

**FINANCIAL REPORT**

**Georgia Higher Education Assistance Corporation**

(A component unit of the Georgia Student Finance Commission)

*Year ended June 30, 2011*

*with Independent Auditor's Report*

# Georgia Higher Education Assistance Corporation

## Financial Statements

**Year ended June 30, 2011**

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## Independent Auditor's Report

To the Board of Directors  
Georgia Higher Education Assistance Corporation  
Tucker, Georgia

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Georgia Higher Education Assistance Corporation (the "Corporation"), a component unit of the Georgia Student Finance Commission, as of and for the year ended June 30, 2011 which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Georgia Higher Education Assistance Corporation, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2011, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Corporation. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Mauldin & Jenkins, LLC*

Macon, Georgia  
September 16, 2011

# Georgia Higher Education Assistance Corporation

## Management's Discussion and Analysis

**June 30, 2011**

This section of the Georgia Higher Education Assistance Corporation's (the "Corporation") financial statements presents management's analysis of the Corporation's financial performance during the fiscal year that ended on June 30, 2011. Please read it in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

#### **2011**

- Net income of \$197 thousand
- \$732 thousand decline from prior year in operating revenues primarily due to the lack of loan processing fee and disbursement service fee income as the Federal Family Education Loan Program (FFELP) was eliminated as of July 1, 2010
- \$547 thousand increase from fiscal year 2010 in collection expense to \$2.3 million
- 21.1% decline in outstanding loans guaranteed to \$835 million

### **Overview of the Financial Statements**

The Financial Statements consist of two parts: Management's Discussion and Analysis and the Basic Financial Statements. The Basic Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

# Georgia Higher Education Assistance Corporation

## Management's Discussion and Analysis (continued)

**June 30, 2011**

### **Required Basic Financial Statements**

The Corporation utilizes two different funds to account for its activities: an enterprise fund, which reports information about the general operations of the Corporation, and an agency fund, which reports information about the transactions entered into by the Corporation on behalf of those outside of the Corporation (various lenders and the United States Department of Education ("U.S. DOE")) related to defaulted loans. For information regarding the agency fund of the Corporation, see the *Statement of Fiduciary Assets and Liabilities – Agency Fund* in the Financial Statements.

The Enterprise Fund Financial Statements of the Corporation report information about the Corporation using accounting methods similar to those used by private sector companies. These statements offer financial information about the Corporation's activities. The Statement of Net Assets includes all of the Corporation's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Corporation creditors (liabilities). The assets and liabilities are presented in order of liquidity. It also provides the basis for computing rate of return, evaluating the capital structure of the Corporation and assessing the liquidity and financial flexibility of the Corporation.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all its costs through its services provided, as well as its profitability, and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Corporation's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities and provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

# Georgia Higher Education Assistance Corporation

## Management's Discussion and Analysis (continued)

**June 30, 2011**

### **Financial Analysis**

Our analysis of the Enterprise Fund Financial Statements of the Corporation begins below. One of the most important questions asked about the Corporation's finances is "Is the Corporation as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Corporation's activities in a way that will help answer this question. These two statements report the net assets of the Corporation and changes in them. You can think of the Corporation's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Corporation's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, regulations and new or changed government legislation.

### **Net Assets**

To begin our analysis, a summary of the Corporation's Enterprise Fund Statement of Net Assets is presented in Table A-1.

#### **Table A-1**

*Condensed Statement of Net Assets – Enterprise Fund (In thousands of dollars)*

	<b>FY 2011</b>	FY 2010	Dollar Change	Percentage Change
Cash and Cash Equivalents	<b>\$14,168</b>	\$14,320	\$ (152)	(1.1) %
Receivables, Net	<b>702</b>	650	52	8.0 %
Other Assets	-	67	(67)	(100.0) %
Total Assets	<b>\$14,870</b>	\$15,037	\$ (167)	(1.1) %
Total Liabilities	<b>\$ 741</b>	\$ 1,104	\$ (363)	(32.9) %
Total Net Assets	<b>\$14,129</b>	\$13,933	\$ 196	1.4 %

As can be seen in Table A-1, net assets increased \$196 thousand to \$14.1 million. This change in net asset position was attributable to a decrease in total liabilities of \$363 thousand and a decrease in total assets of \$167 thousand.

Georgia Higher Education Assistance Corporation

Management's Discussion and Analysis (continued)

June 30, 2011

**Table A-2**

*Condensed Statement of Revenues, Expenses and Changes in Net Assets (In thousands of dollars)*

	<b>FY 2011</b>	FY 2010	Dollar Change	Percentage Change
Operating Revenues	<b>\$ 7,365</b>	\$ 8,098	\$ (733)	(9.1)%
Operating Expenses	<b>7,342</b>	9,126	(1,784)	(19.5)%
Income from Operations	<b>23</b>	(1,028)	1,051	(102.2)%
Non-operating Revenues	<b>173</b>	48	125	260.4%
Change in Net Assets	<b>196</b>	(980)	1,176	(120.0)%
Beginning Net Assets	<b>13,933</b>	14,913	(980)	(6.6)%
Ending Net Assets	<b>\$14,129</b>	\$13,933	\$ 196	1.4%

As can be seen in Table A-2, operating revenues decreased \$733 thousand from the prior year, mostly due to the lack of revenue from loan processing fee and disbursement service fee, which was \$1.7 million in total for fiscal year 2010. Earnings on rehabilitation collections increased by \$1.4 million from the prior year, compensating for the decline in revenue from the other sources.

Operating expenses had a decrease of \$1.8 million when compared to the prior year. Results are primarily due to cost reductions implemented in fiscal year 2011. Payroll and other administrative expenses declined by \$2.1 million from last year.

Non-operating revenues are interest earnings from the operating fund and a redemption payment of \$146 thousand received for capital contribution made in earlier years.

Georgia Higher Education Assistance Corporation  
Management's Discussion and Analysis (continued)

**June 30, 2011**

**Capital Assets and Long-Term Debt**

The Corporation had no capital assets and no long-term debt at June 30, 2011.

**Economic Factors**

Student Aid and Fiscal Responsibility Act (SAFRA) amended the Higher Education Act of 1965 (HEA). The Health Care and Education Reconciliation Act of 2010 (HCERA) revoked the authority to originate or insure new federal loans under the Federal Family Education Loan Program (FFELP) after June 30, 2010. Starting July 1, 2010, all new federal education loans, including Stafford, PLUS and Consolidation loans, are made through the Direct Loan program.

The Corporation continues servicing existing FFELP loans and continues its role as a guaranty agency.

**Requests for Information**

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, 2082 East Exchange Place, Tucker, Georgia 30084.

Georgia Higher Education Assistance Corporation

Statement of Net Assets

Enterprise Fund

	<u>June 30, 2011</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 14,168,372
Due from U.S. Dept. of Education	702,207
Total assets	<u>\$ 14,870,579</u>
 <b>Liabilities and net assets</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 79,844
Due to Georgia Student Finance Authority	349,049
Other liabilities	312,441
Total liabilities	<u>741,334</u>
Net assets:	
Unrestricted	<u>14,129,245</u>
Total liabilities and net assets	<u>\$ 14,870,579</u>

**The accompanying notes are an integral part of these financial statements.**

Georgia Higher Education Assistance Corporation

Statement of Revenues, Expenses and Changes in Net Assets

Enterprise Fund

	<b>Year ended June 30, 2011</b>
<b>Operating revenues:</b>	
Collection fees on student loans	\$ 6,348,925
Loan processing fees	(22,862)
Loan maintenance fees	545,928
Default aversion fees	493,781
Total operating revenues	<u>7,365,772</u>
<b>Operating expenses:</b>	
General and administrative expenses	3,912,721
Guaranty processing expense	1,109,314
Collection expense	2,320,408
Federal default fee paid for lenders	(171)
Total operating expenses	<u>7,342,272</u>
Income from operations	23,500
<b>Non-operating revenues:</b>	
Other Revenue	145,611
Interest earned on investments	27,474
Total non-operating revenues	<u>173,085</u>
Change in net assets	196,585
Net assets at beginning of year	<u>13,932,660</u>
Net assets at end of year	<u><u>\$ 14,129,245</u></u>

The accompanying notes are an integral part of these financial statements.

# Georgia Higher Education Assistance Corporation

## Statement of Cash Flows

### Enterprise Fund

	<b>Year ended June 30, 2011</b>
<b>Cash flows from operating activities</b>	
Cash received from U.S. Department of Education	\$ 7,380,387
Cash paid to vendors	(5,566,298)
Cash paid to employees	(2,138,687)
Net cash used for operating activities	<u>(324,598)</u>
<b>Cash flows from investing activities</b>	
Interest earned on investments	27,474
Other Revenue	145,611
Net cash provided by investing activities	<u>173,085</u>
Decrease in cash and cash equivalents	(151,513)
Cash and cash equivalents at beginning of year	14,319,885
Cash and cash equivalents at end of year	<u>\$ 14,168,372</u>
<b>Reconciliation of income from operations to net cash used for operating activities:</b>	
Income from operations	\$ 23,500
Adjustments to reconcile income from operations to net cash used for operating activities:	
Changes in operating assets and liabilities:	
Due from U.S. Department of Education	(52,189)
Other receivables	66,804
Accounts payable and accrued expenses	(334,920)
Due to Georgia Student Finance Authority	(156,260)
Other liabilities	128,467
Net cash used for operating activities	<u>\$ (324,598)</u>

**The accompanying notes are an integral part of these financial statements.**

Georgia Higher Education Assistance Corporation

Statement of Fiduciary Assets and Liabilities

Agency Fund

	<u>June 30, 2011</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 4,010,364
Federal principal receivable on defaulted loans outstanding	116,405,175
Federal interest receivable on defaulted loans outstanding	<u>5,310,720</u>
Total assets	<u>\$ 125,726,259</u>
<b>Liabilities</b>	
Due to U.S. Dept. of Education-- federal defaulted loans outstanding	\$ 121,715,913
Due to lenders for defaulted loans	<u>4,010,346</u>
Total liabilities	<u>\$ 125,726,259</u>

**The accompanying notes are an integral part of these financial statements.**

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2011**

### **1. Summary of Significant Accounting Policies**

#### **Reporting Entity**

The Georgia Higher Education Assistance Corporation (the “Corporation”) is a public authority and deemed to be an instrumentality and a nonprofit public corporation created for the purpose of providing for a guaranteed educational loan program within the State of Georgia.

The Corporation is governed by and all of its corporate powers, duties, and functions are exercised by a board of directors. The board of directors consists of thirteen members, one selected from each congressional district. The members are appointed by the Governor and are subject to confirmation by the Senate. Each member serves for a term of six years and is eligible for reappointment to successive terms. Members must be twenty-one years of age, citizens of the United States, and a resident of Georgia for at least two years at the time of their appointment. Members of the board of directors are not eligible to become an officer or employee of the Corporation for a period of one year after expiration of the member’s period of service. The president of the Georgia Student Finance Commission, (the “Commission”), serves as an ex officio member of the board of directors.

The operations of the Corporation are administered by employees of the Commission and Georgia Student Finance Authority (the “Authority”). The costs of administration are borne by the Corporation.

Inasmuch as the Corporation’s management is vested in the Commission, the Corporation is considered a component unit of the State of Georgia for financial reporting purposes as defined in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*”.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2011**

### **1. Summary of Significant Accounting Policies (continued)**

#### **Basis of Presentation – Fund Accounting**

The Corporation uses funds to report on its financial position and the results of its operations determined in conformity with accounting principles generally accepted in the United States. A fund is a separate accounting entity with a self-balancing set of accounts.

The funds presented in this report are as follows:

#### **Proprietary Fund Type**

Enterprise Fund – The fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. A fund of this type is entitled Enterprise Fund in accordance with terminology set forth in accounting principles generally accepted in the United States. This fund represents the operating fund of the Corporation.

#### **Fiduciary Fund Type**

Agency Fund – The fund is used to account for assets held for other entities, funds, governments, or individuals. A fund of this type is entitled Agency Fund in accordance with terminology set forth in accounting principles generally accepted in the United States. This fund accounts for the flow of funds between the Corporation, various lenders, and the United States Department of Education (U.S. DOE) related to defaulted loans.

#### **Basis of Accounting**

In its accounting and financial reporting, the Corporation follows the pronouncements of the GASB. In addition, the Corporation follows the pronouncements of all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

June 30, 2011

### 1. Summary of Significant Accounting Policies (continued)

#### Basis of Accounting (continued)

##### Enterprise Fund

The Corporation maintains its Enterprise Fund in accordance with the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned. Further, the accrual basis of accounting requires expenses to be recorded in the period incurred.

##### Agency Fund

An Agency Fund is custodial in nature in that assets are equally offset by liabilities to other entities, funds, governmental units, or individuals. The Corporation's Agency Fund includes defaulted student loans serviced for the U.S. DOE and loans disbursed through the Corporation's loan disbursements program.

#### Budget

The Corporation prepares an internal operations budget for management purposes. This budget is not subject to State approval but does require the Board of Directors' approval.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Corporation to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

#### Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Corporation considers unrestricted short-term investments that have original maturities of three months or less to be cash equivalents.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2011**

### **1. Summary of Significant Accounting Policies (continued)**

#### **Loan Disbursements Program**

The Loan Disbursement Program virtually ceased to exist due to the elimination of FFELP.

#### **Collection Fees on Student Loans**

Prior to October 1, 2007, the Corporation was allowed to retain 23% of collections on defaulted loans. With the passing of the College Cost Reduction and Access Act of 2007, this percentage was reduced to 16% as of October 1, 2007. Since July 1, 2006, 18.5% of principal, accrued interest and fees on rehabilitated loan purchases is recognized as income by the Corporation. Additionally, since October 1, 2006, 10% of consolidation collections are recognized as income by the Corporation. These amounts are reflected as operating revenues in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

#### **Revenues from the U.S. DOE**

Amounts included in the Statement of Revenues, Expenses and Changes in Net Assets as collection fees on student loans, loan processing fees, loan maintenance fees, and default aversion fees represent amounts the Corporation has earned from the U.S. DOE.

#### **Operating versus Nonoperating Revenues and Expenses**

The Enterprise fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. The principal operating revenues of the Corporation are for collections on student loans and student loan maintenance. Operating expenses include general and administrative expenses and certain loan-related expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

June 30, 2011

### 2. Deposits and Investments

Total deposits and investments as of June 30, 2011 are summarized as follows:

	<u>2011</u>
As reported in the Statement of Net Assets:	
Enterprise Fund	
Cash and cash equivalents	\$ 14,168,372
Agency Fund	
Cash and cash equivalents	4,010,364
	<u>\$ 18,178,736</u>
Cash deposited with financial institutions	\$ 18,178,736
	<u>\$ 18,178,736</u>

**Credit risk.** State statutes authorize the Corporation to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. As of June 30, 2011, the Corporation had no investments.

**Custodial credit risk – deposits.** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2011, the Corporation did not have any balances exposed to custodial credit risk as uninsured and uncollateralized as defined by GASB pronouncements.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2011**

### **3. Student Loans Outstanding and in Default**

As of June 30, 2011, the Corporation was the guarantor of approximately \$834,949,872 in outstanding loans made to students by participating lending institutions. The federal government substantially reinsures these loans. No allowance has been provided for loans expected to be reinsured by the federal government.

The Corporation's management anticipates that a certain portion of the guaranteed loans outstanding as of June 30, 2011 will go into default status requiring the Corporation to purchase loans from lenders. Since the majority of funds expended to purchase defaulted loans are reinsured by the federal government, there is no material net cost to the Corporation.

### **4. Accounts Payable, Accrued Expenses and Other Liabilities**

Accounts payable, accrued expenses and other liabilities at June 30 are summarized as follows:

<b>Description of Account</b>	<b>2011</b>
Reserve for default prevention	\$ 46,843
Collection agencies payable	246,012
Other accounts payable accrued	99,430
	<u>\$ 392,285</u>

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2011**

### **5. Related Party Transactions**

The Authority pays administrative expenses on behalf of the Corporation and gets reimbursed by the Corporation. At June 30, 2011, the Corporation owed \$349,049 to the Authority for unreimbursed expenses.

The Corporation also rents office space and certain operating equipment from the Authority. During fiscal year 2011, the Corporation incurred total rent expenses of \$367,787 related to space and operating equipment.

### **6. Contingencies**

#### **Default Rate**

The Federal Government, through the Guaranteed Student Loan Programs (GSLP) of the U.S. DOE, fully reinsured loans guaranteed through September 30, 1993 unless the Corporation's rate of annual losses (defaults) exceeded 5%. In the event of future adverse loss experience, the Corporation could be liable for up to 1) 20% of the outstanding balance of loans in repayment status at the beginning of each year which were disbursed prior to October 1, 1993 and 2) 22% of the outstanding balance of loans in repayment status at the beginning of each year which were disbursed on or after October 1, 1993.

The Omnibus Budget Reconciliation Act (the Act) of 1993 made certain changes to the GSLP. Effective for loans first disbursed on or after October 1, 1993, the U.S. DOE reimburses 98%, 88%, or 78% of the amount of a default claim paid to a lender based on the guaranty agency's rate of annual losses (defaults). However, the guaranty agency's default insurance must insure not less than 98% (down from 100%) of the unpaid principal balance of loans insured under this program.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2011**

### **Contingencies (continued)**

#### **Default Rate (continued)**

On October 7, 1998, the Higher Education Amendments of 1998 amended the Higher Education Act of 1965 (“HEA”). Among a number of changes, the HEA reduced the reinsurance payment percentages from 98%, 88% or 78% to 95%, 85% or 75%, respectively, on loans disbursed on or after October 1, 1998.

During the year ended June 30, 2011, the Corporation, on behalf of the U.S. DOE, reimbursed \$49,012,264 to lenders for defaulted loans.

#### **7. Loans Assigned to the U.S. DOE**

For the year ended June 30, 2011, approximately \$16,768,595 in loans has been assigned from the Corporation to the U.S. DOE. These loans have been removed from the Corporation’s Agency Fund Balance Sheet in recognition of the transfer of the loans.

#### **8. Insurance Coverage**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. All insurance coverage, other than crime, is held and issued by the Georgia Department of Administrative Services – Risk Management Services. Insurance coverage for crime is held and issued by a commercial carrier. No settlements in excess of claims have been incurred during the past three fiscal years.

# Single Audit Section

Georgia Higher Education Assistance Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education:</b>		
Office of Post Secondary Education		
Federal Family Education Loan Program:		
Defaulted loan purchases	<b>84.032</b>	<b>\$ 49,012,264</b>
Total Federal Expenditures		<b>\$ 49,012,264</b>

*See accompanying note.*

Georgia Higher Education Assistance Corporation

Note to Schedule of Expenditures of Federal Awards

**Year ended June 30, 2011**

**1. Defaulted Student Loans**

The total balance, net of collections, at June 30, 2011, of all defaulted student loans, which the Corporation has purchased under Federal reinsurance agreement, was \$121,715,895. This amount is reflected in the accompanying Agency Fund Statement of Fiduciary Assets and Liabilities.

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*

To the Board of Directors  
Georgia Higher Education Assistance Corporation  
Tucker, Georgia

We have audited the financial statements of the Georgia Higher Education Assistance Corporation (the "Corporation"), a component unit of the Georgia Student Finance Commission, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 16, 2011. 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**

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

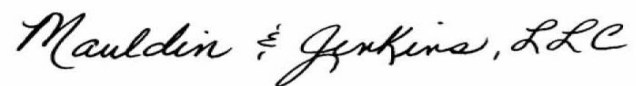
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Corporation in a separate letter dated September 16, 2011.

This report is intended solely for the information and use of management, the Board of Directors, others within the Corporation, the U.S. Department of Education and the State of Georgia, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC". The signature is written in black ink and is centered on the page.

Macon, Georgia  
September 16, 2011

Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors  
Georgia Higher Education Assistance Corporation  
Tucker, Georgia

**Compliance**

We have audited the Georgia Higher Education Assistance Corporation's (the "Corporation") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2011. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management and the U.S. Department of Education and the State of Georgia and is not intended to be and should not be used by anyone other than these specified parties.

*Mauldin & Jenkins, LLC*

Macon, Georgia  
September 16, 2011

Georgia Higher Education Assistance Corporation

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

SECTION I  
SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of auditor's report issued Unqualified

Internal control over financial reporting:  
Material weaknesses identified?  yes  no

Significant deficiencies identified not considered  
to be material weaknesses?  
reported  yes  none

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal Control over major programs:  
Material weaknesses identified?  yes  no

Significant deficiencies identified not considered  
to be material weaknesses?  
reported  yes  none

Type of auditor's report issued on compliance for  
major programs Unqualified

Any audit findings disclosed that are required to  
be reported in accordance with OMB Circular  
A-133, Section 510(a)?  yes  no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.032	Federal Family Education Loan Program

Dollar threshold used to distinguish between  
Type A and Type B programs: \$1,470,368

Auditee qualified as low-risk auditee?  yes  no

**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None

**SECTION III  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

# Georgia Higher Education Assistance Corporation

## Schedule of Prior Year Findings

**Year ended June 30, 2011**

### **2010-1. Failure to assign defaulted loan to the U.S. Department of Education.**

Criteria – Unless the Secretary notifies a guaranty agency in writing that other loans must be assigned to the Secretary, a guaranty agency must assign any loan that meets all of the following criteria as of April 15 of each year: (a) unpaid principal balance is at least \$100; (b) the loan, and any other loans held by the guaranty agency for that borrower, have been held by the agency for at least five years; (c) a payment has not been received on the loan in the last year; and (d) a judgment has not been entered on the loan against the borrower.

Condition – For fiscal year end June 30, 2010, a loan tested that met the criteria for loans to be assigned to ED was not properly assigned.

Auditee Response/Status – Resolved

### **2010-2. Failure to charge appropriate costs for default collection activities to borrowers on defaulted loans.**

Criteria – Guaranty agencies are required to charge defaulted borrowers reasonable costs incurred by the agency for its default collection activities. The rate is based on the amount that would be charged if the loan was held by the U.S. Department of Education.

Condition – The Corporation charged inappropriate costs to one borrower noted in our sample of sixty (60).

Auditee Response/Status – Resolved

### **2010-3. Failure to rebate default aversion fees on a loan which was subsequently paid as a default claim.**

Criteria – Guaranty agencies may transfer a default aversion fee from its Federal Fund to its Operating Fund based on 1 percent of the total unpaid principal and accrued interest owed on loans on which the lender requests default aversion assistance. However, if a loan on which the guaranty agency has received the default aversion fee is subsequently paid as a default claim, the guaranty agency must rebate funds to the Federal Fund by deducting the rebate funds from the default aversion fee calculation.

Condition – The Corporation did not return the 1% default aversion fee on a loan which was subsequently paid as a default claim.

Georgia Higher Education Assistance Corporation

Schedule of Prior Year Findings

Year ended June 30, 2011

**2010-3. Failure to rebate default aversion fees on a loan which was subsequently paid as a default claim (Continued).**

Auditee Response/Status – Resolved

**2010-4. Failure to properly report loans purchased by the U.S. Department of Education.**

Criteria – Once a loan is purchased by the U.S. Department of Education, guaranty agencies cease to have any obligations, responsibilities, or rights (including any rights to any payment) for the loan. Guaranty agencies annually submit to ED Form 2000, *Guarantee Agency Financial Report*. Line AR-7, Loans Transferred Out on that report shows the loans sold to ED. Also line MR-15 shows the Secretary's fee for defaulted FFEL loans consolidated with Direct Loans and line MR-27 is the total receivable on these loans.

Condition – The Corporation did not properly report the amounts in line MR-27 of ED Form 2000 in accordance with 34 CFR section 682.414(b)(4).

Auditee Response/Status – Resolved