
Secretary of State

State of Oregon
FUND STATEMENTS OF
OREGON STUDENT ASSISTANCE COMMISSION
Federal Family Education Loan Program
For the Year Ended June 30, 2004



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, 2004



Audits Division



Auditing for a Better Oregon

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

Margie Lowe, 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, 2004, 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.

Effective January 1, 2005, the Oregon Student Assistance Commission will no longer administer the Federal Family Education Loan program nor act as the designated guaranty agency for Oregon. At the direction of the U.S. Department of Education (Department), program assets and liabilities as of December 31, 2004, will be assumed by the Department and student loan portfolios will be transferred to the Educational Credit Management Corporation.

OREGON AUDITS DIVISION

Cathy Pollino
State Auditor

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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, 2004. 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, 2004, 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, 2004, 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 14, 2004 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 14, 2004

Moss Adams LLP

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
OPERATING FUND
BALANCE SHEET
JUNE 30, 2004**

ASSETS

Cash and cash equivalents	\$	1,044,435
Receivables		<u>378,030</u>
Total assets	\$	<u>1,422,465</u>

LIABILITIES AND FUND BALANCE

Liabilities		
Accounts payable	\$	417,197
Due to federal fund for federal recall		1,083,945
Other liabilities		<u>231,648</u>
Total liabilities		<u>1,732,790</u>
Fund balance		
Unreserved fund balance (deficit)		(1,278,234)
Fund balance reserved for default aversion activities		<u>967,909</u>
Total fund balance (deficit)		<u>(310,325)</u>
Total liabilities and fund balance	\$	<u>1,422,465</u>

The accompanying notes are an integral part of the financial statements

STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
OPERATING FUND
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

REVENUES

Federal fees	\$ 2,247,807
Borrower payments	3,250,232
Interest income	15,240
Other	<u>145,516</u>
 Total revenues	 <u>5,658,795</u>

EXPENDITURES

Salaries and wages	3,228,995
Services and supplies	2,538,640
Other	<u>87,342</u>
 Total expenditures	 <u>5,854,977</u>
 Deficiency of revenues under expenditures	 <u>(196,182)</u>

OTHER FINANCING SOURCES (USES)

Transfers out	<u>(1,354,945)</u>
 Net change in fund balance	 <u>(1,551,127)</u>
 Fund balance – beginning	 <u>1,240,802</u>
 Fund balance (deficit) – ending	 <u>\$ (310,325)</u>

The accompanying notes are an integral part of the financial statements

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
FEDERAL RESERVE FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

ASSETS

Cash and cash equivalents	\$	866,100
Receivables		909,025
Due from operating fund for federal recall		<u>1,083,945</u>
Total assets		<u>2,859,070</u>

NET ASSETS

Unreserved net assets		<u>2,859,070</u>
Total net assets held in trust for U.S. Department of Education	\$	<u>2,859,070</u>

The accompanying notes are an integral part of the financial statements

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
FEDERAL RESERVE FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>ADDITIONS</u>	
Federal fees	\$ 12,402,211
Borrower payments	5,604,706
Interest income	24,645
Transfers from Operating Fund	<u>1,354,945</u>
Total additions	<u>19,386,507</u>
<u>DEDUCTIONS</u>	
Loans purchased	18,232,992
Other	<u>528,893</u>
Total deductions	<u>18,761,885</u>
Net increase in fiduciary net assets	624,622
Net assets – beginning	<u>2,234,448</u>
Net assets – ending	<u>\$ 2,859,070</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, 2004**

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 with the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

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

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

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.

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

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

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, 2004, deposit balances are as follows:

	Category			Book Balance	Bank Balance
	1	2	3		
Federal Family Education Loan Program	\$ 1,910,535			\$ 1,910,535	\$ 2,423,918

Cash is distributed as follows:

Operating Fund	\$ 1,044,435
Federal Reserve Fund	<u>866,100</u>
Total Cash	<u>\$ 1,910,535</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-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, as a percent of OSAC employee salaries, was 11.31% from July 2003 to October 2003 and 4.71%

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

from November 2003 to June 2004). For the year ended June 30, 2004, the total amounts contributed for both the employees required contribution and the employer's required contribution by OSAC and the FFEL Program were \$387,570 and \$310,664 respectively. Actual contributions were equal to required contributions for the year ended June 30, 2004.

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, 2005. OSAC has an option to extend the lease to January 31, 2006 with monthly base rent of \$25,725. Rental expense allocated to the FFEL Program during the fiscal year ended June 30, 2004 was \$241,180.

As of June 30, 2004, future minimum lease payments are as follows:

<u>June 30,</u>	
2005	\$ 303,457
2006	<u>180,075</u>
Total	<u>\$ 483,532</u>

5. Guaranteed Student Loans

New student loans guaranteed during the fiscal year ended June 30, 2004, totaled approximately \$182 million. The outstanding receivable balance of guaranteed student loans as of June 30, 2004 was approximately \$806 million. Of this amount approximately \$101 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 and Restricted Amounts

The Balanced Budget Act of 1997 required FFEL program guarantee agencies to deposit \$1 billion of reserve funds into escrow accounts over a five-year period, for deposit to the U.S. Treasury in September 2002. OSAC's share was approximately \$10.4 million and was transferred as required. Federal regulations allow the use of interest earned on the escrow accounts to fund default management initiative activities in the Operating Fund. A total of \$1,528,274 was transferred to the Operating Fund from the escrow account for this purpose. As

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

of June 30, 2004 \$967,909 of the Operating Fund is restricted for use in default management initiative activities only.

The Operating Fund was established in 1998 by a transfer from the Federal Reserve Fund. This transfer was to be repaid to the Federal Reserve Fund in two equal installments of \$1,354,945 effective September 2002 and September 2003, respectively. The amount due in September 2002 was paid as required. However, only \$271,000 was paid in September 2003, leaving an unpaid balance of \$1,083,945.

The 1998 Amendments to the Higher Education Act contain a provision for an additional recall of federal reserve funds held by guarantee agency Operating Funds to be transferred to the Federal Fund in installments due in September 2006, and 2007. OSAC's share of this recall totals \$1,331,648, due in two equal installments of \$665,824 each. In accordance with the modified accrual basis of accounting, these transfers have not been accrued and recorded for financial statement purposes.

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, 2004 were \$71,014 and \$4,172 respectively.

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.

**STATE OF OREGON
OREGON STUDENT ASSISTANCE COMMISSION
FEDERAL FAMILY EDUCATION LOAN PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

9. Subsequent Events

At the direction of the U.S. Department of Education (Department), OSAC will divest itself of its student loan portfolio by transferring the loans to Educational Credit Management Corporation (ECMC) effective January 1, 2005. As of December 31, 2004, the Department will assume all assets and liabilities related to the FFEL Program and the outstanding balance of Federal and Operating Funds will be transferred to ECMC. OSAC will no longer be the designated guaranty agency for Oregon and will no longer administer the FFEL Program after these transfers to ECMC.

OTHER REPORTS

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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 basic Federal Family Education Loan (FFEL) program financial statements of Oregon Student Assistance Commission as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. 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 basic 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 basic 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.

Moss Adams LLP

Eugene, Oregon
October 14, 2004

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>

by phone at 503-986-2255

or by mail from:

Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

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

