
Secretary of State

State of Oregon

**FUND STATEMENTS OF
OREGON STUDENT ASSISTANCE COMMISSION**

Federal Family Education Loan Program

For the Year Ended June 30, 2003



Audits Division

Contract Auditor: Moss Adams LLP

Secretary of State

State of Oregon
**FUND STATEMENTS OF
OREGON STUDENT ASSISTANCE COMMISSION**
Federal Family Education Loan Program
For the Year Ended June 30, 2003



Audits Division



Auditing for a Better Oregon

The Honorable Ted Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Jeff Svejcar, Executive Director
Oregon Student Assistance Commission
1500 Valley River Drive, Suite 100
Eugene, Oregon 97401

This report presents the results of the audit of the Oregon Student Assistance Commission's Federal Family Education Loan Program Operating and Federal Reserve Funds and the report on compliance and internal control over financial accounting. The audit was performed by Moss Adams, LLP for the Oregon Audits Division.

The Independent Auditor's Report and the financial statements for the fiscal year ended June 30, 2003 are included in the Financial Section of this report. The auditors concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

The audit report related to the department's internal control and compliance with applicable laws and regulations is included in the Other Reports section of this report. No instances of noncompliance that are required to be reported under *Government Auditing Standards* were identified.

OREGON AUDITS DIVISION

Cathy Pollino
State Auditor

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SUMMARY

AUDIT PURPOSE

The audit was conducted for the purpose of expressing an opinion on the Oregon Student Assistance Commission's Federal Family Education Loan Program financial statements for the fiscal year ended June 30, 2003, and reporting on compliance and on internal control over financial reporting.

AUDIT RESULTS

The audit concluded that the Oregon Student Assistance Commission's Federal Family Education Loan Program financial statements for the year ended June 30, 2003, which are included in this report, are fairly presented. The review disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*, nor did the auditors note matters involving internal control over financial reporting that were considered to be material weaknesses.

ORGANIZATION AND FUNCTIONS

The Oregon Student Assistance Commission (OSAC) is a part of the state of Oregon reporting entity. The Commission was created as an agency of the state of Oregon on June 20, 1967, by *Oregon Revised Statute* (ORS) 348.510. Oversight responsibility lies with elected state officials. The Governor of the state of Oregon appoints the Commission members.

OSAC administers the Federal Family Educational Loan (FFEL) Program. As part of this process, OSAC guarantees new student financial aid loans under the authority of the U.S. Department of Education and acts as a collection agent for defaulted loans.

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Oregon Student Assistance Commission
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the accompanying financial statements of Oregon Student Assistance Commission's Federal Family Education Loan Program Operating and Federal Reserve Funds as of and for the year ended June 30, 2003. These financial statements are the responsibility of Oregon Student Assistance Commission's management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note 1, the financial statements present only the Federal Family Education Loan program funds and do not purport to, and do not, present fairly the financial position of Oregon Student Assistance Commission as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon Student Assistance Commission's Federal Family Education Loan Program as of June 30, 2003, and the changes in its financial position 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 October 31, 2003 on our consideration of the Oregon Student Assistance Commission's Federal Family Education Loan Program internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Eugene, Oregon
October 31, 2003



STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
BALANCE SHEET
OPERATING FUND
JUNE 30, 2003

ASSETS

Cash and cash equivalents	\$ 1,349,566
Receivables	354,678
Due from federal fund for rehabilitation loan payments	<u>315,557</u>
 Total assets	 <u>\$ 2,019,801</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 601,185
Other liabilities	<u>177,814</u>
 Total liabilities	 <u>778,999</u>
 Fund balance:	
Unreserved fund balance	<u>1,240,802</u>
 Total liabilities and fund balance	 <u>\$ 2,019,801</u>

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

STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
 OPERATING FUND
 JUNE 30, 2003

REVENUES

Federal fees	\$ 1,957,770
Borrower payments	2,626,400
Interest income	458,281
Other	<u>49,919</u>
 Total revenues	 <u>5,092,370</u>

EXPENDITURES

Salaries and wages	3,627,559
Services and supplies	2,721,097
Other	<u>48,764</u>
 Total expenditures	 <u>6,397,420</u>

Deficiency of revenues under expenditures	<u>(1,305,050)</u>
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OTHER FINANCING SOURCES (USES)

Transfers out	<u>(1,354,944)</u>
 Net change in fund balance	 (2,659,994)
 Fund balance – beginning	 <u>3,900,796</u>
 Fund balance – ending	 <u><u>\$ 1,240,802</u></u>

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

STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
STATEMENT OF FIDUCIARY NET ASSETS
FEDERAL RESERVE FUND
JUNE 30, 2003

ASSETS

Cash and cash equivalents	\$ 1,663,244
Receivables	<u>886,761</u>
 Total assets	 <u>2,550,005</u>

LIABILITIES

Due to operating fund for rehabilitation loan payments	<u>315,557</u>
 Total liabilities	 <u>315,557</u>

NET ASSETS

Held in trust for US Department of Education	 <u>\$ 2,234,448</u>
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The accompanying notes are an integral part of the financial statements.

STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FEDERAL RESERVE FUND
 JUNE 30, 2003

ADDITIONS

Federal fees	\$ 11,134,071
Borrower payments	6,958,177
Interest income	31,919
Transfers from Operating Fund	<u>1,354,944</u>
 Total additions	 <u>19,479,111</u>

DEDUCTIONS

Loans purchased	18,806,450
Other	<u>1,460,944</u>
 Total deductions	 <u>20,267,394</u>

Change in net assets held in trust for U.S. Department of Education	(788,283)
 Net assets – beginning	 <u>3,022,731</u>
 Net assets – ending	 <u><u>\$ 2,234,448</u></u>

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

STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

1. Summary of Significant Accounting Policies

The accompanying financial statements are presented in conformity with generally accepted accounting principles (GAAP) applicable to state governments as prescribed by the Governmental Accounting Standards Board (GASB) and interpreted by the Department of Administrative Services in administrative rules and the Oregon Accounting Manual.

a. Reporting Entity

The Oregon Student Assistance Commission (OSAC) is a part of the state of Oregon reporting entity. The Commission was created as an agency of the state of Oregon on June 20, 1967, by Oregon Revised Statute (ORS) 348.510. Oversight responsibility lies with elected state officials. The Governor of the state of Oregon appoints the Commission members.

OSAC administers the Federal Family Educational Loan (FFEL) Program. As part of this process OSAC guarantees new student financial aid loans under the authority of the U. S. Department of Education and acts as a collection agent for defaulted loans.

b. Fund Financial Statements

These statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified as governmental or fiduciary.

Federal Family Education Loan Program Operating Fund – A governmental fund that accounts for revenues received from the U.S. Department of Education or student borrowers for administration of the Federal Family Education Loan Program

U.S. Department of Education Federal Reserve Fund – A fiduciary fund that accounts for activities related to defaulted loans of the FFEL program. This fund is maintained for the U.S. Department of Education.

c. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

Notes to the Financial Statements (continued)
June 30, 2003

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized as earned and expenditures are recognized as soon as a liability is incurred.

d. Cash and Cash Equivalents

Cash and cash equivalents includes cash and investments held by the State Treasury in the Oregon Short Term Fund (OSTF). Money deposited by OSAC in the State Treasury is invested as authorized by law. All moneys held in the OSTF are considered to be cash equivalents.

e. Receivables

Receivables are amounts due representing revenues earned or accrued in the current period. Types of receivables included in this classification relate to amounts due from the federal government.

f. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures in the funds, as if they involved organizations external to OSAC. Transactions that are reimbursements to a fund for expenses initially made from it that are properly applicable to another fund, are recorded as expenses in the reimbursing fund and as reductions of expense in the fund that is reimbursed.

All other interfund transactions are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Notes to the Financial Statements (continued)
June 30, 2003

2. Cash Deposits

Statute and the Oregon Investment Council (Council) govern OSAC's investment policies. The State Treasurer is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with Oregon law, funds are invested and managed, as a prudent investor would do, exercising reasonable care, skill, and caution.

The State Treasurer maintains the Oregon Short-Term Fund, a cash and investment pool, which is available for use by all state funds and local governments. Because the pool operates as a demand deposit account, each fund's portion of this pool is classified as cash and cash equivalents. The State Treasury's direct investments in short-term securities are limited by portfolio rules established by the Oregon Short-Term Fund Board and the Council.

There are three categories of credit risk that apply to deposits of OSAC:

1. Insured or collateralized with securities held by the State Treasury or by its agent in the State's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
3. Uncollateralized.

As of June 30, 2003, deposit balances are as follows:

	Category			Book Balance	Bank Balance
	1	2	3		
Federal Family Education Loan Program	\$ 3,012,810			\$ 3,012,810	\$ 3,610,343

Cash is distributed as follows:

Operating Fund	\$ 1,349,566
Federal Reserve Fund	<u>1,663,244</u>
Total Cash	<u>\$ 3,012,810</u>

3. Retirement Plan

The Public Employees Retirement System (PERS) is a statewide-defined benefit retirement plan for units of state government, school districts, community colleges, and political subdivisions of the State, including OSAC. PERS is administered by the Public Employees Retirement Board (Board) under the guidelines of Chapter 238 of the *Oregon Revised Statutes*, and it provides retirement and disability benefits, cost-of-

Notes to the Financial Statements (continued)
June 30, 2003

living adjustments, and death benefits to plan members and beneficiaries. For units of state government, community colleges, and school districts, participation in the PERS cost-sharing multiple-employer plan is mandatory.

PERS issues a separate, publicly available financial report that includes audited financial statements and required supplementary information. That report may be obtained by writing to the Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700.

Covered employees are required by state law to contribute six percent of their salary to the plan. OSAC contributes this portion for the employees as allowed by law. OSAC is required by state law to contribute actuarially computed amounts as determined by PERS (the contribution rate for the year ended June 30, 2003 was 9.49 percent of OSAC employee salaries). For the year ended June 30, 2003, the total amounts contributed for both the employees required contribution and the employer's required contribution by OSAC and the FFEL Program were \$520,567 and \$387,970 respectively. Actual contributions were equal to required contributions for the year ended June 30, 2003.

4. Leases

Operating leases are rental agreements with payments reported as expenditures. All lease agreements contain termination clauses that provide for cancellation of the lease at the end of a biennium. This is necessary because the Oregon Legislature could disallow the funding for particular leases.

The only lease that OSAC has is for the rental of real property. The Department of Administrative Services (DAS) approves leases for real property. This lease expires on January 31, 2004. OSAC has an option to extend the lease to January 31, 2006 with monthly base rent of \$24,976 to \$25,725. Rental expense allocated to the FFEL Program during the fiscal year ended June 30, 2003 was \$212,735.

As of June 30, 2003, future minimum lease payments are as follows:

<u>June 30,</u>		
2004	\$	294,616
2005		303,457
2006		<u>180,075</u>
Total	\$	<u><u>778,148</u></u>

5. Guaranteed Student Loans

New student loans guaranteed during the fiscal year ended June 30, 2003, totaled approximately \$149 million. The outstanding receivable balance of guaranteed student loans as of June 30, 2003 was approximately \$764 million. Of this amount approximately \$112 million is currently being collected on behalf of the federal government. The financial activities and balance of these guaranteed student loans are not reported in the accompanying financial statements.

6. Return of Federal Reserve Amounts

The Balanced Budget Act of 1997 required the FFEL program guarantee agencies to deposit \$1 billion of reserve funds into escrow accounts over a five-year period, for the deposit to the U.S. Treasury in September 2002. OSAC's share is approximately \$10.4 million. During fiscal year ended June 30, 2003, this amount was paid to the U.S. Treasury from the escrow account.

7. Risk Management

The State of Oregon administers property and casualty insurance programs covering state government through its Insurance Fund. The Insurance Fund services claims for direct physical loss or damage to state property; tort liability claims brought against the state, its officers, employees, or agents; workers' compensation; employee dishonesty; and faithful performance coverage for certain key positions required by law to be covered, and other key positions.

As a state agency, OSAC participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each state entity based on its share of services provided in a prior period. The total statewide assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Insurance Fund from the prior biennium. OSAC and the FFEL Program's share of the assessment for the fiscal year ended June 30, 2003 were \$7,539 and \$5,990 respectively.

Notes to the Financial Statements (continued)
June 30, 2003

8. Contingencies

The establishment of the Federal Family Education Loan Program – Operating Fund was accomplished, in part, by a transfer of funds representing the remaining principal balance of State funds and accrued interest thereon which had been held in the FFELP Reserve Account for the period October 1976 through November 1998. The U.S. Department of Education Office of the Inspector General has questions concerning the State's claim to these funds. OSAC is in the process of responding to the U.S. Department of Education. It is not possible to ascertain the outcome of these discussions.

OTHER REPORTS

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Oregon Student Assistance Commission
Eugene, Oregon

Oregon Secretary of State Audits Division
Salem, Oregon

We have audited the Federal Family Education Loan (FFEL) program financial statements of Oregon Student Assistance Commission as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Oregon Student Assistance Commission's FFEL financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oregon Student Assistance Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the FFEL financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Oregon Student Assistance Commission, Oregon Secretary of State Audits Division, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Eugene, Oregon
October 31, 2003

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

<i>State Auditor</i>	Cathy Pollino, CGFM, MBA
<i>Deputy State Auditor</i>	Charles A. Hibner, CPA
<i>Deputy State Auditor</i>	Mary E. Wenger, CPA

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<http://www.sos.state.or.us/audits/audithp.htm>

The courtesies and cooperation extended by officials and employees of the Oregon Student Assistance Commission during the course of this audit were commendable and sincerely appreciated.

Auditing to Protect the Public Interest and Improve Oregon Government

