TENNESSEE COMPTROLLER OF THE TREASURY

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE STUDENT ASSISTANCE CORPORATION

Financial and Compliance Audit Report

For the Year Ended June 30, 2014

Justin P. Wilson, Comptroller

Division of State Audit
Financial and Compliance Section

Deborah V. Loveless, CPA, CGFM, CGMA
Director

Edward Burr, CPA, CGFM
Assistant Director

Aaron Jewell, CPA, CFE, CGFM
Audit Manager

Paula Keown
In-Charge Auditor

Mark Faughn
Staff Auditor

Gerry Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402
(615) 401-7897

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.

Mission Statement
The mission of the Comptroller's Office is to improve the quality of life for all Tennesseans by making government work better.

Comptroller Website
www.comptroller.tn.gov

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

September 30, 2015

The Honorable Bill Haslam, Governor
Members of the General Assembly
Dr. Russ Deaton, Interim 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, 2014. 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 a deficiency, which is detailed in the Finding and Recommendation section of this report. The corporation's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

15/041

Audit Report

Tennessee Student Assistance Corporation

For the Year Ended June 30, 2014

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

State of Tennessee

A u d i t   H i g h l i g h t s

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit

Tennessee Student Assistance Corporation

For the Year Ended June 30, 2014

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

The eGRandS system is not programmed to calculate interest correctly for the three state-funded scholarship programs*
Staff have been required to spend additional time manually calculating balances. In addition, borrowers may not be informed of the actual amount owed to the corporation (page 36).

* This finding is repeated from the prior audit.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Dr. Russ Deaton, Interim 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, 2014, and June 30, 2013, 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.

*Opinion*s

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, 2014, and June 30, 2013, 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 2013 financial statements have been restated to correct misstatements in the classification of net position. 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 31, the budgetary comparison schedules on page 32, and the reconciliations of budget to GAAP on page 33 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 August 19, 2015, 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
August 19, 2015

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, 2014, and June 30, 2013, with comparative information presented for the fiscal year ended June 30, 2012. 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, 2014, and June 30, 2013.

Net Position

	Governmental Activities			Business-Type Activities		
	6/30/2014	6/30/2013	6/30/2012	6/30/2014	6/30/2013	6/30/2012
Total assets	$9,713,720	$12,457,725	$11,871,472	$60,666,136	$102,292,322	$101,372,585
Current and other liabilities	2,410,145	5,554,726	4,851,514	-	6,311	5,000
Long-term liabilities	558,535	513,350	491,555	-	-	-
Total liabilities	2,968,680	6,068,076	5,343,069	-	6,311	5,000
Net Position:						
Restricted net position	7,561,133	7,251,659	7,016,376	13,368,938	14,156,972	14,995,553
Unrestricted net position	(816,093)	(862,010)	(487,973)	47,297,198	88,129,039	86,372,032
Total net position	$6,745,040	$6,389,649	$ 6,528,403	$60,666,136	$102,286,011	$101,367,585

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 2014 to FY 2013

For governmental activities, the corporation’s total net position increased from $6,389,649 at June 30, 2013, to $6,745,040 at June 30, 2014. The total net position increase is primarily due to an increase in notes receivable in FY 14.

For business-type activities, net position decreased $41,619,875 from $102,286,011 at June 30, 2013, to $60,666,136 at June 30, 2014. The total net position decrease is primarily due to a $47,000,000 transfer of funds to the State Treasury for Tennessee Promise. In FY 2014, TSAC received $2.8 million from primary government and in FY 2013 TSAC paid $2 million to primary government. This results in a $4.8 million difference.

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 by $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.

Changes in Net Position

	Governmental Activities			Business-Type Activities		
	FYE 6/30/2014	FYE 6/30/2013	FYE 6/30/2012	FYE 6/30/2014	FYE 6/30/2013	FYE 6/30/2012
Program expenses:						
Grants	$61,806,247	$ 61,288,803	$ 53,727,513	$ -	$ -	$ -
Administration	3,498,457	3,282,135	3,578,640	-	-	-
Loan/scholarship program	1,785,459	2,158,712	3,220,696	-	-	-
Loan program	–	–	-	171,992,163	164,699,123	175,953,320
Scholarships and fellowships	–	–	-	252,250	432,375	526,540
General expenses:						
Payments to primary government	-	-	-	47,000,000	2,000,000	-
Total expenses	67,090,163	66,729,650	60,526,849	219,244,413	167,131,498	176,479,860
Program revenues:						
Charges for services	2,855,053	2,954,606	4,154,674	27,157,980	28,545,412	26,386,799
Operating grants and contributions	7,204,372	7,236,378	7,560,824	147,581,667	139,029,977	150,537,257
General revenues:						
Payments from primary government	57,386,129	56,399,912	48,544,362	2,838,049	345,659	431,425
Interest income	-	-	-	46,842	128,876	113,257
Total revenues	67,445,554	66,590,896	60,259,860	177,624,538	168,049,924	177,468,738
Increase (decrease) in net position	355,391	(138,754)	(266,989)	(41,619,875)	918,426	988,878
Net position, beginning of year	6,389,649	6,528,403	10,078,851	102,286,011	101,367,585	100,378,707
Prior Period Adjustment	-	-	(3,283,459)	-	-	-
Net position, end of year	$ 6,745,040	$ 6,389,649	$ 6,528,403	$ 60,666,136	$102,286,011	$101,367,585

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.

<u>FY 2014 to FY 2013</u>

For governmental activities, total program expenses increased $360,513 from FY 2013 to FY 2014. Grant expenses increased from $61,288,803 for the year ended June 30, 2013, to $61,806,247 for the year ended June 30, 2014, an increase of $517,444, due to an increase in TSAA funding and student awards. Loan/scholarship programs expenses decreased from $2,158,712 for the year ended June 30, 2013, to $1,785,459 for the year ended June 30, 2014, a decrease of $373,253 due to a decreased number of students fulfilling their loan/scholarship requirements. Administrative expenses increased from $3,282,135 for the year ended June 30, 2013, to $3,498,457 for the year ended June 30, 2014, an increase of $216,322 due to a decrease in reimbursement from federal government.

For business-type activities, expenses increased by $52,112,916 and operating grants and contributions increased by $8,551,690 over FY 2013 due to an increase in default claims paid to lenders in the FFEL program and the transfer to primary government. Charges for services decreased by $1,387,432 due to a decrease in rehabilitation loan sales in FY 2014.

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/scholarship programs 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.

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.

<u>FY 2014 to FY 2013</u>

At June 30, 2014, and June 30, 2013, the general fund had total fund balances of $7,487,603 and $7,063,269 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 increased from $7,063,269 at June 30, 2013, to $7,487,603 at June 30, 2014, an increase of $424,334. The notes receivables increased at June 30, 2014, and were offset by a decrease in accounts payable due to fewer scholarships being awarded and a decrease in accrued liabilities due to servicer payments being submitted more timely.

<u>FY 2013 to FY 2012</u>

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 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 $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.

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 excess revenues over expenditures of $424,334 for the fiscal year ended June 30, 2014, and a deficiency of revenues under expenditures of $96,449 for the fiscal year ended June 30, 2013. 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 2014 to FY 2013

TSAC had a net $854,657 increase in total revenue for the fiscal year ended June 30, 2014. The net increase is due to grant revenue from primary government increasing from $56,399,912 for the fiscal year ended June 30, 2013, to $57,386,129 for the fiscal year ended June 30, 2014. The FY 14 grant revenue from primary government increase is due to an increase in funding. TSAC expenditures increased $333,874 in fiscal year ended June 30, 2014. Loan/scholarship programs expenditures decreased from $2,158,712 for the year ended June 30, 2013, to $1,785,459 for the year ended June 30, 2014, a decrease of $373,253 is due to a decrease in number of students fulfilling their loan/scholarship requirements. Administrative expenditures increased from $3,239,830 for the year ended June 30, 2013, to $3,429,514 for the year ended June 30, 2014, an increase of $189,684 due to an increase in expenditures that are reimbursed. Grant expenditures related to the Tennessee Student Assistance Awards (TSAA) increased from $61,288,803 for the year ended June 30, 2013, to $61,806,247 for the year ended June 30, 2014, an increase of $517,444. This increase is due to a greater number of students who were offered the TSAA and received the award for the 2013-2014 academic years.

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 FY 13 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/scholarship programs 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 received the award for the 2012-2013 academic year.

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 statements of net position; the statements of revenues, expenses, and changes in net position; and the 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 2014 to FY 2013

The fund had net position of $60,666,136 at June 30, 2014, and $102,286,011 at June 30, 2013. Net position decreased by $41,619,875. The total net position decrease is due to a transfer of $47,000,000 to the State Treasury for Tennessee Promise. In FY 2014, TSAC received $2.8 million from primary government and in FY 2013 TSAC paid $2 million to primary government. This results in a $4.8 million difference.

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 FY 2013.

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 2014 to FY 2013

Federal revenue and expenses are subject to loan volume fluctuations and payment receipt fluctuations. In FY 2014, collections on loans and bankruptcies of $25,237,207 decreased from $26,068,366 in FY 2013 by $831,159, and federal reinsurance revenue of $147,568,707 increased from $139,009,941 in FY 2013 by $8,558,766. Collections on loans and bankruptcies decreased due to rehabilitation loan sales. The federal reinsurance increased in FY 2014 due to more bank claims being paid to lenders, and account maintenance fees have also continued to decrease due to the reduction in the loans guaranteed in the loan portfolio.

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**.**

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, 2014, and June 30, 2013. 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, 2014

For the period ended June 30, 2014, the actual revenue was $2,531,494 less than the estimated revenue during the same period. Actual grant revenue from primary government was lower by $2,950,671 due to less students receiving awards. Departmental services revenue was higher by $8,579,717 due to increased collections and the sale of rehabilitated loans. Federal revenue was lower by $8,602,221 as result of a change in the loan program resulting in no longer receiving loan processing and issuance fee (LPIF) and lower account maintenance fee (AMF) revenue. TSAC had expenditures that were $2,955,828 lower than allocated in the final budget work program. The professional and administrative services were higher by $2,068,105 due to higher expenditures for contractual services for the servicer. The grants and subsidies were lower by $4,279,325 due to a lower number of students receiving the TSAA scholarship.

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 result of a 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.

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, 2014, and June 30, 2013

	June 30, 2014			June 30, 2013		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Cash (Note 2)	$2,152,564.70	$46,894,198.85	$49,046,763.55	$ 5,206,043.55	$ 87,666,255.13	$ 92,872,298.68
Accounts receivable	22.06	402,999.00	403,021.06	22.06	469,094.94	469,117.00
Restricted assets:						
Cash	-	7,345,863.11	7,345,863.11	-	9,027,486.01	9,027,486.01
Accounts receivable	-	6,023,075.21	6,023,075.21	-	5,129,485.62	5,129,485.62
Notes receivable (net of allowance of $1,514,557.82 for FY14 and $1,754,238.05 for FY13)	6,863,580.33	-	6,863,580.33	6,500,558.60	-	6,500,558.60
Interest receivable, (net of allowance of $144,298.94 for FY14 and $202,691.65 for FY13)	697,552.66	-	697,552.66	751,100.44	-	751,100.44
Total assets	9,713,719.75	60,666,136.17	70,379,855.92	12,457,724.65	102,292,321.70	114,750,046.35
Liabilities						
Accounts payable	91,241.82	-	91,241.82	3,085,204.43	6,311.00	3,091,515.43
Accrued liabilities	1,976,553.23	-	1,976,553.23	2,178,040.82	-	2,178,040.82
Payroll related accruals	139,391.19	-	139,391.19	115,084.22	-	115,084.22
Due to primary government	18,930.54	-	18,930.54	16,126.21	-	16,126.21
Noncurrent liabilities:						
Due within one year (Note 3)	184,028.43	-	184,028.43	160,270.69	-	160,270.69
Due in more than one year (Notes 3 & 7)	558,534.60	-	558,534.60	513,349.45	-	513,349.45
Total liabilities	2,968,679.81	-	2,968,679.81	6,068,075.82	6,311.00	6,074,386.82
Net position						
Restricted - loan programs	7,561,132.99	13,368,938.32	20,930,071.31	7,251,659.04	14,156,971.63	21,408,630.67
Unrestricted	(816,093.05)	47,297,197.85	46,481,104.80	(862,010.21)	88,129,039.07	87,267,028.86
Total Net position	$6,745,039.94	$60,666,136.17	$67,411,176.11	$ 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
Statement of Activities
For the Year Ended June 30, 2014

		Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:						
Grants	$ 61,806,246.64	$ -	$ 6,800,000.00	$(55,006,246.64)	$ -	$ (55,006,246.64)
Administration	3,498,457.03	2,241,548.99	-	(1,256,908.04)	-	(1,256,908.04)
Loan/scholarship programs	1,785,458.59	613,504.00	404,371.79	(767,582.80)	-	(767,582.80)
Total governmental activities	67,090,162.26	2,855,052.99	7,204,371.79	(57,030,737.48)	-	(57,030,737.48)
Business-type activities:						
Loan programs	171,992,163.43	27,157,980.61	147,581,667.43	-	2,747,484.61	2,747,484.61
Scholarships and fellowships	252,250.00	-	-	-	(252,250.00)	(252,250.00)
Payments to primary government	47,000,000.00	-	-	-	(47,000,000.00)	(47,000,000.00)
Total business-type activities	219,244,413.43	27,157,980.61	147,581,667.43	-	(44,504,765.39)	(44,504,765.39)
Total	$286,334,575.69	$30,013,033.60	$154,786,039.22	(57,030,737.48)	(44,504,765.39)	(101,535,502.87)
	General revenues:					
	Payments from primary government			57,386,128.59	2,838,048.89	60,224,177.48
	Unrestricted investment earnings			-	46,841.97	46,841.97
	Total general revenues			57,386,128.59	2,884,890.86	60,271,019.45
	Change in net position			355,391.11	(41,619,874.53)	(41,264,483.42)
	Net position - beginning			6,389,648.83	102,286,010.70	108,675,659.53
	Net position - ending			$ 6,745,039.94	$ 60,666,136.17	$ 67,411,176.11

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, 2013

		Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		
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/scholarship programs	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
Balance Sheets
General Fund
June 30, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
Assets		
Cash (Note 2)	$2,152,564.70	$ 5,206,043.55
Accounts receivable	22.06	22.06
Restricted assets:		
Notes receivable (net of allowance of $1,514.557.82 for FY14 and $1,754,238.05 for FY13)	6,863,580.33	6,500,558.60
Interest receivable (net of allowance of $144,298.94 for FY14 and $202,691.65 for FY13)	697,552.66	751,100.44
Total assets	9,713,719.75	12,457,724.65
Liabilities		
Accounts payable	91,241.82	3,085,204.43
Accrued liabilities	1,976,553.23	2,178,040.82
Payroll related accruals	139,391.19	115,084.22
Due to primary government	18,930.54	16,126.21
Total liabilities	2,226,116.78	5,394,455.68
Fund balance		
Restricted (Note 4)	7,561,132.99	7,251,659.04
Unassigned	(73,530.02)	(188,390.07)
Total fund balance	7,487,602.97	7,063,268.97
Total liabilities and fund balance	$9,713,719.75	$12,457,724.65

Reconciliation of Balance Sheet to Statement of Net Position

Total fund balances	$7,487,602.97	$7,063,268.97
Compensated absences liability not reported in the fund	(343,783.53)	(294,844.63)
Long-term liability - net OPEB obligation	(398,779.50)	(378,775.51)
Total net position	$6,745,039.94	$6,389,648.83

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, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
Revenues		
Grant revenue from primary government	$57,386,128.59	$56,399,912.53
Departmental services revenue	9,560,395.84	9,765,741.88
Federal revenue	57,348.00	59,400.00
Interest income	441,680.94	365,841.84
Total revenues	67,445,553.37	66,590,896.25
Expenditures		
Grants expenditures	61,806,246.64	61,288,803.38
Administrative expenditures	3,429,514.14	3,239,830.04
Loan/scholarship programs	1,785,458.59	2,158,712.13
Total expenditures	67,021,219.37	66,687,345.55
Excess (deficiency) of revenues over (under) expenditures	424,334.00	(96,449.30)
Fund balance, beginning of year	7,063,268.97	7,159,718.27
Fund balance, end of year	$ 7,487,602.97	$ 7,063,268.97

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

Excess (deficiency) of revenues over (under) expenditures	$424,334.00	$ (96,449.30)
Compensated absences expense not reported as an expenditure in the fund	(48,938.90)	(7,593.15)
Long-term liability - net OPEB obligation	(20,003.99)	(34,711.81)
Increase/(decrease) in net position	$355,391.11	$(138,754.26)

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, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
Assets		
Cash (Note 2)	$46,894,198.85	$ 87,666,255.13
Accounts Receivable	402,999.00	469,094.94
Restricted assets:		
Cash	7,345,863.11	9,027,486.01
Accounts Receivable	6,023,075.21	5,129,485.62
Total assets	60,666,136.17	102,292,321.70
Liabilities		
Accounts payable and accruals	-	6,311.00
Total liabilities	-	6,311.00
Net position		
Restricted - loan program	13,368,938.32	14,156,971.63
Unrestricted	47,297,197.85	88,129,039.07
Total net position	$60,666,136.17	$102,286,010.70

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, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
Revenues		
Operating revenues:		
Collections on loans and bankruptcies	$ 25,237,206.85	$ 26,068,365.52
Federal reinsurance	147,568,707.27	139,009,940.62
Federal fee revenue	1,920,773.76	2,477,046.46
Total operating revenues	174,726,687.88	167,555,352.60
Expenses		
Operating expenses:		
Guarantee claims paid to lenders	148,130,285.55	139,230,137.28
Contractual services	23,861,877.88	25,468,985.64
Scholarships and fellowships	252,250.00	432,375.00
Total operating expenses	172,244,413.43	165,131,497.92
Operating income	2,482,274.45	2,423,854.68
Nonoperating revenues (expenses)		
Interest income	59,802.13	148,912.31
Payments from primary government	2,838,048.89	345,658.62
Payment to primary government	(47,000,000.00)	(2,000,000.00)
Total nonoperating revenues (expenses)	(44,102,148.98)	(1,505,429.07)
Change in net position	(41,619,874.53)	918,425.61
Net position, beginning of year	102,286,010.70	101,367,585.09
Net position, end of year	$ 60,666,136.17	$102,286,010.70

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, 2014, and June 30, 2013

	June 30, 2014	June 30, 2013
Cash flows from operating activities		
Receipts from customers	$ 25,237,206.85	$ 26,068,365.52
Receipts from federal government - account maintenance fees	1,986,869.70	2,505,884.87
Receipts from federal government - bank claims	146,675,117.68	135,061,717.43
Payments for bank claims	(148,130,285.55)	(139,230,137.28)
Payments for administrative expenses	(23,868,188.88)	(25,467,674.64)
Payments for scholarships and fellowships	(252,250.00)	(432,375.00)
Net cash flows provided (used) by operating activities	1,648,469.80	(1,494,219.10)
Cash flows from noncapital financing activities		
Payments from primary government	2,838,048.89	345,658.62
Payments to primary government	(47,000,000.00)	(2,000,000.00)
Net cash flows used by noncapital financing activities	(44,161,951.11)	(1,654,341.38)
Cash flows from investing activities		
Interest received	59,802.13	148,912.31
Net cash flows provided by investing activities	59,802.13	148,912.31
Net decrease in cash	(42,453,679.18)	(2,999,648.17)
Cash, July 1	96,693,741.14	99,693,389.31
Cash, June 30	$ 54,240,061.96	$ 96,693,741.14
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income	$2,482,274.45	$ 2,423,854.68
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) in accounts receivable	(827,493.65)	(3,919,384.78)
Increase (decrease) in accounts payable	(6,311.00)	1,311.00
Net cash provided (used) by operating activities	$1,648,469.80	$(1,494,219.10)

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 of accounting, 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.

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 and expenses. 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 grants and contributions.

Note 2. Cash

This classification includes demand deposits. The demand deposits are in the State Treasurer's 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, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Compensated absences	$294,844.63	$263,282.72	$214,343.82	$343,783.53	$184,028.43

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

Note 4. General Fund - Fund Balance

Program	June 30, 2014	June 30, 2013
Restricted:		
Math/Science Loan Forgiveness	$ 117,223.69	$ 121,475.68
Rural Health Loan Forgiveness	1,219,434.32	1,480,802.59
Teacher/Loan Scholarship	426.56	21,833.95
Minority Teacher Scholarship	3,067,029.86	3,371,388.94
Graduate Nursing Loan Forgiveness	1,257,480.05	1,027,346.34
Teaching Scholars Program	1,899,538.51	1,228,811.53
Total Fund Balance	$ 7,561,132.99	$7,251,659.04

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, 2014, the corporation had insured loans outstanding of $2,759,804,550.04 and cash belonging to the loan program in the amount of $54,240,061.96. At June 30, 2013, the corporation had insured loans outstanding of $3,067,617,925.60 and held cash belonging to the loan program in the amount of $96,693,741.14.

Note 6. Defined Benefit Pension Plan

Plan description – The State of Tennessee provides a pension plan that covers state and higher education employees. That plan is a part of the Public Employee Retirement Plan, an agent 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.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employee Retirement Plan. That report is available on the TCRS website at www.treasury.tn.gov/tcrs/.

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.

Annual pension cost – For the years ended June 30, 2014, and June 30, 2013, the corporation's contributions equaled the annual pension cost of $439,362.63 and $372,829.80, respectively.

Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	$439,362.63	100%	$0
June 30, 2013	$372,829.80	100%	$0
June 30, 2012	$346,204.81	100%	$0

Additional information - Information about the funded status of the plan as of the most recent valuation date, information about the actuarial methods and assumptions used in the valuations, and required supplementary information are available in the *Tennessee Comprehensive Annual Financial Report*. A copy of that report is available on the state's website at www.tn.gov/finance/act/cafr.shtml.

Note 7. Other Post-Employment Benefits

Healthcare is the only "other post-employment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible corporation retirees. This program includes two plans available to corporation 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,* for the State Employee Group Plan and Section 8-27-701, *Tennessee Code Annotated,* for the Medicare Supplement Plan. 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 the *Tennessee 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 plans are 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. 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, 2014	June 30, 2013
Annual Required Contribution (ARC)	$ 78	$88
Interest on the Net OPEB Obligation	15	14
Adjustment to the ARC	(15)	(15)
Annual OPEB cost	78	87
Amount of Contribution	(58)	(52)
Increase in Net OPEB Obligation	20	35
Net OPEB obligation - beginning of year	379	344
Net OPEB obligation - end of year	$ 399	$379

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	NET OPEB Obligation at Year End
6/30/2014	Employee Group	$78	74%	$399
6/30/2013	Employee Group	$87	60%	$379
6/30/2012	Employee Group	$86	62%	$344

Funded Status and Funding Progress

The funded status of the corporation's portion of the plan as of July 1, 2013, was as follows (dollars in thousands):

Actuarial valuation date	July 1, 2013
Actuarial accrued liability (AAL)	$ 759
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 759
Actuarial value of assets as a percentage of the AAL	0%
Covered payroll (active plan members)	$ 2,306
UAAL as a percentage of covered payroll	33%

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, 2013, 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 7.5% initially. The rate decreases to 7% in fiscal year 2015, and then is reduced by decrements to an ultimate rate of 4.19% in fiscal year 2044. 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. Payroll is assumed to grow at a rate of 3%.

Note 8. On-behalf Payments

During the year ended June 30, 2014 and June 30, 2013, the State of Tennessee made payments of $2,033 each year 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 Section 9-8-301 et seq., *Tennessee Code Annotated*. 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 Section 50-6-101 et seq., *Tennessee Code Annotated*. Claims are paid through the state's Risk Management Fund. 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. At June 30, 2014, the Risk Management Fund held $116.3 million in cash designated for payment of claims. During fiscal year 2014, the state paid $36.3 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 year 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 $659,066.69 at June 30, 2014, and $644,950.80 at June 30, 2013.

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 the deferred revenue as unearned revenue and referring to net position, rather than net assets, within the financial statements.

Note 13. Prior Period Restatement

On the June 30, 2013, governmental activities statement of net position and the general fund balance sheet, notes receivable and interest receivable were reclassified as restricted assets. This change did not cause a change in total net position of the governmental activities or total fund balance of the general fund balance sheet. Amounts reported as restricted and unrestricted governmental activities net position as well as the restricted and unassigned fund balance of the general fund were restated as follows:

	As Originally Reported	Effect of Change	As Restated
Governmental Activities Statement of Net Position			
Unrestricted Net Position, June 30, 2013	$ -	$(862,010.21)	$ (862,010.21)
Restricted Net Position, June 30, 2013	6,389,648.83	862,010.21	7,251,659.04
General Fund Balance Sheet			
Unrestricted Fund Balance, June 30, 2013	-	(188,390.07)	(188,390.07)
Restricted Fund Balance, June 30, 2013	$7,063,268.97	$ 188,390.07	$ 7,251,659.04

Also, the restricted amounts reported in Note 4, General Fund – Fund Balance, were restated as follows for June 30, 2013:

	As Originally Reported	Effect of Change	As Restated
Math/Science Loan Forgiveness	$ 118,319.88	$ 3,155.80	$ 121,475.68
Rural Health Loan Forgiveness	1,442,332.98	38,469.61	1,480,802.59
Teacher/Loan Scholarship	21,266.73	567.22	21,833.95
Minority Teacher Scholarship	3,283,803.99	87,584.95	3,371,388.94
Graduate Nursing Loan Forgiveness	1,000,657.02	26,689.32	1,027,346.34
Teaching Scholars Program	1,196,888.37	31,923.16	1,228,811.53
Total restricted fund balance	$ 7,063,268.97	$ 188,390.07	$ 7,251,659.04

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, 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%
July 1, 2013	State Employee Group Plan	$-	$ 759	$ 759	0%	$2,306	33%

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Inforamtion
Budgetary Comparison Schedules
General Fund
For the Years Ended June 30, 2014, and June 30, 2013

	FOR THE YEAR ENDED JUNE 30, 2014				FOR THE YEAR ENDED JUNE 30, 2013			
	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	$ 7,063,268.97	$ 7,063,268.97	$ 7,063,268.97	$ -	$ 10,213,479.21	$ 10,213,479.21	$ 10,213,479.21	$ -
Prior Period Adjustment	-	-	-	-	-	-	(3,053,760.94)	(3,053,760.94)
Resources (inflows):								
Grant revenue from primary government	60,336,800.00	60,336,800.00	57,386,128.59	(2,950,671.41)	55,205,400.00	55,205,400.00	56,399,912.53	1,194,512.53
Departmental services revenue	23,690,500.00	23,690,500.00	32,270,217.45	8,579,717.45	24,653,700.00	24,653,700.00	32,472,100.97	7,818,400.97
Federal revenue	9,838,500.00	9,838,500.00	1,236,278.63	(8,602,221.37)	11,104,700.00	11,104,700.00	2,634,315.64	(8,470,384.36)
Interest income	-	-	441,680.94	441,680.94	-	-	365,841.84	365,841.84
Amounts available for appropriation	100,929,068.97	100,929,068.97	98,397,574.58	(2,531,494.39)	101,177,279.21	101,177,279.21	99,031,889.25	(2,145,389.96)
Charges to appropriations (outflows):								
Personal services	2,882,657.00	2,882,657.00	2,943,837.48	(61,180.48)	2,606,200.00	2,606,200.00	2,487,008.99	119,191.01
Employee benefits	1,101,143.00	1,101,143.00	1,168,519.88	(67,376.88)	998,800.00	998,800.00	1,019,327.64	(20,527.64)
Travel	187,000.00	187,000.00	75,906.12	111,093.88	172,000.00	172,000.00	63,238.10	108,761.90
Printing, duplicating, and film processing	139,600.00	139,600.00	56,625.60	82,974.40	139,600.00	139,600.00	61,502.06	78,097.94
Communication and shipping cost	186,700.00	186,700.00	176,608.92	10,091.08	186,700.00	186,700.00	102,205.89	84,494.11
Maintenance, repairs, and services	8,900.00	8,900.00	19,176.09	(10,276.09)	8,900.00	8,900.00	620.94	8,279.06
Professional and administrative services	19,841,800.00	19,841,800.00	21,909,905.30	(2,068,105.30)	19,831,800.00	19,831,800.00	23,876,920.05	(4,045,120.05)
Supplies	123,000.00	123,000.00	48,887.15	74,112.85	118,000.00	118,000.00	50,971.20	67,028.80
Rentals and insurance	5,000.00	5,000.00	366,563.73	(361,563.73)	-	-	377,798.84	(377,798.84)
Awards and indemnities	5,300.00	5,300.00	3,173.00	2,127.00	5,300.00	5,300.00	86.40	5,213.60
Grants and subsidies	68,164,900.00	68,164,900.00	63,885,575.00	4,279,325.00	65,697,500.00	65,697,500.00	63,692,048.76	2,005,451.24
Unclassified	-	-	13,017.18	(13,017.18)	-	-	15,629.62	(15,629.62)
Equipment	13,900.00	13,900.00	-	13,900.00	13,900.00	13,900.00	-	13,900.00
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	1,136,300.00	1,136,300.00	242,176.16	894,123.84	1,115,500.00	1,115,500.00	221,261.79	894,238.21
Total charges to appropriations	93,865,800.00	93,865,800.00	90,909,971.61	2,955,828.39	90,963,800.00	90,963,800.00	91,968,620.28	(1,004,820.28)
Budgetary fund balance, June 30	$ 7,063,268.97	$ 7,063,268.97	$ 7,487,602.97	$ 424,334.00	$ 10,213,479.21	$ 10,213,479.21	$ 7,063,268.97	$ (3,150,210.24)

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
Notes to RSI
For the Fiscal Years Ended June 30, 2014, and June 30, 2013

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

	June 30, 2014	June 30, 2013
	General Fund	General Fund
Sources of financial revenues		
Actual amounts (budgetary basis)	$ 98,397,574.56	$ 99,031,889.25
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.	(7,063,268.97)	(7,159,718.27)
Reimbursement from Federal Family Education Loan Fund are inflows of budgetary resources, but are not revenues for financial statement purposes.	(23,888,752.22)	(25,281,274.73)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	67,445,553.37	66,590,896.25
Uses of financial resources		
Actual amounts (budgetary basis)	90,909,971.59	91,968,620.28
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.	(23,888,752.22)	(25,281,274.73)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 67,021,219.37	$ 66,687,345.55

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

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. Russ Deaton, Interim Executive Director

We have audited the financial statements of the governmental activities, the business-type activities, the general fund, and the Federal Family Education Loan Proprietary Fund of the Tennessee Student Assistance Corporation as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the corporation's basic financial statements, and have issued our report thereon dated August 19, 2015. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below, that we consider to be a significant deficiency.

- The eGRandS system is not programmed to calculate interest correctly for the three state-funded scholarship programs.

This deficiency is described in the Finding and Recommendation 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 Response to Finding

The corporation's response to the finding identified in our audit is included in the Finding and Recommendation section of this report. The corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
August 19, 2015

Finding and Recommendation

<u>The eGRandS system is not programmed to calculate interest correctly for the three state-funded scholarship programs</u>

<u>Condition</u>

In the prior audit, we reported that participants in the Tennessee Teaching Scholars, Minority Teaching Fellows, and Graduate Nursing programs were charged more interest than allowed by state law. This was because the eGRandS system was not programmed to calculate interest in a manner that complies with state law. Management concurred with the prior audit finding and stated that

> TSAC is working with its contractor, Nelnet Guarantor Solutions to ensure the interest begins to accrue at the correct time.

However, during the current audit, we found that the eGRandS system had not been updated to calculate interest properly; rather, management makes manual calculations near the time of final payment. According to management,

> We currently take steps to give correct payoff amounts to those who are in repayment and are close to being paid in full. As a compensating control, we contact recipients who are in repayment . . . to notify them they are close to paid in full status. We then recalculate the balance and determine if the student is owed a refund or must continue to pay. Additionally, if we receive a payoff for an account, we recalculate the payoff amount and issue a refund to the student. If the student contacts TSAC in advance then we calculate a correct payoff and provide that to them.

<u>Criteria</u>

Effective information systems should be designed to process and report information in a way that complies with relevant laws, rules, and regulations and provides borrowers with accurate amounts due to the corporation.

<u>Cause</u>

In a letter dated January 28, 2015, to the director of the Division of State Audit regarding the status of the prior finding, management stated the following:

> Due to statutory requirements for implementing the Tennessee Promise Scholarship Program, there have not been sufficient resources to begin programming changes in eGRandS for the loan forgiveness programs.

Effect

Because the eGRandS system does not calculate the correct amount of interest, staff have been required to spend additional time manually calculating balances. In addition, the billing statements sent to borrowers are based on the interest calculations in eGRandS, so borrowers may not be informed of the actual amount owed to the corporation.

Recommendation

The associate executive director for Grant and Scholarship Programs and the director of Grants and Scholarships should continue to work with Nelnet Guarantor Solutions to ensure that the programming changes to the eGRandS system are implemented as soon as possible.

Management's Comment

We concur. TSAC is working with Nelnet Guarantor Solutions (NGS) to complete full implementation of the Tennessee Promise Scholarship Program and will work with NGS to correct the interest calculation for the loan forgiveness programs as soon as possible. Controls are in place to confirm accurate balances are provided to recipients nearing payment in full and to ensure that recipients are only paying the amount owed on the loan. These controls will remain in place until the corrections can be programmed into eGRandS. Prior to implementation, staff will test a variety of scenarios to ensure program changes have been programmed correctly.