
3.4

Information Item

Fiscal Policy and Long-Range Planning Committee

Federal Family Education Loan (FFEL) Program Financial Report for the Third Quarter

The FFEL Program financial statements for the quarter ending June 30, 2005 are enclosed along with some summary information on revenue and expenses prepared by EDFUND staff. Some of the key factors affecting the Student Loan Operating Fund (SLOF) are provided below.

Defaulted Claims: Defaulted claims continue to run about 40% higher than last year. EDFUND's new loan volume growth over the past five years has been substantially in the proprietary or for-profit institutions. While this segment's default rate remains relatively static, the high volume ultimately results in an increased number of defaulted claims. With the higher number of defaulted claims, EDFUND staff projects increases in 2004-05 SLOF revenues for net recoveries on loan defaults and default aversion fees of about \$1.9 million over previous estimates. Federal Fund loan default expenses for the current year also increase resulting in a projected additional \$7.3 million in minimum reserve subsidy transfer from the SLOF to the Federal Fund.

Loan Volume: New loan volume continues to be higher than the prior year. However, EDFUND staff's most recent projections indicate that this year's total loan volume will be lower than originally projected. This projected change to new loan volume affects the revenue associated with the Account Maintenance Fee and the Loan Processing Issuance Fee. Current projections indicate a reduction of \$1 million in 2004-05 revenue.

VFA: Negotiations on the VFA continue. It is important to note that if we do not receive VFA revenue as projected for both 2004-05 and 2005-06 the SLOF fund balance will be significantly reduced.

New Generation Technology: Approximately \$2.1 million of the \$4.5 million in projected 2004-05 EDFUND expenditure savings are attributed to savings in computer, consulting costs and asset purchases as new generation technology expenses are materializing slower than initially anticipated.

Cal Grant Funding: The \$51 million the State appropriated from the SLOF for the 2005-06 Cal Grant Program has also reduced the 2004-05 SLOF fund balance.

Recommended Action: For information only. No action required.

Responsible Staff: Janet McDuffie
Chief, Management Services Division &
Acting Chief, Federal Policy & Programs Division

**CALIFORNIA STUDENT AID COMMISSION
OPERATING FUND / EDFUND & FEDERAL FUND**

2004-05 Variance Report

For the nine months ending June 30, 2005

OPERATING FUND / EDFUND

STANDARD ACTIVITY

	<u>Prior YTD</u>	<u>Current YTD</u>	<u>Variance</u>	<u>%</u>	<u>Annual Budget</u>	<u>Annual Forecast</u>	<u>Variance</u>	<u>%</u>
1. Net Assets, Beginning	\$ 266,931,035	\$ 151,552,575				\$ 151,552,575		
2. Revenues	65,083,587	84,130,958	19,047,371	29.3%	115,269,000	116,200,000	931,000	0.8%
3. Expenses	53,945,376	59,779,855	(5,834,479)	(10.8%)	92,881,000	88,673,000	4,208,000	4.5%
4. STANDARD OPERATING SURPLUS	\$ 11,138,211	\$ 24,351,103	\$ 13,212,892	118.6%	\$ 22,388,000	\$ 27,527,000	\$ 5,139,000	23.0%

SUPPLEMENTAL ACTIVITY

Revenues								
5. Prior year revenue (net of accrual)	4,986,382	-	(4,986,382)	0.0%	-	-	-	0.0%
6. Interest Income	2,322,658	1,998,349	(324,309)	(14.0%)	2,300,000	2,600,000	300,000	13.0%
7. VFA & Restricted Revenues	2,510,982	7,233,783	4,722,801	188.1%	34,009,000	33,696,000	(313,000)	(0.9%)
8. Total Supplemental Revenues	9,820,022	9,232,132	(587,890)	(6.0%)	36,309,000	36,296,000	(13,000)	(0.0%)
Expenses								
9. Restricted Expenses	2,510,982	2,572,642	(61,660)	(2.5%)	4,009,000	3,696,000	313,000	7.8%
10. Minimum Reserve Subsidy	2,916,955	24,556,793	(21,639,838)	(741.9%)	39,400,000	46,700,000	(7,300,000)	(18.5%)
11. Borrower Benefits - EDSHARE	363,911	(5,393)	369,304	101.5%	2,665,000	1,872,000	793,000	29.8%
12. Commission Activity	19,922,649	16,503,073	3,419,576	17.2%	23,390,000	58,806,000	(35,416,000)	(151.4%)
13. Business Diversification	-	90,700	(90,700)	0.0%	-	91,000	(91,000)	0.0%
14. Outreach Campaign	4,976,929	332,525	4,644,404	93.3%	7,050,000	6,560,000	490,000	7.0%
15. Total Supplemental Expenses	30,691,426	44,050,340	(13,358,914)	(43.5%)	76,514,000	117,725,000	(41,211,000)	(53.9%)
16. OVERALL OPERATING SURPLUS (DEFICIT)	\$ (9,733,193)	\$ (10,467,105)	\$ (733,912)	7.5%	\$ (17,817,000)	\$ (53,902,000)	\$ (36,085,000)	202.5%
17. EDFUND's change in net assets	157,727	414,283				414,283		
18. Net Assets, Ending	\$ 257,355,569	\$ 141,499,753				\$ 98,064,858		

FEDERAL FUND

	<u>Prior YTD</u>	<u>Current YTD</u>	<u>Variance</u>	<u>%</u>	<u>Annual Budget</u>	<u>Annual Forecast</u>	<u>Variance</u>	<u>%</u>
19. Net Assets, Beginning	\$ 62,059,706	\$ 49,519,364				\$ 49,519,364		
20. Revenues	11,969,203	26,523,137	14,553,934	121.6%	42,012,000	49,530,000	7,518,000	17.9%
21. Expenses	10,766,120	27,758,509	(16,992,389)	(157.8%)	34,809,000	47,096,000	(12,287,000)	(35.3%)
22. OPERATING SURPLUS (DEFICIT)	\$ 1,203,083	\$ (1,235,372)	\$ (2,438,455)	202.7%	\$ 7,203,000	\$ 2,434,000	\$ (4,769,000)	66.2%
23. Net Assets, Ending	\$ 63,262,789	\$ 48,283,992				\$ 51,953,364		

**CSAC/EDFUND
OPERATING FUND**

**2004-05 Financial Variance Report
as of June 30, 2005**

Summary:

Standard Activity

After completing nine months of the 2004-05 fiscal year, the Operating Fund reflects \$84.1 million in revenues and \$59.8 million in expenses from standard Operating Fund activity, resulting in a standard operating surplus of \$24.3 million. Standard activity represents loan program revenues and expenses, with the exception of restricted account and VFA activity. This nine-month standard operating surplus of slightly over \$24 million is approximately \$13 million higher than the \$11 million realized during the same period of 2003-04. Higher collection recoveries account for \$11 million of this positive variance from prior year activity, with the remainder due to recognizing default aversion fee revenue in 2004-05 that was waived the previous year. These increased revenues are offset by increased collection agency fees and expenses incurred in support of our new generation technology initiatives.

Supplemental Activity

When including nine months of supplemental revenues and expenses, which encompass interest income, restricted fund activity, minimum reserve subsidy, outreach programs, and other Commission activity, we realize an overall operating deficit of almost \$10.5 million that is very close to \$9.7 million deficit from the same period last year. These deficits were expected, as supplemental expense activity has expanded beyond the level that can be supported by annual standard loan program activity.

Annual forecast figures indicate the Operating Fund's standard operating surplus should reach \$27.5 million by fiscal year-end, but then shifts to an overall operating deficit of almost \$54 million when adding all supplemental activity. Budget estimates projected an overall deficit of \$17.8 million, but the State approved an additional \$35 million in funding for Cal Grant awards that accounts for the majority of this forecast deficit increase.

The following revenue and expense sections further detail the individual components accounting for the significant variances noted when comparing prior to current year actual results or annual budget to forecast estimates.

Revenues:

After nine months of operations, total 2004-05 standard revenues of \$84.1 million compare favorably to the \$65 million recognized during the same period last year. Of this \$19 million increase, \$11 million is due to collection recoveries outpacing prior year performance with the remaining difference because of a change in accounting treatment based on management's decision to report Operating Fund default aversion fee, early withdrawal fee, and account maintenance fee revenues in their entirety. The prior year's presentation waived all fees transferred from the Federal Fund because of the Federal Fund having declined to its minimum reserve level permissible by federal regulation. This accounting treatment change has no impact to surplus because an offsetting Operating Fund expense to subsidize the Federal Fund

increases proportionately to fund these fee subsidy expenses. However, the change in accounting treatment results from management's view that the prior year's format, of reporting these Operating Fund revenues without funding the portions due from the Federal Fund, was not fully representing the actual activities transpiring between funds.

The \$11 million increase in net collection recoveries when comparing prior to current year revenue is attributable to two main factors. The first is that WDF collections discontinued funding in May and June of 2004 in anticipation of the July interest rate decline. Since interest rates were not slated to decline in 2005, no delay in WDF funding was experienced. Secondly, the external agencies collection performance has improved substantially over prior year because of changes implemented earlier this year. During the first quarter of the fiscal year, we ended the contract of one of our three agencies, and brought on two additional agencies. The new agencies have ramped up quickly as evidenced by both second and third quarter external collection net recoveries doubling from first quarter results. We anticipate this positive trend continuing through the rest of the fiscal year.

The standard revenues forecast of \$116.2 million exceeds budget estimates by just under \$1 million and results from both net collection recoveries and default aversion fee revenues exceeding budget. The net recoveries increase is directly related to the upsurge in annual claim volume and its impact on inventory available for collection. In addition, we received permission from the Department of Education to reassign a pool of previously inactive accounts eligible for subrogation out to an external agency for one last collection attempt. This pool of loans accounts for approximately half of the net recoveries positive variance. Finally, the default aversion fee forecast increase is due to a rise in first-time default aversion assistance requests over previously experienced first-time request volume.

Supplemental revenues indicate no significant variances from budget. However, it is important to note that the VFA revenue projection is currently a placeholder while the terms of a revised agreement are under negotiation with the Department.

Expenses:

After nine months of operations, standard operating expenses of \$59.8 million are \$5.8 million higher than the standard expenses incurred for the same period last year. This increase is predominantly due to approved staffing increases and associated salary and benefits, increased consulting fees supporting our new generation technology endeavors, and increased collection agency costs commensurate with the increase in external collection recoveries.

When comparing budget to forecast, the standard expense forecast indicates a decrease from budget of \$4.2 million. This significant decrease primarily results from savings in computer and consulting costs as new generation technology expenses are materializing slower than initially anticipated, depreciation savings due to delays in asset purchase dates, and other reductions in travel and contingency spending.

Total supplemental expenses after nine months are \$44 million, which is \$13.3 million higher than the expenses from the same period last year, and due entirely to increases in minimum reserve subsidy to the Federal Fund. More significant is the supplemental activity expense forecast of almost \$118 million, which is \$41 million over budget estimates. This negative variance stems mainly from the \$35 million in Cal Grant awards approved for funding by the State, with the remaining difference due to increases in minimum reserve subsidy required to ensure Federal Fund minimum reserve levels are maintained.

**CSAC/EDFUND
FEDERAL FUND**

**2004-05 Financial Variance Report
as of June 30, 2005**

Summary:

After completing nine months of the 2004-05 fiscal year, the Federal Fund reflects \$26.5 million in revenues and \$27.8 million in expenses, resulting in an operating deficit slightly over \$1.2 million. This nine-month operating deficit compares unfavorably to the \$1.2 million surplus realized during the same period in 2003-04. The 2004-05 augmented budget estimated a year-end operating surplus of \$7.2 million that is now forecasted to only reach \$2.4 million, due primarily to an unanticipated increase in loan default expense as claims activity from borrower defaults is on the rise.

The following sections detail the individual revenue and expense items contributing to this financial performance.

Revenues:

The \$26.5 million in revenues earned after nine months of activity is \$14.6 million higher than the results from the same period last year. This revenue increase is primarily attributable to the increase in minimum reserve subsidy transferred from the Operating Fund to ensure the Federal Fund maintains the 0.25% minimum reserve level required by federal regulations.

Additionally, the annual revenue forecast of \$49.5 million is \$7.5 million higher than budget. However, this forecast change stems predominantly from a change in accounting treatment based on management's decision to report Operating Fund default aversion fee, early withdrawal fee, and account maintenance fee revenues in their entirety, instead of the prior year's presentation of waiving all fees transferred from the Federal Fund. This change has no impact to operating surplus because the minimum reserve subsidy to the Federal Fund increases proportionately to the increase in these fee subsidy expenses. However, management felt the prior year's format of reporting these Operating Fund revenues without funding the portions due from the Federal Fund was not fully representing the actual activities transpiring between funds.

Expenses:

After nine months of activity, expenses of \$27.8 million are almost \$17 million higher than the expenses reported during the same period last year. The majority of this increase, \$11.3 million, results from the accounting treatment change previously mentioned, with the remaining expense increase due to a higher loan default expense as default claim activity has increased by approximately 40 percent over the same period last year.

The total expense forecast of \$47 million exceeds budget by \$12.3 million and is also explained by the accounting treatment change mentioned previously along with a spike in claim activity over initial budget estimates. Research indicates the rise in claim activity is being noted in all types of schools, but particularly high in proprietary two and four year schools, which historically have higher default rates than other school types.

CALIFORNIA STUDENT AID COMMISSION
OPERATING & FEDERAL FUNDS / EDFUND

Combined Statement of Net Assets

June 30, 2005

	State-controlled Assets			Federal Assets	
	CSAC Operating Fund	EDFUND	Eliminating entries	Total Operating Fund & EDFUND	Federal Fund
ASSETS					
Current Assets:					
(1) Cash and cash equivalents	83,157,654	\$ 56,570,687	\$ -	\$ 139,728,341	48,399,093
Receivable:					
Interest	708,655	-	-	708,655	115,861
Other	76,008	60,758	-	136,766	-
(2) Due from:					
<i>Federal government -</i>					
Defaulted loan purchases	-	-	-	-	49,672,039
Loan processing and issuance fee	3,248,428	-	-	3,248,428	-
Account maintenance fee	4,713,909	-	-	4,713,909	-
EDFUND	-	-	-	-	5,344,353
Operating Fund	-	2,350,089	(2,350,089)	-	-
Federal Fund	10,403,876	-	-	10,403,876	-
Other funds	-	304,168	-	304,168	455
Prepaid expenses and other assets	-	1,058,735	-	1,058,735	-
Allowance for default aversion	-	-	-	-	3,841,816
Total current assets	<u>102,308,530</u>	<u>60,344,437</u>	<u>(2,350,089)</u>	<u>160,302,878</u>	<u>107,373,617</u>
Long term Assets:					
Advance receivable from EDFUND	20,000,000	-	(20,000,000)	-	-
Capital assets, net of accumulated depreciation	-	3,447,125	-	3,447,125	-
Total long term assets	<u>20,000,000</u>	<u>3,447,125</u>	<u>(20,000,000)</u>	<u>3,447,125</u>	<u>-</u>
Total Assets	<u>\$ 122,308,530</u>	<u>\$ 63,791,562</u>	<u>\$ (22,350,089)</u>	<u>\$ 163,750,003</u>	<u>\$ 107,373,617</u>
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Accounts payable	497,966	768,347	-	1,266,313	-
(2) Due to:					
Lending institutions	-	-	-	-	21,314,444
Federal government	816,696	-	-	816,696	10,955,845
EDFUND	2,350,089	-	(2,350,089)	-	-
Operating Fund	-	-	-	-	10,403,876
Federal Fund	-	5,344,353	-	5,344,353	-
Other funds	582,595	-	-	582,595	-
Accrued expenses and other liabilities	-	7,055,049	-	7,055,049	-
Allowance for default aversion	3,841,816	-	-	3,841,816	-
Total current liabilities	<u>8,089,162</u>	<u>13,167,749</u>	<u>(2,350,089)</u>	<u>18,906,822</u>	<u>42,674,165</u>
Long term Liabilities:					
Advance payable to the Commission	-	20,000,000	(20,000,000)	-	-
Federal reserve recall	-	-	-	-	16,415,460
Other long term liabilities	-	3,343,428	-	3,343,428	-
Total long term liabilities	<u>-</u>	<u>23,343,428</u>	<u>(20,000,000)</u>	<u>3,343,428</u>	<u>16,415,460</u>
Total Liabilities	<u>8,089,162</u>	<u>36,511,177</u>	<u>(22,350,089)</u>	<u>22,250,250</u>	<u>59,089,625</u>
Net Assets:					
Invested in capital assets	-	3,447,125	-	3,447,125	-
Restricted	-	-	-	-	48,283,992
(3) Unrestricted	114,219,368	23,833,260	-	138,052,628	-
Total Net Assets	<u>114,219,368</u>	<u>27,280,385</u>	<u>-</u>	<u>141,499,753</u>	<u>48,283,992</u>
Total Liabilities and Net Assets	<u>\$ 122,308,530</u>	<u>\$ 63,791,562</u>	<u>\$ (22,350,089)</u>	<u>\$ 163,750,003</u>	<u>\$ 107,373,617</u>

CALIFORNIA STUDENT AID COMMISSION
OPERATING AND FEDERAL FUNDS

Statement of Activities

For the nine months ending June 30, 2005

	<u>Operating Fund</u>	<u>Federal Fund</u>
OPERATING REVENUES		
(4) Net recoveries on loan defaults	\$ 16,822,232	\$ -
Federal direct loans	27,820,786	-
Account maintenance fee	17,648,149	-
Loan processing and issuance fee	15,063,426	-
Voluntary flexible agreement	4,661,141	-
Default aversion fee	6,722,687	-
(6) VFA & restricted fund release	2,572,643	-
Claim purchase complement	-	1,478,283
Minimum reserve subsidy	-	24,556,793
Other revenues	53,678	62,031
Total operating revenues	<u>91,364,742</u>	<u>26,097,107</u>
OPERATING EXPENSES		
(6) Loan default expense	-	13,802,038
Default aversion fee subsidy	-	6,722,687
Early withdrawal aversion fee subsidy	-	4,661,141
Restricted fund expenses	2,572,643	2,572,643
Salaries & benefits	36,298,694	-
Computer expense	1,703,657	-
Consulting & professional fees	3,253,874	-
Collection agency costs	7,156,862	-
Other operating expenses	10,224,351	-
CSAC operating expenses	1,142,417	-
Minimum reserve subsidy	24,556,793	-
Outreach program expenses	8,505,114	-
Total operating expenses	<u>95,414,405</u>	<u>27,758,509</u>
Operating income (loss)	<u>(4,049,663)</u>	<u>(1,661,402)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	1,998,349	426,030
Grant administrative costs	(8,255,937)	-
Business diversification	(90,700)	-
State & federal representation	(69,154)	-
Total nonoperating revenues (expenses)	<u>(6,417,442)</u>	<u>426,030</u>
CHANGE IN NET ASSETS	<u>(10,467,105)</u>	<u>(1,235,372)</u>
Net assets, September 30, 2004	151,552,575	49,519,364
Add: EDFUND's change in net assets	414,283	-
Net assets June 30, 2005	<u>\$ 141,499,753</u>	<u>\$ 48,283,992</u>

**CALIFORNIA STUDENT AID COMMISSION
OPERATING AND FEDERAL FUNDS**

Statement of Cash Flows

For the nine months ending June 30, 2005

	<u>Operating Fund</u>	<u>Federal Fund</u>
Cash flows from operating activities:		
Receipts from:		
Collections	44,643,018	
Loan processing and issuance fee	17,488,844	
Account maintenance fee	13,986,932	
Default aversion fee	6,722,687	
Voluntary flexible agreement	62,617,214	
Other sources	53,267	(726,394)
Payments for:		
Purchases of default student loans		404,353
Default aversion fee		(6,722,687)
General administrative and other expenses	<u>(125,464,334)</u>	<u>15,140,542</u>
Net cash provided (used) by operating activities	<u>20,047,628</u>	<u>8,095,814</u>
 Cash flows from noncapital financing activities:		
Payments for grant administration costs & other	<u>(8,415,791)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>(8,415,791)</u>	<u>-</u>
 Cash flows from investing activities:		
Interest received	<u>1,924,086</u>	<u>422,578</u>
Net cash provided (used) by investing activities	<u>1,924,086</u>	<u>422,578</u>
 Increase (decrease) in cash and cash equivalents	13,555,923	8,518,392
Cash and cash equivalents, September 30, 2004	<u>69,601,731</u>	<u>39,880,701</u>
 Cash and cash equivalents, ending	<u>\$ 83,157,654</u>	<u>\$ 48,399,093</u>
 Operating income (loss)	(4,049,663)	(1,661,402)
 Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Receivables	(411)	-
Federal government	13,034	(15,935,634)
Loan processing and issuance fee	2,425,418	-
Account maintenance fee	(3,661,217)	-
Voluntary flexible agreement	57,956,073	-
EDFUND	(11,821,664)	(1,074,487)
Operating Fund	-	20,085,411
Federal Fund	(20,085,411)	-
Other funds	(2,635,344)	305,663
Allowance for default aversion refunds	1,730,336	(1,730,336)
Accounts payable and accrued liabilities	<u>176,477</u>	<u>8,106,599</u>
Total adjustments	<u>24,097,291</u>	<u>9,757,216</u>
 Net cash provided (used) by operating activities	<u>\$ 20,047,628</u>	<u>\$ 8,095,814</u>

CSAC/EDFUND
Student Loan Operating Fund
Revenues and Expenses by Organization
as of June 30, 2005
(Dollars In Thousands)

	2003-04 Actuals	2004-05 Budget	2004-05 Forecast	2004-05 Budget vs 2004-05 Forecast	
				\$	%
Revenues					
Federal Family Education Loan Program					
Net recoveries on loan defaults	49,699	58,369	59,500	1,131	1.9%
Account maintenance fee	16,062	26,000	25,400	(600)	(2.3%)
Loan processing and issuance fee	21,145	22,400	22,000	(400)	(1.8%)
Default aversion fee	-	8,500	9,300	800	9.4%
Interest income	3,022	2,300	2,600	300	13.0%
Prior year revenue (net of accrual)	4,719	-	-	-	0.0%
Other revenues	234	-	-	-	0.0%
Restricted fund revenue	3,563	4,009	3,696	(313)	(7.8%)
VFA revenues	57,956	30,000	30,000	-	0.0%
Total Revenues	156,400	151,578	152,496	918	0.6%
Expenses					
CSAC					
Cal Grant awards	146,500	-	35,000	(35,000)	0.0%
Grant administrative costs	11,119	11,643	12,059	(416)	(3.6%)
Outreach campaign	10,043	7,050	6,560	490	7.0%
Loan program administrative costs	1,362	1,723	1,723	-	0.0%
Cal-SOAP program	8,509	8,567	8,567	-	0.0%
Other expenses	81	-	-	-	0.0%
Subtotal CSAC	177,614	28,983	63,909	(34,926)	(120.5%)
EDFUND					
Salaries & benefits	49,115	53,554	53,440	114	0.2%
Computer expense	2,282	3,095	2,520	575	18.6%
Consulting & professional fees	3,372	6,472	5,620	852	13.2%
Collection agency costs	7,954	9,793	9,963	(170)	(1.7%)
Other operating expenses	11,112	15,561	13,638	1,923	12.4%
Depreciation expense	1,718	2,683	1,769	914	34.1%
VFA & restricted expenses	3,563	4,009	3,696	313	7.8%
-	-	-	-	-	0.0%
Subtotal EDFUND	79,116	95,167	90,646	4,521	4.8%
Other Initiatives					
Minimum reserve subsidy	9,023	39,400	46,700	(7,300)	(18.5%)
Public Awareness Campaign	2,827	3,000	3,000	-	0.0%
Borrower Benefits-EDSHARE for Institutions	2,993	2,665	1,872	793	29.8%
Business Diversification	403	-	91	(91)	0.0%
State & Federal representation	36	180	180	-	0.0%
Subtotal Other Initiatives	15,282	45,245	51,843	(6,598)	(14.6%)
Total Expenses	272,012	169,395	206,398	(37,003)	(21.8%)
Operating Surplus or Deficit	(115,612)	(17,817)	(53,902)	(36,085)	202.5%
Operating Margin	(73.9%)	(11.8%)	(35.3%)		
Net assets, Beginning	266,931	151,553	151,553		
Add: EDFUND's change in net assets	234	414	414		
Net assets, Ending	151,553	134,150	98,065	(36,085)	(26.9%)

Report is based upon Federal Fiscal Years.

CALIFORNIA STUDENT AID COMMISSION
OPERATING & FEDERAL FUNDS / EDFUND

Notes to Financial Statements

June 30, 2005

- 1 Cash and cash equivalents for EDFUND consists of \$23,833,260 equity fund, \$21,792,123 working capital, and \$10,945,304 cash to be remitted to the Commission.
- 2 Interfund receivables and payables are netted and shown as due to/from each respective fund and EDFUND.
- 3 Operating Fund net assets are composed entirely of unrestricted net assets, although the Commission has designated uses of the Operating Fund in its Capital Utilization Plan. Those categories include grant administration costs, outreach programs and public awareness, loan program services, activities to develop the FFEL program and business diversification.
- 4 Net recoveries on loan defaults are recorded as total gross collection revenues less USED's equitable share.
- 5 Restricted interest income in the Federal Fund is used to reimburse the Operating Fund for eligible VFA and restricted program expenses.
- 6 Loan default expense represents purchases of defaulted loans, less reinsurance reimbursement from USED.