STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE STUDENT ASSISTANCE CORPORATION

Financial and Compliance Audit Report

For the Year Ended June 30, 2016

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

Keith Isbell, CPA, CGFM, CGMA
James Young
In-Charge Auditors

Darren Rector
Staff Auditor

Gerry C. 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
make 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

July 12, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly
Mr. Mike Krause, 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, 2016. 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

17/271

Audit Report

Tennessee Student Assistance Corporation

For the Year Ended June 30, 2016

TABLE OF CONTENTS

TABLE OF CONTENTS (Continued)

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Financial and Compliance Audit

Tennessee Student Assistance Corporation

For the Year Ended June 30, 2016

Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

Audit Finding

The eGRandS system has not been updated to calculate interest correctly for the three state-funded scholarship programs*
As noted in three prior audits, the balances in the eGRandS system do not always reflect the actual amounts outstanding from students. 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 44).

* This finding is repeated from prior audits.

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
Members of the Board of Directors
Mr. Mike Krause, 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 year ended June 30, 2016, 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 the Tennessee Student Assistance Corporation. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Student Assistance Corporation.

Opinion

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, 2016, 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.

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 11, the schedule of other post-employment benefits funding progress on page 35, the schedule of TSAC's proportionate share of the net pension liability for the Closed State and Higher Education Employee Pension Plan within TCRS on page 36, the schedule of TSAC's contributions to the Closed State and Higher Education Employee Retirement Plan within TCRS on page 37, the schedule of TSAC's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 38, the schedule of TSAC's contributions to the State and Higher Education Employee Retirement Plan within TCRS on page 39, the budgetary comparison schedule on page 40, and the reconciliation of budget to GAAP on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 June 8, 2017, on our consideration of the Tennessee Student Assistance 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 Tennessee Student Assistance Corporation's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
June 8, 2017

This section of the Tennessee Student Assistance Corporation's (TSAC) report presents a discussion and analysis of the financial performance of the corporation during the fiscal year ended June 30, 2016, with comparative information presented for the fiscal year ended June 30, 2015. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, the audited basic financial statements, and the accompanying notes. The basic financial statements, notes, and this discussion are the responsibility of management.

Using This Report

This report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the corporation as a whole. The balance sheet and the statement of revenues, expenditures, and changes in fund balance provide financial information about the activities of the corporation's general fund.

The Federal Family Education Loan (FFEL) Program is reported as a proprietary fund. The proprietary fund financial statements, which consist of the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows, provide financial information about the activities of the fund.

Government-Wide Financial Analysis

The statement of net position presents the financial position of programs administered by the corporation at the end of the fiscal year. It includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the corporation. The difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, equaling net position, is an indicator of the corporation's current financial condition.

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

Net Position

	Governmental Activities		Business-Type Activities	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Assets				
Current and other assets	$8,126,653	$12,818,654	$50,177,998	$54,861,967
Capital assets	65,566	67,996	-	-
Total assets	8,192,219	12,886,650	50,177,998	54,861,967
Deferred outflows of resources	628,650	434,710	-	-
Liabilities				
Current and other liabilities	2,086,684	6,269,269	11,736,971	1,466,906
Noncurrent liabilities	2,022,129	1,330,622	-	-
Total liabilities	4,108,813	7,599,891	11,736,971	1,466,906

Deferred inflows of resources	305,390	1,077,645	-	-
Net position				
Net investment in capital assets	65,566	67,996	-	-
Restricted net position	6,232,010	6,741,107	-	11,940,888
Unrestricted net position	(1,890,910)	(2,165,279)	38,441,027	41,454,173
Total net position	$4,406,666	$ 4,643,824	$38,441,027	$53,395,061

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 fees (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.

For business-type activities, net position decreased $14,954,034 from $53,395,061 at June 30, 2015, to $38,441,027 at June 30, 2016. The total net position decrease is primarily due to the $11,574,827 accrued liability established for the Family Federal Education Loan (FFEL) Program. The FFEL Program ended June 30, 2016. An additional $7,000,000 was paid to the primary government resulting in a further reduction of net position. The accrued liability and the payment to the primary government resulted in a reduction to net position of approximately $18.6 million. The difference between the payment to the primary government plus the accrued liability and the reported net position reduction is approximately $3.6 million. This difference is due to the reduction of payments to the primary government. The loans were transferred to ECMC, the U.S. Department of Education's servicer, effective July 1, 2016.

Changes in Net Position

	Governmental Activities		Business-Type Activities	
	FYE 6/30/2016	FYE 6/30/2015	FYE 6/30/2016	FYE 6/30/2015
Expenses				
Grants	$ 80,398,478	$ 62,285,930	$ -	$ -
Administration	4,614,663	4,019,493	-	-
Loan/scholarship programs	1,620,137	1,724,773	-	-

Loan programs	-	-	145,249,957	144,914,824
Scholarships and fellowships	-	-	-	9,000
Payments to USDOE	-	-	11,574,827	-
Payments to primary government	-	-	7,000,000	10,000,000
Total expenses	86,633,278	68,030,196	163,824,784	154,923,824
Program revenues				
Charges for services	3,344,168	2,785,262	21,563,429	22,168,400
Operating grants and contributions	7,227,600	7,298,155	125,941,822	125,389,714
General revenues				
Payments from primary government	75,824,352	57,559,704	1,259,482	51,763
Interest income	-	-	106,017	42,872
Total revenues	86,396,120	67,643,121	148,870,750	147,652,749
Increase (decrease) in net position	(237,158)	(387,075)	(14,954,034)	(7,271,075)
Net position - beginning	4,643,824	6,745,040	53,395,061	60,666,136
Cumulative effect of a change in accounting principle	-	(1,714,141)	-	-
Net position - ending	$ 4,406,666	$ 4,643,824	$ 38,441,027	$ 53,395,061

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 requirements of those programs.
- Also for governmental activities, revenues include state appropriations for programs administered by the corporation, the collection of loan and interest payments, and refunds from those programs.
- For business-type activities, federal revenue and expenses are subject to loan volume fluctuations and payment receipt fluctuations. The FFEL Program ended June 30, 2016.

For governmental activities, total expenses increased $18,603,082 from fiscal year 2015 to fiscal year 2016. Grant expenses increased from $62,285,930 for the year ended June 30, 2015, to $80,398,478 for the year ended June 30, 2016, an increase of $18,112,548, due to an increase in TSAA funding and student awards. TSAC had a net $18,752,999 increase in total revenue for fiscal year ended June 30, 2016. The net increase is due to additional TSAA funding. Administrative expenses increased from $4,019,493 for the year ended June 30, 2015, to $4,614,663 for the year ended June 30, 2016, an increase of $595,170. This increase is caused by an increase in salaries and benefits for bringing eGRandS in house.

For business-type activities, expenses increased by $8,900,960 and operating grants and contributions increased by $552,108 over fiscal year 2015 due to an increase in default claims paid to lenders in the FFEL Program and the transfer to primary government. There were more default claims in fiscal year 2016 due to the termination of the FFEL Program and to ensure everything was processed by June 30, 2016. Charges for services decreased by $604,971 due to a decrease in rehabilitation loan sales in fiscal year 2016.

Balance Sheet – General Fund

The balance sheet presents the financial condition of programs for educational purposes administered by the corporation at the end of the fiscal year. They include all current assets; liabilities; and fund balances, measured in current values, of the corporation that are not accounted for in the proprietary fund.

Some highlights of the general fund balance sheet are as follows:

- The notes and interest receivables include notes and interest due the corporation from students having participated in one of the teaching loan/scholarship programs administered by the corporation. Under these programs, students agree to meet certain program conditions upon graduation. If those conditions are met, the loans are forgiven based on a previously agreed upon schedule; at any time the conditions are not met, the loan then becomes due and payable.
- Accrued liabilities include amounts due to the corporation’s loan servicer.
- Fund balance includes amounts for the loan/scholarship outstanding loans and continuing appropriations for projects begun in the fiscal year but continuing into the next fiscal year.

At June 30, 2016, and June 30, 2015, the general fund had total fund balances of $6,229,432 and $6,742,594, respectively. Reconciliation of the total fund balance with the total net position presented on the statement of net position is shown at the bottom of the balance sheet.

The accrued liabilities decreased from $5,895,343 for the year ended June 30, 2015, to $1,567,264 for the year ended June 30, 2016, a decrease of $4,328,079, due to servicer invoices being received before year-end cut off.

Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund

The statement of revenues, expenditures, and changes in fund balances presents the results of operations for educational programs as administered by the corporation for the fiscal year.

Some highlights of the general fund statement of revenues, expenditures, and changes in fund balance are as follows:

- Revenues include state and federal appropriations for programs administered by the corporation, the collection of loan interest and payments, and refunds from those programs.
- Expenditures include Tennessee Student Assistance Awards and other education program awards made to students, administrative costs incurred by the corporation, and loans and interest canceled for those students participating in the loan/scholarship programs.

The total fund had a deficiency of revenues under expenditures of $513,162 for the fiscal year ended June 30, 2016. Reconciliation of the change in net position presented on the statement of activities with the change in fund balance on the statement of revenues is shown at the bottom of the statement of revenues, expenditures, and changes in fund balance.

TSAC had a net $18,752,999 increase in total revenue for the fiscal year ended June 30, 2016. The net increase is due to an increase in the TSAA grant. TSAC expenditures increased $18,521,152 in fiscal year ended June 30, 2016. Loan/scholarship programs expenditures decreased from $1,724,773 for the year ended June 30, 2015, to $1,620,137 for the year ended June 30, 2016, a decrease of $104,636 that is due to an increase in the number of students fulfilling their loan/scholarship requirements. Administrative expenditures increased from $4,377,426 for the year ended June 30, 2015, to $4,890,667 for the year ended June 30, 2016, an increase of $513,241, due to bringing eGRandS in house. Grant expenditures related to the Tennessee Student Assistance Awards (TSAA) increased from $62,285,930 for the year ended June 30, 2015, to $80,398,478 for the year ended June 30, 2016, an increase of $18,112,548. This increase is due to a greater number of students who were offered the TSAA and received the award for the 2015-2016 academic years.

Proprietary Statement – Federal Family Education Loan Program

The Federal Education Loan Fund (FFEL) Program is reported as a proprietary fund. The financial statements presented include a statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows.

Statement of Net Position – Federal Family Education Loan Proprietary Fund

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

The fund had a net position of $38,441,027 at June 30, 2016, and $53,395,061 at June 30, 2015. Net position decreased by $14,954,034. The total net position decrease is primarily due to the accrued liability established for the Family Federal Education Loan (FFEL) Program. An additional $7,000,000 was paid to the primary government resulting in a further reduction of net position. The accrued liability and the payment to the primary government resulted in a reduction to net position of approximately $18.6 million. The difference between the payment to the primary government plus the accrued liability and the reported net position reduction is approximately $3.6 million. This difference is due to the reduction payments to the primary government. The FFEL Program ended June 30, 2016. The loans were transferred to ECMC, the U.S. Department of Education's servicer, effective July 1, 2016.

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

The statement of revenues, expenses, and changes in net position contain the operating revenues, operating expenses, non-operating revenues, non-operating expenses, and change in net position.

Federal revenue and expenses are subject to loan volume fluctuations and payment receipt fluctuations. In fiscal year 2016, collections on loans and bankruptcies of $20,126,990 decreased from $20,617,849 in fiscal year 2015 by $490,859, and federal reinsurance revenue of $125,909,075 increased from $125,373,781 in fiscal year 2015 by $535,294. Collections on loans and bankruptcies decreased due to rehabilitation loan sales. The federal reinsurance increased in fiscal year 2016 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. The $7,000,000 payment to the primary government was authorized by the General Assembly to provide for additional scholarships. The payment to the USDOE of approximately $11.5 million represents the repayment of the FFEL federal fund as a part of the corporation's exiting the FFEL Program.

Statement of Cash Flows – Federal Family Education Loan Proprietary Fund

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

Required Supplementary Information: Budgetary Comparison

A budgetary comparison schedule is presented as Required Supplementary Information for the general fund. The schedule presents both the original and final appropriated budgets for the reporting period as well as actual budgetary inflows, outflows, and ending balances. Because the budgetary comparison schedule is not a required part of the basic financial statements, the schedule is not included in the basic financial statements.

Budgetary Comparison for the Fiscal Year Ended June 30, 2016

For the period ended June 30, 2016, the actual revenue was $2,018,669 more than the estimated revenue during the same period. Actual grant revenue from primary government was higher by $4,764,352 due to more students receiving awards. Departmental services revenue was lower by $1,449,460 due to a decrease in collections and the sale of rehabilitated loans. Federal revenue was lower by $1,723,823 as the result of a change in the loan program resulting in no longer receiving loan processing and issuance fees (LPIF) and lower account maintenance fee (AMF) revenue. TSAC had expenditures that were $2,531,830 higher than allocated in the final budget work program. The professional and administrative services were lower by $1,774,881 due to a decrease in servicer expenses and the decline in the FFEL Program. The grants and subsidies were higher by $4,321,139 due to a higher number of students receiving the scholarships.

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 is the Student Aid and Fiscal Responsibility Act (SAFRA), which includes Part II – Student Loan Reform. Section 2201 of Student Loan Reform significantly changes the future of all Stafford, Parent Loan for Undergraduate Students (PLUS), and consolidations loans.

- Termination: Section 2201 of H.R. 4872 prohibits any new loans from being made or insured under the Federal Family Education Loan (FFEL) Program after June 30, 2010. FFEL loans that had a first disbursement prior to July 1, 2010, are permitted to make any subsequent disbursements that are outstanding. Any new loans with a first disbursement on or after July 1, 2010, will be allowed only through the William D. Ford Direct Loan (DL).

The impact of this legislation to the Tennessee Student Assistance Corporation (TSAC) is significant.

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.

On September 24, 2015, the TSAC Board of Directors voted to wind down guarantee agency loan activities and transfer the remaining portfolio to the U.S. Department of Education. This transfer was completed by June 30, 2016.

Requests for Information

This financial report is designed to provide the State of Tennessee, the public, and other interested parties an overview of the Tennessee Student Assistance Corporation's activities and to show the corporation's accountability for conducting business in a fiscally responsible manner. If you have questions about the report or require additional financial information, contact the Tennessee Student Assistance Corporation at the following address:

Tennessee Student Assistance Corporation
1950 Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash (Note 2)	$1,776,491	$42,937,441	$44,713,932
Accounts receivable	71,591	7,240,557	7,312,148
Restricted assets:			
Notes receivable (net of allowance of $1,907,472)	5,343,120	-	5,343,120
Interest receivable (net of allowance of $405,660)	932,823	-	932,823
Net pension asset (Note 4)	2,628	-	2,628
Capital assets, net (Note 3)	65,566	-	65,566
Total assets	8,192,219	50,177,998	58,370,217
Deferred outflows of resources	628,650	-	628,650
Liabilities			
Accounts payable	128,396	11,736,971	11,865,367
Accrued liabilities	1,567,264	-	1,567,264
Payroll related accruals	177,126	-	177,126
Due to primary government	21,806	-	21,806
Compensated absences	192,092	-	192,092
Noncurrent liabilities:			
Compensated absences	176,144	-	176,144
Net pension liability (Note 4)	1,414,976	-	1,414,976
Net OPEB obligation (Note 9)	431,009	-	431,009
Total liabilities	4,108,813	11,736,971	15,845,784
Deferred inflows of resources	305,390	-	305,390
Net position			
Net investment in capital assets	65,566	-	65,566
Restricted - loan programs (Note 6)	6,229,382	-	6,229,382
Restricted - net pension asset (Note 4)	2,628	-	2,628
Unrestricted	(1,890,910)	38,441,027	36,550,117
Total net position	$4,406,666	$38,441,027	$42,847,693

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, 2016

		Program Revenues		Net (Expenses) Revenue and Changes in Net Positon		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:						
Grants	$ 80,398,478	$ -	$ 6,800,000	$(73,598,478)	$ -	$(73,598,478)
Administration	4,614,663	3,299,180	-	(1,315,483)	-	(1,315,483)
Loan/scholarship programs	1,620,137	44,988	427,600	(1,147,549)	-	(1,147,549)
Total governmental activities	86,633,278	3,344,168	7,227,600	(76,061,510)	-	(76,061,510)
Business-type activities:						
Loan programs	145,249,957	21,563,429	125,941,822	-	2,255,294	2,255,294
Payments to USDOE	11,574,827	-	-	-	(11,574,827)	(11,574,827)
Payments to primary government	7,000,000	-	-	-	(7,000,000)	(7,000,000)
Total business-type activities	163,824,784	21,563,429	125,941,822	-	(16,319,533)	(16,319,533)
Total	$ 250,458,062	$ 24,907,597	$ 133,169,422	$(76,061,510)	$(16,319,533)	$(92,381,043)

	Governmental Activities	Business-type Activities	Total
General revenues:			
Payments from primary government	$75,824,352	$ 1,259,482	$77,083,834
Unrestricted investment earnings	-	106,017	106,017
Total general revenues	75,824,352	1,365,499	77,189,851
Change in net position	(237,158)	(14,954,034)	(15,191,192)
Net position - beginning	4,643,824	53,395,061	58,038,885
Net position - ending	$ 4,406,666	$38,441,027	$42,847,693

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Balance Sheet
General Fund
June 30, 2016

Assets	
Cash (Note 2)	$1,776,491
Accounts Receivable	71,591
Receivables:	
Notes receivable (net of allowance of $1,907,472)	5,343,120
Interest receivable (net of allowance of $405,660)	932,822
Total assets	8,124,024
Liabilities	
Accounts payable	128,396
Accrued liabilities	1,567,264
Payroll related accruals	177,126
Due to primary government	21,806
Total Liabilities	1,894,592
Fund balance	
Restricted (Note 6)	6,229,382
Unassigned	50
Total fund balance	6,229,432
Total liabilities and fund balance	$8,124,024

Reconciliation of Balance Sheet to Statement of Net Position

Total fund balances	$6,229,432
Compensated absences liability not reported in the fund	(368,235)
Other long term liabilities	(1,845,985)
Net capital asset (Note 3)	65,566
Net pension asset (Note 4)	2,628
Deferred outflow of resources (Note 4)	628,650
Deferred inflow of resources (Note 4)	(305,390)
Total net position	$4,406,666

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2016

Revenues	
Grant revenue from primary government	$75,824,352
Departmental services revenue	10,144,168
Interest income	427,600
Total revenues	86,396,120
Expenditures	
Grants expenditures	80,398,478
Administrative expenditures	4,890,667
Loan/scholarship programs	1,620,137
Total expenditures	86,909,282
Excess (deficiency) of revenues over (under) expenditures	(513,162)
Fund balance - beginning	6,742,594
Fund balance - ending	$ 6,229,432

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

Excess or (deficiency) of revenues over (under) expenditures	$(513,162)
(Excess) or deficiency of accrued compensated absences expense reported in the government-wide statements over amounts paid for the compensated absences reported as expenditures in the general fund	(4,856)
(Excess) or deficiency of accrued OPEB expense reported in the government-wide statements over amounts paid for OPEB reported as expenditures in the general fund	(18,483)
Pension expense not reported as expenditures in the general fund (Note 4)	(158,864)
Payments to the pension plan after measurement date reported as expenditures in the general fund, but as a deferred outflow on government-wide statements (Note 4)	460,637
Change in net capital assets	(2,430)
Decrease in net position	$(237,158)

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statement of Net Position
Federal Family Education Loan Proprietary Fund
June 30, 2016

Assets	
Cash (Note 2)	$42,937,441
Accounts receivable	7,240,557
Total assets	50,177,998
Liabilities	
Accounts payable and accruals	11,736,971
Total liabilities	11,736,971
Net position	
Unrestricted	38,441,027
Total net position	$38,441,027

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statement of Revenues, Expenses, and Changes in Net Position
Federal Family Education Loan Proprietary Fund
For the Year Ended June 30, 2016

Revenues	
Operating revenues:	
Collections on loans and bankruptcies	$ 20,126,990
Federal reinsurance	125,909,075
Federal fee revenue	1,436,440
Total operating revenues	147,472,505
Expenses	
Operating expenses:	
Guarantee claims paid to lenders	122,451,828
Contractual services	22,798,130
Total operating expenses	145,249,958
Operating income	2,222,547
Nonoperating revenues (expenses)	
Interest income	138,764
Payments from primary government	1,259,482
Payment to USDOE	(11,574,827)
Payment to primary government	(7,000,000)
Total nonoperating revenues (expenses)	(17,176,581)
Change in net position	(14,954,034)
Net position - beginning	53,395,061
Net position - ending	$ 38,441,027

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

TENNESSEE STUDENT ASSISTANCE CORPORATION
Statement of Cash Flows
Federal Family Education Loan Proprietary Fund
For the Year Ended June 30, 2016

Cash flows from operating activities	
Receipts from customers	$ 20,126,990
Receipts from federal government - account maintenance fees	1,479,732
Receipts from federal government - bank claims	118,985,409
Payments for bank claims	(122,451,828)
Payments for administrative expenses	(12,528,064)
Net cash flows provided by operating activities	5,612,239
Cash flows from noncapital financing activities	
Payments from primary government	1,259,482
Payment to USDOE	(11,574,827)
Payments to primary government	(7,000,000)
Net cash flows used by noncapital financing activities	(17,315,345)
Cash flows from investing activities	
Interest received	138,764
Net cash flows provided by investing activities	138,764
Net decrease in cash	(11,564,342)
Cash, July 1	54,501,783
Cash, June 30	$ 42,937,441

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities

Operating income	$ 2,222,547
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(6,880,373)
Increase in accounts payable	10,270,065
Net cash provided by operating activities	$ 5,612,239

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 fiscally accountable to 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 statement of net position and the statement of activities and report information about the corporation as a whole. The government-wide financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred.

As a general rule, the effect of internal activity—interdepartmental revenues and 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 sheet and the statement of revenues, expenditures, and changes in fund balances. The general fund financial statements have been prepared using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Under the modified accrual basis 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. Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

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 statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The proprietary fund financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting except that interest is not accrued on notes purchased under the provisions of the Federal Family Education Loan Proprietary Fund, as explained below.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues 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.

Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

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.

Capital Assets

Capital assets, which include telecom, video streaming equipment, and software, are defined by the corporation as assets with an initial, individual cost of $5,000 or more. The depreciation/amortization expense was charged to the governmental activities, administration function/program of the primary government on the statement of activities.

Capital assets are depreciated/amortized on a straight-line basis over the following estimated useful lives of the assets.

Description	Estimated Life
Equipment	60 months
Software	60 months

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. Capital Assets

TSAC purchased a new telephone system during fiscal year ended June 30, 2015. The historical cost of the asset was $75,551. Additional assets were purchased during fiscal year ended June 30, 2016, with a historical cost of $15,018. The assets will be depreciated over 60 months. The depreciation expense was charged to the governmental activities, administration function/program of the primary government on the statement of activities.

	Fiscal Year Ended June 30, 2016			
Governmental activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Equipment	$75,551	$ 15,018	$-	$90,569
Less accumulated depreciation for:				
Equipment	(7,555)	(17,448)	-	(25,003)
Capital assets, net	$67,996	$ (2,430)	$-	$65,566

Note 4. Pension Plans

Closed State and Higher Education Employee Pension Plan

General Information about the Pension Plan

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to Social Security Integration Level)	**x**	1.50%	**x**	Years of Service Credit	**x**	105%
Plus:						
Average of Member's Highest Compensation for 5 Consecutive Years (over Social Security Integration Level)	**x**	1.75%	**x**	Years of Service Credit	**x**	105%

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Tennessee Student Assistance Corporation employees are non-contributory, as are most members in the Closed State and Higher Education Employee Pension Plan. State and higher education agencies make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Closed State and Higher Education Employee Pension Plan are required to be paid. Employer contributions by Tennessee Student Assistance Corporation for the year ended June 30, 2016, to the Closed State and Higher Education Employee Pension Plan were $450,293, which is 15.03% of covered payroll. The employer rate is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability – At June 30, 2016, Tennessee Student Assistance Corporation reported a liability of $1,414,976 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Tennessee Student Assistance Corporation's proportion of the net pension liability was based on a projection of Tennessee Student Assistance Corporation's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, Tennessee Student Assistance Corporation's proportion was 0.109749%. The proportion measured as of June 30, 2014, was 0.107186%.

Pension expense **–** For the year ended June 30, 2016, Tennessee Student Assistance Corporation recognized a pension expense of $156,685. Allocated pension expense was $152,151 before being increased by $4,534 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, Tennessee Student Assistance Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$149,728	$122,514
Net difference between projected and actual earnings on pension plan investments	-	181,899
Changes in proportion	18,133	-
Tennessee Student Assistance Corporation's contributions subsequent to the measurement date of June 30, 2015	450,293	-
Total	$618,154	$304,413

Deferred outflows of resources, resulting from Tennessee Student Assistance Corporation's employer contributions of $450,293 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	$(102,327)
2018	(102,327)
2019	(102,327)
2020	170,429

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate – The following presents Tennessee Student Assistance Corporation's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what Tennessee Student Assistance Corporation's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Student Assistance Corporation's proportionate share of the net pension liability (asset)	$3,315,505	$1,414,976	$(186,804)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, Tennessee Student Assistance Corporation reported a payable of $41,176 for the outstanding amount of legally required contributions to the pension plan required for the year ended June 30, 2016.

State and Higher Education Employee Retirement Plan

General Information about the Pension Plan

Plan description – State and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Employee Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS.

The TCRS was created by state statute under Title 8, Chapters 34–37 *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs,

Benefits provided –Title 8, Chapters 34-37, *Tennessee Code Annotated* establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation by 1% multiplied by the member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit pursuant to the rule of 80 in which the member's age and service credit total 80. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions – Contributions for state employees and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary to the State and Higher Education Employee Retirement Plan. The Tennessee Student Assistance Corporation makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the Tennessee Student Assistance Corporation for the year ended June 30, 2016, to the State and Higher Education Employee Retirement Plan were $10,344, which is 2.53% of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from federal funds where the employer rate is 2.00%. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension asset – At June 30, 2016, Tennessee Student Assistance Corporation reported an asset of $2,628 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. Proportion of the net pension asset was based on a projection of the Tennessee Student Assistance Corporation's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the corporation's proportion was 0.094484%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2016, Tennessee Student Assistance Corporation recognized a pension expense of $2,179.

Deferred outflows of resources and deferred inflows of resources – For the year ended June 30, 2016, Tennessee Student Assistance Corporation reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$977
Net difference between projected and actual earnings on pension plan investments	152	-
Tennessee Student Assistance Corporation's contributions subsequent to the measurement date of June 30, 2015	10,344	-
Total	$ 10,496	$977

Deferred outflows of resources, resulting from Tennessee Student Assistance Corporation's employer contributions of $10,344 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	$ (84)
2018	(84)
2019	(84)
2020	(84)
2021	(122)
Thereafter	(367)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

<u>Actuarial assumptions</u> – The total pension liability (asset) as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.5%

Mortality rates were customized based on the June 30, 2012, actuarial experience study and included an adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June

30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability (asset) was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate – The following presents Tennessee Student Assistance Corporation's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what Tennessee Student Assistance's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Tennessee Student Assistance Corporation's proportionate share of the net pension liability (asset)	$(1,032)	$(2,628)	$(3,821)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at www.treasury.tn.gov/tcrs.

Payable to the Pension Plan

At June 30, 2016, Tennessee Student Assistance Corporation reported a payable of $737 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

Total Defined Pension Benefit Expense

The total pension expense for the year ended June 30, 2016, for both defined benefit pension plans was $158,864.

Note 5. Deferred Compensation Plans

The Tennessee Student Assistance Corporation, through the State of Tennessee, offers employees two deferred compensation plans, one established pursuant to IRC, Section 457, and the other pursuant to IRC, Section 401(k). The plans are outsourced to third-party vendors and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 457 plan is voluntary for employees. The Tennessee Student Assistance Corporation provides up to a $50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in both plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for either plan.

The Tennessee Student Assistance Corporation recognized a pension expense of $45,376 for employer contributions.

Note 6. General Fund – Restricted Fund Balance, Loan Programs

Program	June 30, 2016
Restricted:	
Math/Science Scholarship	$ 84,099
Rural Health	988,182
Teacher/Loan Scholarship	1,149
Minority Teacher Scholarship	2,362,096
Graduate Nursing	1,300,930
Teaching Scholars Program	1,492,926
Total Restricted Fund Balance	$6,229,382

Note 7. 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 medical 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 (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012; thus, builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The corporation participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the corporation based on a percentage of the corporation's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at www.tn.gov/finance/article/fa-accfin-cafr. Since the corporation participates in the Risk Management Fund, it is subject to the liability by statute. The maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1,000,000 per occurrence. Claims are paid through the state's Risk Management Fund. At June 30, 2016, the Risk Management Fund held $142.9 million in cash designated for payment of claims. At June 30, 2016, the scheduled coverage for the corporation was $1.436 million for furniture and equipment.

Note 8. Employee Group Insurance Fund

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

Note 9. Other Post-Employment Benefits

Healthcare is the only "other post-employment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible corporation retirees. This program includes two plans—the State Employee Group Plan and the Medicare Supplement Plan. For accounting purposes, 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, *Tennessee 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 10. The plans are reported in *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at http://www.tn.gov/finance/article/fa-accfin-cafr**.**

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 (see Note 10). 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 plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates.

Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80%; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; retirees with 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25.

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

	June 30, 2016
Annual required contribution (ARC)	$ 87
Interest on the net OPEB obligation	16
Adjustment to the ARC	(16)
Annual OPEB cost	87
Amount of contribution	(68)
Increase in net OPEB obligation	19
Net OPEB obligation-beginning of year	412
Net OPEB Obligation-end of year	$431

Year End	Plan	Annual OPEB Cost *(Thousands)*	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End *(Thousands)*
6/30/2016	State Employee Group Plan	$87	78%	$431
6/30/2015	State Employee Group Plan	$81	80%	$412
6/30/2014	State Employee Group Plan	$78	74%	$399

Funded Status and Funding Progress - The funded status of the plans as of July 1, 2015, was as follows (dollars in thousands):

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	$ 747
Actuarial value of plan assets	$ -
Unfunded actuarial accrued liability (UAAL)	$ 747
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	$ 2,715
UAAL as a percentage of covered payroll	27%

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, 2015, actuarial valuation for the State Employee Group plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreases to 6% in fiscal year 2016, and then will be reduced by decrements to an ultimate rate of 4.7% in fiscal year 2050. 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 10. On-Behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of $2,650 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 9. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at http://www.tn.gov/finance/article/fa-accfin-cafr.

Note 11. Commitments and Contingencies

Sick leave – The dollar amount of unused sick leave was $696,194 at June 30, 2016.

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Information
Schedule of OPEB 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 % of Covered Payroll ((b-a/c))
July 1, 2015	State Employee Group Plan	$ -	$747	$747	0%	$2,715	27%
July 1, 2013	State Employee Group Plan	$ -	$759	$759	0%	$2,306	33%
July 1, 2011	State Employee Group Plan	$ -	$842	$842	0%	$2,140	39%

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Information
Schedule of TSAC's Proportionate Share of the Net Pension Liability
Closed State and Higher Education Employee Pension Plan Within TCRS

	TSAC's Proportion of the Net Pension Liability	TSAC's Proportionate Share of the Net Pension Liability	TSAC's Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.109749%	$1,414,976	$2,865,791	49.37%	91.26%
2015	0.107186%	$ 747,926	$2,961,490	25.26%	95.11%

To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Information
Schedule of TSAC's Contributions
Closed State and Higher Education Employee Pension Plan Within TCRS

	TSAC's Contractually Determined Contributions	TSAC's Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	TSAC's Covered Payroll	Contributions as a Percentage of TSAC's Covered Payroll
2016	$450,293	$450,293	$ -	$2,995,959	15.03%
2015	430,729	430,729	-	2,865,791	15.03%
2014	445,112	445,112	-	2,961,490	15.03%
2013	372,830	372,830	-	2,480,572	15.03%
2012	346,205	346,205	-	2,321,965	14.91%
2011	343,962	343,962	-	2,306,922	14.91%
2010	283,839	283,839	-	2,180,031	13.02%
2009	264,414	264,414	-	2,030,830	13.02%
2008	296,513	296,513	-	2,177,041	13.62%
2007	237,176	237,176	-	1,741,380	13.62%

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Information
Schedule of TSAC's Proportionate Share of the Net Pension Asset
State and Higher Education Employee Retirement Plan Within TCRS

	TSAC's Proportion of the Net Pension Asset	TSAC's Proportionate Share of the Net Pension Asset	TSAC's Covered Payroll	Proportionate Share of the Net Pension Asset as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
2016	0.094484%	$2,628	$102,890	2.55%	142.55%

To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Information
Schedule of TSAC's Contributions
State and Higher Education Employee Retirement Plan Within TCRS

	TSAC's Contractually Determined Contributions	TSAC's Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	TSAC's Covered Payroll	Contributions as a Percentage of TSAC's Covered Payroll
2016	$10,344	$10,344	$ -	$408,279	2.53%
2015	3,982	3,982	-	102,890	3.87%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis (1)	Positive (Negative)
Budgetary fund balance, July 1	$ 6,742,594	$ 6,742,594	$ 6,742,594	$ -
Resources (inflows):				
Grant revenue from primary government	71,060,000	71,060,000	75,824,352	4,764,352
Departmental services revenue	33,561,100	33,561,100	32,111,640	(1,449,460)
Federal revenue	2,523,600	2,523,600	799,777	(1,723,823)
Interest income	-	-	427,600	427,600
Amounts available for appropriation	113,887,294	113,887,294	115,905,963	2,018,669
Charges to appropriations (outflows):				
Personal services	3,005,100	3,005,100	3,616,224	(611,124)
Employee benefits	1,123,500	1,123,500	1,309,194	(185,694)
Travel	156,000	156,000	84,351	71,649
Printing, duplicating, and film processing	116,200	116,200	29,254	86,946
Communication and shipping cost	186,700	186,700	150,900	35,800
Maintenance, repairs, and services	8,900	8,900	202	8,698
Professional and administrative services	23,112,200	23,112,200	21,337,319	1,774,881
Supplies	153,000	153,000	141,212	11,788
Rentals and insurance	55,000	55,000	396,907	(341,907)
Awards and indemnities	5,300	5,300	-	5,300
Grants and subsidies	77,986,700	77,986,700	82,307,839	(4,321,139)
Unclassified	-	-	30,664	(30,664)
Equipment	13,900	13,900	-	13,900
Computer related	69,600	69,600	-	69,600
Professional services	1,152,600	1,152,600	272,465	880,135
Total charges to appropriations	107,144,700	107,144,700	109,676,531	(2,531,831)
Budgetary fund balance, June 30	$ 6,742,594	$ 6,742,594	$ 6,229,432	$ (513,162)

(1) – With the exception of interfund transactions that have not been eliminated, GAAP (i.e., modified accrual) serves as the budgetary basis of accounting.

TENNESSEE STUDENT ASSISTANCE CORPORATION
Required Supplementary Information
Reconciliation of Budget to GAAP
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2016

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

	General Fund
Sources of financial revenues	
Actual amounts (budgetary basis)	$115,905,963
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	(6,742,594)
Reimbursement from Federal Family Education Loan (FFEL) Fund are inflows of budgetary resources but are not revenues for financial statement purposes	(22,767,249)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	$ 86,396,120
Uses of financial resources	
Actual amounts (budgetary basis)	$109,676,531
Differences - budget to GAAP:	
Expenditures reimbursed from the Federal Family Education Loan (FFEL) Fund are outflows of budgetary resources, but are not expenditures for financial statement purposes	(22,767,249)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	$ 86,909,282

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
Members of the Board of Directors
Mr. Mike Krause, 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, 2016, and the related notes to the financial statements, which collectively comprise the corporation's basic financial statements, and have issued our report thereon dated June 8, 2017. 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 opinion 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 certain deficiency in internal control, as described below, that we consider to be a significant deficiency.

- The eGRandS system has not been updated 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 Tennessee Student Assistance 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*.

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
June 8, 2017

Finding and Recommendation

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

<u>Condition</u>

As noted in the prior three audits, we reported that the Electronic Grants and Scholarships (eGRandS) system had not been updated to calculate interest in a manner that complies with state law. Management concurred with the prior audit finding and stated:

> TSAC transitioned eGRandS to its servers in August 2016 and internal IT staff are now working on correcting the interest calculation for the loan forgiveness programs. The interest calculation for the Graduate Nursing Loan Forgiveness Program (GNLFP) is in programming and will enter user acceptance testing by November. TSAC anticipates GNLFP corrections will be complete by the end of the calendar year [2016].
>
> Interest calculation programming for the Minority Teaching Fellows Program (MTFP) and Tennessee Teaching Scholars Program (TTSP) will soon follow. TSAC estimates that interest calculation corrections for MTFP and TTSP will be corrected by the end of the current academic year [2016-2017].
>
> Controls are currently in place to confirm accurate balances are provided to recipients nearing a payment-in-full status and to ensure that recipients are paying the correct amount owed on the loan. Ledger cards are maintained for every loan forgiveness recipient and students are contacted by phone and/or email when they reach a balance of less than $1,000 to ensure the student does not overpay. These controls have been in place and will remain until all corrections are programmed into eGRandS. Staff will test a variety of scenarios to ensure program changes have been programmed correctly.

During the year ended June 30, 2016, we found that the eGRandS system had not been updated to calculate interest properly for GNLFP, MTFP, and TTSP; rather, management made manual calculations near the time of final payment.

In a letter dated March 20, 2017, to the director of the Division of State Audit regarding the status of the prior finding, management stated that, as of March 2017,

> The Tennessee Student Assistance Corporation (TSAC) has corrected the interest for the Graduate Nursing Loan Forgiveness Program (GNLFP) in eGRandS and balances have been adjusted. This program is serving as the blueprint for correcting the Tennessee Teaching Scholars Program and the Minority Teaching Fellows Program.
>
> In response to the FY 15 Financial and Compliance Audit, TSAC stated the balances for all three loan forgiveness programs would be corrected by the end of

the current academic year. TSAC is still on track to have these corrections implemented in the eGRandS database.

Refunds for all three programs have been issued based on the information received by the postsecondary institutions. One institution, after numerous requests, has recently provided TSAC with updated withdrawal and graduation dates. This information is being updated in eGRandS. The total number of students impacted is approximately 800 Tennessee Teaching Scholars Program (TTSP) students and staff is diligently working to make the corrections to determine if refunds are owed to these students.

In the next audit, we will determine if all changes have been made as stated by management.

Criteria

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.

Cause

TSAC management had not corrected the balances during year ended June 30, 2016, because management was in the process of purchasing the system and transitioning the maintenance and support functions from an external vendor to in-house employees.

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

TSAC's Associate Executive Director for Grant and Scholarship Programs and Director of Grants and Scholarships should stay on track to have the corrections made by the end of the current academic year.

Management's Comment

We concur. The Tennessee Student Assistance Corporation (TSAC) has corrected the interest for the Graduate Nursing Loan Forgiveness Program (GNLFP), Minority Teaching Fellows Program (MTFP), and Tennessee Teaching Scholars Program (TTSP) in eGRandS. As noted in a letter dated March 20, 2017 to the Division of State Audit, the interest for GNLFP accounts has been corrected. This was completed the weekend of January 28th.

The corrections to MTFP and TTSP were implemented the weekend of June 10th. Staff members are now reviewing the corrections to ensure the changes to recipients' account balances are accurate. All account balances will be accurate as of June 30, 2017. If additional refunds are needed, they will be issued after June 30, 2017 in a timely manner after recipient addresses are located and verified.