

FINANCIAL REPORT

Georgia Higher Education Assistance Corporation

(A component unit of the Georgia Student Finance Commission)

Year ended June 30, 2010

with Independent Auditor's Report

Georgia Higher Education Assistance Corporation

Financial Statements

Year ended June 30, 2010

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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, 2010 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, 2010, 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 22, 2010, 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.

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC". The signature is written in black ink and is centered on the page.

Macon, Georgia
September 22, 2010

Georgia Higher Education Assistance Corporation

Management's Discussion and Analysis

June 30, 2010

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, 2010. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

2010

- Net loss of \$980 thousand
- \$.3 million decline from prior year in operating revenues due predominantly to decreases in rehabilitation collections earnings
- \$.3 million decrease from fiscal year 2009 in collection expense to \$1.8 million
- \$1.6 million decrease in Federal Default Fee paid on behalf of lenders
- 12.2% decline in outstanding loans guaranteed to \$1.06 billion
- \$1.7 million decrease related to Federal Student Loan Reserve expense accrual

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, 2010

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, 2010

Financial Analysis

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

Net Assets

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

Table A-1

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

	FY 2010	FY 2009	Dollar Change	Percentage Change
Cash and Cash Equivalents	\$14,320	\$15,058	\$ (738)	(4.9) %
Receivables, Net	650	927	(277)	(29.9) %
Other Assets	67	153	(86)	(56.3) %
Total Assets	\$15,037	\$16,138	\$ (1,101)	(6.8) %
Total Liabilities	\$ 1,104	\$ 1,225	\$ (121)	(9.8) %
Total Net Assets	\$13,933	\$14,913	\$ (980)	(6.6) %

As can be seen in Table A-1, net assets decreased \$980 thousand to \$13.9 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, 2010

Table A-2

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

	FY 2010	FY 2009	Dollar Change	Percentage Change
Operating Revenues	\$ 8,098	\$ 8,417	\$ (319)	(3.8)%
Operating Expenses	9,126	9,045	81	0.9%
Income from Operations	(1,028)	(628)	(400)	63.7%
Non-operating Revenues	48	113	(65)	(57.5)%
Change in Net Assets	(980)	(515)	(465)	90.2%
Beginning Net Assets	14,913	15,428	(515)	(3.3)%
Ending Net Assets	\$13,933	\$14,913	\$ (980)	(6.6)%

As can be seen in Table A-2, operating revenues decreased \$319 thousand from the prior year. Earnings on rehabilitation collections dropped \$833 thousand and consolidations revenue increase by \$600 thousand. The overall decline in rehabilitation collections revenue of 23.8% is primarily due to strained economic conditions and an increased focus on default prevention.

Operating expenses had an \$81 thousand increase when compared to the prior year. Results are primarily due to a reversal of the Federal Student Loan Reserve expense accrual of \$1.7 million in fiscal year 2009. This was offset by a decrease of \$1.6 million in the Federal Default Fee paid by the Corporation on behalf of 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 during fiscal year 2010.

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

June 30, 2010

Capital Assets and Long-Term Debt

The Corporation had no capital assets and no long-term debt at June 30, 2010.

Economic Factors

Student Aid and Fiscal Responsibility Act (SAFRA) amends the Higher Education Act of 1965 (HEA). The Health Care and Education Reconciliation Act of 2010 (HCERA) revokes the authority to originate or insure new federal loans under the Federal Family Education Loan Program (FFELP) after June 30, 2010. Starting July 1, 2010, all new federal education loans, including Stafford, PLUS and Consolidation loans, will be made through the Direct Loan program.

Although FFELP lending activities will suspend, we will continue to service FFELP loans and the Georgia Higher Education Assistance Corporation (GHEAC) will continue its role as a guaranty agency.

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 Administration, 2082 East Exchange Place, Tucker, Georgia 30084.

Georgia Higher Education Assistance Corporation

Statement of Net Assets

Enterprise Fund

	<u>June 30, 2010</u>
Assets	
Cash and cash equivalents	\$ 14,319,885
Due from U.S. Dept. of Education	650,018
Other receivable	<u>66,804</u>
Total assets	<u><u>\$ 15,036,707</u></u>
 Liabilities and net assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 414,764
Due to Georgia Student Finance Authority	505,309
Other liabilities	<u>183,974</u>
Total liabilities	1,104,047
 Net assets:	
Unrestricted	<u>13,932,660</u>
Total liabilities and net assets	<u><u>\$ 15,036,707</u></u>

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

Georgia Higher Education Assistance Corporation

Statement of Revenues, Expenses and Changes in Net Assets

Enterprise Fund

	Year ended June 30, 2010
Operating revenues:	
Collection fees on student loans	\$ 5,029,446
Loan processing fees	1,001,708
Loan maintenance fees	777,975
Default aversion fees	631,388
Loan disbursement program fees	657,360
Total operating revenues	<u>8,097,877</u>
Operating expenses:	
General and administrative expenses	6,012,919
Guaranty processing expense	1,342,691
Collection expense	1,773,461
Federal default fee paid for lenders	(3,271)
Total operating expenses	<u>9,125,800</u>
Loss from operations	(1,027,923)
Non-operating revenues:	
Interest earned on investments	47,871
Total non-operating revenues	<u>47,871</u>
Change in net assets	(980,052)
Net assets at beginning of year	<u>14,912,712</u>
Net assets at end of year	<u><u>\$ 13,932,660</u></u>

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

Georgia Higher Education Assistance Corporation

Statement of Cash Flows

Enterprise Fund

	Year ended June 30, 2010
Cash flows from operating activities	
Cash received from U.S. Department of Education	\$ 8,461,063
Cash paid to vendors	(9,247,428)
Net cash used for operating activities	<u>(786,365)</u>
Cash flows from investing activities	
Interest earned on investments	47,871
Net cash provided by investing activities	<u>47,871</u>
Decrease in cash and cash equivalents	(738,494)
Cash and cash equivalents at beginning of year	<u>15,058,379</u>
Cash and cash equivalents at end of year	<u><u>\$ 14,319,885</u></u>
Reconciliation of loss from operations to net cash used for operating activities:	
Loss from operations	\$ (1,027,923)
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	277,134
Other receivables	86,052
Accounts payable and accrued expenses	105,352
Due to Georgia Student Finance Authority	(138,349)
Other liabilities	<u>(88,631)</u>
Net cash used for operating activities	<u><u>\$ (786,365)</u></u>

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

Georgia Higher Education Assistance Corporation

Statement of Fiduciary Assets and Liabilities

Agency Fund

	<u>June 30, 2010</u>
Assets	
Cash and cash equivalents	\$ 4,454,941
Federal principal receivable on defaulted loans outstanding	118,048,108
Federal interest receivable on defaulted loans outstanding	6,296,927
Federal default fee receivable	<u>148,771</u>
Total assets	<u>\$ 128,948,748</u>
 Liabilities	
Due to U.S. Dept. of Education-- federal defaulted loans outstanding	\$ 124,345,035
Due to lenders for defaulted loans	<u>4,603,713</u>
Total liabilities	<u>\$ 128,948,748</u>

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

Georgia Higher Education Assistance Corporation

Notes to Basic Financial Statements

June 30, 2010

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, 2010

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, 2010

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, 2010

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 2010, 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, 2010

2. Deposits and Investments

Total deposits and investments as of June 30, 2010 are summarized as follows:

	<u>2010</u>
As reported in the Statement of Net Assets:	
Enterprise Fund	
Cash and cash equivalents	\$ 14,319,885
Agency Fund	
Cash and cash equivalents	4,454,941
	<u>\$ 18,774,826</u>
Cash deposited with financial institutions	\$ 18,774,826
	<u>\$ 18,774,826</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, 2010, 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, 2010, 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, 2010

3. Student Loans Outstanding and in Default

As of June 30, 2010, the Corporation was the guarantor of approximately \$1,057,509,305 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, 2010 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:

Description of Account	2010
Reserve for default prevention	\$ 46,843
Collection agencies payable	130,186
Other accounts payable accrued	421,709
	<u>\$ 598,738</u>

Georgia Higher Education Assistance Corporation

Notes to Basic Financial Statements

June 30, 2010

5. Related Party Transactions

The Authority pays administrative expenses that are subsequently charged to and reimbursed by the Corporation. At June 30, 2010, the Corporation owed \$505,309 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 2010, the Corporation recorded \$211,944 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 2010, the Corporation incurred total rent expenses of \$390,575 related to space and operating equipment.

In fiscal year 2010 the Corporation sold rehabilitated loans in the book value amount of \$5,620,148 for \$5,339,140 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, 2010

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, 2010, the Corporation, on behalf of the U.S. DOE, reimbursed \$53,837,842 to lenders for defaulted loans.

7. Loans Assigned to the U.S. DOE

For the year ended June 30, 2010, approximately \$17,017,672 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, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Office of Post Secondary Education		
Federal Family Education Loan Program:		
Defaulted loan purchases	84.032	\$ 53,837,842
Total Federal Expenditures		\$ 53,837,842

See accompanying note.

Georgia Higher Education Assistance Corporation

Note to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

1. Defaulted Student Loans

The total balance, net of collections, at June 30, 2010, of all defaulted student loans, which the Corporation has purchased under Federal reinsurance agreement, was \$124,345,035. This amount is reflected in the accompanying Agency Fund Statement of Fiduciary Assets and Liabilities.



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, 2010, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated September 22, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 22, 2010.

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.

The image shows a handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive style and is centered on the page.

Macon, Georgia
September 22, 2010

Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on 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 Georgia Higher Education Assistance Corporation's (the "Corporation") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2010. 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. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-1 through 2010-4.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-1 through 2010-4. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the Board of 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 22, 2010

Georgia Higher Education Assistance Corporation

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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: \$1,615,135

Auditee qualified as low-risk auditee? yes no

**SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None

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

2010-1. Failure to assign defaulted loan to the U.S. Department of Education.

Criteria – Unless the Secretary notifies a guaranty agency in writing that other loans must be assigned to the Secretary, a guaranty agency must assign any loan that meets all of the following criteria as of April 15 of each year: (a) unpaid principal balance is at least \$100; (b) the loan, and any other loans held by the guaranty agency for that borrower, have been held by the agency for at least five years; (c) a payment has not been received on the loan in the last year; and (d) a judgment has not been entered on the loan against the borrower.

Condition –For fiscal year end June 30, 2010, a loan tested that met the criteria for loans to be assigned to ED was not properly assigned.

Context – One exception out of a sample of sixty (60) was noted as meeting the criteria to be assigned to ED but was not properly assigned and removed from the books of the Corporation.

Effect – The Corporation failed to comply with the specific requirement and held a loan in its portfolio at year end which should have been assigned to the ED.

Cause – The exception was noted to be due to a system error in which a treasury offset payment which originally paid the loan in full was subsequently reversed; however, the paid in full status was not removed from the loan when the payment was reversed. The system error prevented the Corporation's system from recognizing the loan as subject to assignment.

Recommendations – The Corporation should assign this loan to ED in accordance with 34 CFR section 682.409.

Auditee's Response – The Corporation agrees that on the loan identified, the paid in full status was not removed when the treasury offset payment was reversed, preventing the system from recognizing the loan as subject to assignment. We have corrected the status of the identified loan, and the loan was referred for assignment to ED as of September 13, 2010.

To ensure these errors do not occur again, the Corporation will put additional internal controls in place. We will query the servicing system to check for paid in full status loans with balances and verify that the changes are made correctly.

SECTION III
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-2. 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 one borrower noted in our sample of sixty (60).

Context – In the prior year, a payment was posted to the borrower’s account and subsequently reversed; however, the collection charge was not also reversed. When a payment was posted in fiscal year 2010, the payment was first applied to the outstanding fee and an additional fee was charged.

Effect – Inappropriate costs were charged to the borrower on this defaulted loan.

Cause – In the prior year, a payment was posted to the borrower’s account and subsequently reversed; however, the collection charge was not also reversed. When a payment was posted in fiscal year 2010, the payment was first applied to the outstanding collection fee and an additional fee was charged.

Recommendations – The Corporation should implement procedures to ensure that all collection charges are reversed when payments are reversed.

Auditee's Response – The Corporation agrees that on the loan identified, the borrower was charged inappropriate costs related to collection activities. Since a reversal of the Treasury Offset Program (TOP) payment associated with the collection charge TOP fee of \$17 was processed in the prior year, the TOP fee should have been manually reversed by the Corporation due to a system limitation which will not automatically reverse the collection charge along with the related payment.

To ensure inappropriate collection costs are not charged to borrower’s accounts, the Corporation has developed and implemented additional operational and internal control procedures. When a reversal of a TOP payment occurs and no portion of this payment is re-applied to the borrower’s account, then the Corporation will manually reverse the associated TOP fee. Additionally, a database query report will be provided by the Information Technology (IT) department at the beginning of each month to identify any borrowers’ accounts with unpaid TOP fees which indicates a reversal of a TOP payment has been processed. Each of the borrower’s accounts listed on the report will be researched to determine if the TOP fee should be reversed, given this should only occur if no portion of the TOP payment will be re-applied to the borrower’s account. Otherwise, the TOP fee will remain in the “unpaid” field until some portion of the payment is re-applied to the borrower’s account at which time the TOP fee will be reflected in the “paid” field. Once these steps have been completed, the accounting manager will review and initial the report indicating approval of the TOP fee as appropriate.

SECTION III
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Furthermore, the borrower's account noted above has been corrected and now reflects the correct TOP fee of \$16.

2010-3. Failure to rebate default aversion fees on a loan which was subsequently paid as a default claim.

Criteria – Guaranty agencies may transfer a default aversion fee from its Federal Fund to its Operating Fund based on 1 percent of the total unpaid principal and accrued interest owed on loans on which the lender requests default aversion assistance. However, if a loan on which the guaranty agency has received the default aversion fee is subsequently paid as a default claim, the guaranty agency must rebate funds to the Federal Fund by deducting the rebate funds from the default aversion fee calculation.

Condition – The Corporation did not return the 1% default aversion fee on a loan which was subsequently paid as a default claim.

Context – Due to a timing issue, the default aversion fee was billed a day after the default claim was paid.

Effect – Inappropriate costs were billed to the U.S. Department of Education.

Cause – The Default Aversion Assistance Request (DAAR) was processed on 4/29/10 and the claim paid 4/29/10. Default aversion fee billing executed on 4/30/10 at month end. Due to a timing issue the loan was no longer in a claim status because of claim payment and fee billing occurred. Therefore, the default aversion fee was not subsequently refunded after the defaulted claim was paid.

Recommendations – The Corporation should implement procedures to ensure that all default aversion fees are rebated when default claims are paid.

Auditee's Response – The Corporation agrees that on the loan identified, the 1% default claim payment amount was not reimbursed to ED. The Corporation has made an adjustment to this loan and reimbursed ED the total fee billed amount of \$2,172 on 7/31/10.

To ensure this system error does not occur again, the Corporation has modified the system to run the Default Aversion Billing Program before the scheduled weekly Claim Purchase Program. This will resolve the timing issue. In addition, we will query the system monthly to verify there are no exceptions.

SECTION III
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

2010-4. Failure to properly report loans purchased by the U.S. Department of Education.

Criteria – Once a loan is purchased by the U.S. Department of Education, guaranty agencies cease to have any obligations, responsibilities, or rights (including any rights to any payment) for the loan. Guaranty agencies annually submit to ED Form 2000, *Guarantee Agency Financial Report*. Line AR-7, Loans Transferred Out on that report shows the loans sold to ED. Also line MR-15 shows the Secretary’s fee for defaulted FFEL loans consolidated with Direct Loans and line MR-27 is the total receivable on these loans.

Condition – The Corporation did not properly report the amounts in line MR-27 of ED Form 2000 in accordance with 34 CFR section 682.414(b)(4)).

Context – Amounts reported on line MR-27 of ED Form 2000 included the 18.5% Direct Consolidation Fee in addition to the outstanding principal and interest on loans consolidated.

Effect – See above condition.

Cause – Due to management oversight, amounts reported on line MR-27 of ED Form 2000 included the 18.5% Direct Consolidation Fee in addition to the outstanding principal and interest on loans consolidated.

Recommendations – The Corporation should implement procedures to ensure that all amounts are properly reported on ED Form 2000.

Auditee's Response – The Corporation agrees that in several instances, the 18.5% Direct Consolidation Fee (DCF) was improperly reported on line MR-27 of ED Form 2000. The error was caused due to human error in which the amount was manually calculated rather than reported as provided on the GACD444 report from GOALS, the reporting system used for ED Form 2000. Given the DCF amount was reported in the “Other Amount” column and separately from the principal and interest amounts on line MR-27 of ED Form 2000, the DCF amount had no financial impact and was not used to calculate the federal receivable balance due to the Corporation.

To ensure that all amounts are properly reported on ED Form 2000, the Corporation has developed and implemented additional operational and internal controls procedures. Amounts reported on the ED Form 2000, to include amounts for line MR-27, will be obtained from the appropriate GOALS report as provided for the ED Form 2000 reporting. Any deviation from this procedure will be brought to the attention and discussed with the accounting manager, the Corporation’s service provider, Great Lakes and the Department of Education, as appropriate to determine the proper amount to report and the appropriate resources for obtaining this data. Additionally, the current month ED Form 2000 will be compared to the prior period’s report line by line. Any discrepancies found will be researched and analyzed to ensure the amounts are properly reported.

Georgia Higher Education Assistance Corporation

Schedule of Prior Year Findings

Year ended June 30, 2010

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.

Auditee Response/Status – Resolved