AUDIT REPORT

Tennessee Student Assistance Corporation

For the Year Ended
June 30, 2013

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

Tennessee Comptroller of the Treasury

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August 12, 2014

The Honorable Bill Haslam, Governor
Members of the General Assembly
Dr. Richard Rhoda, Executive Director

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Student Assistance Corporation for the year ended June 30, 2013. You will note from the independent auditor’s report that unmodified 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 Findings and Recommendations 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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

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Tennessee Student Assistance Corporation
For the Year Ended June 30, 2013

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The opinions on the financial statements are unmodified.

Audit Findings

Some state-funded scholarship loan forgiveness program participants were charged more interest than allowed by state law

Participants were overcharged interest in these programs because eGrands, the system used to track the loans, was not programmed to calculate interest in a manner that agrees with state law (page 37).

The process used to estimate the Allowance for Doubtful Account balances did not reflect the amounts likely to be repaid by loan program participants

Because of the errors noted, the allowance for doubtful accounts required adjustments from \$194,488.97 to \$202,691.65 for interest and from \$477,617.55 to \$1,754,238.05 for principal for the year ended June 30, 2013 (page 40).

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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Richard Rhoda, Executive Director

Report on the Financial Statements

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 years ended June 30, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of Tennessee Student Assistance Corporation. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the corporation.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2013, and June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13, the 2012 financial statements have been restated to correct material misstatements resulting from errors in the calculation of interest receivable and the allowance for doubtful accounts. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, the schedule of funding progress on page 32, the budgetary comparison schedules on page 33, and the reconciliations of budget to GAAP on page 34 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, which 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 our 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2014, 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 *Government Auditing Standards* in considering the corporation's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 30, 2014

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, 2013, and 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 Statements of Net Position 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 Balance provide financial information about the activities of the corporation's general fund.

The Federal Family Education Loan (FFEL) program is reported as a proprietary fund. The proprietary fund financial statements, which consist of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows, provide financial information about the activities of the fund.

Government-Wide Financial Analysis

The Statements of Net Position present 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 position – is an indicator of the corporation's current financial condition.

The Statements of Activities presents the governmental and business-type activities occurring in the educational programs administered by the corporation for the fiscal years ended June 30, 2013, and June 30, 2012.

Net Position

	Governmental Activities			Business-Type Activities		
	6/30/2013	6/30/2012	6/30/2011	6/30/2013	6/30/2012	6/30/2011
Total assets	$12,457,725	$11,871,472	$13,750,492	$102,292,322	$101,372,585	$100,391,137
Current and other liabilities	5,554,726	4,851,514	3,226,839	6,311	5,000	12,430
Long-term liabilities	513,350	491,555	444,802	-	-	-
Total liabilities	6,068,076	5,343,069	3,671,641	6,311	5,000	12,430
Net Position:						
Restricted net position	6,389,649	6,528,403	10,078,851	14,156,972	14,995,553	16,613,563
Unrestricted net position	-	-	-	88,129,039	86,372,032	83,765,144
Total net position	$ 6,389,649	$ 6,528,403	$10,078,851	$102,286,011	$101,367,585	$100,378,707

Some highlights of material assets and liabilities are as follows:

- For governmental activities, the total assets include notes receivable and interest receivable 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 which include 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 account maintenance fee (AMF) and reinsurance claims paid but not reimbursed by the federal government.

Unrestricted net position is available to the corporation for any lawful purpose of the corporation.

FY 2013 to FY 2012

For governmental activities the corporation's total net position decreased from $6,528,403 at June 30, 2012, to $6,389,649 at June 30, 2013. The total net position decrease is primarily due to no unearned revenue in FY 2013.

For business-type activities, net position increased $918,426 from $101,367,585 at June 30, 2012, to $102,286,011 at June 30, 2013. The total net position increase is due to an increase in rehabilitation loan sales in FY 2013.

FY 2012 to FY 2011

For governmental activities, the corporation's total net position decreased from $10,078,851 at June 30, 2011, to $6,528,403 at June 30, 2012. The total net position decrease is primarily due to a prior period adjustment of $3,283,459.

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

Changes in Net Position

	Governmental Activities			Business-Type Activities		
	FYE 6/30/2013	FYE 6/30/2012	FYE 6/30/2011	FYE 6/30/2013	FYE 6/30/2012	FYE 6/30/2011
Program expenses:						
Grants	$ 61,288,803	$ 53,727,513	$ 55,671,930	$ -	$ -	$ -
Administration	3,282,135	3,578,640	4,279,329	-	-	-
Loan cancellations	2,158,712	3,220,696	2,771,375	-	-	-
Loan program	–	–	-	164,699,123	175,953,320	188,700,442
Scholarships and fellowships	–	–	-	432,375	526,540	-
General expenses:						
Payments to primary government	-	-	-	2,000,000	-	-
Total expenses	66,729,650	60,526,849	62,722,634	167,131,498	176,479,860	188,700,442
Program revenues:						
Charges for services	2,954,606	4,154,674	5,037,390	28,545,412	26,386,799	19,462,305
Operating grants and contributions	7,236,378	7,560,824	8,181,954	139,029,977	150,537,257	165,620,754
General revenues:						
Payments from primary government	56,399,912	48,544,362	50,466,581	345,659	431,425	-
Interest income	-	-	-	128,876	113,257	220,564
Total revenues	66,590,896	60,259,860	63,685,925	168,049,924	177,468,738	185,303,623
Increase (decrease) in net position	(138,754)	(266,989)	963,291	918,426	988,878	(3,396,819)
Net position, beginning of year	6,528,403	10,078,851	9,115,560	101,367,585	100,378,707	103,775,526
Prior Period Adjustment	-	(3,283,459)	-	-	-	-
Net position, end of year	$ 6,389,649	$ 6,528,403	$ 10,078,851	$102,286,011	$101,367,585	$100,378,707

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

FY 2013 to FY 2012

For governmental activities, total program expenses increased $6,202,801 from FY 2012 to FY 2013. Grant expenses increased from $53,727,513 for the year ended June 30, 2012, to $61,288,803 for the year ended June 30, 2013, an increase of $7,561,290, due to an increase in TSAA funding and student awards. Loan cancellation expenses decreased from $3,220,696 for the year ended June 30, 2012, to $2,158,712 for the year ended June 30, 2013, a decrease of $1,061,984 due to a decreased number of students fulfilling their loan/scholarship requirements.

Administrative expenses decreased from $3,578,640 for the year ended June 30, 2012, to $3,282,135 for the year ended June 30, 2013, a decrease of $296,505 due to an increase in reimbursement from federal government.

For business-type activities, expenses decreased by $9,348,362 and operating grants and contributions decreased by $11,507,280 over FY 2012 due to the decline in the FFEL program. Charges for services increased by $2,158,613 due to an increase in rehabilitation loan sales in FY 2013.

FY 2012 to FY 2011

For governmental activities, total program expenses decreased $2,195,785 from FY 2011 to FY 2012. Grant expenses decreased from $55,671,930 for the year ended June 30, 2011, to $53,727,513 for the year ended June 30, 2012, a decrease of $1,944,417, due to a decrease in TSAA. Loan cancellation expenses increased from $2,771,375 for the year ended June 30, 2011, to $3,220,696 for the year ended June 30, 2012, an increase of $449,321, due to an increased number of students fulfilling their loan/scholarship requirements. Administrative expenses decreased from $4,279,329 for the year ended June 30, 2011, to $3,578,640 for the year ended June 30, 2012, a decrease of $700,689, due to a prior period restatement.

For business-type activities, in FY 2012, expenses decreased by $12,220,582 and operating grants and contributions decreased by $15,083,497 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 $6,924,494 due to an increase in rehabilitation loan sales in FY 2012.

Balance Sheets - General Fund

The Balance Sheets present 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.
- 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.

FY 2013 to FY 2012

At June 30, 2013, and June 30, 2012, the general fund had total fund balances of $7,063,269 and $7,159,718, respectively. Reconciliation of the total fund balances with the total net position presented on the Statements of Net Position is shown at the bottom of the Balance Sheets.

The total fund balance decreased from $7,159,718 at June 30, 2012, to $7,063,269 at June 30, 2013, a decrease of $96,449. The notes receivables and interest receivables increased at June 30, 2013, and were offset by an increase in accounts payable and a decrease in accrued liabilities.

FY 2012 to FY 2011

At June 30, 2012, and June 30, 2011, the general fund had total fund balances of $7,159,718 and $10,637,776 respectively. Reconciliation of the total fund balance with the total net position presented on the Statements of Net Position is shown at the bottom of the Balance Sheets.

The total fund balance decreased from $10,637,776 at June 30, 2011, to $7,159,718 at June 30, 2012, a decrease of $3,478,058, primarily due to a prior period adjustment.

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 educational programs 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 total fund had a deficiency of revenues under expenditures of $96,449 for the fiscal year ended June 30, 2013, and a deficiency of revenues under expenditures of $194,599 for the fiscal year ended June 30, 2012. Reconciliations of the changes in net position presented on the Statements of Activities with the change in fund balance on the Statements of Revenues is shown at the bottom of the Statements of Revenues, Expenditures, and Changes in Fund Balance.

FY 2013 to FY 2012

TSAC had a net $6,331,036 increase in total revenue for the fiscal year ended June 30, 2013. The net increase is due to Grant revenue from primary government increasing from $48,544,362 for the fiscal year ended June 30, 2012, to $56,399,912 for the fiscal year ended June 30, 2013. The FY13 Grant revenue from primary government increase is due to an increase in funding. TSAC expenditures increased $6,232,886 in fiscal year ended June 30, 2013. Loan cancellation expenditures decreased from $3,220,696 for the year ended June 30, 2012, to $2,158,712 for the year ended June 30, 2013, a decrease of $1,061,984 due to a decrease in number of students fulfilling their loan/scholarship requirements. Administrative expenditures decreased from $3,506,251 for the year ended June 30, 2012, to $3,239,830 for the year ended June 30, 2013, a decrease of $266,421 due to an increase in expenditures that are reimbursed by the federally funded program. Grant expenditures related to the Tennessee Student Assistance Awards (TSAA) increased from $53,727,513 for the year ended June 30, 2012, to $61,288,803 for the year ended June 30, 2013, an increase of $7,561,290. This increase is due to a greater number of students who were offered the TSAA and receive the award for the 2012-2013 academic years.

<u>FY 2012 to FY 2011</u>

TSAC had a net $3,426,064 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 $2,177,927 in fiscal year ended June 30, 2012. Loan cancellation expenditures increased from $2,771,375 for the year ended June 30, 2011, to $3,220,696 for the year ended June 30, 2012, an increase of $449,321, due to an increased number of students fulfilling their loan/scholarship requirements. Administrative expenditures decreased from $4,189,082 for the year ended June 30, 2011, to $3,506,251 for the year ended June 30, 2012, a decrease of $682,831. 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 ended June 30, 2011, to $53,727,513 for the year ended June 30, 2012, a decrease of $1,944,417. 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 Federal Education Loan Fund Program (FFEL) is reported as a proprietary fund. The financial statements presented include the Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows.

Statements of Net Position - Federal Family Education Loan Proprietary Fund

The Statements of Net Position present 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.

FY 2013 to FY 2012

The fund had net position of $102,286,011 at June 30, 2013, and $101,367,585 at June 30, 2012. Net position increased by $918,426. The total net position increase is due to an increase in rehabilitation loan sales in FY13.

FY 2012 to FY 2011

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

Statements of Revenues, Expenses, and Changes in Net Position – Federal Family Education Loan Proprietary Fund

The Statements of Revenues, Expenses, and Changes in Net Position contain the operating revenues, operating expenses, nonoperating revenues, nonoperating expenses, and change in net position.

FY 2013 to FY 2012

Federal revenue and expenses are subject to loan volume fluctuations and payment receipt fluctuations. In FY 2013, collections on loans and bankruptcies of $26,068,366 increased from $23,385,308 in FY 2012 by $2,683,058, and federal reinsurance revenue of $139,009,941 decreased from $150,517,576 in FY 2012 by $11,507,635. Collections on loans and bankruptcies increased due to rehabilitation loan sales. The federal reinsurance and account maintenance fees have also continued to decrease due to the reduction in the loans guaranteed in the loan portfolio.

FY 2012 to FY 2011

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.

Statements of Cash Flows – Federal Family Education Loan Proprietary Fund

The Statements of Cash Flows provide information on the cash receipts and disbursements for the fiscal years ended June 30, 2013, and June 30, 2012. The statements contain the cash flows from operating activities, noncapital financing activities, investing activities, and reconciliation of operating income to net cash from operating activities for the fiscal years.

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, 2013

For the period ended June 30, 2013, the actual revenue was $908,371 more than the estimated revenue during the same period. Actual grant revenue from primary government was higher by $1,194,513 due to additional funding. Departmental services revenue was higher by $7,818,401 due to increased collections and the sale of rehabilitated loans. Federal revenue was lower by $8,470,384 as a result of change in the loan program resulting in lower loan processing and issuance fee (LPIF) revenue and account maintenance fee (AMF) revenue. TSAC had expenditures that were $1,004,820 higher than allocated in the final budget work program. The professional and administrative services were higher by $4,045,120 due to higher expenditures for contractual services for the servicer.

Budgetary Comparison for the Fiscal Year Ended June 30, 2012

For the period ended June 30, 2012, the actual revenue was $3,110,828 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 $247,800. TSAC had expenditures that were $2,916,229 less than allocated in the final budget work program. The professional and administrative services were higher by $3,522,653 due to higher expenditures for contractual services for servicer. The expenditures for grants and subsidies were lower by $5,031,621 due to a reduction on 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 $194,599 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 to all guarantee agencies and private lenders. Within the Act are 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.

On December 26, 2013, President Obama signed Public Law 113-67, which provides a Federal Budget for 2014-15. This law includes a reduction of the compensation guaranty agencies like TSAC receive for rehabilitating loans from the Federal Family Education Loan (FFEL) program. This will result in a substantial reduction to operating revenues. This will require TSAC to evaluate operating expenses to ensure they are in line with future revenues.

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
Statements of Net Position
June 30, 2013, and June 30, 2012

	June 30, 2013			June 30, 2012		
	Governmental Activities	**Business-Type Activities**	**Total**	**Governmental Activities**	**Business-Type Activities**	**Total**
ASSETS						
Cash (Note 2)	$ 5,206,043.55	$ 87,666,255.13	$ 92,872,298.68	$ 4,826,896.15	$ 85,879,099.05	$ 90,705,995.20
Receivables:						
Notes receivable (net of allowance of $1,754,238.05 for FY13 and $1,716,319.67 for FY12)	6,500,558.60	-	6,500,558.60	6,360,047.07	-	6,360,047.07
Interest receivable, (net of allowance of $202,691.65 for FY13 and $177,116.66 for FY12)	751,100.44	-	751,100.44	656,328.97	-	656,328.97
Accounts receivable	22.06	469,094.94	469,117.00	28,200.11	497,933.35	526,133.46
Restricted assets:						
Cash	-	9,027,486.01	9,027,486.01	-	13,814,290.26	13,814,290.26
Accounts receivable	-	5,129,485.62	5,129,485.62	-	1,181,262.43	1,181,262.43
Total assets	12,457,724.65	102,292,321.70	114,750,046.35	11,871,472.30	101,372,585.09	113,244,057.39
LIABILITIES						
Accounts payable	3,085,204.43	6,311.00	3,091,515.43	688,183.03	5,000.00	693,183.03
Accrued liabilities	2,178,040.82	-	2,178,040.82	3,762,846.29	-	3,762,846.29
Payroll related accruals	115,084.22	-	115,084.22	107,644.21	-	107,644.21
Due to primary government	16,126.21	-	16,126.21	15,590.52	-	15,590.52
Unearned revenue (Note 12)	-	-	-	137,489.98	-	137,489.98
Noncurrent liabilities:						
Due within one year (Note 3)	160,270.69	-	160,270.69	139,760.17	-	139,760.17
Due in more than one year (Notes 3 & 7)	513,349.45	-	513,349.45	491,555.01	-	491,555.01
Total liabilities	6,068,075.82	6,311.00	6,074,386.82	5,343,069.21	5,000.00	5,348,069.21
NET POSITION						
Restricted - loan programs	6,389,648.83	14,156,971.63	20,546,620.46	6,528,403.09	14,995,552.69	21,523,955.78
Unrestricted	-	88,129,039.07	88,129,039.07	-	86,372,032.40	86,372,032.40
Total net position	$ 6,389,648.83	$102,286,010.70	$108,675,659.53	$ 6,528,403.09	$101,367,585.09	$107,895,988.18

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statements of Activities
For the Year Ended June 30, 2013

		Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Grants	$ 61,288,803.38	$ -	$ 6,800,000.00	$(54,488,803.38)	$ -	$ (54,488,803.38)
Administration	3,282,135.00	2,067,599.84	-	(1,214,535.16)	-	(1,214,535.16)
Loan cancellations	2,158,712.13	887,005.80	436,378.08	(835,328.25)	-	(835,328.25)
Total governmental activities	66,729,650.51	2,954,605.64	7,236,378.08	(56,538,666.79)	-	(56,538,666.79)
Business-type activities:						
Loan programs	164,699,122.92	28,545,411.98	139,029,977.22	-	2,876,266.28	2,876,266.28
Scholarships and fellowships	432,375.00	-	-	-	(432,375.00)	(432,375.00)
Payments to primary government	2,000,000.00	-	-	-	(2,000,000.00)	(2,000,000.00)
Total business-type activities	167,131,497.92	28,545,411.98	139,029,977.22	-	443,891.28	443,891.28
Total	$233,861,148.43	$31,500,017.62	$146,266,355.30	(56,538,666.79)	443,891.28	(56,094,775.51)
	General revenues:					
	Payments from primary government			56,399,912.53	345,658.62	56,745,571.15
	Unrestricted investment earnings			-	128,875.71	128,875.71
	Total general revenues			56,399,912.53	474,534.33	56,874,446.86
	Change in net position			(138,754.26)	918,425.61	779,671.35
	Net position - beginning			6,528,403.09	101,367,585.09	107,895,988.18
	Net position - ending			$ 6,389,648.83	$102,286,010.70	$108,675,659.53

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statements of Activities
For the Year Ended June 30, 2012

		Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Grants	$ 53,727,512.48	$ -	$ 6,800,000.00	$(46,927,512.48)	$ -	$ (46,927,512.48)
Administration	3,578,640.12	2,198,045.74	-	(1,380,594.38)	-	(1,380,594.38)
Loan cancellations	3,220,696.47	1,956,628.24	760,824.47	(503,243.76)	-	(503,243.76)
Total governmental activities	60,526,849.07	4,154,673.98	7,560,824.47	(48,811,350.62)	-	(48,811,350.62)
Business-type activities:						
Loan programs (Note 13)	175,953,320.41	26,386,799.35	150,537,256.69	-	970,735.63	970,735.63
Scholarships and fellowships	526,539.52	-	-	-	(526,539.52)	(526,539.52)
Total business-type activities	176,479,859.93	26,386,799.35	150,537,256.69	-	444,196.11	444,196.11
Total	$237,006,709.00	$30,541,473.33	$158,098,081.16	(48,811,350.62)	444,196.11	(48,367,154.51)
	General revenues:					
	Payments from primary government			48,544,361.93	431,425.38	48,975,787.31
	Unrestricted investment earnings (Note 13)			-	113,257.01	113,257.01
	Total General revenues			48,544,361.93	544,682.39	49,089,044.32
	Change in net position			(266,988.69)	988,878.50	721,889.81
	Net position - beginning			10,078,850.63	100,378,706.59	110,457,557.22
	Prior period adjustment (Note 13)			(3,283,458.85)	-	(3,283,458.85)
	Net position - ending			$ 6,528,403.09	$101,367,585.09	$107,895,988.18

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Balance Sheets
General Fund
June 30, 2013, and June 30, 2012

ASSETS	**June 30, 2013**	**June 30, 2012**
Cash (Note 2)	$ 5,206,043.55	$ 4,826,896.15
Receivables:		
Notes receivable (net of allowance of $1,754,238.05 for FY13 and $1,716,319.67 for FY12)	6,500,558.60	6,360,047.07
Interest receivable (net of allowance of $202,691.65 for FY13 and $177,116.66 for FY12)	751,100.44	656,328.97
Accounts receivable	22.06	28,200.11
Total assets	12,457,724.65	11,871,472.30

LIABILITIES		
Accounts payable	3,085,204.43	688,183.03
Accrued liabilities	2,178,040.82	3,762,846.29
Payroll related accruals	115,084.22	107,644.21
Due to primary government	16,126.21	15,590.52
Unearned revenue (Note 12)	-	137,489.98
Total liabilities	5,394,455.68	4,711,754.03

FUND BALANCE		
Restricted (Note 4)	7,063,268.97	7,159,718.27
Total fund balance	7,063,268.97	7,159,718.27
Total liabilities and fund balance	$12,457,724.65	$11,871,472.30

Reconciliation of Balance Sheets to Statements of Net Position

Total fund balance	$7,063,268.97	$7,159,718.27
Compensated absences liability not reported in the fund	(294,844.63)	(287,251.48)
Long-term liability - net OPEB obligation	(378,775.51)	(344,063.70)
Total net position	$6,389,648.83	$6,528,403.09

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statements of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Years Ended June 30, 2013 and June 30, 2012

	June 30, 2013	June 30, 2012
REVENUES		
Grant revenue from primary government	$56,399,912.53	$48,544,361.93
Departmental services revenue	9,765,741.88	11,319,584.07
Federal revenue	59,400.00	148,114.00
Interest income	365,841.84	247,800.38
Total revenues	66,590,896.25	60,259,860.38
EXPENDITURES		
Grants expenditures	61,288,803.38	53,727,512.48
Administrative expenditures	3,239,830.04	3,506,250.72
Loan cancellations	2,158,712.13	3,220,696.47
Total expenditures	66,687,345.55	60,454,459.67
Deficiency of revenues under expenditures	(96,449.30)	(194,599.29)
Fund balance, beginning of year	7,159,718.27	10,637,776.41
Prior period adjustment (Note 13)	-	(3,283,458.85)
Fund balance, end of year	$ 7,063,268.97	$ 7,159,718.27

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

Deficiency of revenues under expenditures	$ (96,449.30)	$(194,599.29)
Compensated absences expense not reported as an expenditure in the fund	(7,593.15)	(39,032.41)
Increase in net OPEB obligation	(34,711.81)	(33,356.99)
Decrease in net position	$(138,754.26)	$(266,988.69)

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statements of Net Position
Federal Family Education Loan Proprietary Fund
June 30, 2013 and June 30, 2012

	June 30, 2013	June 30, 2012
ASSETS		
Cash (Note 2)	$ 87,666,255.13	$ 85,879,099.05
Receivables:		
Accounts Receivable	469,094.94	497,933.35
Restricted assets:		
Cash	9,027,486.01	13,814,290.26
Accounts Receivable	5,129,485.62	1,181,262.43
Total assets	102,292,321.70	101,372,585.09
LIABILITIES		
Accounts payable and accruals	6,311.00	5,000.00
Total liabilities	6,311.00	5,000.00
NET POSITION		
Restricted - loan program	14,156,971.63	14,995,552.69
Unrestricted	88,129,039.07	86,372,032.40
Total net position	$102,286,010.70	$101,367,585.09

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statements of Revenues, Expenses, and Changes in Net Position
Federal Family Education Loan Proprietary Fund
For the Years Ended June 30, 2013 and June 30, 2012

	June 30, 2013	June 30, 2012
Operating revenues:		
Collections on loans and bankruptcies	$ 26,068,365.52	$ 23,385,308.81
Federal reinsurance	139,009,940.62	150,517,576.21
Federal fee revenue	2,477,046.46	3,001,490.58
Total operating revenues	167,555,352.60	176,904,375.60
Operating expenses:		
Guarantee claims paid to lenders	139,230,137.28	151,187,666.13
Contractual services	25,468,985.64	24,765,654.28
Scholarships and fellowships	432,375.00	526,539.52
Total operating expenses	165,131,497.92	176,479,859.93
Operating income	2,423,854.68	424,515.67
Nonoperating revenues (expenses):		
Interest income	148,912.31	132,937.45
Payments from primary government	345,658.62	431,425.38
Payments to primary government	(2,000,000.00)	-
Total nonoperating revenues (expenses)	(1,505,429.07)	564,362.83
Change in net position	918,425.61	988,878.50
Net position, beginning of year	101,367,585.09	100,378,706.59
Net position, end of year	$102,286,010.70	$101,367,585.09

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statements of Cash Flows
Federal Family Education Loan Proprietary Fund
For the Years ended June 30, 2013 and June 30, 2012

	June 30, 2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 26,068,365.52	$ 23,385,308.81
Receipts from federal government - account maintenance fees	2,505,884.87	2,503,557.23
Receipts from federal government - bank claims	135,061,717.43	158,743,793.94
Payments for bank claims	(139,230,137.28)	(151,187,666.13)
Payments for administrative expenses	(25,467,674.64)	(24,773,084.02)
Payments for scholarships and fellowships	(432,375.00)	(526,539.52)
Net cash flows provided (used) by operating activiites	(1,494,219.10)	8,145,370.31
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments from Primary Government	345,658.62	431,425.38
Payments to Primary Government	(2,000,000.00)	-
Net cash flows provided (used) by noncapital financing activities	(1,654,341.38)	431,425.38
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	148,912.31	132,937.45
Net cash flows provided by investing activities	148,912.31	132,937.45
Net increase (decrease) in cash	(2,999,648.17)	8,709,733.14
Cash, July 1	99,693,389.31	90,983,656.17
Cash, June 30	$ 96,693,741.14	$ 99,693,389.31

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income	$ 2,423,854.68	$ 424,515.67
Adjustments to reconcile operating income to net cash provided by operating activites:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,919,384.78)	7,728,284.38
Increase (decrease) in accounts payable	1,311.00	(7,429.74)
Net cash provided (used) by operating activities	$(1,494,219.10)	$8,145,370.31

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 accordance 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 statements of net position and the statements 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 expenses (both direct and indirect expenses)—has been eliminated from the government-wide financial statements.

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 sheets and the statements 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 sheets. 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

The federal education loan program is reported as a proprietary fund. The fund financial statements for the Federal Family Education Loan Proprietary Fund include the statements of net position; the statements of revenues, expenses, and changes in net position; and statements 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.

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 are established with the borrower.

Program Revenues

Program revenues include charges for services and operating grant 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 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.treasury.tn.gov/ or by calling (615) 741-2956.

Note 3. Long-term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$287,251.48	$219,675.60	$212,082.45	$294,844.63	$160,270.69

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

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

Note 4. General Fund - Fund Balance

Program	June 30, 2013	June 30, 2012
Restricted:		
Math/Science Loan Forgiveness	$ 118,319.88	$ 131,558.58
Rural Health Loan Forgiveness	1,442,332.98	1,460,055.78
Teacher/Loan Scholarship	21,266.73	20,705.23
Minority Teacher Scholarship	3,283,803.99	3,502,874.73
Graduate Nursing Loan Forgiveness	1,000,657.02	993,186.42
Teaching Scholars Program	1,196,888.37	1,051,337.53
Total fund balance	$ 7,063,268.97	$ 7,159,718.27

Note 5. Loan Guarantees

The corporation is required by federal law to maintain a reserve equal to 0.25% 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, 2013, the corporation had insured loans outstanding of $3,067,617,925.60 and cash belonging to the loan program in the amount of $96,693,741.14. 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.

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 15.03% 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, 2013, 2012, and 2011 were $372,829.80, $346,204.81, and $343,961.55. 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—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 8-27-201, T*ennessee Code Annotated*. Prior to reaching age 65, all members have the option of choosing between standard or partnership preferred provider organization plan for health care 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 *Tennessee's Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Special Funding Situation - The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including TSAC. The state is the sole contributor for the TSAC retirees who 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. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs 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, adjusted for years of service, as active employees. 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 in the Medicare Supplement Plan 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
(in thousands)

	June 30, 2013	June 30, 2012
Annual Required Contribution (ARC)	$ 88	$ 87
Interest on the Net OPEB Obligation	14	12
Adjustment to the ARC	(15)	(13)
Annual OPEB cost	87	86
Amount of Contribution	(52)	(53)
Increase in Net OPEB Obligation	35	33
Net OPEB obligation - beginning of year	344	311
Net OPEB obligation - end of year	$379	$344

Year-End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation at Year-End
6/30/2013	Employee Group	$ 87	60%	$379
6/30/2012	Employee Group	$ 86	62%	$344
6/30/2011	Employee Group	$104	28%	$311

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

Actuarial valuation date	7/1/2011
Actuarial accrued liability (AAL)	$ 842
Actuarial value of plan assets	-
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, for the Employee Group plan, 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 9.5% initially. The rate decreased to 8.75% in fiscal year 2013, and then will be reduced by decrements to an ultimate rate of 5% in fiscal year 2021. All rates include a 2.5% inflation assumption, which also represents the projected salary increase. 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, 2013, the State of Tennessee made payments of $2,033 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 is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 9. Risk Management

It is the policy of the state not to purchase commercial insurance for the risks associated with 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 corporations 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, found under *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. During fiscal year 2012, the state paid $43.2 million for claims. At June 30, 2013, the Risk Management Fund held $108.5 million in cash designated for payment of claims. During fiscal year 2013, the state paid $31.3 million for claims.

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

The deductibles are set out 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 builder's 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 10. Commitments and Contingencies

Sick Leave - The dollar amount of unused sick leave was $644,950.80 at June 30, 2013, and $586,266.02 at June 30, 2012.

Note 11. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The corporation participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

Note 12. Accounting Change

During the year ended June 30, 2013, TSAC implemented the Governmental Accounting Standards Board's Statement 63, *Financial Reporting of Deferred Outflows of Resources,* *Deferred Inflow of Resources and Net Position.* The effects on the financial statements were related to renaming deferred revenue as unearned revenue referring to net position, rather than net assets, within the financial statements.

Note 13. Prior Period Adjustment and Restatement

Governmental activities and general fund - $3.283 million decrease in net position at July 1, 2011, is a correction of an error resulting from the misstatement of interest receivable and allowance for doubtful accounts for loan forgiveness programs. The effects of the error on the June 30, 2012, statements are as follows:

	As Originally Reported	Effect of Change	As Restated
Statement of Net Position			
Notes receivable (net of allowance)	$7,815,000	$(1,454,953)	$6,360,047
Interest receivable (net of allowance)	2,212,300	(1,555,971)	656,329
Accrued Liabilities	3,720,010	42,837	3,762,847
Net Position	$9,582,164	$(3,053,761)	$6,528,403

	As Originally Reported	Effect of Change	As Restated
Statement of Activities			
Governmental Activities-Expenses			
Administration	$ 4,050,571	$ (471,931)	$3,578,640
Loan Cancellations	3,450,860	(230,164)	3,220,696
Governmental Activities - Program Revenues			
Operating Grants and Contributions	1,233,222	(472,498)	760,824
Change in Net Position	(496,687)	229,698	(266,989)
Net Position, Beginning of Year	10,078,851	(3,283,459)	6,795,392
Net Position, End of Year	$ 9,582,164	$ (3,053,761)	$6,528,403

	As Originally Reported	Effect of Change	As Restated
Balance Sheet			
Notes receivable (net of allowance)	$ 7,815,000	$(1,454,953)	$6,360,047
Interest receivable (net of allowance)	2,212,300	(1,555,971)	656,329
Accrued Liabilities	3,720,010	42,837	3,762,847
Fund Balance	$10,213,479	$(3,053,761)	$7,159,718

	As Originally Reported	Effect of Change	As Restated
Statement of Revenue, Expenditures, and Changes in Fund Balance			
Interest Income	$ 720,198	$ (472,398)	$ 247,800
Administrative Expenditures	3,978,182	(471,931)	3,506,251
Loan cancellations	3,450,861	(230,164)	3,220,697
Deficiency of revenues under expenditures	(424,297)	229,698	(194,599)
Fund Balance, Beginning of Year	10,637,776	(3,283,459)	7,354,317
Fund Balance, End of Year	$ 10,213,479	$ (3,053,761)	$7,159,718

Business-type activities - recorded a restatement of $19,680 for a net decrease in unrestricted investment earnings and an increase in operating grants and contributions. The effects on the June 30, 2012, financial statements are as follows:

	As Originally Reported	Effect of Change	As Restated
Statement of Activities			
Operating Grants and Contributions	$ 150,517,576	$ 19,680	$ 150,537,256
General revenues			
Unrestricted Investment Earnings	$ 132,937	$ (19,680)	$ 113,257

Tennessee Student Assistance Corporation
Required Supplementary Information
Unaudited Schedule of Funding Progress
(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, 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
BUDGETARY COMPARISON SCHEDULES
GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2012

	FOR THE YEAR ENDED JUNE 30, 2013				FOR THE YEAR ENDED JUNE 30, 2012			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive
	Original	Final	(1)	(Negative)	Original	Final	(1)	(Negative)
Budgetary fund balance, July 1	$ 10,213,479.21	$ 10,213,479.21	$10,213,479.21	$ -	$10,637,776.41	$10,637,776.41	$10,637,776.41	$ -
Prior Period Adjustment	-	-	(3,053,760.94)	(3,053,760.94)	-	-	(3,283,458.85)	(3,283,458.85)
Resources (inflows):								
Grant revenue from primary government	55,205,400.00	55,205,400.00	56,399,912.53	1,194,512.53	51,778,500.00	51,778,500.00	48,544,361.93	(3,234,138.07)
Departmental services revenue	24,653,700.00	24,653,700.00	32,472,100.97	7,818,400.97	24,772,900.00	24,772,900.00	32,542,256.30	7,769,356.30
Federal revenue	11,104,700.00	11,104,700.00	2,634,315.64	(8,470,384.36)	11,177,100.00	11,177,100.00	3,283,252.99	(7,893,847.01)
Interest income	-	-	365,841.84	365,841.84	-	-	247,800.38	247,800.38
Amounts available for appropriation	101,177,279.21	101,177,279.21	99,031,889.25	(2,145,389.96)	98,366,276.41	98,366,276.41	91,971,989.16	(6,394,287.25)
Charges to appropriations (outflows):								
Personal services	2,606,200.00	2,606,200.00	2,487,008.99	119,191.01	2,728,700.00	2,728,700.00	2,339,495.77	389,204.23
Employee benefits	998,800.00	998,800.00	1,019,327.64	(20,527.64)	1,034,400.00	1,034,400.00	960,318.88	74,081.12
Travel	172,000.00	172,000.00	63,238.10	108,761.90	181,800.00	181,800.00	99,656.95	82,143.05
Printing, duplicating, and film processing	139,600.00	139,600.00	61,502.06	78,097.94	139,600.00	139,600.00	60,465.87	79,134.13
Communication and shipping cost	186,700.00	186,700.00	102,205.89	84,494.11	184,500.00	184,500.00	98,522.98	85,977.02
Maintenance, repairs, and services	8,900.00	8,900.00	620.94	8,279.06	8,900.00	8,900.00	7,745.59	1,154.41
Professional and administrative services	19,831,800.00	19,831,800.00	23,876,920.05	(4,045,120.05)	19,831,800.00	19,831,800.00	23,354,452.86	(3,522,652.86)
Supplies	118,000.00	118,000.00	50,971.20	67,028.80	118,000.00	118,000.00	106,682.98	11,317.02
Rentals and insurance	-	-	377,798.84	(377,798.84)	-	-	350,654.56	(350,654.56)
Awards and indemnities	5,300.00	5,300.00	86.40	5,213.60	5,300.00	5,300.00	383.00	4,917.00
Grants and subsidies	65,697,500.00	65,697,500.00	63,692,048.76	2,005,451.24	62,297,500.00	62,297,500.00	57,265,879.15	5,031,620.85
Unclassified	-	-	15,629.62	(15,629.62)	-	-	12,234.47	(12,234.47)
Equipment	13,900.00	13,900.00	-	13,900.00	15,000.00	15,000.00	-	15,000.00
Training	-	-	-	-	-	-	-	-
Bad debt expense	-	-	-	-	-	-	-	-
Computer Related	69,600.00	69,600.00	-	69,600.00	69,600.00	69,600.00	-	69,600.00
Professional services	1,115,500.00	1,115,500.00	221,261.79	894,238.21	1,113,400.00	1,113,400.00	155,777.83	957,622.17
Total charges to appropriations	90,963,800.00	90,963,800.00	91,968,620.28	(1,004,820.28)	87,728,500.00	87,728,500.00	84,812,270.89	2,916,229.11
Budgetary fund balance, June 30	$ 10,213,479.21	$ 10,213,479.21	$ 7,063,268.97	$(3,150,210.24)	$10,637,776.41	$10,637,776.41	$ 7,159,718.27	$(3,478,058.14)

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
RECONCILIATIONS OF BUDGET TO GAAP
NOTE TO RSI
FOR THE FISCAL YEARS ENDED JUNE 30, 2013, AND JUNE 30, 2012

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	June 30, 2013	June 30, 2012
Sources of financial revenues	General Fund	General Fund
Actual amounts (budgetary basis)	$ 99,031,889.25	$ 91,971,989.16
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.	(7,159,718.27)	(10,637,776.41)
Prior Period Adjustment		3,283,458.85
Reimbursements from Federal Family Education Loan fund are inflows of budgetary resources, but are not revenues for financial statement purposes.	(25,281,274.73)	(24,357,811.22)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	66,590,896.25	60,259,860.38
Uses of financial resources		
Actual amounts (budgetary basis)	91,968,620.28	84,812,270.89
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.	(25,281,274.73)	(24,357,811.22)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 66,687,345.55	$ 60,454,459.67

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COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's 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*

The Honorable Bill Haslam, Governor
Members of the General Assembly
Dr. Richard Rhoda, Executive Director

We have audited the financial statements of the Tennessee Student Assistance Corporation as of and for the year ended June 30, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the corporation's basic financial statements, and have issued our report thereon dated July 30, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the corporation's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified the following deficiencies in internal control that we consider to be material weaknesses:

- Some state-funded scholarship loan forgiveness program participants were charged more interest than allowed by state law.
- The process used to estimate the Allowance for Doubtful Account balances did not reflect the amounts likely to be repaid by loan program participants.

These deficiencies are described in the Findings and Recommendations section of this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the corporation's financial statements are free from 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 *Government Auditing Standards*.

Tennessee Student Assistance Corporation's Responses to Findings

The corporation's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The corporation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
July 30, 2014

Findings and Recommendations

1. **<u>Some state-funded scholarship loan forgiveness program participants were charged more interest than allowed by state law</u>**

Finding

As reported in a performance audit issued in January 2014, some state-funded scholarship loan forgiveness program participants were charged more interest than allowed by state law. The state-funded scholarship loan forgiveness programs are for specific participants who agree to fulfill service-based commitments in order to receive scholarship dollars. Scholarships become loans when participants fail to complete their service commitment or fail to complete the education program. The participants that were overcharged interest were participating in the following programs:

- Tennessee Teaching Scholars – College juniors, seniors, and post-baccalaureate candidates admitted to a teacher education program in a Tennessee college or university who plan to teach PreK–12 in a Tennessee public school.
- Minority Teachers – Minority high school seniors or community college students who plan to teach PreK–12 in a Tennessee public school.
- Graduate Nurses – Registered nurses enrolled in a master's degree or post-master's degree program who plan to become teachers and administrators in Tennessee nursing education programs.

The participants were overcharged interest in these programs because the system used to track the loans, eGrands, was not programmed to calculate interest in a manner that agrees with state law. A contributing reason for this error was that the rules of the Tennessee Student Assistance Corporation (TSAC) governing when interest was to be charged for these three programs participants was in conflict with state law. However, effective May 31, 2014, TSAC's rules have been changed to agree with state law.

For the Teaching Scholars, Minority Teaching Fellows, and Graduate Nursing programs eGrands began interest accrual at the date of disbursement of the loan proceeds. However, for the Tennessee Teaching Scholars Program, Section 49-4-212(c)(2), *Tennessee Code Annotated*, states:

> All scholarship loans shall be evidenced by notes made payable to the corporation that shall bear interest at the rate of nine percent (9%) per year beginning September 1 after completion of the program, or immediately after termination of the scholarship loan, whichever is earlier. The scholarship loan may be terminated by the recipient's withdrawing from school or by the recipient's not meeting the standards set by the corporation.

For the Minority Teaching Fellows Program, Section 49-4-706(b)(2), *Tennessee Code Annotated*, states:

All scholarship loans shall be evidenced by notes made payable to TSAC, which shall bear interest at the rate of nine percent (9%) per year beginning September 1 after completion of the program, or immediately after termination of the scholarship loan, whichever is earlier. The scholarship loan may be terminated by the recipient withdrawing from school or by the recipient not meeting the standards set by TSAC.

For the Graduate Nursing Loan Forgiveness program, Section 49-4-702(a)(3) states:

All loan-scholarships shall be evidenced by notes payable to TSAC, which shall bear interest at an annual rate of interest to be determined by TSAC from and after the completion of the educational program. The notes shall be executed pursuant to the rules and regulations of TSAC. If the recipient does not remain in, or return to, this state to teach or practice, the person shall be required to repay the full value of loan-scholarship funds received at an annual rate of interest to be determined by TSAC from the date of completion of the educational program. The permanent withdrawal or dismissal of any recipient, or the failure of any recipient to do college work in a manner acceptable to TSAC, shall immediately forfeit the recipient's right to retain the loan-scholarship. Any loan made under this section shall be cancelled by the death or the permanent and total disability of the recipient.

As a result, program enrollees were overcharged interest from the date of disbursement of the loan to the date interest is to begin according to state law.

An attempt was made to correct the Graduate Nursing Scholarship Loans program; however, due to programming issues, the interest was still not accruing properly. This was discovered during test work after we were told that the Graduate Nursing accounts had been adjusted in the eGrands system. For three student accounts in our sample, the new interest in the eGrands system was not correct after the adjustment. This was brought to the attention of the Associate Executive Director for Grant and Scholarship Programs and other TSAC management, who are currently working to resolve this issue.

From a sample population of all state-funded scholarship loan participants with a principal balance totaling $8,461,667.22 and an interest balance totaling $2,664,632.16, we found that for 29 of the 37 student accounts tested (78%), the interest charged to the student does not agree with the amount of interest that is allowed under state law. The 37 student accounts tested had balances totaling $324,254.94 in principal and $94,086.58 in interest. We found that the $94,086.58 interest balance was overstated by 61.6%, or $57,991.29. The correct amount of interest for the accounts tested was $36,095.29. Because the overcharging of interest has an effect on the amount of principal deducted when payments are applied to participants' accounts we also found that participants' principal balances were overstated by 2.7%, or $8,729.80. The correct total principal balances for all of the participants tested was $315,525.14.

Of the 29 participants with differences, 27 were in the Tennessee Teaching Scholars Program, the Minority Teaching Fellows Program, or the Graduate Nursing Loan Forgiveness program and were overcharged interest because the eGrands system was not programmed to calculate interest in a manner consistent with state law.

The remaining two individuals were participants in the Paul Douglas Loan Program. Their participant records were not maintained in eGrands but were maintained manually by TSAC staff on spreadsheets. The errors were caused because of errors in formulas on the spreadsheets.

The effects of the errors noted in this finding have been corrected in the audited financial statements.

Recommendation

The Associate Executive Director for Grant and Scholarship Programs should work with Nelnet Guarantor Solutions, the contractor responsible for the maintenance of eGrands, to ensure the system programming is updated to charge interest to program participants in a manner consistent with state law. Before changes are moved into production, interest should be recalculated by staff manually for a wide variety of individuals with differing situations and compared with results from eGrands to ensure the updates are correct and do not cause other unintended errors. For the Paul Douglas program participants, the spreadsheet formulas should be updated to correctly calculate interest for the program participants.

Management's Comment

We concur. The rules for the Minority Teaching Fellows (MTFP), Tennessee Teaching Scholarship (TTSP), and Graduate Nursing Loan Forgiveness Programs were not aligned with the statutory requirements for interest accrual. Rules for all three programs were amended and approved by the TSAC Board in September 2013 and have received final approval.

Additionally, TSAC is working with its contractor, Nelnet Guarantor Solutions, to ensure the interest begins to accrue at the correct time. Staff will manually calculate interest for a myriad of scenarios to ensure the modifications to the system (eGrands) are performed correctly for all types of students. Once these changes are made, the refund identification process will commence for the MTFP and TTSP programs. TSAC will issue a refund to recipients whose loans were monetarily paid in full as soon as they are identified, and will make adjustments for students who remain in the program. Refunds for the Graduate Nursing Loan Forgiveness Program were mailed in March 2014 for students who repaid their loan through monetary repayment.

Corrections to the general ledger cards were made for the two recipients of the Paul Douglas Teacher Scholarship. Those records have been updated and now reflect accurate balances.

2. <u>The process used to estimate the Allowance for Doubtful Account balances did not reflect the amounts likely to be repaid by loan program participants</u>

Finding

The process used to estimate the Allowance for Doubtful Account balances did not reflect the amounts likely to be repaid by loan program participants. Governmental Accounting Standards Board Codification 2200.178 states:

> Asset valuation allowances for losses, such as those on receivables, should be deducted from the assets or groups of assets to which the allowances relate, with appropriate disclosure.

To prepare the financial statements, management used an analysis of accounts written off over a three-year period to estimate the allowance for doubtful accounts. While this process did account for cases where debts were forgiven for reasons allowed by Tennessee Student Assistance Corporation rules and state law (such as for disability or death), this process did not account other reasons program participants fail to repay the loans.

During testwork, it was determined that the Allowance for Doubtful Account balances, based on the existing method, did not adequately reflect accounts unlikely to be collected. This issue was brought to the attention of the Associate Executive Director for Grant and Scholarship Programs, who was asked to reassess the percentages used in the calculation of the allowance balances.

For each program, the Director obtained reports that aged the outstanding balances. Using these reports, the Director established revised percentages to estimate the allowance for doubtful accounts.

Based on the results of the reassessment, the allowance for doubtful accounts was increased from $194,488.97 to $202,691.65 for interest and increased from $477,617.55 to $1,754,238.05 for principal for the year ended June 30, 2013. The effects of the errors noted in this finding were corrected in the audited financial statements.

Recommendation

The Associate Executive Director for Grant and Scholarship Programs should annually evaluate the calculation of the Allowance for Doubtful Account balances to ensure the allowance for doubtful accounts represents a realistic estimate of what is unlikely to be collected.

Management's Comment

We concur in part. As recommended in the audit, the Associate Executive Director for Grant and Scholarship Programs will continue to annually evaluate the calculation of the allowance for doubtful accounts to ensure a realistic estimate is reflected on the financial statements.

The Governmental Accounting Standards Board Codification requires asset valuation for losses to be deducted from the assets or groups of assets to which the allowance relates. TSAC performed the calculation of the allowance for doubtful accounts for FY12 and discussed that methodology with state audit for input prior to formalizing the calculation. While the finding is based on the difference in the amount after recalculating the allowance, there is no substantial evidence that the new methodology is more accurate than the previous methodology.