

**FINANCIAL REPORT**

**Georgia Student Finance Authority**

(A component unit of the Georgia Student Finance Commission)

*Year ended June 30, 2006*

*with Independent Auditor's Report*

Georgia Student Finance Authority

Financial Report

Year ended June 30, 2006

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## Independent Auditor's Report

To the Board of Commissioners  
Georgia Student Finance Authority  
Tucker, Georgia

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Georgia Student Finance Authority (the "Authority"), a component unit of the Georgia Student Finance Commission, as of and for the year ended June 30, 2006 which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority'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 Student Finance Authority, 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 Authority'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 8 and the Schedule of Funding Progress for the Retirement System on page 31 are not a required part of the basic financial statements but are 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 Authority's basic financial statements. The accompanying Statement of Changes in Fiduciary Assets and Liabilities – Agency Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 Student Finance Authority

## Management's Discussion and Analysis

**June 30, 2006**

This section of the Georgia Student Finance Authority's (the "Authority") financial statements presents management's analysis of the Authority'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 income rose 139% to \$4.5 million from \$1.9 million in the prior year.
- Higher interest rates resulted in a net increase of \$2.4 million for interest-sensitive items.
- Average effective portfolio yield rose to 6.32% from 4.51% in prior year.
- Consolidation loan disbursements were \$9.7 million versus \$6.0 million in prior year.
- \$16.9 million in rehabilitated loans were purchased.

### **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 and required supplementary information that explain in more detail some of the information in the financial statements.

# Georgia Student Finance Authority

## Management's Discussion and Analysis (continued)

**June 30, 2006**

### **Required Basic Financial Statements**

The Authority utilizes two different funds to account for its activities: an enterprise fund, which reports information about the general operations of the Authority, and an agency fund, which reports information about the transactions entered into by the Authority on behalf of those outside of the Authority. The Authority's agency fund includes student loans serviced for other entities, scholarships and grants disbursed on behalf of the State of Georgia, and scholarships disbursed on behalf of a private organization. For information regarding the agency fund of the Authority, see the *Statement of Fiduciary Assets and Liabilities – Agency Fund* in the Financial Statements.

The Enterprise Fund Financial Statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer financial information about the Authority's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority 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 Authority and assessing the liquidity and financial flexibility of the Authority.

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 operating activities of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of 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 Authority's cash receipts and cash payments during the reporting period. The 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 Student Finance Authority

## Management’s Discussion and Analysis (continued)

**June 30, 2006**

### Financial Analysis

Our analysis of the Enterprise Fund Financial Statements of the Authority begins below. One of the most important questions asked about the Authority’s finances is “Is the Authority 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 Authority’s activities in a way that will help answer this question. These two statements report the net assets of the Authority and changes in them. You can think of the Authority’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 Authority’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 Authority’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>
Receivables, Net	<b>\$111,397</b>	\$ 86,308	\$ 25,089	29.1%
Other Assets	<b>415</b>	411	4	1.0%
Capital Assets	<b>3,699</b>	3,794	(95)	(2.5)%
Total Assets	<b>\$115,511</b>	\$ 90,513	\$ 24,998	27.6%
Total Liabilities	<b>\$ 62,174</b>	\$ 41,691	\$ 20,483	49.1%
Total Net Assets	<b>\$ 53,337</b>	\$ 48,822	\$ 4,515	9.2%

As shown in Table A-1, net assets increased \$4.5 million from fiscal year 2005. Contributing to this change was an increase in net receivables of \$25.1 million due to an \$18.8 million increase in student loans and a \$5.7 million increase in cash and cash equivalents. Total liabilities increased \$20.5 million due to the following items combined: a \$32.0 million increase in revolving note payable, a \$1.0 million increase in accounts payable and accrued expenses, and a \$12.1 million decrease in deferred revenue.

Georgia Student Finance Authority

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>\$ 23,358</b>	\$ 21,306	\$ 2,052	9.6%
General and Administrative Expenses	<b>5,878</b>	5,367	511	9.5%
Other Expenses	<b>14,410</b>	15,010	(600)	(4.0)%
Total Operating Expenses	<b>20,288</b>	20,377	(89)	(-.4)%
Income from Operations	<b>3,070</b>	929	2,141	230.5%
Non-operating Revenues, Net	<b>1,445</b>	960	485	50.5%
Change in Net Assets	<b>4,515</b>	1,889	2,626	139.0%
Beginning Net Assets	<b>48,822</b>	46,933	1,889	4.0%
Ending Net Assets	<b>\$ 53,337</b>	\$ 48,822	\$ 4,515	9.2%

As can be seen in Table A-2 above, operating revenues increased 9.6% from fiscal year 2005. There was a \$2.5 million increase in federal interest benefits and interest on student loans. This was offset by a \$400 thousand reduction in service cancelable loans revenue.

Total operating expenses stayed level. General and administrative expenses increased \$500 thousand. This was offset by a \$600 thousand decrease in other expenses, which was predominantly driven by a \$1.2 million decrease in service cancelable loan expense.

Non-operating revenues increased 51.0% from fiscal year 2005 due to \$352 thousand in funds transferred from the general loan fund and a \$105 thousand increase in interest earned on bank account funds. In fiscal year 2005, \$13 thousand was expensed to cover unfunded general loan disbursements.

# Georgia Student Finance Authority

## Management's Discussion and Analysis (continued)

**June 30, 2006**

### Capital Assets and Debt Financing

#### *Capital Assets*

As of June 30, 2006, the Authority had approximately \$3.7 million invested in a variety of capital assets, as reflected in Table A-3 below, which represents a net decrease (additions, deductions and depreciation) of \$95 thousand or 2.5% in comparison to the end of last year.

**Table A-3**

*Capital Assets (In thousands of dollars)*

---

	<b>FY 2006</b>	<b>FY 2005</b>
Land	\$ 374	\$ 374
Buildings	751	865
Building Improvements	542	429
Equipment	1,144	1,452
Furniture & Fixtures	665	674
Fixed Assets in Process	223	0
Total Capital Assets	<b>\$ 3,699</b>	<b>\$ 3,794</b>

---

Depreciable capital assets are shown net of accumulated depreciation in the table above.

#### *Debt Financing*

The Authority has a \$50.0 million financing arrangement with a financial institution for the purpose of originating and refinancing loans made under the Guaranteed Student Loan program. The promissory note has a variable interest rate calculated as the British Banker's Association (BBA) London Interbank Offered Rate (LIBOR) daily overnight rate plus 22 basis points. The note is collateralized by loans of the Authority. The principal amount outstanding at June 30, 2006 was \$43.0 million.

For more detailed information regarding the Authority's capital assets and debt financing, please refer to the notes to the financial statements.

## Georgia Student Finance Authority

### Management's Discussion and Analysis (continued)

**June 30, 2006**

#### **Economic Factors**

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

#### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority'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.

# Component Unit Basic Financial Statements

Georgia Student Finance Authority  
Statement of Net Assets  
Enterprise Fund

June 30, 2006

**Assets**

Current assets:

Cash and cash equivalents	\$ 5,723,202
Student loans (net of allowance for doubtful accounts of \$3,026,337)	97,021,953
Student loans - service repayable (net of allowance for doubtful accounts of \$1,523,833 and allowance for service repayments of \$46,073,281)	3,197,313
Accrued interest receivable on student loans	2,420,264
Due from U.S. Department of Education	671,189
Due from Georgia Higher Education Assistance Corporation	1,022,160
Due from Georgia Student Finance Commission	1,287,580
Due from Nonpublic Postsecondary Education Commission	54,208
Other assets	415,056

Total current assets \$ 111,812,925

Noncurrent assets:

Capital assets	
Nondepreciable	597,450
Depreciable (net of accumulated depreciation of \$5,601,297)	3,101,124

Total assets \$ 115,511,499

**Liabilities and net assets**

Liabilities:

Revolving note payable	\$ 43,000,000
Accounts payable and accrued expenses	2,554,936
Deferred revenue	1,958,941
Due to agency fund	12,015,243
Other liabilities	2,644,669

Total liabilities 62,173,789

Net assets:

Invested in capital assets	3,698,574
Unrestricted	49,639,136

Total net assets 53,337,710

Total liabilities and net assets \$ 115,511,499

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

Georgia Student Finance Authority  
Statement of Revenues, Expenses and Changes in Net Assets  
Enterprise Fund

	<u>June 30, 2006</u>
<b>Operating revenues</b>	
Federal interest benefits	\$ 2,887,093
Interest on student loan payments	3,692,902
Late fees	203,507
Premium on sale of loans	868,239
Loan servicing fees	771,326
Service cancelable loans	14,854,763
Other operating revenues	<u>79,913</u>
Total operating revenues	<u>23,357,743</u>
<b>Operating expenses</b>	
General administrative expenses	5,877,909
Service cancelable loans repayment expense	11,883,805
Depreciation expense	651,700
Bad debt expense	462,468
Interest expense – line of credit	266,786
Lender fees	437,866
Borrower benefits	<u>706,974</u>
Total operating expenses	<u>20,287,508</u>
Income from operations	<u>3,070,235</u>
<b>Non-operating revenues</b>	
Interest earned on investments	258,126
Funds transferred (to)/from general loan fund	352,328
Rental income	<u>834,727</u>
Total non-operating revenues	<u>1,445,181</u>
Change in net assets	<u>4,515,416</u>
Net assets at beginning of year	<u>48,822,294</u>
Net assets at end of year	<u><u>\$ 53,337,710</u></u>

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

Georgia Student Finance Authority  
Statement of Cash Flows  
Enterprise Fund

	<u>June 30, 2006</u>
<b>Cash flows from operating activities</b>	
Cash received from student loan repayments	\$ 21,778,183
Cash received from other governments	40,619,562
Cash received from loan sales	40,140,316
Net receipts from loan servicing	690,958
Grants & scholarships disbursements	(29,425,436)
Loan disbursements	(70,414,307)
Purchase of rehabilitated loans	(16,926,164)
Cash paid to vendors	(10,899,473)
Cash paid to employees	(7,539,058)
Reimbursement for salaries allocated to other entities as part of administrative expenses	4,827,996
Net cash used for operating activities	<u>(27,147,423)</u>
<b>Cash flows from non-capital financing activities</b>	
Net borrowings on line of credit	<u>32,000,000</u>
Net cash provided by non-capital financing activities	32,000,000
<b>Cash flows from capital financing activities</b>	
Purchase of property and equipment	<u>(574,556)</u>
Net cash used for capital financing activities	(574,556)
<b>Cash flows from investing activities</b>	
Interest earned on investments	258,126
Rental and other income	834,727
Funds transferred to the general fund	<u>352,328</u>
Net cash provided by investing activities	1,445,181
Increase in cash and cash equivalents	5,723,202
Cash and cash equivalents at beginning of year	<u>0</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,723,202</u></u>

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

Georgia Student Finance Authority

Statement of Cash Flows (continued)

Enterprise Fund

	<u>June 30, 2006</u>
<b>Reconciliation of income from operations to net cash used for operating activities</b>	
Income from operations	\$ 3,070,235
Adjustments to reconcile income from operations to net cash used for operating activities:	
Depreciation	651,700
Bad debt expense	462,468
Loss on fixed asset disposal	18,680
Changes in operating assets and liabilities	
Student loans	(18,867,644)
Accrued interest receivable on student loans	(385,904)
Due from U.S. Department of Education	(317,474)
Due from Georgia Higher Education Assistance Corporation	(335,103)
Due from Georgia Student Finance Commission	75,278
Due from Nonpublic Postsecondary Education Commission	1,590
Other assets	(3,929)
Accounts payable and accrued expenses	1,030,799
Deferred revenue	(12,608,830)
Due to agency fund	498,239
Other liabilities	(437,528)
Net cash used for operating activities	<u>\$ (27,147,423)</u>

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

Georgia Student Finance Authority

Statement of Fiduciary Assets and Liabilities

Agency Fund

	<u>June 30, 2006</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,743,207
Due from enterprise fund	12,015,243
Student loans receivable	159,861,661
Accrued interest receivable on student loans	<u>3,224,854</u>
Total assets	<u><u>\$ 178,844,965</u></u>
 <b>Liabilities</b>	
Amounts due on serviced loans	\$ 3,676,296
Undisbursed student grants and scholarships	12,015,243
Funds due to others	66,910
Fund held for others-serviced loans	<u>163,086,516</u>
Total liabilities	<u><u>\$ 178,844,965</u></u>

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements

**June 30, 2006**

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

#### **Reporting Entity**

The Georgia Student Finance Authority (the “Authority”) is a public authority and deemed to be an instrumentality and nonprofit public corporation of the State of Georgia, created for the purpose of providing educational scholarship, grant and loan assistance to eligible students and parents.

The Authority 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 Authority 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.

Inasmuch as the Authority’s management is vested in the Commission, the Authority 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*.

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

The Authority uses fund accounting 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.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

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

#### **Basis of Presentation – Fund Accounting (continued)**

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 Authority.

##### **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.

#### **Basis of Accounting**

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

##### **Enterprise Fund**

The Authority 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.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

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

#### **Basis of Accounting (continued)**

##### **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 Authority's Agency Fund includes student loans serviced for other entities, grants and scholarships disbursed on behalf of the State of Georgia and a private organization.

##### **Budget**

The Authority prepares an internal operations budget for management purposes, which is not subject to State approval but is approved by the Board of Commissioners. Budget requests for major categories of educational assistance are submitted through the Commission for approval by the Legislature and the Governor.

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Authority 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 Authority considers unrestricted short-term investments that have original maturities of three months or less to be cash equivalents.

##### **Capital Assets**

Capital assets are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Assets with an original cost of \$5,000 or greater at the date of acquisition are capitalized by the Authority. The useful lives assigned to assets are as follows:

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2006

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

<u>Assets</u>	<u>Useful Life</u>
Buildings	30 years
Building Improvements	15 years
Furniture & Fixtures	10 years
Integrated Computer Systems	5 years
Computer Equipment	3 years

Other Liabilities

Other liabilities consist of a serviced lenders' reserve established for problems that arise in the servicing of loans for third parties and an allowance for doubtful accounts to provide for losses associated with uninsured loans for the serviced portfolio.

Other liabilities at June 30 are summarized as follows:

<u>Description of Account</u>	<u>2006</u>
Allowance for serviced lenders	\$ 1,232,883
Allowance for doubtful accounts - serviced portfolio	<u>1,411,786</u>
Total other liabilities	<u>\$ 2,644,669</u>

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

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

#### **Grants and Other Intergovernmental Revenue**

Grants and other intergovernmental revenues and expenses are recorded when disbursed. The earnings process is considered complete when appropriated funds have been disbursed as intended by the related state or federal program requirements. Therefore, unexpended appropriations as of year-end are recorded as deferred revenue.

#### **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 Authority's principal ongoing operations. The principal operating revenues of the Authority are from interest on student loans, origination of student loans, processing and servicing loans, premiums from loan sales and grants and scholarship administration. Operating expenses include service cancelable loans repayment expense, depreciation expense, certain loan related expenses and general and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

### 2. Deposits and Investments

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

	<u>2006</u>
As reported in the Statement of Net Assets:	
Enterprise Fund	
Cash and cash equivalents	\$ 5,723,202
Agency Fund	
Cash and cash equivalents	<u>3,743,207</u>
Cash deposited with financial institutions	<u><u>\$ 9,466,409</u></u>

**Credit risk.** State statutes authorize the Authority 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 Authority did not have any 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, 2006, the Authority did not have any balances exposed to custodial credit risk as uninsured and uncollateralized as defined by GASB pronouncements.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

### **3. Student Loans (Enterprise Fund)**

Student loans represent loans to students pursuing post-secondary education. These loans are funded from net assets, a commercial line of credit and appropriations from the State of Georgia. The guaranteed loans are guaranteed by the Georgia Higher Education Assistance Corporation (the "Corporation"). Loans first disbursed prior to October 1, 1993 are 100% insured, and loans first disbursed on or after October 1, 1993 are 98% insured against borrower defaults. Loans disbursed on or after October 1, 1998 are 95% insured against borrower defaults. The allowance for doubtful accounts provides for uninsured loans and the uninsured amount on insured loans. As of June 30, 2006, the Authority has established an allowance of \$3,026,337.

Student loans – service repayable represent loans made to students pursuing post-secondary education in a specified approved field of study which may be repaid by specific service performance. The loan balance is reduced ratably through service performed. If the service requirements are not fully met, the remaining loan balance is repayable in cash with interest. Some of the service repayable loans are insured by the Corporation and qualify for the service cancelable option. Those loans have the added benefit of guaranteed status. The Authority has established an allowance for estimated future reductions attributed to services performed in the amount of \$46,073,281, since there is no discernible future value to the Authority associated with loans repaid by service. The Authority has also established an allowance for doubtful accounts in the amount of \$1,523,833 for the uninsured portion of loans that are insured by the Corporation and for uninsured loans.

The Authority's loans are fully guaranteed by the Department of Education and are carried at fair market value. Concentrations of credit risk with respect to student loans are limited due to the large number of students comprising the Authority's balances and their dispersion across the State of Georgia.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2006

**4. Other Assets**

Other assets at June 30 are summarized as follows:

<b>Description of Account</b>	<b>2006</b>
Fees receivable	\$ 220,997
Prepayments	115,280
Miscellaneous accounts receivable	68,779
Equipment Inventory	10,000
Total other assets	<u>\$ 415,056</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2006

**5. Capital Assets**

Capital asset activity for the year ended June 30, 2006 is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 373,750	\$ 0	\$ 0	\$ 373,750
Fixed assets in process	0	223,700	0	223,700
<b>Total</b>	<b>373,750</b>	<b>223,700</b>	<b>0</b>	<b>597,450</b>
Capital assets, being depreciated:				
Buildings	3,462,757	0	0	3,462,757
Building improvements	540,574	154,931	0	695,505
Equipment	3,675,101	142,549	47,800	3,769,850
Furniture and fixtures	710,933	63,376	0	774,309
<b>Total</b>	<b>8,389,365</b>	<b>360,856</b>	<b>47,800</b>	<b>8,702,421</b>
Less accumulated depreciation for:				
Buildings	2,597,067	115,425	0	2,712,492
Building improvements	111,856	42,392	0	154,248
Equipment	2,223,353	421,406	19,120	2,625,639
Furniture and fixtures	36,441	72,477	0	108,918
<b>Total</b>	<b>4,968,717</b>	<b>651,700</b>	<b>19,120</b>	<b>5,601,297</b>
Total capital assets, being depreciated, net	3,420,648	(290,844)	28,680	3,101,124
<b>Total capital assets, net</b>	<b>\$3,794,398</b>	<b>\$ (67,144)</b>	<b>\$ 28,680</b>	<b>\$3,698,574</b>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2006

**6. Accounts Payable and Accrued Expenses**

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

<b>Description of Account</b>	<b>2006</b>
Accrued accounts payable	\$ 1,445,943
Accounts payable - trade	100,573
Accrued compensated absences	687,914
Prepaid equipment rental	177,121
Other accrued liabilities	143,385
	<u>\$ 2,554,936</u>

**7. Deferred Revenue**

Deferred revenue at June 30 is summarized as follows:

<b>Description of Account</b>	<b>2006</b>
North Georgia Military Scholarship	\$ 1,341,116
Other Service Cancelable Loans	363,284
LEAP Scholarships	254,541
	<u>\$ 1,958,941</u>

**8. Due to Agency Fund**

Due to the Agency Fund at June 30 is summarized as follows:

<b>Description of Account</b>	<b>2006</b>
BYRD Scholarship	\$ 1,363,146
Tuition Equalization Grant	9,678,750
Governor's Scholarship	744,904
Other	228,443
	<u>\$ 12,015,243</u>

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

### **9. Promissory Note Payable**

On February 27, 2006 the Authority entered into a new \$50 million financing agreement with a financial institution for the purpose of originating and refinancing loans made under the Guaranteed Student Loan Program.

The agreement is in effect through February 28, 2007. The interest rate applied is the daily overnight BBA (British Bankers' Association) LIBOR (London Interbank Offered Rate) plus .22% (or 22 basis points), and the interest is paid quarterly. Additionally, the Authority incurs 75 basis points on any unused portion of the line of credit when the line is less than 50% utilized. This unused line fee is also paid quarterly, with the quarters defined as January through March and following. The note is collateralized by insured loans of the Authority. The average monthly interest rate in effect for March through June 2006 was 5.10%.

Prior to February 27, 2006 the Authority was in another \$50 million financing agreement with a different financial institution. Under this agreement dated April 15, 1998, the interest rate applied was the 30-day LIBOR rate (in effect on the first business day of each month) plus .25% and the interest was paid quarterly. The note was also collateralized by insured loans of the Authority.

Combined activity related to the two promissory notes is summarized as follows:

	<b>Balance at July 1, 2005</b>	<b>Borrowings</b>	<b>Repayments</b>	<b>Balance at June 30, 2006</b>
Fiscal year 2006	<u>\$11,000,000</u>	<u>\$87,500,000</u>	<u>\$(55,500,000)</u>	<u><b>\$43,000,000</b></u>

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

### **10. Related Party Transactions**

The Authority pays administrative expenses that are subsequently charged to and reimbursed by the Georgia Higher Education Assistance Corporation (the "Corporation"), the Commission (Georgia Student Finance Commission) and the Nonpublic Postsecondary Education Commission. At June 30, 2006, amounts owed to the Authority for unreimbursed expenses by the Commission, the Corporation, and the Nonpublic Postsecondary Education Commission were \$1,287,580, \$1,022,160 and \$54,208, respectively.

The Authority participates as a lender in Single Source Partners (SSP) and pays a per loan fee to the Corporation. During fiscal year 2006, the Authority incurred expenses totaling \$158,712 for loans originated through SSP.

During fiscal year 2006, the Authority purchased rehabilitated loans from the Corporation in the amount of \$16,926,164.

The Authority rents office space and certain operating equipment to the Corporation, the Commission (Georgia Student Finance Commission) and the Nonpublic Postsecondary Education Commission. During fiscal year 2006, the Authority recorded \$427,674 in rental income from the Corporation, \$375,161 in rental income from the Commission, and \$31,892 from Nonpublic Postsecondary Education Commission. The Georgia Student Finance Commission's actual expense recognized in the fiscal year was \$60,492 less because certain equipment rentals were prepaid to the Authority.

### **11. Pension Plan – Merit Employees**

#### **Employees' Retirement System of Georgia:**

##### **Plan Description:**

The Authority participates in the Employees' Retirement System of Georgia ("ERS"); a single-employer, defined benefit plan established by the Georgia General Assembly for the purpose of providing retirement allowances for employees of the State of Georgia. Financial statements and required information for ERS may be obtained from the Employees' Retirement System of Georgia by writing to Employees' Retirement System of Georgia, Two Northside 75, Atlanta, Georgia 30318, or by calling 404-350-6300.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2006

### 11. Pension Plan – Merit Employees (continued)

#### Employees' Retirement System of Georgia (continued):

##### Benefits:

The benefit structure of ERS was significantly modified on July 1, 1982. Unless elected otherwise, an employee who currently maintains membership with ERS based upon state employment that started prior to July 1, 1982, is an "old Plan" member subject to the Plan provisions in effect prior to July 1, 1982. All other members are "new Plan" members subject to the modified Plan provisions.

Under both the old and new Plans, a member may retire and receive normal retirement benefits after 10 years of creditable service and attainment of age 65. Retirement benefits paid to members are based upon the monthly average of the member's highest eight consecutive calendar quarters multiplied by the number of years of creditable service. Post-retirement cost of living adjustments are also made to members' benefits. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension at reduced rates to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS. If 10 years of service is completed and age 60 is attained, the member may retire with a reduced benefit. Additionally, there are certain provisions allowing for early retirement after 25 years of service regardless of age.

##### Contributions Required and Contributions Made:

Member contributions under the old Plan are four percent (4%) of annual compensation up to \$4,200 plus six percent (6%) of annual compensation in excess of \$4,200. Under the old Plan, the Authority pays members' contributions in excess of 1.25% of annual compensation. The Authority contributions are included in the members' accounts for refund purposes. Member contributions under the new Plan are 1.25% of annual compensation. The Authority is required to contribute at a specified percentage of active member payroll determined annually by actuarial valuation. For the fiscal year ended June 30, 2005, the required ERS employer contribution rate for the Authority was 10.41% for old and new Plan employees.

Members become vested after 10 years of creditable service. Upon termination of employment, members' contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his or her member contributions; the member forfeits all rights to retirement benefits.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2006

**11. Pension Plan – Merit Employees (continued)**

**Employees' Retirement System of Georgia (continued)**

**Contributions Required and Contributions Made (continued):**

The Commission's total contributions for the fiscal year ended June 30, 2006, amounted to \$265,046 of which \$33,307 was made by employees. These contributions met the requirements of the Plan.

**Funding Status and Progress, Pension Benefit Obligation:**

The amount shown as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of ERS on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Plan.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 2005. Significant actuarial assumptions used in the valuation include the following:

- The present value of future pension benefits paid was computed using a discounted rate of 7.5%. This rate is also the same rate assumed to be earned on investments in the Plan in future years.
- Future pension payments reflect the following assumed salary increases as a result of inflation and merit increases:

<u>Age</u>	<u>Percentage</u>
20	9.25%
25	8.25%
30	6.25%
35	5.75%
40 to 65	5.45%

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2006

**11. Pension Plan – Merit Employees (continued)**

**Employees' Retirement System of Georgia (continued)**

**Funding Status and Progress, Pension Benefit Obligation: (continued)**

The total actuarial accrued liability of ERS as of June 30, 2005, (the latest annual actuarial valuations) is as follows:

Actuarial accrued liability	\$ 13,512,773,000
Actuarial value of assets	<u>13,134,472,000</u>
Unfunded actuarial accrued liability	<u><u>\$ 378,301,000</u></u>

The measurement of the actuarial accrued liability is based on an actuarial valuation as of June 30, 2005. Net assets available for benefits were valued as of the same date. ERS does not make separate measurements of assets and accrued liability obligations for individual employers.

**Funding Policy:**

The ERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual payroll, are sufficient to accumulate necessary assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age funding method. ERS also uses the level percentage of payroll method to amortize the unfunded liability within approximately 20 years following the valuation date.

Total contributions from all employers to ERS for the fiscal year ended June 30, 2005, were \$243,074,000. The Authority's contribution represented 0.10% of total contributions made by all participating employers for the fiscal year ended June 30, 2005. The amount of total contributions to ERS for the fiscal year ended June 30, 2005, was not available at the date of this report.

Historical trend information is presented in the financial report of ERS for the year ended June 30, 2005. This information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

### **11. Pension Plan – Merit Employees (continued)**

#### **Other Deferred Compensation**

Merit employees may also participate in 401(K) and 457 plans. During fiscal year 2006 employees contributed \$160,614 combined for these two plans. Additionally, merit employees have a Teachers Retirement Program available. In fiscal year 2006 employer contributions were \$11,013 and employee contributions were \$5,918.

### **12. Pension Plan – Non-Merit Employees**

The Authority sponsors a 401(K) defined contribution plan (the “Plan”) for all of its non-merit employees. The Plan was established by the Board of Commissioners and can only be amended by the Board. All non-merit employees are eligible to participate in the Plan upon reaching 21 years of age and completing one month of service. Eligible employees may contribute up to \$15,000 of compensation to the Plan if the employee is less than 50 years of age and up to \$20,000 of compensation to the Plan if the employee is greater than 50 years of age, not to exceed the maximum limits permitted by the law. Beginning January 1, 2006, the employee will receive a 100% match on the first 3% of pay that is deferred plus an additional 50% match on the next 2% of pay that is deferred. The maximum match is 4% of pay for employees who defer 5% or more of their pay. All employer safe harbor contributions are 100% vested when made, and may not be withdrawn from the plan for reasons of hardship. As of January 1, 2006, all matching contributions allocated prior to 2006 were 100% vested regardless of the employee’s years of service.

Prior to January 1, 2006, 3% of pay deferred by an employee was matched by the Authority.

During fiscal year 2006, the Authority contributed \$75,014 and the employees contributed \$192,485 to the Plan.

### **13. Guarantees to Repurchase Receivables**

The Authority has guarantees with certain lenders under a loan servicing agreement to repurchase loans on which the federal guarantee is lost and on which a cure is not established within one year of guarantee loss. The total balance of loans subject to this guarantee at June 30, 2006 was \$163,086,515.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2006**

### **14. Insurance Coverage**

The Authority 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 Department of Administrative Services - Risk Management Services. Insurance coverage for crime is held and issued by a commercial carrier. No settlement in excess of coverage has been incurred during the past three fiscal years.

### **15. Commitments and Contingencies**

Since its inception in 1965 as an instrumentality of the State of Georgia, the Authority 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 Authority; consequently, management has made no provision for the prospects of this possibility.

## Required Supplementary Information

Georgia Student Finance Authority

Schedule of Funding Progress for the Retirement System

*(Dollar amounts in thousands)*

**June 30, 2006**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded/ (Funding Excess) - AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a) / c)</b>
6/30/03	12,428,736	12,370,563	(58,173)	100.5%	2,489,490	(2.3)%
6/30/04	12,797,389	13,106,648	309,259	97.6%	2,445,619	12.6%
6/30/05	13,134,472	13,512,773	378,301	97.2%	2,514,430	15.0%

## Supplementary Information

## Georgia Student Finance Authority

### Statement of Changes in Fiduciary Assets and Liabilities

#### Agency Fund

	<b>Assets/ Liabilities June 30, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Assets/ Liabilities June 30, 2006</b>
<b>Assets:</b>				
Loans serviced by the Authority:				
Cash and cash equivalents	\$ 4,600,180	\$ 149,665,747	\$ 150,522,720	\$ 3,743,207
Due from enterprise fund	11,517,004	21,696,133	21,197,894	12,015,243
Student loans receivable	176,309,387	41,757,775	58,205,501	159,861,661
Accrued interest receivable on student loans	2,745,810	7,217,468	6,738,424	3,224,854
<b>Total assets</b>	<b>\$ 195,172,381</b>	<b>\$ 220,337,123</b>	<b>\$ 236,664,539</b>	<b>\$ 178,844,965</b>
<b>Liabilities:</b>				
Loans serviced by the Authority				
Amounts due on serviced loans	\$ 4,828,261	\$ 142,370,317	\$ 143,522,282	\$ 3,676,296
Undisbursed student grants and scholarships	11,219,544	28,991,041	28,195,342	12,015,243
Funds due to others	69,379	522	2,991	66,910
Funds held for others – serviced loans	179,055,197	48,975,243	64,943,924	163,086,516
<b>Total liabilities</b>	<b>\$ 195,172,381</b>	<b>\$ 220,337,123</b>	<b>\$ 236,664,539</b>	<b>\$ 178,844,965</b>



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 Student Finance Authority  
Tucker, Georgia

We have audited the financial statements of the major fund and the aggregate remaining fund information of the Georgia Student Finance Authority (the "Authority"), a component unit of the Georgia Student Finance Commission, as of and for the year ended June 30, 2006, which collectively comprise the Authority'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 Authority'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 Authority'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 also noted certain matters that we reported to management of the Georgia Student Finance Authority 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

Georgia Student Finance Authority

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 \_\_\_ X no

Reportable conditions identified not considered  
to be material weaknesses?

\_\_\_ yes \_\_\_ X none reported

Noncompliance material to financial statements noted?

\_\_\_ yes \_\_\_ X no

**Federal Awards**

Not applicable as a single audit was not performed for the year ended June 30, 2006 due to the Authority not expending \$500,000 or more of federal funds.

**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None reported.

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

Not applicable.