

**FINANCIAL REPORT**  
**Georgia Student Finance Authority**  
**(A component unit of the Georgia Student Finance Commission)**  
*Year ended June 30, 2009*  
*with Independent Auditor's Report*

Georgia Student Finance Authority

Financial Report

Year ended June 30, 2009

Contents

Independent Auditor’s Report ..... 1 - 2

Management’s Discussion and Analysis ..... 3 - 8

Component Unit Basic Financial Statements:

Statement of Net Assets – Enterprise Fund .....9

Statement of Revenues, Expenses and Changes in Net Assets  
– Enterprise Fund .....10

Statement of Cash Flows – Enterprise Fund..... 11 - 12

Statement of Fiduciary Assets and Liabilities – Agency Fund.....13

Notes to Basic Financial Statements..... 14 - 34

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* .....35 – 36

Schedule of Findings and Responses.....37

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the major fund and the aggregate remaining fund information of the Georgia Student Finance Authority (the "Authority"), a component unit of the Georgia Student Finance Commission, as of and for the year ended June 30, 2009 which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express 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 Student Finance Authority, 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 Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles 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.

*Mauldin & Jenkins, LLC*

Macon, Georgia  
September 24, 2009

# Georgia Student Finance Authority

## Management's Discussion and Analysis

**June 30, 2009**

This section of the Georgia Student Finance Authority's (the "Authority") financial statements presents management's analysis of the Authority's financial performance during the fiscal year that ended June 30, 2009. Please read it in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

#### **2009**

- Net income of \$645 thousand
- \$100.6 million in Federal Family Education Loan Program (FFELP) principal disbursed through cash portfolio, 92% increase over prior year
- Yearend total loan portfolio (owned & serviced) balance of \$219.9 million in principal, 36% increase over prior yearend
- Approximately \$36.1 million in student loan principal sold in fiscal year 2009
- Rehabilitation purchases of \$5.4 million in fiscal year 2009 compared to \$93 thousand in fiscal year 2008
- Average effective yield on cash portfolio of 2.68%

### **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 Student Finance Authority

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

**June 30, 2009**

#### **Required Basic Financial Statements**

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

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

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

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

## Georgia Student Finance Authority

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

**June 30, 2009**

#### **Financial Analysis**

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

#### **Net Assets**

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

**Table A-1**

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

	<b>FY 2009</b>	FY 2008	Dollar Change	Percentage Change
Cash & Cash Equivalents	<b>\$ 3,600</b>	\$ 2,692	\$ 908	33.7 %
Receivables, Net	<b>161,598</b>	97,862	63,736	65.1 %
Pledged Receivables	<b>14,003</b>	14,018	(15)	(0.1) %
Other Assets	<b>433</b>	392	41	10.5 %
Capital Assets	<b>2,407</b>	2,968	(561)	(18.9) %
Total Assets	<b><u>\$ 182,041</u></b>	<u>\$ 117,932</u>	<u>\$ 64,109</u>	54.4 %
Total Liabilities	<b><u>\$ 120,388</u></b>	<u>\$ 56,925</u>	<u>\$ 63,463</u>	111.5 %
Total Net Assets	<b><u>\$ 61,653</u></b>	<u>\$ 61,007</u>	<u>\$ 646</u>	1.1 %

As shown in Table A-1, total assets increased \$64.1 million from fiscal year 2008. The predominant factor in the increase was the increase of student loan portfolio. Net assets increased \$646 thousand.

## Georgia Student Finance Authority

### 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	% Change vs Prior Yr
Operating Revenues	<u>\$ 22,048</u>	\$ 26,127	\$ (4,079)	(15.6)%
General and Administrative Expenses	<b>5,171</b>	6,635	(1,464)	(22.1)%
Other Expenses	<u>17,406</u>	18,574	(1,168)	(6.3)%
Total Operating Expenses	<u>22,577</u>	25,209	(2,632)	(10.4)%
Income (loss) from Operations	<b>(529)</b>	918	(1,447)	(157.6)%
Non-operating Revenues, Net	<u>1,175</u>	1,554	(379)	(24.4)%
Change in Net Assets	<b>646</b>	2,472	(1,826)	(73.9)%
Beginning Net Assets	<u>61,007</u>	58,535	2,472	4.2%
Ending Net Assets	<u>\$ 61,653</u>	\$ 61,007	\$ 646	1.1%

As can be seen in Table A-2 above, operating revenues declined \$4.1 million. This decline was due predominantly to a \$2.2 million decline in the federal interest benefits earned, and \$1.3 million decline in loan sale premiums and a \$0.5 million decrease in service cancelable loan revenue. Federal interest benefits declined as the company's interest rates on many of its loans exceeded the current market rate. Loan sale premium decline is a result from the tightening credit market in FY2009 and a change of loan sale to the Department of Education (ED). Service cancelable loan revenue decreased due to a slight decrease in disbursements.

General and administrative expenses decreased \$1.5 million predominantly as a result of a 3% reduction in the administrative expense allocation to GSFA and lower expenses overall. Other expenses decreased in total \$1.2 million. The major factor was a \$0.8 million decrease in borrower benefits, due to GSFA not paying the one percent default fee in FY09. Service cancelable loan repaying expense also decreased by \$0.5 million, corresponding with the decreased disbursements.

# Georgia Student Finance Authority

## Management's Discussion and Analysis (continued)

**June 30, 2009**

### Capital Assets and Debt Financing

#### *Capital Assets*

As of June 30, 2009, the Authority had approximately \$2.4 million invested in a variety of capital assets, as reflected in Table A-3 below, which represents a net decrease (additions, deductions calculate and depreciation) of \$561 thousand or 18.9% in comparison to the end of last year.

#### **Table A-3**

*Capital Assets (In thousands of dollars)*

---

	<u>FY 2009</u>	<u>FY 2008</u>
Land	\$ 374	\$ 374
Buildings	404	519
Building Improvements	681	726
Equipment	251	510
Furniture & Fixtures	697	808
Capital Assets in Process		31
Total Capital Assets	<u>\$ 2,407</u>	<u>\$ 2,968</u>

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

## Georgia Student Finance Authority

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

**June 30, 2009**

#### *Debt Financing*

The Georgia Student Authority had a \$75,000,000 line of credit with SunTrust effective July 1, 2008 (the Authority had a similar agreement in FY2008 with Bank of America for \$50,000,000). The line is renewed on an annual basis and has a maturity date of June 30, 2009. The line of credit with SunTrust was amended on October 29, 2008 for an additional \$25,000,000 (total of \$100,000,000) and has a maturity date of June 30, 2009. The \$75,000,000 interest rate is the rate per year equal to one month LIBOR plus 37.5 basis points, rate adjusted monthly on the first day of each month, interest payable quarterly; the unused rate is the rate per year plus 7.5 basis points. The \$25,000,000 interest rate is the rate per year equal to one month LIBOR plus 75.0 basis points, rate adjusted monthly on the first day of each month, interest payable quarterly; the unused line interest rate is the rate per year 25.0 basis points. The applicable interest rate as of June 30, 2009 per view of the June 2009 SunTrust quarterly invoice was 0.6950% for the \$75,000,000 line of credit and 1.0700% for the \$25,000,000 line of credit. This loan is secured by a first priority perfected security interest in student loans pledged sufficient to secure the loan at an asset coverage ratio of 110%.

The purpose of the line of credit is the original financing for the Authority's distribution of loans to students. These loans are made and typically thereafter sold to Edsouth, however with H.R. 6889 Ensuring Continued Access to Student Loans (ESCALA) legislation that became effective May, 2008; GSFA is currently selling all loans to ED. At the time of the loan sales, the Authority will make payments to decrease the outstanding amount of the line of credit. As of June 30, 2009, the outstanding balance of the line of credit was \$95,800,000 with an available drawdown balance of \$4,200,000.

Effective July 1, 2009, the Authority entered into a new line of credit agreement with SunTrust Bank for \$150,000,000. For more detailed information regarding the Authority's capital assets and debt financing, please refer to the notes to the financial statements.

#### **Economic Factors**

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

#### **Requests for Information**

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

# Component Unit Basic Financial Statements

Georgia Student Finance Authority  
Statement of Net Assets  
Enterprise Fund

June 30, 2009

**Assets**

Current assets:

Cash and cash equivalents	\$ 3,600,428
Student loans (net of allowance for doubtful accounts of \$1,309,228)	152,132,522
Student loans - service repayable (net of allowance for doubtful accounts of \$1,570,519 and allowance for service repayments of \$45,415,515)	5,544,235
Accrued interest receivable on student loans	3,155,700
Student loans receivable, pledged	14,002,573
Due from Georgia Higher Education Assistance Corporation	643,658
Due from Georgia Student Finance Commission	68,248
Due from Nonpublic Postsecondary Education Commission	53,420
Other assets	<u>433,020</u>
Total current assets	<u>\$ 179,633,804</u>

Noncurrent assets:

Capital assets	
Nondepreciable	373,750
Depreciable (net of accumulated depreciation of \$7,517,709)	<u>2,033,243</u>

Total assets

\$ 182,040,796

**Liabilities and net assets**

Liabilities:

Revolving note payable	\$ 95,800,000
Accounts payable and accrued expenses	4,381,454
Deferred revenue	160,207
Due to U.S. Department of Education	837,021
Due to agency fund	3,005,957
Collateralized borrowing-- due to Edsouth	14,074,914
Liability for leased copiers	68,922
Other liabilities	<u>2,059,639</u>

Total liabilities

120,388,114

Net assets:

Invested in capital assets	2,333,958
Unrestricted	<u>59,318,724</u>

Total net assets

61,652,682

Total liabilities and net assets

\$ 182,040,796

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

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

	<b>Year ended June 30, 2009</b>
<b>Operating revenues</b>	
Federal interest benefits	\$ (248,783)
Interest on student loan payments	5,297,513
Late fees	207,374
Premium on sale of loans	188,019
Loan servicing fees	68,077
Service cancelable loans	16,529,340
Other operating revenues	6,421
Total operating revenues	<u>22,047,961</u>
<b>Operating expenses</b>	
General administrative expenses	5,171,074
Service cancelable loans repayment expense	14,022,780
Depreciation expense	579,028
Bad debt expense	212,814
Interest expense	1,087,806
Lender fees	1,031,283
Borrower benefits	472,711
Total operating expenses	<u>22,577,495</u>
Loss from operations	(529,534)
<b>Non-operating revenues</b>	
Interest earned on investments	52,909
Funds transferred from general loan fund	278,997
Rental income	843,184
Total non-operating revenues	<u>1,175,090</u>
Change in net assets	645,556
Net assets at beginning of year	<u>61,007,126</u>
Net assets at end of year	<u><u>\$ 61,652,682</u></u>

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

Georgia Student Finance Authority  
Statement of Cash Flows  
Enterprise Fund

	<b><u>Year ended June 30, 2009</u></b>
<b>Cash flows from operating activities</b>	
Cash received from student loan repayments	\$ 8,971,000
Cash received from other governments	47,046,705
Cash received from loan sales	36,384,077
Cash received from loan service	48,946
Grants & scholarships disbursements	(35,791,596)
Loan disbursements	(117,756,730)
Cash paid to other governments	(7,201,014)
Cash paid to vendors	(3,405,026)
Cash paid to employees	(8,962,456)
Reimbursement for salaries allocated to other entities as part of administrative expenses	<u>6,042,488</u>
Net cash used for operating activities	(74,623,606)
<b>Cash flows from non-capital financing activities</b>	
Net borrowings on line of credit	<u>74,400,000</u>
Net cash provided by non-capital financing activities	74,400,000
<b>Cash flows from capital financing activities</b>	
Purchase of property and equipment	(17,448)
Principal portion of capital lease payments	<u>(25,297)</u>
Net cash used for capital financing activities	(42,745)
<b>Cash flows from investing activities</b>	
Interest earned on investments	52,909
Rental and other income	843,184
Funds transferred to the general fund	<u>278,997</u>
Net cash provided by investing activities	1,175,090
Increase in cash and cash equivalents	908,740
Cash and cash equivalents at beginning of year	<u>2,691,688</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,600,428</u></u>

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

Georgia Student Finance Authority  
Statement of Cash Flows (continued)  
Enterprise Fund

	<u>Year ended</u> <u>June 30, 2009</u>
<b>Reconciliation of loss from operations to net cash used for operating activities</b>	
Loss from operations	\$ (529,534)
Adjustments to reconcile income from operations to net cash used for operating activities:	
Depreciation	579,028
Bad debt expense	212,814
Changes in operating assets and liabilities	
Student loans	(62,959,600)
Accrued interest receivable on student loans	(839,181)
Pledged student loan receivables	15,660
Due from U.S. Department of Education	882,380
Due from Georgia Higher Education Assistance Corporation	(130,879)
Due to Georgia Student Finance Commission	(467,699)
Due from Nonpublic Postsecondary Education Commission	3,546
Other assets	(40,609)
Accounts payable and accrued expenses	1,928,961
Deferred revenue	(2,622,966)
Due to agency fund	(10,639,867)
Due to Edsouth	(15,660)
Net cash used for operating activities	<u><u>\$ (74,623,606)</u></u>

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

Georgia Student Finance Authority  
Statement of Fiduciary Assets and Liabilities  
Agency Fund

	<u>June 30, 2009</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 92,494
Due from enterprise fund	<u>3,005,957</u>
Total assets	<u><u>\$ 3,098,451</u></u>
<b>Liabilities</b>	
Undisbursed student grants and scholarships	\$ 3,016,257
Funds due to others	<u>82,194</u>
Total liabilities	<u><u>\$ 3,098,451</u></u>

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements

**June 30, 2009**

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

#### **Reporting Entity**

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

The Authority is governed by and all of its corporate powers, duties, and functions are exercised by a board of 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 Authority for a period of one year after expiration of the member’s period of service. The president of the Georgia Student Finance Commission (the “Commission”) serves as an ex officio member of the board of directors.

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

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

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2009

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

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

The funds presented in this report are as follows:

##### Proprietary Fund Type

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

##### Fiduciary Fund Type

Agency Fund – The fund is used to account for assets held for other entities, funds, governments, or individuals. A fund of this type is entitled Agency Fund in accordance with terminology set forth in accounting principles generally accepted in the United States.

#### Basis of Accounting

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

##### Enterprise Fund

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2009

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

#### Basis of Accounting (continued)

##### Agency Fund

An Agency Fund is custodial in nature in that assets are equally offset by liabilities to other entities, funds, governmental units, or individuals. The Authority's Agency Fund includes student loans serviced for other entities, grants and scholarships disbursed on behalf of the State of Georgia and a private organization.

##### Budget

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

##### Use of Estimates

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

##### Cash and Cash Equivalents

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

##### Capital Assets

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2009

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

#### Capital Assets (continued)

<u>Fixed Asset Category</u>	<u>Useful Life</u>
Buildings	30 years
Building Improvements	15 years
Equipment	3-5 years
Furniture & Fixtures	10 years

#### Other Liabilities

Other liabilities consist of an allowance for previously serviced loans and currently serviced loans, of third parties, in which the Authority is obligated to repurchase from these third parties any of these loans in which the federal guarantee is lost and a cure is not established within one year of guarantee loss. The Authority's obligation for previously serviced loans relates to an approximately \$154,400,000 loan portfolio as of May 1, 2007, the point at which servicing was discontinued, and it is in effect until August 12, 2028. The Authority is also obligated to make like repurchases on the approximately \$14,002,573 of pledged receivables shown on its statement of net assets. The liability related to the \$14.0 million is in effect until 10 years after the termination or expiration of the current servicing agreement which currently ends May 31, 2011. The following allowance is reserved for these potential liabilities:

<u>Description of Account</u>	<u>2009</u>
Allowance for serviced loans of a third party	<u>\$ 2,059,639</u>
Total other liabilities	<u><u>\$ 2,059,639</u></u>

See Note 16 (Guarantees to Repurchase Receivables) for additional information.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2009

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

#### Grants and Other Intergovernmental Revenue

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

#### Operating versus Nonoperating Revenues and Expenses

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 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	\$ 3,507,934
Agency Fund	
Cash and cash equivalents	<u>92,494</u>
Cash deposited with financial institutions	<u><u>\$ 3,600,428</u></u>

**Credit risk.** State statutes authorize the Authority to invest in obligations of the State of Georgia or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime banker's acceptances; the local government investment pool established by state law; repurchase agreements; and obligations of other political subdivisions of the State of Georgia. As of June 30, 2009, the Authority did not have any investments.

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

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

Student loans represent loans to students pursuing post-secondary education. These loans are funded from net assets, a commercial line of credit and appropriations from the State of Georgia. The guaranteed loans are guaranteed by the Georgia Higher Education Assistance Corporation (the "Corporation"). Loans first disbursed prior to October 1, 1993 are 100% insured, and loans first disbursed on or after October 1, 1993 through June 30, 2006 are 98% insured against borrower defaults. Loans first disbursed on or after July 1, 2006 are 97% insured against borrower defaults. Current guidelines, effective October 1, 2007 through the College Cost Reduction and Access Act of 2007, state that loans disbursed on or after October 1, 2012 will be 95% insured against borrower defaults. The Authority's allowance for doubtful accounts provides for uninsured loans and the uninsured amount on insured loans. As of June 30, 2009, the Authority has established an allowance of \$1,309,228.

Student loans – service repayable represent loans made to students pursuing post-secondary education in a specified approved field of study which may be repaid by specific service performance. The loan balance is reduced ratably through service performed. If the service requirements are not fully met, the remaining loan balance is repayable in cash with interest. Some of the service repayable loans are insured by the Corporation and qualify for the service cancelable option. Those loans have the added benefit of guaranteed status. The Authority has established an allowance for estimated future reductions attributed to services performed in the amount of \$45,415,515, since there is no discernible future value to the Authority associated with loans repaid by service. The Authority has also established an allowance for doubtful accounts in the amount of \$1,570,519 for the uninsured portion of loans that are insured by the Corporation and for uninsured loans.

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

### **4. Student Loans Receivable, Pledged**

In June 2008, the Authority sold to Edsouth student loans totaling \$14,013,196 in principal and interest combined. The sale agreement did not meet the sale requirements as set forth in GASB No. 48 since the Authority has retained significant control over these assets. The Authority has therefore reflected this transaction in the statement of net assets as a collateralized borrowing. As of June 30, 2009, \$14,002,573 is recorded within the Authority's statement of net assets as a pledged student loans receivable which is offset by an equal liability plus \$72,341 of June 2009 collections not yet remitted to Edsouth for a total liability amount due to Edsouth of \$14,074,914.

### **5. Other Assets**

Other assets at June 30 are summarized as follows:

<b>Description of Account</b>	<b>2009</b>
Fees receivable	\$ 215,962
Prepayments	185,898
Miscellaneous accounts receivable	31,160
Total other assets	<u>\$ 433,020</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2009

**6. Capital Assets**

Capital asset activity for the year ended June 30, 2009 is as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land	\$ 373,750	\$ 0	\$ 0	\$ 373,750
Capital assets in process	31,447	17,448	48,895	0
Total	<u>405,197</u>	<u>17,448</u>	<u>48,895</u>	<u>373,750</u>
Capital assets, being depreciated:				
Buildings	3,462,757	0	0	3,462,757
Building improvements	988,685	21,229	0	1,009,914
Equipment	3,942,138	27,666	0	3,969,804
Furniture and fixtures	1,108,477	0	0	1,108,477
Total	<u>9,502,057</u>	<u>48,895</u>	<u>0</u>	<u>9,550,952</u>
Less accumulated depreciation for:				
Buildings	2,943,343	115,425	0	3,058,768
Building improvements	263,011	66,042	0	329,053
Equipment	3,431,896	286,713	0	3,718,609
Furniture and fixtures	300,431	110,848	0	411,279
Total	<u>6,938,681</u>	<u>579,028</u>	<u>0</u>	<u>7,517,709</u>
Total capital assets, being depreciated, net	<u>2,563,376</u>	<u>(530,133)</u>	<u>0</u>	<u>2,033,243</u>
Total capital assets, net	<u>\$2,968,573</u>	<u>\$ (512,685)</u>	<u>\$ 48,895</u>	<u>\$2,406,993</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2009

**7. Accounts Payable and Accrued Expenses**

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

<b>Description of Account</b>	<b>2009</b>
Accrued accounts payable	\$ 3,372,638
Accrued compensated absences	900,252
Other accrued liabilities	108,565
	<u>\$ 4,381,454</u>

**8. Deferred Revenue**

Deferred revenue at June 30 is summarized as follows:

<b>Description of Account</b>	<b>2009</b>
LEAP Scholarship	\$ 73,852
Other Service Cancelable Loans	47,228
North Georgia Military Scholarships	39,127
	<u>\$ 160,207</u>

**9. Due to Agency Fund**

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

<b>Description of Account</b>	<b>2009</b>
BYRD Scholarship	\$ 2,167,499
Other	321,081
Governor's Scholarship	289,266
Tuition Equalization Grant	228,111
	<u>\$ 3,005,957</u>

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

### 10. Long-term Liabilities

The following is a summary of long-term liability activity for the year ended June 30, 2009:

	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>	<b>One Year</b>
Capital leases payable	\$ 94,219	\$ 3,947	\$ 29,244	\$ 68,922	\$ 25,296
Guarantees to repurchase receivables	2,059,639	-	-	2,059,639	-
Collateralized borrowing	14,018,233	56,681	-	14,074,914	-
Total long-term liabilities	\$ 16,172,091	\$ 60,628	\$ 29,244	\$ 16,203,475	\$ 25,296

#### *Capital Leases*

The Authority entered into a lease agreement in January 2008 as lessee for financing the acquisition of 11 copiers. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The following is an analysis of leased assets under capital leases as of June 30, 2009:

Equipment	\$ 106,461
Less: Accumulated depreciation	(33,426)
	\$ 73,035

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of June 30, 2009:

2010	\$29,244
2011	29,244
2012	14,622
Total minimum lease payments	73,110
Less: Amount representing interest	4,188
Present value of future minimum lease payments	\$68,922

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

### **10. Long-term Liabilities (continued)**

#### *Guarantees to Repurchase Receivables and Collateralized Borrowing*

Additional information regarding the Guarantees to Repurchase Receivables can be found in Note 4. Additional information regarding the Collateralized Borrowing can be found in Note 16.

### **11. Promissory Note Payable**

The Georgia Student Authority has a \$75,000,000 line of credit with SunTrust effective July 1, 2008 (the Authority had a similar agreement in FY2008 with Bank of America for \$50,000,000). This line is renewed on an annual basis and has a maturity date of June 30, 2009. The line of credit with SunTrust was amended on October 29, 2008 for an additional \$25,000,000 (total of \$100,000,000) and has a maturity date of June 30, 2009. The \$75,000,000 interest rate is the rate per year equal to one month LIBOR plus 37.5 basis points, rate adjusted monthly on the first day each month, interest payable quarterly; the unused line interest rate is the per year 7.5 basis points. The \$25,000,000 interest rate is the rate per year equal to one month LIBOR plus 75.0 basis points, rate adjusted monthly on the first day of each month, interest payable quarterly; the unused line interest rate is the rate per year 25.0 basis points. The applicable interest rate as of June 30, 2009 per view of the June 2009 SunTrust quarterly invoice was 0.6950% for the \$75,000,000 line of credit and 1.0700% for the \$25,000,000 line of credit. This loan is secured by a first priority perfected security interest in student loans pledged sufficient to secure the loan at an asset coverage ratio of 110%.

Activity related to this promissory note is summarized as follows:

	<b>Balance at July 1, 2008</b>	<b>Borrowings</b>	<b>Repayments</b>	<b>Balance at June 30, 2009</b>
Fiscal year 2009	\$21,400,000	\$116,200,000	\$(41,800,000)	<b>\$95,800,000</b>

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

### **11. Promissory Note Payable (continued)**

The Authority entered into a new \$150 million line of credit agreement with SunTrust on July 1, 2009. In this agreement the interest rate incurred will be the Eurodollar rate applicable to each day during each interest period plus 1.00% per annum. A rate of .025% or 25 basis points will be applied to any unused line balance. Both the interest expense and the unused line fee are payable quarterly based on calendar quarters. This agreement matures on June 29, 2010.

### **12. Related Party Transactions**

The Authority pays administrative expenses that are subsequently charged to and reimbursed by the Georgia Higher Education Assistance Corporation (the "Corporation"), the Commission (Georgia Student Finance Commission) and the Nonpublic Postsecondary Education Commission. At June 30, 2009, amounts owed to the Authority for unreimbursed expenses by the Commission, the Corporation, and the Nonpublic Postsecondary Education Commission were \$68,248, \$643,658 and \$53,420, respectively.

The Authority participates as a lender in the Corporation's disbursement system and pays a per loan fee to the Corporation. During fiscal year 2009, the Authority incurred expenses totaling \$286,320 for loans originated through this system.

During fiscal year 2009, the Authority purchased rehabilitated loans from the Corporation in the book value amount of \$5,562,582 for \$5,292,888.

The Authority rents office space and certain operating equipment to the Corporation, the Commission (Georgia Student Finance Commission) and the Nonpublic Postsecondary Education Commission. During fiscal year 2009, the Authority recorded \$433,333 in rental income from the Corporation, \$330,025 in rental income from the Commission, and \$31,892 from the Nonpublic Postsecondary Education Commission. The Georgia Student Finance Commission's actual expense recognized in the fiscal year was \$47,933 less because certain equipment rentals were prepaid to the Authority.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2009

### 13. Pension Plan – Merit Employees

#### Employees' Retirement System of Georgia:

##### Plan Description:

The Authority participates in various retirement plans administered by the Employees' Retirement System of Georgia (ERS System). Financial statements and required supplementary information for ERS may be obtained from the Employees' Retirement System of Georgia from the following address: Employees' Retirement System of Georgia, Two Northside 75, Atlanta, Georgia 30318. The plans are described below and more detailed information can be found in the agreements and related legislation. Each plan, including benefit and contribution provisions, was established and can be amended by State law.

The ERS System is comprised of individual retirement systems and plans covering substantially all employees of the State of Georgia except for teachers and other employees covered by the Teachers Retirement System of Georgia. One of the ERS System plans, the Employees' Retirement System of Georgia (ERS), is a cost-sharing multiple-employer defined benefit pension plan that was established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees and has the powers and privileges of a corporation. ERS acts pursuant to statutory direction and guidelines, which may be amended prospectively for new hires but for existing members and beneficiaries may be amended in some aspects only subject to potential application of certain constitutional restraints against impairment of contract.

##### Benefits:

On November 20, 1997, the Board created the Supplemental Retirement Benefit Plan (SRBP-ERS) of ERS. SRBP-ERS was established as a qualified governmental excess benefit plan in accordance with Section 415 of the Internal Revenue Code (IRC) as a portion of ERS. The purpose of the SRBP-ERS is to provide retirement benefits to employees covered by ERS whose benefits are otherwise limited by IRC Section 415. Beginning January 1, 1998, all members and retired former members in ERS are eligible to participate in the SRBP-ERS whenever their benefits under ERS exceed the limitation on benefits imposed by IRC Section 415.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2009

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

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

##### Benefits: (continued)

The benefit structure of ERS is established by the Board of Trustee under statutory guidelines. Unless the employees elects otherwise, an employee who currently maintains membership with ERS based upon State employment that started prior to July 1, 1982, is an "old plan" member subject to the plan provision in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are "new plan" members subject to the modified plan provisions. Effective January 1, 2009, newly hired State employees, as well as rehired State employees who did not maintain eligibility for the "old" or "new" plan, are members of the Georgia State Employees' Pension and Savings Plan (GSEPS). ERS members hired prior to January 1, 2009 also have the option to change their membership to the GSEPS plan.

Under the old plan, new plan, and GSEPS, a member may retire and receive normal retirement after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon a formula adopted by the Board of Trustees for such purpose. The formula considers the monthly average of the member's highest 24 consecutive calendar months of salary, the number of years of creditable service, and the member's age at retirement. Post-retirement cost-of-living adjustments may be made to members' benefits provided the members were hired prior to July 1, 2009. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

##### Contributions Required and Contributions Made:

Member contribution rates are set by law. Member contribution under the old plan are 4% of annual compensation up to \$4,200 plus 6% of annual compensation in excess of \$4,200. Under the old plan, the Authority pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these Authority contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contribution under the new plan and GSEPS are 1.25% of annual compensation. The Authority is required to contribute

## Georgia Student Finance Authority

### Notes to Basic Financial Statements (continued)

**June 30, 2009**

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

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

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

at a specified percentage of active member payroll established by the Board of Trustees determined annually in accordance with actuarial valuation and minimum funding standards as provided by law. These Authority contributions are not at any time refundable to the member or his/her beneficiary.

For the fiscal year ended June 30, 2009, the ERS employer contribution rates for the Authority were 10.41% for new Plan employees, 2.54% for GSEPS employees, and 5.66% for old Plan employees.

The Annual Required Contributions and Actual Employer Contributions, from the Authority to the Employees' Retirement System, totaled \$336,040, of which \$40,027 was made by employees. The Authority made all of the required contributions for the year and had no net pension obligation at the end of the fiscal years ended June 30, 2009.

##### **Other Deferred Compensation**

Merit employees may also participate in 401(K) and 457 plans. During fiscal year 2009, Authority employees contributed \$167,711 combined for these two plans. Additionally, merit employees have a Teachers Retirement Program available. In fiscal year 2009, Authority employer contributions were \$8,809 and employee contributions were \$4,746.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

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

The Authority sponsors a 401(K) defined contribution plan (the “Plan”) for all of its non-merit employees. The Plan was established by the Board of Directors and can only be amended by the Board. All non-merit employees are eligible to participate in the Plan upon reaching 21 years of age and completing one month of service. For calendar years 2008 and 2009 eligible employees may contribute up to \$16,500 of compensation to the Plan if the employee is less than 50 years of age and up to \$22,000 of compensation to the Plan if the employee is greater than 50 years of age, not to exceed the maximum limits permitted by the law. Beginning January 1, 2006, employees receive a 100% match on the first 3% of pay that is deferred plus an additional 50% match on the next 2% of pay that is deferred. The maximum match is 4% of pay for employees who defer 5% or more of their pay. All employer safe harbor contributions are 100% vested when made, and may not be withdrawn from the plan for reasons of hardship.

As of January 1, 2007, all matching contributions allocated prior to 2006 were 100% vested regardless of the employee’s years of service. Prior to January 1, 2006, 3% of pay deferred by an employee was matched by the Authority.

Beginning January 1, 2008, the Authority instituted a discretionary contribution for all plan members. In calendar year 2008 and 2009, a contribution of 3% of earnings has been approved. These monies are not automatically 100% vested but are vested based upon length of employment.

During fiscal year 2009, the Authority contributed \$381,157 (\$185,048 of matching contributions and \$196,109 of discretionary contributions) and the employees contributed \$348,154 to the Plan.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

June 30, 2009

### 15. Georgia Retiree Health Benefit Fund

#### Plan Description:

The Authority participates in two State of Georgia postemployment benefit plans, the Georgia Retiree Health Benefit Fund (administered by the Department of Community Health) and the State Employees' Assurance Department – OPEB (administered by the ERS System). Separate financial reports that include the applicable financial statements and required supplementary information for these plans are publicly available and may be obtained from the respective system offices.

The Authority contributes to the Georgia Retiree Health Benefit Fund (“GRHBF”), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Department of Community Health. GRHBF provides health insurance benefits to eligible retirees and their qualified beneficiaries. Pursuant to Title 45, Chapter 18 of the Official Code of Georgia Annotated, the authority to establish and amend the benefit provisions of the plan is assigned to the Board of Community Health. The Department of Community Health issues a publicly available financial report that includes financial statements and required supplementary information for GRHBF. That report may be obtained from the Department of Community Health at 2 Peachtree Street, Atlanta, Georgia 30303.

#### Funding Policy:

The contribution requirements of plan members and participating employers are established and may be amended by the Board of Community Health. Contributions of plan members or beneficiaries receiving benefits vary based on plan election, dependent coverage, and Medicare eligibility and election. On average, plan members pay approximately twenty-five percent (25%) of the cost of health insurance coverage.

Participating State employers are statutorily required to contribute in accordance with the employer contribution rate established by the Board. This contribution rate is established to fund both the active and retired employee health insurance plans based on projected pay-as-you-go financing requirements. The combined rates for the active and retiree plans for the fiscal year ended June 30, 2009 were as follows:

July 2008 – January 2009	22.165% of covered payroll for August – February coverage
February 2009	1.926% of covered payroll for March coverage
March 2009 – June 2009	0.000% of covered payroll for April – July coverage

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

### **15. Georgia Retiree Health Benefit Fund (continued)**

#### **Funding Policy: (continued)**

No additional contribution was required by the Board for fiscal year 2009 nor contributed to GRBHF to prefund retiree benefits. Such additional contribution amounts are determined annually by the Board in accordance with the State plan for other postemployment benefits and are subject to appropriation.

The combined rate for the active and retiree plans (pay-as-you go basis) for the fiscal year ended June 30, 2008, was 18.534% of covered payroll. An additional contribution of 4.309% of covered payroll based on available funding as set forth in the Appropriation Act was required by the Board for fiscal year 2008; eleven months of this additional contribution will be deposited into the OPEB fund to prefund retiree benefits (such additional contribution amounts are determined annually). The Authority's contribution to the health insurance plans for the fiscal year ended June 30, 2009, was \$379,474, which equaled the required contribution as described above for fiscal year 2009.

### **16. Guarantees to Repurchase Receivables**

The Authority has guarantees with certain lenders under a loan servicing agreement to repurchase loans on which the federal guarantee is lost and on which a cure is not established within one year of guarantee loss. Effective May 1, 2007, the Authority's loan servicing agreement ended with one particular lender whose portfolio was approximately \$154,400,000 at the time. The Authority is no longer servicing these loans; however, the Authority's guarantee is still in effect for these prior serviced loans until August 12, 2028. The Authority is equally responsible for the approximately \$14,029,000 in pledged receivables currently on its statement of net assets. The Authority is obligated in regards to these assets until 10 years after the termination or expiration of the servicing agreement which is currently May 31, 2011. Based on the Authority's claim denial rate history, \$2,059,639 has been reserved for these future liabilities.

### **17. Insurance Coverage**

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

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

### **18. Loan Sales**

To ensure liquidity in the student loan market, Congress passed the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), in May 2008. Four loan programs were created: (1) the Short Term Loan Purchase Program (the “Putt” Program [2007-2008 Loan Program]); (2) the Loan Purchase Commitment Program (the “Put” Program), (3) the Loan Participation Purchase Program, and (4) the Asset Backed Commercial Paper Conduit Program (Conduit).

During the year ended June 30, 2009, the Authority participated in the Putt Program, with a loan sale on January 20, 2009. In addition, the Authority participated in the Put Program on March 4, 2009; May 6, 2009; and June 10, 2009. The total loan sales to the U.S. Department of Education (the “ED”), for the year ended June 30, 2009, were approximately \$36.1 million.

Below is summary of the ECASLA programs that the Authority participated in with ED during 2009:

1. The Putt Program was created to address the potential risks to scheduled subsequent disbursements for the 2008-2009 school year. This program was authorized to minimize the disruption in the student lending market prior to the implementation of the Conduit Program.

Under this program, ED purchased eligible loans at 97 percent of the principal and unpaid interest owed by the borrower. Eligible loans are defined as loans first disbursed on or after May 1, 2007 for a loan period that includes July 1, 2007 or begins on or after that date with borrower benefits other than those identified by ED as eligible for the Put Program. Upon purchase, the loans are assets of the federal government and will be serviced by ED’s servicer as a FFELP loan.

2. The Put Program was created to purchase fully disbursed eligible loans from the 2008-2009 and 2009-2010 academic years. Only FFEL subsidized and unsubsidized Stafford Loans and Federal PLUS Loans are eligible. To be eligible, Stafford loans can only have borrower benefits consisting of (1) unconditional upfront fee reductions which are accrued and paid or made prior to the date on which a Loan is sold or (2) permitted reductions in interest rates of not more than a .25% reduction in interest rate for electronic payment process by the Borrower for any payments due.

For each loan sold, ED will pay an amount equal to the sum of the outstanding principal balance of the loan, as of the Purchase Date, the accrued and unpaid interest due from the borrower, as of the Purchase date, reimbursement of the one percent lender origination fee, and \$75.00 per loan.

# Georgia Student Finance Authority

## Notes to Basic Financial Statements (continued)

**June 30, 2009**

### **18. Loan Sales (continued)**

3. The Put Program was created to authorize ED to purchase participation interests in eligible FFEL loans made for the 2008-2009 and 2009-2010 academic years. All eligible lenders can sell participation interests to ED through this program. Participation interest funds 100% of principal and accrued interest. The interest rate is the 90-day Commercial Paper rate for financial firms (as published by the Fed) + 50 bps.

Under this program, the warehouse lender would be a party to the arrangement; this would include acknowledgement of the lender's security interest and funding would be made directly to the lender.

The participation interest must be redeemed by the lender by September 30, 2009 for the 2008-2009 academic year and September 30, 2010 for the 2009-2010 academic year. The lender can redeem the participation interest by purchasing or selling the loans to ED under the Put Program.

The Authority will not be participating in the Conduit Programs as the Authority does not meet the requirements to be a participating lender.



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 Student Finance Authority  
Tucker, Georgia

We have audited the financial statements of the major fund and the aggregate remaining fund information of the Georgia Student Finance Authority (the "Authority"), a component unit of the Georgia Student Finance Commission, as of and for the year ended June 30, 2009, which collectively comprise the Authority'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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority 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 Authority, 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 Student Finance Authority  
Schedule of Findings and Responses

Year ended June 30, 2009

**SECTION I  
SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued Unqualified

Internal control over financial reporting:

Material weaknesses identified?  yes  no

Significant deficiencies identified not considered

to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Not applicable as a single audit was not performed for the year ended June 30, 2009 due to the Authority not expending \$500,000 or more of federal funds.

**SECTION II  
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None

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

Not applicable.