

FINANCIAL REPORT

Georgia Higher Education Assistance Corporation

(A component unit of the Georgia Student Finance Commission)

Year ended June 30, 2007

with Independent Auditor's Report

Georgia Higher Education Assistance Corporation
Financial Statements and Supplementary Information
Year ended June 30, 2007

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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, 2007 which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund and the aggregate remaining fund information of the Georgia Higher Education Assistance Corporation, as of June 30, 2007, 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 September 25, 2007, 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
September 25, 2007

Georgia Higher Education Assistance Corporation

Management's Discussion and Analysis

June 30, 2007

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, 2007. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

2007

- Earnings on consolidations decreased \$2.5 million from the prior year.
- Collection expenses dropped \$1 million from fiscal year 2006.
- Claim payments to lenders were reduced to \$38.7 million from \$43.8 million in fiscal year 2006.
- New loans issued during the fiscal year and which are guaranteed by the Corporation declined to \$279 million versus \$307 million in the prior year.

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, 2007

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, 2007

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)

	FY 2007	FY 2006	Dollar Change	Percentage Change
Cash and Cash Equivalents	\$17,237	\$16,030	\$ 1,207	7.5%
Receivables, Net	854	894	(40)	(4.5)%
Other Assets	83	36	47	130.6%
Total Assets	<u>\$18,174</u>	<u>\$16,960</u>	<u>\$ 1,214</u>	7.2%
Total Liabilities	<u>\$ 3,188</u>	<u>\$ 3,832</u>	<u>\$ (644)</u>	(16.8)%
Total Net Assets	<u>\$14,986</u>	<u>\$ 13,128</u>	<u>\$ 1,858</u>	14.2%

As can be seen in Table A-1, net assets increased \$1.9 million to \$15.0 million in fiscal year 2007. This change in net asset position was attributable to an increase in cash and cash equivalents of \$1.2 million and a decrease in total liabilities of \$.6 million.

Georgia Higher Education Assistance Corporation

Management's Discussion and Analysis (continued)

June 30, 2007

Table A-2

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

	FY 2007	FY 2006	Dollar Change	Percentage Change
Operating Revenues	\$ 12,025	\$ 14,866	\$ (2,841)	(19.1)%
Operating Expenses	11,029	11,749	(720)	(6.1)%
Income from Operations	996	3,117	(2,121)	(68.0)%
Non-operating Revenues	862	577	285	49.4%
Change in Net Assets	1,858	3,694	(1,836)	(49.7)%
Beginning Net Assets	13,128	9,434	3,694	39.2%
Ending Net Assets	\$ 14,986	\$ 13,128	\$ 1,858	14.2%

As can be seen in Table A-2, operating revenues decreased 19.1% from the prior year due primarily to a \$2.5 million drop in earnings on consolidations due to the change in the amount of earnings allowed to be retained by the Corporation with the rate dropping from 18.5% in fiscal year 2006 to 10% in fiscal year 2007.

Operating expenses decreased 6.1% from fiscal year 2006. The major factor contributing to this was a \$1.0 million decline in collection expenses due to renegotiated contracts with better rates. The Federal Student Loan Reserve (FSLR) accrual that was in place in fiscal year 2006 was discontinued in fiscal year 2007, contributing another \$.6 million toward the decline in operating expenses. These two items were partially offset, however, by a \$.9 million increase in other general and administrative expenses.

Fiscal year 2007 non-operating revenues compared to the prior year increased \$285 thousand, which was primarily due to interest earned on the operating funds' bank account.

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

June 30, 2007

Capital Assets and Long-Term Debt

The Corporation had no capital assets and no long-term debt at June 30, 2007.

Economic Factors

There are no known major changes anticipated for the coming fiscal year ending June 30, 2008.

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, 2007</u>
Assets	
Cash and cash equivalents	\$ 17,236,952
Due from U.S. Dept. of Education	854,183
Other receivable	<u>83,229</u>
Total assets	<u>\$ 18,174,364</u>
Liabilities and net assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 240,018
Due to Georgia Student Finance Authority	796,230
Other liabilities	449,876
Reserve for FSLR replenishment	<u>1,702,000</u>
Total liabilities	\$ 3,188,124
Net assets:	
Unrestricted	<u>14,986,240</u>
Total liabilities and net assets	<u>\$ 18,174,364</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

	Year ended June 30, 2007
Operating revenues:	
Collection fees on student loans	\$ 8,334,851
Loan processing fees	906,271
Loan maintenance fees	1,562,092
Default aversion fees	520,117
Single Source Partners service fees	701,652
Total operating revenues	<u>12,024,983</u>
Operating expenses:	
General and administrative expenses	6,043,162
Guaranty processing expense	1,738,342
Collection expense	3,247,687
Total operating expenses	<u>11,029,191</u>
Income from operations	995,792
Non-operating revenues:	
Other revenue	1,388
Interest earned on investment	861,484
Total non-operating revenues	<u>862,872</u>
Change in net assets	1,858,664
Net assets at beginning of year	<u>13,127,576</u>
Net assets at end of year	<u><u>\$ 14,986,240</u></u>

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

Georgia Higher Education Assistance Corporation

Statement of Cash Flows

Enterprise Fund

	Year ended
	June 30, 2007
Cash flows from operating activities	
Cash received from U.S. Department of Education	\$ 11,955,094
Cash paid to vendors	(11,610,628)
Net cash provided by operating activities	<u>344,466</u>
Cash flows from investing activities	
Interest earned on investments	861,484
Other revenue	1,388
Net cash provided by investing activities	<u>862,872</u>
Increase in cash and cash equivalents	1,207,338
Cash and cash equivalents at beginning of year	<u>16,029,614</u>
Cash and cash equivalents at end of year	<u><u>17,236,952</u></u>
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	995,792
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	39,292
Other receivables	(47,217)
Accounts payable and accrued expenses	(347,559)
Other liabilities	(295,842)
Net cash provided by operating activities	<u><u>\$ 344,466</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, 2007</u>
Assets	
Cash and cash equivalents	\$ 5,993,005
Federal principal receivable on defaulted loans outstanding	95,194,196
Federal interest receivable on defaulted loans outstanding	5,764,450
Federal default fee receivable	<u>95,549</u>
Total assets	<u>\$ 107,047,200</u>
Liabilities	
Due to U.S. Dept. of Education-- federal defaulted loans outstanding	\$ 100,958,646
Due to lenders for defaulted loans	<u>6,088,554</u>
Total liabilities	<u>\$ 107,047,200</u>

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

Georgia Higher Education Assistance Corporation

Notes to Basic Financial Statements

June 30, 2007

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.

Cash and Cash Equivalents

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

Georgia Higher Education Assistance Corporation

Notes to Basic Financial Statements (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 2007, 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 10% 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, 2007 are summarized as follows:

	2007
As reported in the Statement of Net Assets:	
Enterprise Fund	
Cash and cash equivalents	\$ 17,236,952
Agency Fund	
Cash and cash equivalents	5,993,005
	\$ 23,229,957
Cash deposited with financial institutions	\$ 23,229,785
Cash deposited with Georgia Fund 1	172
	\$ 23,229,957

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, 2007, the Corporation's investment in Georgia Fund 1 was rated AAAM by Standard & Poor's.

At June 30, 2007, the Corporation had the following investments:

Investment	Maturities	Fair Value
Georgia Fund 1	15 day weighted average	\$ 172

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, 2007, 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, 2007, the Corporation was the guarantor of approximately \$1,041,193,407 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, 2007 will go into default status requiring the Corporation to purchase loans from lenders. Since the majority of funds expended to purchase defaulted loans are reinsured by the federal government, there is no material net cost to the Corporation.

4. Accounts Payable, Accrued Expenses and Other Liabilities

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

<u>Description of Account</u>	<u>2007</u>
Reserve for default prevention	\$ 97,803
Collection agencies payable	449,876
Other accounts payable accrued	142,215
	<u>\$ 689,894</u>

5. Related Party Transactions

The Authority pays administrative expenses that are subsequently charged to and reimbursed by the Corporation. At June 30, 2007, the Corporation owed \$796,230 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 2007, the Corporation recorded \$153,108 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 2007, the Corporation incurred total rent expenses of \$494,222 related to space and operating equipment.

Georgia Higher Education Assistance Corporation

Notes to Basic Financial Statements (continued)

5. Related Party Transactions (continued)

In fiscal 2007 the Corporation sold rehabilitated loans in the amount of \$10,303,189 to the Authority. Beginning in March 2007, these loans are no longer being sold to the Authority.

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.

Georgia Higher Education Assistance Corporation

Notes to Basic Financial Statements (continued)

6. Contingencies (continued)

Default Rate (continued)

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

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

During the year ended June 30, 2007, the Corporation, on behalf of the U.S. DOE, reimbursed \$38,656,885 to lenders for defaulted loans.

7. Loans Assigned to the U.S. DOE

For the year ended June 30, 2007, approximately \$11,611,511 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, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Office of Post Secondary Education		
Federal Family Education Loan Program:		
Defaulted loan purchases	84.032	\$ 38,656,885
Total Federal Expenditures		\$ 38,656,885

See accompanying note.

Georgia Higher Education Assistance Corporation

Note to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

1. Defaulted Student Loans

The total balance, net of collections, at June 30, 2007, of all defaulted student loans, which the Corporation has purchased under Federal reinsurance agreement, was \$100,958,646. 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, 2007, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated September 25, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Corporation in a separate letter dated September 25, 2007.

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

Mauldin & Jenkins, LLC

Macon, Georgia
September 25, 2007



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 each of its major federal programs for the year ended June 30, 2007. The Corporation's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which 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 2007-1 through 2007-3.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's responses and, accordingly, we express no opinion on them.

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
September 25, 2007

Georgia Higher Education Assistance Corporation

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

**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

Significant deficiencies identified not considered
to be material weaknesses?

___ yes ___ X none reported

Noncompliance material to financial statements noted?

___ yes ___ X no

Federal Awards

Internal Control over major programs:
Material weaknesses identified?

___ yes ___ X no

Significant deficiencies identified not considered
to be material weaknesses?

___ yes ___ X 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)?

X yes ___ no

Identification of major program:

CFDA Number
84.032

Name of Federal Program or Cluster
Federal Family Education Loan Program

Dollar threshold used to distinguish between
Type A and Type B programs:

\$1,932,844

Auditee qualified as low-risk auditee?

___ yes ___ X no

**SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None

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

2007-1. Failure to provide a reconciliation of the September 30, 2006 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, 2006. For fiscal year end June 30, 2007, the Corporation was unable to provide a reconciliation of the September 30, 2006 ED Form 2000 to the NSLDS.

Context – The reconciliation of the two reports was not performed by the Corporation as of September 30, 2006 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.

SECTION III FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (Continued)

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.

2007-2. 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, 2006. For fiscal year end June 30, 2007, several exceptions were noted on federal reinsurance rate confirmations sent to lenders.

Context – Two 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 two 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.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (Continued)

As an enhancement to this procedure, beginning in January 2007, 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.

2007-3. 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, 2006. For fiscal year end June 30, 2007, two accounts were noted to not have a complete set of records updated in accordance with the CFR.

Context – Two accounts were noted in which loans that should have been assigned were not assigned because of a current records issue. At year end, these loans were still being reported with a balance in the Corporation's defaulted loan portfolio.

Effect – The Corporation failed to maintain current records for one loan and continued to report a loan that should have been assigned to DOE.

Cause – The loan status was not properly updated and changed to reflect the assignment 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 two accounts.

The Corporation implemented a new process in fiscal year 2007 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.

Georgia Higher Education Assistance Corporation

Schedule of Prior Year Findings

Year ended June 30, 2007

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 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, 2006, the Corporation was unable to provide a reconciliation of the September 30, 2005 ED Form 2000 to the NSLDS.

Auditee Response/Status – Unresolved. See current year finding number 2007-1.

Auditee Comments – See financial statement finding number 2007-1.

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.

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, 2006, several exceptions were noted on federal reinsurance rate confirmations sent to lenders.

Auditee Response/Status – Unresolved. See current year finding number 2007-2.

Auditee Comments – See financial statement finding number 2007-2.

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 CFR section 682.414(a)).

Condition – 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.

Auditee Response/Status – Unresolved. See current year finding number 2007-3.

Auditee Comments – See financial statement finding number 2007-3.