AUDIT REPORT

Tennessee Student Assistance Corporation

For the Year Ended
June 30, 2008

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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January 8, 2009

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard G. Rhoda, Interim Executive Director
Tennessee Student Assistance Corporation
1950 Parkway Towers
404 James Robertson Parkway
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, 2008. 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 resulted in no audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/sah
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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, 2008

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.

AUDIT FINDINGS

The audit report contains no findings.

OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

Audit Report
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2008

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Tennessee Student Assistance Corporation
For the Year Ended June 30, 2008

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 Nelnet Guarantor Solutions 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, 2007, through June 30, 2008, 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 generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2008, and for comparative purposes, the year ended June 30, 2007. 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).

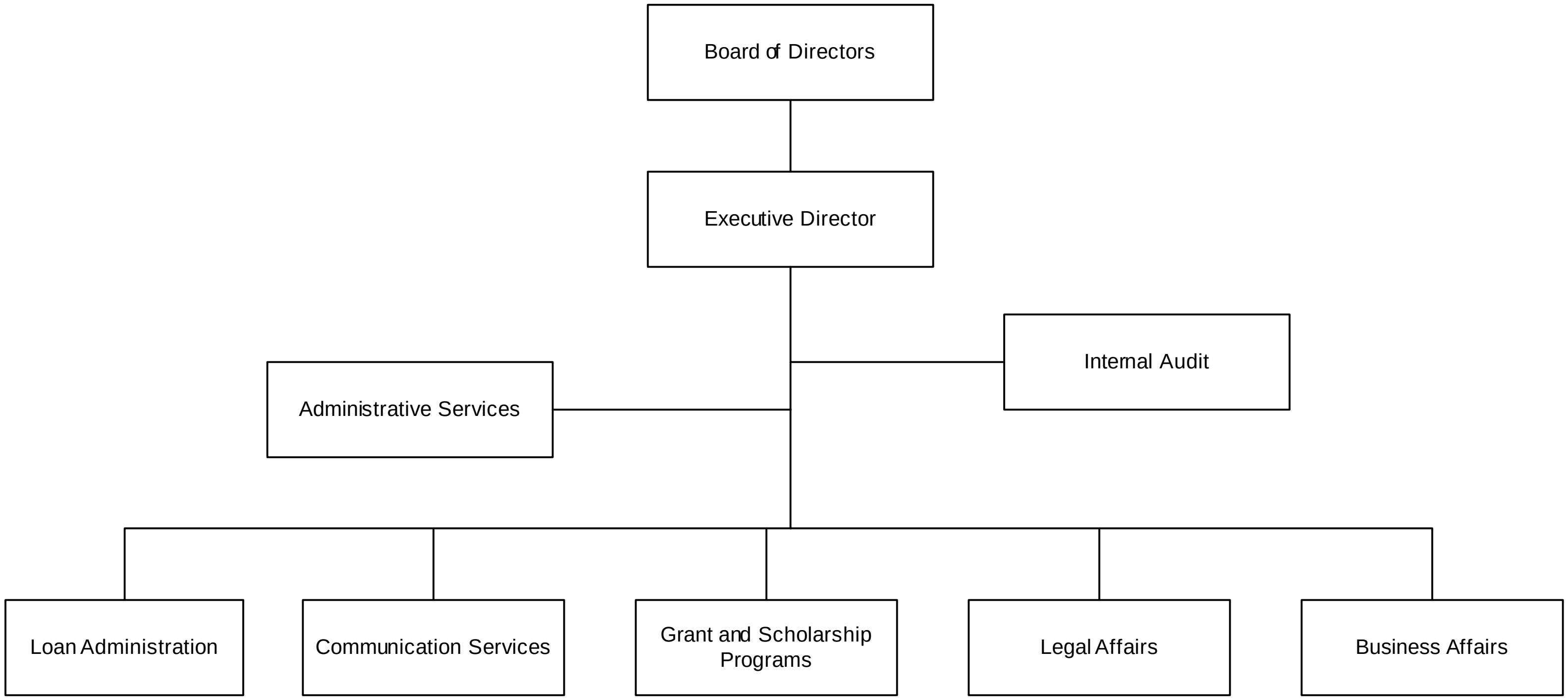
OBJECTIVES OF THE AUDIT

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 July 1, 2008. A follow-up of the prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current disclosed that the corporation has corrected previous audit findings concerning management's and the audit committee's failure to carry out their respective responsibilities regarding adequate controls and oversight of entries to accounting records and performance of documented risk assessment activities and management's lack of adequate procedures, controls, and oversight of federal reporting.

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.

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 October 1, 2008.

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, 2008, 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 generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

Fairness of Financial Statement Presentation

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

STATE OF TENNESSEE
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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 10, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard G. Rhoda, Interim Executive Director
Tennessee Student Assistance Corporation
1950 Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

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, 2008, and have issued our report thereon dated December 10, 2008. During the year ended June 30, 2008, the corporation implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

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.

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

However, we 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

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

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the corporation's board of directors, 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/sah

STATE OF TENNESSEE
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Independent Auditor's Report

December 10, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard G. Rhoda, Interim Executive Director
Tennessee Student Assistance Corporation
1950 Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

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, 2008, and June 30, 2007, 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 generally accepted government auditing standards. 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 the Tennessee Student Assistance Corporation.

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, 2008, and June 30, 2007, 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.

As discussed in Note 9 to the financial statements, during the year ended June 30, 2008, the corporation implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The management's discussion and analysis on pages 13 through 22 and the schedule of funding progress on page 39 are not required parts of the basic financial statements but are 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 40 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 generally accepted government auditing standards, we have also issued our report dated December 10, 2008, 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 generally accepted 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/sah

Tennessee Student Assistance Corporation
Management's Discussion and Analysis
For the Years Ended June 30, 2008, and June 30, 2007

This section of the Tennessee Student Assistance Corporation's report presents a discussion and analysis of the financial performance of the corporation during the fiscal years ended June 30, 2008, and June 30, 2007, with comparative information presented for the fiscal year ended 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 independent auditor's report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Report

This 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

	6/30/2008	6/30/2007	6/30/2006
Total assets	$ 12,892,912	$ 11,281,610	$ 7,600,597
Other liabilities	$ 5,973,777	$ 4,533,092	$ 2,775,732
Long-term liabilities	174,272	98,817	83,642
Total liabilities	$ 6,148,049	$ 4,631,909	$ 2,859,374
Total net assets - unrestricted	$ 6,744,863	$ 6,649,701	$ 4,741,223

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

- The notes and interest receivables include notes of $5,254,582 and interest of $1,682,459 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 $3,432,717 include amounts due to the corporation's loan servicer. Advance from the federal government is 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 2008 to FY 2007

The corporation's total net assets increased from $6,649,701 at June 30, 2007, to $6,744,863 at June 30, 2008. The total net assets increase is indicative of an increase in cash by $1,587,819, from $4,346,066 at June 30, 2007, to $5,933,885 at June 30, 2008; a notes receivable increase of $17,363, from $5,237,219 at June 30, 2007, to $5,254,582 at June 30, 2008; and an interest receivable decrease of $6,203, from $1,688,662 at June 30, 2007 to $1,682,459 at June 30, 2008. The increase in cash was a result of TSAC receiving $10,000,000 as a nonrecurring appropriation to increase the number of students that receive the Tennessee Student Assistance Award.

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 net assets 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 notes 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.

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

	FYE 6/30/2008	FYE 6/30/2007	FYE 6/30/2006
Expenses for education	$ 80,501,753	$ 62,274,154	$ 57,565,250
Program revenues:			
Charges for services	14,750,204	15,954,766	9,891,252
Operating grants and contributions	16,432,185	5,148,978	7,931,758
Interest on investments	629,712	448,116	70,670
Total program revenues	31,812,101	21,551,860	17,893,681
Net program expenses	48,689,652	40,722,294	39,671,570
General revenues:			
Payments from primary government	48,784,814	42,630,772	39,407,927
Increase (decrease) in net assets	95,162	1,908,478	(263,643)
Net assets, beginning of year	6,649,701	4,741,223	5,004,865
Net assets, end of year	$ 6,744,863	$ 6,649,701	$ 4,741,223

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 2008 to FY 2007

Operating grants and contributions increased due to program revenue of $10,000,000 received from the primary government from the Lottery reserve to fund additional TSAA awards. Program expenses increased primarily due to an increase in grant expense from $42,633,431 for the fiscal year ended June 30, 2007, to $57,891,027 for the fiscal year ended June 30, 2008. This was due to an increase in the TSAA loans for the fiscal year ended June 30, 2008.

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 the fiscal year ended June 30, 2007.

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. Advance from the federal government is 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, 2008; June 30, 2007; and June 30, 2006, the general fund had total fund balances of $7,006,929, $6,833,916, and $4,897,493, 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 2008 to FY 2007

The total fund balance increase from $6,833,916 at June 30, 2007, to $7,006,929 at June 30, 2008, occurred primarily due to the increase in cash by $1,587,819. See explanation in comments under Statements of Net Assets FY 2008 to FY 2007. There was also a considerable increase in accounts payable ($233,333 at June 30, 2007, to $2,150,394 at June 30, 2008) due to the timing of when the amounts roll out of accounts payable to warrants payable in the State of Tennessee Accounting and Reporting System (STARS).

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.

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 $173,014 for the fiscal year ended June 30, 2008; an excess of revenues over expenditures of $1,936,422 for the fiscal year ended June 30, 2007; and a deficiency of revenues under expenditures of ($224,804) for the fiscal year ended June 30, 2006. 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 2008 to FY 2007

TSAC had a $16,414,283 increase in total revenue for the fiscal year ended June 30, 2008. The largest portion of the increase in revenue was due to an increase in grant revenue from primary government from $42,630,772 for the fiscal year ended June 30, 2007, to $48,784,814 for the fiscal year ended June 30, 2008, and an increase in departmental services revenue from $15,954,766 for the fiscal year ended June 30, 2007, to $24,750,204 for the fiscal year ended June 30, 2008. This difference can be accounted for by the $10,000,000 received from the primary government from the Lottery reserve to increase the amount of TSAA grants awarded and the $18,177,692 increase in total expenditures required an increased use of state appropriations from the primary government.

FY 2007 to FY 2006

Grant revenue from the federal government decreased for the Tennessee Student Assistance Corporation in FY 2007 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.

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 $109,773,133 at June 30, 2008; $94,601,188 at June 30, 2007; and $77,938,708 at June 30, 2006.

FY 2008 to FY 2007

Net assets increased by $15,171,945 from June 30, 2007, to June 30, 2008. This was primarily due to an increase in investment principal in the Federal Fund Reserve and an increase in investment earnings in the Agency Operating Fund.

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.

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 2008 to FY 2007 and FY 2007 to FY 2006

Federal revenue additions and expenses 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 Supplementary 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, 2008

There was only a slight difference between the original budget work program and the final budget work program. The final work program was $700 less than the original work program. For the period ended June 30, 2008, the actual revenue was $2,454,285 less than the estimated revenue 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 $2,627,298 less than allocated in the final budget work program. The reduction in expenditures was greater than the reduction in revenues and resulted in a $173,014 increase in the budgetary fund balance at June 30, 2008. 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, 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 ended June 30, 2007, the actual revenue was $4,649,468 less than the estimated revenue 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.

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, TSAC pays lenders 98% to 97% 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 greater hit here to their Operating Fund, TSAC will not. The nature of our contract with our service provider, Nelnet Guarantor Solutions, is such that both entities will share the cost impact of this legislative change. TSAC's portion of the change will be about $1.7 million annually.

- 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 the outstanding principal and interest of our loans. TSAC estimates the impact of this change to be a reduction of $600,000 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. It is unknown how lenders' behavior may impact TSAC. However, in anticipation of lenders' margins being cut, TSAC began paying the 1% Federal Default Fee on behalf of borrowers on March 1, 2008. TSAC anticipates a $6.8 million annual expense to its Operating Fund that will be deposited into its Federal Fund. By offering to pay this fee, TSAC believes we will incur additional loyalty to TSAC which will in turn result in a longer term financial benefit to the agency.

This year will mark the second year in which the Tennessee Education Lottery Scholarship (TELS) program will be fully "mature." The General Assembly passed statutes, which were signed by the Governor, that will increase the number of students that will be retaining the lottery scholarships. TSAC estimates that approximately 88,000 students will receive awards totaling $258 million.

The Commissioner of the Department of Finance and Administration stated that state revenue collections for September 2008 were 8.2% below September 2007 collections. Revenue collections for fiscal year 2009 are a concern. Economic conditions have deteriorated since November of 2007 as collections have come in under the budgeted estimates for the past ten consecutive months. The Governor requested that all agencies be conservative in requesting additional funds when submitting budget requests for fiscal year 2009/2010. All agencies were asked to identify recurring base budget reductions which would off-set improvement requests requiring additional funds from the general fund. In both FY 2008 and FY 2007, the corporation has been requested to reduce expenditures in the Tennessee Student Assistance Awards Program in order for these funds to be reverted into the General Fund. The decline in state revenues will impact the amount of financial aid assistance that TSAC will be able to award Tennessee students.

Requests 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 Assistance Corporation at the following address:

Tennessee Student Assistance Corporation
1950 Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243

Tennessee Student Assistance Corporation
Statements of Net Assets
June 30, 2008, and June 30, 2007

	June 30, 2008	June 30, 2007
Assets:		
Cash (Note 2)	$ 5,933,885.12	$ 4,346,065.78
Receivables:		
Notes receivable (net of allowance of $246,349.65)	5,254,581.58	5,237,218.64
Interest receivable (net of allowance of $394,621.81)	1,682,458.81	1,688,662.20
Accounts receivable	21,986.89	9,663.08
Total assets	12,892,912.40	11,281,609.70
Liabilities:		
Accounts payable	2,150,394.33	233,332.86
Accrued liabilities	3,432,716.90	3,948,505.64
Payroll related accruals	84,146.53	73,792.83
Due to primary government	26,763.05	24,173.71
Deferred revenue	146,894.15	116,576.00
Advance from the federal government	45,068.19	51,313.05
Compensated absences (Note 3):		
Payable within one year	87,794.31	85,397.89
Payable after one year	95,110.49	98,816.93
Long-term liability - net OPEB obligation (Note 7)	79,161.00	-
Total liabilities	6,148,048.95	4,631,908.91
Net assets:		
Unrestricted	$ 6,744,863.45	$ 6,649,700.79

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

Tennessee Student Assistance Corporation
Statements of Activities
For the Years Ended June 30, 2008, and June 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Expenses for education:		
Grants expenses	$ 57,891,026.84	$ 42,633,431.45
Administrative expenses	19,818,910.14	18,831,065.72
Loan cancellations	2,791,815.71	809,656.73
Total program expenses	80,501,752.69	62,274,153.90
Program revenues:		
Charges for services	14,750,203.98	15,954,766.30
Operating grants and contributions	16,432,185.00	5,148,977.96
Interest on investments	629,712.52	448,116.06
Total program revenues	31,812,101.50	21,551,860.32
Net program expenses	48,689,651.19	40,722,293.58
General revenues:		
Payments from primary government	48,784,813.85	42,630,771.80
Increase in net assets	95,162.66	1,908,478.22
Net assets, beginning of year	6,649,700.79	4,741,222.57
Net assets, end of year	$ 6,744,863.45	$ 6,649,700.79

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

Tennessee Student Assistance Corporation
Balance Sheets
General Fund
June 30, 2008, and June 30, 2007

	June 30, 2008	June 30, 2007
Assets:		
Cash (Note 2)	$ 5,933,885.12	$ 4,346,065.78
Receivables:		
Notes receivable (net of allowance of $246,349.65)	5,254,581.58	5,237,218.64
Interest receivable (net of allowance of $394,621.81)	1,682,458.81	1,688,662.20
Accounts receivable	21,986.89	9,663.08
Total assets	$ 12,892,912.40	$ 11,281,609.70
Liabilities and fund balances:		
Liabilities:		
Accounts payable	$ 2,150,394.33	$ 233,332.86
Accrued liabilities	3,432,716.90	3,948,505.64
Payroll related accruals	84,146.53	73,792.83
Due to primary government	26,763.05	24,173.71
Deferred revenue	146,894.15	116,576.00
Advance from the federal government	45,068.19	51,313.05
Total liabilities	5,885,983.15	4,447,694.09
Fund balances (Note 4):		
Reserved for related assets	5,254,581.58	5,237,218.64
Reserved for contracts and encumbrances	-	7,026.00
Reserved for continuing appropriations	96,965.21	-
Reserved for other specific purposes	1,655,382.46	1,589,670.97
Total fund balances	7,006,929.25	6,833,915.61
Total liabilities and fund balances	$ 12,892,912.40	$ 11,281,609.70

Reconciliation to Statement of Net Assets

Total fund balances	$ 7,006,929.25	$ 6,833,915.61
Compensated absences liability not reported in the fund	(182,904.80)	(184,214.82)
Long-term liability - net OPEB obligation	(79,161.00)	-
Total net assets	$ 6,744,863.45	$ 6,649,700.79

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

Tennessee Student Assistance Corporation
Statements of Revenues, Expenditures, and Changes in Fund Balances
General Fund
For the Years Ended June 30, 2008, and June 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Revenues:		
Grant revenue from primary government	$ 48,784,813.85	$ 42,630,771.80
Departmental services revenue	24,750,203.98	15,954,766.30
Federal revenue	6,432,185.00	5,148,977.96
Interest income	629,712.52	448,116.06
Total revenues	80,596,915.35	64,182,632.12
Expenditures:		
Grants expenditures	57,891,026.84	42,633,431.45
Administrative expenditures	19,741,059.16	18,803,121.46
Loan cancellations	2,791,815.71	809,656.73
Total expenditures	80,423,901.71	62,246,209.64
Excess of revenues over expenditures	173,013.64	1,936,422.48
Fund balance, beginning of year	6,833,915.61	4,897,493.13
Fund balance, end of year	$ 7,006,929.25	$ 6,833,915.61

Reconciliation to Statement of Activities

Excess of revenues over expenditures	$ 173,013.64	$ 1,936,422.48
Compensated absences expense not reported as an expenditure in the fund	1,310.02	(27,944.26)
Long-term liability - net OPEB obligation	(79,161.00)	-
Increase in net assets	$ 95,162.66	$ 1,908,478.22

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, 2008, and June 30, 2007

	June 30, 2008	June 30, 2007
Assets:		
Cash (Note 2)	$ 95,639,578.57	$ 81,922,582.36
Receivables:		
Accounts receivable	228,202.44	-
Due from federal government	7,085,182.65	4,887,823.83
Claims receivable	6,856,404.18	9,112,461.83
Total assets	109,809,367.84	95,922,868.02
Liabilities:		
Accounts payable and accruals	36,234.39	1,321,679.76
Total liabilities	36,234.39	1,321,679.76
Net assets:		
Held in trust for student loans (Note 5)	$ 109,773,133.45	$ 94,601,188.26

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

Tennessee Student Assistance Corporation
Statements of Changes in Fiduciary Net Assets
Federal Family Education Loan Trust Fund
For the Years Ended June 30, 2008, and June 30, 2007

	Year Ended June 30, 2008	Year Ended June 30, 2007
Additions:		
Federal revenue	$ 32,003,747.33	$ 33,399,355.12
Interest income	3,847,403.70	3,818,143.34
Contributions from primary government	-	1,985,609.77
Miscellaneous	781,389.28	1,048.08
Total additions	36,632,540.31	39,204,156.31
Deductions:		
Administrative expenses	4,816,755.66	15,247,817.49
Collection expense	16,336,316.43	7,293,858.22
Transfer to education fund	307,523.03	-
Total deductions	21,460,595.12	22,541,675.71
Increase in net assets	15,171,945.19	16,662,480.60
Net assets, beginning of year	94,601,188.26	77,938,707.66
Net assets, end of year	$ 109,773,133.45	$ 94,601,188.26

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

Tennessee Student Assistance Corporation
Notes to the Financial Statements
June 30, 2008, and June 30, 2007

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 grants 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 required risks disclosures 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, on-line at http://www.state.tn.us/finance/act/cafr_fy08/cafr_fy08.pdf, or by calling (615) 741-2140.

NOTE 3. COMPENSATED ABSENCES

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$184,214.82	$175,539.75	$176,849.77	$182,904.80	$87,794.31

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

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 contracts and encumbrances, reserved for continuing appropriations, and reserved for other specific purposes.

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, 2008, the corporation had insured loans outstanding of $4,667,812,517.95 and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program in the amount of $95,568,562.55. 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.

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 13.62% 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, 2008, 2007, and 2006 were $296,513.07, $237,175.77, and $219,006.37. Contributions met the requirements for each year.

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible corporation retirees. This program includes two plans available to corporation employees—the State Employee Group Plan and the Medicare Supplement Plan. Both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Title 8, Chapter 27, Part 201, *Tennessee Code Annotated* (TCA). Prior to reaching age 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the corporation's eligible retirees; see Note 8. The plans are reported 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, by calling (615) 741-2140, or on-line at http://www.state.tn.us/finance/act/cafr_fy08/cafr_fy08.pdf.

Funding Policy. The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. In accordance with TCA 8-27-205 (b), retirees not eligible for Medicare pay a percentage of the total state premium under the State Employee Group Plan based on years of service, leaving a portion of retiree premiums effectively subsidized by contributions to the State Employee Group Plan for active employees. Retirees with 30 years of service pay 20% of the total premium under the State Employee Group Plan. Retirees with 20 but less than 30 years of service pay 30% of the total premium under the State Employee Group Plan. Retirees 55 and older with less than 20 but more than 10 years of service pay 40% of the total premium under the State Employee Group Plan. Contributions for the State Employee Group Plan for the year ended June 30, 2008, were $117,000, which consisted of $79,161 from the corporation and $37,839 from the employees.

Annual OPEB Cost and Net OPEB Obligation
(in thousands)

	State Employee Group Plan
Annual Required Contribution (ARC)	$117
Interest on the Net OPEB Obligation	-
Adjustment to the ARC	-
Annual OPEB cost	117
Amount of contribution	(38)
Increase (decrease) in Net OPEB Obligation	79
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	$ 79

Year-end*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year-end
June 30, 2008	State Employee Group Plan	$117	32%	$79

* Data not available for two preceding years.

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008, was as follows (in thousands):

	State Employee Group Plan
Actuarial valuation date	July 1, 2007
Actuarial accrued liability (AAL)	$1,199
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$1,199
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$2,196
UAAL as percentage of covered payroll	55%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

NOTE 8. ON-BEHALF PAYMENTS

During the year ended June 30, 2008, the State of Tennessee made payments of $450 on behalf of the corporation for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 7. The plan is reported 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 Rosa L. Parks Avenue, Nashville, Tennessee 37243-1102, by calling (615) 741-2140, or on-line at http://www.state.tn.us/finance/act/cafr_fy08/cafr_fy08.pdf.

NOTE 9. CHANGE IN ACCOUNTING PRINCIPLE

The corporation has implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosures, and required supplementary information. The statement was implemented prospectively with a zero net OPEB obligation at transition.

NOTE 10. 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. 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, 2008, the Risk Management Fund held $124 million in cash designated for payment of claims. In FY 2008, the state paid $29.3 million for claims. 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.

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 11. 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 $393,869.73 at June 30, 2008, and $380,302.50 at June 30, 2007.

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 $299,873.58 for the year ended June 30, 2008, and $292,481.82 for the year ended June 30, 2007. The current operating lease expires July 31, 2018.

Other Contingency - The U.S. Department of Education hired the accounting firm of Ollie Green & Company to perform a program review to assess the corporation’s establishment of the FFELP Federal and Operating Funds, as required by the 1998 amendments to the Higher Education Act of 1965. As a result of the review, there is a possibility that the corporation will have to transfer $7,500 out of the Agency Operating Fund to the Federal Reserve Fund.

Tennessee Student Assistance Corporation
Required Supplementary Information
Schedule of Funding Progress
Unaudited
(in thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
7/1/2007	State Employee Group Plan	$ -	$1,199	$1,199	0%	$2,196	55%

SUPPLEMENTARY INFORMATION
TENNESSEE STUDENT ASSISTANCE CORPORATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2008, AND JUNE 30, 2007

	FOR THE YEAR ENDED JUNE 30, 2008				FOR THE YEAR ENDED JUNE 30, 2007			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive
	Original	Final	(1)	(Negative)	Original	Final	(1)	(Negative)
Budgetary fund balance, July 1	$ 6,833,915.61	$ 6,833,915.61	$ 6,833,915.61	$ -	$ 4,897,493.13	$ 4,897,493.13	$ 4,897,493.13	$ -
Resources (inflows):								
Grant revenue from primary government	49,836,900.00	49,836,500.00	48,784,813.85	(1,051,686.15)	45,954,800.00	45,953,600.00	42,630,771.80	(3,322,828.20)
Departmental services revenue	26,356,300.00	26,356,200.00	24,750,203.98	(1,605,996.02)	16,260,100.00	16,259,700.00	15,954,766.30	(304,933.70)
Federal revenue	6,858,700.00	6,858,500.00	6,432,185.00	(426,315.00)	6,619,300.00	6,618,800.00	5,148,977.96	(1,469,822.04)
Interest income	-	-	629,712.52	629,712.52	-	-	448,116.06	448,116.06
Amounts available for appropriation	89,885,815.61	89,885,115.61	87,430,830.96	(2,454,284.65)	73,731,693.13	73,729,593.13	69,080,125.25	(4,649,467.88)
Charges to appropriations (outflows):								
Personal services	2,789,400.00	2,789,400.00	2,202,710.14	586,689.86	2,283,500.00	2,283,500.00	1,941,459.06	342,040.94
Employee benefits	913,700.00	913,700.00	836,576.26	77,123.74	778,900.00	778,900.00	742,476.95	36,423.05
Travel	158,200.00	158,200.00	144,616.63	13,583.37	149,400.00	149,400.00	143,575.17	5,824.83
Printing, duplicating, and film processing	139,600.00	139,600.00	71,040.53	68,559.47	135,500.00	135,500.00	77,675.03	57,824.97
Communication and shipping cost	324,600.00	324,600.00	94,406.16	230,193.84	314,400.00	314,400.00	87,075.10	227,324.90
Maintenance, repairs, and services	10,900.00	10,900.00	11.50	10,888.50	10,900.00	10,900.00	-	10,900.00
Professional and administrative services	15,830,900.00	15,830,900.00	15,078,640.01	752,259.99	15,830,900.00	15,830,900.00	13,495,611.71	2,335,288.29
Supplies	213,700.00	213,700.00	64,429.80	149,270.20	206,100.00	206,100.00	136,812.28	69,287.72
Rentals and insurance	254,400.00	253,700.00	302,773.58	(49,073.58)	234,500.00	232,400.00	292,481.82	(60,081.82)
Awards and indemnities	5,300.00	5,300.00	135.05	5,164.95	5,100.00	5,100.00	79.69	5,020.31
Grants and subsidies	61,585,300.00	61,585,300.00	60,685,235.80	900,064.20	47,785,300.00	47,785,300.00	45,067,429.00	2,717,871.00
Equipment	12,000.00	12,000.00	-	12,000.00	12,000.00	12,000.00	-	12,000.00
Bad debt expense	-	-	640,971.46	(640,971.46)	-	-	-	-
Unclassified expenses	-	-	800.00	(800.00)	-	-	-	-
Professional services	813,900.00	813,900.00	301,554.79	512,345.21	1,087,700.00	1,087,700.00	261,533.83	826,166.17
Total charges to appropriations	83,051,900.00	83,051,200.00	80,423,901.71	2,627,298.29	68,834,200.00	68,832,100.00	62,246,209.64	6,585,890.36
Budgetary fund balance, June 30	$ 6,833,915.61	$ 6,833,915.61	$ 7,006,929.25	$ 173,013.64	$ 4,897,493.13	$ 4,897,493.13	$ 6,833,915.61	$ 1,936,422.48

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