

**CALIFORNIA STUDENT AID COMMISSION AND EDFUND
AUDIT PLAN FOR THE YEARS ENDING
June 30 and September 30, 2006**

Agenda

- The Auditors' Responsibility Under Generally Accepted Auditing Standards
- Our Reporting Requirements to You
- Current Accounting Standards
- Audit Timing and Reporting Calendar
- Auditor Independence

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The Auditors' Responsibility Under Generally Accepted Auditing Standards

- Conduct our audits in accordance with auditing standards generally accepted in the United States of America.
- Our audits are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets.
- 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.
- Accordingly, the audits are designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audits accomplished that objective.

Our Reporting Requirements to You

- Audit opinions on the financial statements of the Operating Fund and Federal Fund, EDFUND and EDFUND 401(k).
- Letter confirming auditor independence.
- Required communications to the audit committee.
- A management letter.

Current Accounting Standards

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- GASB Statement No. 46, *Net Assets Restricted by Enabled Legislation*
- GASB Statement No. 47, *Accounting for Termination Benefits*

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Current Accounting Standards (Continued)

GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

This Statement establishes accounting and financial reporting standards for impairment of capital assets and considers a capital asset to be impaired when its service utility has declined significantly and unexpectedly.

Governmental entities are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

GASB Statement No. 42 is applicable to financial statement periods beginning after December 15, 2004 and will be applied to the Operating Fund and Federal Fund's financial statements for the June 30, 2006 audit. The implementation of this statement is not expected to impact the Operating Fund and Federal Fund's financial statements.

GASB Statement No. 46, Net Assets Restricted by Enabled Legislation

GASB Statement No 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government entity—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

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Current Accounting Standards (Continued)

GASB Statement No. 46, *Net Assets Restricted by Enabled Legislation* (Continued)

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The implementation of GASB Statement No. 46 is not expected to significantly impact the financial reporting of the Operating Fund and Federal Fund.

GASB Statement No. 47, *Accounting for Termination Benefits*

GASB Statement No. 47 modifies reporting requirements for financial statements prepared on the accrual basis of accounting, requiring employers to recognize a liability and expense for *voluntary* termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated, and a liability and expense for *involuntary* termination benefits (for example, severance benefits) be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

For financial reporting purposes, a *plan of involuntary termination* is defined as a plan that (a) identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur and (b) establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

GASB Statement No.47 is applicable to financial statement periods beginning after June 15, 2005 and will be applied to the Operating Fund and Federal Fund's financial statements for the June 30, 2006 audit.

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Audit Timing and Reporting Calendar

Operating Fund and Federal Fund Planning Procedures (July 2006) (Substantially Completed)

- Develop our understanding of the Operating Fund and Federal Fund's strategies, objectives, and operating environment.
- Develop overall audit plan.
- Document and perform testing of the Operating Fund and Federal Fund's internal control processes.

EDFUND 401(k) Plan Audit Procedures (Week of July 31) (Substantially Completed)

- Test contributions from EDFUND and disbursements to participants from the 401(k) plan.
- Test eligibility of participants and employees of EDFUND in the 401(k) plan.
- Complete the audit of the 401(k) plan's financial statements and review the Form 5500.
- Deliver audit communications to the Joint Audit Committee in October 2006, including required communications, letter on independence and management letter.

Operating Fund and Federal Fund Year-End Procedures (August 21 – September 8)

- Complete the audit of the Operating Fund and Federal Fund balance sheet and income statement.
- Obtain management's financial statements.
- Complete engagement administration including subsequent events review, board minute review and other matters.
- Obtain management's representations.
- Deliver audit communications to the Joint Audit Committee in October 2006, including required communications, letter on independence and management letter.

EDFUND Planning Procedures (Weeks of September 11 and 18)

- Document and perform testing of EDFUND's internal control processes.
- Perform a preliminary analytical review of EDFUND financial statements.
- Evaluation of the control environment and risk assessment of EDFUND.

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Audit Timing and Reporting Calendar (Continued)

EDFUND Year-End Procedures (November 13 – December 1)

- Complete the audit of EDFUND's balance sheet and income statement.
- Obtain management's financial statements.
- Complete engagement administration including subsequent events review, board minute review and other matters.
- Review the Form 990.
- Obtain management's representations.
- Deliver audit communications to the Joint Audit Committee in January 2007, including required communications, letter on independence and management letter.

Auditor Independence

Auditor independence ensures that the auditor is free to carry out his or her responsibilities to audit committees, shareholders and the marketplace.

Certain independence matters have been addressed including their potential effect on our services to the California Student Aid Commission and EDFUND are described below.

Personal Impairments – *In compliance with Government Auditing Standards (GAS) we confirm the following types of personal impairments have been evaluated for all Firm employees:*

- a. No immediate family member (spouse, spousal equivalent, or dependent) or a close family member (parent, sibling, or nondependent child) is a director or officer of the Operating Fund and Federal Fund or EDFUND, or is an employee of Operating Fund and Federal Fund or EDFUND in a position to exert direct and significant influence over Operating Fund and Federal Fund or EDFUND or the program under audit.
- b. No financial interest that is direct, or is significant/material though indirect, in the Operating Fund and Federal Fund or EDFUND.
- c. There is no responsibility for managing an entity or decision-making that could affect operations of the Operating Fund and Federal Fund or EDFUND, for example as a director, officer, or other senior position of the entity, activity, or program being audited, or as a member of management in any decision-making, supervisory, or ongoing monitoring function for the Operating Fund and Federal Fund or EDFUND.

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Auditor Independence (Continued)

- d. There is no concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records when such services involved preparing source documents or originating data, in electronic or other form; posting transactions (whether coded by management or not coded); authorizing, executing, or consummating transactions (for example, approving invoices, payrolls, claims, or other payments of the Operating Fund and Federal Fund or EDFUND), maintaining the Operating Fund and Federal Fund or EDFUND bank account or otherwise having custody of the Operating Fund and Federal Fund or EDFUND funds; or otherwise exercising authority on behalf of the entity, or having authority to do so,
- e. There are no preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit,
- f. Biases, including those induced by political or social convictions, that result from employment in, or loyalty to, a particular group, organization, or level of government, and
- g. Seeking employment with the Operating Fund and Federal Fund or EDFUND during the conduct of the audit.

Prohibited Services – *we do not provide any services that are prohibited under independence rules.*

Pre-approval of non-audit services – *the Joint Audit Committee pre-approves all non-audit services performed by Perry-Smith LLP.*