



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL AUDIT

Montana Guaranteed Student Loan Program

*For the Fiscal Year Ended
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT
DIVISION

11-06B

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine whether the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies for these purposes. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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Room 277, State Capitol
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Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

December 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the fiscal year 2012 financial audit of the Office of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program.

We reviewed the program's operations, compliance with selected federal regulations, and implementation of prior audit recommendations. This report discusses one partially implemented prior audit recommendation associated with accounting errors.

We thank the Office of the Commissioner of Higher Education, the Montana Guaranteed Student Loan Program Director of Operations\CFO, and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

**Office of the
Commissioner of
Higher Education**

Clayton Christian, Commissioner of Higher Education

Neil Moisy, Interim Deputy Commissioner, Academic, Research and Student Affairs

John E. Cech, Deputy Commissioner of Two-Year Education and Community College Education

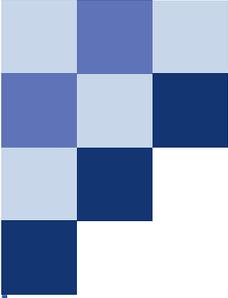
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Frieda Houser, Director of Accounting and Budgeting

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL AUDIT

Montana Guaranteed Student Loan Program

For the Fiscal Year Ended June 30, 2012

DECEMBER 2012

11-06B

REPORT SUMMARY

Due to changes in federal regulations in fiscal year 2011, the Montana Guaranteed Student Loan Program (GSL) no longer guarantees new student loans. The GSL program will end when there are no guaranteed loan balances remaining. As of June 30, 2012, GSL had an outstanding Guaranteed Loan Balance of \$1,635,014,002.

Context

GSL operates under the guidance of the Board of Regents. It provides access to post secondary education through guaranteeing student loans.

As the guaranteed loan balance decreases, there will be less revenue to fund GSL's operations. When operating costs exceed revenues, GSL needs to use the assets in its operating fund to provide its required loan guarantee services. When no assets remain, another funding source will be required, because federal regulations require GSL to service all the loans it guaranteed.

House Bill 2 from the 2011 Legislative Session transferred \$5 million in scholarships and loan forgiveness from the General Fund to GSL's Federal Special Revenue Fund in the 2013 biennium. As a result, the June 30, 2013, operating fund's assets are projected to be half what they were as of June 30, 2011.

During fiscal year 2012, GSL purchased over \$25 million of student loans from financial institutions. GSL purchased these loans as a result of borrowers defaulting, filing bankruptcy, becoming disabled, or dying. This is a \$3 million decrease in loans purchased from the previous fiscal year.

GSL recovered \$7.9 million from borrowers on outstanding loans. In accordance with Federal Family Education Loan Program regulations, GSL remitted \$5.5 million of the amounts collected to the U.S. Department of Education, and retained a net \$2.4 million.

GSL's current default rate is 3.7 percent.

Results

We issued an unqualified opinion on GSL's financial statements. There were three prior audit recommendations. GSL implemented two and partially implemented one. This report discusses the partially implemented prior audit recommendation but contains no further recommendation.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

We performed a financial audit of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program (GSL) for the fiscal year ended June 30, 2012. The objectives of our audit were to:

1. Determine if GSL's financial statements present fairly the financial position and results of operations for the fiscal year ended June 30, 2012.
2. Obtain an understanding of GSL's control systems to the extent necessary to support our audit of GSL's financial statements and, if appropriate, make recommendations for improvements in management and internal controls.
3. Determine whether GSL complied with selected federal laws and regulations.
4. Determine the implementation status of prior audit recommendations.

Background

GSL is part of the Office of the Commissioner of Higher Education. Working under the guidance of the Montana Board of Regents, GSL's primary goal is to improve access to postsecondary education in Montana. This goal is accomplished by working collaboratively with schools, colleges, lenders, and other trading partners.

GSL provides a variety of guarantee support services including single point of contact for schools, lenders and borrowers, on-site technical expertise, and in-house default prevention and collections.

Through management of the Federal Family Education Loan Program, the Montana Guaranteed Student Loan Program has been able to administer a variety of state and federal grant and scholarship programs, such as:

- ◆ The Montana University System Honor Scholarship, a renewable merit scholarship that covers the cost of tuition at qualifying Montana colleges
- ◆ The Governor's Postsecondary Scholarship Program
- ◆ The Montana Family Education Savings Program

GSL tracks the outstanding loan balances by the loan's origination amount. The balance does not reflect the current value of the loans due to decreases for amounts paid or increases for accrued interest.

As of June 30, 2012, the principal balance of guaranteed loans outstanding was \$1,635,014,002. The federal government will reimburse GSL for defaulted loans at varying rates. Based on GSL's performance, it is receiving the highest reimbursement

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.

Effective July 1, 2010, Congress changed the Federal Family Education Loan Program. GSL ceased guaranteeing new student loans as of June 30, 2010. Table 1 shows the outstanding guaranteed loan balance as of June 30, 2010, the last fiscal year it guaranteed new student loans, through June 30, 2012. GSL is required to service these student loans and will cease operations when there are no outstanding loans guaranteed.

Table 1
History of Outstanding Guaranteed Loan Balance

	Outstanding Loan Balance
June 30, 2010*	\$2,052,149,661
June 30, 2011	\$1,756,727,435
June 30, 2012	\$1,635,014,002
*This is the last year GSL guaranteed student loans.	

Source: Compiled by the Legislative Audit Division from GSL records.

Prior Audit Recommendations

The previous audit report for GSL, covering fiscal year ended June 30, 2011, contained three recommendations. The GSL concurred with all three recommendations. Of these GSL implemented two recommendations and partially implemented one recommendation.

The partially implemented recommendation relates to accounting for deposits in the Federal Student Loan Reserve Fund. During the current fiscal year, GSL recorded the operating activity associated for those deposits in an incorrect ledger on the state's accounting records. GSL should work with the Department of Administration's State Accounting Division to ensure the activity is properly recorded on the state's accounting records. Since GSL took measures to record the activity on the accounting records and the financial statements properly reflect the activity, we make no further recommendation.

Independent Auditor's Report and Program Financial Statements

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of the Office of the Commissioner of Higher Education Montana Guaranteed Student Loan Program – Federal Special Revenue Fund as of June 30, 2012, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual, for the fiscal year then ended. The information contained in these financial statements is the responsibility of program 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.

The financial statements of the Montana Guaranteed Student Loan Program present the financial position and the changes in financial position of only that portion of the reporting entity of the state of Montana that is attributable to the transactions of the program. They do not purport to, and do not, present fairly the financial position of the state of Montana as of June 30, 2012, or the changes in financial position for the fiscal 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 the program as of June 30, 2012, and its changes in fund balance for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

November 8, 2012

**Office of the Commissioner of Higher Education
Montana Guaranteed Student Loan Program
Federal Special Revenue Fund
Balance Sheet
As of June 30, 2012**

	Agency Operating Fund	Federal Student Loan Reserve Fund	Essay Scholarship Fund
Assets			
Cash in Treasury	\$ 658,477	\$ 3,923,506	\$ -
Cash Collateral - SI	12,579	6,063	342
Interest Receivable	1,579	1,032	42
Short Term Investments (Note 2)	5,987,957	2,886,339	162,657
Long Term Investments (Note 2)	98,699	47,575	2,681
Accounts Receivable	18,567	-	-
Due From Federal Government (Note 3)	251,786	1,256,505	-
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 7,029,644</u>	<u>\$ 8,121,021</u>	<u>\$ 165,721</u>
 Liabilities and Fund Balance			
Liabilities			
Accounts Payable	\$ 669,991	\$ 5,154	\$ -
Deferred Revenue	3,351	-	-
Property Held in Trust	583	-	-
Liab. Under Securities Lend	12,579	6,063	342
Due to Federal Government (Note 4)	-	1,141,053	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>\$ 686,504</u>	<u>\$ 1,152,270</u>	<u>\$ 342</u>
Total Fund Balance - Restricted	<u>6,343,140</u>	<u>6,968,751</u>	<u>165,379</u>
Total Liabilities and Fund Balance	<u>\$ 7,029,644</u>	<u>\$ 8,121,021</u>	<u>\$ 165,721</u>

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

Office of the 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, 2012

	Agency Operating Fund			Federal Student Loan Reserve Fund			Essay Scholarship Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Revenue									
Account Maintenance Fees (Note 5)	\$ 1,020,000	\$ 1,035,843	\$ 15,843	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Default Aversion Fees (Note 6)	600,000	554,575	(45,425)	190,000	202,489	12,489	-	-	-
Defaulted Loan Collections (Note 7)	7,355,000	7,911,815	556,815	-	-	-	-	-	-
Reinsurance from Department of Education (Note 8)	-	-	-	22,000,000	25,059,956	3,059,956	-	-	-
Non-Reinsured Loan Recoveries (Note 11)	-	-	-	182,000	250,411	68,411	-	-	-
Investment Earnings (Note 2)	20,000	20,585	585	20,000	15,876	(4,124)	-	463	463
STIP Security Lending Gross Earnings	5,000	2,200	(2,800)	3,000	1,784	(1,216)	-	51	51
Miscellaneous	15,000	15,469	469	-	390	390	-	-	-
Total Revenue	<u>9,015,000</u>	<u>9,540,488</u>	<u>525,488</u>	<u>22,395,000</u>	<u>25,530,906</u>	<u>3,135,906</u>	<u>-</u>	<u>513</u>	<u>513</u>
Expenditures									
Administrative Costs	\$ 3,599,670	\$ 3,478,430	\$ 121,240	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Loan Collections (Note 7)	-	-	-	5,121,800	5,519,107	(397,307)	-	-	-
Claims Paid to Lenders (Note 8)	-	-	-	22,350,000	25,083,422	(2,733,422)	-	-	-
Claims Paid to Lenders -uninsured (Note 11)	-	-	-	750,000	723,201	26,799	-	-	-
Default Aversion Fees (Note 6)	400,000	202,489	197,511	600,000	554,575	45,425	-	-	-
STIP Security Lending Expense	-	434	(434)	-	352	(352)	-	10	(10)
Scholarships (Note 9)	2,500,000	2,587,890	(87,890)	-	-	-	-	14,449	(14,449)
Total Expenditures	<u>6,499,670</u>	<u>6,269,243</u>	<u>230,428</u>	<u>28,821,800</u>	<u>31,880,658</u>	<u>(3,058,858)</u>	<u>-</u>	<u>14,459</u>	<u>(14,459)</u>
Excess (Deficiency) of Revenues Over Expenditures	2,515,330	3,271,245	755,915	(6,426,800)	(6,349,751)	77,049	-	(13,946)	(13,946)
Other Financing Sources/(Uses)									
Transfer In (Note 10)	-	-	-	-	5,519,107	5,519,107	-	-	-
Transfer Out (Note 10)	-	(5,519,107)	(5,519,107)	-	-	-	-	-	-
Net Change in Fund Balance	2,515,330	(2,247,862)	(4,763,192)	(6,426,800)	(830,644)	5,596,156	-	(13,946)	(13,946)
Fund Balance - Restricted 06/30/11	8,591,002	8,591,002	-	7,799,395	7,799,395	-	179,325	179,325	-
Fund Balance - Restricted 06/30/12	<u>\$ 11,106,332</u>	<u>\$ 6,343,140</u>	<u>\$ (4,763,192)</u>	<u>\$ 1,372,595</u>	<u>\$ 6,968,751</u>	<u>\$ 5,596,156</u>	<u>\$ 179,325</u>	<u>\$ 165,379</u>	<u>\$ (13,946)</u>

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

**Office of 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, 2012**

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. These changes became effective during the fiscal year ended June 30, 2008.

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. 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.

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 DE 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 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 and Long Term investments are units purchased in the State of Montana's 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, 2012, MGSLP owned 9,185,908 units valued at \$9,185,908. MGSLP does not have a formal policy for credit risk. As directed by the Department of Administration, MGSLP classified \$ 148,955 of STIP as Long Term Investments to reflect MGSLP pro rata share of STIP Investments that were non-liquid at June 30, 2012.

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 FSLRF. MGSLP's claims for reinsurance payments not received as of June 30, 2012, are included here. In addition, the receivable Due From Federal Government includes amounts MGSLP had not yet received for Account Maintenance Fee (Note 5) for the last quarter of fiscal year 2012. The extent of the outstanding reinsurance activity and other pending reimbursements from DE as of June 30, 2012, is shown below.

Account Maintenance Fee	\$248,102	AOF
IRS Offset Overpayment	<u>\$3,684</u>	AOF
	\$251,786	
Reinsurance Claims	\$1,159,232	FSLRF
Teacher Loan Forgiveness	\$86,310	FSLRF
Status Changes	\$3,527	FSLRF
Repurchase	<u>\$7,436</u>	FSLRF
	\$1,256,505	
	<hr/>	
Total Due From Federal Government	<u>\$1,508,291</u>	

4. 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 DE is owed back to DE (Note 7). At June 30, 2012, the amount owed to DE was \$1,141,053.

5. ACCOUNT MAINTENANCE FEE

The Higher Education Amendments of 1998 authorized the payment of an Account Maintenance Fee (AMF) beginning October 1, 1998. Under this Act, each guaranty agency is paid an account maintenance fee, to be deposited into the AOF. 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 2012, AMF revenue totaled \$1,035,843 which includes \$248,102 accrued for reimbursements that were not received until after June 30, 2012.

6. DEFAULT AVERSION FEES

The Higher Education Amendments of 1998 authorized the payment of a Default Aversion Fee (DAF) 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 FSLRF to the 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 2012, DAF paid to the AOF was \$554,575 and \$202,489 was returned to the FSLRF, for net revenue of \$352,086 to the AOF.

7. DEFAULTED LOAN COLLECTIONS

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, 2003, the Higher Education Amendments (HEA) of 1998 authorize guaranty agencies to deposit an amount equal to 23% of the payments made by or on behalf of a defaulted borrower into its AOF. Beginning October 2007, this changed to 16%. 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. 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 FFELP consolidation or FDSLSP consolidation. HERA requires that on or 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 2012, MGSLP retained \$2,392,708 in net collection costs from loan recoveries and consolidations, as follows.

	Revenues	Expenses	Net
Collection Recoveries	\$2,273,757	\$1,910,009	\$363,748
Rehabilitations	\$4,559,652	\$3,109,044	\$1,450,608
FDSLSP Consolidations	\$1,078,406	\$500,054	\$578,352
Total	<u>\$7,911,815</u>	<u>\$5,519,107</u>	<u>\$2,392,708</u>

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

MGSLP records amounts paid to lenders for claims and subsequent amounts received from the DE as expenses and revenues respectively. For fiscal year 2012, MGSLP paid claims totaling \$25,083,422 and received reinsurance from DE totaling \$25,059,956.

9. SCHOLARSHIP FUNDS

In fiscal year 2012, MGSLP paid \$2,093,000 to Montana students who were recipients of the Governor's Post-Secondary Scholarship and \$494,890 Montana teachers who were selected for loan forgiveness through the Quality Educator Loan Forgiveness Program. This is a result of a House Bill 2 funding switch from general fund to federal special revenue, approved by the 2011 Legislature, in program 2-student assistance. The funding switch requires MGSLP to fund the Governor's Post-Secondary Scholarship Program and the Quality Educator Loan Forgiveness Program for the biennium ending June 30, 2013.

MGSLP sponsored an essay competition from 1999 to 2008 which was open to students in GEAR UP schools. The recipients were awarded scholarships worth \$150 - \$250. MGSLP will hold the scholarship in the recipient's name until he or she enters an eligible postsecondary education institution or until the eligibility to use the scholarship run out. If the student doesn't enroll in the time frame allotted, the funds will revert back to MGSLP.

10. OTHER FINANCING SOURCES (USES)

Based on the interpretation of federal regulations requiring MGSLP to directly remit the portion of recoveries to the U.S. Department of Education, the net revenue retained by MGSLP of \$2,392,708 is reported in the AOF. The federal share remitted directly to the U.S. Department of Education of \$5,519,107 is transferred out of the AOF and into the FSLRF to report its operating activity for the receipt of cash and its payments to the Federal government as a transfer-in with corresponding expenditures of \$5,519,107 (See Note 7).

11. CONTINGENCIES

The original principal balance of guaranteed loans outstanding held by MGSLP as of June 30, 2012 was approximately \$1,635,014,002 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 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. During fiscal year 2012, MGSLP paid \$723,201 in claims, or portions of claim eligible loans, which were not reinsured by DE. During fiscal year 2012, MGSLP recovered \$250,411 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%	90% of claims 5% or greater but less than 9%	88% of claims 5% or greater but less than 9%	85% of claims 5% or greater but less than 9%
9% or greater	80% of claims 9% or greater	78% of claims 9% or greater	75% of claims 9% or greater

12. COMMITMENTS

MGSLP is bound by Guarantee Reserve Agreements with the lending institutions participating in the FFELP 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, 2012, MGSLP was in compliance with all Guarantee Reserve Agreements.

13. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs MGSLP, guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC). Approximately 78.82%, or \$1,288,799,556, 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 2012, MGSLP's portion of shared costs reimbursed to SAF was \$375,996.

14. GOING CONCERN

As of July 1, 2010 all new Federal student loans are made through the FDSL. MGSLP will no longer receive income from Loan Processing and Issuance Fee, Disbursement Service, or Guarantee Fees.

15. 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 PERS or 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.

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.

Trend information, indicating the progress made toward accumulating assets needed to pay retirement benefits when they are due, is not available on an agency basis. Separately issued financial statements can be obtained from the Montana Public Employees Retirement Administration at 100 North Park, PO box 200131, Helena, MT 59620-0131.

Retirement plan information for MGSLP as of June 30, 2012, is as follows.

	PERS	ORP	ORP
		Professional	Staff
Covered Payroll	\$1,059,033	\$159,058	\$107,010
Employer Contributions	\$75,933	\$16,981	\$7,673
Percent of Covered Payroll	7.17%	10.676%	7.17%
Employee Contribution	\$74,300	\$11,204	\$7,384
Percent of Covered Payroll	6.90%-7.90%	7.044%	6.900%

MONTANA GUARANTEED
STUDENT LOAN
PROGRAM

PROGRAM RESPONSE



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
mgslpcustserv@montana.edu www.mgslp.org

December 3, 2012

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LEGISLATIVE AUDIT DIV.

Tori Hunthausen
Legislative Auditor
Legislative Audit Division
State Capitol, Room 160
P.O. Box 201705
Helena, MT 59620-1705

Dear Ms. Hunthausen:

This letter confirms that we are in receipt of the results of the audit for the fiscal year ending June 30, 2012 and consider the audit complete. We understand the report contains an unqualified opinion of our program's financial statements and that there are no findings or recommendations.

It was a pleasure working with your staff. They were professional and courteous while conducting the audit. We appreciate their extensive knowledge and the efficiency with which they completed their work.

Sincerely,

Robin Graham
Director of Operations/CFO
Montana Guaranteed Student Loan Program