AUDIT REPORT

Tennessee Student Assistance Corporation

For the Year Ended
June 30, 2007

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

June 26, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assemblby
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, 2007. 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 findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ajm
08/027

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2007

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 and the Audit Committee Have Failed to Carry Out Their Respective Responsibilities Regarding Adequate Controls and Oversight of Entries to Accounting Records and Performance of Documented Risk Assessment Activities, Increasing the Risks of Errors in Financial Statements and the Possibility That Fraud, Waste, and Abuse Could Occur and Not Be Detected Timely*
TSAC still did not have adequate controls over its accounting records and accounting system. TSAC staff still did not reconcile the corporation's general ledger to the subsidiary records. Furthermore, reviews and approvals for adjustments still did not improve the effectiveness of control. Finally, management did not perform, as promised, its documented risk assessment activities.

COMPLIANCE FINDING

Management Submitted the Annual Financial Report for the Federal Family Education Loans Program Late and With Significant Errors
The ED Form 2000 annual report for the federal fiscal year ended September 30, 2006, contained totals that did not agree to the accounting records and was submitted three months late.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

*This finding is repeated from the prior audit.

Audit Report
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2007

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Tennessee Student Assistance Corporation
For the Year Ended June 30, 2007

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 1974 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 (now known as NGS), 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, 2006, through June 30, 2007, 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, 2007, and for comparative purposes, the year ended June 30, 2006. 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).

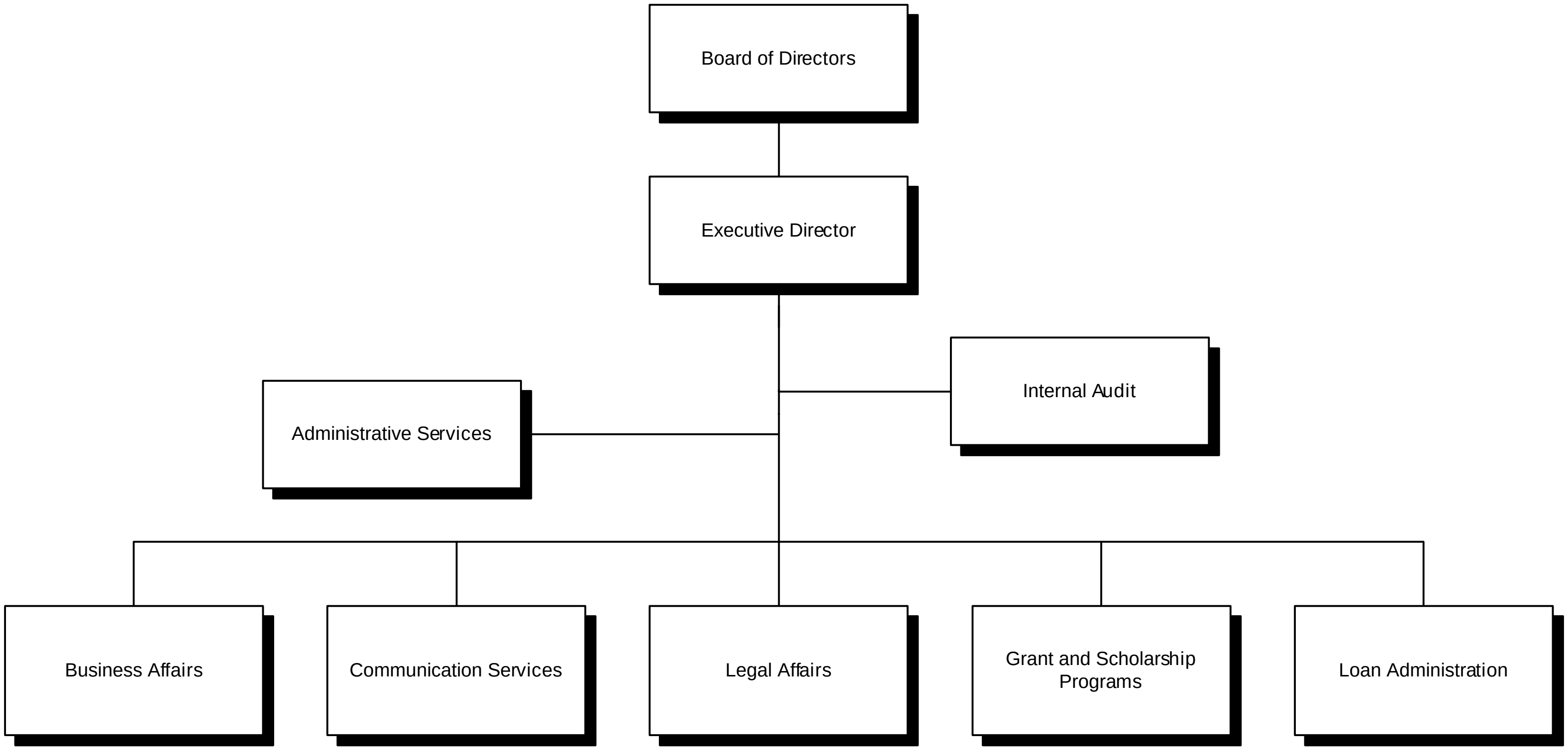
OBJECTIVES OF THE AUDIT

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 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.

TENNESSEE STUDENT ASSISTANCE CORPORATION
ORGANIZATION CHART



PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The corporation filed its report with the Department of Audit on March 27, 2007. A follow-up of all prior audit findings was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit report contained a finding which discussed the failure to maintain adequate controls and oversight of entries to its accounting records. This finding has not been resolved and is repeated in this 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, *Consideration of Fraud in a Financial Statement Audit*, 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 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.

In a previous audit report, we recommended that the corporation establish an audit committee. The board of the corporation appointed a three-member committee in fiscal year 2005. 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.

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 October 1 each year. The corporation filed its compliance report and implementation plan on June 29, 2007.

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, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion 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 significant deficiency, along with a recommendation and management's response, is detailed in the Findings and Recommendations section of this report.

Compliance and Other Matters

The results of our audit tests disclosed an instance of noncompliance with federal reporting requirements in the Federal Family Education Loans program 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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DEPARTMENT OF AUDIT
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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 7, 2007

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, 2007, and have issued our report thereon dated December 7, 2007. 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

- TSAC management and the audit committee have failed to carry out their respective responsibilities regarding adequate controls and oversight of entries to its accounting records and performance of documented risk assessment activities, increasing the risks of errors in financial statements and the possibility that fraud, waste, and abuse could occur and not be detected timely

This deficiency is described in the Findings and Recommendations section of this report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

We also noted certain matters involving the internal control over financial reporting, which we have reported to the corporation's management in a separate letter.

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 audit tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards.* This instance of material noncompliance along with our recommendation and management's response is included in the Findings and Recommendations section.

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

The corporation's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. We did not audit the corporation's responses and, accordingly, we express no opinion on them.

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, management, and others within the entity 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., CPA
Director

AAH/ajm

Findings and Recommendations

1. TSAC management and the audit committee have failed to carry out their respective responsibilities regarding adequate controls and oversight of entries to accounting records and performance of documented risk assessment activities, increasing the risks of errors in financial statements and the possibility that fraud, waste, and abuse could occur and not be detected timely

Finding

As noted in the prior audit, management and staff of the Tennessee Student Assistance Corporation (TSAC) did not have adequate controls over its accounting records and accounting system. The prior audit revealed that 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, management did not detect errors in account balances, incorrect adjustments made to the accounting records, or significant misstatements to the corporation's financial statements in a timely manner.

Management concurred with the prior finding and stated that corrective actions had been 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.

The response also stated that a management action plan for fiscal year 2006-2007 had been developed to address the observations in the finding. The plan included provisions calling for improved reviews of properly documented accounting records, monthly reconciling of general ledger balances with subsidiary account ledgers, and prior approval for any adjustments.

Finally, the response stated that TSAC management, working with staff, would ensure risks were adequately identified and assessed in its documented risk assessment activities in order to prevent and detect exceptions in a timely manner.

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.

The results of this year's audit revealed that TSAC still did not have adequate controls over its accounting records and accounting system. Furthermore, reviews and approvals for adjustments still did not improve the effectiveness of control. Finally, management did not perform, as promised, its documented risk assessment activities.

Inadequate Controls Over Accounting Records and Accounting System

On March 16, 2007, the executive director reassigned the fiscal director to another position within the corporation, leaving the fiscal director position vacant. The associate executive director for business affairs retired on May 31, 2007, and was replaced at that time by the corporation's internal auditor, who had recently begun his employment with the corporation on January 1, 2006. The internal auditor position was vacant from June 1, 2007, to October 1, 2007. And, as of December 7, 2007, the corporation is still in the interview process to replace the fiscal director. During the engagement, the former internal auditor, now the current associate executive director for business affairs, was rarely able to answer our questions regarding processes and procedures under his supervision, and previously subject to his internal audits, referring us to his subordinates for answers.

As the engagement progressed, we noted several deficiencies in the corporation's internal control relative to processing transactions, timely and accurate reporting to the U.S. Department of Education, adequate review of account balances, and the overall supervision of the accounting function. On February 27, 2007, the corporation's external loan servicing agent acknowledged its inadvertent billing for services on 66,977 loans which had been guaranteed by TSAC but were subsequently transferred to another guaranty agency. According to the correspondence, the error had been going on since January 2005, and the excess billings totaled $616,989.64. TSAC management did not detect the billing errors and paid the totals invoiced. TSAC recovered the overpayments by offset against the agent's December 2006 and January 2007 billings. Since the new associate executive director for business affairs did not assume his position until June 1, 2007, most of the above problems occurred prior to his tenure. However, at the end of the fiscal year, we had to request that the current associate executive director for business affairs make several adjustments to prepare accurate financial statements. The need for the adjustments, and the adjustments themselves, should have been obvious to him but were not. Based on our review, we noted:

- revenue was recorded in the wrong fiscal year,
- there was a liability of nearly $2,000,000 for three months of billings from one vendor which had not been recorded, and
- an accounts receivable was improperly recorded as cash before it had been collected.

Personnel Changes and Unfilled Positions

Although management had promised to improve controls, the incidences of errors and problems with the accounting function continued. The turnover and reassignment of personnel with accounting and internal control responsibilities made even more apparent management's lack of policies and procedures concerning the accounting function, and staff's and management's unfamiliarity with the workings of the corporation's overall accounting system. These conditions also revealed management's lack of planning for personnel changes and the lack of training and cross-training of the corporation's accounting staff. During the preparation of the financial statements, the accounting staff had to contact a former employee to ascertain how to make necessary, basic year-end adjustments. In addition, the corporation's accounting staff had to rely heavily on the assistance of a funds coordinator in the state's Department of Finance and Administration in preparing the financial statements.

The internal auditor's position was filled for 11 months of the fiscal year. However, only one audit report was produced during the year, and we found no evidence of the internal auditor's involvement in the development of the corporation's formal risk assessment. We also found no evidence that the corporation's audit committee provided any oversight or direction regarding the internal audit function or the risk assessment process. The audit committee's lack of oversight and supervisory involvement is further evidenced by the fact that the only record of the audit committee's meetings was attending the entrance and exit conferences of the annual external audit engagement.

Audit Committee Function

Because of the conditions noted in the prior finding and the turnover in accounting and internal audit personnel, it would seem that the audit committee would have taken a much more proactive posture in its oversight responsibilities to ensure that the corporation fulfilled its promises to improve controls and conduct formal risk assessment activities. Furthermore, it would seem that the executive director would have taken a much more proactive posture in his oversight of the corporation's day-to-day operations, especially in the review and supervision of the business affairs functions. However, we could find no discernable improvement in the financial records and related controls, the promised documented risk assessment activities remain undone, and he has allowed the fiscal director position to remain unfilled after nearly nine months.

As stated in the prior year's finding, 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 audit committee should provide more guidance and oversight over the internal audit functions. The audit committee should request, review, and approve the corporation's internal audit plans. Reports issued by the internal auditor should be reviewed and compared with the overall audit plan. Neither the audit committee nor the internal auditor should conduct the documented risk assessment or design and implement mitigating internal controls. This is the responsibility of top management. However, management should seek advice from the internal auditor while performing the risk assessment and designing and implementing effective mitigating internal controls. The committee should make inquiries and follow management's progress in the process.

It is the audit committee's responsibility to hold top management responsible for the risk assessment and the mitigating internal controls. The committee should require management to submit for review and approval by the committee documentation of the risk assessment and internal control sufficient for the members of the audit committee to understand the steps taken in the risk assessment, the results of the risk assessment, and the nature of the internal controls implemented as a result of the risk assessment, including how a control will mitigate its relevant risk. When satisfied with the documented risk assessment and internal controls, the audit committee should approve them, in writing.

In light of the continued problems with the corporation's overall accounting and reporting functions, the executive director should take a more hands-on approach to 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. The executive director should ensure entries to the accounting records are supported by adequate 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.

The associate executive director for business affairs should develop a comprehensive set of accounting policies and procedures for the accounting system. In order to do so, he must obtain a working knowledge of the chart of accounts, the relationship between the various accounts, and how the system handles each type of transaction. He should ensure that there are adequate, competent staff at all levels of responsibility within his area and that there is sufficient expertise to function in the absence of one or more employees. He must 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, management can mitigate the risks of errors and misstatements in the accounting records.

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. The Audit Committee, the Executive Director, and Senior Management take this audit finding and the corresponding recommendations very seriously.

The Audit Committee will fulfill its oversight responsibilities to ensure that TSAC Management remedies all deficiencies in a timely manner. The TSAC Board has approved the Charter of the Audit Committee which expressly gives the Committee the authority to undertake the oversight and supervisory roles with respect to the Internal Audit function.

The Audit Committee will meet with the Internal Auditor at least quarterly, and more frequently over the next several months as the agency addresses the findings in this audit report. The Audit Committee will also make inquiries of management and follow management's progress in resolving the deficiencies cited in this audit report. In that regard, with the assistance of the Internal Auditor, the Committee has already developed a matrix of nearly fifty individual deficiencies that were identified in the course of the audit to allow the Committee to monitor the progress of TSAC management and staff as they remedy those deficiencies.

The Audit Committee will perform a year-end review of its chartered roles and responsibilities to determine that they have been fulfilled and performed. Future Audit Committee meeting agendas will focus on these responsibilities, and the Committee's oversight will be documented in the signed Audit Committee meeting minutes.

TSAC's Executive Director will become personally involved in correcting the deficiencies, as follows:

- Staffing. By May 1, 2008, the Associate Executive Director for Business Affairs will review the personnel needs of the accounting staff and will identify opportunities for cross training and assigning or reassigning duties to improve internal controls. If additional staff is needed, the Executive Director will be supportive.

- Fiscal Director. A search is currently underway to fill the vacant Fiscal Director position. The position has been posted on the agency's website and on the website of the Association of Government Accountants. The state registry for fiscal directors has been reviewed, and potential candidates will be contacted by March 1, 2008. An individual with experience in Tennessee State accounting is being sought, and the Executive Director will provide the resources necessary to attract a qualified individual.

- Internal Controls. The Executive Director will personally review the comprehensive set of accounting policies and procedures as well as policies described elsewhere in this management response, and will seek assurance from the Internal Auditor that the appropriate controls are in place.

Management agrees with the need to better control the process by which the loan servicing agent bills TSAC for services it provides. TSAC has worked with the Contractor on the need for additional backup for certain billing documents since shortly after the current contract began. As part of an overall billing improvement process, TSAC has addressed this issue on a component-by-component basis and will continue to do so. There has been improvement and steady progress. TSAC expects significant additional progress by June 30, 2008.

The associate executive director for business affairs and the fiscal section staff will review day-to-day activities and accounting transactions and develop a comprehensive set of policies and procedures for the accounting system. The policies and procedures will include guidelines for all accounting processes but will also include specific guidelines to address weaknesses in the audit report, such as:

- properly review general ledger balances, approve adjusting journal entries, and review financial statements for accuracy and completeness;

- provide NelNet Guarantor Solutions (NGS) the required documentation so that NGS can submit their monthly billings in a timely manner;

- monitor billings from all sources at year-end closing so that the Accrued Liability account can be complete and accurate as possible;

- record year-end expenditures and revenues in the appropriate fiscal year;

- reconcile the subsidiary ledger account balances in the loan forgiveness programs under Grants and Scholarships on a monthly basis to the loan balances in the General Ledger; and

- specify the individual positions responsible for each of these actions.

The comprehensive set of accounting policies and procedures will be developed and submitted to TSAC's Internal Auditor by May 15, 2008, for review. The Internal Auditor will certify the adequacy of the internal controls to the Executive Director and the Audit Committee. Management will provide training to the fiscal section staff to ensure that each individual understands his/her responsibilities and the guidelines are followed.

While a risk assessment was not performed during the time period of this audit, a risk assessment was performed in December 2007. It was submitted to the Department of Finance and Administration and also to the Comptroller's Office in December 2007. The Audit Committee did not review the risk assessment prior to submission. The Audit Committee will review the current risk assessment at the Committee's next meeting. In the future, an updated risk assessment will be conducted and reviewed by the Audit Committee every year.

2. **<u>Management's lack of adequate procedures, controls, and oversight of federal reporting resulted in submitting its annual Guaranty Agency Financial Report for the Federal Family Education Loans program late and with significant errors</u>**

Finding

Management and staff of the Tennessee Student Assistance Corporation did not correctly prepare or review the federal Guaranty Agency Financial Report before it was submitted to the U.S. Department of Education (ED). Specifically, TSAC's former fiscal director failed to accurately prepare the ED Form 2000 report (Guaranty Agency Financial Report) for the federal fiscal year ended September 30, 2006, based on the supporting accounting records. The U.S. Department of Education has developed a detailed instruction manual for report preparation; however, the corporation has never developed its own specific written instructions for preparing the report or developed internal control procedures to ensure reporting accuracy. Management apparently did not review the report prior to submission, and the corporation had to submit the report three times. The first two submissions were rejected by the U.S. Department of Education, and the third submission was not accepted until March 2007, almost three months late. The final submission still contained significant errors.

The U.S. Department of Education requires each guaranty agency to submit this report monthly, quarterly, and annually. Guaranty agencies such as the Tennessee Student Assistance Corporation use the report to request payments from and make payments to ED. In addition, ED uses the reported information to monitor the agencies' financial activities, including their federal fund and operating fund. The report instructions state, "Guaranty agencies must maintain detailed records to support each entry on the Guaranty Agency Financial Report and be able to reconstruct the entries . . . back to specific guaranty agency level transactions."

We reviewed the annual report for the federal fiscal year ended September 30, 2006, and found the following variances between the report and the amounts supported:

Account Description	Report Total	Amount Supported	Variance
Insurance Premiums	$1,377,222	$1,365,006	$ 12,216
Maintenance Fee Expense	2,113,654	2,050,014	63,640
Account Maintenance Fees Earned	2,433,540	4,186,573	(1,753,033)
Account Maintenance Fee Over Cap	2,113,564	645,724	1,467,840
Loan Origination Fees Earned	2,710,663	1,469,009	1,241,654
Investment Earnings	2,039,282	1,840,058	199,224

Based on our review and discussions with personnel, we believe that the fiscal director made these errors in the reported amounts as a result of using the wrong accounts in accumulating report data, making improper arithmetic calculations, and because he failed to post transactions timely to the accounting records.

Without management's commitment to develop detailed instructions for report preparation and communicate them to TSAC staff, such as identifying which accounts are to be included in each reported item, management cannot effectively mitigate the risk of reporting errors in its reports. If the former fiscal director had been more diligent in report preparation, arithmetic errors and reconciling items could have been detected. Furthermore, if the former associate executive director for business affairs had properly reviewed the report before it was submitted, these errors could have been detected.

Although these errors did not result in any inappropriate requests for payments, errors of this magnitude are a clear indication of a lack of attention to detail in preparation and inadequate management supervision over federal reporting. Without accurate report information, the U.S. Department of Education, management, or the auditors cannot properly determine if the corporation is in compliance with program requirements.

Recommendation

The corporation's risk of erroneous federal reporting is exacerbated by management's lack of procedures, controls, and oversight of federal reporting. This situation and unmitigated risk require the immediate attention of the audit committee to proactively oversee management's plan for risk mitigation. The audit committee should also obtain and review management's corrective action plan and any detailed policies and procedures to ensure accurate federal reporting.

The executive director should immediately request that a U.S. Department of Education representative visit the corporation to ensure that the fiscal staff understands how to prepare the report. Detailed preparation instructions should be developed and followed, and any reconciling items between the accounting records and the reported amounts should be documented. The associate executive director for business affairs should personally review the information on each report and send a certification to the executive director that the information on the report has been reviewed and is correct. The internal auditor should periodically test the accuracy of the reports to determine if the revised procedures and controls are effective.

The corporation's management should ensure that the risks 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 adequately mitigate those risks and 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. All controls and control activities, including monitoring, should be adequately documented.

Management's Comment

We concur with the audit finding. The Audit Committee, the Executive Director, and Senior Management take this audit finding and the corresponding recommendations very seriously.

The Associate Executive Director for Loan Programs is now searching for an outside consultant to provide appropriate training concerning the preparation of the ED Form 2000 report. (The U.S. Department of Education does not provide this training.) Management will use this training to develop written policies and procedures for the preparation of the ED Form 2000 report, including assignment of tasks to individual positions. Although the outside consultant has not yet been identified, management expects to complete this training well in advance of the next ED Form 2000 annual report submission. The Internal Auditor will certify the adequacy of the policies and procedures to the Executive Director and the Audit Committee.

The policies and procedures will provide the internal controls to assure that the ED Form 2000 is accurate and that all reports (monthly, quarterly, and annual) are submitted on time.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
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Independent Auditor's Report

December 7, 2007

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

Dear Mr. Morgan:

We have audited the accompanying 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, 2007, and June 30, 2006, 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 plans of operation of the state's Community Services Agencies and the

Tennessee State Veterans' Homes Board; approving certain state contracts; participating in the negotiation and procurement of services for the state; managing the state's debt; making loans to the state's colleges and universities from debt proceeds; maintaining the accounting records for the Tennessee Local Development Authority and the Tennessee State School Bond Authority; and providing support staff to the State Funding Board, the bond finance committee of the Tennessee Housing Development Agency, various legislative committees, and commissions. Other boards on which the Comptroller of the Treasury serves as a member per state statutes include the Baccalaureate Education System Trust, the Board of Claims, the Board of Standards, the Health Services and Development Agency, the Local Government Group Insurance Fund, the Medicare Supplement Insurance Fund, the State Funding Board, the Teacher Group Insurance Fund, the Tennessee Consolidated Retirement System, the Tennessee Housing Development Agency, the Tennessee Higher Education Corporation, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority.

In our opinion, the accompanying statements of the governmental activities, general fund, and the Federal Family Education Loan Trust Fund of the Tennessee Student Assistance Corporation present fairly, in all material respects, the financial position of the corporation as of June 30, 2007, and June 30, 2006, and the changes in its financial position 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 23 through 31 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 financial statements that collectively comprise the corporation's basic financial statements. The accompanying financial information on page 45 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 7, 2007, 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/ajm

Tennessee Student Assistance Corporation
Management's Discussion and Analysis
For the Years Ended June 30, 2007, and June 30, 2006

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, 2007, and June 30, 2006. 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

	6/30/2007	6/30/2006	6/30/2005
Total assets	$ 11, 281,610	$ 7,600,597	$ 8,117,621
Other liabilities	$ 4,533,092	$ 2,775,732	$ 3,050,372
Long-term liabilities	98,817	83,642	62,384
Total liabilities	$ 4,631,909	$ 2,859,374	$ 3,112,756
Total net assets – unrestricted	$ 6,649,701	$ 4,741,223	$ 5,004,865

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

- The notes and interest receivables include notes of $5,237,219 and interest of $1,688,662 owed 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 of $3,948,506 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 2007 to FY 2006

The corporation's total net assets increased from $4,741,223 at June 30, 2006, to $6,649,701 at June 30, 2007. The total fund balance increase is indicative of an increase in cash by $1,751,905 from $2,594,160 at June 30, 2006, to $4,346,066 at June 30, 2007, and a note receivable increase of $1,630,813 from $3,606,406 at June 30, 2006, to $5,237,219 at June 30, 2007. The increase in cash was a result of TSAC receiving money back in the Tennessee Student Assistance Award program for the current and prior years. The increase in the notes receivable occurred in the Minority Teacher Fellowship Program because TSAC included loans that were in either Active or Grace status. These loans were not included in the prior-year financial statements.

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 $420,774 from $4,027,179 at June 30, 2005, to $3, 606,406 at June 30, 2006.

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

	6/30/2007	6/30/2006	6/30/2005
Expenses for education	$ 62,274,154	$ 57,565,250	$ 64,266,267
Program revenues:			
Charges for services	15,954,766	9,891,252	14,021,449
Operating grants and contributions	5,148,978	7,931,758	5,486,968
Interest on investments	448,116	70,670	314,970
Total program revenues	21,551,860	17,893,681	19,823,387
Net program expenses	40,722,294	39,671,570	44,442,881
General Revenues:			
Payments from primary government	42,630,772	39,407,927	43,339,134
Increase (decrease) in net assets	1,908,478	(263,643)	(1,103,746)
Net assets, beginning of year	4,741,223	5,004,865	6,108,612
Net assets, end of year	$ 6,649,701	$ 4,741,223	$ 5,004,865

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 canceled 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 2007 to FY 2006

Operating grants and contributions decreased due to decreases in monies received from the federal government, but there was an increase in charges for services and interest on investments. Program expenses increased primarily due to an increase in grant expense from $39,358,740 for the fiscal year ended June 30, 2006, to $42,633,431 for the fiscal year ended June 30, 2007. This was due to an increase in the TSAA loans for fiscal year ended June 30, 2007.

FY 2006 to FY 2005

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

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 all assets, liabilities, and fund balances, measured in current values, 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; if 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, 2007; June 30, 2006; and June 30, 2005, the general fund had total fund balances of $6,833,916, $4,897,493, and $5,122,297, 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.

FY 2007 to FY 2006

The total fund balance increase from $4,897,493 at June 30, 2006, to $6,833,916 at June 30, 2007, occurred primarily due to the increase in cash by $1,751,905 and the note receivable amount of $1,630,813, which significantly contributed to the increase in net assets. See explanation in comments under Statements of Net Assets FY 2007 to FY 2006.

FY 2006 to FY 2005

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. The decrease in notes receivable totaled $420,774.

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 an excess of revenues over expenditures of $1,936,422 for the fiscal year ended June 30, 2007; a deficiency of revenues under expenditures of ($224,804) for the fiscal year ended June 30, 2006; and a deficiency of revenues under expenditures of ($1,102,583) for the fiscal year ended June 30, 2005. 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.

FY 2007 to FY 2006

Grant revenue from the federal government decreased for the Tennessee Student Assistance Corporation in FY 2006 due to a decrease in appropriations by the U.S. Congress. Revenue decreased from $7,931,758 for the fiscal year ended June 30, 2006, to $5,148,978 for the fiscal year ended June 30, 2007. The amount of the reduction totaled $2,782,781. This appropriation reduction occurred as federal monies were cut back for this line item in the federal budget.

FY 2006 to FY 2005

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 for the fiscal year ended June 30, 2005, to $7,931,758 for the fiscal year ended June 30, 2006. The amount of the increase totaled $2,444,790. This appropriation increase occurred as federal monies were increased 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 $94,601,188 at June 30, 2007; $77,938,708 at June 30, 2006; and $77,799,102 at June 30, 2005.

FY 2007 to FY 2006

Net assets increased by $16,662,481 from June 30, 2006, to June 30, 2007. This was primarily due to the federal requirement that lenders submit a fee equal to 1% of all new Stafford and PLUS student loans to the state guarantor.

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.

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.

FY 2007 to FY 2006 and FY 2006 to FY 2005

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.

Supplementary Information: Budgetary Comparison

A budgetary comparison schedule is presented as Supplemental Information for the general fund. The schedule presents both the original and final appropriated budgets for the reporting period as well as actual budgetary inflows, outflows, and ending balances. Because the budgetary comparison schedule is not a required part of the basic financial statements, the schedule is not included in the basic financial statements.

Budgetary Comparison for the Fiscal Year Ended June 30, 2007

There was only a slight difference between the original budget work program and the final budget work program. The final work program was $2,100 less than the original work program. For the period ending June 30, 2007, the actual revenue was $4,649,468 less than the estimated revenue that would be earned during the same period. Actual grant revenue from primary government, departmental services revenue, and federal revenue were lower than the projected revenue in the final budget work program. Because revenue was lower than projected, TSAC also had lower expenditures than were allocated in the final budget work program. TSAC had expenditures that were $6,585,891 less than allocated in the final budget work program. The reduction in expenditures was greater than the reduction in revenues and resulted in a $1,936,422 increase in the budgetary fund balance at June 30, 2007. The reduction in expenditures allowed TSAC to build up the fund balance while actual funding was less than projected.

Budgetary Comparison for the Fiscal Year Ended June 30, 2006

There was an increase in the funding between the original budget work program and the final budget work program. The final work program was $1,225,100 more than the original funding plan. The actual funding was $8,292,492 less than the projected funding in the final budgetary work program. To compensate for the lower funding, TSAC had expenditures that were $8,067,688 less than the amount allocated in the final budgetary work program. This difference resulted in a $224,804 decrease in the budgetary fund balance at June 30, 2006.

Factors Affecting the Corporation's Future Financial Condition

The College Cost Reduction and Access Act of 2007 was signed by President Bush on September 27, 2007. There are three primary areas that will affect guarantee agencies such as Tennessee Student Assistance Corporation (TSAC):

- Elimination of Exceptional Performer Status: The impact of this change would be that the amount of claim payments that lenders receive would be reduced from 99% insurance to 97%. TSAC's portfolio is such that the majority of our lenders qualify for exceptional performer. Although, for the most part, we pay lenders 99% of the value of the loan, TSAC only receives reimbursement at 95%. This change will mean that TSAC will keep more of its Federal Fund. That will be about 2% points better than prior years. At our current claim payment rate, TSAC's Federal Fund should benefit about $2 million annually.

- Reduction of Guarantee Agency (Collection) Retention Rates: Although most guarantee agencies will be taking a great hit here to their Operating Fund, TSAC will not. The nature of our contract with our service provider, Nelnet Guarantor Solutions, is such that they will be absorbing the cost impact of this legislative change. TSAC does not anticipate any impact to either our Federal Fund or our Operating Fund.

- Reduction of an Administrative Fee: TSAC currently receives an administrative fee to manage our portfolio. The legislative change to this fee is a reduction from 0.10% to 0.06% of outstanding loans. TSAC estimates the impact of this change to be a reduction of $600 thousand per year in TSAC Operating Fund revenue.

Another concern to TSAC is how lenders will respond to the cuts they will have to absorb as a result of the new legislation. If lenders cannot afford to continue making the 1% Federal Default Fee payment on behalf of borrowers, TSAC may feel some pressure to absorb some or all of the cost. TSAC does not now pay the 1% Federal Default Fee on behalf of borrowers, and doing so would have a fiscal impact on the agency. Not doing so, however, might cause business to move away from TSAC to other guarantee agencies.

The Corporation will begin issuance of the fourth year Tennessee Education Lottery Scholarship (TELS) Program payments during Fiscal Year 2008. This year will mark the first year in which the TELS program will be fully "mature." TSAC estimates that approximately 68,000 students will receive awards totaling $211 million.

The Commissioner of the Department of Finance and Administration stated that revenue collections for fiscal year 2008 are a concern. First-month collections in the sales tax are below estimates, and franchise and excise tax collections are difficult to predict. When submitting budget requests for fiscal year 2008/2009, all agencies were asked to be conservative in requesting additional funds. All agencies were asked to identify recurring base budget reductions which would off-set improvement requests requiring additional fund from the general fund. 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 other interested parties 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 Association 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, 2007, and June 30, 2006

	June 30, 2007	June 30, 2006
Assets:		
Cash (Note 2)	$ 4,346,065.78	$ 2,594,160.34
Receivables:		
Notes receivable	5,237,218.64	3,606,405.52
Interest receivable	1,688,662.20	1,390,367.83
Accounts receivable	9,663.08	9,663.08
Total assets	11,281,609.70	7,600,596.77
Liabilities:		
Accounts payable	233,332.86	977,233.83
Accrued liabilities	3,948,505.64	1,241,402.07
Payroll related accruals	73,792.83	66,232.23
Due to primary government	24,173.71	19,012.95
Deferred revenue	116,576.00	81,415.10
Advance from the federal government	51,313.05	317,807.46
Compensated absences (Note 3)		
Payable within one year	85,397.89	72,628.19
Payable after one year	98,816.93	83,642.37
Total liabilities	4,631,908.91	2,859,374.20
Net assets:		
Unrestricted	$ 6,649,700.79	$ 4,741,222.57

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, 2007, and June 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Expenses for education:		
Grants expenses	$ 42,633,431.45	$ 39,358,740.09
Administrative expenses	18,831,065.72	16,770,522.54
Loan cancellations	809,656.73	1,435,987.76
Total program expenses	62,274,153.90	57,565,250.39
Program revenues:		
Charges for services	15,954,766.30	9,891,252.46
Operating grant & contributions		
Grant & contributions	5,148,977.96	7,931,758.49
Interest on investments	448,116.06	70,669.64
Total program revenues	21,551,860.32	17,893,680.59
Net program expenses	40,722,293.58	39,671,569.80
General revenues:		
Payments from primary government	42,630,771.80	39,407,927.00
Increase (decrease) in net assets	1,908,478.22	(263,642.80)
Net assets, beginning of year	4,741,222.57	5,004,865.37
Net assets, end of year	$ 6,649,700.79	$ 4,741,222.57

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

Exhibit C

Tennessee Student Assistance Corporation
Balance Sheets
General Fund
June 30, 2007, and June 30, 2006

	June 30, 2007	June 30, 2006
Assets:		
Cash (Note 2)	$ 4,346,065.78	$ 2,594,160.34
Receivables:		
Notes receivable	5,237,218.64	3,606,405.52
Interest receivable	1,688,662.20	1,390,367.83
Accounts receivable	9,663.08	9,663.08
Total assets	$ 11,281,609.70	$ 7,600,596.77
Liabilities and fund balances::		
Liabilities:		
Accounts payable	$ 233,332.86	$ 977,233.83
Accrued liabilities	3,948,505.64	1,241,402.07
Payroll related accruals	73,792.83	66,232.23
Due to primary government	24,173.71	19,012.95
Deferred revenue	116,576.00	81,415.10
Advance from the federal government	51,313.05	317,807.46
Total liabilities	4,447,694.09	2,703,103.64
Fund balance (Note 4):		
Reserved for related assets	5,237,218.64	3,606,405.52
Reserved for contracts and encumbrances	7,026.00	-
Reserved for other specific purposes	1,589,670.97	1,291,087.61
Total fund balances	6,833,915.61	4,897,493.13
Total liabilities and fund balances	$ 11,281,609.70	$ 7,600,596.77
Reconciliation to Statement of Net Assets		
Total fund balances	$ 6,833,915.61	$ 4,897,493.13
Compensated absences liability not reported in the fund	(184,214.82)	(156,270.56)
Total net assets	$ 6,649,700.79	$ 4,741,222.57

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, 2007, and June 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Revenues:		
Grant revenue from primary government	$ 42,630,771.80	$ 39,407,927.00
Departmental services revenue	15,954,766.30	9,891,252.46
Federal revenue	5,148,977.96	7,931,758.49
Interest income	448,116.06	70,669.64
Total revenues	64,182,632.12	57,301,607.59
Expenditures:		
Grants expenditures	42,633,431.45	39,358,740.09
Administrative expenditures	18,803,121.46	16,731,683.70
Loan cancellations	809,656.73	1,435,987.76
Total expenditures	62,246,209.64	57,526,411.55
Excess (deficiency) of revenues over (under) expenditures	1,936,422.48	(224,803.96)
Fund balance, beginning of year	4,897,493.13	5,122,297.09
Fund balance, end of year	$ 6,833,915.61	$ 4,897,493.13
Reconciliation to Statement of Activities		
Excess (deficiency) of revenues over (under) expenditures	$ 1,936,422.48	$ (224,803.96)
Compensated absences expense not reported as an expenditure in the fund	(27,944.26)	(38,838.84)
Increase (decrease) in net assets	$ 1,908,478.22	$ (263,642.80)

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, 2007, and June 30, 2006

	June 30, 2007	June 30, 2006
Assets:		
Cash (Notes 2)	$ 81,922,582.36	$ 62,276,295.65
Receivables:		
Claims receivable	14,000,285.66	16,981,293.12
Total assets	95,922,868.02	79,257,588.77
Liabilities:		
Accounts payable and accruals	1,321,679.76	1,318,881.11
Total liabilities	1,321,679.76	1,318,881.11
Net assets:		
Held in trust for student loans (Note 5)	$ 94,601,188.26	$ 77,938,707.66

The notes to 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, 2007, and June 30, 2006

	Year Ended June 30, 2007	Year Ended June 30, 2006
Additions:		
Federal revenue	$ 33,399,355.12	$ 16,204,103.09
Interest income	3,818,143.34	2,429,632.40
Contribution from primary government	1,985,609.77	3,027,368.87
Miscellaneous	1,048.08	147,457.24
Total additions	39,204,156.31	21,808,561.60
Deductions:		
Administrative expenses	15,247,817.49	14,796,067.80
Collection expense	7,293,858.22	6,872,888.14
Total deductions	22,541,675.71	21,668,955.94
Increase (decrease) in net assets	16,662,480.60	139,605.66
Net assets, beginning of year	77,938,707.66	77,799,102.00
Net assets, end of year	$ 94,601,188.26	$ 77,938,707.66

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

Tennessee Student Assistance Corporation
Notes to the Financial Statements
June 30, 2007, and June 30, 2006

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, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$156,270.56	$168,279.73	$140,335.47	$184,214.82	$85,397.89

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

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 percent 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, 2007, the corporation had insured loans outstanding of $4,398,991,415.96 and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program in the amount of $80,600,902.60. 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.

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 13.58% 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, 2007, 2006, and 2005 were $237,175.77, $219,006.37, and $160,337.27. 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. 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, 2007, the Risk Management Fund held $116 million in cash designated for payment of claims. In FY 2007, the state paid $31.8 million for claims. At June 30, 2006, 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 $380,302.50 at June 30, 2007, and $354,400.40 at June 30, 2006.

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 $292,481.82 for the year ended June 30, 2007, and $229,912.20 for the year ended June 30, 2006. The current operating lease expires July 1, 2008; and TSAC is currently working with the Department of Finance and Administration to request bids for a new building lease.

Schedule 1

SUPPLEMENTARY INFORMATION
TENNESSEE STUDENT ASSISTANCE CORPORATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

	FOR THE YEAR ENDED JUNE 30, 2007				FOR THE YEAR ENDED JUNE 30, 2006			
	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	$ 4,897,493.13	$ 4,897,493.13	$ 4,897,493.13	$ -	$ 5,122,297.09	$ 5,122,297.09	$ 5,122,297.09	$ -
Resources (inflows):								
Grant revenue from primary government	45,954,800.00	45,953,600.00	42,630,771.80	(3,322,828.20)	43,716,900.00	43,756,800.00	39,407,927.00	(4,348,873.00)
Departmental services revenue	16,260,100.00	16,259,700.00	15,954,766.30	(304,933.70)	14,596,600.00	15,286,000.00	9,891,252.46	(5,394,747.54)
Federal revenue	6,619,300.00	6,618,800.00	5,148,977.96	(1,469,822.04)	6,055,500.00	6,551,300.00	7,931,758.49	1,380,458.49
Interest income	-	-	448,116.06	448,116.06	-	-	70,669.64	70,669.64
Amounts available for appropriation	73,731,693.13	73,729,593.13	69,080,125.25	(4,649,467.88)	69,491,297.09	70,716,397.09	62,423,904.68	(8,292,492.41)
Charges to appropriations (outflows):								
Personal services	2,283,500.00	2,283,500.00	1,941,459.06	342,040.94	1,821,900.00	2,157,100.00	1,594,049.67	563,050.33
Employee benefits	778,900.00	778,900.00	742,476.95	36,423.05	600,300.00	682,100.00	532,225.79	149,874.21
Travel	149,400.00	149,400.00	143,575.17	5,824.83	125,800.00	147,800.00	101,390.11	46,409.89
Printing, duplicating, and film processing	135,500.00	135,500.00	77,675.03	57,824.97	71,500.00	74,500.00	52,816.40	21,683.60
Communication and shipping cost	314,400.00	314,400.00	87,075.10	227,324.90	280,100.00	302,100.00	92,919.59	209,180.41
Maintenance, repairs, and services	10,900.00	10,900.00	0.00	10,900.00	7,900.00	10,900.00	5,302.13	5,597.87
Professional and administrative services	15,830,900.00	15,830,900.00	13,495,611.71	2,335,288.29	15,823,900.00	15,830,900.00	14,146,685.94	1,684,214.06
Supplies	206,100.00	206,100.00	136,812.28	69,287.72	196,100.00	206,100.00	41,947.74	164,152.26
Rentals and insurance	234,500.00	232,400.00	292,481.82	(60,081.82)	208,900.00	232,900.00	237,914.03	(5,014.03)
Awards and indemnities	5,100.00	5,100.00	79.69	5,020.31	5,100.00	5,100.00	164.08	4,935.92
Grants and subsidies	47,785,300.00	47,785,300.00	45,067,429.00	2,717,871.00	44,882,900.00	44,882,900.00	40,500,930.96	4,381,969.04
Equipment	12,000.00	12,000.00	0.00	12,000.00	10,000.00	12,000.00	0.00	12,000.00
Professional services	1,087,700.00	1,087,700.00	261,533.83	826,166.17	1,017,700.00	1,049,700.00	220,065.11	829,634.89
Total charges to appropriations	68,834,200.00	68,832,100.00	62,246,209.64	6,585,890.36	65,052,100.00	65,594,100.00	57,526,411.55	8,067,688.45
Budgetary fund balance, June 30	$ 4,897,493.13	$ 4,897,493.13	$ 6,833,915.61	$ 1,936,422.48	$ 4,439,197.09	$ 5,122,297.09	$ 4,897,493.13	$ (224,803.96)

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