

FINANCIAL REPORT

Georgia Student Finance Authority

(A component unit of the Georgia Student Finance Commission)

Year ended June 30, 2010

with Independent Auditor's Report

Georgia Student Finance Authority

Financial Report

Year ended June 30, 2010

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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, 2010 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, 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 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 22, 2010

Georgia Student Finance Authority

Management's Discussion and Analysis

June 30, 2010

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

Financial Highlights

2010

- Net loss of \$5.4 million
- \$94.8 million in Federal Family Education Loan Program (FFELP) principal disbursed through cash portfolio, 6% decrease over prior year
- Year end total loan portfolio (owned & serviced) balance of \$192.9 million in principal, 12% decrease over prior yearend
- Approximately \$207.8 million in student loan principal sold in fiscal year 2010
- Rehabilitation purchases of \$5.3 million in fiscal year 2010 compared to \$5.4 million in fiscal year 2009
- Average effective yield on cash portfolio of 1.19% in fiscal year 2010 compared to 2.68% in fiscal year 2009

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, 2010

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, 2010

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)

	FY 2010	FY 2009	Dollar Change	Percentage Change
Cash & Cash Equivalents	\$ 11,697	\$ 3,600	\$ 8,097	224.9%
Receivables, Net	53,686	161,598	(107,912)	(66.8)%
Pledged Receivables	99,624	14,003	85,621	611.5%
Other Assets	444	433	11	2.6%
Capital Assets	2,046	2,407	(361)	(15.0)%
Total Assets	\$ 167,497	\$ 182,041	\$(14,544)	(8.0)%
Total Liabilities	\$ 111,293	\$ 120,388	\$ (9,095)	(7.6)%
Total Net Assets	\$ 56,204	\$ 61,653	\$ (5,449)	(8.8)%

As shown in Table A-1, total assets decreased \$14.5 million from fiscal year 2009. The predominant factor in the decrease was the decrease of student loan portfolio. Net assets decreased \$5.5 million.

Georgia Student Finance Authority

Management's Discussion and Analysis (continued)

June 30, 2010

Net Assets (continued)

Table A-2

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

	FY 2010	FY 2009	Dollar Change	% Change vs Prior Yr
Operating Revenues	\$ 12,724	\$ 22,048	\$ (9,324)	(42.3)%
General and Administrative Expenses	5,033	5,171	(138)	(2.7)%
Other Expenses	13,915	17,406	(3,491)	(20.3)%
Total Operating Expenses	18,948	22,577	(3,629)	(16.1)%
Income (loss) from Operations	(6,224)	(529)	(5,695)	1076.6%
Non-operating Revenues, Net	775	1,175	(400)	(34.0)%
Change in Net Assets	(5,449)	646	(6,095)	(943.5)%
Beginning Net Assets	61,653	61,007	646	1.1%
Ending Net Assets	\$ 56,204	\$ 61,653	\$ (5,450)	(8.8)%

As can be seen in Table A-2 above, operating revenues declined \$9.3 million. This decline was due predominantly to \$3.9 million loan sale discounts in fiscal year 2010 versus \$0.2 million loan sale premiums in the prior year, a \$2.5 million decline in the federal interest benefits earned, and a \$4.2 million decrease in service cancelable loan revenue. In June 2010, the Authority sold \$149.7 million student loans to payoff \$136.3 million on its line of credit in response to the elimination of FFELP. As a result, the loan sale premiums became loan sale discounts from fiscal year 2009 to fiscal year 2010. Federal interest benefits decline was due to the larger difference between market interest rate and interest rates on many of the Authority's student loans as the market rate continued to decline in fiscal year 2010. The decline of service cancelable loan revenue was a result of the decreased loan disbursements, which in turn was due to the eliminations of some of the state service cancelable loan programs in fiscal year 2010.

General and administrative expenses were reduced by \$0.1 million, primarily due to the reduction of its salary and benefit expenses, contract expenses and information technology expenses. Other expenses decreased in total \$3.5 million. The major factor was a \$3.5 million decline in service cancelable loan repaying expenses, corresponding with the decreased disbursements.

Georgia Student Finance Authority

Management's Discussion and Analysis (continued)

June 30, 2010

Capital Assets and Debt Financing

Capital Assets

As of June 30, 2010, the Authority had approximately \$2.0 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 \$361 thousand or 15.0% in comparison to the end of last year.

Table A-3

Capital Assets (In thousands of dollars)

	FY 2010	FY 2009
Land	\$ 374	\$ 374
Buildings	288	404
Building Improvements	615	681
Equipment	183	251
Furniture & Fixtures	586	697
Total Capital Assets	<u>\$ 2,046</u>	<u>\$ 2,407</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, 2010

Debt Financing

The Georgia Student Authority had a \$150,000,000 line of credit with SunTrust Bank during the fiscal year 2010. On June 28, 2010, the Authority paid off the line of credit in full and did not renew the contract.

The average line of credit balance was \$115.4 million for fiscal year 2010. The annual interest rate of the line of credit for fiscal year 2010 is one month LIBOR plus 100.0 basis points. The rate was adjusted monthly on the first business day of each month. A per year 25.0 basis points fee applied for unused line of credit. Interest and fees were paid quarterly. The applicable interest rate as of June 30, 2010 was 1.2777%. The loan was 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. In response to the elimination of FFELP, the Authority sold \$149.7 million of its loan portfolio and used the proceeds to pay off the line of credit. As of June 30, 2010, the line of credit balance is zero and the line of credit contract was not renewed. The FFELP student loan program, will be eliminated starting from July 1, 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.

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

Component Unit Basic Financial Statements

Georgia Student Finance Authority
Statement of Net Assets
Enterprise Fund

	June 30, 2010
Assets	
Current assets:	
Cash and cash equivalents	\$ 11,696,944
Student loans (net of allowance for doubtful accounts of \$967,746)	46,258,885
Student loans - service repayable (net of allowance for doubtful accounts of \$603,818 and allowance for service repayments of \$43,044,202)	5,660,134
Accrued interest receivable on student loans	1,203,444
Student loans receivable, pledged	99,624,178
Due from Georgia Higher Education Assistance Corporation	505,309
Due from Nonpublic Postsecondary Education Commission	57,539
Other assets	444,329
Total current assets	\$ 165,450,762
Noncurrent assets:	
Capital assets	
Nondepreciable	\$ 373,750
Depreciable (net of accumulated depreciation of \$7,980,256)	1,672,236
Total noncurrent assets	2,045,986
Total assets	\$ 167,496,748
Liabilities and net assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 3,766,200
Deferred revenue	537,717
Due to U.S. Department of Education	667,968
Due to Georgia Student Finance Commission	897,450
Due to agency fund	3,174,199
Collateralized borrowing—due to Edsouth	100,068,354
Liability for leased equipment	121,620
Other liabilities	2,059,639
Total liabilities	111,293,147
Net assets:	
Invested in capital assets	1,924,366
Unrestricted	54,279,235
Total net assets	56,203,601
Total liabilities and net assets	\$ 167,496,748

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

	Year ended June 30, 2010
Operating revenues	
Federal interest benefits	\$ (2,765,987)
Interest on student loan payments	6,644,056
Late fees	293,781
Discount on sale of loans	(3,883,122)
Loan servicing fees	99,164
Service cancelable loans	12,332,131
Other operating revenues	3,660
Total operating revenues	12,723,683
Operating expenses	
General administrative expenses	5,032,532
Service cancelable loans repayment expense	10,488,796
Depreciation expense	462,547
Bad debt expense	244,907
Interest expense	1,555,752
Lender fees	1,166,145
Borrower benefits	(2,818)
Total operating expenses	18,947,861
Loss from operations	(6,224,178)
Non-operating revenues	
Interest earned on investments	34,279
Funds transferred from general loan fund	11,126
Rental income	729,692
Total non-operating revenues	775,097
Change in net assets	(5,449,081)
Net assets at beginning of year	61,652,682
Net assets at end of year	\$ 56,203,601

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

Georgia Student Finance Authority
Statement of Cash Flows
Enterprise Fund

	<u>Year ended June 30, 2010</u>
Cash flows from operating activities	
Cash received from student loan repayments	\$ 10,830,772
Cash received from other governments	54,354,253
Cash received from loan sales	194,107,669
Cash received from loan service	87,999
Grants & scholarships disbursements	(32,249,596)
Loan disbursements	(107,221,249)
Cash paid to other governments	(10,183,003)
Cash paid to vendors	(3,646,384)
Cash paid to employees	(8,559,412)
Reimbursement for salaries allocated to other entities as part of administrative expenses	<u>5,649,212</u>
Net cash provided by operating activities	103,170,261
Cash flows from non-capital financing activities	
Net payments on line of credit	<u>(95,800,000)</u>
Net cash used for non-capital financing activities	(95,800,000)
Cash flows from capital financing activities	
Principal portion of capital lease payments	<u>(48,842)</u>
Net cash used for capital financing activities	(48,842)
Cash flows from investing activities	
Interest earned on investments	34,279
Rental and other income	729,692
Funds transferred to the general fund	<u>11,126</u>
Net cash provided by investing activities	775,097
Increase in cash and cash equivalents	8,096,516
Cash and cash equivalents at beginning of year	<u>3,600,428</u>
Cash and cash equivalents at end of year	<u><u>\$ 11,696,944</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 June 30, 2010</u>
Reconciliation of loss from operations to net cash provided by operating activities	
Loss from operations	\$ (6,224,178)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation	462,547
Bad debt expense	244,907
Changes in operating assets and liabilities	
Student loans	105,512,830
Accrued interest receivable on student loans	1,952,256
Pledged student loan receivables	(85,621,605)
Due from U.S. Department of Education	(169,053)
Due from Georgia Higher Education Assistance Corporation	138,349
Due to Georgia Student Finance Commission	965,698
Due from Nonpublic Postsecondary Education Commission	(4,119)
Other assets	(11,309)
Accounts payable and accrued expenses	(615,254)
Deferred revenue	377,510
Due to agency fund	168,242
Due to Edsouth	85,993,440
Net cash provided by operating activities	<u><u>\$ 103,170,261</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, 2010</u>
Assets	
Cash and cash equivalents	\$ 133,429
Due from enterprise fund	<u>3,174,199</u>
Total assets	<u><u>\$ 3,307,628</u></u>
Liabilities	
Undisbursed student grants and scholarships	\$ 3,215,665
Funds due to others	<u>91,963</u>
Total liabilities	<u><u>\$ 3,307,628</u></u>

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

Georgia Student Finance Authority

Notes to Basic Financial Statements

June 30, 2010

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, 2010

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, 2010

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, 2010

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 approximate \$99,624,178 of pledged receivables shown on its statement of net assets. Underlying the pledged receivables are the loans that the Authority sold to Edsouth on June 8, 2010 and began servicing on June 9, 2010. The pledged receivables that were shown on the prior year statement of net assets no longer exist since the Authority repurchased its underlying loan portfolio on June 3, 2010.

For the pledged receivables that were created by the June 8, 2010 loan sale, the Authority is obligated to repurchase loans that became ineligible for the Department of Education Loan Purchase Program due to the Authority's breach of or failure to comply with the related service agreement. The following allowance is reserved for these potential liabilities:

<u>Description of Account</u>	<u>2010</u>
Allowance for serviced loans of a third party	<u>\$ 2,059,639</u>
Total other liabilities	<u>\$ 2,059,639</u>

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

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

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, 2010

2. Deposits and Investments

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

As reported in the Statement of Net Assets:	<u>2010</u>
Enterprise Fund	
Cash and cash equivalents	\$ 11,696,944
Agency Fund	
Cash and cash equivalents	<u>133,429</u>
Cash deposited with financial institutions	<u><u>\$ 11,830,373</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, 2010, 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, 2010, 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, 2010

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, 2010, the Authority has established an allowance of \$967,746.

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 \$43,044,202, 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 \$603,818 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, 2010

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.

On June 3, 2010, the Authority repurchased the balance of \$13,053,861 of serviced loans that were sold to Edsouth in June 2008. The purchase price was \$12,802,465. On June 8, 2010, the Authority sold to Edsouth student loans of \$99,805,836 in principal and interest combined for \$93,646,064. The Authority reflects the June 2010 loan sales to Edsouth in the statement of net assets as a collateralized borrowing.

As of June 30, 2010, \$99,624,178 is recorded within the Authority's statement of net assets as a pledged student loans receivable which is offset by an equal liability plus \$444,176 due to Edsouth for collections not yet remitted to Edsouth for a total liability amount of \$100,068,354.

5. Other Assets

Other assets at June 30 are summarized as follows:

Description of Account	2010
Fees receivable	\$ 229,869
Prepayments	175,148
Miscellaneous accounts receivable	39,312
Total other assets	<u>\$ 444,329</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

6. Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 373,750	\$ -	\$ -	\$ 373,750
Total	<u>373,750</u>	<u>-</u>	<u>-</u>	<u>373,750</u>
Capital assets, being depreciated:				
Buildings	3,462,757	-	-	3,462,757
Building improvements	1,009,914	-	-	1,009,914
Equipment	3,969,804	101,540	-	4,071,344
Furniture and fixtures	1,108,477	-	-	1,108,477
Total	<u>9,550,952</u>	<u>101,540</u>	<u>-</u>	<u>9,652,492</u>
Less accumulated depreciation for:				
Buildings	3,058,768	115,425	-	3,174,193
Building improvements	329,053	66,207	-	395,260
Equipment	3,718,609	170,067	-	3,888,676
Furniture and fixtures	411,279	110,848	-	522,127
Total	<u>7,517,709</u>	<u>462,547</u>	<u>-</u>	<u>7,980,256</u>
Total capital assets, being depreciated, net	<u>2,033,243</u>	<u>(361,007)</u>	<u>-</u>	<u>1,672,236</u>
Total capital assets, net	<u>\$2,406,993</u>	<u>\$ (361,007)</u>	<u>\$ -</u>	<u>\$2,045,986</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

7. Accounts Payable and Accrued Expenses

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

Description of Account	2010
Accrued accounts payable	\$ 2,898,377
Accrued compensated absences	817,437
Other accrued liabilities	50,386
	<u>\$ 3,766,200</u>

8. Deferred Revenue

Deferred revenue at June 30 is summarized as follows:

Description of Account	2010
LEAP Scholarship	\$ 237,039
North Georgia Military Scholarships	182,602
Other Service Cancelable Loans	118,076
	<u>\$ 537,717</u>

9. Due to Agency Fund

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

Description of Account	2010
BYRD Scholarship	\$2,322,600
Governor's Scholarship	260,266
Tuition Equalization Grant	289,619
Other	301,714
	<u>\$3,174,199</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

10. Long-term Liabilities

The following is a summary of long-term liability activity for the year ended June 30, 2010:

	Balance	Additions	Reductions	Balance	One Year
Capital leases payable	\$ 68,922	\$ 101,540	\$ 48,842	\$ 121,620	\$ 59,039
Guarantees to repurchase receivables	2,059,639	-	-	2,059,639	-
Collateralized borrowing	14,074,914	100,061,726	14,068,286	100,068,354	-
Total long-term liabilities	\$ 16,203,475	\$ 100,163,266	\$ 14,117,128	\$ 102,249,613	\$ 59,039

Capital Leases

The Authority entered into a lease agreement in January 2008 as a 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 Authority entered into another lease agreement in July 2009 as a lessee for financing the acquisition of mailing equipment. The lease also qualifies as a capital lease for accounting purposes and has been recorded at the fair market value of the leased equipment at the date of the inception of the lease. The following is an analysis of leased assets under capital leases as of June 30, 2010:

Equipment	\$ 208,001
Less: Accumulated depreciation	(81,095)
	\$ 126,906

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of June 30, 2010:

FY 2011	\$60,193
FY 2012	45,571
FY 2013	30,949
Total minimum lease payments	136,713
Less: Amount representing interest	15,093
Present value of future minimum lease payments	\$121,620

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

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 16. Additional information regarding the Collateralized Borrowing can be found in Note 4.

11. Promissory Note Payable

The Georgia Student Finance Authority had a \$150,000,000 line of credit with SunTrust Bank during the fiscal year 2010. On June 28, 2010, the Authority paid off the line of credit in full and did not renew the contract.

The average line of credit balance was \$115.4 million for fiscal year 2010. The annual interest rate of line of credit for fiscal year 2010 was one month LIBOR plus 100.0 basis points. The rate was adjusted monthly on the first business day of each month. A per year 25.0 basis points fee applied for unused line of credit. Interest and fees were paid quarterly. The applicable interest rate as of June 30, 2010 was 1.2777%. The loan was 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:

	Balance at July 1, 2009	Borrowings	Repayments	Balance at June 30, 2010
Fiscal year 2010	\$95,800,000	\$113,300,000	\$(209,100,000)	\$ -

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 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, 2010, amounts owed to the Authority for unreimbursed expenses by the Corporation, and the Nonpublic Postsecondary Education Commission were \$505,309 and \$57,539, respectively. Also, on June 30, 2010, amounts owed to the Commission by the Authority for unreimbursed expense were \$897,450.

The Authority participates as a lender in the Corporation's disbursement system and pays a per loan fee to the Corporation. During fiscal year 2010, the Authority incurred expenses totaling \$211,944 for loans originated through this system.

During fiscal year 2010, the Authority purchased rehabilitated loans from the Corporation in the book value amount of \$5,620,148 for \$5,339,140.

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 2010, the Authority recorded \$390,575 in rental income from the Corporation, \$307,225 in rental income from the Commission, and \$31,892 from the Nonpublic Postsecondary Education Commission.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

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 plan 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.

The benefit structure of ERS is established by the Board of Trustees under statutory guidelines. Unless the employee 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

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

13. Pension Plan – Merit Employees (continued)

Employees' Retirement System of Georgia: (continued)

Benefits: (continued)

subject to the plan provisions 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 benefits 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 contributions 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 Commission pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these Commission 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 contributions under the new plan and GSEPS are 1.25% of annual compensation. The Commission is required to contribute at a specified percentage of active member payroll established by the Board of Trustees determined annually in accordance with actuarial valuation and minimum funding

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

13. Pension Plan – Merit Employees (continued)

Employees' Retirement System of Georgia: (continued)

Contributions Required and Contributions Made: (continued)

standards as provided by law. These Commission contributions are not at any time refundable to the member or his/her beneficiary.

For the fiscal year ended June 30, 2010, the ERS employer contribution rates, based on the June 30, 2007 actuarial valuation, for the Authority were 10.41% for new Plan employees, 6.54% for GSEPS employees, and 5.66% for old Plan employees.

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

The Annual Required Contributions and Actual Employer Contributions, from the Authority to the Employees' Retirement System, totaled \$282,929 of which \$35,601 was made by employees. The Authority made 100% of the required contributions for each year and had no net pension obligation at the end of the fiscal year ended June 30, 2010.

Other Deferred Compensation

Merit employees may also participate in 401(K) and 457 plans. During fiscal year 2010, Authority employees contributed \$111,163 combined for these two plans. Additionally, merit employees have a Teachers Retirement Program available. In fiscal year 2010, Authority employer contributions were \$14,722 and employee contributions were \$7,935.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

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 2009 and 2010 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. Effective July 1, 2010, the 3% discretionary employer contribution will be suspended.

During fiscal year 2010, the Authority contributed \$357,047 (\$168,830 of matching contributions and \$188,217 of discretionary contributions) and the employees contributed \$313,557 to the Plan.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

15. Other Post-Employment Benefits:

The Authority participates in two State of Georgia postemployment benefit plans, the Georgia State Employees Post-employment 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.

Retiree health benefits were previously funded through the Georgia Retiree Health Benefit Fund (GRHBF). In 2009, the General Assembly revisited the GRHBF and enacted legislation that, effective August 31, 2009, separated the GRHBF into two new funds: the Georgia School Personnel Post-employment Health Benefit Fund and the Georgia State Employees Post-employment Health Benefit Fund. The purpose of this change was to assure employers responsible for planning and funding future retiree health costs that their contributions will be dedicated to their respective retiree populations. Funds in the GRHBF were transferred to the Georgia State Employees Post-employment Health Benefit Fund or the Georgia School Personnel Post-employment Health Benefit Fund as described in the plan financial statements. The statute that created the GRHBF is repealed effective September 1, 2010.

Georgia State Employees Post-employment Health Benefit Fund:

The Georgia State Employees Post-employment Health Benefit Fund (State OPEB Fund) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that covers eligible former employees of State organizations (including technical colleges) and other entities authorized by law to contract with the Department of Community Health for inclusion in the plan. The State OPEB Fund provides health insurance benefits to eligible former employees and their qualified beneficiaries through the health insurance plan for State employees. The Official Code of Georgia Annotated (OCGA) assigns the authority to establish and amend the benefit provisions of the group health plans, including benefits for retirees, to the Board of Community Health (Board).

The contribution requirements of plan members and participating employers are established by the Board in accordance with the current Appropriations Act and may be amended by the Board. 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 25 percent of the cost of the health insurance coverage.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

15. Other Post-Employment Benefits (continued)

Georgia State Employees Post-employment Health Benefit Fund: (continued)

Participating employers are statutorily required to contribute in accordance with the employer contribution rates established by the Board. The contribution rates are established to fund all benefits due under the health insurance plans for both active and retired employees based on projected “pay-as-you-go” financing requirements. Contributions are not based on the actuarially calculated annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The combined active and retiree contribution rates established by the Board for employers participating in the State OPEB Fund for the fiscal year ended June 30, 2010 were as follows:

July 2009	22.165% of covered payroll for August coverage
August 2009 – October 2009	16.581% of covered payroll for September- November coverage
November 2009 – June 2010	22.165% of covered payroll for December - July coverage

No additional contribution was required by the Board for fiscal year 2010 nor contributed to the State OPEB Fund 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 Authority’s contribution to the health insurance plans for the fiscal year ended June 30, 2010, was \$528,564, which equaled the required contribution as described above for fiscal year 2010.

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.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

16. Guarantees to Repurchase Receivables (continued)

The Authority is responsible for a part of the \$99,624,178 in pledged receivables currently on its statement of net assets that become ineligible for the Department of Education Put Program due to the Authority's breach or noncompliance with related service agreement.

The pledged receivables of \$14,002,573 that existed on the prior year statement of net assets ceased to exist when the Authority repurchased, in June 2010, all the underlying student loans of the pledged receivables. Therefore the obligation of repurchase related to the pledged receivables carried over from the prior year was removed.

Based on the Authority's claim denial rate history and the nature of the obligation under the serviced loans, \$2,059,639 has been reserved for these potential 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.

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, 2010, the Authority participated in the Putt Program on September 24, 2009, October 26, 2009, and June 18, 2010. The total loan sales, excluding the sale of participation loans in March 2010, to the U.S. Department of Education (the "ED"), for the year ended June 30, 2010, were approximately \$58.7 million. In addition, the Authority participated in the Participation Program on January 11, 2010 and January 26, 2010. The total amount of the two participations was \$47.6 million. The participated loans were sold to ED on

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2010

18. Loan Sales (continued)

March 18, 2010 under the Put Program after the Authority redeemed \$3.6 million of the participated interests.

In addition to the loan sale and participation transactions with ED listed above, the Authority also sold \$99.8 million student loans to Edsouth for \$93.6 million on June 8, 2010, and sold \$15.2 million student loans to SunTrust for \$14.3 million.



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, 2010, which collectively comprise the Authority'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 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 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 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 22, 2010.

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 22, 2010

Georgia Student Finance Authority
Schedule of Findings and Responses

Year ended June 30, 2010

**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, 2010 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.

