

**FINANCIAL REPORT**

**Georgia Higher Education Assistance Corporation**

(A component unit of the Georgia Student Finance Commission)

*Year ended June 30, 2006*

*with Independent Auditor's Report*

Georgia Higher Education Assistance Corporation  
Financial Statements and Supplementary Information

Year ended June 30, 2006

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## Independent Auditor's Report

To the Board of Commissioners  
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, 2006 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 an opinion 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, 2006, and the respective changes in financial position and cash flows, where applicable, 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 August 11, 2006, 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.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Mauldin & Jenkins, LLC*

Macon, Georgia  
August 11, 2006

# Georgia Higher Education Assistance Corporation

## Management's Discussion And Analysis

June 30, 2006

This section of the Georgia Higher Education Assistance Corporation's (the "Corporation") financial statements present management's analysis of the Corporation's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the financial statements, which follow this section:

### **Financial Highlights**

#### **2006**

- Net loans guaranteed during the fiscal year increased 30.0% to \$307.5 million.
- Operating revenues increased 26.3% to \$14.9 million.
- Rehabilitated loans collection revenue increased 11.8% to \$5.5 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, 2006

### **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, 2006

### 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 2006</b>	<b>FY 2005</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Cash and Investments	<b>\$16,030</b>	\$11,395	\$ 4,635	40.7%
Receivables, Net	<b>894</b>	635	259	40.8%
Other Assets	<b>36</b>	49	(13)	(26.5%)
Total Assets	<b>\$16,960</b>	\$12,079	\$ 4,881	40.4%
Total Liabilities	<b>\$ 3,832</b>	\$ 2,645	\$ 1,187	44.9%
Total Net Assets	<b>\$13,128</b>	\$ 9,434	\$ 3,694	39.2%

As can be seen in Table A-1, net assets increased \$3.7 million to \$13.1 million in fiscal year 2006. This change in net asset position was attributable to an increase in cash and cash equivalents of \$4.6 million, an increase in net receivables of \$259 thousand, and an increase in total liabilities of \$1.2 million.

Georgia Higher Education Assistance Corporation

Management's Discussion And Analysis (continued)

June 30, 2006

**Table A-2**

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

	<b>FY 2006</b>	<b>FY 2005</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
Operating Revenues	<b>\$ 14,866</b>	\$ 11,769	\$ 3,097	26.3%
General and Administrative Expenses	<b>11,749</b>	11,226	523	4.7%
Total Operating Expenses	<b>11,749</b>	11,226	523	4.7%
Income from Operations	<b>3,117</b>	543	2,574	474.0%
Non-operating Revenues	<b>577</b>	228	349	153.1%
Change in Net Assets	<b>3,694</b>	771	2,923	379.1%
Beginning Net Assets	<b>9,434</b>	8,663	771	8.9%
Ending Net Assets	<b>\$ 13,128</b>	\$ 9,434	\$ 3,694	39.2%

As can be seen in Table A-2, operating revenues increased 26.3% from the prior year due primarily to a \$581 thousand increase in rehabilitation collections and a \$2.4 million increase in WD Ford consolidations. These increased revenues were offset by decreased loan maintenance fees of \$70 thousand and decreased wage garnishment of \$36 thousand.

Operating expenses increased 4.7% from fiscal year 2005. Contributing to this was a \$1.2 million increase in collection expenses. The outsourcing of all collection activities and the execution of new contracts, both in fiscal year 2006, generated the \$1.2 million increase in collection expense.

Fiscal year 2006 non-operating revenues compared to the prior year increased \$349 thousand, which was primarily due to interest earned on investment.

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

June 30, 2006

**Capital Assets and Long-Term Debt**

The Corporation had no capital assets and no long-term debt at June 30, 2006.

**Economic Factors**

There are no known major changes anticipated for the coming fiscal year ending June 30, 2007.

**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 Executive Vice President of Finance, 2082 East Exchange Place, Tucker, Georgia 30084.

Georgia Higher Education Assistance Corporation

Statement of Net Assets

Enterprise Fund

	<u>June 30, 2006</u>
<b>Assets</b>	
Cash and temporary investments	\$ 16,029,615
Due from U.S. Dept. of Education	893,475
Other receivable	<u>36,012</u>
Total assets	<u>\$ 16,959,102</u>
<b>Liabilities and net assets</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 361,648
Due to Georgia Student Finance Authority	1,022,160
Other liabilities	745,719
Reserve for FSLR replenishment	<u>1,702,000</u>
Total liabilities	3,831,527
Net assets:	
Unrestricted	<u>13,127,575</u>
Total liabilities and net assets	<u>\$ 16,959,102</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

	<u>Year ended</u> <u>June 30, 2006</u>
<b>Operating revenues:</b>	
Collection fees on student loans	\$ 11,736,631
Loan processing fees	980,633
Loan maintenance fees	957,650
Default aversion fees	500,368
Single Source Partners service fees	690,564
Total operating revenues	<u>14,865,846</u>
<b>Operating expenses:</b>	
General and administrative expenses	5,092,243
Guaranty processing expense	1,858,475
Collection expense	4,198,518
FSLR replenishment	600,000
Total operating expenses	<u>11,749,236</u>
Income from operations	3,116,610
<b>Non-operating revenues:</b>	
Other revenue	60
Interest earned on investment	577,329
Total non-operating revenues	<u>577,389</u>
Change in net assets	3,693,999
Net assets at beginning of year	<u>9,433,576</u>
Net assets at end of year	<u>\$ 13,127,575</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</b> <b>June 30, 2006</b>
<b>Cash flows from operating activities</b>	
Cash received from U.S. Department of Education	\$ 14,620,314
Cash paid to vendors	<u>(10,562,763)</u>
Net cash provided by operating activities	<u>4,057,551</u>
<b>Cash flows from investing activities</b>	
Interest earned on investments	577,329
Other revenue	<u>60</u>
Net cash provided by investing activities	<u>577,389</u>
Increase in cash and temporary investments	4,634,940
Cash and temporary investments at beginning of year	<u>11,394,675</u>
Cash and temporary investments at end of year	<u><u>\$ 16,029,615</u></u>
<b>Reconciliation of income from operations to net cash provided by operating activities:</b>	
Income from operations	\$ 3,116,610
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Due from U.S. Department of Education	(258,648)
Other receivables	13,117
Accounts payable and accrued expenses	27,988
Reserve for FSLR replenishment	600,000
Other liabilities	<u>558,484</u>
Net cash provided by operating activities	<u><u>\$ 4,057,551</u></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, 2006</u>
<b>Assets</b>	
Cash and temporary investments	\$ 5,169,751
Federal principal receivable on defaulted loans outstanding	100,750,788
Federal interest receivable on defaulted loans outstanding	<u>5,957,822</u>
Total assets	<u>\$ 111,878,361</u>
<b>Liabilities</b>	
Due to U.S. Department of Education-Federal defaulted loans Outstanding	\$ 106,708,610
Due to lenders for defaulted loans	<u>5,169,751</u>
Total liabilities	<u>\$ 111,878,361</u>

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

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

June 30, 2006

### **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 commissioners. The board of commissioners 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 commissioners 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 commissioners.

The operations of the Corporation are administered by employees of the 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*.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements (continued)

### **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 (continued)

### 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 Single Source Partners (the "SSP") 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 Commissioners' 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.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements (continued)

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

#### **Single Source Partners Program**

The Corporation has contracted with post-secondary schools and lending institutions to provide a standardized method of delivering funds to students. During fiscal year 2006, the Corporation received \$12 per first loan disbursement from lenders. The fees received have been reflected in the Statement of Revenues, Expenses and Changes in Net Assets under revenues as SSP Service Fees.

#### **Collection Fees On Student Loans**

The Corporation is allowed to retain 23% of collection of defaulted loans, 18.5% plus accrued interest and fees for rehabilitated loans purchased by eligible lenders, and 18.5% for consolidations. 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 guaranteeing, processing and repayment of loans. Operating expenses include general and administrative expenses, depreciation expense 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 (continued)

**2. Deposits and Investments**

Total deposits and investments as of June 30, 2006 are summarized as follows:

	<b>2006</b>
As reported in the Statement of Net Assets:	
Enterprise Fund	
Cash and temporary investments	\$ 16,029,615
Agency Fund	
Cash and temporary investments	5,169,751
	\$ 21,199,366
Cash deposited with financial institutions	\$ 21,199,203
Cash deposited with Georgia Fund 1	163
	\$ 21,199,366

**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, 2006, the Corporation's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's.

At June 30, 2006, the Corporation had the following investments:

<b>Investment</b>	<b>Maturities</b>	<b>Fair Value</b>
Georgia Fund 1	28 day weighted average	\$ 163

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements (continued)

### 2. Deposits and Investments (continued)

**Georgia Fund 1**, created by OCGA 36-83-8, is a stable net asset value investment pool which follows Standard and Poor's criteria for AAAM rated money market funds. However, Georgia Fund 1 operates in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940 and is considered to be a 2a-7 like pool. The pool is not registered with the SEC as an investment company. The pool's primary objectives are safety of capital, investment income, liquidity and diversification while maintaining principal (\$1.00 per share value). Net asset value is calculated weekly to ensure stability. The pool distributes earnings (net of management fees) on a monthly basis and determines participant's shares sold and redeemed based on \$1.00 per share. The pool is regulated by the Georgia Office of Treasury and Fiscal Services.

**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, 2006, 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 (continued)

### 3. Student Loans Outstanding and in Default

As of June 30, 2006, the Corporation was the guarantor of approximately \$1,120,198,017 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, 2006 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 and Accrued Expenses

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

<u>Description of Account</u>	<u>2006</u>
Reserve for default prevention	\$ 155,774
Accounts payable accrued	205,874
	<u>\$361,648</u>

### 5. Related Party Transactions

The Authority pays administrative expenses that are subsequently charged to and reimbursed by the Corporation. At June 30, 2006, the Corporation owed \$1,022,160 to the Authority for unreimbursed expenses.

The Authority participates as a lender in SSP and pays a per loan fee to the Corporation. During fiscal year 2006, the Corporation recorded \$158,712 in revenue for loans originated through SSP by the Authority.

The Corporation also rents office space and certain operating equipment from the Authority. During fiscal year 2006, the Corporation incurred total rent expenses of \$427,674 related to space and operating equipment.

In fiscal 2006 the Corporation sold rehabilitated loans in the amount of \$16,926,164 to the Authority.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements (continued)

### 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. Exceptions to this requirement are provided for subsidized Federal Stafford loans made pursuant to a lender-of-last-resort program and claims paid to a lender or servicer (as agent for a lender) designated as exceptional by the Higher Education Act. These loans must be insured at no less than 100% of the unpaid principal balance. The Corporation pays 100% of the amount of all default claims and claims full reimbursement from the U.S. DOE if the exceptions are met.

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.

The Higher Education Reconciliation Act of 2005 (Public Law No. 109-171), known as HERA, will impact the Corporation in fiscal year 2007 in the following areas:

- Insurance on defaulted loans will be reduced to 97% (from 98%) for loans disbursed on or after July 1, 2006.
- A mandated 1% federal default fee will be paid by the borrowers (or lenders on behalf of borrowers) to the guarantor.

During the year ended June 30, 2006, the Corporation, on behalf of the U.S. DOE, reimbursed \$43,815,801 to lenders for defaulted loans.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements (continued)

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

For the year ended June 30, 2006, approximately \$7,591,298 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.

### **9. Commitments and Contingencies**

Since its inception in 1965 as an instrumentality of the State of Georgia, the Corporation has operated as a tax-exempt governmental entity exempt from any and all forms of taxes, including property taxes, income taxes, and sales & use taxes. Management understands the Georgia Department of Revenue has determined certain Georgia instrumentalities in the form of authorities, commissions, associations, corporations, and other component unit entities are subject to sales & use taxes with respect to certain methods of construction of facilities and purchases of supplies, machinery and equipment. This matter has not been formally addressed by the Georgia Department of Revenue with management of the Corporation; consequently, management has made no provision for the prospects of this possibility.

# Single Audit Section

Georgia Higher Education Assistance Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<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>\$ 43,815,801</b>
Total Federal Expenditures		<b>\$ 43,815,801</b>

*See accompanying note.*

Georgia Higher Education Assistance Corporation

Note to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

**1. Defaulted Student Loans**

The total balance, net of collections, at June 30, 2006, of all defaulted student loans, which the Corporation has purchased under Federal reinsurance agreement, was \$106,708,610. This amount is reflected in the accompanying Agency Fund Balance Sheet.



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 Commissioners  
Georgia Higher Education Assistance Corporation  
Tucker, Georgia

We have audited the 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, 2006, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated August 11, 2006. 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, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-3.

We also noted certain matters that we reported to management of the Georgia Higher Education Assistance Corporation in a separate letter dated August 11, 2006.

This report is intended solely for the information and use of the Board of Commissioners, management, 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  
August 11, 2006



Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the Georgia Higher Education Assistance Corporation (the "Corporation") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Corporation's major federal program is 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 its major federal program 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 are applicable to its major federal program for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006-1 through 2006-3.

### Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, 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  
August 11, 2006

Georgia Higher Education Assistance Corporation

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**SECTION I  
SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued Unqualified

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

Reportable conditions identified not considered  
to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

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

Reportable conditions identified not considered  
to be material weaknesses?  yes  none reported

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: \$2,190,790

Auditee qualified as low-risk auditee?  yes  no

## SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

### **2006-1. Failure to provide a reconciliation of the September 30, 2005 ED Form 2000 to the National Student Loan Data System (NSLDS) extract.**

Criteria – Guaranty agencies are required to submit loan level detail information to the National Student Loan Data System (NSLDS) and are required to submit the U.S. Department of Education’s ED Form 2000, Guaranty Agency Financial Report (GAFR), on a monthly, monthly/quarterly, or annual basis. Relevant amounts on the NSLDS must reconcile with the NSLDS Extract submitted by the guaranty agency.

Condition – This is a repeat finding from the year ended June 30, 2005. For fiscal year end June 30, 2006, the Corporation was unable to provide a reconciliation of the September 30, 2005 ED Form 2000 to the NSLDS.

Context – The reconciliation of the two reports was not performed by the Corporation as of September 30, 2005 as required.

Effect – Loan level detail information is not being reconciled with applicable reports as required by the U.S. Department of Education (DOE).

Cause – The Corporation has not been able to prepare the reconciliation due to timing differences and data definition inconsistencies for the two reporting mechanisms.

Recommendations – The Corporation should consider reconciling the ED Form 2000 to the NSLDS Extract on a quarterly and annual basis.

Auditee’s Response – We agree that we have not reconciled ED Form 2000 to NSLDS.

The Corporation’s service provider, Great Lakes, continues to work on an error exception tool which they refer to as the “Reconciliation Report”. This tool is intended to verify that the two extract programs (NSLDS and Form 2000) are evaluating the system data in the same manner. This tool is not intended to reconcile the Form 2000 and NSLDS.

Due to timing differences and current data definition differences, reconciliation of these two reports is not practical. However, the DOE does provide guarantors with an Annual Reasonability Report that compares selected annual GAFR items and NSLDS data. This report is provided to allow guarantors to research questionable variances between NSLDS data and the data used to report on the GAFR. The review of these reports provides a representation of the data integrity between NSLDS and the ED Form 2000.

Based on “The Financial Partners Guaranty Agency Review Guide” dated 11/22/02, the DOE uses the Reasonability Report as a means of identifying unacceptable discrepancies between NSLDS and Form 2000.

**SECTION II**  
**FINANCIAL STATEMENT FINDINGS AND RESPONSES (Continued)**

**2006-2. Failure to establish adequate procedures to verify a student's loan status with the lender as well as establish adequate procedures to ensure that lenders report, and the Corporation properly records, loans paid in full.**

Criteria – Guaranty agencies are required to submit data to the DOE that is correct and supported by the books and records for the calculation of loans in repayment status.

Condition – This is a repeat finding from the year ended June 30, 2005. For fiscal year end June 30, 2006, several exceptions were noted on federal reinsurance rate confirmations sent to lenders.

Context – Three exceptions out of a sample of sixty were noted on the federal reinsurance rate confirmations sent to lenders.

Effect – Information prepared and presented in the monthly ED Form 2000 could be misclassified and thus create inaccurate calculations of loans paid in full.

Cause – The exceptions were noted to be due to timing differences or non-reporting of status changes by lenders to the Corporation.

Recommendations – The Corporation should establish procedures to verify a student's loan status with the current loan holder as well as establish adequate procedures to ensure that the current loan holder reports and that the Corporation properly records loans paid in full.

Auditee's Response – We agree that three exceptions out of a sample of sixty were noted during the current review. The Corporation will continue to look for ways to enhance this reporting.

The Corporation's current procedure provides the Unreported Loan report to all lenders quarterly. This report provides a list of loans that the lender has failed to report to the guarantor in the previous quarter. This procedure alerts and encourages lenders about their responsibility to provide information about loans that they have missed in their monthly reporting to the guarantor.

As an enhancement to this procedure, beginning in January 2006, the Corporation also requests the same queries from the NSLDS that the DOE uses in its audits. These queries are reviewed and when applicable, are sent to lenders to request updated information. These queries are requested biannually in January and July.

**SECTION II**  
**FINANCIAL STATEMENT FINDINGS AND RESPONSES (Continued)**

**2006-3. Failure to maintain current records.**

Criteria – Guaranty agencies are required to maintain current, complete records for each loan that it holds. The records must be maintained in a system that allows ready identification of each loan’s current status, updated at least once every 10 business days (34 Code of Federal Regulations (CFR) section 682.414(a)).

Condition – This is a repeat finding from the year ended June 30, 2005. For fiscal year end June 30, 2006, one account was noted to not have a complete set of records updated in accordance with the CFR.

Context – One account was noted as being paid as a bankruptcy claim but did not include current information on the system to show that the claim was paid and transferred to the proper third party agency for collection. At year end, the loan was still reported with a balance in the Corporation’s defaulted loan portfolio.

Effect – The Corporation failed to maintain current records for this loan and continued to report a loan that was transferred to another agency.

Cause – The borrower’s loan status was not properly updated and changed to reflect the transfer within the Corporation’s system.

Recommendations – The Corporation should maintain current and complete records for all loans that it holds.

Auditee's Response – We agree that the Corporation did not include complete information on one account.

The Corporation implemented a new process in fiscal year 2006 which ensures that all accounts with negotiated settlement payments are processed appropriately and reflect a paid in full status upon completion of the settlement transaction. Since being implemented, this procedure has resolved the proper processing of settlement payments.

As additional information, the finding above was based on activity occurring in 2003, which was prior to implementation of the new procedure in fiscal year 2006.

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

**2006-1. Failure to provide a reconciliation of the September 30, 2005 ED Form 2000 to the National Student Loan Data System (NSLDS) extract.**

*Federal Program Information:* CFDA No. 84.032  
Federal Family Education Loan Program  
U.S. Department of Education  
Fiscal Year 2006

Criteria – See financial audit finding 2006-1.

Condition – See financial audit finding 2006-1.

Context – See financial audit finding 2006-1.

Effect – See financial audit finding 2006-1.

Cause – See financial audit finding 2006-1.

Recommendations – See financial audit finding 2006-1.

Auditee’s Response – See financial audit finding 2006-1.

**2006-2. Failure to establish adequate procedures to verify a student’s loan status with the lender as well as establish adequate procedures to ensure that lenders report, and the Corporation properly records, loans paid in full.**

*Federal Program Information:* CFDA No. 84.032  
Federal Family Education Loan Program  
U.S. Department of Education  
Fiscal Year 2006

Criteria – See financial audit finding 2006-2.

Condition – See financial audit finding 2006-2.

Context – See financial audit finding 2006-2.

Effect – See financial audit finding 2006-2.

Cause – See financial audit finding 2006-2.

Recommendations – See financial audit finding 2006-2.

Auditee’s Response – See financial audit finding 2006-2.

**SECTION III**  
**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (Continued)**

**2006-3. Failure to maintain current records.**

*Federal Program Information:* CFDA No. 84.032  
Federal Family Education Loan Program  
U.S. Department of Education  
Fiscal Year 2006

Criteria – See financial audit finding 2006-3.

Condition – See financial audit finding 2006-3.

Context – See financial audit finding 2006-3.

Effect – See financial audit finding 2006-3.

Cause – See financial audit finding 2006-3.

Recommendations – See financial audit finding 2006-3.

Auditee's Response – See financial audit finding 2006-3.

# Georgia Higher Education Assistance Corporation

## Schedule of Prior Year Findings

Year ended June 30, 2006

### **2005-1. Failure to provide a reconciliation of the September 30, 2004 ED Form 2000 to the National Student Loan Data System (NSLDS) extract.**

Criteria – Guaranty agencies are required to submit loan level detail information to the National Student Loan Data System (NSLDS) and are required to submit the ED Form 2000, Guaranty Agency Financial Report, on a monthly, monthly/quarterly, or annual basis. Relevant amounts on the NSLDS must reconcile with the NSLDS Extract submitted by the guaranty agency.

Condition – For fiscal year end June 30, 2005, the Corporation was unable to provide a reconciliation of the September 30, 2004 ED Form 2000 to the NSLDS.

Auditee Response/Status – Unresolved. See current year finding number 2006-1.

Auditee Comments – See financial statement finding number 2006-1.

### **2005-2. Failure to establish adequate procedures to verify a student's loan status with the lender as well as establish adequate procedures to ensure that lenders report, and the Corporation properly records, loans paid in full.**

Criteria – Guaranty agencies are required to submit data to U.S. Department of Education (DOE) that is correct and supported by the books and records for the calculation of loans in repayment status.

Condition – For fiscal year end June 30, 2005, several exceptions were noted on federal reinsurance rate confirmations sent to lenders.

Auditee Response/Status – Unresolved. See current year finding number 2006-2.

Auditee Comments – See financial statement finding number 2006-2.

### **2005-3. 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, 2005, a loan tested that met the criteria for loans to be assigned to DOE was not properly assigned.

Auditee Response/Status – Resolved.

**2005-4. Failure to maintain current records.**

Criteria – Guaranty agencies are required to maintain current, complete records for each loan that it holds. The records must be maintained in a system that allows ready identification of each loan's current status, updated at least once every 10 business days (34 CFR section 682.414(a)).

Condition – For fiscal year end June 30, 2005, one account was noted as being settled for a specified amount but did not include current information on the system to show that the settlement was received as payment in full. The remaining amount should have been written off with loan status paid in full. At year end, the loan was still reported with a balance.

Auditee Response/Status – Unresolved. See current year finding number 2006-3.

Auditee Comments – See financial statement finding number 2006-3.