

**FINANCIAL REPORT**

**Georgia Higher Education Assistance Corporation**

(A component unit of the Georgia Student Finance Commission)

*Year ended June 30, 2009*

*with Independent Auditor's Report*

Georgia Higher Education Assistance Corporation

Financial Statements

Year ended June 30, 2009

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Georgia Higher Education Assistance Corporation (the "Corporation"), a component unit of the Georgia Student Finance Commission, as of and for the year ended June 30, 2009 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, 2009, 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 24, 2009, 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 accounting standards generally accepted in the United States of America. 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 24, 2009

# Georgia Higher Education Assistance Corporation

## Management's Discussion and Analysis

**June 30, 2009**

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, 2009. Please read it in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

#### **2009**

- Net loss of \$515 thousand
- \$1.5 million decline from prior year in operating revenues due predominantly to decreases in default collections earnings, consolidations revenue and loan maintenance fees
- \$.7 million decrease from fiscal year 2008 in collection expense to \$2.0 million
- \$1.7 million increase related to FSLR Reserve replenishment expense accrual
- \$1.6 million increase in Federal Default Fee paid on behalf of lenders
- 7.7% growth in outstanding loans guaranteed to \$1.20 billion

### **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, 2009**

### **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, 2009**

### Financial Analysis

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

### Net Assets

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

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

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

	<b>FY 2009</b>	FY 2008	Dollar Change	Percentage Change
Cash and Cash Equivalents	<b>\$15,058</b>	\$17,639	\$ (2,581)	(14.6) %
Receivables, Net	<b>927</b>	909	18	2.0 %
Other Assets	<b>153</b>	9	144	1535.2 %
Total Assets	<b>\$16,138</b>	\$18,557	\$ (2,419)	(13.0) %
Total Liabilities	<b>\$ 1,225</b>	\$ 3,129	\$ (1,903)	(60.9) %
Total Net Assets	<b>\$14,913</b>	\$15,428	\$ ( 515)	(3.3) %

As can be seen in Table A-1, net assets decreased \$515 thousand to \$14.9 million. This decrease in net assets is offset by a corresponding decrease in total assets reflected in the cash and cash equivalents section.

Georgia Higher Education Assistance Corporation

Management's Discussion and Analysis (continued)

June 30, 2009

Net Assets (continued)

**Table A-2**

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

	<b>FY 2009</b>	FY 2008	Dollar Change	Percentage Change
Operating Revenues	<b>\$ 8,417</b>	\$ 9,895	\$ (1,478)	(14.9)%
Operating Expenses	<b>9,045</b>	9,988	(943)	(9.4)%
Income from Operations	<b>(628)</b>	(93)	(535)	(575.3)%
Non-operating Revenues	<b>113</b>	535	(422)	(78.9)%
Change in Net Assets	<b>(515)</b>	442	(957)	(216.5)%
Beginning Net Assets	<b>15,428</b>	14,986	442	2.9 %
Ending Net Assets	<b>\$14,913</b>	\$15,428	\$ (515)	(3.3)%

As can be seen in Table A-2, operating revenues decreased \$1.5 million from the prior year. Earnings on default collections dropped \$1.4 million and consolidations revenue dropped by \$158 thousand. The overall decline in default collections revenue of 23.1% is primarily due to strained economic conditions and an increased focus on default prevention.

Operating expenses had a \$943 thousand decline when compared to the prior year. Results are primarily due to a reversal of the FSLR Reserve expense accrual of \$1.7 million and a \$.7 million decline in collection expense to correspond with the 23.1% reduction in collections. These decreases in operating expenses are offset by an increase of \$1.6 million in the Federal Default Fee paid by GHEAC on behalf of the lenders, which began in fiscal year 2008.

Non-operating revenues are predominantly interest earnings from the operating fund. The decline in interest rates resulted in less interest income in fiscal year 2009.

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

**June 30, 2009**

**Capital Assets and Long-Term Debt**

The Corporation had no capital assets and no long-term debt at June 30, 2009.

**Economic Factors**

There are no known major changes anticipated for the coming fiscal year ending June 30, 2010.

**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, 2009</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 15,058,379
Due from U.S. Dept. of Education	927,152
Other receivable	152,856
Total assets	<u>\$ 16,138,387</u>
 <b>Liabilities and net assets</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 309,412
Due to Georgia Student Finance Authority	643,658
Other liabilities	272,605
Total liabilities	<u>1,225,675</u>
Net assets:	
Unrestricted	<u>14,912,712</u>
Total liabilities and net assets	<u>\$ 16,138,387</u>

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

Georgia Higher Education Assistance Corporation

Statement of Revenues, Expenses and Changes in Net Assets

Enterprise Fund

	<b>Year ended June 30, 2009</b>
<b>Operating revenues:</b>	
Collection fees on student loans	\$ 5,313,592
Loan processing fees	931,470
Loan maintenance fees	812,444
Default aversion fees	614,022
Loan disbursement program fees	745,944
Total operating revenues	<u>8,417,472</u>
<b>Operating expenses:</b>	
General and administrative expenses	5,856,700
Guaranty processing expense	1,220,865
Collection expense	2,023,779
Federal default fee paid for lenders	1,646,488
FSLR Replenishment	(1,702,000)
Total operating expenses	<u>9,045,832</u>
Loss from operations	(628,360)
<b>Non-operating revenues:</b>	
Interest earned on investments	<u>112,902</u>
Total non-operating revenues	<u>112,902</u>
Change in net assets	(515,458)
Net assets at beginning of year	<u>15,428,170</u>
Net assets at end of year	<u><u>\$ 14,912,712</u></u>

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

# Georgia Higher Education Assistance Corporation

## Statement of Cash Flows

### Enterprise Fund

	<b>Year ended</b>
	<b>June 30, 2009</b>
<b>Cash flows from operating activities</b>	
Cash received from U.S. Department of Education	\$ 8,255,717
Cash paid to vendors	(10,949,419)
Net cash used for operating activities	(2,693,702)
<b>Cash flows from investing activities</b>	
Interest earned on investments	112,902
Net cash provided by investing activities	112,902
Decrease in cash and cash equivalents	(2,580,800)
Cash and cash equivalents at beginning of year	17,639,179
Cash and cash equivalents at end of year	\$ 15,058,379
<b>Reconciliation of loss from operations to net cash used for operating activities:</b>	
Loss from operations	\$ (628,360)
Adjustments to reconcile loss from operations to net cash used for operating activities:	
Changes in operating assets and liabilities:	
Due from U.S. Department of Education	(18,247)
Other receivables	(143,508)
Accounts payable and accrued expenses	(142,610)
Reserve for FSLR Replenishment	(1,702,000)
Due to Georgia Student Finance Authority	130,879
Other liabilities	(189,856)
Net cash used for operating activities	\$ (2,693,702)

**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, 2009</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,524,519
Federal principal receivable on defaulted loans outstanding	110,078,389
Federal interest receivable on defaulted loans outstanding	7,243,415
Federal default fee receivable	<u>147,443</u>
Total assets	<u><u>\$ 122,993,766</u></u>
<b>Liabilities</b>	
Due to U.S. Dept. of Education-- federal defaulted loans outstanding	\$ 117,321,804
Due to lenders for defaulted loans	<u>5,671,962</u>
Total liabilities	<u><u>\$ 122,993,766</u></u>

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

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2009**

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

#### **Reporting Entity**

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

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

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

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

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2009**

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

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

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

The funds presented in this report are as follows:

#### **Proprietary Fund Type**

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

#### **Fiduciary Fund Type**

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

#### **Basis of Accounting**

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

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2009**

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

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

##### **Enterprise Fund**

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

##### **Agency Fund**

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

#### **Budget**

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

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

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

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

June 30, 2009

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

#### Loan Disbursements 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 2009, 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 Loan Disbursement Program Fees.

#### Collection Fees on Student Loans

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

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

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

#### Operating versus Nonoperating Revenues and Expenses

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

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

June 30, 2009

### 2. Deposits and Investments

Total deposits and investments as of June 30, 2009 are summarized as follows:

	<u>2009</u>
As reported in the Statement of Net Assets:	
Enterprise Fund	
Cash and cash equivalents	\$ 15,058,379
Agency Fund	
Cash and cash equivalents	<u>5,524,519</u>
	<u>\$ 20,582,898</u>
Cash deposited with financial institutions	\$ 20,582,898
	<u>\$ 20,582,898</u>

**Credit risk.** State statutes authorize the Corporation to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. As of June 30, 2009, the Corporation had no investments.

**Custodial credit risk – deposits.** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2009, the Corporation did not have any balances exposed to custodial credit risk as uninsured and uncollateralized as defined by GASB pronouncements.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2009**

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

As of June 30, 2009, the Corporation was the guarantor of approximately \$1,204,867,134 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, 2009 will go into default status requiring the Corporation to purchase loans from lenders. Since the majority of funds expended to purchase defaulted loans are reinsured by the federal government, there is no material net cost to the Corporation.

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

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

<b>Description of Account</b>	<b>2009</b>
Reserve for default prevention	\$ 52,283
Collection agencies payable	272,605
Other accounts payable accrued	257,129
	<u>\$ 582,017</u>

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2009**

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

The Authority pays administrative expenses that are subsequently charged to and reimbursed by the Corporation. At June 30, 2009, the Corporation owed \$643,658 to the Authority for unreimbursed expenses.

The Authority participates as a lender in the Corporation's loan disbursements program and pays a per loan fee to the Corporation. During fiscal year 2009, the Corporation recorded \$286,320 in revenue for loans originated through this program for the Authority.

The Corporation also rents office space and certain operating equipment from the Authority. During fiscal year 2009, the Corporation incurred total rent expenses of \$433,333 related to space and operating equipment.

In fiscal year 2009 the Corporation sold rehabilitated loans in the book value amount of \$5,562,582 for \$5,292,888 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.

# Georgia Higher Education Assistance Corporation

## Notes to Basic Financial Statements

**June 30, 2009**

### **Contingencies (continued)**

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

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

During the year ended June 30, 2009, the Corporation, on behalf of the U.S. DOE, reimbursed \$50,573,493 to lenders for defaulted loans.

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

For the year ended June 30, 2009, approximately \$8,661,590 in loans has been assigned from the Corporation to the U.S. DOE. These loans have been removed from the Corporation’s Agency Fund Balance Sheet in recognition of the transfer of the loans.

### **8. Insurance Coverage**

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

# Single Audit Section

Georgia Higher Education Assistance Corporation

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education:</b>		
Office of Post Secondary Education		
Federal Family Education Loan Program:		
Defaulted loan purchases	<b>84.032</b>	<b>\$ 50,573,493</b>
Total Federal Expenditures		<b>\$ 50,573,493</b>

*See accompanying note.*

Georgia Higher Education Assistance Corporation

Note to Schedule of Expenditures of Federal Awards

**Year ended June 30, 2009**

**1. Defaulted Student Loans**

The total balance, net of collections, at June 30, 2009, of all defaulted student loans, which the Corporation has purchased under Federal reinsurance agreement, was \$117,321,804. 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 Directors  
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, 2009, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated September 24, 2009. 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 24, 2009.

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

*Mauldin & Jenkins, LLC*

Macon, Georgia  
September 24, 2009



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 Directors  
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, 2009. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2009-1.

## 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 response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

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

*Mauldin & Jenkins, LLC*

Macon, Georgia  
September 24, 2009

Georgia Higher Education Assistance Corporation

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

SECTION I  
SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of auditor's report issued Unqualified

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

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

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

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

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

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

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

Identification of major program:

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

Dollar threshold used to distinguish between  
Type A and Type B programs: \$1,517,205

Auditee qualified as low-risk auditee?  yes  no

**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None

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

**2009-1. 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, 2008. For the fiscal year ended June 30, 2009, one account out of a sample of 60 was noted to not have a complete set of records updated in accordance with the CFR.

Context – Loan status updates were not applied to one loan in a timely manner.

Effect – The Corporation failed to maintain current records for one loan out of a sample of 60 tested.

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

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

Auditee's Response – The Corporation agrees with the finding which concerns the failure to update an enrollment status change within 10 business days. The enrollment data was received from the National Student Loan Clearinghouse and processed within 10 days of receipt of the electronic file. However, the data resulted in an exception that went into a queue to be worked. GHEAC will put internal controls in place to ensure all exceptions are researched and updated timely.

The Corporation will also be pursuing guidance on the interpretation for 682.414(a) which requires records to be maintained in a system that allows ready identification of each loan’s status updated at least every 10 business days. We believe our servicing system meets the requirement for this regulation. However in the event that a transaction is processed and placed into a queue, the 10 day requirement is impractical as it takes time to research and update the account.

# Georgia Higher Education Assistance Corporation

## Schedule of Prior Year Findings

**Year ended June 30, 2009**

**2008-1. 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 United States Department of Education 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, 2008, one exception was noted on federal reinsurance rate confirmations sent to lenders.

Auditee Response/Status – Resolved

**2008-2. 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, 2008, two accounts were noted to not have a complete set of records updated in accordance with the CFR.

Auditee Response/Status – Unresolved, see current year finding 2009 – 1. The failure to maintain current records finding for 2008-2 in the specific context and effect (two accounts were noted to not have a complete set of records) has been resolved although it is again a finding in 2009-1 in another context and effect.

Georgia Higher Education Assistance Corporation

Schedule of Prior Year Findings

**Year ended June 30, 2009**

**2008-3. Failure to charge appropriate costs for default collection activities to borrowers on defaulted loans.**

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

Condition – The Corporation charged inappropriate costs to borrowers.

Auditee Response/Status – Resolved.