AUDIT REPORT

Tennessee Student Assistance Corporation

For the Year Ended
June 30, 2011

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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January 26, 2012

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
1900 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, 2011. 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

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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, 2011

AUDIT OBJECTIVES

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

AUDIT FINDINGS

Security Over a Computer System Needs Improvement
The Tennessee Student Assistance Corporation did not ensure adequate controls were in place for a computer system. We observed significant conditions that violated best practices for information security controls during the audit of the Federal Family Education Loans program (page 10).

The Tennessee Student Assistance Corporation Did Not Comply With a Special Test and Provision Regarding a Conflict of Interest*
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 a prohibited conflict of interest (page 10).

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. For the fiscal years ended June 30, 2005, through June 30, 2007, the effects of the erroneous entries have not been corrected (page 12).

OPINION ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

* This finding is repeated from prior audits.

Audit Report
Tennessee Student Assistance Corporation
For the Year Ended June 30, 2011

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Tennessee Student Assistance Corporation
For the Year Ended June 30, 2011

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 Education Lottery Scholarship, Tennessee Student Assistance Award Program, Christa McAuliffe Scholarship Program, Ned McWherter Scholars Program, Minority Teaching Fellows Program, Tennessee Teaching Scholars Program, Graduate Nursing Loan Forgiveness 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, 2010, through June 30, 2011, 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, 2011, and for comparative purposes, the year ended June 30, 2010. The Tennessee Student Assistance Corporation has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund codes 25000 and 60000 of Edison (business unit 33205).

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;

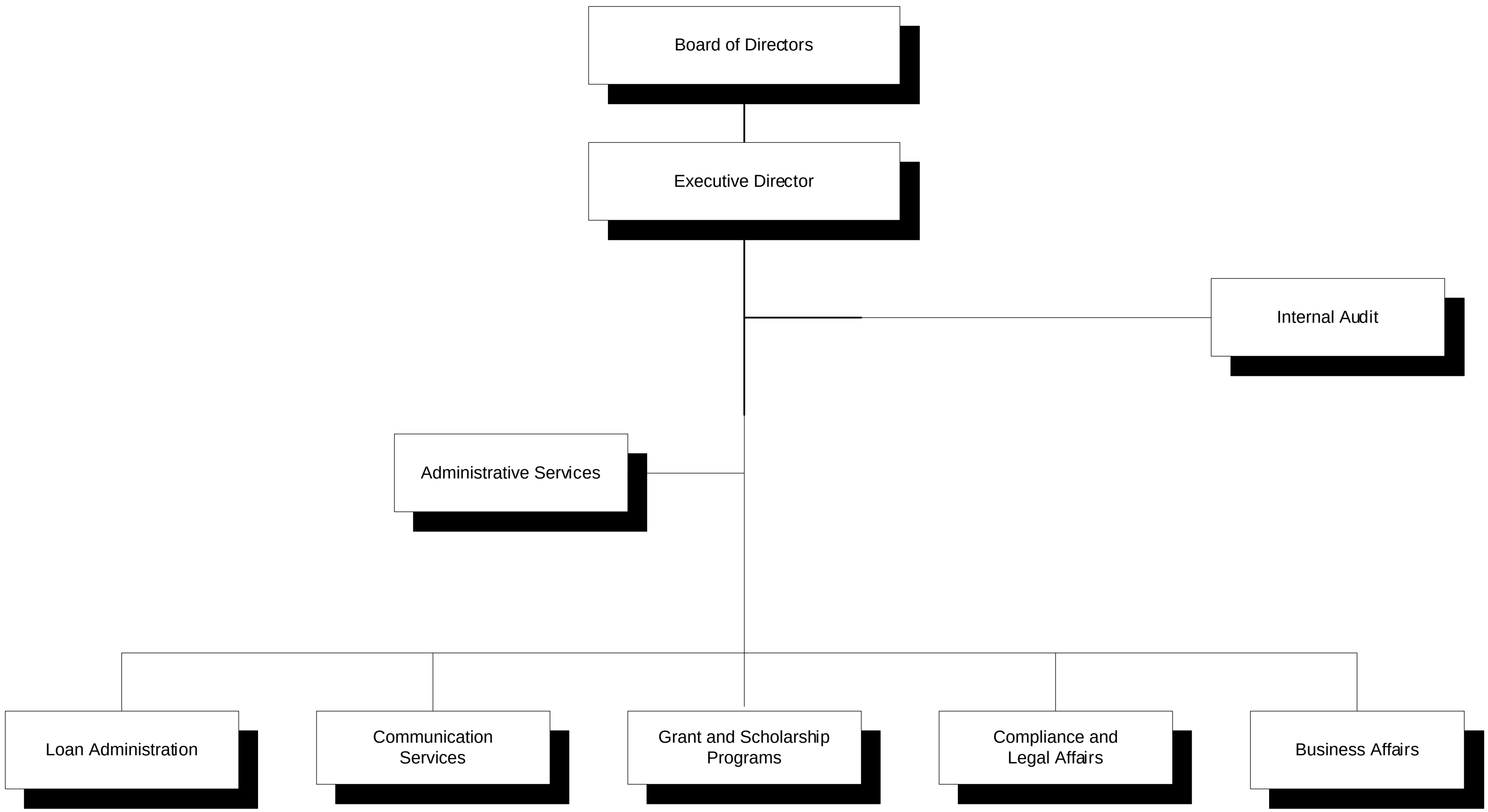
2. to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
ORGANIZATION CHART



PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Student Assistance Corporation filed its report with the Department of Audit on August 31, 2011. A follow-up of all prior audit findings was conducted as part of the current audit.

The prior audit report contained findings concerning compliance with a certain Special Tests and Provision and incorrect accounting entries for the Federal Family Education Loan Program. These findings have not been resolved and are repeated in this report.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

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

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

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

FRAUD CONSIDERATIONS

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

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

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, 2011, 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 or other matters 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 29, 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
1900 Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the financial statements of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. As discussed in Note 9 to the financial statements, during the year ended June 30, 2011, the agency implemented Governmental Accounting Standards Board Statements 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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

Management of the Tennessee Student Assistance Corporation is responsible for establishing and maintaining effective 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 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards. We noted immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

We noted certain matters that we reported to management of the corporation in a separate letter.

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

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

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/aj

FINDINGS AND RECOMMENDATIONS

1. <u>Security over a computer system needs improvement</u>

Finding

The corporation did not ensure adequate controls were in place for a computer system. We observed significant conditions that violated best practices for information security controls during the audit of the Federal Family Education Loans program. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the corporation's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the corporation with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

TSAC management should improve security over the computer system.

Management's Comment

We concur. Policy has been implemented within TSAC, and extended to our main servicing contractor, to strengthen controls over access to the computer system.

2. <u>The Tennessee Student Assistance Corporation did not comply with a Special Test and Provision regarding a conflict of interest</u>

Finding

As noted in the audits for the prior two years, a program review conducted by the U.S. Department of Education noted a prohibited conflict of interest by a contractor of the corporation. 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. . . .

The Health Care and Education Affordability Reconciliation Act was signed into law by the President on March 30, 2010. The bill includes sweeping changes to the student loan industry, most notably the elimination of new loans in the FFEL Program. In the prior audit, we reported management felt that due to the uncertainty of the scope of TSAC's future loan program, it would be best to continue with its current provider until it can be best determined what will be required in the future. We also reported that management obtained a one-year extension to the current contract with NGS, changing the contract's expiration date to December 31, 2011.

Management concurred with the prior finding and stated:

> THEC/TSAC management notified the U.S. Department of Education (ED) on April 15, 2009, that upon expiration of the current contract with TSAC's loan servicer, THEC/TSAC would ensure the conflict of interest is eliminated. THEC/TSAC will further consult with ED regarding the effect of the Health Care and Education Affordability Reconciliation Act on the requirement in 34 CFR 682, 404 (k) (4) to avoid conflicts of interest.

Since the prior audit, management determined that there is no change regarding the effect of the Health Care and Education Affordability Reconciliation Act on the requirement in 34 CFR 682, 404(k)(4) to avoid conflicts of interest. Therefore, new RFPs have been prepared. The RFP which includes collection activities is, according to the "RFP Schedule of Events," to be signed on August 31, 2011. As of August 23, 2011, the other RFP that will include the default aversion services is, according to management, currently in review by the Office of Contracts Administration in the Department of Finance and Administration.

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.

Recommendation

The Executive Director of the Tennessee Student Assistance Corporation should continue to pursue the new contract arrangement, which will separate default aversion activities from collection activities.

Management's Comment

We concur. TSAC has issued a Request for Proposal for default aversion services. The contract term for these services will begin January 1, 2012. Collection activities will remain in the current servicing contract, thereby separating default aversion services from collection activities as recommended by the U.S. Department of Education.

3. 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 the previous two audits 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.

In the previous audit, we reported that several years ago a decision was made to have some lender payments that would have gone to the lockbox be sent to TSAC instead. We also noted that management 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 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.

This error could have been avoided if all receipts had been processed through the lockbox. TSAC's current procedures require all lender payments to be sent to the lockbox.

Management concurred with the prior finding and stated:

> . . . Management has completed its review of accounting entries related to averted claim transactions occurring in Fiscal Years 2008 through 2010. An accounting entry to correct the operating and federal fund balances for 2009 accounting errors totaling $3,782,145.43 was requested and subsequently approved by the U.S. Department of Education in October 2010. The appropriate accounting entry was made in the State of Tennessee's Edison Accounting System, effective October 2010. Corrections for 2008 and 2010 totaling $2,519,166.25 and $1,751,007.93,

> respectively, have been submitted to the U.S. Department of Education for approval. TSAC continues to research transactions in Fiscal Years 2005 through 2007. TSAC now directs all averted claim payments to the state authorized servicer "lockbox" bank account used exclusively for Federal Family Education Loan Program related collections. This account is used solely by our contracted servicer in Aurora, Colorado, to deposit collections on defaulted Federal Family Education Loan Program loans guaranteed by TSAC. Therefore, Federal Family Education Loan collections are not comingled with other TSAC program deposits. This process change reduces the risk of duplicate entries that could result in misstatements of operating and federal fund balances.

For the entire audit period, all averted claim payments were sent to the state authorized servicer with the lockbox bank account.

Management received approval in October 2010 from the U.S. Department of Education to transfer the $3,782,145.43 relating to fiscal year 2009. Management received approval in June 2011 from the U.S. Department of Education to transfer $2,519,166.25 and $1,751,007.93 for the fiscal years 2008 and 2010, respectively. The entries have been made in Edison, the state's accounting software system, and the TSAC ledger.

Management in their prior audit finding follow-up report to the Division of State Audit dated August 31, 2011, stated:

> . . . In June the Internal Auditor submitted a report on the review of fiscal year 2007. Management is working to confirm the information and send documentation and a request to DOE to transfer approximately $2 million for that year. Research for fiscal years 2005 and 2006 is nearing completion. . . . TSAC anticipates completing the reviews of 2005 and 2007 by early Fall 2011, and the review for 2006 to be completed by mid- to late Fall 2011. . . .

Recommendation

The Associate Executive Director for Loan Administration, the Tennessee Higher Education Commission's Division of Fiscal Affairs personnel, and the Director of Internal Audit 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 for fiscal years 2005 through 2006. For fiscal year 2007, management should complete its review of the information. When amounts are 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, received approval from the U.S. Department of Education (USDOE), and made adjustments for accounting entries related to averted claims transactions occurring in Fiscal Years 2008 through 2010. Accounting corrections in the State of Tennessee's Edison Accounting System for 2008 totaling \$2,519,166.25, 2009 totaling \$3,782,145.43, and 2010 totaling \$1,751,007.93, were made to correct the operating and federal fund balances. In addition, TSAC identified the appropriate accounting adjustments and transmitted this last request to the USDOE to approve TSAC making averted claims accounting adjustments for 2005 totaling \$2,038,264.81, 2006 totaling \$2,629,871.94, and 2007 totaling \$2,015,988.81. Following the USDOE review of this request and any supporting documentation they require, TSAC expects approval to be granted for the adjustments requested. Once approval is granted, the necessary accounting adjustments will be made in the Edison Accounting System for the amounts specified for years 2005 through 2007. At that time, this averted claims issue will be concluded.

Beginning in the first quarter of calendar year 2010, TSAC began directing all averted claim payments to the state authorized servicer "lockbox" bank account used exclusively for Federal Family Education Loan Program related collections. This account is used solely by our contracted servicer in Aurora, Colorado to deposit collections on defaulted Federal Family Education Loan Program loans guaranteed by TSAC. Therefore, Federal Family Education Loan collections are not comingled with other TSAC program deposits. This process change reduces the risk of duplicate entries that could result in misstatements of operating and federal fund balances.

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Independent Auditor's Report

December 29, 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
1900 Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, general fund, and the Federal Family Education Loan Trust Fund of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of and for the years ended June 30, 2011, and June 30, 2010, 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 the 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 financial position of the governmental activities, general fund, and Federal Family Education Loan Trust Fund of the Tennessee Student Assistance Corporation as of June 30, 2011, and June 30, 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the financial statements, during the year ended June 30, 2011, the corporation implemented Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis on pages 18 through 27, the schedule of funding progress on page 45, and the unaudited budgetary comparison schedule on page 46 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 29, 2011, 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 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 considered in assessing 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, 2011, and June 30, 2010, with comparative information presented for the fiscal year ended June 30, 2009. 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 basic financial statements, and the accompanying notes. The basic 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

	6/30/2011	6/30/2010	6/30/2009
Total assets	$13,750,492	$19,357,109	$12,632,293
Other liabilities	3,226,839	9,885,223	4,351,412
Long-term liabilities	444,802	356,326	303,671
Total liabilities	3,671,641	10,241,549	4,655,083
Net assets - restricted	$10,078,851	$ 9,115,560	$ 7,977,210

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

- The notes and interest receivables include notes of $7,683,888 and interest of $2,131,532 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 $2,303,927 include amounts due to the corporation's loan servicer.

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

FY 2011 to FY 2010

The corporation's total net assets increased from $9,115,560 at June 30, 2010, to $10,078,851 at June 30, 2011. The total net assets increase is indicative of a decrease in accrued liabilities by $6,925,617, from $9,229,544 at June 30, 2010, to $2,303,927 at June 30, 2011. The decrease in accrued liabilities is due to TSAC paying the third party servicer payments for FY 2011 in FY 2011 and not establishing accrued liabilities.

FY 2010 to FY 2009

The corporation's total net assets increased from $7,977,210 at June 30, 2009, to $9,115,560 at June 30, 2010. The total net assets increase is indicative of an increase in accounts receivable by $1,163,826, from $18,237 at June 30, 2009, to $1,182,063 at June 30, 2010. The increase in accounts receivable is due to TSAC receiving Leveraging Educational Assistance Partnership (LEAP) / Special Leveraging Educational Assistance Partnership Program (SLEAP) funds for FY 2010 in FY 2011.

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 6/30/2011	FYE 6/30/2010	FYE 6/30/2009
Expenses for education	$82,288,229	$82,013,587	$75,309,286
Program revenues:			
Charges for services	13,481,280	15,887,361	11,091,952
Operating grants and contributions	18,592,438	17,933,562	13,808,052
Interest on investments	711,221	597,775	453,992
Total program revenues	32,784,939	34,418,698	25,353,996
Net program expenses	49,503,290	47,594,889	49,955,290
General revenues:			
Payments from primary government	50,466,581	48,733,239	51,187,637
Increase in net assets	963,291	1,138,350	1,232,347
Net assets, beginning of year	9,115,560	7,977,210	6,744,863
Net assets, end of year	$10,078.851	$ 9,115,560	$ 7,977,210

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 2011 to FY 2010

Program expenses increased $274,642 from FY 2010 to FY 2011. Grant expenditures increased from $54,061,741 for the year ended June 30, 2010, to $55,671,930 for the year ended June 30, 2011, an increase of $1,610,189, due to increased TSAA awards. Loan cancellation expenses increased from $2,615,761 for the year ended June 30, 2010, to $2,771,375 for the year ended June 30, 2011, an increase of $155,614, due to an increased number of students fulfilling their loan/scholarship requirements. Administrative expenses decreased from $25,336,085 for the year ended June 30, 2010, to $23,884,924 for the year ended June 30, 2011, a decrease of $1,491,161, due to decreased charges from the third party servicer.

FY 2010 to FY 2009

Program expenses increased primarily due to increases in administrative expenses. Administrative expenses increased from $17,210,873 for the fiscal year ended June 30, 2009, to $25,336,085 for the fiscal year ended June 30, 2010, due to increases in servicer costs. Program revenues increased primarily due to increases in charges for services and operating grants and contributions. Charges for services increased from $11,091,952 for the fiscal year ended June 30, 2009, to $15,887,361 for the fiscal year ended June 30, 2010. Operating grants and contributions increased from $13,808,052 for the fiscal year ended June 30, 2009, to $17,933,562 for fiscal year ended June 30, 2010. The increase in servicer costs is due to the unusually large sale of rehabilitation loans during FY 2010. The servicer (NGS), by contract, receives a percentage of the sale of the loans thereby increasing servicer costs.

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 all 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 amounts 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, 2011; June 30, 2010; and June 30, 2009, the general fund had total fund balances of $10,637,776, $9,584,239, and $8,349,988, 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 2011 to FY 2010

The total fund balance increased from $9,584,239 at June 30, 2010, to $10,637,776 at June 30, 2011, an increase of $1,053,537, primarily due to two factors. The first is an increase in notes receivable from $6,950,323 at June 30, 2010, to $7,683,888 at June 30, 2011, an increase of $733,565. The second is an increase in interest receivable from $1,828,679 at June 30, 2010, to $2,131,532 at June 30, 2011, an increase of $302,853. Both factors are due to the increase in the number of loans issued and the increased amount of interest those loans generate.

FY 2010 to FY 2009

The total fund balance increase from $8,349,988 at June 30, 2009, to $9,584,239 at June 30, 2010, occurred primarily due to a considerable increase in accounts receivable ($18,237 at June 30, 2009, to $1,182,063 at June 30, 2010) due to the outstanding receivable for Leveraging Educational Assistance Partnership (LEAP) / Special Leveraging Educational Assistance Partnership (SLEAP) funds.

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 $1,053,537 for the fiscal year ended June 30, 2011; revenues over expenditures of $1,234,251 for the fiscal year ended June 30, 2010; and an excess of revenues over expenditures of $1,343,059 for the fiscal year ended June 30, 2009. Reconciliations of excess of revenues over expenditures with increase 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 2011 to FY 2010

TSAC had a net $99,582 increase in total revenue for the fiscal year ended June 30, 2011. The net increase in revenue was due to an increase in federal revenue from $10,555,541 for the fiscal year ended June 30, 2010, to $11,290,005 for the fiscal year ended June 30, 2011. TSAC expenditures increased $280,296 in the fiscal year ended June 30, 2011. Loan cancellation expenditures increased from $2,615,761 for the year ended June 30, 2010, to $2,771,375 for the year ended June 30, 2011, an increase of $155,614, due to an increased number of students fulfilling their loan/scholarship requirements. Administrative expenditures decreased from $25,240,183 for the year ended June 30, 2010, to $23,754,677 for the year ended June 30, 2011, a decrease of $1,485,506, due to decreased charges from the third party servicer. Grant expenditures related to the Tennessee Student Assistance Awards increased from $54,061,742 for the year ended June 30, 2010, to $55,671,930 for the year ended June 30, 2011, an increase of $1,610,188.

FY 2010 to FY 2009

TSAC had a net $6,610,305 increase in total revenue for the fiscal year ended June 30, 2010. The net increase in revenue was due to an increase in departmental services revenue from $17,891,952 for the fiscal year ended June 30, 2009, to $23,265,383 for the fiscal year ended June 30, 2010, and an increase in federal revenue from $7,008,052 for the fiscal year ended June 30, 2009, to $10,555,541 for the fiscal year ended June 30, 2010. TSAC expenditures increased $6,719,112 in the fiscal year ended June 30, 2010. Administrative expenditures increased from $17,100,161 for the fiscal year ended June 30, 2009, to $25,240,183 for the fiscal year ended June 30, 2010, due to increased servicer costs. Grant expenditures related to Tennessee Student Assistance Awards decreased from $55,818,428 for the fiscal year ended June 30, 2009, to $54,061,741 for the fiscal year ended June 30, 2010.

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 $100,378,707 at June 30, 2011; $103,775,526 at June 30, 2010; and $101,297,149 at June 30, 2009.

FY 2011 to FY 2010

Net assets decreased by $3,396,819 from $103,775,526 at June 30, 2010, to $100,378,707 at June 30, 2011. The total net asset decrease is indicative of the loss of the Loan Processing Issuance Fee (LPIF) and Account Maintenance Fee (AMF) in the FFELP program due to the conversion change in the program to direct lending. The LPIF is no longer collected by TSAC since there are no new loan guarantees. In addition, the AMF is a calculated rate based on the volume guaranteed in the loan portfolio. Since the portfolio is shrinking, the amount of the AMF is as well.

FY 2010 to FY 2009

Net assets increased by $2,478,377 from June 30, 2009, to June 30, 2010. The total net assets increase is indicative of a decrease in accounts payable by $6,445,887 from $6,469,284 at June 30, 2009, to $23,398 at June 30, 2010. The decrease in accounts payable is due to TSAC paying $5.6 million of FY 2010 payments in FY 2009. These early payments were due to the uncertainty with the transition from STARS to Edison.

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. In addition, the loss of the LPIF and reduced AMF is beginning to have an impact on the revenue collected.

FY 2011 to FY 2010 and FY 2010 to FY 2009

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. When reviewing FY 2009, 2010, and 2011, the primary cause of the revenue fluctuations is due to the unusually large sale of rehabilitation loans during FY 2010. Since there were no sales of rehabilitated loans in the previous 18 months, the federal revenue collections, administrative expenses, and servicer costs in FY 2010 are inflated. This large sale in FY 2010 coupled with the loss of LPIF in FY 2011 has caused program revenue to drop substantially from FY 2010 to FY 2011. In addition, the AMF has decreased due to the reduction in the loans guaranteed in the Loan Portfolio.

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.

Budgetary Comparison for the Fiscal Year Ended June 30, 2011

For the year ended June 30, 2011, the actual revenue was $4,250,581 less than the estimated revenue during the same period. Actual grant revenue from primary government and departmental services revenue were lower while federal revenue was higher than the projected revenue in the final budget work program. TSAC had expenditures that were $5,304,118 less than allocated in the final budget work program. The reduction in expenditures was greater than the reduction in revenues and resulted in a $1,053,537 increase in the budgetary fund balance at June 30, 2011. The reduction in expenditures allowed TSAC to build up the fund balance while actual funding was less than projected.

Budgetary Comparison for the Fiscal Year Ended June 30, 2010

There was only a slight difference between the original budget work program and the final budget work program. The final work program was $1,182,202 less than the original work program. For the year ended June 30, 2010, the actual revenue was $4,343,462 less than the estimated revenue during the same period. Actual grant revenue from primary government, departmental services revenue, and federal revenue were lower than the projected revenue in the final budget work program. TSAC had expenditures that were $4,395,511 less than allocated in the final budget work program. The reduction in expenditures was greater than the reduction in revenues and resulted in a $52,048 increase in the budgetary fund balance at June 30, 2010. 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

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 significance of this bill has a tremendous impact on all guarantee agencies and private lenders. Within the Act is the Student Aid and Fiscal Responsibility Act (SAFRA), which includes Part II - Student Loan Reform. Section 2201 of Student Loan Reform significantly changes the future of all Stafford, Parent Loan for Undergraduate Students (PLUS) and consolidations loans.

- Termination: 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. 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).

The impact of this legislation to the Tennessee Student Assistance Corporation (TSAC) is significant. TSAC will continue to manage the portfolio on existing loans. Revenue will be generated from the existing loans in such areas as:

- Account Maintenance Fees (AMF). TSAC receives from the Department of Education (Department) AMF at 0.06% on the outstanding principal loan balance.

- Default Aversion Assistance. The Department pays TSAC 1% of the unpaid principal balance on any delinquent loan that is cured and brought out of delinquency.

- Collections. TSAC will continue to receive 16% of the collected amount on default loans.

Due to the declining revenues from the FFEL program, TSAC is exploring possible new and enhanced services to the financial aid offices of higher education. Additionally, TSAC believes it has a responsibility to continue to provide financial aid services, including default prevention activities, to help students achieve their educational goals. Possible services include default prevention with early intervention, increased financial literacy, and document imaging. The intent of these services is to generate additional revenue for the agency while providing needed services to students and the financial aid community.

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, 2011, and June 30, 2010

	June 30, 2011	June 30, 2010
Assets:		
Cash (Note 2)	$ 3,691,168.13	$ 9,396,043.70
Receivables:		
Notes receivable	7,683,887.89	6,950,322.80
Interest receivable	2,131,531.61	1,828,679.23
Accounts receivable	243,904.21	1,182,063.37
Total assets	13,750,491.84	19,357,109.10
Liabilities:		
Accounts payable	464,325.27	203,324.55
Accrued liabilities	2,303,927.14	9,229,544.23
Payroll related accruals	101,784.57	98,936.17
Due to primary government	15,048.93	12,412.44
Deferred revenue	227,629.52	228,652.64
Compensated absences (Note 3):		
Payable within one year	114,124.07	112,352.70
Payable after one year	134,095.00	120,003.15
Long-term liability - net OPEB obligation (Notes 3 & 7)	310,706.71	236,323.09
Total liabilities	3,671,641.21	10,241,548.97
Net assets:		
Restricted (Note 13)	10,078,850.63	9,115,560.13
Total net assets	$ 10,078,850.63	$ 9,115,560.13

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, 2011, and June 30, 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010
Expenses for education:		
Grants expenses	$ 55,671,930.29	$ 54,061,741.73
Administrative expenses	23,844,923.79	25,336,084.73
Loan cancellations	2,771,374.57	2,615,761.28
Total program expenses	82,288,228.65	82,013,587.74
Program revenues:		
Charges for services	13,481,279.55	15,887,361.27
Operating grants and contributions	18,592,437.86	17,933,562.40
Interest on investments	711,220.49	597,774.63
Total program revenues	32,784,937.90	34,418,698.30
Net program expenses	49,503,290.75	47,594,889.44
General revenues:		
Payments from primary government	50,466,581.25	48,733,239.16
Increase in net assets	963,290.50	1,138,349.72
Net assets, beginning of year	9,115,560.13	7,977,210.41
Net assets, end year	$ 10,078,850.63	$ 9,115,560.13

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, 2011, and June 30, 2010

	June 30, 2011	June 30, 2010
Assets:		
Cash (Note 2)	$ 3,691,168.13	$ 9,396,043.70
Receivables:		
Notes receivable	7,683,887.89	6,950,322.80
Interest receivable	2,131,531.61	1,828,679.23
Accounts receivable	243,904.21	1,182,063.37
Total assets	13,750,491.84	19,357,109.10
Liabilities:		
Accounts payable	464,325.27	203,324.55
Accrued liabilities	2,303,927.14	9,229,544.23
Payroll related accruals	101,784.57	98,936.17
Due to primary government	15,048.93	12,412.44
Deferred revenue	227,629.52	228,652.64
Total liabilities	3,112,715.43	9,772,870.03
Fund balance (Notes 4 & 9):		
Restricted	10,637,776.41	9,584,239.07
Total fund balances	10,637,776.41	9,584,239.07
Total liabilities and fund balances	$ 13,750,491.84	$ 19,357,109.10

Reconciliation of Statements of Net Assets

Total fund balances	$ 10,637,776.41	$ 9,584,239.07
Compensated liability not reported in the fund	(248,219.07)	(232,355.85)
Long-term liability - net OPEB obligation	(310,706.71)	(236,323.09)
Total net assets	$ 10,078,850.63	$ 9,115,560.13

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

Exhibit D

Tennessee Student Assistance Corporation
Statements of Revenues, Expenditures, and Changes in Fund Balances
General Fund
For the Years Ended June 30, 2011, and June 30, 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010
Revenues:		
Grant revenue from primary government	$ 50,466,581.25	$ 48,733,239.16
Departmental services revenue	20,783,712.47	23,265,382.91
Federal revenue	11,290,004.94	10,555,540.76
Interest income	711,220.49	597,774.63
Total revenues	83,251,519.15	83,151,937.46
Expenditures:		
Grants expenditures	55,671,930.29	54,061,741.73
Administrative expenditures	23,754,676.95	25,240,183.42
Loan cancellations	2,771,374.57	2,615,761.28
Total expenditures	82,197,981.81	81,917,686.43
Excess of revenues over expenditures	1,053,537.34	1,234,251.03
Fund balance, beginning of year	9,584,239.07	8,349,988.04
Fund balance, end of year	$ 10,637,776.41	$ 9,584,239.07

Reconciliation of Statements of Activities

Excess of revenues over expenditures	$ 1,053,537.34	$ 1,234,251.03
Compensated absences expense not reported as an expenditure in the fund	(15,863.22)	(19,766.22)
Long-term liability - net OPEB obligation	(74,383.62)	(76,135.09)
Increase in net assets	$ 963,290.50	$ 1,138,349.72

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

Exhibit E

Tennessee Student Assistance Corporation
Statements of Fiduciary Net Assets
Federal Family Education Loan Trust Fund
June 30, 2011, and June 30, 2010

	June 30, 2011	June 30, 2010
Assets:		
Cash (Note 2)	$ 90,983,656.17	$ 96,805,299.47
Receivables:		
Due from federal government	9,407,480.16	6,993,624.54
Claims receivable (net of allowances of $0.00 at June 30, 2011, and $1,205,775.47 at June 30, 2010)	-	-
Total assets	100,391,136.33	103,798,924.01
Liabilities:		
Accounts payable and accruals	12,429.74	23,398.24
Total liabilities	12,429.74	23,398.24
Net assets:		
Held in trust for student loans (Note 5)	$ 100,378,706.59	$ 103,775,525.77

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

Exhibit F

Tennessee Student Assistance Corporation
Statements of Change in Fiduciary Net Assets
Federal Family Education Loan Trust Fund
For the Years Ended June 30, 2011, and June 30, 2010

	Year Ended June 30, 2011	Year Ended June 30, 2010
Additions:		
Federal revenue	$ 19,987,425.46	$ 32,136,667.96
Interest income	220,563.60	356,593.55
Contributions from primary government	-	1,182,202.32
Total additions	20,207,989.06	33,675,463.83
Deductions:		
Administrative expenses	4,559,657.28	9,882,181.08
Collection expense	19,045,150.96	21,314,906.10
Total deductions	23,604,808.24	31,197,087.18
Increase / (decrease) in net assets	(3,396,819.18)	2,478,376.65
Net assets, beginning of year	103,775,525.77	101,297,149.12
Net assets, end of year	$ 100,378,706.59	$ 103,775,525.77

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).

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.

All of the corporation's governmental fund balances are classified as restricted. Restricted fund balance represents amounts where constraints placed on the resources are either externally imposed, as is the case for the corporation, or imposed by law through constitutional provisions or enabling legislation.

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 interest is not accrued on notes purchased under the provisions of the Federal Family Education Loan Program, as explained below.

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. 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, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$232,355.85	$179,146.27	$163,283.05	$248,219.07	$114,124.07
Net OPEB obligation	236,323.09	74,544.23	160.61	310,706.71	-
Total long-term liabilities	$468,678.94	$253,690.50	$163,443.66	$558,925.78	$114,124.07

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$212,589.63	$182,967.00	$163,200.78	$232,355.85	$112,352.70
Net OPEB obligation	160,188.00	76,135.09	-	236,323.09	-
Total long-term liabilities	$372,777.63	$259,102.09	$163,200.78	$468,678.94	$112,352.70

NOTE 4. FUND BALANCE

Program	June 30, 2011	June 30, 2010
Restricted:		
Math/Science Loan Forgiveness	$ 156,346.67	$ 160,120.00
Rural Health Loan Forgiveness	1,379,156.40	791,717.64
Teaching/Loan Scholarship	36,705.36	71,901.54
Minority Teacher Scholarship	5,747,175.42	5,463,164.49
Graduate Nursing Loan Forgiveness	1,422,895.80	1,415,798.62
Teaching Scholars Program	1,895,496.76	1,681,536.78
Total fund balance	$10,637,776.41	$ 9,584,239.07

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, 2011, the corporation had insured loans outstanding of $3,739,313,898.90 and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program in the amount of $90,983,656.17. At June 30, 2010, the corporation had insured loans outstanding of $4,456,227,576.02 and the Treasurer of Tennessee held short-term investments of cash belonging to the loan program in the amount of $96,805,299.47.

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 is available on the TCRS website at www.treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

Funding Policy - Plan members are noncontributory. The corporation is required to contribute an actuarially determined rate. The current rate is 14.91% 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, 2011, 2010, and 2009 were $343,961.55, $283,839.25, and $264,413.97. 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 8-27-201 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. In previous fiscal years, prior to reaching the age of 65, all retirees have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed and as a result, all members now have the option of choosing between the standard or partnership preferred provider organization 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 online 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 TSAC. The state is the sole contributor for the TSAC retirees that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy - The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 25 years, 70 percent; and 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service - retirees with 30 years of service, \$50; 25 years, \$37.50; and 20 years, \$25.

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

	June 30, 2011	June 30, 2010
Annual Required Contribution (ARC)	$103	$114
Interest on the Net OPEB Obligation	11	7
Adjustment to the ARC	(10)	(7)
Annual OPEB cost	104	114
Amount of contribution	(29)	(38)
Increase in Net OPEB Obligation	75	76
Net OPEB obligation - beginning of year	236	160
Net OPEB obligation - end of year	$311	$236

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation at Year End
6/30/2011	Employee Group	$104	28%	$311
6/30/2010	Employee Group	$114	33%	$236
6/30/2009	Employee Group	$119	32%	$160

Funded Status and Funding Progress - The funded status of the plans as of July 1, 2010, was as follows (dollars in thousands)

Actuarial valuation date	July 1, 2010
Actuarial accrued liability (AAL)	$ 1,168
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 1,168
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$ 2,013
UAAL as a percentage of covered payroll	58%

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 RSI following the notes to the financial statements, presents multi-year 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, 2010, actuarial valuation for the Employee Group plan, 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 10 percent for fiscal year 2011. The rate is decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. 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, 2011, the State of Tennessee made payments of $783 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 online at http://www.state.tn.us/finance/act/cafr.html.

NOTE 9. CHANGE IN ACCOUNTING PRINCIPLE

The corporation has implemented Governmental Accounting Standard Board's Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. Governmental fund balances are classified into one or more of the following five (5) categories: nonspendable, restricted, committed, assigned, and unassigned. These classifications of fund balance are based primarily on the extent to which a government is bound to follow constraints imposed upon the uses of the resources.

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, 2011, the Risk Management Fund held $107.6 million in cash designated for payment of claims. In FY 2011, the state paid $43.8 million for claims. At June 30, 2010, the Risk Management Fund held $114.5 million in cash designated for payment of claims. In FY 2010, the state paid $32.6 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 of 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 annual for earthquake and flood combined
All other perils	$25,000	$5 million annual aggregate

A separate builders' risk commercial insurance policy is purchased 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 $409,985.91 at June 30, 2011, and $406,470.65 at June 30, 2010.

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 corporation 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. CHANGE IN NET ASSET CLASSIFICATION

On the Statement of Net Assets for the year ended June 30, 2010, restricted net assets and unrestricted net assets were restated as follows:

	6/30/2010 Net Assets As Reported	Adjustments to Net Assets 6/30/2010	Net Assets As Restated
Statement of Net Assets:			
Net assets - restricted	$ -	$9,115,560.13	$9,115,560.13
Net assets - unrestricted	9,115,560.13	(9,115,560.13)	-
Total net assets	$9,115,560.13	$ -	$9,115,560.13

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)]
July 1, 2007	State Employee Group Plan	$ -	$1,199	$1,199	0%	$2,196	55%
July 1, 2009	State Employee Group Plan	$ -	$1,361	$1,361	0%	$2,032	67%
July 1, 2010	State Employee Group Plan	$ -	$1,168	$1,168	0%	$2,013	58%

REQUIRED SUPPLEMENTARY INFORMATION
TENNESSEE STUDENT ASSISTANCE CORPORATION
UNAUDITED BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2011, AND JUNE 30, 2010

	FOR THE YEAR ENDED JUNE 30, 2011				FOR THE YEAR ENDED JUNE 30, 2010			
	Budgeted Amounts		Actual Amounts (Budgetary Basis) (1)	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts (Budgetary Basis) (1)	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Budgetary fund balance, July 1	$ 9,584,239.07	$ 9,584,239.07	$ 9,584,239.07	$ -	$ 8,349,988.04	$ 8,349,988.04	$ 8,349,988.04	$ -
Resources (inflows):								
Grant revenue from primary government	51,767,100.00	51,767,100.00	50,466,581.25	(1,300,518.75)	51,788,900.00	51,788,900.00	48,733,239.16	(3,055,660.84)
Departmental services revenue	24,752,500.00	24,752,500.00	20,783,712.47	(3,968,787.53)	24,736,700.00	24,736,700.00	23,265,382.91	(1,471,317.09)
Federal revenue	10,982,500.00	10,982,500.00	11,290,004.94	307,504.94	10,969,800.00	10,969,800.00	10,555,540.76	(414,259.24)
Interest income	-	-	711,220.49	711,220.49	-	-	597,774.63	597,774.63
Amounts available for appropriation	97,086,339.07	97,086,339.07	92,835,758.22	(4,250,580.85)	95,845,388.04	95,845,388.04	91,501,925.50	(4,343,462.54)
Charges to appropriations (outflows):								
Personal services	2,671,800.00	2,671,800.00	2,369,983.37	301,816.63	2,737,800.00	2,737,800.00	2,195,633.88	542,166.12
Employee benefits	1,014,500.00	1,014,500.00	963,862.70	50,637.30	910,200.00	910,200.00	867,827.01	42,372.99
Travel	186,500.00	186,500.00	96,212.69	90,287.31	204,000.00	204,000.00	79,971.74	124,028.26
Printing, duplicating, and film processing	139,600.00	139,600.00	62,364.97	77,235.03	139,600.00	139,600.00	68,515.34	71,084.66
Communication and shipping cost	199,500.00	199,500.00	91,071.03	108,428.97	199,500.00	199,500.00	120,432.91	79,067.09
Maintenance, repairs, and services	8,900.00	8,900.00	2,040.21	6,859.79	8,900.00	8,900.00	5,355.12	3,544.88
Professional and administrative services	19,831,800.00	19,831,800.00	19,057,109.48	774,690.52	19,851,800.00	19,851,800.00	20,554,955.25	(703,155.25)
Supplies	192,900.00	192,900.00	99,917.58	92,982.42	192,900.00	192,900.00	59,274.35	133,625.65
Rentals and insurance	303,300.00	303,300.00	306,330.64	(3,030.64)	302,100.00	302,100.00	339,653.64	(37,553.64)
Awards and indemnities	5,300.00	5,300.00	-	5,300.00	5,300.00	5,300.00	96.36	5,203.64
Grants and subsidies	62,119,300.00	62,119,300.00	58,891,073.71	3,228,226.29	62,119,300.00	60,937,097.68	57,151,215.56	3,785,882.12
Equipment	15,000.00	15,000.00	-	15,000.00	15,000.00	15,000.00	-	15,000.00
Unclassified expenses	-	-	1,200.00	(1,200.00)	-	-	800.00	(800.00)
Professional services	813,700.00	813,700.00	256,815.43	556,884.57	809,000.00	809,000.00	473,955.27	335,044.73
Total charges to appropriations	87,502,100.00	87,502,100.00	82,197,981.81	5,304,118.19	87,495,400.00	86,313,197.68	81,917,686.43	4,395,511.25
Budgetary fund balance, June 30	$ 9,584,239.07	$ 9,584,239.07	$ 10,637,776.41	$ 1,053,537.34	$ 8,349,988.04	$ 9,532,190.36	$ 9,584,239.07	$ 52,048.71

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