MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY - MICHIGAN GUARANTY AGENCY

October 1, 2008 through September 30, 2009

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

271-0273-10

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
http://audgen.michigan.gov

Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Michigan Higher Education Assistance Authority – Michigan Guaranty Agency

October 1, 2008 through September 30, 2009

Report Number: 271-0273-10

Released: December 2009

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency's financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Background:

The Michigan Guaranty Agency (MGA) is a unit of the Michigan Higher Education Assistance Authority, which was established by Act 77 of the Public Acts of 1960.

MGA was formed for the purpose of guaranteeing loans to qualified students and parents of qualified students made through approved financial institutions.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 30, 2009

Mr. Robert J. Kleine, Chair
Michigan Higher Education Assistance Authority -
Michigan Guaranty Agency
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

This is our report on the financial audit of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency for the period October 1, 2008 through September 30, 2009.

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, and the Authority's basic financial statements. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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INDEPENDENT AUDITOR'S REPORT

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Robert J. Kleine, Chair
Michigan Higher Education Assistance Authority -
Michigan Guaranty Agency
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

We have audited the accompanying financial statements of the proprietary fund and the fiduciary fund of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency (the Agency) as of and for the fiscal year ended September 30, 2009, which collectively comprise the Agency's basic financial statements as identified in the table of contents. These financial statements are the responsibility of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements for the fiscal year ended September 30, 2008 were audited by other auditors whose report dated December 3, 2008 expressed unqualified opinions on those statements. We also audited the adjustments described in Note 2 that were applied to restate the 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Michigan Higher Education Assistance Authority - Michigan Guaranty Agency are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the proprietary fund and fiduciary fund of the Michigan Higher Education Assistance Authority that is attributable to the transactions of the Agency. They do not purport to, and do not, present fairly the financial position of the Michigan Higher Education Assistance Authority as of September 30, 2009 and September 30, 2008 and the changes in its financial position and cash flows, where applicable, for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2009 financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the proprietary fund and fiduciary fund of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency as of September 30, 2009 and the respective changes in financial position and cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, Michigan Guaranty Agency changed the timing of the recognition of federal default fee revenue.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2009 on our consideration of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

AUDITOR GENERAL

December 22, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Michigan Guaranty Agency (MGA) is a unit of the Michigan Higher Education Assistance Authority (MHEAA), which was established by Act 77 of the Public Acts of 1960. Under the Federal Family Education Loan Program (FFELP), MGA administers five loan guarantee programs in Michigan. The five loan guarantee programs that MGA administers are:

- **Subsidized Stafford Loans** - These loans are awarded based on a federal formula that includes income and other assets. The federal government pays the interest on these loans while the student is in school and during grace or deferment periods.

- **Unsubsidized Stafford Loans** - These loans are available regardless of income as long as financial need is demonstrated per the federal formula. The student is responsible for all interest which accrues.

- **Parent Loan for Undergraduate Students (PLUS)** - This is a supplemental loan available to parents of dependent students.

- **Graduate PLUS Loans** - These loans are available to graduate and professional students under the federal PLUS loan program.

- **Consolidation Loans** - These loans allow a borrower the opportunity to combine various federally authorized student loans into a single loan with the benefits of a fixed rate and an extended repayment period.

The interest rate charged to a borrower under these programs varies based on the type of program and the federal regulations in effect at the time of borrowing. The loans are made by banks, credit unions, savings and loan associations, insurance companies, certain federal agencies, and the Michigan Higher Education Student Loan Authority (MHESLA).

MGA loan guarantee programs are intended to enhance educational opportunities and improve the chance of success for the programs' participants. The mission of MGA is to provide Michigan residents with optimum access to post-secondary educational opportunities through low-interest, long-term educational loans.

The Higher Education Act Amendments of 1998 created the current guaranty agency administrative and financial model. Under the model, MGA was required to establish two funds, an Operating Fund and a Federal Fund, which are described below.

Operating Fund

The Operating Fund is included in MGA's financial statements as a proprietary fund. This Fund holds and accounts for funds considered to be the property of MGA. Sources of revenue include investment income, retention on collection of defaulted loans, and default aversion fees, along with account maintenance fees and loan processing and issuance fees received from the federal government. Expenses include personnel-related and collection costs, servicing fees, federal default fees, and other administrative expenses.

Federal Fund

The Higher Education Act Amendments of 1998 created the current financial model, as discussed above. At this time, the Federal Fund was established with all net assets of MGA prior to October 1, 1998. Monies in this Fund are used to reimburse lenders for defaulted student loans and to pay the Operating Fund for default aversion activities. The federal government, through reinsurance, subsequently reimburses the Federal Fund for defaulted student loans purchased from lenders. Other sources of additions are federal retention on collections of defaulted loans and investment income. Effective July 1, 2006, the Federal Fund receives a federal default fee. This fee is derived by applying 1.0% to all MGA guaranteed loans disbursed each month. From July 1, 2006 to June 30, 2007, the 1.0% default fee was paid from the Operating Fund on behalf of borrowers. Effective July 1, 2007, the Operating Fund paid 0.75% and MGA's participating lenders paid the remaining 0.25% of the default fee on behalf of borrowers. Effective July 1, 2008, the full 1.0% was paid from MGA's Operating Fund on behalf of borrowers. Effective July 1, 2009, the full 1.0% is paid either by the lender or by the borrower at the time of disbursement.

The Federal Fund is a fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to MGA's basic financial statements. The basic financial statements are comprised of two components:

1. Fund financial statements
   - Proprietary fund
     - Operating Fund
   - Fiduciary fund
     - Federal Fund

2. Notes to the financial statements

The basic financial statements present MGA's financial position, revenues, expenses, changes in net assets, and cash flows. The following is a condensed summary of financial information for the fiscal years ended September 30, 2009, September 30, 2008, and September 30, 2007.

Condensed Financial Information

	Operating Fund		
	2009	2008	2007
Net Assets			
Assets			
Cash and cash equivalents	$ 1,259,500	$ 5,240,300	$ 5,363,540
Investments	7,500,000	7,500,000	9,987,821
Receivable from U.S. Department of Education	1,300,299	1,579,023	2,331,043
Other assets	1,445,158	789,956	1,317,883
Capital assets - Net	15,963	43,176	72,073
Total assets	$11,520,920	$15,152,455	$19,072,360
Liabilities			
Claims payable	$	$	$
Payable to U.S. Department of Education			
Other liabilities	511,975	556,852	837,619
Total liabilities	$ 511,975	$ 556,852	$ 837,619
Invested in capital assets	$ 15,963	$ 43,176	$ 72,073
Restricted	10,992,982	14,552,427	18,162,668
Total net assets	$11,008,945	$14,595,603	$18,234,741
Change in Net Assets			
Revenues/additions			
Loan recoveries	$ 3,244,177	$ 2,890,114	$ 3,658,222
U.S. Department of Education	5,490,079	5,640,118	7,153,970
Loans repurchased and rehabilitated	2,482,912	5,880,986	6,314,028
Loan consolidation fees	2,757,725	2,142,908	1,983,112
Federal default fees			
Other revenues/additions	2,966,390	3,044,550	3,351,440
Total revenues/additions	$16,941,283	$19,598,676	$22,460,772
Expenses/deductions			
Loan claims	$	$	$
U.S. Department of Education			
Student loan service fees	8,807,523	9,929,282	11,374,204
Federal default fees	5,614,584	6,065,854	6,925,277
Other expenses/deductions	6,105,834	7,242,678	8,999,223
Total expenses/deductions	$20,527,941	$23,237,814	$27,298,704
Net change	$(3,586,658)	$(3,639,138)	$(4,837,932)

Federal Fund		
2009	2008 - Restated	2007 - Restated
$ 17,120,342	$ 10,062,533	$ 6,835,673
1,570,780	1,509,429	6,476,770
21,240,909	30,185,370	31,777,692
1,035,652	182,741	984,542
$ 40,967,683	$ 41,940,073	$ 46,074,677
$ 17,831,571	$ 18,771,700	$ 23,537,986
2,618,235	2,749,052	2,256,122
1,164,556	278,484	216,366
$ 21,614,362	$ 21,799,236	$ 26,010,474
$	$	$
19,353,321	20,140,837	20,064,203
$ 19,353,321	$ 20,140,837	$ 20,064,203
$ 27,440,052	$ 24,875,789	$ 18,003,052
149,428,680	128,235,444	108,323,828
10,221,891	20,499,579	20,635,384
	224,742	908,935
6,815,803	7,433,912	7,450,693
921,906	1,304,699	1,250,688
$194,828,332	$182,574,164	$156,572,580
$156,717,144	$135,179,970	$112,086,862
36,218,393	44,808,156	38,328,880
2,680,308	2,509,406	2,798,601
$195,615,846	$182,497,532	$153,214,343
$ (787,514)	$ 76,632	$ 3,358,237

Financial Analysis

Operating Fund

The Operating Fund total assets decreased by $3.6 million in fiscal year 2008-09 and decreased by $3.9 million in fiscal year 2007-08. The $3.6 million decrease is primarily attributable to a decrease in cash used to pay the federal default fee from the Operating Fund to the Federal Fund.

Operating Revenues and Expenses

Operating revenues decreased by $2.4 million in fiscal year 2008-09. In fiscal year 2008-09, revenues from loans repurchased and rehabilitated reflected a substantial decrease by $3.4 million. This decrease in loans rehabilitated is due to the inability of MGA to find a buyer for rehabilitated loans as a result of the capital market disruptions. Also, in fiscal year 2008-09, loan recoveries, account maintenance fees, loan consolidation fees, and default aversion fees all reflected minimal increases.

Operating income for fiscal year 2008-09 was $1.7 million compared to $3.0 million in fiscal year 2007-08. This $1.3 million decrease is attributable to a substantial decrease in loans repurchased and rehabilitated and a decrease in collection fees. The operating income for fiscal year 2007-08 was $3.0 million compared to $4.2 million in fiscal year 2006-07. This decrease was primarily attributable to decreases in operating revenues that outpaced decreases in operating expenses.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses for fiscal year 2008-09 were a net amount of $5.3 million in expenses compared to a net amount of $6.7 million in expenses in fiscal year 2007-08. This substantial decrease is mostly due to other expenses decreasing by $1.2 million in fiscal year 2008-09 because MGA's Operating Fund did not provide a transfer to the Authority's grants and financial aid programs in fiscal year 2008-09. Nonoperating revenues and expenses for fiscal year 2007-08 were a net amount of $6.7 million in expenses compared to a net amount of $9.1 million in expenses in fiscal year 2006-07. This substantial decrease is mostly due to the federal default fee decreasing from $6.9 million in fiscal year 2006-07 to $6.1 million in fiscal year 2007-08 and a decrease of other nonoperating expenses of $3.0 million in 2006-07 to $1.2 million in 2007-08.

Net assets decreased by approximately $3.6 million and $3.6 million in fiscal years 2008-09 and 2007-08, respectively.

Federal Fund

The Federal Fund total assets decreased by $972,000 in fiscal year 2008-09 and decreased by $4.1 million in fiscal year 2007-08. The $972,000 decrease in fiscal year 2008-09 is the net effect of a $7.1 million increase in cash and cash equivalents and U.S. government securities and a decrease of $9.0 million in reinsurance receivable from the U.S. Department of Education. The increase in cash and cash equivalents and U.S. government securities is primarily attributable to MGA receiving claim reimbursements from the U.S. Department of Education on a more timely basis, thus the decrease of $9.0 million in the reinsurance receivable.

Total liabilities decreased by $185,000 in fiscal year 2008-09. In fiscal year 2007-08, total liabilities showed a substantial decrease of $4.2 million. The decreases in fiscal year 2008-09 and fiscal year 2007-08 are attributable to decreases in claims payable.

Additions increased by $12.3 million in fiscal year 2008-09. The $12.3 million increase reflects increases in the amounts received from the U.S. Department of Education for loan recoveries and loans reinsured and a substantial decrease in loans repurchased and rehabilitated. In fiscal year 2007-08, additions increased by $26.0 million due to increases in the amount received from the U.S. Department of Education for loan recoveries and loans reinsured.

Deductions increased by $13.1 million in fiscal year 2008-09. This increase is due to a substantial increase of $21.5 million in loan claims and a decrease of $10.6 million in amounts paid to the U.S. Department of Education for loans repurchased and rehabilitated. Due to the current economic climate, claims for loan defaults increased to an all-time high of $156.7 million in fiscal year 2008-09, whereas loan claims were $135.2 million in fiscal year 2007-08, an increase of $23.1 million from fiscal year 2006-07.

Net assets for the Federal Fund were $19.4 million, $20.1 million, and $20.1 million in fiscal years 2008-09, 2007-08, and 2006-07, respectively, which was primarily due to the change in accounting principle for recording federal default fees (Note 2).

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BASIC FINANCIAL STATEMENTS

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY - MICHIGAN GUARANTY AGENCY

Proprietary Fund - Statement of Net Assets

	Operating Fund September 30 2009	
	2009	**2008**
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	$ 1,259,500	$ 5,240,300
Investments (Note 4)	7,500,000	7,500,000
Accrued interest	218,863	312,570
Amounts receivable from U.S. Department of Education:		
Account maintenance fees	691,175	874,510
Loan processing and issuance fees	609,124	704,513
Due from fiduciary - Federal Fund	851,917	
Due from the State of Michigan	374,378	477,386
Total current assets	$ 11,504,957	$ 15,109,279
Capital assets - Net (Note 3)	15,963	43,176
Total assets	$ 11,520,920	$ 15,152,455
Liabilities		
Current liabilities:		
Due to fiduciary - Federal Fund	$	$ 135,074
Total current liabilities	$	$ 135,074
Compensated absences	$ 511,975	$ 421,778
Total liabilities	$ 511,975	$ 556,852
Net Assets		
Invested in capital assets	$ 15,963	$ 43,176
Restricted - Student financial aid-related activities	10,992,982	14,552,427
Total net assets	$ 11,008,945	$ 14,595,603
Total liabilities and net assets	$ 11,520,920	$ 15,152,455

The accompanying notes are an integral part of the financial statements.

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY - MICHIGAN GUARANTY AGENCY

Proprietary Fund - Statement of Revenues, Expenses, and Changes in Net Assets

	Operating Fund Fiscal Year Ended September 30 2009	2008
Operating Revenues		
Loan recoveries	$ 3,244,177	$ 2,890,114
U.S. Department of Education:		
Account maintenance fees (Note 1)	2,706,866	2,662,427
Loan processing and issuance fees (Note 1)	2,783,213	2,977,691
Loans repurchased and rehabilitated	2,482,912	5,880,986
Loan consolidation fees	2,757,725	2,142,908
Default aversion fees (Note 1)	2,632,379	2,457,251
Total operating revenues	$ 16,607,272	$ 19,011,377
Operating Expenses		
Salaries and employee benefits	$ 4,395,638	$ 4,458,990
Collection fees (Note 7)	2,883,360	4,022,653
Servicer fees	5,924,163	5,906,629
Depreciation	27,213	28,897
Other administrative expenses (Note 9)	1,682,983	1,554,791
Total operating expenses	$ 14,913,357	$ 15,971,960
Operating Income	$ 1,693,915	$ 3,039,417
Nonoperating Revenues and Expenses		
Investment income	$ 334,011	$ 575,119
Increase in fair value of investments		12,180
Federal default fees (Note 1)	(5,614,584)	(6,065,854)
Other (Note 10)		(1,200,000)
Total nonoperating expenses	$ (5,280,573)	$ (6,678,555)
Change in Net Assets	$ (3,586,658)	$ (3,639,138)
Net Assets - Beginning of fiscal year	14,595,603	18,234,741
Net Assets - End of fiscal year	$ 11,008,945	$ 14,595,603

The accompanying notes are an integral part of the financial statements.

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY - MICHIGAN GUARANTY AGENCY

Proprietary Fund - Statement of Cash Flows

	Operating Fund	
	Fiscal Year Ended September 30	
	2009	2008
Cash Flows from Operating Activities		
Operating receipts	$ 16,137,087	$ 20,134,567
Payments to vendors	(10,625,580)	(11,746,209)
Payments to employees	(4,305,441)	(4,477,621)
Net cash provided (used) by operating activities	$ 1,206,066	$ 3,910,737
Cash Flows from Noncapital Financing Activities		
Default fees paid to the Federal Fund	$ (5,614,584)	$ (6,065,854)
Nonoperating expenses paid by the Operating Fund		(1,200,000)
Net cash provided (used) by noncapital financing activities	$ (5,614,584)	$ (7,265,854)
Cash Flows from Investing Activities		
Proceeds from maturity of investments	$ 5,500,000	$ 4,500,000
Purchase of investments	(5,500,000)	(2,000,000)
Interest received on investments	427,718	731,877
Net cash provided (used) by investing activities	$ 427,718	$ 3,231,877
Net Decrease in Cash and Cash Equivalents	$ (3,980,800)	$ (123,240)
Cash and Cash Equivalents - Beginning of fiscal year	5,240,300	5,363,540
Cash and Cash Equivalents - End of fiscal year	$ 1,259,500	$ 5,240,300
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income	$ 1,693,915	$ 3,039,417
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	27,213	28,897
(Increase) decrease in assets:		
Account maintenance fees	183,335	424,538
Loan processing and issuance fees	95,389	327,482
Due from fiduciary - Federal Fund	(851,917)	
Due from the State of Michigan	103,008	371,170
Increase (decrease) in liabilities:		
Accounts payable		
Due to fiduciary - Federal Fund	(135,074)	(262,136)
Compensated absences	90,197	(18,631)
Net cash provided (used) by operating activities	$ 1,206,066	$ 3,910,737

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the fiscal years ended September 30, 2009 and September 30, 2008.

The accompanying notes are an integral part of the financial statements.

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MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY - MICHIGAN GUARANTY AGENCY
Fiduciary Fund - Private Purpose Trust
Statement of Fiduciary Net Assets

	Federal Fund	
	September 30	
	2009	2008 - Restated
Assets		
Cash and cash equivalents (Note 4)	$ 17,120,342	$ 10,062,533
Investments (Note 4)	1,570,780	1,509,429
Accrued interest	46,970	25,018
Reinsurance receivable from U.S. Department of Education	21,240,909	30,185,370
Due from the Operating Fund		135,074
Due from the State of Michigan	923	3,263
Default fee receivable	987,759	19,386
Total assets	$ 40,967,683	$ 41,940,073
Liabilities		
Accounts payable	$ 312,638	$ 278,484
Claims payable	17,831,571	18,771,700
Amounts payable to U.S. Department of Education:		
Loan recoveries	1,522,297	1,487,128
Loans repurchased and rehabilitated	1,095,938	1,261,924
Due to the Operating Fund	851,918	
Total liabilities	$ 21,614,362	$ 21,799,236
Net Assets - Available for student loan services	$ 19,353,321	$ 20,140,835

The accompanying notes are an integral part of the financial statements.

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY - MICHIGAN GUARANTY AGENCY

Fiduciary Fund - Private Purpose Trust

Statement of Changes in Fiduciary Net Assets

	Federal Fund	
	Fiscal Year Ended September 30	
	2009	2008 - Restated
Additions		
Loan recoveries	$ 27,440,052	$ 24,875,789
U.S. Department of Education - Loans reinsured	149,428,680	128,235,444
Loans repurchased and rehabilitated	10,221,891	20,499,579
Loan consolidation fees		224,742
Investment income	64,931	415,777
Increase in fair value of investments	61,351	528
Federal default fees (Notes 1 and 2)	6,815,803	7,433,912
Reinsurance rate complement (Note 1)	795,624	888,394
Total additions	$ 194,828,332	$ 182,574,164
Deductions		
Loan claims	$ 156,717,144	$ 135,179,970
U.S. Department of Education:		
Loan recoveries	27,410,579	25,149,047
Loans repurchased and rehabilitated	8,807,814	19,441,569
Loans consolidated		217,540
Default aversion expense (Note 1)	2,632,379	2,457,251
Other	47,929	52,155
Total deductions	$ 195,615,846	$ 182,497,532
Change in Net Assets	$ (787,514)	$ 76,632
Net Assets - Beginning of fiscal year	20,140,835	20,064,203
Net Assets - End of fiscal year	$ 19,353,321	$ 20,140,835

The accompanying notes are an integral part of the financial statements.

Note 1 Summary of Significant Accounting Policies

Organization - The Michigan Guaranty Agency (MGA) was formed for the purpose of guaranteeing loans to qualified students and parents of qualified students made through approved financial institutions. Commencing in 1969, retroactive to 1965, the federal government agreed to reinsure 80% of such guaranteed student loans under the Guaranteed Student Loan Program (now known as the Federal Family Education Loan Program (FFELP)). FFELP, under which MGA operates, was established by Congress and is administered by the U.S. Department of Education as a means of making loans available to students attending colleges, universities, and vocational institutions. FFELP provides for MGA to guarantee the repayment of principal and accrued interest to lenders for each eligible student loan. MGA is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, and collecting loans on which default claims have been paid. MGA also informs schools and lenders of FFELP requirements and regulatory changes and encourages lender participation.

Effective January 10, 1977, MGA entered into a supplemental guaranty agreement with the federal government, which provided up to 100% reimbursement, depending upon default experience as specified in the agreement. Federal reinsurance on guaranteed loans made on or after October 1, 1993 to September 30, 1998 was reduced to a maximum of 98% (see Note 5). Federal reinsurance on guaranteed loans made on or after October 1, 1998 was reduced to a maximum of 95%.

The Higher Education Act Amendments of 1998 (the 1998 Amendments) that were enacted on October 7, 1998, with an effective date of October 1, 1998, changed the manner in which FFELP is administered. Under the 1998 Amendments, MGA established an Operating Fund and a Federal Fund, as required, to account for FFELP activities. The result of this federal legislation was that MGA's net assets of approximately $36.1 million were transferred to the newly established Federal Fund and the Operating Fund commenced activities with $0 net assets.

Operating Fund - The Operating Fund assets and earnings on those assets are the property of MGA and may be used only for all guaranty agencies and other student financial aid-related activities. The assets, liabilities, net assets, and operations of the Operating Fund are presented in the accompanying proprietary fund statements.

Federal Fund - The Federal Fund assets and earnings on those assets are the property of the federal government and are presented in the accompanying statement of fiduciary net assets. The funds in the Federal Fund pay for the reimbursements to the lenders for defaulted student loan claims and default aversion fees. The funds are replenished from reimbursements from the federal government and several other sources. All of the other sources and uses of monies not related to the Federal Fund are recorded in the Operating Fund.

Both the Operating Fund and Federal Fund are subject to federal oversight.

Reporting Entity - MGA is a self-supporting unit of the Michigan Higher Education Assistance Authority.

Measurement Focus, Basis of Accounting, and Basis of Presentation - The accounts of MGA are organized and operated on the basis of the underlying funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MGA has the following fund types:

Proprietary Fund (Operating Fund*)* - The proprietary fund is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. MGA applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

After November 30, 1989, MGA only applies applicable GASB pronouncements.

Fiduciary Fund (Federal Fund) - The fiduciary fund is used to account for funds and property received from various sources and held by MGA on behalf of the U.S. Department of Education for the conduct of FFELP. Such fund utilizes the accrual basis of accounting, which requires that revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating Revenues and Expenses - MGA was formed for the purpose of guaranteeing loans to qualified students and parents of qualified students made through approved financial institutions. MGA's primary operations include providing guarantees of qualified loans, acquiring defaulted loans from financial institutions, performing certain default aversion and loan rehabilitation activities, and performing collection activities on defaulted student loans.

Cash Equivalents - MGA considers cash and money market funds to be cash and cash equivalents for the purpose of the statement of cash flows.

Investments - MGA reports investments at fair value based on quoted market prices with gains and losses included in the statement of revenues, expenses, and changes in net assets and the statement of changes in fiduciary net assets.

Reserves - Pursuant to reauthorization, MGA maintains cash and cash equivalents and investments as a reserve of FFELP loan guarantee claim obligations.

The Higher Education Act of 1965, as amended, states that MGA must maintain a 0.25% minimum reserve level requirement. Assets of the Federal Fund must be at least 0.25% of MGA's guaranteed loan portfolio's original principal balance outstanding. MGA was in compliance with its minimum reserve level requirement as follows as of September 30 (in thousands):

	2009	2008
Outstanding loans (original principal balance)	$4,408,441	$4,391,286
Minimum reserve requirement	$ 11,021	$ 10,978
Federal Fund cash and investments	$ 18,691	$ 11,572

Capital Assets - Purchases by MGA for use in its operations that meet the requirements of the State of Michigan's capitalization policy are capitalized. Costs incurred for office equipment are capitalized and depreciated over its useful life of five years.

Account Maintenance Fee (AMF) - The 1998 Amendments established an AMF based on 0.12% of the original principal amount of outstanding loans. The AMF is paid to MGA on a quarterly basis by the federal government. This fee is recognized as revenue and recorded in the Operating Fund. Effective October 1, 2003, AMF was reduced to 0.10% of the original principal amount of outstanding loans. Effective October 1, 2007, the AMF was reduced to 0.06% of the original principal outstanding loans.

Loan Processing and Issuance Fee (LPIF) - The 1998 Amendments established an LPIF. LPIF payments are based on the net guarantee amount, less cancellations, multiplied by 0.65%. The LPIF is paid to MGA on a quarterly basis by the federal government. This fee is recognized as revenue and recorded in the Operating Fund. Effective October 1, 2003, the LPIF was reduced to 0.40% of net guarantees, less cancellations.

Default Aversion Fee (DAF) - The DAF was established under the 1998 Amendments. MGA receives the DAF for its aversion activities on delinquent loans at the time lenders request default aversion assistance. The DAF is equal to 1.0% of principal and interest on the loan at the time MGA receives a request from a lender for preclaim assistance. The DAF is paid monthly from the Federal Fund to the Operating Fund and is recognized as a deduction in the Federal Fund and as revenue in the Operating Fund.

Federal Default Fee - The Higher Education Reconciliation Act of 2005 created a new federal default fee. This fee is equal to 1% of the principal amount of the loan by deduction proportionately from each installment payment of the proceeds of the loan to the borrower for loans made on or after July 1, 2006. The fee must be deposited into the Federal Fund. This fee shall be collected either by deduction from the proceeds of the loan or by payment of other nonfederal sources. Approval of the Michigan Higher Education Assistance Authority was granted to pay the federal default fee from the Operating Fund on behalf of borrowers. Effective July 1, 2007, 0.75 of 1% was paid from the Operating Fund and 0.25 of 1% was received from MGA's participating lenders on behalf of borrowers. Effective July 1, 2008, the full 1.0% fee was paid from MGA's Operating Fund on behalf of borrowers. Effective July 1, 2009, the full 1.0% fee is paid by either the lender or the borrower at the time of disbursement. MGA implemented a change of accounting principle for recording the federal default fee from a deferred liability to recognizing the fee as revenue when received.

Reinsurance - MGA's Federal Fund will receive federal reinsurance revenue from the U.S. Department of Education according to the following schedule for all eligible default claims purchased by the Federal Fund:

Annual Default Rate	Federal Reinsurance
0% to less than 5%	95%
5% to less than 9%	95% of claims up to 5% and 85% of claims equal to or greater than 5%, but less than 9%
9% or greater	95% of claims up to 5%; 85% of claims equal to or greater than 5%, but less than 9%; and 75% of claims equal to or greater than 9%

For claims filed on loans guaranteed prior to October 1, 1998, the reinsurance rates of 95%/85%/75% reflected in the schedule above are increased to 98%/88%/78%. For claims filed on loans guaranteed prior to October 1, 1993, the reinsurance rates are increased to 100%/90%/80%.

Reinsurance Rate Complement - The reinsurance rate complement (2%) was established in the 1998 Amendments. This amount is recognized as an addition in the Federal Fund when loan recoveries are made on defaulted loans. It is calculated by using the percentage amount equal to the complement of the reinsurance percentage in effect when payment under the guaranty agreement was made.

Rehabilitated and Consolidated Loans - MGA is entitled to retain 18.5% of principal and interest for rehabilitated loans, plus 18.5% for collection costs. For consolidated loans, MGA is entitled to 10% for collection costs.

Loan Recoveries Payable to U.S. Department of Education - Effective October 1, 2007, the retention rate decreased to 16% from 23% as required by the 2007 College Cost Reduction and Access Act. MGA is entitled to retain 16% of collections received for defaulted loans for which federal reinsurance has been received. This amount is recorded as an addition when received.

Risk Management - MGA is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. Coverage for these various risks of loss is obtained through MGA's participation in the State of Michigan's Risk Management Fund and State Sponsored Group Insurance Fund.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Authority uses estimates in the calculations of claims payable and the AMF and LPIF receivables.

Note 2 **Change in Accounting Principle**

MGA implemented a change from an acceptable accounting principle to an industry preferred accounting principle regarding the revenue from the federal default fee. In the fiscal years ended September 30, 2007 and September 30, 2008, the federal default fee revenue was recognized over the average life of a student loan. Beginning in fiscal year 2008-09, MGA recognized the revenue when received in the Federal Fund. The cumulative effect of the change in recognition of revenue is reflected in the restatement of beginning net assets by $8.7 million and decreasing deferred revenue by $14.8 million and increasing default fees by $6.0 million in fiscal year 2007-08.

Note 3 **Capital Assets**

Capital asset activity for the fiscal years ended September 30, 2009 and September 30, 2008 was as follows:

	October 1, 2008	Additions	Retirements	September 30, 2009
Proprietary Fund - Operating Fund				
Equipment	$173,455	$	$	$173,455
Less accumulated depreciation for equipment	130,279	27,213		157,492
Proprietary Fund - Capital assets - Net	$ 43,176	$(27,213)	$ 0	$ 15,963

	October 1, 2007	Additions	Retirements	September 30, 2008
Proprietary Fund - Operating Fund				
Equipment	$173,455	$	$	$173,455
Less accumulated depreciation for equipment	101,382	28,897		130,279
Proprietary Fund - Capital assets - Net	$ 72,073	$(28,897)	$ 0	$ 43,176

Note 4 **Deposits and Investments**

The captions on the statement of net assets and statement of fiduciary net assets relating to cash and cash equivalents, certificates of deposit, and investments as of September 30, 2009 and September 30, 2008 are as follows:

	2009		
	Cash and Cash Equivalents	Investments	Total
Proprietary Fund - Operating Fund			
Deposits	$ 62,848	$	$ 62,848
Certificate of deposit		7,500,000	7,500,000
Money market mutual funds	1,196,652		1,196,652
Total Proprietary Fund	$ 1,259,500	$7,500,000	$ 8,759,500
Fiduciary Fund - Federal Fund			
Deposits	$ 25,000	$	$ 25,000
Money market mutual funds	17,095,342		17,095,342
U.S. government securities		1,570,780	1,570,780
Total Fiduciary Fund	$17,120,342	$1,570,780	$18,691,122
Total	$18,379,842	$9,070,780	$27,450,622

	2008		
	Cash and Cash Equivalents	Investments	Total
Proprietary Fund - Operating Fund			
Deposits	$ 26,436	$	$ 26,436
Certificate of deposit		7,500,000	7,500,000
Money market mutual funds	5,213,864		5,213,864
Total Proprietary Fund	$ 5,240,300	$7,500,000	$12,740,300
Fiduciary Fund - Federal Fund			
Deposits	$ 25,000	$	$ 25,000
Money market mutual funds	10,037,533		10,037,533
U.S. government securities		1,509,429	1,509,429
Total Fiduciary Fund	$10,062,533	$1,509,429	$11,571,962
Total	$15,302,833	$9,009,429	$24,312,262

Federal and State statutes authorize MGA to invest in obligations of, or guaranteed by, the State of Michigan, the U.S. government, or federal agency obligation repurchase agreements, mutual funds, or common trust funds composed of investment vehicles that are allowable for direct investment, bankers' acceptances of U.S. banks, certificates of deposit, and savings and deposit accounts of banks or credit unions which are federally insured.

MGA has designated two banks for the deposit of its funds. MGA deposits and investment policies are in accordance with statutory authority.

MGA's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, MGA's deposits may not be returned to it. MGA does not have a deposit policy for custodial credit risk. At September 30, 2009 and September 30, 2008, the carrying amount of MGA's Operating Fund deposits was $7,562,848 and $7,526,436, respectively, and the financial institutions' balances were $7,525,000 and $7,525,000, respectively. Of the financial institutions' balances at September 30, 2009 and September 30, 2008, $250,000 and $125,000, respectively, was covered by federal depository or other insurance and $7,275,000 and $7,400,000, respectively, was uninsured and uncollateralized.

At September 30, 2009 and September 30, 2008, the bank balance of MGA's Federal Fund deposits was $25,000 and $26,436, respectively, of which $25,000 and $26,436, respectively, was covered by federal depository insurance.

None of the money market mutual funds were covered by collateral held in the pledging banks' federal reserve account in MGA's name. MGA believes that, due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation (FDIC) insurance, it is impractical to insure all deposits. As a result, MGA evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. MGA's investment policy restricts investment maturities. As of September 30, 2009, the average maturities of investments were as follows:

Type of Investment	Fair Value	Less than One Year	One to Five Years
U.S. Treasury Note	$1,570,780	$1,570,780	

As of September 30, 2008, the average maturities of investments were as follows:

Type of Investment	Fair Value	Less than One Year	One to Five Years
U.S. Treasury Note	$1,509,429		$1,509,429

Credit Risk

MGA has an investment policy that limits its investment choices. The policy allows for investments in government securities, certificates of deposit, mutual funds, and high grade commercial paper. As of September 30, 2009, the credit quality ratings of debt securities were as follows:

Type of Investment	Fair Value	Rating	Rating Organization
Money market mutual funds	$18,291,994	AAAm	Standard & Poor's
U.S. Treasury Note	1,570,780	AAA	Standard & Poor's

As of September 30, 2008, the credit quality ratings of debt securities were as follows:

Type of Investment	Fair Value	Rating	Rating Organization
Money market mutual funds	$15,251,397	AAAm	Standard & Poor's

Note 5 U.S. Department of Education - Loans Reinsured

Delinquent loans acquired from financial institutions consist of loans where the student defaulted and the unpaid loan has been acquired from the financial institution by MGA and is recorded as a deduction, loan claims, in the fiduciary fund. The federal government reimburses MGA between 75% and 100% of defaulted loans based on when the loan was guaranteed and MGA's default ratio. These reimbursements are recorded as additions, U.S. Department of Education - loans reinsured, in the fiduciary fund. The reinsurance detail is included in Note 1. The federal government reimburses defaulted loan claims at 100% for bankruptcy, death, and disability. The federal government has defined the default ratio to be the default claims presented to the federal government during the federal fiscal year ended September 30, divided by loans in repayment at the beginning of the federal fiscal year, plus certain other adjustments.

Note 6 Employee Benefits

Plan Description - MGA participates in the State's defined benefit and defined contribution plans that cover most State employees, as well as related component units such as the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency. The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Department of Management and Budget, Office of Retirement Services. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting retirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at http://www.michigan.gov/ors. The financial report for the defined contribution plan may be obtained by writing to the Department of Management and Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

Funding Policy - The defined benefit plan members are not required to make contributions; MGA was required to contribute an actuarially determined rate for the defined benefit plan of 30.64% of payroll for the fiscal year ended September 30, 2009 and 30.12% of payroll for the fiscal year ended September 30, 2008 for pension and postemployment benefits. During the fiscal years ended September 30, 2009 and September 30, 2008, the MGA contributions to the plans, including postemployment benefits as described as follows, were $763,814 and $720,571, respectively. MGA was required to contribute to the defined contribution plan 4.0% of payroll with an additional match of up to 3.0% for the fiscal years ended September 30, 2009 and September 30, 2008. The contribution requirements of plan members and MGA are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plan.

Postemployment Benefits - In addition, MGA participates in the State's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State and funded on a pay-as-you-go basis. The State will pay 90% of healthcare benefits for employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements. For employees who were hired after March 1997, the State will pay up to 90% of healthcare benefits for employees who meet certain vesting and other requirements.

Note 7 Related Party Transactions

In accordance with the terms of its agreement with MGA, the Michigan Department of Treasury performs certain collection activities for MGA. Fees charged by the Department of Treasury for its services are based upon the amount of collections received on defaulted student loans. The Department of Treasury's collection fees totaled approximately $35,000 and $65,000 for the fiscal years ended September 30, 2009 and September 30, 2008, respectively.

Note 8 Contingencies

MGA is contingently liable for loans made by financial institutions that qualify for guaranty. The default ratio for loans guaranteed by MGA is below 5% for the fiscal years ended September 30, 2009 and September 30, 2008. As a result, the federal government's reinsurance rate for defaults for the fiscal years ended September 30, 2009 and September 30, 2008 is 100% for loans made prior to October 1, 1993 and 98% for loans made on or after October 1, 1993 to September 30, 1998. In the event of future adverse default experience, MGA could be liable for up to 25% of defaulted loans. At the beginning of each fiscal year, MGA's reinsurance rate returns to 98%; management does not expect that all guaranteed loans could default in one year.

For loans made on or after October 1, 1998, the reinsurance rate is 95%. In the event of future adverse default experience, MGA could be liable for up to 25% of such defaulted loans.

While management believes that MGA's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at September 30 is computed as follows (in thousands):

	2009	2008
Original amount of guaranteed student loans outstanding at financial institutions	$4,408,441	$4,391,286
Less minimum federal government share - 75%	3,306,331	3,293,465
Total	$1,102,110	$1,097,821

MGA has entered into commitment agreements with all lenders that provide, among other things, that MGA will maintain cash and marketable securities at an amount sufficient to guarantee loans in accordance with the Higher Education Act of 1965, as amended. MGA was in compliance with this requirement as of September 30, 2009 and September 30, 2008 (Note 1 - Reserves).

Note 9 Other Administrative Expenses

Other administrative expenses of the Operating Fund for the fiscal years ended September 30 consist of the following:

	2009	2008
Professional fees	$ 551,462	$ 490,212
Attorney General	74,499	71,321
Information technology	294,583	229,042
Rent	211,488	221,769
Supplies and printing	103,865	73,754
Postage	108,103	90,983
Telephone	75,105	67,034
Other	263,877	310,676
Total	$1,682,983	$1,554,791

Note 10 Appropriation for Grants and Financial Aid

For fiscal year 2007-08, the State Legislature passed Act 136 of the Public Acts of 2007, Section 104, Grants and Financial Aid, which provides for a $1.2 million appropriation. In April 2008, $1.2 million was transferred to the Authority's grants and financial aid programs from MGA's Operating Fund. For fiscal year 2008-09, there was no appropriation made for a transfer to the Authority's grants and financial aid programs from MGA's Operating Fund.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

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

Mr. Robert J. Kleine, Chair
Michigan Higher Education Assistance Authority -
Michigan Guaranty Agency
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Kleine:

We have audited the financial statements of the proprietary fund and the fiduciary fund of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency as of and for the fiscal year ended September 30, 2009, as identified in the table of contents, and have issued our report thereon dated December 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governor, the Legislature, the Michigan Higher Education Assistance Authority - Michigan Guaranty Agency, management, and others within the Agency and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

December 22, 2009

GLOSSARY

AMF	account maintenance fee.
control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DAF	default aversion fee.
FFELP	Federal Family Education Loan Program.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
LPIF	loan processing and issuance fee.
material misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.

material weakness in internal control over financial reporting	A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.
MGA	Michigan Guaranty Agency.
PLUS	Parent Loan for Undergraduate Students.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.
unqualified opinion	An auditor's opinion in which the auditor states that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL