancellation expense account was understated by $1,083,357, and the cumulative interest cancellation expense account was understated by $104. The errors are due to the accounting manager's failure to reflect the effects of prior-year note and interest cancellation activities in the balances brought forward.

We also found that the accounting manager failed to properly record the program's note cancellations during the year, which resulted in an additional understatement of $736,381 in the program's note cancellation expense account. The result was that the ending balance of cumulative note cancellation expense account was understated by $1,819,738.

Furthermore, after becoming aware of the above problems, management did not investigate and resolve the errors before preparing the corporation's financial report and submitting it for audit. Although there were errors of a similar nature in other program accounts, they did not result in significant misstatements of the financial statements. According to the associate executive director for business affairs, the accounting manager posted the account balances, prepared and recorded adjusting journal entries in the general ledger, and submitted the financial report for audit without the associate executive director's review or approval.

The failure to properly assess risks and develop mitigating controls such as reviewing the accounting records, periodically reconciling the general ledger balances with subsidiary account ledgers, and requiring review of the accounting manager's adjustments to the accounting records increases the risk that errors in financial reporting could occur and not be detected timely. Furthermore, the lack of adequate risk assessments and mitigating controls increases the opportunities for fraud, waste, and abuse.

Recommendation

The executive director should ensure that the corporation maintains an adequate system of internal controls in order to mitigate the risks of errors and misstatements in the accounting records. Entries to the accounting records should be supported by adequate supporting documentation, and there should be formal written procedures developed to assign responsibility for reviewing general ledger balances, approving adjusting journal entries, and reviewing the financial statements for accuracy and completeness. In addition, the associate executive director for business affairs should ensure that the subsidiary ledger account balances are reconciled with the general ledger on a periodic basis. The reconciliations should include reconciling the beginning balance, receipts, disbursements, cancellations, and ending balance. Any resulting adjustments should be prepared, reviewed, and recorded promptly. By performing these tasks, the risks of errors and misstatements in the accounting records should be mitigated.

Top management should ensure that risks such as these noted in this finding are adequately identified and assessed in its documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We concur. Prior to the conclusion of the audit, immediate corrective actions were implemented by senior TSAC management to improve the internal controls of the agency in order to mitigate the risks of errors and misstatements in accounting records.

A management action plan for Fiscal Year 2006-2007 has been developed to address the observations in the finding. It includes improved reviews of properly documented accounting records, monthly reconciling of general ledger balances with subsidiary account ledgers, and prior approval for any adjustments. A General Ledger Adjusting Journal Entry Log has been implemented for FY 2006-2007 for this purpose.

TSAC management, working with staff, will ensure risks are adequately identified and assessed in its documented risk assessment activities in order to prevent and detect exceptions in a timely manner.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report

December 21, 2006

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities, general fund, and the Federal Family Education Loan Trust Fund of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of June 30, 2006, and June 30, 2005, which collectively comprise the corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the corporation's management. Our responsibility is to express opinions on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Student Assistance Corporation, a component unit of the State of Tennessee; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; and participating in the negotiations and procurement of services of the state.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the corporation as of June 30, 2006, and June 30, 2005, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the corporation's basic financial statements. The accompanying financial information on page 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2006, on our consideration of the corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/to

Tennessee Student Assistance Corporation
Management's Discussion and Analysis
For the Years Ended June 30, 2006, and June 30, 2005

This section of the Tennessee Student Assistance Corporation's annual financial report presents a discussion and analysis of the financial performance of the corporation during the fiscal years ended June 30, 2006, and June 30, 2005. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This annual report consists of a series of financial statements. The Statements of Net Assets and the Statements of Activities provide information about the activities of the corporation as a whole. The Balance Sheets and the Statements of Revenues, Expenditures, and Changes in Fund Balances provide financial information about the activities of the corporation's general fund. The Statements of Fiduciary Net Assets and the Statements of Changes in Fiduciary Net Assets provide financial information about the activities for which the corporation acts solely as a trustee for the benefit of those outside the corporation.

Statements of Net Assets

The Statements of Net Assets present the financial position of those programs included in the state's Education Fund as administered by the corporation at the end of the fiscal year. They include all assets and liabilities, measured in current values, of the corporation. The difference between total assets and total liabilities—net assets—is an indicator of the corporation's current financial condition.

Summary of Statements of Net Assets

	6/30/2006	6/30/2005	6/30/2004
Total assets	$ 7,600,597	$ 8,117,621	$ 8,886,766
Other liabilities	$ 2,775,732	$ 3,050,372	$ 2,717,852
Long-term liabilities	83,642	62,384	60,302
Total liabilities	$ 2,859,374	$ 3,112,756	$ 2,778,154
Total net assets-unrestricted	$ 4,741,223	$ 5,004,865	$ 6,108,612

Some highlights of significant assets and liabilities on the Statements of Net Assets are as follows:

- The notes and interest receivables include notes of $3,606,406 and interest of $1,390,367 owed the corporation are from students having participated in one of the teaching loan/scholarship programs administered by the corporation. Under these programs, students agree to meet certain program conditions upon graduation. If those conditions are met, the loans are forgiven based on a previously agreed upon schedule; at any time the conditions are not met, the loan then becomes due and payable.

- Accrued liabilities of $1,241,402 include amounts due to the corporation's loan servicer. Due to the federal government and advance from the federal government include funds received from the Paul Douglas Teacher Scholarship Program that are held in trust and administered by the corporation.

Unrestricted net assets are available to the corporation for any lawful purpose of the corporation.

FY 2006 to FY 2005

The corporation's total net assets decreased from $5,004,865 at June 30, 2005, to $4,741,222 at June 30, 2006. The total fund balance decrease is indicative of the note receivable decrease of $420,773 from $4,027,179 at June 30, 2005, to $3,606,406 at June 30, 2006.

FY 2005 to FY 2004

The corporation's total net assets decreased from $6,108,612 at June 30, 2004, to $5,004,865 at June 30, 2005. The total fund balance decrease is indicative of the notes receivable decrease from $5,903,799 at June 30, 2004, to $4,027,179 at June 30, 2005. The decrease in notes receivable totaled $1,876,620 and significantly contributed to the decrease in net assets.

Statements of Activities

The Statements of Activities present the activities occurring in those programs included in the state's Education Fund as administered by the corporation for the fiscal year.

Summary of Statements of Activities

	6/30/2006	6/30/2005	6/30/2004
Expenses for education	$ 57,565,250	$ 64,266,267	$ 60,981,724
Program revenues:			
Charges for services	9,891,252	14,021,449	13,018,841
Operating grants and contributions	7,931,758	5,486,968	6,630,325
Interest on investments	70,670	314,970	-
Total program revenues	17,893,680	19,823,387	19,649,166
Net program expenses	39,671,569	44,442,880	41,332,558
General revenues:			
Payments from primary government	39,407,927	43,339,134	42,034,769
Increase (decrease) in net assets	(263,643)	(1,103,746)	702,211
Net assets, beginning of year	5,004,866	6,108,612	5,406,401
Net assets, end of year	$ 4,741,223	$ 5,004,866	$ 6,108,612

Some highlights of the Statements of Activities are as follows:

- Expenses for education included grants made in the Tennessee Student Assistance Awards and other education programs, costs incurred by the corporation in administering the programs, and loans and interest cancelled for those students participating in the loan/scholarship programs who met the requirement of those programs.

- Revenues include state appropriations for programs administered by the corporation, the collection of loan and interest payments, and refunds from those programs.

FY 2006 to FY 2005

Operating grants and contributions increased due to increase in monies received from the federal government. Program expenses decreased primarily due to a decrease in grant expense from $43,536,442 at June 30, 2005, to $39,358,740 at June 30, 2006.

FY 2005 to FY 2004

Operating grants and contributions decreased due to a reduction in monies received from the federal government. Program expenses increased primarily due to an increase in loan cancellation expense from $441,771 at June 30, 2004, to $2,383,201 at June 30, 2005.

Balance Sheets - General Fund

The Balance Sheets present the current financial condition of those programs included in the state's Education Fund as administered by the corporation at the end of the fiscal year. They include assets, liabilities and fund balances, measured in current values on the modified accrual basis of accounting, of the corporation.

Some highlights of the General Fund Balance Sheets are as follows:

- The notes and interest receivables include notes and interest due the corporation from students having participated in one of the teaching loan/scholarship programs administered by the corporation. Under these programs, students agree to meet certain program conditions upon graduation. If those conditions are met, the loans are forgiven based on a previously agreed upon schedule; at any time the conditions are not met, the loan then becomes due and payable.

- Accrued liabilities include amounts due to the corporation's loan servicer. Due to the federal government and advance from the federal government include funds received for the Paul Douglas Teacher Scholarship Program that are held in trust and administered by the corporation.

- Fund balances include reserves for the loan/scholarship outstanding loans and continuing appropriations for projects begun in the fiscal year but continuing into the next fiscal year.

At June 30, 2006; June 30, 2005; and June 30, 2004, the general fund had total fund balances of $4,897,493, $5,122,297, and $6,224,880, respectively. Reconciliations of the total fund balances with the total net assets presented on the Statements of Net Assets are shown at the bottom of the Balance Sheets.

<u>FY 2006 to FY 2005</u>

The total fund balance decrease from $5,122,297 at June 30, 2005, to $4,897,493 at June 30, 2006, occurred primarily due to the decrease in the note receivable amount of $420,774, which significantly contributed to the decrease in net assets.

<u>FY 2005 to FY 2004</u>

The total fund balance decrease from $6,224,880 at June 30, 2004, to $5,122,297 at June 30, 2005, occurred primarily due to the decrease in the note receivable amount of $1,876,620, which significantly contributed to the decrease in net assets.

Statements of Revenues, Expenditures, and Changes in Fund Balances- General Fund

The Statements of Revenues, Expenditures, and Changes in Fund Balances present the results of operations for those programs included in the state's Education Fund as administered by the corporation for the fiscal years.

Some highlights of the General Fund Statements of Revenues, Expenditures, and Changes in Fund Balances are as follows:

- Revenues include state and federal appropriations for programs administered by the corporation, the collection of loan interest and payments, and refunds from those programs.

- Expenditures include grants made in the Tennessee Student Assistance Awards and other education program awards made to students, administrative costs incurred by the corporation, and loans and interest canceled for those students participating in the loan/scholarship programs.

The general fund had a deficiency of revenues under expenditures of ($224,804) for the fiscal year ended June 30, 2006, and ($1,102,583) for the fiscal year ended June 30, 2005. The general fund had an excess of revenues over expenditures of $732,382 for the fiscal year ended June 30, 2004. Reconciliations of excess (deficiency) of revenues over (under) expenditures with increase (decrease) in net assets presented on the Statements of Activities are shown at the bottom of the Statements of Revenues, Expenditures, and Changes in Fund Balances.

<u>FY 2006 to FY 2005</u>

Grant revenue from the federal government increased for the Tennessee Student Assistance Corporation in FY 2006 due to an increase in appropriations by the U.S. Congress. Revenue increased from $5,486,968 at June 30, 2005, to $7,931,758 at June 30, 2006. The amount of the increase totaled $2,444,790.

<u>FY 2005 to FY 2004</u>

Grant revenue from the federal government decreased slightly for the Tennessee Student Assistance Corporation in FY 2005 due to a reduction in appropriations by the U.S. Congress. Revenue reduced from $6,642,379 at June 30, 2004, to $5,486,968 at June 30, 2005. The amount of the reduction totaled $1,155,411. This appropriation reduction occurred as federal monies were cut back for this line item in the federal budget.

Statements of Fiduciary Net Assets-
Federal Family Education Loan Trust Fund

The Statements of Fiduciary Net Assets present the assets and liabilities of the Federal Family Education Loan (FFEL) Trust Fund as administered by the corporation as the Federal Guaranty Agency for Tennessee.

Some highlights of the Statements of Fiduciary Net Assets are as follows:

- Assets include cash reserves of the corporation for the FFEL Program and receivables consisting of reinsurance claims pending and not yet made.

- Liabilities include cash reserves due to the United States Department of Education under sections 422(h) and 422(i) of the Higher Education Act of 1965, as amended (HEA) and as required by the Balanced Budget Act of 1997 (Pub. L.105-33).

The trust fund had net assets held in trust for student loan activities of $77,938,708 at June 30, 2006; $77,799,102 at June 30, 2005; and $78,758,191 at June 30, 2004.

FY 2006 to FY 2005

Net assets increased by $139,606 from June 30, 2005, to June 30, 2006. This was primarily due to an increase in interest earnings for FY 2006 versus that of FY 2005.

FY 2005 to FY 2004

Net assets decreased by $959,088 from June 30, 2004, to June 30, 2005. This was primarily due to a smaller reimbursement percentage on loan guarantees by the federal government for insured student loans.

Statements of Changes in Fiduciary Net Assets-
Federal Family Education Loan Trust Fund

The Statements of Changes in Fiduciary Net Assets present the additions to and deductions from the Federal Family Education Loan Trust Fund for the fiscal year as administered by the corporation as the Federal Guaranty Agency for Tennessee.

Some highlights of the Statements of Changes in Fiduciary Net Assets are as follows:

- Additions include federal revenues in the form of fees and allowances earned by the corporation in administration of the Federal Family Education Loan Program as the Federal Guaranty Agency, interest earned on program reserves held by the corporation, and contributions from the state into the state sponsored Tennessee Student Loan Program reserves.

- Deductions include expenses incurred by the corporation in the administration of the Federal Family Education Loan Program and the Tennessee Student Loan Program and the return of reserve funds.

<u>FY 2006 to FY 2005 and FY 2005 to FY 2004</u>

Federal Revenue additions and expenditures are subject to loan volume fluctuations and payment receipt fluctuations. A multi-year analysis of the Federal Education Loan Fund better reflects the federal revenue of this fund.

Factors Affecting the Corporation's Future Financial Condition

The Third Higher Education Extension Act (Pub.L. 109-292) extended the programs authorized by the Higher Education Act of 1965, as amended (HEA) until June 30, 2007, and made changes to the student loan programs authorized by Title IV of the HEA. Payments to Guaranty Agencies such as the Tennessee Student Assistance Corporation for Account Maintenance Fees were changed relating to their calculation. This technical modification is not expected to have any practical effect to the Corporation on those payments.

The Corporation will begin issuance of the third-year Tennessee Education Lottery Scholarship Program payments during Fiscal Year 2007. The first-year eligible recipients will start their third year and the next two classes of eligible students will begin receiving benefits. Subsequent classes of students will be added until four years of students are being awarded at once. Note that this program is now the Corporation's largest scholarship program and continues to expand.

Although Tennessee State Government revenue growth improved during FY 2006, the Corporation continues to operate under budget restrictions. In both FY 2007 and FY 2006, the Corporation has been requested to reduce expenditures in the Tennessee Student Assistance Awards Program by approximately $1,500,000 in order for these funds to be reverted into the General Fund.

Request for Information

This financial report is designed to provide the State of Tennessee, the public, and the other interested parties with an overview of the Tennessee Student Assistance Corporation's activities, and to show the corporation's accountability for conducting business in a fiscally responsible manner. If you have questions about this report or require additional financial information, contact the Tennessee Student Assistance Corporation at the following address:

Tennessee Student Assistance Corporation
1950 Parkway Towers
Nashville, Tennessee 37243

Exhibit A

Tennessee Student Assistance Corporation
Statements of Net Assets
June 30, 2006, and June 30, 2005

	June 30, 2006	June 30, 2005
Assets:		
Cash (Note 2)	$ 2,594,160.34	$ 2,745,146.55
Receivables:		
Notes receivable	3,606,405.52	4,027,179.66
Interest receivable	1,390,367.83	1,315,303.26
Accounts receivable	9,663.08	29,991.82
Total assets	7,600,596.77	8,117,621.29
Liabilities:		
Accounts payable	977,233.83	1,175,765.82
Accrued liabilities	1,241,402.07	1,174,748.97
Payroll related accruals	66,232.23	51,185.61
Due to primary government	19,012.95	14,353.72
Deferred revenue	81,415.10	156,017.89
Advance from the federal government	317,807.46	423,252.19
Compensated absences (Note 3):		
Payable within one year	72,628.19	55,047.91
Payable after one year	83,642.37	62,383.81
Total liabilities	2,859,374.20	3,112,755.92
Net assets:		
Unrestricted	$ 4,741,222.57	$ 5,004,865.37

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

Exhibit B

Tennessee Student Assistance Corporation
Statements of Activities
For the Years Ended June 30, 2006, and June 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
Expenses for education:		
Grants expenses	$ 39,358,740.09	$ 43,536,441.50
Administrative expenses	16,770,522.54	18,346,625.13
Loan cancellations	1,435,987.76	2,383,200.62
Total program expenses	57,565,250.39	64,266,267.25
Program revenues:		
Charges for services	9,891,252.46	14,021,448.98
Operating grant & contributions:		
Grant & contributions	7,931,758.49	5,486,968.08
Interest on investments	70,669.64	314,969.68
Total program revenues	17,893,680.59	19,823,386.74
Net program expenses	39,671,569.80	44,442,880.51
General revenues:		
Payments from primary government	39,407,927.00	43,339,134.27
Increase (decrease) in net assets	(263,642.80)	(1,103,746.24)
Net assets, beginning of year	5,004,865.37	6,108,611.61
Net assets, end of year	$ 4,741,222.57	$ 5,004,865.37

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

Tennessee Student Assistance Corporation
Balance Sheets
General Fund
June 30, 2006, and June 30, 2005

	June 30, 2006	June 30, 2005
Assets:		
Cash (Note 2)	$ 2,594,160.34	$ 2,745,146.55
Receivables:		
Notes receivable	3,606,405.52	4,027,179.66
Interest receivable	1,390,367.83	1,315,303.26
Accounts receivable	9,663.08	29,991.82
Total assets	$ 7,600,596.77	$ 8,117,621.29
Liabilities and fund balances:		
Liabilities:		
Accounts payable	$ 977,233.83	$ 1,175,765.82
Accrued liabilities	1,241,402.07	1,174,748.97
Payroll related accruals	66,232.23	51,185.61
Due to primary government	19,012.95	14,353.72
Deferred revenue	81,415.10	156,017.89
Advance from federal government	317,807.46	423,252.19
Total liabilities	2,703,103.64	2,995,324.20
Fund balances (Note 4):		
Reserved for related assets	3,606,405.52	4,027,179.66
Reserved for other specific purposes	1,291,087.61	1,095,117.43
Total fund balances	4,897,493.13	5,122,297.09
Total liabilities and fund balances	$ 7,600,596.77	$ 8,117,621.29

Reconciliation to Statement of Net Assets

	June 30, 2006	June 30, 2005
Total fund balances	$ 4,897,493.13	$ 5,122,297.09
Compensated absences liability not reported in the fund	(156,270.56)	(117,431.72)
Total net assets	$ 4,741,222.57	$ 5,004,865.37

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

Exhibit D

Tennessee Student Assistance Corporation
Statements of Revenues, Expenditures, and
Changes in Fund Balances
General Fund
For the Years Ended June 30, 2006, and June 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
Revenues:		
Grant revenue from primary government	$ 39,407,927.00	$ 43,339,134.27
Departmental services revenue	9,891,252.46	14,021,448.98
Federal revenue	7,931,758.49	5,486,968.08
Interest income	70,669.64	314,969.68
Total revenues	57,301,607.59	63,162,521.01
Expenditures:		
Grants expenditures	39,358,740.09	43,536,441.50
Administrative expenditures	16,731,683.70	18,345,461.76
Loan cancellations	1,435,987.76	2,383,200.62
Total expenditures	57,526,411.55	64,265,103.88
Excess (deficiency) of revenues over (under) expenditures	(224,803.96)	(1,102,582.87)
Fund balance, beginning of year	5,122,297.09	6,224,879.96
Fund balance, end of year	$ 4,897,493.13	$ 5,122,297.09
Reconciliation to Statement of Activities		
Excess (deficiency) of revenues over (under) expenditures	$ (224,803.96)	$ (1,102,582.87)
Compensated absences expense not reported as an expenditure in the fund.	(38,838.84)	(1,163.37)
Increase (decrease) in net assets	$ (263,642.80)	$ (1,103,746.24)

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

Tennessee Student Assistance Corporation
Statements of Fiduciary Net Assets
Federal Family Education Loan Trust Fund
June 30, 2006, and June 30, 2005

	June 30, 2006	June 30, 2005
Assets:		
Cash (Note 2)	$ 62,276,295.65	$ 58,209,616.81
Receivables:		
Claims receivable	16,981,293.12	20,125,188.94
Total assets	79,257,588.77	78,334,805.75
Liabilities:		
Accounts payable and accruals	1,318,881.11	535,703.75
Total liabilities	1,318,881.11	535,703.75
Net assets:		
Held in trust for student loans (Note 5)	$ 77,938,707.66	$ 77,799,102.00

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

Exhibit F

Tennessee Student Assistance Corporation
Statements of Changes in Fiduciary Net Assets
Federal Family Education Loan Trust Fund
For the Years Ended June 30, 2006, and June 30, 2005

	Year Ended June 30, 2006	Year Ended June 30, 2005
Additions:		
Federal revenue	$ 16,204,103.09	$ 19,697,354.51
Interest income	2,429,632.40	1,231,232.86
Contribution from primary government	3,027,368.87	2,067,519.33
Miscellaneous	147,457.24	54,650.46
Total additions	21,808,561.60	23,050,757.16
Deductions:		
Administrative expenses	14,796,067.80	8,955,664.02
Collection expense	6,872,888.14	15,054,181.22
Total deductions	21,668,955.94	24,009,845.24
Increase (decrease) in net assets	139,605.66	(959,088.08)
Net assets, beginning of year	77,799,102.00	78,758,190.08
Net assets, end of year	$ 77,938,707.66	$ 77,799,102.00

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

Tennessee Student Assistance Corporation
Notes to the Financial Statements
June 30, 2006, and June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The corporation is responsible for guaranteeing student loans under federal programs and administering federal and state grants/loans to students. The corporation is a component unit of the State of Tennessee. Although it is a separate legal entity, the majority of its board members are either appointed by the Governor or are state officials, and the corporation's budget is approved by the state. The corporation is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The financial statements required by that statement provide a government-wide perspective of the corporation's assets, liabilities, net assets, revenues, expenses, and changes in net assets, in addition to the fund perspective previously required.

Measurement Focus and Basis of Accounting – Government-wide Statements

The government-wide financial statements include the statement of net assets and the statement of activities and report information about the corporation as a whole, except for the fiduciary fund. The government-wide financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The corporation has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The corporation has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Measurement Focus and Basis of Accounting – General Fund Statements

The general fund is used to account for all financial transactions not required to be accounted for in another fund. The fund financial statements for the general fund include the balance sheet and the statement of revenues, expenditures, and changes in fund balances. The general fund financial statements have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Under the modified accrual basis, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. The corporation considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded at the time fund liabilities are incurred.

Measurement Focus and Basis of Accounting – Fiduciary Fund Statements

The Federal Family Education Loan Trust Fund is a private-purpose trust fund, which is used to account for the activities of a trust whose principal and income may be used for the purpose of the trust. The fund financial statements for the Federal Family Education Loan Trust Fund include the statement of fiduciary net assets and the statement of changes in fiduciary net assets. The fiduciary fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting except that (1) interest is not accrued on notes purchased under the provisions of the Federal Family Education Loan Program, as explained below; and (2) student loan guaranty fees are recorded as income in the year received rather than being amortized over the life of the student loans guaranteed.

When both restricted and unrestricted resources are available for use, generally it is the corporation’s policy to use the restricted resources first.

Compensated Absences

It is the corporation’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the corporation’s policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide financial statements.

Accrual of Interest

Since the beginning of the federal loan program in 1963, the corporation has purchased insured loans whenever the student has defaulted, been declared bankrupt, died, or become totally and permanently disabled. Subsequent transactions with the U.S. Department of Education reduce the corporation's equity in these loans. Since it is anticipated that a large number of these loans are uncollectible, the corporation does not accrue interest on them but does attempt to collect interest on each one if repayment terms can be established with the borrower.

Program Revenues

Program revenues include charges for services, operating grant and contributions, and interest on investments.

NOTE 2. CASH

This classification includes demand deposits and a $100.00 amount of petty cash on hand. The demand deposits are in the State Treasurer's Pooled Investment Fund. The Pooled Investment Fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 3. COMPENSATED ABSENCES

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$117,431.72	$148,466.41	$109,627.57	$156,270.56	$72,628.19

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$116,268.35	$120,788.29	$119,624.92	$117,431.72	$55,047.91

NOTE 4. FUND BALANCE RESERVES

The fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure—reserved for related assets—or (2) legally segregated for a specific future use—reserved for other specific purposes and reserved for continuing appropriations.

NOTE 5. NET ASSETS HELD IN TRUST FOR STUDENT LOANS

The corporation is required by state law to maintain a reserve equal to .25 percent of all outstanding loans that it has insured. The corporation has an agreement with the U.S. Department of Education whereby the federal government reinsures all loans insured by the corporation for at least 80 percent of the principal amount for loans made prior to October 1, 1993; 78 percent for loans made from October 1, 1993, through September 30, 1998; and 75% for loans made after October 1, 1998.

Therefore, the corporation maintains a cash reserve equal to at least 2 percent of the outstanding loans that it has insured. The statutory reserve is invested by the Treasurer of Tennessee along with idle cash of the state, and a pro rata share of the monthly interest is paid to the corporation. By agreement, the corporation is free to withdraw from this investment pool such amounts as may be needed to honor its commitments under loan insurance agreements with commercial lenders. At June 30, 2006, the corporation had insured loans outstanding of $4,326,323,940.30 and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program in the amount of $60,957,414.54. At June 30, 2005, the corporation had insured loans outstanding of $4,346,638,828.70 and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program in the amount of $57,673,913.06.

NOTE 6. DEFINED BENEFIT PENSION PLAN

Plan Description - The corporation contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The corporation is required to contribute an actuarially determined rate. The current rate is 10.3% of annual covered payroll. Contribution requirements for the corporation are established and may be amended by the TCRS' Board of Trustees. The corporation's contributions to TCRS for the years ended June 30, 2006, 2005, and 2004 were $219,006.37, $160,337.27, and $91,151.60. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible corporation retirees. This benefit is provided and administered by the State of Tennessee. The corporation assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 8. RISK MANAGEMENT

It is the policy of the state not to purchase commercial insurance for the risks of casualty losses for general liability, automobile liability, professional malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund. The state purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the state's officials and employees. The Risk Management Fund is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence, depending on the type of coverage, to an aggregate of $7.5 million. The corporation participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the corporation based on a percentage of the corporation's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of the fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the years ended June 30, 2006, and June 30, 2005, are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140. The corporation is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the corporation for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund. At June 30, 2005, the Risk Management Fund held $133.2 million in cash designated for payment of claims. In FY 2006, the state paid $23.6 million for claims.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The corporation participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the corporation based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Sick Leave - The corporation records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $354,400.40 at June 30, 2006, and $258,664.40 at June 30, 2005.

Operating Lease - The corporation has entered into an operating lease for office space. This lease will likely continue to be required. Expenditures under the operating lease were $229,912.20 for the year ended June 30, 2006, and $227,412.00 for the year ended June 30, 2005. The operating lease is cancelable at the lessee's option.

Schedule 1

SUPPLEMENTARY INFORMATION
TENNESSEE STUDENT ASSISTANCE CORPORATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

	FOR THE YEAR ENDED JUNE 30, 2006				FOR THE YEAR ENDED JUNE 30, 2005			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final	(Budgetary Basis)	(Negative)	Original	Final	(Budgetary Basis)	(Negative)
Budgetary fund balance, July 1	5,122,297.09	5,122,297.09	5,122,297.09	0.00	$ 6,224,879.96	$ 6,224,879.96	$ 6,224,879.96	$ -
Resources (inflows):								
Grant revenue from primary government	43,716,900.00	43,756,800.00	39,407,927.00	(4,348,873.00)	43,432,200.00	43,756,000.00	43,339,134.27	(416,865.73)
Departmental services revenue	14,596,600.00	15,286,000.00	9,891,252.46	(5,394,747.54)	12,702,400.00	14,559,900.00	14,021,448.98	(538,451.02)
Federal revenue	6,055,500.00	6,551,300.00	7,931,758.49	1,380,458.49	5,371,300.00	6,987,000.00	5,486,968.08	(1,500,031.92)
Interest income			70,669.64	70,669.64	-	-	314,969.68	314,969.68
Amounts available for appropriation	69,491,297.09	70,716,397.09	62,423,904.68	(8,292,492.41)	67,730,779.96	71,527,779.96	69,387,400.97	(2,140,378.99)
Charges to appropriations (outflows):								
Personal services	493,000.00	493,000.00	1,594,049.67	(1,101,049.67)	553,400.00	553,400.00	1,552,598.45	(999,198.45)
Employee benefits	200,100.00	200,100.00	532,225.79	(332,125.79)	224,200.00	224,200.00	515,587.85	(291,387.85)
Travel	32,000.00	32,000.00	101,390.11	(69,390.11)	37,300.00	37,300.00	86,788.58	(49,488.58)
Printing, duplicating, and film processing	10,000.00	10,000.00	52,816.40	(42,816.40)	14,300.00	14,300.00	55,395.61	(41,095.61)
Communication and shipping cost	80,000.00	80,000.00	92,919.59	(12,919.59)	78,000.00	78,000.00	150,756.69	(72,756.69)
Maintenance, repairs, and services	800.00	800.00	5,302.13	(4,502.13)	1,400.00	1,400.00	408.00	992.00
Professional and administrative services	13,100,000.00	13,100,000.00	14,146,685.94	(1,046,685.94)	17,024,777.98	17,024,777.98	16,390,721.06	634,056.92
Supplies	40,000.00	40,000.00	41,947.74	(1,947.74)	37,000.00	37,000.00	104,799.44	(67,799.44)
Rentals and insurance	12,000.00	12,000.00	237,914.03	(225,914.03)	66,800.00	66,800.00	234,642.00	(167,842.00)
Awards and indemnities	2,000.00	2,000.00	164.08	1,835.92	1,000.00	1,000.00	902.42	97.58
Grants and subsidies	40,063,016.49	40,064,631.93	40,500,930.96	(436,299.03)	44,863,071.49	44,863,071.49	44,907,207.26	(44,135.77)
Professional services	173,000.00	173,000.00	220,065.11	(47,065.11)	173,000.00	173,000.00	265,296.52	(92,296.52)
Total charges to appropriations	54,205,916.49	54,207,531.93	57,526,411.55	(3,318,879.62)	63,074,249.47	63,074,249.47	64,265,103.88	(1,190,854.41)
Budgetary fund balance, June 30	$ 15,285,380.60	$ 16,508,865.16	$ 4,897,493.13	$ (11,611,372.03)	$ 4,656,530.49	$ 8,453,530.49	$ 5,122,297.09	$ (3,331,233.40)

1 GAAP (i.e., modified accural) serves as the budgetary basis of accounting.