



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

FOR RELEASE July 16, 2004

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the Iowa Federal Family Education Loan Program Division, a Division of the Iowa College Student Aid Commission, for the year ended June 30, 2003.

The Division was established to guarantee loans made by eligible lenders to eligible students and to administer the program. The Division is responsible for the determination of lender and school eligibility. The Division also reimburses eligible lenders for principal and accrued interest on defaulted loans guaranteed by the Commission and establishes an effective system for the collection of delinquent loans.

The Division had revenues of \$58,093,784, including \$27,928,617 from the U.S. Department of Education (USDE) for federal reinsurance payments, the majority of which represent 100% federal reinsurance, and default collections of \$22,608,948. Other revenues included federal management fees of \$3,904,035 and interest income of \$1,057,870.

Expenses for the year totaled \$55,726,623, including payments to lenders on defaulted loans of \$31,367,550, a 22% decrease from the prior year, and default collections remitted to USDE of \$9,713,120. The Division reported \$1.958 billion of outstanding student loans guaranteed at June 30, 2003, an increase of 1.7% from the \$1.926 billion subject to guarantee at June 30, 2002.

A copy of the audit report is available for review in the Office of Auditor of State and the Iowa College Student Aid Commission office.

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**IOWA FEDERAL FAMILY EDUCATION LOAN PROGRAM DIVISION
IOWA COLLEGE STUDENT AID COMMISSION**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2003

Table of Contents

	<u>Page</u>	
Officials	3	
Independent Auditor's Report	5-6	
Basic Financial Statements:	<u>Exhibit</u>	
Statement of Net Assets and Governmental Funds Balance Sheet	A	8
Statement of Activities and Statement of Revenues,		
Expenditures and Changes in Fund Balances	B	9
Notes to Financial Statements		10-15
Supplementary Information:	<u>Schedule</u>	
Expenditures by Object – General and Special Revenue Funds	1	18
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		19
Staff		20

**Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission**

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Cynthia P. Eisenhauer
Dennis C. Prouty

Governor
Director, Department of Management
Director, Legislative Services Agency

Commission

Michelle Durand-Adams
Jim Crawford
Dr. John V. Hartung
Representative Cecil Dolecheck
Donna Sorensen
Dr. Becki S. Lynch
Dr. Janice A. Friedel
Senator Herman C. Quirmbach
Gregory S. Nichols
Rudolph S. Leytze
Linda M. Kennedy
Travis K. Knoop

Chairperson
Vice Chairperson
Secretary
Member
Member
Member
Member
Member
Member
Member
Member
Member

Agency

Gary W. Nichols
Brenda Easter
Cheryl Mather
Tim Fitzgibbon

Executive Director
Director, Special Programs
Director, Accounting and Personnel
Director, Guarantee Agency Services

**Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report

To the Members of the Iowa College
Student Aid Commission:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission as of and for the year ended June 30, 2003, which collectively comprise the Division's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa College Student Aid Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 opinions.

As discussed in Note 1, the financial statements of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

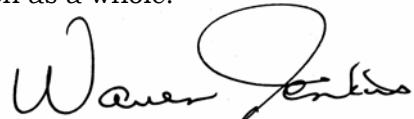
In accordance with Government Auditing Standards, we have also issued our report dated January 14, 2004 on our consideration of the Iowa Federal Family Education Loan Program Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Division has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on information the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 14, 2004

Basic Financial Statements

Exhibit A

Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission

Statement of Net Assets and
Governmental Funds Balance Sheet

June 30, 2003

	General Fund	Special Revenue			Statement of Net Assets
		Federal	Guaranty	Total	
		Student Loan Reserve Fund	Agency Operating Fund	Adjustments	
Assets					
Cash and investments	\$ 2,703,779	23,389,031	13,538,286	39,631,096	- 39,631,096
Cash on deposit with State Vehicle Dispatcher	-	-	9,366	9,366	- 9,366
Accounts receivable	16,533	486,415	2,708,595	3,211,543	- 3,211,543
Due from federal government	-	2,048,755	652,719	2,701,474	- 2,701,474
Due from Reserve Fund	-	-	845,412	845,412	(845,412) -
Prepaid expenditures	-	-	2,165	2,165	- 2,165
Capital assets, net of accumulated depreciation	-	-	-	-	24,228 24,228
Total assets	\$ 2,720,312	25,924,201	17,756,543	46,401,056	(821,184) 45,579,872
Liabilities					
Accounts payable	\$ 928	-	586,400	587,328	- 587,328
Default claims payable	-	1,960,998	-	1,960,998	- 1,960,998
Due to federal government	-	1,406,938	-	1,406,938	- 1,406,938
Due to Operating Fund	-	845,412	-	845,412	(845,412) -
Long-term liabilities:					
Due within one year:					
Compensated absences	-	-	-	-	113,127 113,127
Due after one year:					
Compensated absences	-	-	-	-	79,352 79,352
Federal recall of reserve funds	-	-	-	-	2,842,038 2,842,038
Total liabilities	928	4,213,348	586,400	4,800,676	2,189,105 6,989,781
Fund Balances/Net Assets					
Fund balances:					
Unreserved, designated for the Iowa					
Federal Family Education Loan Program	2,719,384	21,710,853	17,170,143	41,600,380	(41,600,380) -
Total liabilities and fund balances	\$ 2,720,312	25,924,201	17,756,543	46,401,056	
Net assets:					
Invested in capital assets, net of related debt					24,228 24,228
Unrestricted					38,565,863 38,565,863
Total net assets					\$ 38,590,091 38,590,091

See notes to financial statements.

**Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission**

**Statement of Activities and
Statement of Revenues, Expenditures
and Changes in Fund Balances**

Year ended June 30, 2003

	Special Revenue						Statement of Activities
	General Fund	Federal Student Loan Reserve Fund	Guaranty Agency Operating Fund	Total	Adjustments		
Revenues:							
Federal management fees	\$ -	-	3,904,035	3,904,035	-	3,904,035	
Federal reinsurance payments	-	27,928,617	-	27,928,617	-	27,928,617	
Default aversion fees	-	-	1,033,300	1,033,300	(1,033,300)	-	
Default aversion rebates	-	266,009	-	266,009	(266,009)	-	
Partnership loan program income	-	-	175,287	175,287	-	175,287	
Interest income	216,392	560,589	280,889	1,057,870	-	1,057,870	
Default collections	-	18,412,747	4,196,201	22,608,948	-	22,608,948	
Overpayments and repurchases	-	2,244,298	-	2,244,298	-	2,244,298	
Fees and recoveries allocated to Operating Fund	-	-	4,188,801	4,188,801	(4,188,801)	-	
Other	-	1,284	173,445	174,729	-	174,729	
Total revenues	216,392	49,413,544	13,951,958	63,581,894	(5,488,110)	58,093,784	
Expenditures/expenses:							
Federal Family Education Loan Program							
administration	-	-	5,721,288	5,721,288	2,710	5,723,998	
Default collections remitted to USDE	-	9,713,120	-	9,713,120	-	9,713,120	
Collection expenses	-	-	3,803,194	3,803,194	-	3,803,194	
Payments to lenders on defaulted loans	-	31,367,550	-	31,367,550	-	31,367,550	
Tuition grants for foster children	69,520	-	-	69,520	-	69,520	
Tuition grants for students affected by the Iowa farm crisis	15,209	-	-	15,209	-	15,209	
Default aversion fees	-	1,033,300	-	1,033,300	(1,033,300)	-	
Default aversion rebates	-	-	266,009	266,009	(266,009)	-	
Payments for refunds and rehabbed loans	-	4,653,417	-	4,653,417	-	4,653,417	
Fees & recoveries allocated to Operating Fund	-	4,188,801	-	4,188,801	(4,188,801)	-	
Depreciation	-	-	-	-	6,421	6,421	
Other	-	291,126	83,068	374,194	-	374,194	
Total expenditures/expenses	84,729	51,247,314	9,873,559	61,205,602	(5,478,979)	55,726,623	
Excess (deficiency) of revenues over (under) expenditures/change in net assets	131,663	(1,833,770)	4,078,399	2,376,292	(9,131)	2,367,161	
Fund balances/net assets beginning of year, as restated (note 11)	2,587,721	23,544,623	13,091,744	39,224,088	(3,001,158)	36,222,930	
Fund balances/net assets end of year	\$ 2,719,384	21,710,853	17,170,143	41,600,380	(3,010,289)	38,590,091	

See notes to financial statements.

Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

The Iowa Federal Family Education Loan Program Division (Division) of the Iowa College Student Aid Commission (Commission), an agency of the State of Iowa, was established under Chapter 261 of the Code of Iowa to guarantee loans made by eligible lenders to eligible students and to administer the program. It was formerly referred to as the Iowa Guarantee Student Loan Division and is attached to the Iowa Department of Education for organizational purposes.

Organization of the Commission provides for a membership of twelve commissioners, including representatives of the Board of Regents, the Iowa Department of Education, private educational and banking institutions, Community Colleges, the Iowa Student Loan Liquidity Corporation, each house of the State Legislature, the general public and a student representative. The Governor appoints eight members, including one to represent each of the following areas: the private institutions, the Iowa Student Loan Liquidity Corporation, Community Colleges, Iowa lending institutions, Iowa post-secondary students; and three to represent the general public. The legislative representatives are non-voting members of the Commission.

The Division is responsible for the determination of lender, school and student eligibility. It is responsible for the collection of insurance premiums of not more than three percent of the principal amount of any Stafford, PLUS or SLS loans guaranteed. Such premiums collected by the lender upon disbursement of the loan are to be promptly remitted to the Division. The Division contracts the services of USA Education, Inc. ("Sallie Mae.") for the collection of these premiums.

The Division is also responsible for reimbursement to eligible lenders for principal and accrued interest on defaulted loans guaranteed by the Commission and to establish an effective system for the collection of delinquent loans.

The financial statements of the Iowa Federal Family Education Loan Program Division have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Iowa Federal Family Education Loan Program Division has included all funds, organizations, agencies, boards, commissions, and authorities. The Division has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Division to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Division. The Iowa Federal Family Education Loan Program Division has no component units which meet the Governmental Accounting Standards Board criteria.

B. Entity-wide and Fund Financial Statements

The financial statements on pages 8 and 9 combine both an entity-wide perspective and a governmental fund perspective.

The General, Federal Student Loan Reserve and Guaranty Agency Operating Funds comprise the Division's major governmental funds. The difference between assets and liabilities of the funds are referred to as "fund balance".

The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Division. Governmental activities are those which normally are supported by intergovernmental revenues.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

D. Cash and Cash Equivalents

The cash balances of most State Agency Funds are pooled and invested by the Treasurer of State.

E. Capital Assets

Capital assets, which include equipment with individual costs in excess of \$5,000, are recorded at historical cost. Donated assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Capital assets are depreciated over a four-year life. The entity-wide Statement of Activities reports depreciation expense.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

F. Due to Federal Government

Due to federal government represents the amount owed to the U.S. Department of Education for collections on loans in default.

G. Compensated Absences

A liability is recorded when incurred in the entity-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. State employees accrue vacation, sick and compensatory leave at rates specified in the Code of Iowa and/or collective bargaining agreements. Accumulated unused vacation leave is payable upon termination of employment. Accumulated unused sick leave is payable only upon retirement and only to limits specified in the Code of Iowa and/or collective bargaining agreements. The liabilities for compensated absences are based on rates of pay in effect at June 30, 2003.

H. Fund Balance

The unreserved fund balance designated for the Iowa Federal Family Education Loan Program represents the amount available for actual payment of claims for defaulted loans and administration.

(2) Deposits and Investments

The Division's deposits with the Treasurer of State throughout the year and at June 30, 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. Interest income from the investment pool is credited to the fund holding the cash balance. Interest earned for the year ended June 30, 2003 totaled \$1,057,870.

(3) Capital Assets

A summary of capital asset activity for the year ended June 30, 2003 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Equipment	\$ 112,772	24,519	(6,872)	130,419
Vehicles	11,025	-	-	11,025
Less: accumulated depreciation	(117,667)	(6,421)	6,872	(117,216)
Total	\$ 6,130	18,098	-	24,228

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2003 is as follows:

	Compensated Absences	Federal Recall of Reserve Funds	Total
Balance beginning of year	\$ 165,250	4,306,119	4,471,369
Increases	147,189	-	147,189
Decreases	119,960	1,464,081	1,584,041
Balance end of year	\$ 192,479	2,842,038	3,034,517

Federal Recall of Reserve Funds – Section 422 of the Higher Education Act of 1965, as amended, requires the recall of reserve funds held by guaranty agencies based on a formula of reserve funds held by guaranty agencies as of September 30, 1996. The Iowa Federal Family Education Loan Program Division was required, starting with federal fiscal year 1998, to set aside approximately \$6 million per year through 2002, totaling \$30,151,666, to be returned to the United States Treasury. A restricted account with the Treasurer of State has been established to maintain the amounts set aside each year for the recall as stipulated by authorizing legislation. As of June 30, 2003, \$30,151,666 has been transferred to the Treasurer of State as required. For fiscal year 2002, an additional recall was required by the Higher Education Act of 1965. The Division's share of the additional recall is \$4,306,119. The Division made the first payment of \$1,464,081 due on September 1, 2002. Two additional payments of \$1,421,019 each are due in fiscal years 2006 and 2007.

(5) Operating Leases

The Iowa College Student Aid Commission has leased office space at 200 - 10th Street in Des Moines. The lease has been classified as an operating lease and, accordingly, all rent is charged to expense as incurred. The lease expires on November 30, 2005.

The Commission has leased various desktop computers and laser jet printers. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred. These leases expire on August 31, 2005.

The following is a schedule, by year, of future minimum rental payments required under the operating leases which have a remaining non-cancelable lease-term in excess of one year as of June 30, 2003:

Year Ending June 30,	Office	Computers	Total
2004	\$ 101,220	27,117	128,337
2005	106,050	27,117	133,167
2006	45,000	4,520	49,520
Total	\$ 252,270	58,754	311,024

Rental expense for all operating leases totaled \$118,936 for the year ended June 30, 2003.

(6) Pension and Retirement Benefits

The Division contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Division is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Division's contributions to IPERS for the years ended June 30, 2003, 2002 and 2001 were \$76,015, \$69,571 and \$62,096, respectively, equal to the required contributions for each year.

(7) Commitments and Contingencies

Loan Guarantees – The Division guarantees loans made to students. The U.S. Department of Education (USDE) reinsures the student loans up to 100% of their principal amounts based on the Division's annual default rate. On loans made on or after October 1, 1993, the reinsurance percentage was reduced to 98% in accordance with the Omnibus Budget Reconciliation Act of 1993. At June 30, 2003, the Division was guarantor of \$1.958 billion in student loans, substantially all of which were reinsured by the USDE at the 100% rate. The state has no obligation under these student loan guarantees in the event of default.

Federal Agreements – Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the federal agencies for expenditures disallowed under terms of the agreements or the assessment of informal fines. The Division recognizes material disallowances when the loss becomes probable and reasonably estimable. As of June 30, 2003, the Division estimates any disallowances of recognized revenues would not be material to the financial statements.

(8) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to State property (casualty losses).

(9) Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Assets

The differences include long-term liabilities for compensated absences and the federal recall reserve and capital assets, net of accumulated depreciation, which are not included on the governmental funds balance sheet but are included on the Statement of Net Assets.

Capital assets, net of accumulated depreciation	\$ 24,228
Federal recall reserve	(2,842,038)
Compensated absences	<u>(192,479)</u>
Total	<u><u>\$ (3,010,289)</u></u>

(10) Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities

The differences include the increase in compensated absences payable, equipment additions and depreciation expense for capital assets which are not included on the statement of revenues, expenditures and changes in fund balances but are included on the Statement of Activities.

Increase in compensated absences	\$ 27,229
Decrease for equipment additions	(24,519)
Depreciation expense	<u>6,421</u>
Total	<u><u>\$ 9,131</u></u>

(11) Restatement

The beginning fund balance for the Federal Student Loan Reserve Fund has been restated to exclude long-term liabilities, as follows:

Fund balance June 30, 2002, as previously reported	\$ 20,702,585
Long-term liability for federal recall of reserve funds	<u>2,842,038</u>
Fund balance July 1, 2002, as restated	<u>\$ 23,544,623</u>

**Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission**

Supplementary Information

Schedule 1

Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission

Expenditures by Object

General and Special Revenue Funds

Year ended June 30, 2003

Federal Family Education Loan Program administration:

	General Fund	Special Revenue			Total
		Federal	Guarantee		
		Student Loan Reserve Fund	Agency Operating Fund		
Personal services	\$ -	-	1,729,545	1,729,545	
Travel	-	-	27,215	27,215	
Supplies and materials	-	-	113,049	113,049	
Contractual services	-	-	3,772,583	3,772,583	
Equipment	-	-	67,794	67,794	
Other	-	-	11,102	11,102	
Subtotal	-	-	5,721,288	5,721,288	
Default collections remitted to USDE	-	9,713,120	-	9,713,120	
Collection expenses	-	-	3,803,194	3,803,194	
Payments to lenders on defaulted loans	-	31,367,550	-	31,367,550	
Tuition grants for foster children	69,520	-	-	69,520	
Tuition grants for students affected by the Iowa farm crisis	15,209	-	-	15,209	
Default aversion fees	-	1,033,300	-	1,033,300	
Default aversion rebates	-	-	266,009	266,009	
Payments for refunds and rehabbed loans	-	4,653,417	-	4,653,417	
Fees and recoveries allocated to Operating Fund	-	4,188,801	-	4,188,801	
Other	-	291,126	83,068	374,194	
Total expenditures	\$ 84,729	51,247,314	9,873,559	61,205,602	

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance and on
Internal Control Over Financial Reporting

To the Members of the Iowa College
Student Aid Commission:

We have audited the financial statements of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission as of and for the year ended June 30, 2003, and have issued our report thereon dated January 14, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Iowa Federal Family Education Loan Program Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Federal Family Education Loan Program Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa College Student Aid Commission, citizens of the State of Iowa and other parties to whom the Commission may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Iowa College Student Aid Commission during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

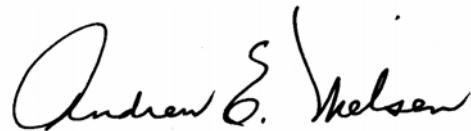
January 14, 2004

Iowa Federal Family Education Loan Program Division
Iowa College Student Aid Commission

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