STATE OF CONNECTICUT

AUDITORS' REPORT
CONNECTICUT STUDENT LOAN FOUNDATION
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2002 and 2003

AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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February 14, 2005

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FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2002 and 2003

We have examined the books, records and accounts of the Connecticut Student Loan Foundation ("CSLF" or "Foundation"), as provided in Section 2-90 of the General Statutes, for the fiscal years ended September 30, 2002 and 2003.

Scope of Audit:

Our audit was limited to a review of certain State statutory requirements. The Foundation contracts with an independent certified public accountant to perform financial and compliance audits. We have relied on those audits, done for the fiscal years mentioned above, after having satisfied ourselves as to the firm's professional reputation, qualifications and independence, and verifying that generally accepted accounting principles and auditing standards were followed in the audits and in the preparation of the reports. We have included certain financial information in the "Résumé of Operations" section in this report that we obtained from their reports and certain Foundation reports. Comments in their reports are presented under the heading "Audits by Independent Public Accountants" in this report. Financial statements of the CSLF are included in the Foundation's annual reports, submitted in accordance with Section 10a-210 of the General Statutes. We conducted our audit in accordance with generally accepted government auditing standards for financial audits. This report on our examination consists of the Comments, Condition of Records, and Recommendations that follow.

COMMENTS

FOREWORD:

The Connecticut Student Loan Foundation, a nonprofit corporation created in 1965, operates primarily under the provisions of Sections 10a-201 through 10a-216 of the General Statutes. The stated mission of the corporation is to improve the post-secondary educational and vocational

opportunities of persons who are attending, or plan to attend, eligible institutions by administering, guaranteeing and/or servicing loans to such persons to assist them in meeting their educational expenses. The Foundation serves as the guarantee agency for the Federal Family Education Loan Program (FFELP).

The Foundation has been authorized under the provisions of Section 10a-201 to administer (collect repayments and otherwise service) Connecticut guaranteed loans for lenders and their assignees since 1980. Beginning in July 1989, the Foundation became a direct participant in the secondary market for student loans whereby it has purchased and holds, in part as a revenue-producing investment, portfolios of loans originally issued by other authorized lending institutions. It is presumed that this activity provides lenders with the necessary liquidity to offer additional student loans. The Foundation's loan servicing and secondary market activities are discussed in this report under separate headings.

Board of Directors and Administrative Officials:

Under the provisions of Section 10a-203 of the General Statutes, the Foundation is governed by a Board of Directors consisting of 13 members, including four legislative members. Seven public members are appointed by the Governor with at least one member representing the State's private colleges. Two legislative members are from the House of Representatives, one appointed by the Speaker and the other appointed by the Minority Leader. The other two legislative members are from the Senate, one appointed by the President Pro Tempore and the other by the Minority Leader. The Chairman of the Board of Governors of Higher Education and the Commissioner of Higher Education are ex officio members of the Board. The directors receive no compensation for their services, but are reimbursed for expenses incurred in the performance of their duties.

Membership of the Board, as of September 30, 2003, is presented below:

T. Brian Condon, Chairman
William J. Lucas, Vice Chairman
William P. Hawkins, Treasurer
Stephen B. Keogh, Esq., Secretary
Gregory C. Davis, Esq., Assistant Secretary
Patrick B. O'Sullivan II
Robert C. Schatz
Harry H. Penner, Jr., Chairman of the Board of Governors of Higher Education
Valerie F. Lewis, Commissioner of Higher Education
Senator Thomas P. Gaffey
Senator Leonard A. Fasano
Representative Claudia Powers
Vacancy

Senator Thomas P. Gaffey resigned from the Board, September 16, 2002, and was reappointed June 11, 2003. Senator Thomas J. Herlihy also served as a member of the Board during the period covered by this examination.

Subsequent to September 30, 2003, Representative Claudia Powers resigned from the Board and Representative DebraLee Hovey was appointed. The September 30, 2003 vacancy was filled with the appointment of Ryan Barry, effective June 16, 2004.

Mr. Mark Valenti served as President of the Foundation through the audited period and continues to serve in that capacity.

Review of the Minutes of the Board of Directors Meetings:

Our review of the minutes of the meetings of the Board of Directors disclosed that the statutorily required meetings were held and statutory requirements governing certain matters to be discussed at such meetings were met.

Recent State Legislation:

Public Act 01-102, of the January 2001 Regular Session of the General Assembly, authorizes the Foundation's financing of loans that are not originated pursuant to the Higher Education Act of 1965, as amended, to assist persons in meeting the expenses of education subject to such loan amount limitations and upon other such terms and conditions as the Foundation's Board or any rating agency may approve. Loans financed under this authority would be considered "Alternative Loans." Section 6 of the Public Act, effective October 1, 2001, allows for the remittance to the Foundation of State income tax refunds otherwise due to borrowers of unpaid defaulted loans made or guaranteed by the Foundation.

Recent Federal Legislation:

The 2002 Amendments to the Higher Education Act extended the interest rate formulas for Stafford Loans and Parent Loans for Undergraduate Students to loans disbursed by June 30, 2006, and for FFELP Consolidation Loans for which an application is received by an eligible lender by June 30, 2006. These loan types are described later in this report, in the Résumé of Operations section, Federal Program.

RÉSUMÉ OF OPERATIONS:

Fund Structure:

The financial record keeping practices of the Connecticut Student Loan Foundation are generally governed by Section 10a-213 of the General Statutes, which specifies that there shall be two funds for the Foundation, (1) unrestricted and (2) restricted. The 1998 Amendments to the Higher Education Act of 1965 mandated significant changes to guaranty agency financial structures; in response, Connecticut Student Loan Foundation management modified the accounting and reporting structure, and restated the beginning fund balances of the Restricted Federal Reserve Fund (formerly the Restricted Fund) and the Unrestricted Fund, as of October 1, 1998, by transferring items specified in the regulations to specific funds. Additionally, the Foundation established the Restricted Collections Fund to temporarily account for receipts of borrower payments on defaulted loans. It contains both Federal Reserve Fund and Unrestricted Fund cash. Although the Foundation maintains this Fund structure, effective with the fiscal year ended September 30, 2003, its audited financial statements do not present the Funds separately. The change was made to comply with the reporting requirements of the

Governmental Accounting Standards Board Statements No. 34, 37 and 38. For informational purposes the financial statement footnotes include a summary of the financial position as of September 30, 2003, and the changes in net assets for the year then ended for each of the Funds.

Unrestricted Fund:

The Unrestricted Fund has been established to account for the administrative and general operations of the Foundation, including the secondary market investment, administration of defaulted loans, administration of the guarantee loan program, loan servicing activities, real estate activities, and fixed assets purchased with non-Federal funds.

We are not presenting, as part of this report, the formal financial statements of the Fund. As previously noted, we have relied on the work done by the Foundation's independent public accountants who have certified such statements in conjunction with their audits. Presented below is a summary schedule of the Fund's revenues and expenses taken from those statements for the fiscal years covered by our examination, as compared with the year ended September 30, 2001:

	Fiscal Year Ended September 30,		
(In Thousands)	**2001**	**2002**	**2003**
Revenues:	$	$	$
Defaulted loan recoveries	6,489	4,536	5,528
Loan processing and issue fee	1,427	1,446	1,503
Account maintenance fees	1,414	1,408	1,369
Servicing fees	1,065	1,034	665
Investment income	32,919	23,270	18,122
Rental	250	227	117
Kissystems income	1	84	116
Other	10	4	1,135
Total Revenue	43,575	32,009	28,555
Expenses:			
Employee compensation /benefits	8,679	9,264	9,532
Equipment expenses	564	496	155
Collection	3,298	2,000	2,155
Communications	493	489	533
Contractual Services	356	811	1,473
Printing and supplies	181	173	226
Rental/occupancy costs	351	329	361
Interest	23,570	10,247	7,652
Legal/professional fees	403	391	481
Secondary market	2,625	2,510	3,055
Depreciation	478	531	536
Other	835	866	1,034
Total Expenses	41,833	28,107	27,193
Other changes in Fund Balances/Net Assets	563	673	512
Excess of Revenues over Expenses	**$ 2,305**	**$ 4,575**	**$ 1,874**

The two major sources of revenue in the Unrestricted Fund have been defaulted loan recoveries and investment income. The Foundation maintains a collection effort on defaulted loans and is permitted to retain a specific percentage of those collections, while the bulk of them are paid to the Federal government. Investment income, mainly from student loans financed with taxable bond proceeds, accounts for a majority of the Foundation’s revenues. This is offset by the interest paid to bondholders. Investment income was also generated from a financing agreement that the Foundation had with the Student Loan Marketing Association (Sallie Mae). Under the agreement, the Foundation was allowed to borrow up to $100,000,000 to be used to originate certain guaranteed student loans that will be serviced by Sallie Mae, and subsequently sold to Sallie Mae when the student loan enters into repayment. Using taxable bond proceeds the Foundation paid off Sallie Mae in the 2002-2003 fiscal year and the financing agreement is considered closed. The Foundation also has a revolving loan agreement with the State Treasurer that it can use to enhance its investment income. The revolving loan agreement was not used during the audited period. Because of the variable interest rates associated with the Foundation's investments and related debt, investment income and interest expense is directly related to market conditions. Accordingly, lower interest rates over the period resulted in the significant decreases.

Employee compensation and fringe benefit costs continued to be a significant operating expense of the Foundation. The number of filled positions increased during the audited period from 157 as of September 30, 2001, to 160 as of September 30, 2002, and 172 as of September 30, 2003.

As of September 30, 2003, the Unrestricted Fund had assets totaling $516,376,000, liabilities totaling $499,818,000, and net assets of $16,558,000.

Restricted Funds:
Federal Reserve Fund (formerly Restricted Fund):

The Federal Reserve Fund has been established and is used to account for the operations of the Foundation relative to its guarantee agency responsibilities. Included in the Fund are assets belonging to the Secretary, U. S. Department of Education; which includes the reinsurance compliment portion of default loan recoveries, reinsurance payments, Federal advances, Federal recall deposits and fixed assets purchased with Federal funds.

As with the Unrestricted Fund, we are not presenting, as part of this report, formal financial statements on this Fund. We have relied on the work done by the Foundation's independent public accountants who have already certified such statements. Presented on the following page, for informational purposes, is a summary of the Fund's revenues and expenses taken from those financial statements for the fiscal years covered by our examination, as compared with the fiscal year ended September 30, 2001.

(In Thousands)	Fiscal Year Ended September 30, 2001	2002	2003
Revenues:	$	$	$
Default loan recoveries	110	160	214
Investment income	1,153	418	175
Other	93	40	34
Total Revenues	1,356	618	423
Expenses:			
Unreimbursed guarantee fees	935	2	666
Default Aversion			474
Account maintenance expense	188	126	194
Depreciation	218	124	79
Other	10	-	-
Total Expenses	1,351	252	1,413
Excess (deficiency) of Revenues over Expenses before other changes in Fund Balances/Net Assets	5	366	(990)
Other Changes in Fund Balances/Net Assets	(563)	(3,376)	(590)
Excess (deficiency) of Revenues over Expenses	**$(558)**	**$(3,010)**	**$(1,580)**

The primary activity accounted for in this Fund is the Federal loan guarantee or reinsurance. Under the federal program, the Federal government reimburses the Foundation a certain percentage of the amount the Foundation pays to lenders on defaulted loans. The Foundation accounts for these transactions through an asset account on its balance sheet; therefore, the related transaction information is not presented above. As presented in the footnotes to its financial statements, the Foundation's payments to lenders were $22,340,000 and $19,609,000, for the fiscal years ended September 30, 2002 and 2003, respectively, while the reimbursements received and accrued from the U.S. Department of Education were $21,858,000 and $18,991,000, respectively. Federal reinsurance is discussed further in the "Federal Program" section of this report. The losses in this Fund are caused by the Foundation continuing its policy not to charge an insurance fee, a policy that benefits student and parent borrowers. The Foundation adopted the policy effective June 1, 1999, as a result of industry pressures created by larger competitors. At its March 15, 2004 meeting, the CSLF Board authorized the President to reinstate the fee at such time that he deems it appropriate to do so.

As of September 30, 2003, the Federal Reserve Fund had assets totaling $13,830,000, liabilities totaling $8,819,000, and net assets of $5,011,000.

Restricted Collections Fund:

The Restricted Collections Fund is a restricted clearing account for cash collected on borrowers' defaulted loans. The account includes recoveries payable to both the Federal Reserve Fund and Unrestricted Fund, as well as to the U.S. Department of Education. Transfers to the Federal Reserve Fund and the Unrestricted Fund, inclusive of each Fund's respective share of interest earned, are made within 30 days of receipt. At September 30, 2003, per the Foundation's annual report, the Fund had assets of $1,731,000, of which $1,195,000, $519,000 and $17,000 were due to the U.S. Department of Education, the Unrestricted Fund, and the Federal Reserve Fund, respectively.

Federal Program:

CSLF serves as the guarantee agency for the Federal Family Education Loan Program (FFELP), formerly known as the Stafford or Guaranteed Student Loan Program, (CFDA #84.032), as authorized by Title IV-B of the Higher Education Act of 1965, as amended. The objective of the program is to authorize and make available guaranteed loans for educational expenses from eligible lenders. These loans may be insured and reimbursed through a state or private nonprofit guarantee agency, such as CSLF, which has entered into basic program and supplementary agreements with the Federal agency.

New loan guarantees made during the fiscal years ended September 30, 2002 and September 30, 2003, amounted to $277,918,000 and $294,929,000, respectively. These loan guarantees were made under provisions of the following Federally-sponsored loan programs:

Federal Stafford Student Loans:
Formerly known as the Guaranteed Student Loan Program (GSLP), now referred to as the Federal Family Education Loan Program (FFELP), this program guarantees low-interest loans made by commercial lenders to eligible students. The U.S. Department of Education pays interest to holders of subsidized loans during the in-school, grace and deferment periods. Commencement of loan and interest repayment generally begins after graduation or discontinuance of a course of study, or reduction to less than half-time study. For unsubsidized Federal Stafford Loans, the borrower is required to pay interest from the time the loan is made. Unsubsidized Federal Stafford Loans became available on October 1, 1992.

Federal Parent Loans for Undergraduate Students (PLUS):
Loans guaranteed under this program are available to parents of dependent students. Loan interest is not subsidized, and the repayment of principal and interest begins immediately. Commercial lenders make the loans at a variable interest rate set by the Federal government.

Consolidation Loans:
Congress authorized the Consolidation Loan Program in October 1986. By consolidating various student loans, borrowers can bring their debt to a manageable level by reducing the monthly payment. With consolidation loans, the repayment period can be extended to as long as 30 years.

The actual loans are made through authorized private lending institutions under the provisions of the Higher Education Act of 1965, as amended.

A major source of revenue arises directly or indirectly from this program. These include Federal payments received and accrued for account maintenance fees, the portion of loan recoveries retained when payments are received from defaulting borrowers, loan processing and issue fees, and investment income earned on Federal Recall funds. The Foundation also receives default reinsurance payments, which as previously noted, are accounted for in the Restricted Federal Reserve Fund, through an asset account. In the event that the borrower defaults on a loan, the Foundation, as the guarantee agency, reimburses the lender the unpaid principal and interest, and the Federal government subsequently reimburses the Foundation. The reinsurance payments represent the reimbursements received or accrued during the fiscal year. Prior to October 1, 1993, the Federal reinsurance rate was 100 percent of claims amounts. Federal reinsurance was reduced to 98 percent for defaults on loans made after October 1, 1993, and to 95 percent for defaults on loans made after October 1, 1998. In order for a guarantee agency to receive the maximum percent of reimbursement, the Agency must not exceed an annual default rate of five percent. As previously noted, we have relied on the work done by the Foundation's independent public accountants who have issued reports and financial statements in conjunction with their audits. Based on our review of those statements, we noted that the Foundation remained fully insured for its defaulted loans. A comparison of the default rate for the years under review is as follows:

	Federal Fiscal Year Ended September 30,		
	2001	**2002**	**2003**
Annual default percentage	2.72	3.25	2.63

During the fiscal years under review, the Foundation received the maximum percent of reinsurance payments for the default payments it made to lenders. However, if the annual default rate climbed to five percent, reinsurance payments would drop in accordance with a set of formulas that are used to calculate the payments. Should the Foundation subsequently recover any monies from the borrowers of defaulted loans, it is permitted to retain 24 percent of those monies, plus the applicable reinsurance compliment. The reinsurance compliment is equal to 100 percent of the lender claim amount less the percentage reimbursed by the U. S. Department of Education. The remainder is paid to the Federal government. Defaulted loan recoveries, excluding the reinsurance compliment, are reported as revenue in the Unrestricted Fund. The reinsurance compliment is reported as revenue in the Restricted Federal Reserve Fund. As of September 30, 2003, there were approximately 4,000 defaulted loans in repayment, with principal balances totaling approximately $24,863,000.

There is a guarantee, or insurance fee, that is authorized under the program. It can be charged directly to the lenders and passed on to borrowers. As previously indicated, the Foundation elected to waive this fee for all borrowers for loans guaranteed on or after June 1, 1999, until further notice, citing industry pressures created by larger competitors as the reason for that decision.

Loan Servicing:

As previously mentioned, since 1980 the Foundation has been authorized to provide loan servicing to all holders of Connecticut student loans. The Foundation has established the Connecticut Assistance for Loan Servicing (CALS) to function as a semi-autonomous servicing department within the Foundation. The services offered include, for a fee, such duties as disbursing loans, providing for the collection of Federal interest subsidies, collections of principal and interest from borrowers, performing student status checks, and preparing required forms and correspondence.

During the period under review, CALS primarily serviced loans guaranteed by the Foundation under the Federal loan guarantee program that were owned by direct lenders or secondary market organizations. CALS also services loans made by the Connecticut Higher Education Supplemental Loan Authority (CHESLA). In December 1998, the Foundation was awarded the contract to service all CHESLA loans.

A comparison of the Foundation's loan servicing volume and number of borrowers as of September 30, 2001, 2002, and 2003, taken from Foundation statistical reports, is presented below:

Fiscal Year Ended	Annualized Number of Borrowers	Value of Loans Serviced
September 30, 2001	55,201	$451,192,479
September 30, 2002	50,117	433,998,501
September 30, 2003	50,052	446,303,146

CALS transactions are accounted for in the Unrestricted Fund. Servicing fee revenue for the fiscal years ended September 30, 2001, 2002, and 2003, was $1,065,000, $1,034,000 and $665,000, respectively, as presented in the financial summary in the “Unrestricted Fund” section in this report. The decreased revenues in the 2003 fiscal year were caused by a CALS client electing to move all of its loans from multiple locations to one location.

Secondary Market Lending Activity:

As of July 1, 1989, the Foundation became a direct participant in the secondary market for student loans whereby it has acquired loans originally issued by authorized lending institutions. The Foundation's entry into this market came about through its acquisition of the loan portfolios held by the State Treasurer's Connecticut Student Loan Program, also known as the "Susie Mae" program. This program, established by the State in 1972, purchased guaranteed student loans from the original lending institutions and was an investment in the State's Short Term Investment Fund (STIF) administered by the State Treasurer. From 1981 until 1989, CALS was the primary servicer of the "Susie Mae" loans.

On July 7, 1989, the Foundation entered into an agreement with the State under which it purchased the total "Susie Mae" portfolio with a value of approximately $37,000,000 at the time of transfer. This acquisition was funded through a revolving loan made by the State Treasurer from STIF. The nature of the loan agreement is such that the Foundation is allowed to purchase additional student loan portfolios from lenders as they become available. The agreement currently provides for a ceiling of up to $100,000,000. The loan agreement was not used during the audited period and as of September 30, 2003, the Foundation had a zero balance.

The majority of the Foundation’s loans are made using taxable bond proceeds. The Foundation also used its Sallie Mae $100,000,000 line of credit mentioned previously in this report as a source for originating student loans.

During the audited period the Foundation issued the following taxable Student Loan Revenue Bonds as Auction Rate Certificates:

Date	Amount	Description
November 2002	$47,500,000	Senior Series 2002A-1
November 2002	$47,500,000	Senior Series 2002A-2
November 2002	$30,000,000	Subordinate Series 2002B

The proceeds of the above bond issues were mainly used to pay off the Sallie Mae line of credit, to finance new loans, and to purchase existing loans from other lenders.

At September 30, 2003, the outstanding principal due to all bondholders was $488,000,000. The Foundation's investment in student loan portfolios as of September 30, 2003, was $409,840,000 and includes $409,367,000 financed by taxable Student Loan Revenue Bonds, and $473,000 financed by the Foundation.

State Funded Student Loan Forgiveness Program:

Subsection (c) of Section 10a-206 of the General Statutes requires the Foundation to make a ten percent forgiveness payment to certain student borrowers who have had loans guaranteed by it. To qualify for this payment, a borrower must meet certain criteria including: the loans must have been for academic periods prior to July 1, 1979; the borrower must have been a State resident at the time of application for the loans; the student must graduate from the program the loans applied to; and full repayment of the loans must have occurred. The ten percent is calculated on the total amount repaid (principal and interest) and is paid directly to the borrower.

This program had been funded through a grant appropriation received from the Department of Higher Education. These monies were transferred to the CSLF at the beginning of each fiscal year, as needed. However, during the audited period the unexpended balance was adequate for program expenditures and no grant appropriations were received.

A summary of program activity for the fiscal years ended September 30, 2001, 2002, and 2003 is presented below:

Fiscal Year Ended	Payments	Unexpended Balance
September 30, 2001	$ 186	$105,923
September 30, 2002	1,097	104,826
September 30, 2003	-	104,826

The $1,097 paid during the 2002 fiscal year consisted of one payment that was made to correct an error in the 2001 fiscal year payment.

The unexpended balance of forgiveness monies is invested in a separate STIF account and is included as part of the Unrestricted Fund cash balance.

State Bond Authorization:

A bond authorization of $5,000,000 is provided for under Section 10a-214 of the General Statutes. This authorization is subject to State Bond Commission approval. As of September 30, 2003, the Foundation has not made use of this bond authorization.

Office of Policy and Management Loan:

In May 1999, the Foundation entered into a Loan Agreement with the State of Connecticut, Office of Policy and Management, that allowed the Foundation to borrow up to $8,000,000 from the General Fund of the State of Connecticut for the purposes of meeting its operating expenses and to make or purchase student loans. During the fiscal year ended September 30, 2001, the Foundation borrowed $2,000,000 and as of September 30, 2001, it had a $1,455,000 principal balance, plus accrued interest of approximately $8,000. There were no additional borrowings made. The balance as of September 30, 2001, was paid off during the audited period and the agreement terminated. The total interest paid to the State over the period of the loan was $229,400.

Audits by Independent Public Accountants (IPA):

The U.S. Department of Education regulations require that each “guarantee agency shall arrange for an independent financial and compliance audit of the agency's FFEL Program (FFELP.)” Such audits were performed and covered the fiscal years of our examination.

No matters were reported in the management letter accompanying the audit for the fiscal year ended September 30, 2002. Two matters were reported in the management letter accompanying the audit for the fiscal year ended September 30, 2003. The IPA cited negative cash flow from operations (all activities except secondary market) to be approximately $7,000,000, and recommended that the Audit Committee continue to monitor the cash flows of the Foundation. The IPA also reported that the Foundation has taken steps to comply with some aspects of the Sarbanes-Oxley legislation, and encouraged the Foundation to continue to take steps that strengthen the Foundation’s internal controls. The “Sarbanes-Oxley Act of 2002” is an Act to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.

Federal Audits and Reviews:

Additionally, the Foundation has been subject to Federal examinations and reviews by the U.S. Department of Education. During September 2000, the U. S. Department of Education conducted a review of the Foundation’s administration of the Federal and Agency Operating (Unrestricted) Funds as required by the 1998 Amendments to the Higher Education Act of 1965. No adjustments to the Federal Fund or the Operating Fund were proposed as a result of that review. Another comprehensive review was conducted in September 2003, which included an examination of the Foundation’s management of the Federal Fund assets, its administration of the programs and the program participants, and measured the fiduciary responsibility that the Foundation exercises in the collection of loans on which the Department has paid reinsurance. The findings from that review were resolved and the U. S. Department of Education, in a letter to the Foundation President dated January 9, 2004, indicates that it considers the review closed.

Other Matter:

In the "Condition of Records" section of our prior auditors' report we commented on a matter dating back to 1995, relative to the U.S. Department of Education's concerns over the balance available in the Federal Reserve Fund and the uses of such funds. During the fiscal year ended September 30, 2003, all of the outstanding issues related to this matter were resolved. As part of a signed agreement between the Foundation and the U.S. Department of Education, resolving all outstanding matters, the Foundation transferred $87,210 from the Agency Operating Fund to a restricted account to be used for eligible default prevention activities.

Subsequent Event:

In November 2003, the Foundation issued taxable Student Loan Revenue Bond Senior Series 2003A-1 in the amount of $45,000,000, Senior Series 2003A-2 in the amount of $45,000,000, and Subordinate Series 2003B in the amount of $10,000,000, due on June 1, 2033. The main uses of the bond proceeds are to be for financing student loans, and for up to $12,000,000 to finance its new alternative loan program, called "First Rate Solutions." We were informed that as of August 9, 2004, the Foundation has not made any loans under the new loan program.

CONDITION OF RECORDS

Our review did not disclose any reportable conditions.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

One recommendation was presented in our prior report. The following is a summary of the prior recommendation and the action taken by the Connecticut Student Loan Foundation.

- The Connecticut Student Loan Foundation should comply with Section 10a-206, subsection (c), of the General Statutes and Agency policy in respect to rebates made from the State Funded Student Loan Forgiveness Program, and retain adequate documentation to support such rebates. The Foundation has resolved this recommendation.

Current Audit Recommendations:

No recommendations resulted from our current review.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesy extended to our representatives by the management and personnel of the Connecticut Student Loan Foundation during the course of our examination.

Michael DiDomizio
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts