

FINANCIAL REPORT

Georgia Student Finance Authority

(A component unit of the Georgia Student Finance Commission)

Year ended June 30, 2019

with Independent Auditor's Report

Georgia Student Finance Authority

Financial Report

Year ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2019, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

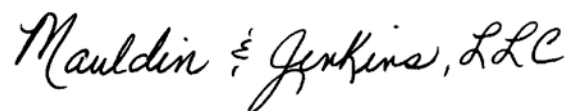
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 3 through 8) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2019, 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* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Macon, Georgia
September 17, 2019

Georgia Student Finance Authority
Management's Discussion and Analysis

June 30, 2019

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, 2019. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

2019

- Increase in net position of \$21.6 million from the prior year
- Year-end total loan portfolio balance of \$176.8 million in principal before bad debt allowance, 8.0% increase over prior year end
- Student Access Loan portfolio increased to \$153.3 million in principal from \$141.2 million of last year
- Total \$24.5 million disbursements of grants and scholarships
- Total \$6.4 million disbursements of service cancelable loans

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, 2019

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 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 Position 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 Position. 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, capital financing and investing 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, 2019

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 Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. You can think of the Authority's net position – 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 position 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 Position

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

Table A-1

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

	FY 2019	FY 2018	Dollar Change	Percentage Change
Cash & Cash Equivalents	\$ 46,129	\$ 43,773	\$ 2,356	5.4%
Receivables, Net	173,333	155,387	17,946	11.5%
Other Assets	234	208	26	12.5%
Capital Assets	1,813	1,734	79	4.6%
Total Assets	\$ 221,509	\$ 201,102	\$ 20,407	10.1%
Total Liabilities	\$ 4,715	\$ 5,892	\$ (1,177)	(20.0)%
Total Net Position	\$ 216,794	\$ 195,210	\$ 21,584	11.1%

As shown in Table A-1, total assets increased \$20.4 million from fiscal year 2018, while the total liabilities decreased \$1.2 million. The increase in assets was mostly due to a \$12.1 million increase in Student Access Loan receivables, a \$4.6 million increase in receivables from the REACH Georgia Foundation and a \$2.4 million increase in cash and cash equivalents.

Georgia Student Finance Authority

Management's Discussion and Analysis (continued)

June 30, 2019

Net Position (continued)

Table A-2

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

	FY 2019	FY 2018	Dollar Change	% Change vs Prior Yr
Operating Revenues	<u>\$ 67,885</u>	\$ 64,647	\$ 3,238	5.0%
General and Administrative Expenses	<u>5,413</u>	6,674	(1,261)	(18.9)%
Other Expenses	<u>41,847</u>	39,953	1,894	4.7%
Total Operating Expenses	<u>47,260</u>	46,627	633	1.4%
Income from Operations	<u>20,625</u>	18,020	2,605	14.5%
Non-operating Revenues, Net	<u>959</u>	591	368	62.3%
Change in Net Position	<u>21,584</u>	18,611	2,973	16.0%
Beginning Net Position	<u>195,210</u>	176,599	18,611	10.5%
Ending Net Position	<u><u>\$ 216,794</u></u>	<u>\$ 195,210</u>	<u>\$ 21,584</u>	11.1%

As can be seen in Table A-2 above, the operating revenue increased \$3.2 million, mostly attributable to \$1.3 million increase in Grants and Scholarship allotments, \$1.2 million increase in other operating revenue and \$776 thousand increase in service cancelable loan allotments.

The general and administrative expenses decreased \$1.3 million, primarily due to a \$1.2 million decrease in personal service expenses. Other expenses increased \$1.9 million, mostly due to a \$1.3 million increase in Student Access Loan bad debt expenses.

Georgia Student Finance Authority

Management's Discussion and Analysis (continued)

June 30, 2019

Capital Assets and Debt Financing

Capital Assets

As of June 30, 2019, the Authority had approximately \$1.8 million invested in a variety of capital assets, as reflected in Table A-3 below, which represents a net increase (additions, less deductions and depreciation) of \$79 thousand or 4.6% in comparison to the end of last year.

Table A-3

Capital Assets (In thousands of dollars)

	<u>FY 2019</u>	<u>FY 2018</u>
Land	\$ 374	\$ 374
Buildings	--	--
Building Improvements	461	522
Equipment	290	419
Furniture & Fixtures	407	42
Capital Asset in Process	281	377
Total Capital Assets	<u>\$ 1,813</u>	<u>\$ 1,734</u>

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

Debt Financing

The Authority had no debt financing at the end of fiscal year 2019.

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 Chief Operating Officer, 2082 East Exchange Place, Tucker, Georgia 30084.

Component Unit Basic Financial Statements

Georgia Student Finance Authority
Statement of Net Position
Enterprise Fund

	<u>June 30, 2019</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 46,129,426
Student loans - service repayable (net of allowance for doubtful accounts of \$648,097 and allowance for service repayments of \$19,344,819)	3,564,890
Student Access Loans (net of allowance for doubtful accounts of \$4,598,440 and allowance for service repayments of \$978,124)	147,704,689
Accrued interest receivable on student loans	1,492,021
Due from Georgia Student Finance Commission	1,472,680
Due from Georgia Higher Education Assistance Corporation	82,616
Due from Nonpublic Postsecondary Education Commission	127,677
Receivables - REACH Georgia Foundation - investments	18,888,000
Other assets	234,215
Total current assets	<u>219,696,214</u>
Noncurrent assets:	
Capital assets	
Non-depreciable	655,087
Depreciable (net of accumulated depreciation of \$8,509,900)	1,157,981
Total noncurrent assets	<u>1,813,068</u>
Total assets	<u>\$ 221,509,282</u>
Liabilities and net position	
Liabilities:	
Accounts payable and accrued expenses	\$ 778,551
Unearned revenue	478,596
Due to agency fund	1,250
Liability for leased equipment – due within one year	17,484
Liability for leased equipment – due in more than one year	4,563
Other liabilities	3,434,779
Total liabilities	<u>4,715,223</u>
Net position	
Net investment in capital assets	1,791,021
Restricted	181,375,765
Unrestricted	33,627,273
Total net position	<u>\$ 216,794,059</u>

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

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

	Year ended June 30, 2019
Operating revenues	
Interest on student loan payments	\$ 3,237,556
Late fees	279,459
Service cancelable loans	6,277,730
Student access loan origination fees	269,253
Student access loan revenue	26,000,000
Grants and scholarships	30,217,938
REACH administrative revenue	400,000
Other operating revenue	1,203,027
Total operating revenues	<u>67,884,963</u>
Operating expenses	
General administrative expenses	5,413,222
Service cancelable loans repayment expense	4,875,865
Depreciation expense	252,899
Bad debt expense	10,810,193
Student access loan service repayment expense	864,215
Minority engineer repayment expense	558,600
Grants and scholarship disbursements	24,482,644
Interest expense	2,226
Total operating expenses	<u>47,259,864</u>
Income from operations	<u>20,625,099</u>
Non-operating revenues	
Interest income	443,423
Rental income	515,383
Total non-operating revenues	<u>958,806</u>
Change in net position	21,583,905
Net position at beginning of year	<u>195,210,154</u>
Net position at end of year	<u><u>\$ 216,794,059</u></u>

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, 2019</u>
Cash flows from operating activities	
Cash received from student loan repayments	\$ 8,679,740
Cash received from other governments	62,495,668
Cash received from loan origination	269,253
Grants & scholarship disbursements	(24,482,644)
Loan disbursements	(35,007,864)
Cash paid to other governments	(159,465)
Cash paid to REACH Georgia Foundation	(4,588,000)
Cash paid for previously serviced loans	(24,771)
Cash paid to vendors	(3,145,776)
Cash paid to employees	(2,290,362)
Net cash provided by operating activities	<u>1,745,779</u>
Cash flows from capital financing activities	
Acquisition of capital assets	(331,803)
Principal portion of capital lease payments	(16,312)
Net cash used for capital financing activities	<u>(348,115)</u>
Cash flows from investing activities	
Interests	443,423
Rental and other income	515,383
Net cash provided by investing activities	<u>958,806</u>
Increase in cash and cash equivalents	2,356,470
Cash and cash equivalents at beginning of year	43,772,956
Cash and cash equivalents at end of year	<u>\$ 46,129,426</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, 2019</u>
Reconciliation of income from operations to net cash provided by operating activities	
Income from operations	\$ 20,625,099
Adjustments to reconcile income from operations to net cash used for operating activities:	
Depreciation	252,899
Bad debt expense	16,550,273
Changes in operating assets and liabilities	
Student loans	(29,835,746)
Accrued interest receivable on student loans	271,753
Due from Georgia Higher Education Assistance Corporation	23,999
Due from Georgia Student Finance Commission	(364,001)
Due from Nonpublic Postsecondary Education Commission	(4,631)
Receivable from REACH Georgia Foundation	(4,588,000)
Other assets	(26,089)
Accounts payable and accrued expenses	(1,135,454)
Due from REACH Georgia Foundation	448
Other liabilities	(24,771)
Net cash provided by operating activities	<u>\$ 1,745,779</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, 2019</u>
Assets	
Cash and cash equivalents	\$ 67,731
Due from enterprise fund	<u>1,250</u>
Total assets	<u><u>\$ 68,981</u></u>
 Liabilities	
Undisbursed student grants and scholarships	\$ 1,250
Funds due to others	<u>67,731</u>
Total liabilities	<u><u>\$ 68,981</u></u>

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

Georgia Student Finance Authority

Notes to Basic Financial Statements

June 30, 2019

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 fourteen 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*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*.

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, 2019

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.

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.

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 grants and scholarships disbursed on behalf of the State of Georgia and a private organization.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

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:

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

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

1. Summary of Significant Accounting Policies (continued)

Other Liabilities

Other liabilities consist of allowances for previously 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 serviced Sallie Mae loans relates to an approximately \$154,400,000 loan portfolio, of which the loan servicing discontinued on May 1, 2007, while the obligation is in effect until August 12, 2028. The Authority's obligation for serviced EdSouth loans relates to an approximately \$255,200,000 loan portfolio, of which the servicing discontinued on February 9, 2015, while the obligation is in effect until March 31, 2025.

Description of Account	2019
Allowance for serviced Sallie Mae loans	\$1,959,550
Allowance for serviced EdSouth Loans	1,475,229
Total other liabilities	<u>\$3,434,779</u>

See Note 14 (Guarantees to Repurchase Receivables) for additional information.

Grants and Other Intergovernmental Revenue

All state appropriations for grants, scholarships and student loans are recognized as revenue when funds are received.

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, 2019

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows / Inflows of Resources

The Authority implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of July 1, 2012. This new standard establishes accounting and financial reporting for deferred outflows / inflows of resources and the concept of net position as the residual of all other elements presented in a statement of net position.

In addition to assets, the *Statement of Net Position* will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority did not have any items that qualified for reporting in this category.

2. Deposits and Investments

Total deposits and investments as of June 30, 2019 are summarized as follows:

As reported in the Statement of Net Position:	<u>2019</u>
Enterprise Fund	
Cash and cash equivalents	\$ 46,129,426
Agency Fund	
Cash and cash equivalents	<u>67,731</u>
Cash deposited with financial institutions	<u>\$ 46,197,157</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

2. Deposits and Investments (continued)

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, 2019, 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, 2019, the Authority did not have any balances exposed to custodial credit risk as uninsured and uncollateralized as defined by GASB pronouncements.

3. Student Loans (Enterprise Fund)

Student loans represent loans to students pursuing post-secondary education. These loans are funded from net position, private donations and appropriations from the State of Georgia. The Authority administrated service cancelable loans and Student Access Loans in fiscal year 2019.

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. The Authority has established an allowance for estimated future reductions attributed to services performed in the amount of \$19,344,819, 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 \$648,097 for the portion of loans in cash repayment.

The Student Access Loan (SAL) program provides low interest loans to eligible students who have unmet financial need. SAL loans may be funded by state general funds, proceeds from the Georgia Lottery for Education and public and/or private donations. Borrower principal repayments are used to fund future SAL disbursements. The Authority has established an allowance for doubtful accounts in the amount of \$4,598,440. SAL also offers a service repayment option for qualified borrowers. The Authority has established an allowance for the service repayment expenses in the amount of \$978,124.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

3. Student Loans (Enterprise Fund) (continued)

The Authority's loans 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.

4. Capital Assets

Capital asset activity for the year ended June 30, 2019 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 373,750	\$ -	\$ -	\$ 373,750
Capital assets in process	376,722	311,585	406,970	281,337
Total	<u>750,472</u>	<u>311,585</u>	<u>406,970</u>	<u>655,087</u>
Capital assets, being depreciated:				
Buildings	3,462,757	-	-	3,462,757
Building improvements	1,531,115	20,218	-	1,551,333
Equipment	3,061,676	14,880	-	3,076,556
Furniture and fixtures	1,185,145	392,090	-	1,577,235
Total	<u>9,240,693</u>	<u>427,188</u>	<u>-</u>	<u>9,667,881</u>
Less accumulated depreciation for:				
Buildings	3,462,756	-	-	3,462,756
Building improvements	1,008,550	82,118	-	1,090,668
Equipment	2,642,392	143,510	-	2,785,902
Furniture and fixtures	1,143,303	27,271	-	1,170,574
Total	<u>8,257,001</u>	<u>252,899</u>	<u>-</u>	<u>8,509,900</u>
Total capital assets, being depreciated, net	<u>983,692</u>	<u>174,289</u>	<u>-</u>	<u>1,157,981</u>
Total capital assets, net	<u>\$1,734,164</u>	<u>\$ 485,874</u>	<u>\$ 406,970</u>	<u>\$1,813,068</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

5. Other Assets

Other assets at June 30, 2019 are summarized as follows:

Description of Account	2019
Fees receivable	\$ 222,142
Prepayments	11,907
Miscellaneous receivables	166
Total other assets	<u>\$ 234,215</u>

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at June 30, 2019 are summarized as follows:

Description of Account	2019
Accrued accounts payable	\$ 604,663
Other accrued liabilities	173,888
	<u>\$ 778,551</u>

7. Unearned Revenue

Unearned revenue at June 30, 2019 is summarized as follows:

Description of Account	2019
Graduate on Time	\$ 125,564
Education for Public Service	125,589
Second Student Access	120,834
Other unearned revenue	106,609
	<u>\$ 478,596</u>

8. Due to Agency Fund

Due to the Agency Fund at June 30, 2019 is summarized as follows:

Description of Account	2019
BYRD	\$ 1,250
	<u>\$ 1,250</u>

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

9. Long-term Liabilities

The following is a summary of long-term liability activity for the year ended June 30, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases payable	\$ 38,359	\$ -	\$ 16,312	\$ 22,047	17,484
Guarantees to repurchase receivables	3,459,550	-	24,771	#####	-
Total long-term liabilities	<u>\$ 3,497,909</u>	<u>\$ -</u>	<u>\$ 41,083</u>	<u>\$ #####</u>	<u>\$ 17,484</u>

Capital Leases

The Authority entered into a lease agreement in September 2017 as a lessee for financing the acquisition of mailing equipment. This 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 the leased asset under capital leases as of June 30, 2019:

Equipment	\$ 49,871
Less: Accumulated depreciation	<u>(27,706)</u>
	<u>\$ 22,165</u>

The following is a schedule of future minimum lease payments together with the present value of net minimum lease payments as of June 30, 2019:

FY2020	18,575
FY2021	<u>4,643</u>
Total Minimum Lease payment	23,218
Less: Amount representing interest	<u>(1,171)</u>
Present value of future minimum lease payments	<u>\$ 22,047</u>

Guarantees to Repurchase Receivables

Additional information regarding the Guarantees to Repurchase Receivables can be found in Note 14.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

10. Restricted Net Position

Restricted net position at June 30, 2019 is summarized as follows:

Description	2019
Restricted for Scholarships & Grants	\$ 6,631,297
Restricted for Student Access Loans (SAL)	154,160,160
Restricted for Service Cancelable Loans	1,696,308
Restricted for REACH	18,888,000
	<u>\$ 181,375,675</u>

11. Operating Leases

The Authority entered into a copier lease as lessee in 2015 with commencement date on January 1, 2016. The Authority assumed a lease payment liability for a rental car that was leased by the Commission but now is used by the Authority. Both leases are considered for accounting purposes to be operating leases. Lease expenses for the year ended June 30, 2019 amounted to \$20,046. Future minimum lease payments for these leases are as follows:

<u>Year Ending</u>	
FY 2020	9,247
	<u>\$ 9,247</u>

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), the Nonpublic Postsecondary Education Commission (the "NPEC"), and the REACH Georgia Foundation Inc. (the "REACH"). On June 30, 2019, amounts owed to the Authority for unreimbursed expenses by the Commission, the Corporation and the NPEC were \$1,472,680, \$82,616, and \$127,677 respectively, while REACH had a zero balance.

The Authority pays an investment administrative fee to the REACH Georgia Foundation and charges the REACH Georgia Foundation a general administrative fee. In fiscal year 2019 the investment administrative fee and the general administrative fee were of the same amount, offsetting each other.

Georgia Student Finance Authority

Notes to Basic Financial Statements (continued)

June 30, 2019

12. Related Party Transactions (continued)

The Authority rents office space and certain operating equipment to the Corporation, the Commission, NPEC and the Georgia Vocational Rehabilitation Agency “GVRA”. During fiscal year 2019, the Authority recorded \$22,339 in rental income from the Corporation, \$281,603 in rental income from the Commission, \$28,860 rental income from the NPEC and \$182,581 in rental income from the GVRA.

13. 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 Sallie Mae 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. Based on the Authority’s claim denial rate history and the nature of the obligation under the serviced loans, \$1,959,550 has been reserved for these potential future liabilities.

Effective February 9, 2015, the Authority’s loan servicing agreement ended with EdSouth whose portfolio was approximately \$255,200,000 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 March 31, 2025. Based on the Authority’s claim denial rate history and the nature of the obligation under the serviced loans, \$1,475,229 has been reserved for these potential future liabilities.

14. 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.



**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, 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, 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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 17, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

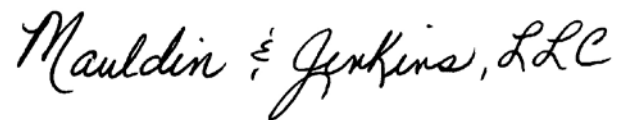
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The script is cursive and fluid, with the letters "M", "J", and "L" being particularly prominent.

Macon, Georgia
September 17, 2019

Georgia Student Finance Authority
Schedule of Findings and Responses

Year ended June 30, 2019

**SECTION I
SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weaknesses identified? _____ Yes x No

Significant deficiencies identified not considered

To be material weaknesses? _____ Yes x None Reported

Noncompliance material to financial statements noted? _____ Yes x No

Federal Awards

Not applicable as a single audit was not performed for the year ended June 30, 2019 due to the Authority not expending \$750,000 or more of federal funds.

**SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None

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

Not applicable