

# AUDIT REPORT

**Tennessee Student Assistance Corporation**

**For the Year Ended  
June 30, 2012**



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

**Department of Audit  
Division of State Audit**



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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
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May 16, 2013

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, 2012. You will note from the independent auditor's report that unqualified opinions were given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Deborah V. Loveless, CPA  
Director

DVL/aj  
12/046

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, 2012

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## AUDIT OBJECTIVES

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

## AUDIT FINDINGS

The audit report contains no findings.

## OPINIONS ON THE FINANCIAL STATEMENTS

The opinions on the financial statements are unqualified.

**Audit Report**  
**Tennessee Student Assistance Corporation**  
**For the Year Ended June 30, 2012**

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# **Tennessee Student Assistance Corporation For the Year Ended June 30, 2012**

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## **INTRODUCTION**

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### **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 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 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.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2011, through June 30, 2012, 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, 2012. 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).

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## OBJECTIVES OF THE AUDIT

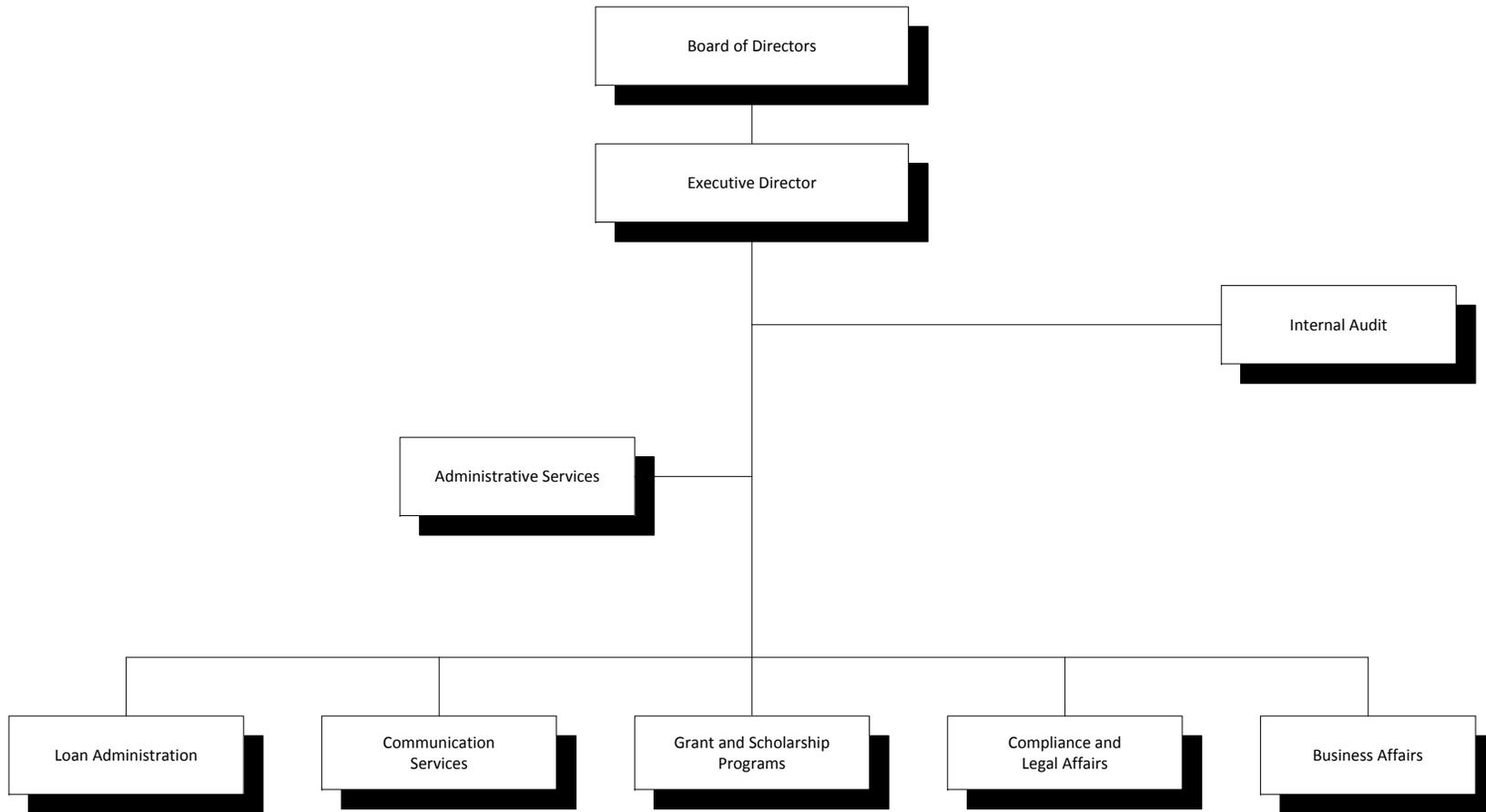
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The objectives of the audit were

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



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## **PRIOR AUDIT FINDINGS**

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The corporation filed its report with the Department of Audit on April 26, 2012. A follow-up of all prior audit findings was conducted as part of the current audit.

The current audit disclosed that the corporation has corrected previous audit findings concerning the security over a computer system needing improvement, the compliance with a Special Test and Provision regarding a conflict of interest, and the incorrect accounting entries for the Federal Family Education Loan Program.

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## **OBSERVATIONS AND COMMENTS**

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### **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 controls 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 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.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the corporation's financial statements for the year ended June 30, 2012, 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.

### Fairness of Financial Statement Presentation

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



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

May 3, 2013

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, 2012, and have issued our report thereon dated May 3, 2013. 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 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 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.

May 3, 2013  
Page Three

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,

A handwritten signature in black ink that reads "Deborah V. Loveless". The signature is written in a cursive style with a large initial 'D'.

Deborah V. Loveless, CPA  
Director

DVL/aj



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**COMPTROLLER OF THE TREASURY**  
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**Independent Auditor's Report**

May 3, 2013

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, business-type activities, general fund, and the Federal Family Education Loan Proprietary Fund of the Tennessee Student Assistance Corporation, a component unit of the State of Tennessee, as of and for the year ended June 30, 2012, 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, business-type activities, general fund, and the Federal Family Education Loan Proprietary Fund of the Tennessee Student Assistance Corporation as of June 30, 2012, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the financial statements, the corporation has changed the reporting of the Federal Family Education Loan fund (FFEL) from a fiduciary fund to a proprietary fund.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 21, the schedule of funding progress on page 39, the budgetary comparison schedule on page 40, and the reconciliation of budget to GAAP on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with generally accepted government auditing standards, we have also issued our report dated May 3, 2013, 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

May 3, 2013  
Page Three

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,

A handwritten signature in black ink that reads "Deborah V. Loveless". The signature is written in a cursive style with a large initial 'D'.

Deborah V. Loveless, CPA  
Director

DVL/aj

## Tennessee Student Assistance Corporation Management's Discussion and Analysis

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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, 2012, with comparative information presented for the fiscal year ended June 30, 2011. 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 Statement of Net Assets and the Statement of Activities provide information about the activities of the corporation as a whole. The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance provide financial information about the activities of the corporation's general fund.

The Federal Family Education Loan (FFEL) program was previously reported as a fiduciary fund and reclassified as a proprietary fund for the year ended June 30, 2012. The proprietary fund financial statements, which consist of the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows, provide financial information about the activities of the fund.

### Government-Wide Financial Analysis

The Statement of Net Assets presents the financial position of programs administered by the corporation at the end of the fiscal year. They include all assets and liabilities of the corporation. The difference between total assets and total liabilities—net assets—is an indicator of the corporation's current financial condition.

The Statement of Activities presents the governmental and business-type activities occurring in the educational programs administered by the corporation for the fiscal year.

	<b>Net Assets</b>			
	Governmental Activities		Business-Type Activities	
	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Total assets	<u>\$14,882,397</u>	<u>\$13,750,492</u>	<u>\$101,372,585</u>	<u>\$100,391,137</u>
Current and other liabilities	4,808,678	3,226,839	5,000	12,430

**Tennessee Student Assistance Corporation  
Management's Discussion and Analysis (Cont.)**

Long-term liabilities	491,555	444,802	-	-
Total liabilities	<u>5,300,233</u>	<u>3,671,641</u>	<u>5,000</u>	<u>12,430</u>
Net assets:				
Restricted net assets	9,582,164	10,078,851	14,995,553	16,613,563
Unrestricted net assets	-	-	86,372,032	83,765,144
Total net assets	<u>\$9,582,164</u>	<u>\$10,078,851</u>	<u>\$101,367,585</u>	<u>\$100,378,707</u>

Some highlights of material assets and liabilities are as follows:

- For governmental activities, the total assets include notes receivable of \$7,815,000 and interest receivable of \$2,212,300 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.
- Also for governmental activities, accounts payable and other current liabilities include accrued liabilities of \$3,720,010, which includes amounts due to the corporation's loan servicer.
- For the business-type activities, the assets include cash reserves of the corporation for the FFEL program and receivables consisting of an account maintenance fee (AMF) and reinsurance claims paid but not reimbursed by the federal government.

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

For governmental activities, the corporation's total net assets decreased from \$10,078,851 at June 30, 2011, to \$9,582,164 at June 30, 2012. The total net assets decrease is indicative of an increase in accrued liabilities by \$1,416,083, from \$2,303,927 at June 30, 2011, to \$3,720,010 at June 30, 2012. The increase in accrued liabilities is due to an increase in servicer collection bills.

For business-type activities, net assets increased by \$988,878 from \$100,378,707 at June 30, 2011, to \$101,367,585 at June 30, 2012. The total net asset increase is due to an increase in rehabilitation loan sales in FY 2012.

**Tennessee Student Assistance Corporation  
Management's Discussion and Analysis (Cont.)**

**Changes in Net Assets**

	Governmental Activities		Business-Type Activities	
	FYE	FYE	FYE	FYE
	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2011</u>
Program expenses:				
Grants	\$53,727,512	\$55,671,930	\$ -	\$ -
Administration	4,050,571	4,279,329	-	-
Loan cancellations	3,450,861	2,771,375	-	-
Loan program	-	-	175,953,320	188,700,442
Scholarships and fellowships	-	-	526,540	-
Total program expenses	<u>61,228,944</u>	<u>62,722,634</u>	<u>176,479,860</u>	<u>188,700,442</u>
Program revenues:				
Charges for services	4,154,674	5,037,390	26,386,800	19,462,305
Operating grants and contributions	8,033,221	8,181,954	150,517,576	165,620,754
Total program revenues	<u>12,187,895</u>	<u>13,219,344</u>	<u>176,904,376</u>	<u>185,083,059</u>
General revenues:				
Payments from primary government	48,544,362	50,466,581	431,425	-
Interest income	-	-	132,937	220,564
Total general revenues	<u>48,544,362</u>	<u>50,466,581</u>	<u>564,362</u>	<u>220,564</u>
Total revenues	<u>60,732,257</u>	<u>63,685,925</u>	<u>177,468,738</u>	<u>185,303,623</u>
Increase (decrease) in net assets	(496,687)	963,291	988,878	(3,396,819)
Net assets, beginning of year	<u>10,078,851</u>	<u>9,115,560</u>	<u>100,378,707</u>	<u>103,775,526</u>
Net assets, end of year	<u>\$9,582,164</u>	<u>\$10,078,851</u>	<u>\$101,367,585</u>	<u>\$100,378,707</u>

Some highlights of the revenues and expenses are as follows:

- For governmental activities, expenses for education included grants made in the Tennessee Student Assistance Awards (TSAA) and other education programs, costs incurred by the corporation in administering the programs, and loans and interest

## **Tennessee Student Assistance Corporation Management's Discussion and Analysis (Cont.)**

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canceled for those students participating in the loan/scholarship programs who met the requirements of those programs.

- Also for governmental activities, revenues include state appropriations for programs administered by the corporation, the collection of loan and interest payments, and refunds from those programs.
- For business-type activities, federal revenue and expenses are subject to loan volume fluctuations and payment receipt fluctuations.

For governmental activities, total program expenses decreased \$1,493,690 from FY 2011 to FY 2012. Grant expenses decreased from \$55,671,930 for the year ending June 30, 2011, to \$53,727,512 for the year ending June 30, 2012, a decrease of \$1,944,418, due to a decrease in TSAA. Loan cancellation expenses increased from \$2,771,375 for the year ending June 30, 2011, to \$3,450,861 for the year ending June 30, 2012, an increase of \$679,486, due to an increased number of students fulfilling their loan/scholarship requirements. Administrative expenses decreased from \$4,279,329 for the year ending June 30, 2011, to \$4,050,571 for the year ending June 30, 2012, a decrease of \$228,758, due to a decrease in the Voluntary Buyout Tuition and Reduction in Force program.

For business-type activities, in FY 2012, expenses decreased by \$12,220,582 and operating grants and contributions decreased by \$15,103,178 over FY 2011 due to the decline in the FFEL Program. The decline is due to no new loans being guaranteed as of June 30, 2010. Charges for services increased by \$6,924,485 due to an increase in rehabilitation loan sales in FY 2012.

### **Balance Sheet - General Fund**

The Balance Sheet presents the financial condition of programs for educational purposes 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 that are not accounted for in the proprietary fund.

Some highlights of the General Fund Balance Sheet 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.

## **Tennessee Student Assistance Corporation Management's Discussion and Analysis (Cont.)**

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- Accrued liabilities include amounts due to the corporation's loan servicer.
- Fund balance includes 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, 2012, and June 30, 2011, the general fund had total fund balances of \$10,213,479 and \$10,637,776, respectively. Reconciliation of the total fund balance with the total net assets presented on the Statement of Net Assets is shown at the bottom of the Balance Sheet.

The total fund balance decreased from \$10,637,776 at June 30, 2011, to \$10,213,479 at June 30, 2012, a decrease of \$424,297, primarily due to an increase in accrued liabilities from \$2,303,927 at June 30, 2011, to \$3,720,010 at June 30, 2012, an increase of \$1,416,083. This was due to servicer collection bills being higher at June 30, 2012. This was offset by cash being higher at June 30, 2012, by \$1,135,728 to cover those liabilities.

### **Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund**

The Statement of Revenues, Expenditures, and Changes in Fund Balance presents the results of operations for educational programs as administered by the corporation for the fiscal year.

Some highlights of the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance 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 a deficiency of revenues over expenditures of \$424,297 for the fiscal year ended June 30, 2012; and an excess of revenues over expenditures of \$1,053,537 for the fiscal year ended June 30, 2011. Reconciliation of the decrease in fund balance with the decrease in net assets presented on the Statement of Activities is shown at the bottom of the Statement of Revenues, Expenditures, and Changes in Fund Balance.

## **Tennessee Student Assistance Corporation Management's Discussion and Analysis (Cont.)**

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TSAC had a net \$2,953,667 decrease in total revenue for the fiscal year ended June 30, 2012. The net decrease is due to departmental service revenue decreasing from \$12,339,823 for the fiscal year ended June 30, 2011, to \$11,319,584 for the fiscal year ended June 30, 2012. Departmental revenue decreased because no new FFEL loans were guaranteed. TSAC expenditures decreased \$1,475,832 in fiscal year ended June 30, 2012. Loan cancellation expenditures increased from \$2,771,375 for the year ending June 30, 2011, to \$3,450,861 for the year ending June 30, 2012, an increase of \$679,486, due to an increased number of students fulfilling their loan/scholarship requirements. Administrative expenditures decreased from \$4,189,082 for the year ending June 30, 2011, to \$3,978,182 for the year ending June 30, 2012, a decrease of \$210,900. Administrative expenditures decreased due to a decrease in the Voluntary Buyout Tuition and Reduction in Force program. Grant expenditures related to the Tennessee Student Assistance Awards (TSAA) decreased from \$55,671,930 for the year ending June 30, 2011, to \$53,727,512 for the year ending June 30, 2012, a decrease of \$1,944,418. This decrease is due to a greater number of students who did not receive the award for the 2011-2012 academic year. The reasons for not receiving the award can include, but are not limited to, not enrolling at an eligible postsecondary institution or receiving other aid to cover the cost of attendance.

### **Proprietary Statements - Federal Family Education Loan Program**

The FFEL Program was formerly reported as a fiduciary fund. Effective for the period ending June 30, 2012, FFEL is reported as a proprietary fund. The change resulted in a fund reclassification from fiduciary to proprietary. Single-year financial statements are presented for the year ending June 30, 2012. The financial statements presented include a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows.

### **Statement of Net Assets - Federal Family Education Loan Proprietary Fund**

The Statement of Net Assets presents the assets and liabilities of the FFEL Proprietary Fund as administered by the corporation as the Federal Guaranty Agency for Tennessee. The assets include cash reserves of the corporation for the FFEL Program and receivables consisting of account maintenance fees (AMF) and reinsurance claims paid but not reimbursed by the federal government.

The fund had net assets of \$101,367,585 at June 30, 2012, and \$100,378,707 at June 30, 2011. Net assets increased by \$988,878. The total net asset increase is due to an increase in rehabilitation loan sales in FY 2012.

## **Tennessee Student Assistance Corporation Management's Discussion and Analysis (Cont.)**

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### **Statement of Revenues, Expenses, and Changes in Net Assets - Federal Family Education Loan Proprietary Fund**

The Statement of Revenues, Expenses, and Changes in Net Assets contains the operating revenues, operating expenses, nonoperating revenues, and changes in net assets.

Federal revenue and expenses are subject to loan volume fluctuations and payment receipt fluctuations. In FY 2012, collections on loans and bankruptcies of \$23,385,308 decreased from \$24,479,870 in FY 2011 by \$1,094,562, and federal reinsurance revenue of \$150,517,576 decreased from \$165,095,633 in FY 2011 by \$14,578,057. In addition, in FY 2012, account maintenance fees have continued to decrease. All three changes are due to the reduction in the loans guaranteed in the loan portfolio. Consequently, guarantee claims paid to lenders and contractual services have also decreased.

### **Statement of Cash Flows - Federal Family Education Loan Proprietary Fund**

The Statement of Cash Flows provides information on the cash receipts and disbursements for the fiscal year. The statement contains the cash flows from operating activities, noncapital financing activities, investing activities, and a reconciliation of operating income to net cash provided by operating activities for the fiscal year.

### **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.

For the period ending June 30, 2012, the actual revenue was \$2,638,431 less than the estimated revenue during the same period. Actual grant revenue from primary government was lower by \$3,234,138 due to an over-award of funds not spent in full and a reversion of funds. Departmental services revenue was higher by \$7,769,356 due to increased collections and the sale of rehabilitated loans. Federal revenue was lower by \$7,893,847 as a result of a change in the loan program resulting in lower loan processing and issuance fee (LPIF) revenue and account maintenance fee (AMF) revenue. The actual interest collected was higher by \$720,198. TSAC had expenditures that were \$2,214,134 less than allocated in the final budget work program. The professional and administrative services were higher by \$3,036,962 due to higher expenditures for contractual services for the servicer. The expenditures for grants and subsidies

## **Tennessee Student Assistance Corporation Management's Discussion and Analysis (Cont.)**

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were lower by \$4,801,457 due to a reduction in the number of grants awarded. Other actual miscellaneous expenses were lower by \$449,639. The reduction in expenditures was less than the reduction in revenues and resulted in a \$424,297 decrease in the budgetary fund balance at June 30, 2012.

### **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 the 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. President Obama has proposed to reduce the amount of funding the guarantee agencies receive from the program; however, his proposals have not been adopted by Congress. Until then, revenue will be generated from the existing loans in areas such as the following:

- Account Maintenance Fees (AMF). TSAC receives from the Department of Education 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

## **Tennessee Student Assistance Corporation Management's Discussion and Analysis (Cont.)**

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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

**Tennessee Student Assistance Corporation**  
**Statement of Net Assets**  
**June 30, 2012**

	Governmental Activities	Business-type Activities	Total
<b>Assets:</b>			
Cash (Note 2)	\$ 4,826,896.15	\$ 85,879,099.05	\$ 90,705,995.20
Receivables:			
Notes receivable (net of allowance of \$468,236.91)	7,815,000.40	-	7,815,000.40
Interest receivable (net of allowance of \$177,255.00)	2,212,299.86	-	2,212,299.86
Accounts receivable	28,200.11	497,933.35	526,133.46
Restricted assets:			
Cash	-	13,814,290.26	13,814,290.26
Accounts receivable	-	1,181,262.43	1,181,262.43
<b>Total assets</b>	<b>14,882,396.52</b>	<b>101,372,585.09</b>	<b>116,254,981.61</b>
<b>Liabilities:</b>			
Accounts payable	688,183.03	5,000.00	693,183.03
Accrued liabilities	3,720,009.57	-	3,720,009.57
Payroll related accruals	107,644.21	-	107,644.21
Due to primary government	15,590.52	-	15,590.52
Deferred revenue	137,489.98	-	137,489.98
Noncurrent liabilities:			
Due within one year (Note 3)	139,760.17	-	139,760.17
Due in more than one year (Notes 3 & 7)	491,555.01	-	491,555.01
<b>Total liabilities</b>	<b>5,300,232.49</b>	<b>5,000.00</b>	<b>5,305,232.49</b>
<b>Net assets:</b>			
Restricted - loan programs	9,582,164.03	14,995,552.69	24,577,716.72
Unrestricted	-	86,372,032.40	86,372,032.40
<b>Total net assets</b>	<b>\$ 9,582,164.03</b>	<b>\$ 101,367,585.09</b>	<b>\$ 110,949,749.12</b>

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

**Tennessee Student Assistance Corporation**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

Functions/Programs:	Expenses	Program Revenue		Net (Expense) and Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contracts	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>						
Grants	\$ 53,727,512.48	\$ -	\$ 6,800,000.00	\$ (46,927,512.48)		\$ (46,927,512.48)
Administration	4,050,571.18	2,198,045.74	-	(1,852,525.44)		(1,852,525.44)
Loan cancellations	3,450,860.63	1,956,628.24	1,233,221.78	(261,010.61)		(261,010.61)
Total governmental activities	<u>61,228,944.29</u>	<u>4,154,673.98</u>	<u>8,033,221.78</u>	<u>(49,041,048.53)</u>		<u>(49,041,048.53)</u>
<b>Business-type activities:</b>						
Loan program	175,953,320.41	26,386,799.35	150,517,576.25		\$ 951,055.19	951,055.19
Scholarships and fellowships	526,539.52	-	-		(526,539.52)	(526,539.52)
Total business-type activities	<u>176,479,859.93</u>	<u>26,386,799.35</u>	<u>150,517,576.25</u>		<u>424,515.67</u>	<u>424,515.67</u>
<b>Total</b>	<u>\$ 237,708,804.22</u>	<u>\$ 30,541,473.33</u>	<u>\$ 158,550,798.03</u>	<u>(49,041,048.53)</u>	<u>424,515.67</u>	<u>(48,616,532.86)</u>
<b>General revenues:</b>						
Payments from primary government				48,544,361.93	431,425.38	48,975,787.31
Unrestricted investment earnings				-	132,937.45	132,937.45
Total general revenues				<u>48,544,361.93</u>	<u>564,362.83</u>	<u>49,108,724.76</u>
Change in net assets				(496,686.60)	988,878.50	492,191.90
Net assets - beginning				<u>10,078,850.63</u>	<u>100,378,706.59</u>	<u>110,457,557.22</u>
Net assets - ending				<u>\$ 9,582,164.03</u>	<u>\$ 101,367,585.09</u>	<u>\$ 110,949,749.12</u>

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

**Tennessee Student Assistance Corporation**  
**Balance Sheet**  
**General Fund**  
**June 30, 2012**

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Assets:	
Cash (Note 2)	\$ 4,826,896.15
Receivables:	
Notes receivable (net of allowance of \$468,236.91)	7,815,000.40
Interest receivable (net of allowance of \$177,255.00)	2,212,299.86
Accounts receivable	28,200.11
Total assets	\$ 14,882,396.52
Liabilities:	
Accounts payable	\$ 688,183.03
Accrued liabilities	3,720,009.57
Payroll related accruals	107,644.21
Due to primary government	15,590.52
Deferred revenue	137,489.98
Total liabilities	4,668,917.31
Fund balance (Notes 4 & 9):	
Restricted	10,213,479.21
Total fund balances	10,213,479.21
Total liabilities and fund balances	\$ 14,882,396.52

**Reconciliation of Balance Sheet to Statement of Net Assets**

Total fund balances	\$ 10,213,479.21
Compensated absences liability not reported in the fund	(287,251.48)
Long-term liability - net OPEB obligation	(344,063.70)
Total net assets	\$ 9,582,164.03

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

**Tennessee Student Assistance Corporation**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**General Fund**  
**For the Year Ended June 30, 2012**

Revenues:	
Grant revenue from primary government	\$ 48,544,361.93
Departmental services revenue	11,319,584.07
Federal revenue	148,114.00
Interest income	720,197.69
Total revenues	<u>60,732,257.69</u>
Expenditures:	
Grants expenditures	53,727,512.48
Administrative expenditures	3,978,181.78
Loan cancellations	3,450,860.63
Total expenditures	<u>61,156,554.89</u>
Deficiency of revenues under expenditures	(424,297.20)
Fund balance, beginning of year	<u>10,637,776.41</u>
Fund balance, end of year	<u>\$ 10,213,479.21</u>

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance  
to Statement of Activities**

Deficiency of revenues under expenditures	\$ (424,297.20)
Compensated absences expense not reported as an expenditure in the fund	(39,032.41)
Long-term liability - net OPEB obligation	(33,356.99)
Decrease in net assets	<u>\$ (496,686.60)</u>

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

**Tennessee Student Assistance Corporation**  
**Statement of Net Assets**  
**Federal Family Education Loan Proprietary Fund**  
**June 30, 2012**

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Assets:	
Cash (Note 2)	\$ 85,879,099.05
Receivables:	
Accounts receivable	497,933.35
Restricted assets:	
Cash	13,814,290.26
Accounts receivable	1,181,262.43
Total assets	101,372,585.09
Liabilities:	
Accounts payable and accruals	5,000.00
Total liabilities	5,000.00
Net assets:	
Restricted - loan program	14,995,552.69
Unrestricted	86,372,032.40
Total net assets	\$ 101,367,585.09

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

**Tennessee Student Assistance Corporation**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Federal Family Education Loan Proprietary Fund**  
**For the Year Ended June 30, 2012**

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Operating revenues:	
Collections on loans and bankruptcies	\$ 23,385,308.81
Federal reinsurance	150,517,576.21
Federal fee revenue	3,001,490.58
Total operating revenues	176,904,375.60
Operating expenses:	
Guarantee claims paid to lenders	151,187,666.13
Contractual services	24,765,654.28
Scholarships and fellowships	526,539.52
Total operating expenses	176,479,859.93
Operating income	424,515.67
Nonoperating revenues:	
Interest income	132,937.45
Payments from primary government	431,425.38
Total nonoperating revenues	564,362.83
Change in net assets	988,878.50
Net assets, beginning of year	100,378,706.59
Net assets, end of year	\$ 101,367,585.09

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

**Tennessee Student Assistance Corporation**  
**Statement of Cash Flows**  
**Federal Family Education Loan Proprietary Fund**  
**For the Year Ended June 30, 2012**

Cash flows from operating activities:	
Receipts from customers	\$ 23,385,308.81
Receipts from federal government - account maintenance fees	2,503,557.23
Receipts from federal government - bank claims	158,743,793.94
Payments for bank claims	(151,187,666.13)
Payments for administrative expenses	(24,773,084.02)
Payments for scholarships and fellowships	(526,539.52)
Net cash flows provided by operating activities	<u>8,145,370.31</u>
Cash flows from noncapital financing activities:	
Payments from primary government	431,425.38
Net cash flows provided by noncapital financing activities	<u>431,425.38</u>
Cash flows from investing activities:	
Interest received	132,937.45
Net cash flows provided by investing activities	<u>132,937.45</u>
Net increase in cash	8,709,733.14
Cash, July 1	<u>90,983,656.17</u>
Cash, June 30	<u><u>\$ 99,693,389.31</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 424,515.67
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	7,728,284.38
Increase (decrease) in accounts payable	(7,429.74)
Net cash provided by operating activities	<u><u>\$ 8,145,370.31</u></u>

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

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2012**

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**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. 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.

As a general rule, the effect of internal activity—interdepartmental revenues and expenditures (both direct and indirect expenditures)—has been eliminated from the government-wide financial statements.

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

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**For the Year Ended June 30, 2012**

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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 – Proprietary Fund Statements**

Effective for the period ending June 30, 2012, the federal education loan program is reported as a proprietary fund. This is the result of a reclassification from a fiduciary fund to a proprietary fund. The fund financial statements for the Federal Family Education Loan Proprietary Fund include the statement of net assets; the statement of revenues, expenses, and changes in net assets; and statement of cash flows. The proprietary 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 Proprietary Fund, as explained below.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating revenues consist of collections on loans and bankruptcies, federal reinsurance, and federal fee revenue. All revenues not meeting this definition are reported as nonoperating revenues. Operating expenses consist of guarantee claims paid to lenders, contractual services, and scholarships and fellowships.

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

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**For the Year Ended June 30, 2012**

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**Compensated Absences**

It is the corporation's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. 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. 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 and operating grants and contributions.

**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 Fund's 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.treasury.tn.gov/> or by calling (615) 741-2956.

**NOTE 3. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2012, was as follows:

**Tennessee Student Assistance Corporation  
Notes to the Financial Statements (Cont.)  
For the Year Ended June 30, 2012**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$248,219.07	\$207,574.71	\$168,542.30	\$287,251.48	\$139,760.17

**NOTE 4. GENERAL FUND – FUND BALANCE**

<u>Program</u>	<u>June 30, 2012</u>
Restricted:	
Math/Science Loan Forgiveness	\$ 151,825.25
Rural Health Loan Forgiveness	1,707,107.21
Teaching/Loan Scholarship	26,081.92
Minority Teacher Scholarship	5,099,162.15
Graduate Nursing Loan Forgiveness	1,511,148.28
Teaching Scholars Program	<u>1,718,154.40</u>
 Total fund balance	 <u>\$10,213,479.21</u>

**NOTE 5. LOAN GUARANTEES**

The corporation is required by federal law to maintain a reserve equal to .25% 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% of the principal amount for loans made prior to October 1, 1993; 78% for loans made from October 1, 1993, through September 30, 1998; and 75% 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, 2012, the corporation had insured loans outstanding of \$3,383,276,353.52 and held cash belonging to the loan program in the amount of \$99,693,389.31.

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**For the Year Ended June 30, 2012**

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**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/](http://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, 2012, 2011, and 2010 were \$346,204.81, \$343,961.55, and \$283,839.25, respectively. 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 which provides post-employment health insurance benefits to eligible corporation retirees. This program includes two plans available to employees—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-101, *Tennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. The state makes on-behalf payments to the Medicare supplement plan for the corporation's eligible retirees (see Note 8). The plans are reported in the State of Tennessee's *Comprehensive*

**Tennessee Student Assistance Corporation  
Notes to the Financial Statements (Cont.)  
For the Year Ended June 30, 2012**

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*Annual Financial Report (CAFR).* The CAFR is available on the state's website at <http://www.tn.gov/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 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 plan participants. In accordance with Section 8-27-205(b), *Tennessee Code Annotated*, 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 are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees who are 65 years of age or older have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 20 years of service but less than 30 years of service, \$37.50; and retirees with 15 years of service but less than 20 years of service, \$25.

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

	<u>June 30, 2012</u>
Annual Required Contribution (ARC)	\$ 87
Interest on the Net OPEB Obligation	12
Adjustment to the ARC	<u>(13)</u>
Annual OPEB cost	86
Amount of contribution	<u>(53)</u>
Increase in Net OPEB Obligation	33
Net OPEB obligation - beginning of year	<u>311</u>
Net OPEB obligation - end of year	<u>\$344</u>

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**For the Year Ended June 30, 2012**

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>NET OPEB Obligation at Year End</u>
6/30/2012	Employee Group	\$ 86	62%	\$344
6/30/2011	Employee Group	\$104	28%	\$311
6/30/2010	Employee Group	\$114	33%	\$236

Funded Status and Funding Progress - The funded status of the corporation's portion of the State Employee Group Plan as of July 1, 2011, was as follows (dollars in thousands):

Actuarial valuation date	July 1, 2011
Actuarial accrued liability (AAL)	\$ 842
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$ 842
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	\$ 2,140
UAAL as a percentage of covered payroll	39%

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, 2011, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**For the Year Ended June 30, 2012**

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9.25% in fiscal year 2012. The rate decreases to 8.75% in fiscal year 2013, and then reduces by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% 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, 2012, the State of Tennessee made payments of \$830 on behalf of the corporation for retirees participating in the Medicare Supplement Plan. The Medicare Supplement Plan is a post-employment 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, 20<sup>th</sup> 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.tn.gov/finance/act/cafr.html>.

**NOTE 9. CHANGE IN FUND CLASSIFICATION**

A change in fund classification was recorded to change the federal family education loan program, formerly reported as a fiduciary fund, to a proprietary fund type. As a result of this change, the beginning balance of net assets in business-type activities increased by \$100,378,706.59.

**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

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**For the Year Ended June 30, 2012**

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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, 2012, the Risk Management Fund held \$97.2 million in cash designated for payment of claims. In FY 2012, the state paid \$43.2 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	\$10 million annual aggregate for earthquake and flood combined
Flood	\$500,000 in flood zones A & V, \$100,000 in all other flood zones	\$10 million per annual for earthquake and flood combined
All other perils	\$25,000	\$10 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.

**Tennessee Student Assistance Corporation**  
**Notes to the Financial Statements (Cont.)**  
**For the Year Ended June 30, 2012**

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**NOTE 11. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The dollar amount of unused sick leave was \$586,266.02 at June 30, 2012.

**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.

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

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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, 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%
July 1, 2011	State Employee Group Plan	\$ -	\$ 842	\$ 842	0%	\$2,140	39%

**REQUIRED SUPPLEMENTARY INFORMATION  
TENNESSEE STUDENT ASSISTANCE CORPORATION  
UNAUDITED BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final	(1)	
Budgetary fund balance, July 1	\$ 10,637,776.41	\$ 10,637,776.41	\$ 10,637,776.41	\$ -
Resources (inflows):				
Grant revenue from primary government	51,778,500.00	51,778,500.00	48,544,361.93	(3,234,138.07)
Departmental services revenue	24,772,900.00	24,772,900.00	32,542,256.30	7,769,356.30
Federal revenue	11,177,100.00	11,177,100.00	3,283,252.99	(7,893,847.01)
Interest income	-	-	720,197.69	720,197.69
Amounts available for appropriation	<u>98,366,276.41</u>	<u>98,366,276.41</u>	<u>95,727,845.32</u>	<u>(2,638,431.09)</u>
Charges to appropriations (outflows):				
Personal services	2,728,700.00	2,728,700.00	2,339,495.77	389,204.23
Employee benefits	1,034,400.00	1,034,400.00	960,318.88	74,081.12
Travel	181,800.00	181,800.00	99,656.95	82,143.05
Printing, duplicating, and film processing	139,600.00	139,600.00	60,465.87	79,134.13
Communication and shipping cost	184,500.00	184,500.00	98,522.98	85,977.02
Maintenance, repairs, and services	8,900.00	8,900.00	7,745.59	1,154.41
Professional and administrative services	19,831,800.00	19,831,800.00	23,826,383.92	(3,994,583.92)
Supplies	118,000.00	118,000.00	106,682.98	11,317.02
Rentals and insurance	-	-	350,654.56	(350,654.56)
Awards and indemnities	5,300.00	5,300.00	383.00	4,917.00
Grants and subsidies	62,297,500.00	62,297,500.00	57,496,043.31	4,801,456.69
Unclassified expenses	-	-	12,234.47	(12,234.47)
Equipment	15,000.00	15,000.00	-	15,000.00
Computer related	69,600.00	69,600.00	-	69,600.00
Professional services	<u>1,113,400.00</u>	<u>1,113,400.00</u>	<u>155,777.83</u>	<u>957,622.17</u>
Total charges to appropriations	<u>87,728,500.00</u>	<u>87,728,500.00</u>	<u>85,514,366.11</u>	<u>2,214,133.89</u>
Budgetary fund balance, June 30	<u>\$ 10,637,776.41</u>	<u>\$ 10,637,776.41</u>	<u>\$ 10,213,479.21</u>	<u>\$ (424,297.20)</u>

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

**TENNESSEE STUDENT ASSISTANCE CORPORATION  
REQUIRED SUPPLEMENTARY INFORMATION  
UNAUDITED RECONCILIATION OF BUDGET TO GAAP  
NOTE TO RSI  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

	<u>General Fund</u>
<b>Sources of financial revenues</b>	
Actual amounts (budgetary basis)	\$ 95,727,845.32
Differences - budget to GAAP:	
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(10,637,776.41)
Reimbursement from Federal Family Education Loan fund are inflows of budgetary resources, but are not revenues for financial statement purposes.	<u>(24,357,811.22)</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 60,732,257.69</u>
<b>Uses of financial resources</b>	
Actual amounts (budgetary basis)	\$ 85,514,366.11
Differences - budget to GAAP:	
Expenditures reimbursed from Federal Family Education Loan fund are outflows of budgetary resources, but are not expenditures for financial statement purposes.	<u>(24,357,811.22)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 61,156,554.89</u>