



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana Guaranteed Student Loan Program

*For the Fiscal Year Ended
June 30, 2009*

NOVEMBER 2009

LEGISLATIVE AUDIT
DIVISION

09-06

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LEGISLATIVE AUDIT DIVISION

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Deputy Legislative Auditors
James Gillett
Angie Grove

November 2009

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the fiscal year 2008-09 financial audit of the Office of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program (MGSLP) Federal Special Revenue Fund. The objectives of a financial audit include determining if the program's financial statements present fairly its financial position at June 30, 2009, and the results of its operations for the fiscal year. We tested compliance with state and federal laws that have a direct and material impact on the financial statements. Additional compliance testing for the program is included in our biennial financial-compliance audit of the Office of the Commissioner of Higher Education.

The MGSLP was authorized by the Montana legislature in 1979 and established July 1, 1980. The MGSLP allows eligible students to receive loans from lending institutions to pay for post-secondary education. The federal government guarantees the loans made by lending institutions and makes administrative cost reimbursements to the MGSLP for acting as a collection agent. The MGSLP performs the administrative duties associated with the loan guarantee process but contracts with an outside vendor for computer support services. The prior audit report contained one recommendation that was fully implemented.

As of June 30, 2009, the original principal balance of guaranteed loans outstanding was approximately \$2,049,077,593. The federal government will reimburse MGSLP for defaulted loans at the following rates: 98 to 100 percent for loans issued prior to October 1, 1998, and 95 percent for loans issued on or after October 1, 1998.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion, which means the reader can rely on the presented information. The MGSLP's response to our audit is on page B-1.

We thank the Office of the Commissioner of Higher Education, the Director of the MGSLP, and their staff for the cooperation and assistance they provided during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program Federal Special Revenue Fund as of June 30, 2009, and the related Statement of Revenue, Expenditures, and Changes in Fund Balance for the fiscal year then ended. The information contained in these financial statements is the responsibility of the program'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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commissioner of Higher Education's Montana Guaranteed Loan Program Federal Special Revenue Fund as of June 30, 2009, and the results of operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 21, 2009

Montana Guaranteed Student Loan Program Financial Statement and Notes

**Commissioner of Higher Education
Montana Guaranteed Student Loan Program
Federal Special Revenue Fund
Balance Sheet
As of June 30, 2009**

	Agency Operating Fund	Federal Student Loan Reserve Fund	Essay Scholarship Fund	Total
Assets				
Cash in Treasury	\$ 297,400	\$ 895,698		\$ 1,193,098
Short Term Investments (Note 2)	7,496,728	5,146,011	176,241	12,818,980
Long Term Investments	680,300	466,981	15,993	1,163,274
Accounts Receivable	99,305	4,641	118	104,064
Due From Federal Government (Note 3)	436,206	1,710,927		2,147,133
Prepaid Expense	3,260			3,260
	<hr/>			
Total Assets	<u>\$ 9,013,199</u>	<u>\$ 8,224,258</u>	<u>\$ 192,352</u>	<u>\$ 17,429,809</u>
 Liabilities and Fund Balance				
Liabilities				
Accounts Payable	\$ 607,897	\$ 1,056		\$ 608,953
Deferred Revenue	2,513			2,513
Property Held in Trust (Note 4)	61,729			61,729
Due to Federal Government (Note 5)		535,016		535,016
	<hr/>			
Total Liabilities	<u>\$ 672,139</u>	<u>\$ 536,072</u>	<u>\$ -</u>	<u>\$ 1,208,211</u>
Total Fund Balance	<u>8,341,060</u>	<u>7,688,186</u>	<u>192,352</u>	<u>16,221,598</u>
	<hr/>			
Total Liabilities and Fund Balance	<u>\$ 9,013,199</u>	<u>\$ 8,224,258</u>	<u>\$ 192,352</u>	<u>\$ 17,429,809</u>

The accompanying notes are an integral part of this financial statement.

**Commissioner of Higher Education
Montana Guaranteed Student Loan Program
Federal Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2009**

	Agency Operating Fund			Federal Student Loan Reserve Fund			Essay Scholarship Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Revenue									
Guarantee Fee Income (Note 7)	\$ -	\$ -	\$ -	\$ 1,683,000	\$ 1,915,645	\$ 232,645	\$ -	\$ -	\$ -
Loan Processing and Issuance Fee (Note 8)	652,000	768,657	116,657	-	-	-	-	-	-
Account Maintenance Fees (Note 9)	1,168,520	1,310,884	142,364	-	-	-	-	-	-
Default Aversion Fees (Note 10)	850,000	804,363	(45,637)	190,000	133,536	(56,464)	-	-	-
Collection Recoveries (Note 11)	4,500,000	2,678,908	(1,821,092)	-	-	-	-	-	-
Loan Rehabilitations (Note 11)	5,200,000	5,463,211	263,211	-	-	-	-	-	-
FDSLSP Consolidation Collection Fees (Note 11)	939,372	779,328	(160,044)	-	-	-	-	-	-
Reinsurance from Department of Education (Note 12)	-	-	-	18,000,000	16,455,054	(1,544,946)	-	-	-
Non-Reinsured Loan Recoveries (Note 15)	-	-	-	585,000	261,796	(323,204)	-	-	-
Disbursement Service Fees (Note 4)	156,000	172,874	16,874	-	-	-	-	-	-
Investment Earnings (Note 2)	176,000	118,286	(57,714)	88,000	98,373	10,373	-	2,932	2,932
STIP Security Lending Gross Earnings	24,000	14,709	-	12,000	12,909	909	-	374	374
Miscellaneous	13,000	3,331	(9,669)	-	126	126	-	-	-
Total Revenue	<u>13,678,892</u>	<u>12,114,551</u>	<u>(1,564,341)</u>	<u>20,558,000</u>	<u>18,877,439</u>	<u>(1,680,561)</u>	<u>-</u>	<u>3,306</u>	<u>3,306</u>
Expenditures									
Administrative Costs	\$ 6,871,304	\$ 5,376,172	1,495,132	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Loan Collections (Note 11)	9,886,443	6,306,604	3,579,839	-	-	-	-	-	-
Claims Paid to Lenders (Note 12)	-	-	-	34,854,406	16,850,593	18,003,813	-	-	-
Default Aversion Fees (Note 10)	150,000	133,536	16,464	1,285,627	804,363	481,264	-	-	-
STIP Security Lending Expense	-	4,944	-	-	4,339	-	-	126	126
Scholarships	-	-	-	-	-	-	-	8,613	8,613
Total Expenditures	<u>16,907,747</u>	<u>11,821,256</u>	<u>5,086,491</u>	<u>36,140,033</u>	<u>17,659,295</u>	<u>18,480,738</u>	<u>0</u>	<u>8,739</u>	<u>(8,739)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,228,855)</u>	<u>293,295</u>	<u>3,522,150</u>	<u>(15,582,033)</u>	<u>1,218,144</u>	<u>16,800,177</u>	<u>-</u>	<u>(5,433)</u>	<u>(5,433)</u>
Fund Balance 06/30/08	<u>-</u>	<u>8,047,765</u>	<u>8,047,765</u>	<u>-</u>	<u>6,470,042</u>	<u>6,470,042</u>	<u>-</u>	<u>197,785</u>	<u>197,785</u>
Fund Balance 06/30/09	<u>\$ (3,228,855)</u>	<u>\$ 8,341,060</u>	<u>\$ 11,569,915</u>	<u>\$ (15,582,033)</u>	<u>\$ 7,688,186</u>	<u>\$ 23,270,219</u>	<u>\$ -</u>	<u>\$ 192,352</u>	<u>\$ 192,352</u>

The accompanying notes are an integral part of this financial statement.

**The Commissioner of Higher Education
Montana Guaranteed Student Loan Program
Federal Special Revenue Fund
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The State of Montana's Guaranteed Student Loan Program (MGSLP) is located in the Office of the Commissioner of Higher Education. MGSLP was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions. Montana's Federal Family Education Loan Program (FFELP) operates in compliance with and pursuant to agreements between the Montana Board of Regents and the U.S. Department of Education (DE), pursuant to Section 428 of the Higher Education Act of 1965, as amended. On February 8, 2006, President Bush signed the Higher Education Reconciliation Act of 2005 (the "HERA"), PUB. L. 109-171, which made changes to the Higher Education Act of 1965, as amended.

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting, and are presented in a budget to actual format, which does not significantly differ from a GAAP presentation. Under the modified accrual basis of accounting, revenues are recognized when they are realizable, measurable, earned and available. They are considered realizable and measurable if the transaction has been completed or there is enough information to reasonably estimate the revenue to be received. The revenue is considered earned when the services have taken place. Available means that the revenue is collectable within the current accounting period or will be received within sixty days after the end of the fiscal year. The expenditures are recorded when the department incurs the related liability and it is measurable. The budget information presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is as approved by the Montana Board of Regents for fiscal year 2009.

C. Descriptions of Federal Special Revenue Funds

As a Federal Special Revenue Fund, MGSLP accounts for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. Pursuant to the Higher Education Act of 1965, as amended, MGSLP accounts for its operations in two separate funds: the Federal Student Loan Reserve Fund (FSLRF) and the Agency Operating Fund (AOF). Use of the FSLRF is limited to payment of lender claims and payment of default aversion fees or other Department of Education fee payments as directed. MGSLP is required to deposit claim reimbursements from DE into the FSLRF, as well as the following: DE's equitable share of defaulted loan recoveries, the portion of default recoveries that equals the complement of the reinsurance rate which is not reimbursed to MGSLP by DE, and student loan insurance premiums (guarantee fees). The AOF is the property of MGSLP and is used for a variety of FFELP activities and for other student aid related activities as selected by the agency. Payments received by MGSLP for loan processing and issuance, account maintenance, default aversion activities, and MGSLP's share of defaulted loan collections is all deposited into the AOF. MGSLP also maintains a fund to account for funds held in trust for recipients of MGSLP's essay scholarship contest. Funds are invested in the Montana Short Term Investment Pool (STIP).

2. INVESTMENTS

Short Term and Long Term Investments are units purchased in the State of Montana's Short Term Investment Pool (STIP) and are recorded at a unit cost of \$1. All securities in STIP are held in the name of the Montana Board of Investments or were registered in the nominee name for the Montana Board of Investments and held by the Board's custodial bank. STIP credit quality is not rated. The Board of Investments employs the "Prudent Expert Rule" in managing the State's investment portfolio. At June 30, 2009, MGSLP owned 13,982,254 units valued at \$13,982,254. MGSLP does not have a formal policy for credit risk. As directed by the Department of Administration, MGSLP classified \$1,163,274 of STIP as Long Term Investments to reflect MGSLP pro rata share of STIP investments that were non-liquid at June 30, 2009.

3. DUE FROM FEDERAL GOVERNMENT

MGSLP pays individual lending institutions for any loans that have defaulted or are unpaid due to the death, permanent disability, or bankruptcy of the borrower. The agency then seeks reimbursement from the DE in accordance with reinsurance agreements between the agency and DE. Claim payments and subsequent reinsurance payments are paid from and deposited into the Federal Student Loan Reserve Fund. MGSLP's claims for reinsurance payments not received as of June 30, 2009 are included here. In addition, the receivable Due From Federal Government includes amounts MGSLP had not yet received for Loan Processing and Issuance Fees (Note 8) and for Account Maintenance Fee (Note 9) for the last quarter of fiscal year 2009. The extent of the outstanding reinsurance activity and other pending reimbursements from DE as of June 30, 2009, is shown below.

June 2009 Forms 2000	\$1,710,927	Federal Student Loan Reserve Fund
Teacher Loan Forgiveness	85,209	Agency Operating Fund
Loan Processing and Issuance Fee	38,484	Agency Operating Fund
Account Maintenance Fee	312,468	Agency Operating Fund
IRS Refund due borrower	45	Agency Operating Fund
Total Due From Federal Government	<u>\$2,147,133</u>	

4. PROPERTY HELD IN TRUST

MGSLP operates an escrow disbursement service for approximately fifty lenders. Participating lenders are assessed a fee for this service. In accordance with contracts MGSLP has with the disbursement service lenders, MGSLP automatically debits the lenders' accounts to collect loan proceeds. MGSLP then disburses funds to the schools for delivery to the students by Inter Unit Journal for University system schools and by individual State of Montana warrants or electronic transfers (ACH) for all other schools. The MGSLP disbursement service records all adjustments to individual student loan accounts and ensures that school refunds of loan proceeds are promptly returned to the lenders. As of June 30, 2009, MGSLP's disbursement service held \$61,729 in student loan funds that are to be refunded to lenders after June 30, 2009. Disbursement service revenues earned during fiscal year 2009 were \$172,874.

5. DUE TO FEDERAL GOVERNMENT

After assignment to the guaranty agency, MGSLP seeks collection of student loans that have defaulted. A portion of the recoveries of loans reinsured by the Department of Education (DE) is owed back to DE (Note 12). At June 30, 2009, the amount owed to DE was \$535,016.

6. DESIGNATED FUND BALANCE

During fiscal year 2003, the Department of Education (DE) allowed guaranty agencies to transfer any unspent recall interest earned during prior fiscal years from the Federal Student Loan Reserve Fund to the Agency Operating Fund. The total amount of funds transferred at that time was \$820,346. The agency is authorized to use these earnings from the Agency Operating Fund to perform certain default reduction activities, as outlined in the Balanced Budget Act of 1997. As of June 30, 2009 the unspent portion of these designated earnings was \$816,047.

7. GUARANTEE FEE INCOME

As of July 1, 1994, the guaranty agencies may collect 1% of the loan amount from borrowers. The Higher Education Reconciliation ACT of 2005 (HERA) eliminates the guarantee fee and establishes a 1% Federal "default fee" effective for loans guaranteed on or after July 1, 2006. The default fee is to be paid by the borrowers or by any other non-federal source. The fees are deposited into the Federal Student Loan Reserve Fund (FSLRF), and recognized as revenue upon receipt. Guarantee fee revenue for fiscal year 2009 was \$1,915,645

8. LOAN PROCESSING AND ISSUANCE FEE

The Higher Education Amendments of 1998 authorized payment of a Loan Processing and Issuance Fee beginning October 1, 1998. Under this Act, each guaranty agency is paid a loan processing and issuance fee, to be deposited into the Agency Operating Fund, equal to .65% of the total principal amount of loans originated during federal fiscal years 1999-2003 on which the agency issued insurance. Beginning in federal fiscal year 2004, for loans guaranteed on or after October 1, 2003, the fee dropped to .40%. During fiscal year 2009 Loan Processing and Issuance Fee revenue totaled \$768,657 which includes \$38,484 accrued for reimbursements that were not received until after June 30, 2009.

9. ACCOUNT MAINTENANCE FEE

The Higher Education Amendments of 1998 authorized the payment of an Account Maintenance Fee beginning October 1, 1998. Under this Act, each guaranty agency is paid an account maintenance fee, to be deposited into the Agency Operating Fund. For federal fiscal years beginning 2007, the fee is .06% of the original principal balance of guaranteed loans outstanding during the year. During fiscal year 2009, Account Maintenance Fee revenue totaled \$1,310,884.

10. DEFAULT AVERSION FEE

The Higher Education Amendments of 1998 authorized the payment of a Default Aversion Fee beginning October 1, 1998. Upon receipt of a completed lender request for assistance (LRA) not earlier than the 60th day of delinquency, a guaranty agency must engage in default aversion activities designed to prevent a default by the borrower. Department of Education regulations provide for payment of a fee equal to 1% of the loan balance at the time an LRA is submitted, regardless of whether or not the loan is brought current. The default aversion fees are to be transferred from the Federal Student Loan Reserve Fund (FSLRF) to the Agency Operating Fund (AOF) no more frequently than monthly. If the agency receives a default aversion fee and the account later defaults, the agency must rebate 1% of the claim amount to the FSLRF. The fee may be paid only once on any loan. During fiscal year 2009 the Default Aversion Fee paid to the Operating Fund was \$804,363 and \$133,536 was reimbursed back to the Federal Reserve Fund.

11. COLLECTION COSTS RETAINED

MGSLP pursues collection, from the borrower or other responsible party, of defaulted loans held by the agency. The U.S. Secretary of Education is entitled to an equitable share of any recoveries, as determined by the rate of reinsurance on the defaulted loans less an allowance for collection cost reimbursement. Beginning October 1, 2007, the Higher Education Amendments (HEA) of 1998 authorize guaranty agencies to deposit an amount equal to 16% of the payments made by or on behalf of a defaulted borrower into its Agency Operating Fund. The HEA also stipulates that the agency shall remit 81.5% of the total outstanding principal collected on rehabilitated loans to the Secretary and the agency shall deposit 18.5% of the principal, 100 % accrued interest and 18.5 % of the outstanding balance as collection fees. In addition, the Secretary provides the agency with collection costs amounting to 18.5% of the outstanding balance of any defaulted loan held by the agency which is consolidated by the borrower into a Federal Consolidation Loan through either Federal Family Education Loan Program (FFELP) consolidation or Federal Direct Student Loan Program (FDSLPL) consolidation. HERA requires that after October 1, 2006, the guaranty agency shall remit directly to the Secretary that portion of the collection charge equal to 8.5 % of the outstanding balance of the defaulted loan. During fiscal year 2009, MGSLP retained \$2,614,843 in net collection costs from loan recoveries and consolidations, as follows.

	Revenues	Expenses	Net
Collection Recoveries	\$2,678,908	\$2,250,345	\$428,563
Rehabilitations	\$5,463,211	\$3,695,379	\$1,767,832
FDSLPL Consolidations	\$779,328	\$360,880	\$418,448
Total	<u>\$8,921,447</u>	<u>\$6,306,604</u>	<u>2,614,843</u>

12. CLAIMS PAID TO LENDERS AND REINSURANCE FROM DEPARTMENT OF EDUCATION

MGSLP records amounts paid to lenders for claims and subsequent amounts received from the Department of Education (DE) as expenses and revenues respectively. For fiscal year 2009, MGSLP paid claims totaling \$16,850,593 and received reinsurance from DE totaling \$16,455,054.

13. ESSAY SCHOLARSHIP FUNDS

MGSLP sponsored an essay competition from 1999 through 2008 which was opened to 7th and 8th grades in GEAR UP schools. The recipient's were awarded a scholarship worth \$150.00-250.00. MGSLP will hold the scholarships in the recipient's name until he or she enters an eligible postsecondary educational institution. If the student doesn't enroll in the time frame allotted, the funds will revert back to MGSLP.

14. CONTINGENCIES

The original principal balance of guaranteed loans outstanding held by MGSLP as of June 30, 2009 was approximately \$2,049,077,593. This amount excludes bad debt, death, disability, and bankruptcy claims which have been previously purchased by the agency. MGSLP has entered into agreements with the Department of Education (DE), dated June 13, 1980, for reinsurance and supplemental reinsurance of loans, in accordance with the Higher Education Act of 1965, as amended. These agreements allow for 100% reimbursement by DE for claims due to the death, disability, or bankruptcy of the borrower. Claims paid due to defaulted loans may be reimbursed by DE for up to 100%. The percent of reimbursement on defaulted loans payable to the agency is dependent upon MGSLP's annual default rate and date of the loan's first disbursement. Annual default rates are calculated as the ratio of year-to-date default purchases divided by the original guaranteed amount of loans in repayment status at the beginning of the federal fiscal year.

The following schedule reflects the federal reinsurance rates on defaulted student loans. In the event of extreme future adverse loss experience, MGSLP could be liable for up to 25% of the outstanding loan volume. Since its inception, MGSLP has paid \$5,180,713 in claims, or portions of claim eligible loans, which were not reinsured by DE. During fiscal year 2009, MGSLP recovered \$261,796 of the total outstanding balance of non-reinsured claims held by the agency.

RATE OF ANNUAL DEFAULTS	FEDERAL REINSURANCE On loans made prior to 10/01/93	FEDERAL REINSURANCE On loans made on or after 10/01/93 and prior to 10/01/98	FEDERAL REINSURANCE On loans made after 10/01/98
Less than 5%	100%	98%	95%
5% or greater but less than 9%	98%	88%	85%
9% or greater	80%	78%	75%

15. COMMITMENTS

MGSLP is bound by Guarantee Reserve Agreements with the lending institutions participating in the Federal Family Education Loan Program in Montana. These agreements require MGSLP to maintain an amount in the guarantee reserve fund equal to at least 0.25% of the unpaid principal balance of all outstanding loans guaranteed by the agency.

The Guarantee Reserve Agreement ensures that MGSLP will have sufficient cash available to carry out its reasonably expected obligations on guaranteed claim eligible student loans. As of June 30, 2009 MGSLP was in compliance with all Guarantee Reserve Agreements.

16. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs MGSLP, guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC). The Board of Regents and MHESAC have four common board members. Approximately 76.93% of MGSLP's outstanding loan volume is held by MHESAC.

MGSLP also has an agreement with Student Assistance Foundation of Montana (SAF) to share certain costs for the lease of computer equipment; computer and software maintenance costs; and personnel costs for employees of SAF who perform services that are of direct benefit to MGSLP. Certain SAF personnel are authorized to purchase computer equipment for use by both MGSLP and SAF. Costs for these purchases are covered under an agreement for services between the two entities. During fiscal year 2009, MGSLP's portion of shared costs reimbursed to SAF was \$597,462. The Board of Regents and SAF have four common board members.

17. POTENTIAL CHANGES AS A RESULT OF FEDERAL REGULATION

The Department of Education operates the Federal Direct Student Loan Program (FDSLPL) which directly competes with the Federal Family Education Loan Program (FFELP) for services provided to schools and students. The Student Aid and Fiscal Responsibility Act (SAFRA) of 2009, HR 3221, calls for a 100 percent transition to FDSLPL by July 1, 2010 for all Higher Education institutions. As of October 12, the HR 3221 has passed the House and has been referred to the Senate Committee.

18. EMPLOYEES' RETIREMENT SYSTEM

MGSLP classified employees participate in the Montana Public Employees' Retirement System (PERS). Professional employees under contract with the Board of Regents are covered by the Optional Retirement Program (ORP), which is available through the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

Defined Benefit Plans

Established in 1945 and governed by Title 19, chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service; at age 65 regardless of length of service; or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals five years. The required contribution rates for active participants and employers are statutorily determined. Additional information or a separate financial statement can be obtained from the State Montana, Department of Administration, Public Employee's Retirement Administration.

Defined Contribution Plan

ORP was established in 1988 and is underwritten by the Teacher's Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). The ORP is a defined-contribution plan. Until July 1, 2002, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the ORP. Contribution rates for the plan are required and determined by State law. MGSLP's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment

gains and losses, and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. MGSLP records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest immediately in the employer portion of retirement contributions. Annual reports that include financial statements and required supplemental information on the plan are available directly from TIAA-CREF.

According to state law, MGSLP also remits additional employer contributions to the PERS and TRS to amortize past service unfunded liability.

Retirement plan information for MGSLP as of June 30, 2009, is as follows.

	PERS	ORP	ORP
		Professiona l	Staff
Covered Payroll	\$1,492,281	\$92,280	\$111,837
Employer Contributions	\$ 104,982	\$9,852	\$ 7868
Percent of Covered Payroll	7.035%	10,676%	7.035%
Employee Contribution	\$ 102,967	\$6,500	\$7,717
Percent of Covered Payroll	6.900%	7.044%	6.900%



Montana Guaranteed Student Loan Program

2500 Broadway P.O. Box 203101
Helena, MT 59620-3101
Phone: (406) 444-6594 Fax: (406) 444-1869
Customer Assistance: (800) 537-7508
www.mgslp.state.mt.us

October 27, 2009

Tori Hunthausen, Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen:

We have received the results of the audit for the year ending June 30, 2009, and consider the audit completed. The report contains the audited financial statements and accompanying notes for the fiscal year. The financial statements received an unqualified opinion and there are no findings or recommendations.

With Congress likely to make significant changes to the Federal Family Education Loan Program in the near future, Montana citizens can take comfort knowing the Montana Guaranteed Student Loan Program is financially secure and its financial statements and accompanying notes are accurate.

I would also like to take this opportunity to thank Chris Darragh, the Senior Auditor responsible for the audit. Chris was professional, mindful of our workloads, and very thorough. Staff at MGSLP barely noticed Chris sitting and working among us.

Once again, thank you for your assistance.

Sincerely,

Bruce Marks
Director, Montana Guaranteed Student Loan Program