AUDIT REPORT

Tennessee Student Assistance Corporation

For the Year Ended
June 30, 2009

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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January 31, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard Rhoda, 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, 2009. 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,

Arthur A. Hayes, Jr., CPA
Director

AAH/aj
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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, 2009

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.

COMPLIANCE FINDINGS

Incorrect Accounting Entries for the Federal Family Education Loan Program Resulted in an Overstated Balance for the Federal Fund and a Corresponding Understated Balance for the Operating Fund

During our audit of the Tennessee Student Assistance Corporation's Federal Family Education Loan Program (FFEL), management reported to us an overstatement of the corporation's FFEL Federal Fund balance. This error also resulted in a corresponding understatement of the balance of the Operating Fund. This problem existed for the years ended June 30, 2005, through June 30, 2009, and a portion of the year ended June 30, 2010.

The Tennessee Student Assistance Corporation Did Not Comply With Certain Special Tests and Provisions Regarding the Collection of Delinquent Accounts and the Recovery of Indirect Costs

The Tennessee Student Assistance Corporation did not fully comply with the special tests and provisions of the Federal Family Education Loan Program. During our examination of the corporation's compliance with special tests and provisions, we noted noncompliance in three specific areas:

- no consideration of alternative default collection cost rates,
- prohibited conflict of interest, and
- no approved cost allocation plan.

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, 2009

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Student Assistance Corporation
For the Year Ended June 30, 2009

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 (PLUS), 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 (NGS) of Denver, Colorado, to service its Federal Stafford Loan, PLUS, 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, 2008, through June 30, 2009, 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, 2009, and for comparative purposes, the year ended June 30, 2008. The Tennessee Student Assistance 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 as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements;

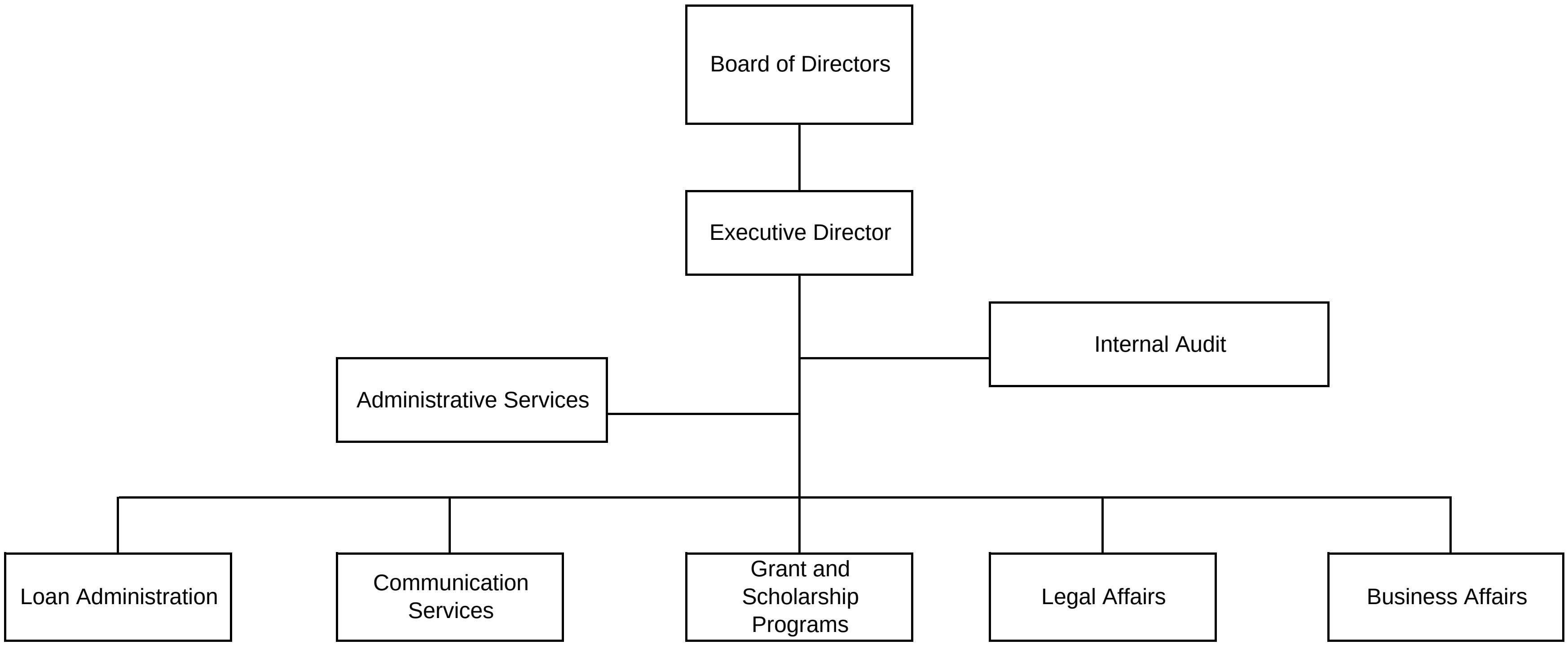
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

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

Tennessee Student Assistance Corporation
Organization Chart



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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *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, 2009, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing opinions on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 that are required to be reported under generally accepted government auditing standards. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the Findings and Recommendations section.

Fairness of Financial Statement Presentation

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

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

December 13, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard Rhoda, Executive Director
Tennessee Student Assistance Corporation
Suite 1900, Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243-0830

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, 2009, and have issued our report thereon dated December 13, 2010. As discussed in Note 9 to the financial statements, during the year ended June 30, 2008, the agency implemented Governmental Accounting Standards Board 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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 opinions 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 immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other 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, 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/aj

FINDINGS AND RECOMMENDATIONS

1. **The Tennessee Student Assistance Corporation Did Not Comply With Certain Special Tests and Provisions Regarding the Collection of Delinquent Accounts and the Recovery of Indirect Costs**

Finding

The Tennessee Student Assistance Corporation (TSAC) did not fully comply with the special tests and provisions of the Federal Family Education Loan Program (FFEL). During our examination of the corporation's compliance with special tests and provisions, we noted noncompliance in three specific areas.

No consideration of alternative default collection cost rates

TSAC was not in compliance with federal requirements for calculating the corporation's expected default collection cost rate. *Code of Federal Regulations*, Title 34, Part 682, Section 410(b)(2), establishes these requirements, which are restated in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement,* Part 4:

> The rate or amount to be charged the borrower to satisfy collection costs is the least of the following three rates:
>
> a. The amount or rate, if any, specified in the borrower's note;
>
> b. The rate determined by dividing the agency's expected expenses by its expected recoveries for the period at issue; or
>
> c. The rate that would be charged if the loan were held by ED [U.S. Department of Education]. . . .

Our inquiries and examination of corporation loan records disclosed that the corporation had been using only the rate that would be charged if the loan were held by ED as described above (ED rate). The corporation had not considered whether either of the two other rates might be the lowest.

According to discussions with both the Senior Associate Executive Director, who is also the Staff Attorney, and the Associate Executive Director of Loan Administration, the corporation's expected collection cost rate had not been calculated in several years. Since that time, when annual notices of ED rate changes came from the Department of Education, the Student Loan Administrator reviewed the letter to determine if a rate change needed to be made. According to the Associative Executive Director of Loan Administration, because management believed there had not been a significant change in costs, management continued to use the ED rate without performing a current-year calculation of the corporation's expected collection cost rate. The OMB *Circular A-133 Compliance Supplement*, part 4, also states that

> . . . the agency must ensure that the estimate is based on reliable data. A charge based on expense and recovery data incurred in the most recently completed and audited fiscal year of the guaranty agency can be reasonably expected to predict actual costs being incurred in the year for which the charge is assessed. However, when changes that will affect that rate are reasonably expected in expenses or recoveries during the year for which the charge is computed, adjustments may be warranted. . . .

The failure to calculate the corporation's expected collection cost rate increases the risk that defaulted borrowers are not charged reasonable collection costs as defined by the program's requirements.

The Senior Associate Executive Director and Staff Attorney, and the Associate Executive Director of Loan Administration, stated that in the future the Student Loan Administrator and the Associate Executive Director of Loan Administration will calculate the corporation's expected rate every year and compare this rate with the annual ED rate notice to determine the appropriate rate to be charged. In November 2009, the Associate Executive Director of Loan Administration stated procedures are currently being drafted and will be included in the corporation's Loan Policies and Procedures.

<u>Prohibited conflict of interest</u>

A program review conducted by the U.S. Department of Education noted a prohibited conflict of interest by a contractor of the corporation. The corporation had initiated corrective actions, but the conflict had not been completely resolved at the time of our audit. The review report dated May 28, 2009, stated:

> NGS [Nelnet Guarantor Services] provides various services to TSAC, which include default aversion assistance and default collections. NGS has subcontracted with R&B Receivables Management to provide default aversion services. R&B Receivables Management Corporation does not provide any post default collection services. NGS subcontracts collection functions to various collection agencies. TSAC approves the use of all subcontractors before NGS awards the contracts.
>
> The *Code of Federal Regulations*, Title 34, Part 682, Section 404(k)(4), states:
>
> . . . If a guaranty agency contracts with an outside entity to perform any default aversion activities, that outside entity may not—
>
> (i) Hold or service the loan; or

> (ii) Perform collection activities on the loan in the event of default within 3 years of the claim payment date.

In the program review report, the U.S. Department of Education required that

> TSAC must terminate contracting arrangements that create a conflict of interest. TSAC must provide this office with TSAC's plan for eliminating this conflict of interest and its plan for future default aversion and collection activities.

Management responded to the U.S. Department of Education in a letter dated June 15, 2009, and stated:

> . . . THEC [Tennessee Higher Education Commission]/TSAC has begun the process to issue a Request for Proposals (RFP) for a new loan servicer contract to replace the current contract with Nelnet Guarantor Solutions (NGS) when it expires on December 31, 2010. This new contract will contain default aversion activities but not contain collection activities. As a result, THEC/TSAC will also issue a RFP for collection activities for a collections contract that will be at the same time the new loan servicer contract begins. . . .

According to the Associate Executive Director of Loan Administration, the corporation had not received a response from the Department of Education regarding the corporation's proposed corrective action.

Noncompliance with this requirement increases the risk that the contractor that is responsible for both collection activities and default aversion assistance activities may not adequately perform default aversion assistance activities in an effort to increase collection activity volume.

No approved cost allocation plan

Discussions with the Senior Associate Executive Director and Staff Attorney, and the Assistant Executive Director for Fiscal Affairs, disclosed that the Accounting Manager had been charging indirect costs to FFEL each month without an approved cost allocation plan in place. According to the Assistant Executive Director for Fiscal Affairs, indirect costs were allocated 34% state activities; 33% FFEL program; and 33% Lottery scholarship eligibility determination. This resulted in the corporation charging approximately $204,539 to the FFEL program in fiscal year 2009. Because of the absence of an approved cost allocation plan, this amount is federal questioned cost. Although some portion of the indirect costs paid would have been related to the FFEL program, the lack of an approved cost allocation plan prevents us from determining the amount of costs allocable to the FFEL program.

According to the Assistant Executive Director for Fiscal Affairs, TSAC had a proposed cost allocation plan prior to the Tennessee Higher Education Commission (THEC) taking over the operations of TSAC beginning July 1, 2008; however, the proposed cost allocation plan had not been submitted to the U.S. Department of Education for approval by former TSAC management for reasons unknown to management.

The *Code of Federal Regulations,* Title 34, Part 682, Section 418(c), states:

> Each guaranty agency that shares cost with any other program, agency or organization shall develop a cost allocation plan consistent with the requirements described in OMB [Office of Management and Budget] Circular A-87 and maintain the plan and related supporting documentation for audit. . . .

OMB Circular A-87, Attachment A, "Basic Guidelines," states that costs are allocable to federal programs "in accordance with relative benefits received." The cost allocation plan is the method by which this is accomplished.

According to discussions with the Senior Associate Executive Director and Staff Attorney, and the Assistant Executive Director for Fiscal Affairs, a cost allocation plan has been completed and was submitted to the U.S. Department of Education for approval on September 28, 2009.

Not having an approved cost allocation plan increases the risk that indirect costs are charged to FFEL that are not relative to the benefits received by the program.

Recommendation

The Student Loan Administrator and the Associate Executive Director of Loan Administration should calculate the corporation's expected collection cost rate annually. When the expected collection cost rate is determined, the Student Loan Administrator and the Associate Executive Director of Loan Administration should ensure that defaulted borrowers are charged the lesser of

- the amount or rate, if any, specified in the borrower's note;
- the rate determined by dividing the agency's expected expenses by its expected recoveries for the period at issue; or
- the rate that would be charged if the loan were held by ED.

The Executive Director of the Tennessee Student Assistance Corporation should ensure that corrective actions were fully completed and the conflict of interest pertaining to default aversion activities and collection activities is eliminated. The Executive Director should also ensure the cost allocation plan is approved by the U.S. Department of Education.

Management's Comment

We concur. A formula for calculating collection costs has been established and is being utilized based on current agency operations. Upon receipt of the annual letter to all Guaranty Agencies from the U.S. Department of Education (U.S. DOE) that stipulates the maximum collection cost allowed, THEC/TSAC will compare the two costs and utilize the lesser of the two as required by the U.S. DOE.

THEC/TSAC management notified the U.S. DOE on April 15, 2009, that upon expiration of the current contract with TSAC's loan servicer, THEC/TSAC will ensure the conflict of interest is eliminated by contracting separately for collection activities.

An indirect cost plan was developed which included suggestions from the Department of Finance and Administration Cash Management Office. The plan was then transmitted to the U.S. DOE on September 28, 2009, and it is currently under review.

2. Incorrect accounting entries for the Federal Family Education Loan Program resulted in an overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund

Finding

During our audit of the Tennessee Student Assistance Corporation's (TSAC's) Federal Family Education Loan Program (FFEL), management reported to us an overstatement of the corporation's FFEL Federal Fund balance. This error also resulted in a corresponding understatement of the balance of the Operating Fund. This problem existed for the years ended June 30, 2005, through June 30, 2009, and a portion of the year ended June 30, 2010. The *Code of Federal Regulations* (CFR) Title 34, Part 682, Section 423(a), states that TSAC must

> establish and maintain an Operating Fund in an account separate from the Federal Fund. . . . The Operating Fund is considered the property of the guaranty agency.

Section 423 also describes the types of funds that can be deposited into the Operating Fund and allowable uses of the Operating Fund; 42 CFR 682.419 describes funds that should be deposited in the Federal Fund as well as allowable uses of the Federal Fund.

TSAC guarantees student loans made by lending institutions and performs certain administrative and oversight functions for the FFEL program. One of the functions is to coordinate the repurchase of loans from the lenders when borrowers default on the loans. TSAC has contracted with Nelnet Guarantor Solutions to process claims from lenders for defaulted loans and to maintain a lockbox to record and process subsequent recoveries on defaulted loans and payments received from lenders for repurchased loans that are later determined not to have been in default.

Nelnet deposits the funds in a state bank account and makes the appropriate adjustments in the borrower's records. Nelnet provides TSAC with itemized payment and receipt activity and records the amounts on the monthly Guarantee Agency Financial Report. After review, the monthly report is filed by TSAC with the U.S. Department of Education (DOE). The amounts on the monthly report determine the amount the DOE pays TSAC for the previous month's activity. The itemized amounts reported on the monthly Guarantee Agency Financial Report trigger a series of journal entries made in TSAC's general ledger system that are designed to ensure funds are appropriately recorded in the Federal Fund and the Operating Fund.

Annually TSAC must also file a Guarantee Agency Financial Report that discloses both the Operating Fund and the Federal Fund's beginning and ending balances as well as a breakdown of additions and deductions. On the annual report, TSAC also must complete a balance sheet for the Federal Fund.

Discussions with the Fiscal Manager and the Accounting Manager disclosed that several years ago a decision was made to have some lender payments that would have gone to the lockbox sent to TSAC instead. The Fiscal Manager was not an employee of the corporation when the decision was made and did not know why this decision was made.

When funds were received by TSAC instead of the lockbox, an entry was made in TSAC's general ledger system to increase the Federal Fund's balance and record the receipt of cash. These funds were then deposited in a state bank account. TSAC would then forward all of the borrower information to Nelnet so the borrower's records could be updated. However, through the monthly reporting and journal entry process described above, the Federal Fund's balance was increased a second time for certain categories of funds received at TSAC, and the Operating Fund's balance was decreased.

Discussions with management during fieldwork revealed that this error could have been avoided if all receipts had been processed through the lockbox. Management had not finished its research of all of the payments involved to determine the amount of the overstatement by the end of fieldwork. However, management had determined an overstatement of the Federal Fund and understatement of the Operating Fund of $3,782,145 due to errors occurring in the year ended June 30, 2009.

Recommendation

The Executive Director of the Tennessee Student Assistance Corporation should ensure that all future payments from lenders are sent to the lockbox and are reflected only once in the monthly accounting entries. The Fiscal Manager should continue to research the payments activity to determine the total amount of overstatement of the Federal Fund and the understatement of the Operating Fund. When the amount has been determined, the Executive Director should request permission from DOE to make the necessary corrections to the Federal Fund balance.

Management's Comment

We concur. Management has completed its review of Fiscal Year 2009 and determined the Federal Fund was overstated by $3,782,145.43 and the Operating Fund understated by the same amount. This problem existed from FY 2005-2010. As the 2005-2008 and 2010 fiscal years are researched and documented, the Comptroller's Division of State Audit will be notified before corrections are requested from the U.S. Department of Education. Corrective actions were taken to resolve the issue. The original process has been reinstated where vendors send all payments to the NGS lockbox account.

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Independent Auditor's Report

December 13, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Richard Rhoda, Executive Director
Tennessee Student Assistance Corporation
Suite 1900, Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243-0830

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, 2009, and June 30, 2008, 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. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the corporation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the Federal Family Education Loan Trust Fund of the Tennessee Student Assistance Corporation as of June 30, 2009, and June 30, 2008, and the respective 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 agency 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 19 through 28, the schedule of funding progress on page 46, and the budgetary comparison schedule on page 47 are not a required part 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.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 13, 2010, 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.

Arthur A. Hayes, Jr., CPA
Director

AAH/aj

Tennessee Student Assistance Corporation
Management's Discussion and Analysis

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, 2009, and June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. 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

	6/30/2009	6/30/2008	6/30/2007
Total assets	$12,632,293	$ 12,892,912	$ 11,281,610
Other liabilities	$ 4,351,412	$ 5,973,777	$ 4,533,092
Long-term liabilities	303,671	174,272	98,817
Total liabilities	$ 4,655,083	$ 6,148,049	$ 4,631,909
Total net assets – unrestricted	$ 7,977,210	$ 6,744,863	$ 6,649,701

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

- The notes and interest receivables include notes of $6,183,165 and interest of $1,665,459 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 $3,136,015 include amounts due to the corporation's loan servicer.

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

<u>FY 2009 to FY 2008</u>

The corporation's total net assets increased from $6,744,863 at June 30, 2008, to $7,977,210 at June 30, 2009. The total net assets increase is indicative of a decrease in accounts payable by $1,276,296, from $2,150,394 at June 30, 2008, to $874,098 at June 30, 2009.

<u>FY 2008 to FY 2007</u>

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.

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 6/30/2009	FYE 6/30/2008	FYE 6/30/2007
Expenses for education	$75,309,286	$ 80,501,753	$ 62,274,154
Program revenues:			
Charges for services	11,091,952	14,750,204	15,954,766
Operating grants and contributions	13,808,052	16,432,185	5,148,978
Interest on investments	453,992	629,712	448,116
Total program revenues	25,353,996	31,812,101	21,551,860
Net program expenses	49,955,290	48,689,652	40,722,294
General Revenues:			
Payments from primary government	51,187,637	48,784,814	42,630,772
Increase in net assets	1,232,347	95,162	1,908,478
Net assets, beginning of year	6,744,863	6,649,701	4,741,223
Net assets, end of year	$ 7,977,210	$ 6,744,863	$ 6,649,701

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 2009 to FY 2008

Program expenses decreased primarily due to decreases in administrative expenses and grant expenses. Administrative expenses decreased from $19,818,910 for the fiscal year ended June 30, 2008, to $17,210,873 for the fiscal year ended June 30, 2009, due to decreases in servicer costs. Grant expenses decreased from $57,891,027 for the fiscal year ended June 30, 2008, to $55,818,429 for the fiscal year ended June 30, 2009. This was primarily due to a decrease in the Tennessee Student Assistance Awards for fiscal year ended June 30, 2009. Program revenues decreased primarily due to decreases in operating grants and contributions and charges for services. Operating grants and contributions decreased from $16,432,185 for the fiscal year ended June 30, 2008, to $13,808,052 for the fiscal year ended June 30, 2009. Charges for services decreased from $14,750,204 for the fiscal year ended June 30, 2008, to $11,091,952 for fiscal year ended June 30, 2009.

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 Tennessee Student Assistance Awards fiscal year ended June 30, 2008.

Balance Sheets - General Fund

The Balance Sheets present the 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 current 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; 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.

- 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, 2009; June 30, 2008; and June 30, 2007, the general fund had total fund balances of $8,349,988, $7,006,929, and $6,833,916, 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 2009 to FY 2008

The total fund balance increase from $7,006,929 at June 30, 2008, to $8,349,988 at June 30, 2009, occurred primarily due to considerable decrease in accounts payable ($2,150,394 at June 30, 2008, to $874,098 at June 30, 2009) due to the timing of when the amounts roll out of accounts payable to warrants payable in the State of Tennessee Account Reporting System (STARS).

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).

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 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 $1,343,059 for the fiscal year ended June 30, 2009; an excess of revenues over expenditures of $173,014 for the fiscal year ended June 30, 2008; and an excess of revenues over expenditures of $1,936,422 for the fiscal year ended June 30, 2007. 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 2009 to FY 2008

TSAC had a net $4,055,282 decrease in total revenue for the fiscal year ended June 30, 2009. The net decrease in revenue was due to a decrease in departmental services revenue from $24,750,203.98 for the fiscal year ended June 30, 2008, to $17,891,951.63 for the fiscal year ended June 30, 2009, and an increase in grant revenue from primary government from $48,784,813.85 for the fiscal year ended June 30, 2008, to $51,187,637.39 for the fiscal year ended June 30, 2009. TSAC expenditures decreased $5,225,327.54 in fiscal year ended June 30, 2009. Administrative expenditures decreased from $19,741,059.16 for the fiscal year ended June 30, 2008, to $17,100,161.07 for the fiscal year ended June 30, 2009, due to decreased servicer costs. Grant Expenditures related to Tennessee Student Assistance Awards decreased from $57,891,026.84 from fiscal year ended June 30, 2008, to $55,818,428.82 in fiscal year ended June 30, 2009.

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.

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 reimbursements due to lenders for defaulted loans guaranteed by TSAC.

The trust fund had net assets held in trust for student loan activities of $101,297,149 at June 30, 2009; $109,773,133 at June 30, 2008; and $94,601,188 at June 30, 2007.

FY 2009 to FY 2008

Net assets decreased by $8,475,984 from June 30, 2008, to June 30, 2009. The total net assets decrease is indicative of an increase in accounts payable by $6,433,051 from $36,234 at June 30, 2008, to $6,469,285 at June 30, 2009.

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.

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

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

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

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

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

<u>FY 2009 to FY 2008 and FY 2008 to FY 2007</u>

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.

Required Supplementary Information: Budgetary Comparison

A budgetary comparison schedule is presented as Required 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.

<u>Budgetary Comparison for the Fiscal Year Ended June 30, 2009</u>

There was only a slight difference between the original budget work program and the final budget work program. The final work program was $88,844.77 less than the original work program. For the period ending June 30, 2009, the actual revenue was $7,147,022.27 less than the estimated revenue during the same period. Actual grant revenue from primary government, departmental services revenue, and federal revenue was lower than the projected revenue in the final budget work program. TSAC had expenditures that were $8,490,081.06 less than allocated in the final budget work program. The reduction in expenditures was greater than the reduction in revenues and resulted in a $1,343,058.79 increase in the budgetary fund balance at June 30, 2009. The reduction in expenditures allowed TSAC to build up the fund balance while actual funding was less than projected.

<u>Budgetary Comparison for the Fiscal Year Ended June 30, 2008</u>

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 ending 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 was 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.

Factors Affecting the Corporation's Future Financial Condition

President Bush signed the Ensuring Continued Access to Student Loans Act (ECASLA) of 2008 into law on May 7, 2008. On October 7, 2008, President Bush signed a one-year extension of ECASLA. The bill has both positive and negative effects to guarantee agencies, including the Tennessee Student Assistance Corporation (TSAC).

- New loan limits: The bill increases the additional unsubsidized Stafford annual limits by $2,000 for independent undergraduates and dependent students whose parents are unable to qualify for a PLUS loan. ECASLA also increases the aggregate loan limits from $23,000 to $31,500 for undergraduate dependent students. Undergraduate independent students' aggregate loan limit is also raised from $46,000 to $57,500. Part of TSAC's revenue is generated from guaranteed loans. The Department of Education (Department) issues TSAC Loan Processing and Issuance Fees (LPIF) on new loan volume at 0.4%, and Account Maintenance Fees (AMF) at 0.06% on the outstanding principal loan balance. The increase in annual loan limits and aggregate loan amounts will generate additional revenue for the agency.

- Loan Purchase Commitment Program (PUT): ECASLA temporarily authorizes the Department to purchase Federal Family Education Loans (FFEL) originated on or after October 1, 2003, from any lender/holder. The current distress in the financial markets has affected the ability of some lenders to raise funds to originate new Stafford and PLUS loans. Many lenders that decide to sell loans to the Department under the PUT program are doing so to free up funds to make new loans. While the impact of the program results in liquidity that ensures the availability of FFEL loans for 2008-09 and 2009-10 academic years, it has an adverse affect for the guarantor. Loans that are PUT to the Department remain a FFEL loan, while being serviced by the Department's servicer. However, the loan is removed from the guarantor's portfolio. TSAC will not continue receiving AMF on loans sold through the PUT program.

Another event impacting TSAC and other guaranty agencies was passage of H.R. 4872, the Health Care and Education Reconciliation Act of 2010, which became effective July 1, 2010. Within the Act is the Student Aid and Fiscal Responsibility Act (SAFRA), which includes Part II - Student Loan Reform. Under the reform the Federal Family Education Loan Program (FFELP) is terminated and all federal student loans will be under the Federal Direct Loan program.

FFELP loans that had a first disbursement prior to July 1, 2010, are permitted to make any subsequent disbursements that are outstanding. Any new loans with a first disbursement on or after July 1, 2010, will be allowed only through the Direct Loan program.

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 the 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

Exhibit A

Tennessee Student Assistance Corporation
Statements of Net Assets
June 30, 2009, and June 30, 2008

Assets:		June 30, 2009		June 30, 2008
Cash (Note 2)	$	4,765,431.00	$	5,933,885.12
Receivables:				
Notes receivable (net of allowance of $0 for FY 09, net of allowance of $246,349.65 for FY 08)		6,183,165.40		5,254,581.58
Interest receivable (net of allowance of $0 for FY 09, net of allowance of $394,621.81 for FY 08)		1,665,459.32		1,682,458.81
Accounts receivable		18,237.35		21,986.89
Total assets		12,632,293.07		12,892,912.40
Liabilities:				
Accounts payable		874,097.83		2,150,394.33
Accrued liabilities		3,136,015.36		3,432,716.90
Payroll related accruals		81,698.70		84,146.53
Due to primary government		12,158.76		26,763.05
Deferred revenue		178,334.38		146,894.15
Advance from the federal government		-		45,068.19
Compensated absences (Note 3):				
Payable within one year		69,106.66		87,794.31
Payable after one year		143,482.97		95,110.49
Long-term liability - net OPEB obligation (Notes 3 & 7)		160,188.00		79,161.00
Total liabilities		4,655,082.66		6,148,048.95
Net assets:				
Unrestricted	$	7,977,210.41	$	6,744,863.45

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, 2009, and June 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
Expenses for education:		
Grants expenses	$ 55,818,428.82	$ 57,891,026.84
Administrative expenses	17,210,872.90	19,818,910.14
Loan cancellations	2,279,984.28	2,791,815.71
Total program expenses	75,309,286.00	80,501,752.69
Program revenues:		
Charges for services	11,091,951.63	14,750,203.98
Operating grants and contributions	13,808,052.02	16,432,185.00
Interest on investments	453,991.92	629,712.52
Total program revenues	25,353,995.57	31,812,101.50
Net program expenses	49,955,290.43	48,689,651.19
General revenues:		
Payments from primary government	51,187,637.39	48,784,813.85
Increase in net assets	1,232,346.96	95,162.66
Net assets, beginning of year	6,744,863.45	6,649,700.79
Net assets, end year	$ 7,977,210.41	$ 6,744,863.45

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, 2009, and June 30, 2008

		June 30, 2009		June 30, 2008
Assets:				
Cash (Note 2)	$	4,765,431.00	$	5,933,885.12
Receivables:				
Notes receivable (net of allowance of $0 for FY 09 net of allowance of $246,349.65 for FY 08)		6,183,165.40		5,254,581.58
Interest receivable (net of allowance of $0 for FY 09 net of allowance $394,621.81 for FY 08)		1,665,459.32		1,682,458.81
Accounts receivable		18,237.35		21,986.89
Total assets		12,632,293.07		12,892,912.40
Liabilities and fund balances:				
Accounts payable		874,097.83		2,150,394.33
Accrued liabilities		3,136,015.36		3,432,716.90
Payroll related accruals		81,698.70		84,146.53
Due to primary government		12,158.76		26,763.05
Deferred revenue		178,334.38		146,894.15
Advance from the federal government		-		45,068.19
Total liabilities		4,282,305.03		5,885,983.15
Fund balance (Note 4):				
Reserved for related assets		6,183,165.40		5,254,581.58
Reserved for continuing appropriations		120,488.91		96,965.21
Reserved for other specific purposes		2,046,333.73		1,655,382.46
Total fund balances		8,349,988.04		7,006,929.25
Total liabilities and fund balances	$	12,632,293.07	$	12,892,912.40

Reconciliation to Statement of Net Assets

Total fund balances	$	8,349,988.04	$	7,006,929.25
Compensated liability not reported in the fund		(212,589.63)		(182,904.80)
Long-term liability - net OPEB obligation		(160,188.00)		(79,161.00)
Total net assets	$	7,977,210.41	$	6,744,863.45

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

Exhibit D

Tennessee Student Assistance Corporation
Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
For the Years Ended June 30, 2009, and June 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
Revenues:		
Grant revenue from primary government	$ 51,187,637.39	$ 48,784,813.85
Departmental services revenue	17,891,951.63	24,750,203.98
Federal revenue	7,008,052.02	6,432,185.00
Interest income	453,991.92	629,712.52
Total revenues	76,541,632.96	80,596,915.35
Expenditures:		
Grants expenditures	55,818,428.82	57,891,026.84
Administrative expenditures	17,100,161.07	19,741,059.16
Loan cancellations	2,279,984.28	2,791,815.71
Total expenditures	75,198,574.17	80,423,901.71
Excess of revenues over expenditures	1,343,058.79	173,013.64
Fund balance, beginning of year	7,006,929.25	6,833,915.61
Fund balance, end of year	$ 8,349,988.04	$ 7,006,929.25

Reconciliation to Statements of Activities

Excess of revenues over expenditures	$ 1,343,058.79	$ 173,013.64
Compensated absences expense not reported as an expenditure in the fund	(29,684.83)	1,310.02
Long-term liability - increase in net OPEB obligation	(81,027.00)	(79,161.00)
Increase in net assets	$ 1,232,346.96	$ 95,162.66

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

Exhibit E

Tennessee Student Assistance Corporation
Statement of Fiduciary Net Assets
Federal Family Education Loan Trust Fund
June 30, 2009, and June 30, 2008

	June 30, 2009	June 30, 2008
Assets:		
Cash (Note 2)	$ 93,520,641.71	$ 95,639,578.57
Receivables:		
Accounts receivable	-	228,202.44
Due from federal government	8,628,797.52	7,085,182.65
Claims receivable (net of allowance $3,377,312.11 for FY 09 and $0 for FY 08)	5,616,994.83	6,856,404.18
Total assets	107,766,434.06	109,809,367.84
Liabilities:		
Accounts payable and accruals	6,469,284.94	36,234.39
Total liabilities	6,469,284.94	36,234.39
Net assets:		
Held in trust for student loans (Note 5)	$ 101,297,149.12	$ 109,773,133.45

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

Exhibit F

Tennessee Student Assistance Corporation
Statement of Change in Fiduciary Net Assets
Federal Family Education Loan Trust Fund
For the Years Ended June 30, 2009, and June 30, 2008

	Year Ended June 30, 2009	Year Ended June 30, 2008
Additions:		
Federal revenue	$ 19,712,135.58	$ 32,003,747.33
Interest income	1,638,527.82	3,847,403.70
Contributions from primary government	300,971.53	-
Miscellaneous	716.40	781,389.28
Total additions	21,652,351.33	36,632,540.31
Deductions:		
Administrative expenses	13,030,146.60	4,816,755.66
Collection expense	13,720,876.95	16,336,316.43
Transfer to education fund	-	307,523.03
Bad debt expense	3,377,312.11	-
Total liabilities	30,128,335.66	21,460,595.12
Increase (decrease) in net assets	(8,475,984.33)	15,171,945.19
Net assets, beginning of year	109,773,133.45	94,601,188.26
Net assets, end of year	$ 101,297,149.12	$ 109,773,133.45

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

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 corporation also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the State Pooled Investment Fund. The fund is not rated by a nationally recognized statistical rating organization. The Pooled Investment Funds' investment policies and required risks disclosures are presented in the State of Tennessee Treasurer's Report. That report is available on the state's website at http://www.tn.gov/treasury/ or by calling (615) 741-2956.

NOTE 3. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$182,904.80	$184,782.19	$155,097.36	$212,589.63	$69,106.66
Net OPEB Obligation	79,161.00	81,027.00	-	160,188.00	-
Total Long-Term Liabilities	$262,065.80	$265,809.19	$155,097.36	$372,777.63	$69,106.66

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
Net OPEB Obligation	-	79,161.00	-	79,161.00	-
Total Long-Term Liabilities	$184,214.82	$254,700.75	$176,849.77	$262,065.80	$87,794.31

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 continuing appropriations and reserved for other specific purposes.

NOTE 5. NET ASSETS HELD IN TRUST FOR STUDENT LOANS

The corporation is required by federal 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. The 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, 2009, the corporation had insured loans outstanding of $4,895,177,822.80 and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program in the amount of $95,680,154.29. 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.

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 37243-0201, 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 13.02% 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, 2009, 2008, and 2007 were $264,413.97, $296,513.07, and $237,175.77. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

Healthcare is the only "other post-employment 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—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, both plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) Section 8-27-701 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching age 65, retirees may participate in the State Employee Group Plan. Members of this plan 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, retirees 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.html.

Special Funding Situation. The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan that covers the retirees of other governmental entities, including the Tennessee Student Assistance Corporation. The state is the sole contributor for the corporation's retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy. The premium requirements of members of the State Employee Group Plan are established and may be amended by the insurance committee. The plan is 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. Administrative costs of the plan are allocated to participants. Retirees in the State Employee Group Plan pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service pay 20% of the total premium. Retirees with 20 but less than 30 years of service pay 30% of the total premium. Retirees with less than 20 years of service pay 40% of the total premium.

TSAC Annual OPEB Cost and Net OPEB Obligation
State Employee Group Plan
(in thousands)

	June 30, 2009	June 30, 2008
Annual Required Contribution (ARC)	$119	$117
Interest on the Net OPEB Obligation	3	-
Adjustment to the ARC	(3)	-
Annual OPEB cost	119	117
Amount of contribution	(38)	(38)
Increase in Net OPEB Obligation	81	79
Net OPEB obligation - beginning of year	79	-
Net OPEB obligation - end of year	$160	$79

Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation at Year End
6/30/2009	Employee Group	$ 119	32%	$ 160
6/30/2008	Employee Group	$ 117	32%	$ 79

*Data not available for June 30, 2007.

Funded Status and Funding Progress. The funded status of the corporation's portion of the State Employee group Plans as of July 1, 2007, was as follows (in thousands):

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 a 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, 2009, the State of Tennessee made payments of $460 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.html.

NOTE 9. CHANGE IN ACCOUNTING PRINCIPLE

During the year ending June 30, 2008, the corporation implemented the Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosure, 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 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 9-8-301 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, 2009, the Risk Management Fund held $127 million in cash designated for payment of claims. In FY 2009, the state paid $29.9 million for claims. 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.

The state purchases commercial insurance for real property owned by the state and for building contents in both state owned and state leased buildings. The commercial policy provides coverage for earthquake, flood, and other perils. In the case of a loss, there is an agency deductible and a Risk Management Fund deductible before the commercial insurance policy pays a claim. The deductibles are set out in the table below:

Type Loss	Agency Deductible (per occurrence)	Risk Management Fund Deductible
Earthquake	1% of total insured value subject to $100,000 minimum	$5 million annual aggregate for earthquake and flood combined
Flood	$500,000 in flood zones A & V, $100,000 in all other flood zones	$5 million per occurrence for earthquake and flood combined
All other perils	$25,000	$5 million annual aggregate

A separate builders' risk commercial insurance policy is purchase for buildings under construction. This policy has a separate set of deductibles. The state also purchases surety bond coverage on state officials and employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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 $397,300.95 at June 30, 2009, and $393,869.73 at June 30, 2008.

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 $302,482.14 for the year ended June 30, 2009, and $299,873.58 for the year ended June 30, 2008. The current operating lease expires July 31, 2018.

NOTE 12. EMPLOYEE GROUP INSURANCE FUND

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 agency based on estimates of the ultimate cost of claims, including the 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 13. SUBSEQUENT EVENTS

H.R. 4872, The Health Care and Education Reconciliation Act of 2010 became Public Law number 111-152 (the Act) with the signing by President Obama on March 30, 2010. The bill effectively replaces the Federal Family Education Loan

(FFEL) Program with a Federal government run Direct Loan program effective July 1, 2010. Section 2201 of H.R. 4872 prohibits any new loans from being made or insured under the Federal Family Education Loan (FFEL) program after June 30, 2010. Only FFEL loans that had a first disbursement prior to July 1, 2010, are permitted to make any subsequent disbursements that are outstanding. Any new loans with a first disbursement on or after July 1, 2010, will be allowed only through William D. Ford Direct Loan (DL). We anticipate that this will materially reduce and eventually eliminate Loan Processing and Issuance Fees (LPIF) Revenues in future years.

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%

REQUIRED SUPPLEMENTARY INFORMATION
TENNESSEE STUDENT ASSISTANCE CORPORATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

	FOR THE YEAR ENDED JUNE 30, 2009				FOR THE YEAR ENDED JUNE 30, 2008			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	(Budgetary Basis) (1)	Positive (Negative)	Original	Final	(Budgetary Basis) (1)	Positive (Negative)
Budgetary fund balance, July 1	$ 7,006,929.25	$ 7,006,929.25	$ 7,006,929.25	$ -	$ 6,833,915.61	$ 6,833,915.61	$ 6,833,915.61	$ -
Resources (inflows):								
Grant revenue from primary government	53,327,500.00	53,238,655.23	51,187,637.39	(2,051,017.84)	49,836,900.00	49,836,500.00	48,784,813.85	(1,051,686.15)
Departmental services revenue	21,656,400.00	21,656,400.00	17,891,951.63	(3,764,448.37)	26,356,300.00	26,356,200.00	24,750,203.98	(1,605,996.02)
Federal revenue	8,793,600.00	8,793,600.00	7,008,052.02	(1,785,547.98)	6,858,700.00	6,858,500.00	6,432,185.00	(426,315.00)
Interest income	-	-	453,991.92	453,991.92	-	-	629,712.52	629,712.52
Amounts available for appropriation	90,784,429.25	90,695,584.48	83,548,562.21	(7,147,022.27)	89,885,815.61	89,885,115.61	87,430,830.96	(2,454,284.65)
Charges to appropriations (outflows):								
Personal services	3,013,200.00	3,013,200.00	2,037,194.90	976,005.10	2,789,400.00	2,789,400.00	2,202,710.14	586,689.86
Employee benefits	996,900.00	996,900.00	760,954.85	235,945.15	913,700.00	913,700.00	836,576.26	77,123.74
Travel	201,000.00	201,000.00	110,286.05	90,713.95	158,200.00	158,200.00	144,616.63	13,583.37
Printing, duplicating, and film processing	139,600.00	139,600.00	87,660.06	51,939.94	139,600.00	139,600.00	71,040.53	68,559.47
Communication and shipping cost	223,600.00	223,600.00	101,440.85	122,159.15	324,600.00	324,600.00	94,406.16	230,193.84
Maintenance, repairs, and services	8,900.00	8,900.00	4,440.50	4,459.50	10,900.00	10,900.00	11.50	10,888.50
Professional and administrative services	15,845,900.00	15,845,900.00	12,744,048.06	3,101,851.94	15,830,900.00	15,830,900.00	15,078,640.01	752,259.99
Supplies	216,900.00	216,900.00	62,831.97	154,068.03	213,700.00	213,700.00	64,429.80	149,270.20
Rentals and insurance	253,400.00	253,400.00	305,082.14	(51,682.14)	254,400.00	253,700.00	302,773.58	(49,073.58)
Awards and indemnities	5,300.00	5,300.00	-	5,300.00	5,300.00	5,300.00	135.05	5,164.95
Grants and subsidies	62,039,300.00	61,950,455.23	59,382,787.80	2,567,667.43	61,585,300.00	61,585,300.00	60,685,235.80	900,064.20
Equipment	15,000.00	15,000.00	-	15,000.00	12,000.00	12,000.00	-	12,000.00
Bad debt expense	-	-	(914,551.73)	914,551.73	-	-	640,971.46	(640,971.46)
Unclassified Expenses	-	-	1,200.00	(1,200.00)	-	-	800.00	(800.00)
Professional services	818,500.00	818,500.00	515,198.72	303,301.28	813,900.00	813,900.00	301,554.79	512,345.21
Total charges to appropriations	83,777,500.00	83,688,655.23	75,198,574.17	8,490,081.06	83,051,900.00	83,051,200.00	80,423,901.71	2,627,298.29
Budgetary fund balance, June 30	$ 7,006,929.25	$ 7,006,929.25	$ 8,349,988.04	$ 1,343,058.79	$ 6,833,915.61	$ 6,833,915.61	$ 7,006,929.25	$ 173,013.64

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