RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

JUNE 30, 2014  

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INDEPENDENT AUDITORS’ REPORT

Board of Directors
Rhode Island Higher Education Assistance Authority
Warwick, Rhode Island

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Rhode Island Higher Education Assistance Authority (the Authority), a component unit of the State of Rhode Island and Providence Plantations (State) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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.
Auditors’ Responsibility (continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we express no such opinion. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Rhode Island Higher Education Assistance Authority as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on Pages 4-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority’s basic financial statements. The Attachment B Statement of Net Position, Attachment C Statement of Changes in Net Position, Attachment E Statement of Changes in Long Term Liabilities and Schedule of Travel Expenses are presented for purposes of additional analysis as required by the State of Rhode Island and are not a required part of the basic financial statements.

The Attachment B Statement of Net Position, Attachment C Statement of Changes in Net Position, Attachment E Statement of Changes in Long Term Liabilities and Schedule of Travel Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Attachment B Statement of Net Position, Attachment C Statement of Changes in Net Position, Attachment E Statement of Changes in Long Term Liabilities and Schedule of Travel Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matters

As discussed in Note 14, as a result of the Health Care and Education Reconciliation Act of 2010, effective July 1, 2010 all new federally guaranteed student loans originate under the Federal Direct Loan Program rather than under the FFEL Program. Approximately 75% of the Authority's Operating Fund operating revenues for the year ended June 30, 2014 were generated under activities related to loans originated under the FFEL Program. Also, approximately 85% of the Authority's employees were allocated to guarantee agency functions during the year ended June 30, 2014. The method under which new guaranteed student loans are originated will continue to have a significant effect on the Authority's operations subsequent to June 30, 2014.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2014 on our consideration of the Authority'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 in considering the Authority’s internal control over financial reporting and compliance.

Marcum LLP

Providence, Rhode Island
September 30, 2014
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Rhode Island Higher Education Assistance Authority's (RIHEAA or the "Authority") Management's Discussion and Analysis (MD&A) of the Authority's operations and financial results is intended to provide readers with information which will assist them in understanding and evaluating RIHEAA's financial statements as of and for the fiscal year (FY) ended June 30, 2014. The MD&A consists of an introduction section and a financial highlights and comparative analysis section. The introduction section outlines RIHEAA's programs and operations, provides information about the presentation of the financial statements and describes major statutory and regulatory actions which have a material effect on RIHEAA's operations. The financial highlights and comparative analysis section focuses on significant items disclosed within RIHEAA's financial statements or affecting its financial condition. The MD&A should be read in conjunction with the financial statements, notes to financial statements and other information included in the audit document.

Introduction

RIHEAA is a public corporation of the State of Rhode Island (the State) established on July 1, 1977 by an act of the Rhode Island General Assembly, having a distinct legal existence from the State and not constituting a department of State government, which is a governmental agency and public instrumentality of the State. It was created to administer financial assistance programs to expand access to and choice among post-secondary education opportunities for Rhode Islanders. Functionally, and for management financial reporting purposes, RIHEAA's activities are organized into three divisions which administer the Scholarship and Grant Program, the Tuition Savings Program and the Federal Family Education Loan (FFEL) Program Guaranty Agency, respectively.

The Scholarship and Grant Division administers student financial assistance programs funded by general revenue appropriations from the State of Rhode Island as well as funds derived from other sources. These programs include the Rhode Island State Scholarship/Grant Program and the Tuition Savings Scholarship/Grant Programs. In addition, RIHEAA provides support services for scholarship and grant programs funded by the Department of Children, Youth and Families (DCFY) and the College Crusade of Rhode Island.

The Tuition Savings Program Division administers the activities of the Rhode Island Higher Education Savings Trust (RIHEST), Rhode Island's Internal Revenue Code Section 529 qualified state tuition savings program which does business under the name CollegeBoundfund®. RIHEST is a separate legal entity created by RIHEAA pursuant to an act of the Rhode Island General Assembly. RIHEST is comprised of two funds: (1) the Tuition Savings Program Fund (the Program Fund), which holds CollegeBoundfund® participants' assets as a private purpose trust fund, and (2) an Administrative Fund, the use of which is contractually restricted to RIHEST administrative and marketing expenses and student financial assistance programs authorized by the RIHEAA Board of Directors (the "Board"). The Program Fund is managed by AllianceBernstein, L.P. (AllianceBernstein) under an agreement among RIHEAA, the State Investment Commission (SIC), and AllianceBernstein. Revenues of the Administrative Fund are derived principally from fees paid by non-Rhode Island participants in CollegeBoundfund®.
Introduction (continued)

This division also accounts for other activities associated with RIHEAA's contract with AllianceBernstein and administration of the Tuition Savings Program. Effective July 1, 2010, the Authority, the SIC and AllianceBernstein entered into a contract for the management and promotion of CollegeBoundfund®. The term of the contract is five years (July 1, 2010 to June 30, 2015) with one five-year renewal option. In June of 2014, the contract was amended to extend the initial term to six years. Under the terms of the contract, RIHEAA receives $275,000 annually from AllianceBernstein, receives a fee equal to 9.5 basis points (0.095%) of the average net asset value of non-Rhode Island resident accounts, and also receives fee revenue when non-Rhode Island participants make direct investments in CollegeBoundfund®. In addition, AllianceBernstein is committed to spend $750,000 annually for the marketing and promotion of CollegeBoundfund® in Rhode Island, and established the "CollegeBoundBaby" program. Under the CollegeBoundBaby program, AllianceBernstein deposits $100 into the account of every child born to or adopted by a Rhode Island resident who establishes an account for that child within one year of the birth or adoption. Also, if parents do not open accounts on behalf of children during that first year, AllianceBernstein then pays RIHEAA $50 for each child born. All of the revenues described above are restricted to the promotion and administration of the Tuition Savings Program and for use in student financial assistance programs authorized by the RIHEAA Board.

The FFEL Program Guaranty Agency provides services that assist students and their parents in financing higher education expenses with guaranteed student loans. The financial transactions of the Guaranty Agency are segregated into the Federal Student Loan Reserve Fund (the "Federal Fund") and the Guaranty Agency Operating Fund (the "AOF"), pursuant to the provisions and restrictions of the 1998 reauthorization of the Higher Education Act. RIHEAA administers the Federal Fund on behalf of the U. S. Department of Education (DE). The AOF principally accounts for the administrative activities related to the operations of the FFEL Program. In addition to providing the services directly related to guaranteed loan origination, portfolio maintenance, default prevention and aversion, and defaulted loan collections, Guaranty Agencies (GAs) are charged with promoting awareness of and access to post-secondary education opportunities and programs. Towards that purpose, RIHEAA has committed AOF resources to develop and maintain the "WayogoRI" web portal. WayogoRI is a free, internet-based program that helps students, parents, and educators explore educational options, discover a wide variety of occupations, and make plans to achieve education and career goals. The WayogoRI web portal is currently in use in all public school systems in Rhode Island and in many private and parochial institutions as well. During FY 2013, the Authority and the Rhode Island Department of Education (RISE) entered into a Memorandum of Understanding whereby RIHEAA would enhance the web portal to include the development and operation of an e-transcript system and other upgrades. The design and development costs for the new features total $900,000 and were paid with federal grant funds obtained by RIDE. (see Note 12 to the financial statements).
Introduction (continued)

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the "Act"). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the FFEL Program effective July 1, 2010. As a result, all federally guaranteed student loans are now originated under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constitutes its single largest activity, as approximately 85% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations has had a significant impact on the Authority's ongoing operations. Although the Authority intends to continue to provide services for loans currently in its portfolio (including claims payments and reinsurance transactions, default prevention and averse activities, and collection of defaulted student loans), it is difficult to predict the time period over which such services will be required, and to what extent those responsibilities will continue to constitute a substantive activity for the Authority.

In December of 2013, the U.S. Congress passed the Bipartisan Budget Act of 2013. One of the provisions of the Act was to reduce the Guaranty Agency revenue derived from the rehabilitation of defaulted student loans by approximately 50%, effective July 1, 2014. Revenues from loan rehabilitations constitute the major source of income for most GAs, and this reduction will have major implications on the ability of GAs to operate profitably, especially as portfolio balances decline over time. RIHEAA's management and Board are involved in the ongoing process of evaluating the changes described above and options for future operations. (see Note 14 to the financial statements).

In June 2012, the Rhode Island General Assembly passed and Governor Chafee signed into law the FY 2013 Budget Act. Article 4 (as amended) of the Act added the following language to section 16-57-10 of RIHEAA's enabling legislation, titled - Reserve Funds: “To assure continued solvency of the Authority, the Authority’s operating fund shall be used solely for the ordinary operating expenses of the Authority. Furthermore, it is the intent of the general assembly that these funds eventually be used to increase financial assistance to Rhode Island students in the form of scholarships and grants.” The RIHEAA Board has had discussions about the new legislative language and is in the process of developing proposals for the investment and use of the reserve funds that are consistent with the legislature’s intent and the Higher Education Act.

Overview of Financial Statements

RIHEAA engages only in business-type activities, that is, activities that are financed in whole or in part by fees charged to external users, and fiduciary activities. As a result, RIHEAA's basic financial statements include: the statement of net position; the statement of revenues, expenses and changes in net position; the statement of cash flows; the statement of fiduciary net position; the statement of changes in fiduciary net position; and notes to the financial statements.

The financial statements (except for the statement of fiduciary net position and the statement of changes in fiduciary net position) reflect an "Operating Fund" and a "Scholarship and Grant Fund." The Operating Fund includes the administrative expenses associated with the State Scholarship/Grant Program as well as all transactions of the Tuition Savings Program and the Guaranty Agency Operating Fund. The Scholarship and Grant Fund includes transactions for scholarship/grant awards to students and the State's membership assessment for the New England Regional Student Program. The statement of fiduciary net position is provided for the Program Fund and the Federal Fund. The statement of changes in fiduciary net position is provided for the Program Fund.
Financial Highlights and Comparative Analysis

The tables in each section below reflect three years of financial data; however, the related discussion addresses only the changes from FY 2013 to FY 2014.

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<thead>
<tr>
<th></th>
<th>Net Position</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
<td>2012</td>
</tr>
<tr>
<td>Operating Fund</td>
<td>$36,533,000</td>
<td>$32,162,000</td>
<td>$27,736,000</td>
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<tr>
<td>Scholarship and Grant Fund</td>
<td>4,051,000</td>
<td>4,819,000</td>
<td>4,624,000</td>
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<tr>
<td>Total RIHEAA</td>
<td>$40,584,000</td>
<td>$36,981,000</td>
<td>$32,360,000</td>
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</table>

RIHEAA's total net position at June 30, 2014 was over $40.5 million, an increase of $3.6 million from the previous year. Net position in the Operating Fund increased nearly $4.4 million, while the net position in the Scholarship and Grant Fund decreased by $768,000. All of the net position within the Scholarship and Grant Fund is restricted for use in the Academic Promise Scholarship Program and the CollegeBoundfund® Matching Grant Program. These funds are invested in the Program Fund on behalf of Academic Promise Scholarship recipients and to provide funding for low-income individuals who qualify for the Matching Grant Program (see Note 2 to the financial statements-Scholarship and Grant Fund).

The net position of the Operating Fund consists of $27.9 million which is restricted by federal and state statute to the uses of the Guaranty Agency operations and for student financial assistance purposes, $6.8 million which is restricted for use in Tuition Savings Program administration and student financial assistance purposes, and just over $1.7 million invested in capital assets. The Authority has total assets of $44.2 million, which includes $28.4 million in cash and cash equivalents and $10.8 million in investments, including the amounts invested in CollegeBoundfund® for the Academic Promise Scholarship and Matching Grant Programs.

Total liabilities of the AOF are just over $3.6 million, with the largest components being a liability for the return of default aversion fees of $1.6 million (see Default Aversion Fees in Note 2 to the financial statements) and accounts payable of just under $1.4 million.
Financial Highlights and Comparative Analysis (continued)

<table>
<thead>
<tr>
<th>Operating Fund Revenues</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
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<tr>
<td>GUARANTY AGENCY:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collections-Based Revenue</td>
<td>$12,021,000</td>
<td>$12,940,000</td>
<td>$11,727,000</td>
</tr>
<tr>
<td>AMF &amp; DAF</td>
<td>1,245,000</td>
<td>1,357,000</td>
<td>1,708,000</td>
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<tr>
<td>Investment and Other</td>
<td>806,000</td>
<td>1,067,000</td>
<td>320,000</td>
</tr>
<tr>
<td><strong>Total Loan Division</strong></td>
<td>14,072,000</td>
<td>15,364,000</td>
<td>13,755,000</td>
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<td>TUITION SAVINGS PROGRAM:</td>
<td></td>
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<tr>
<td>Program Fund Fees</td>
<td>8,412,000</td>
<td>8,050,000</td>
<td>8,004,000</td>
</tr>
<tr>
<td>Investment and Other</td>
<td>836,000</td>
<td>847,000</td>
<td>851,000</td>
</tr>
<tr>
<td><strong>Total Tuition Savings Program</strong></td>
<td>9,248,000</td>
<td>8,897,000</td>
<td>8,855,000</td>
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<tr>
<td>SCHOLARSHIP AND GRANT DIVISION</td>
<td>-</td>
<td>391,000</td>
<td>497,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$23,320,000</td>
<td>$24,652,000</td>
<td>$23,107,000</td>
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</tbody>
</table>

Revenues in the Guaranty Agency totaled just over $14 million in FY 2014, a decrease of $1.3 million from FY 2013. The total decline resulted from a decrease of just over $900,000 in collections-based revenue, and a reduction in interest and other income attributable to the fact that RIHEAA's outstanding loan portfolio declined from approximately $1.3 billion in FY 2013 to just under $1.2 billion at the end of FY 2014. The single largest component of loan origination and other income was a $625,000 grant from RIDE which was used to complete enhancements to the WaytogoRI web portal.

Revenues in the Tuition Savings Program increased in FY 2014 vs. FY 2013 and totaled just over $9.2 million. The asset-based fee generated over $6.9 million in FY 2014, up from $6.7 million in FY 2013. Direct purchase commissions were approximately $1.5 million in FY 2014 and CollegeBoundBaby program revenue was level with the FY 2013 amount at $330,000.

Revenues in the Scholarship and Grant Division of the Operating Fund consisted of the State appropriation used for the personnel and administrative expenses. For FY 2014, RIHEAA management had proposed funding those personnel and administrative expenses from revenues in the Guaranty Agency and the Tuition Savings Program, and dedicating the entire general revenue appropriation to need-based grants. The Governor and the General Assembly agreed with this approach, and hence no revenues were recognized in that category in FY 2014.
### Financial Highlights and Comparative Analysis (continued)

#### Operating Fund Expenses and Transfers

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<thead>
<tr>
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<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranty Agency:</td>
<td></td>
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<tr>
<td>Collection and Default Aversion</td>
<td>$6,433,000</td>
<td>$7,221,000</td>
<td>$6,642,000</td>
</tr>
<tr>
<td>Personnel</td>
<td>1,847,000</td>
<td>1,953,000</td>
<td>2,126,000</td>
</tr>
<tr>
<td>Provision for DAF Returns</td>
<td>258,000</td>
<td>429,000</td>
<td>1,441,000</td>
</tr>
<tr>
<td>Web Portal</td>
<td>604,000</td>
<td>517,000</td>
<td>516,000</td>
</tr>
<tr>
<td>Navient Guarantee Services</td>
<td>500,000</td>
<td>517,000</td>
<td>456,000</td>
</tr>
<tr>
<td>Other</td>
<td>993,000</td>
<td>827,000</td>
<td>893,000</td>
</tr>
<tr>
<td><strong>Total Loan Division</strong></td>
<td>10,655,000</td>
<td>11,464,000</td>
<td>12,074,000</td>
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<tr>
<td>Tuition Savings Program:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>263,000</td>
<td>114,000</td>
<td>136,000</td>
</tr>
<tr>
<td>Other</td>
<td>49,000</td>
<td>36,000</td>
<td>48,000</td>
</tr>
<tr>
<td><strong>Total Tuition Savings Program</strong></td>
<td>312,000</td>
<td>150,000</td>
<td>184,000</td>
</tr>
<tr>
<td>Scholarship and Grant Division:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>-</td>
<td>197,000</td>
<td>285,000</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>165,000</td>
<td>189,000</td>
</tr>
<tr>
<td><strong>Total Scholarship and Grant Division</strong></td>
<td>-</td>
<td>362,000</td>
<td>474,000</td>
</tr>
<tr>
<td>Transfers to Scholarship and Grant Fund</td>
<td>8,000,000</td>
<td>8,250,000</td>
<td>8,341,000</td>
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<tr>
<td><strong>Total Expenses and Transfers</strong></td>
<td><strong>$18,947,000</strong></td>
<td><strong>$20,226,000</strong></td>
<td><strong>$21,073,000</strong></td>
</tr>
</tbody>
</table>

Expenses in the Guaranty Agency totaled $10.6 million in FY 2014, a decrease of $884,000 from FY 2013. Within the category of collection and default aversion expenses, commissions paid to collection agencies decreased by $775,000 to just under $4.1 million in FY 2014. In addition to commissions paid to collection vendors, the portfolio management fee paid to Navient Corporation (formerly Sallie Mae) in FY 2014 was level with the FY 2013 amount at just over $2.1 million. This fee is directly based upon the amount of net revenue generated from outsourced collection activities. Fees paid for default aversion and prevention activities decreased from $213,000 in FY 2013 to $173,000 in the current year. These fees are based on the vendor's ability to bring delinquent loans into a current status. Personnel expenses were just under $1.9 million in FY 2014, a decrease of $105,000 vs. FY 2013. Total fees paid to Navient for guarantee processing services were $500,000. (see Note 12 to the financial statements).

Expenses associated with the WaytogoRI web portal were $604,000 in FY 2014 and $517,000 in FY 2013. The FY 2014 total includes system services and maintenance of $587,000 and marketing and training expenses of $17,000. Other operating expenses, which include office and administrative expenses, building-related expenses, computer and software expenses, and depreciation and amortization, totaled $993,000 in FY 2014, $166,000 more than in FY 2013. Nearly half of the increase was in the computer and software category.
Financial Highlights and Comparative Analysis (continued)

In the Tuition Savings Program, personnel expenses increased from $114,000 to $263,000 as a result of FTE allocation changes associated with the elimination of general revenue funds for personnel. Other administrative expenses decreased from $36,000 in FY 2013 to $31,000 in the current year.

As noted above, RIHEAA did not incur personnel and administrative expenses that were funded with a general revenue appropriation in FY 2014.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled over $8.00 million in FY 2014 vs. $8.25 million in FY 2013. In FY 2014, all of the funds went to supplement the need-based grant program, whereas in FY 2013 $7.25 million was used to support need-based grants and $1 million was used to fund a cohort of students in the Academic Promise Scholarship Program.

### Scholarship and Grant Fund Revenues, Transfers, and Expenses

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
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<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
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<tr>
<td>State Appropriations</td>
<td>$4,333,000</td>
<td>$5,303,000</td>
<td>$5,415,000</td>
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<tr>
<td>Investment Income</td>
<td>$98,000</td>
<td>$119,000</td>
<td>$128,000</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>4,431,000</td>
<td>5,422,000</td>
<td>5,543,000</td>
</tr>
<tr>
<td>Transfers from the Operating Fund</td>
<td>$8,000,000</td>
<td>$8,250,000</td>
<td>$8,341,000</td>
</tr>
<tr>
<td>Total Revenues and Transfers</td>
<td>$12,431,000</td>
<td>$13,672,000</td>
<td>$13,884,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$13,200,000</td>
<td>$13,477,000</td>
<td>$13,789,000</td>
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</tbody>
</table>

Total revenues and transfers into the Scholarship and Grant Fund were just under $12.5 million in FY 2014 vs. approximately $13.7 million in FY 2013. The State appropriation made to fund the need-based grant program decreased by nearly $1 million in FY 2014 vs. FY 2013. The total includes the $8 million transfer from the Operating Fund which was provided from Tuition Savings Program revenues to supplement the State's need-based grant program. Investment income was virtually unchanged from the prior year and totaled just under $120,000. All revenues of the Scholarship and Grant Fund are disbursed to, or for the benefit of qualifying, financially needy Rhode Island students.
Financial Highlights and Comparative Analysis (continued)

Scholarship and Grant Fund Revenues, Transfers, and Expenses (continued)

Expenses in the Scholarship and Grant Fund represent the total student financial assistance provided, which was nearly $13.2 million in FY 2014. The total includes State Scholarship/Grant Program awards of $12.2 million, just over $866,000 in the Academic Promise Scholarship and CollegeBoundfund® Matching Grant Programs, and the State’s assessment of $147,000 for participation in the New England Regional Student Program.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$28,406,000</td>
<td>$24,084,000</td>
<td>$12,136,000</td>
</tr>
<tr>
<td>Provided by (used in):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>$(1,691,000)</td>
<td>$(1,390,000)</td>
<td>$(2,443,000)</td>
</tr>
<tr>
<td>Noncapital financing activities</td>
<td>$4,340,000</td>
<td>$12,866,000</td>
<td>$129,000</td>
</tr>
<tr>
<td>Capital financing activities</td>
<td>625,000</td>
<td>250,000</td>
<td>-</td>
</tr>
<tr>
<td>Investing activities</td>
<td>1,869,000</td>
<td>557,000</td>
<td>$(214,000)</td>
</tr>
<tr>
<td>Purchase of capital assets</td>
<td>$(821,000)</td>
<td>$(335,000)</td>
<td>$(36,000)</td>
</tr>
<tr>
<td>Net (Decrease) Increase</td>
<td>$4,322,000</td>
<td>$11,948,000</td>
<td>$(2,564,000)</td>
</tr>
</tbody>
</table>

Cash and cash equivalents totaled over $28 million at the end of FY 2014, an increase of nearly $4 million from FY 2013. The components of the statement of cash flows are principally the revenue and expense items, presented on a cash rather than an accrual basis, that have been described in the previous sections. In addition, the statement of cash flows reflects financing and investing activities. Included in financing activities is the State appropriation for the Scholarship and Grant Division of $4.3 million. Investing activities reflect cash receipts of $46 million and cash outlays of over $44 million. These investing transactions include maturities and purchases of certificates of deposit, purchases and redemptions of money market funds, purchases and redemptions of Program Fund investments related to the Academic Promise Scholarship and Matching Grant Programs, and interest income on investments. Capital assets purchases totaled $821,000 during FY 2014 and includes $625,000 for the completion of the enhancements to the WaytogoRI web portal.

Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets

<table>
<thead>
<tr>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Position Held in Trust for Participants</td>
<td>$7,862,830,000</td>
<td>$7,446,883,000</td>
</tr>
</tbody>
</table>

The net assets of the Program Fund totaled nearly $7.9 billion at June 30, 2014 compared with just under $7.5 billion at the end of FY 2013, an increase of approximately $416 million. The value of participant assets held in the plan increased by $589 million. There were realized gains on investments of $544 million and unrealized gains of $45 million. The other components of the total change consist of the following: participants invested just over $1 billion while redeeming approximately $1.5 billion; investments in the plan provided income of $330 million; and the plan incurred expenses of just over $77 million. All of the net position is held in trust for the participants in the Program Fund. The number of accounts decreased from 450,000 at the end of FY 2013 to 426,000 at the end of FY 2014.
Financial Highlights and Comparative Analysis (continued)

Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets (continued)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Fund Total Assets and Liabilities</td>
<td>$15,342,000</td>
<td>$15,766,000</td>
<td>$16,759,000</td>
</tr>
</tbody>
</table>

Total assets and liabilities of the Federal Student Loan Reserve Fund (the "Federal Fund") were just over $15.3 million at the end of FY 2014, down from $15.8 million the previous year. Assets include $8.6 million in cash and cash equivalents, just over $2 million in certificates of deposit and a $3 million reinsurance receivable from the DE arising from claims paid to lenders. The liabilities of the Federal Fund include a $7 million allowance for unreinsured claims and a payable to the AOF of just under $919,000. In addition, the Federal Fund reflects a liability to the Federal government of $7.4 million, including just over $2 million due to the DE for its share of collections and repurchase activity. The remaining $5.4 million, although recorded as a liability in the audited financial statements, is the reserve balance in the Federal Fund and is restricted by federal statutes to authorized expenditures.

Requests for Information

This financial report is designed to provide a general overview of RIHEAA's finances for any interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Rhode Island Higher Education Assistance Authority, 560 Jefferson Blvd, Warwick, RI 02886.
### RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

#### STATEMENT OF NET POSITION
**JUNE 30, 2014**

<table>
<thead>
<tr>
<th>ASSETS:</th>
<th>Operating Fund</th>
<th>Scholarship and Grant Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$26,813,689</td>
<td>$26,813,689</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, restricted (DCYF)</td>
<td>963,210</td>
<td>963,210</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>6,781,229</td>
<td>4,051,244</td>
<td>10,832,473</td>
</tr>
<tr>
<td>Receivables and accruals:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset-based fees</td>
<td>1,763,334</td>
<td>1,763,334</td>
<td></td>
</tr>
<tr>
<td>Portfolio maintenance fee</td>
<td>178,791</td>
<td>178,791</td>
<td></td>
</tr>
<tr>
<td>Health education assistance loans receivable</td>
<td>21,842</td>
<td>21,842</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>6,093</td>
<td>6,093</td>
<td></td>
</tr>
<tr>
<td>CollegeBoundBaby receivable</td>
<td>136,850</td>
<td>136,850</td>
<td></td>
</tr>
<tr>
<td>Due from federal student loan reserve fund</td>
<td>918,789</td>
<td>918,789</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>188,752</td>
<td></td>
<td>188,752</td>
</tr>
<tr>
<td>Total current assets</td>
<td>37,772,579</td>
<td>4,051,244</td>
<td>41,823,823</td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and cash equivalents:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Escrow SLMA principal</td>
<td>181,375</td>
<td>181,375</td>
<td></td>
</tr>
<tr>
<td>Recall account - interest</td>
<td>447,472</td>
<td>447,472</td>
<td></td>
</tr>
<tr>
<td>Capital assets, less accumulated depreciation</td>
<td>1,742,236</td>
<td></td>
<td>1,742,236</td>
</tr>
<tr>
<td>Total noncurrent assets</td>
<td>2,371,083</td>
<td>-</td>
<td>2,371,083</td>
</tr>
<tr>
<td>Total assets</td>
<td>40,143,662</td>
<td>4,051,244</td>
<td>44,194,906</td>
</tr>
</tbody>
</table>

(Continued)

The accompanying notes are an integral part of the financial statements.
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

STATEMENT OF NET POSITION  
JUNE 30, 2014  

<table>
<thead>
<tr>
<th>LIABILITIES:</th>
<th>Operating Fund</th>
<th>Scholarship and Grant Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>1,356,964</td>
<td></td>
<td>1,356,964</td>
</tr>
<tr>
<td>Payable to federal government</td>
<td>20,252</td>
<td></td>
<td>20,252</td>
</tr>
<tr>
<td>Allowance for default aversion fee returns</td>
<td>480,000</td>
<td></td>
<td>480,000</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>55,744</td>
<td></td>
<td>55,744</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>1,912,960</strong></td>
<td><strong>-</strong></td>
<td><strong>1,912,960</strong></td>
</tr>
<tr>
<td>Noncurrent liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for default aversion fee returns, less current portion</td>
<td>1,120,000</td>
<td></td>
<td>1,120,000</td>
</tr>
<tr>
<td>Compensated absences, less current portion</td>
<td>130,069</td>
<td></td>
<td>130,069</td>
</tr>
<tr>
<td>Unearned default prevention income</td>
<td>447,472</td>
<td></td>
<td>447,472</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td><strong>1,697,541</strong></td>
<td><strong>-</strong></td>
<td><strong>1,697,541</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>3,610,501</strong></td>
<td><strong>-</strong></td>
<td><strong>3,610,501</strong></td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Note 12 and 14)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET POSITION:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment in capital assets</td>
<td>1,742,236</td>
<td></td>
<td>1,742,236</td>
</tr>
<tr>
<td>Restricted</td>
<td>34,790,925</td>
<td>4,051,244</td>
<td>38,842,169</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td><strong>$ 36,533,161</strong></td>
<td><strong>$ 4,051,244</strong></td>
<td><strong>$ 40,584,405</strong></td>
</tr>
</tbody>
</table>

(Concluded)  
The accompanying notes are an integral part of the financial statements.
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2014

<table>
<thead>
<tr>
<th></th>
<th>Operating Fund</th>
<th>Scholarship and Grant Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government fees:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Default aversion</td>
<td>$ 505,676</td>
<td>$ 505,676</td>
<td></td>
</tr>
<tr>
<td>Account maintenance</td>
<td>739,081</td>
<td>739,081</td>
<td></td>
</tr>
<tr>
<td><strong>Recovery, consolidation, and rehabilitation income, net of DE share</strong></td>
<td>12,021,333</td>
<td>12,021,333</td>
<td></td>
</tr>
<tr>
<td><strong>Tuition savings program fund administrative fees:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset-based fees</td>
<td>6,939,688</td>
<td>6,939,688</td>
<td></td>
</tr>
<tr>
<td>Direct purchase commissions</td>
<td>1,472,013</td>
<td>1,472,013</td>
<td></td>
</tr>
<tr>
<td>AllianceBernstein contract income</td>
<td>275,000</td>
<td>275,000</td>
<td></td>
</tr>
<tr>
<td>CollegeBoundBaby income</td>
<td>530,550</td>
<td>530,550</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>22,483,341</td>
<td>-</td>
<td>22,483,341</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student financial assistance</td>
<td>-</td>
<td>$ 13,199,623</td>
<td>13,199,623</td>
</tr>
<tr>
<td>Salaries, payroll taxes, and employee benefits</td>
<td>2,110,218</td>
<td>2,110,218</td>
<td></td>
</tr>
<tr>
<td>Building and maintenance expenses</td>
<td>100,517</td>
<td>100,517</td>
<td></td>
</tr>
<tr>
<td>Collection agency commissions</td>
<td>4,096,195</td>
<td>4,096,195</td>
<td></td>
</tr>
<tr>
<td>Computer services</td>
<td>162,290</td>
<td>162,290</td>
<td></td>
</tr>
<tr>
<td>Default aversion and prevention expenses</td>
<td>172,986</td>
<td>172,986</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>148,370</td>
<td>148,370</td>
<td></td>
</tr>
<tr>
<td>Office expenses and other</td>
<td>324,469</td>
<td>324,469</td>
<td></td>
</tr>
<tr>
<td>Printing and postage</td>
<td>34,684</td>
<td>34,684</td>
<td></td>
</tr>
<tr>
<td>Professional services</td>
<td>251,967</td>
<td>251,967</td>
<td></td>
</tr>
<tr>
<td>Provision for default aversion fee returns</td>
<td>258,400</td>
<td>258,400</td>
<td></td>
</tr>
<tr>
<td>Navient guarantee services fee</td>
<td>499,946</td>
<td>499,946</td>
<td></td>
</tr>
<tr>
<td>Navient portfolio management fees</td>
<td>2,163,359</td>
<td>2,163,359</td>
<td></td>
</tr>
<tr>
<td>Travel, conferences, and workshops</td>
<td>20,019</td>
<td>20,019</td>
<td></td>
</tr>
<tr>
<td>Web portal maintenance and services</td>
<td>587,155</td>
<td>587,155</td>
<td></td>
</tr>
<tr>
<td>Web portal marketing and training</td>
<td>17,226</td>
<td>17,226</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>10,947,801</td>
<td>13,199,623</td>
<td>24,147,424</td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>11,535,540</td>
<td>(13,199,623)</td>
<td>(1,664,083)</td>
</tr>
</tbody>
</table>

(Continued)
## RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2014

<table>
<thead>
<tr>
<th></th>
<th>Operating Fund</th>
<th>Scholarship and Grant Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nonoperating revenue:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>85,927</td>
<td>98,011</td>
<td>183,948</td>
</tr>
<tr>
<td>New England Board of Higher Education grant</td>
<td>7,500</td>
<td></td>
<td>7,500</td>
</tr>
<tr>
<td>Federal grant income</td>
<td>625,000</td>
<td></td>
<td>625,000</td>
</tr>
<tr>
<td>Rental income</td>
<td>117,973</td>
<td></td>
<td>117,973</td>
</tr>
<tr>
<td>State appropriations</td>
<td>-</td>
<td>4,333,323</td>
<td>4,333,323</td>
</tr>
<tr>
<td><strong>Total nonoperating revenue</strong></td>
<td>836,410</td>
<td>4,431,334</td>
<td>5,267,744</td>
</tr>
<tr>
<td>Income (loss) before transfers</td>
<td>12,371,950</td>
<td>(8,768,289)</td>
<td>3,603,661</td>
</tr>
<tr>
<td><strong>Transfers in (out):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State grant program</td>
<td>(8,000,000)</td>
<td>8,000,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total transfers in (out)</strong></td>
<td>(8,000,000)</td>
<td>8,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Change in net position</td>
<td>4,371,950</td>
<td>(768,289)</td>
<td>3,603,661</td>
</tr>
<tr>
<td><strong>Net position:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of the year</td>
<td>32,161,211</td>
<td>4,819,533</td>
<td>36,980,744</td>
</tr>
<tr>
<td>End of year</td>
<td>$ 36,533,161</td>
<td>$ 4,051,244</td>
<td>$ 40,584,405</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of the financial statements*
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Cash received from:</td>
</tr>
<tr>
<td>Recovery, consolidation, and rehabilitation income</td>
</tr>
<tr>
<td>Tuition Savings Program Fund fees and commissions</td>
</tr>
<tr>
<td>Government fees</td>
</tr>
<tr>
<td>Allianz/Deutsch contract income</td>
</tr>
<tr>
<td>Rental income</td>
</tr>
<tr>
<td>College Bound Baby income</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Cash paid for:</td>
</tr>
<tr>
<td>Employees for services and benefits</td>
</tr>
<tr>
<td>Supplies, materials, and services</td>
</tr>
<tr>
<td>Student financial assistance</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
</tr>
<tr>
<td>Cash flows from noncapital financing activities:</td>
</tr>
<tr>
<td>Operating subsidies and transfers (to) from</td>
</tr>
<tr>
<td>Other funds</td>
</tr>
<tr>
<td>New England Board of Higher Education grant</td>
</tr>
<tr>
<td>Sure appropriations</td>
</tr>
<tr>
<td>Net cash provided by (used in) noncapital financing activities</td>
</tr>
<tr>
<td>Cash flows from capital and related financing activities:</td>
</tr>
<tr>
<td>RIDGE grant for capital projects</td>
</tr>
<tr>
<td>Net cash provided by capital and related financing activities</td>
</tr>
<tr>
<td>Cash flows from investing activities:</td>
</tr>
<tr>
<td>Purchases of investments</td>
</tr>
<tr>
<td>Proceeds from sales and maturities of investments</td>
</tr>
<tr>
<td>Interest income</td>
</tr>
<tr>
<td>Purchase of capital assets</td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
</tr>
</tbody>
</table>

(Continued)
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND) 

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014

<table>
<thead>
<tr>
<th></th>
<th>Operating Fund</th>
<th>Scholarship and Grant Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>$11,335,540</td>
<td>$ (13,199,623)</td>
<td>$(1,664,083)</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>148,370</td>
<td></td>
<td>148,370</td>
</tr>
<tr>
<td>Rental income</td>
<td>117,973</td>
<td></td>
<td>117,973</td>
</tr>
<tr>
<td>Provision for default aversion fee refunds</td>
<td>(125,000)</td>
<td></td>
<td>(125,000)</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables and accruals:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in asset-based fees</td>
<td>(29,976)</td>
<td></td>
<td>(29,976)</td>
</tr>
<tr>
<td>Decrease in interest receivable</td>
<td>7,813</td>
<td></td>
<td>7,813</td>
</tr>
<tr>
<td>Decrease in portfolio maintenance fees</td>
<td>15,375</td>
<td></td>
<td>15,375</td>
</tr>
<tr>
<td>Decrease in health education assistance loans receivable</td>
<td>7,027</td>
<td></td>
<td>7,027</td>
</tr>
<tr>
<td>Decrease in other receivables</td>
<td>23,721</td>
<td></td>
<td>23,721</td>
</tr>
<tr>
<td>Decrease in CollegeBoundBaby receivable</td>
<td>(2,850)</td>
<td></td>
<td>(2,850)</td>
</tr>
<tr>
<td>Decrease in Due from Federal Student Loan Reserve Fund</td>
<td>(165,895)</td>
<td></td>
<td>(165,895)</td>
</tr>
<tr>
<td>Decrease in prepaid expenses</td>
<td>(3,374)</td>
<td></td>
<td>(3,374)</td>
</tr>
<tr>
<td>Increase in accounts payable and accrued expenses</td>
<td>83,196</td>
<td></td>
<td>83,196</td>
</tr>
<tr>
<td>Decrease in payable to federal government</td>
<td>(93,921)</td>
<td></td>
<td>(93,921)</td>
</tr>
<tr>
<td>Deferred to default prevention income</td>
<td>1,356</td>
<td></td>
<td>1,356</td>
</tr>
<tr>
<td>Decrease in compensated absences</td>
<td>(11,142)</td>
<td></td>
<td>(11,142)</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>$11,508,213</td>
<td>$ (13,199,623)</td>
<td>$(1,691,410)</td>
</tr>
</tbody>
</table>

(Concluded)

The accompanying notes are an integral part of the financial statements.
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2014  

<table>
<thead>
<tr>
<th>Private Purpose</th>
<th></th>
<th>Agency Fund</th>
<th></th>
<th>Federal Student Loan Reserve Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition Savings Program Fund</td>
<td></td>
<td>$8,655,601</td>
<td>$2,047,679</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>$7,869,071.105</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Units sold</td>
<td>5,510,802</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments sold</td>
<td>2,180,487</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>160,462</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reinsurance claims, federal government</td>
<td></td>
<td></td>
<td>3,038,644</td>
<td></td>
</tr>
<tr>
<td>Default aversion fee returns, guaranty agency operating fund</td>
<td></td>
<td></td>
<td>1,600,000</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>28,110</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$7,876,950,966</td>
<td></td>
<td>$15,341,924</td>
<td></td>
</tr>
<tr>
<td>LIABILITIES:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments purchased and units redeemed</td>
<td>7,836,668</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued asset-based charges</td>
<td>2,572,219</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advisory fee payable</td>
<td>3,711,780</td>
<td></td>
<td></td>
<td>918,789</td>
</tr>
<tr>
<td>Payable to guaranty agency operating fund</td>
<td></td>
<td></td>
<td>7,000,000</td>
<td></td>
</tr>
<tr>
<td>Allowance for uncollected claims</td>
<td></td>
<td></td>
<td></td>
<td>7,423,135</td>
</tr>
<tr>
<td>Due to federal government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$14,120,667</td>
<td></td>
<td>$15,341,924</td>
<td></td>
</tr>
<tr>
<td>NET POSITION:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Held in trust for participants</td>
<td>$7,862,830.299</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2014  

<table>
<thead>
<tr>
<th>Private Purpose</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition Savings</td>
<td></td>
</tr>
<tr>
<td>Program Fund</td>
<td></td>
</tr>
<tr>
<td>From operations:</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>$252,598,776</td>
</tr>
<tr>
<td>Net change in unrealized appreciation on investments</td>
<td>45,262,392</td>
</tr>
<tr>
<td>Net realized gain on investments</td>
<td>543,831,998</td>
</tr>
<tr>
<td>Net increase in net position from operations</td>
<td>841,692,166</td>
</tr>
<tr>
<td>From unitholder transactions:</td>
<td></td>
</tr>
<tr>
<td>Subscriptions</td>
<td>1,091,258,926</td>
</tr>
<tr>
<td>Redemptions</td>
<td>(1,517,004,539)</td>
</tr>
<tr>
<td>Net decrease in net position from unitholder transactions</td>
<td>(425,745,613)</td>
</tr>
<tr>
<td>Net increase in net position</td>
<td>415,947,553</td>
</tr>
<tr>
<td>Net position held in trust for participants, beginning of year</td>
<td>7,446,882,746</td>
</tr>
<tr>
<td>Net position held in trust for participants, end of year</td>
<td>$7,862,830,399</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

1. Organization and reporting entity:

Organization:

Rhode Island Higher Education Assistance Authority:

The Rhode Island Higher Education Assistance Authority (the Authority or RIHEAA) is a public corporation of the State of Rhode Island (the State) established July 1, 1977 by an Act of the Rhode Island General Assembly having a distinct legal existence from the State and not constituting a department of State government, which is a governmental agency and public instrumentality of the State. It is a component unit of the State for financial reporting purposes and as such, the financial statements of the Authority will be included in the State's comprehensive annual financial report. The Authority was created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law to the Authority.

The Authority is exempt from federal and state income taxes.

Rhode Island Higher Education Savings Trust:

The Rhode Island Higher Education Savings Trust (RIHEST) is a separate legal entity created by the Authority pursuant to an Act of the Rhode Island General Assembly. RIHEST is comprised of the Tuition Savings Program Fund (the Program Fund) which is reported as a private purpose trust fund in the Authority's fiduciary fund financial statements, and an Administrative Fund which is a component of the Operating Fund in the Authority's proprietary fund financial statements. The Program Fund is Rhode Island's Internal Revenue Code (IRS) Section 529 qualified state tuition savings program, which holds participant assets and is available for families to save and invest for qualified higher education expenses. The investment policies of the Program Fund are established by the Rhode Island State Investment Commission (SIC) and the Authority.

RIHEST is exempt from federal and state income taxes.

Reporting entity:

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Authority applies the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34." RIHEST is considered a component unit of the RIHEAA statements.

(CONTINUED)
1. Organization and reporting entity (continued):

Recently Issued Accounting Standards:

The Authority has implemented GASB No. 65, Items Previously Reported as Assets and Liabilities, for the year ended June 30, 2014. The adoption of this Statement did not have an impact on the Authority’s financial position or results of operations.

The Authority has implemented GASB No. 66 – Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62, for the year ended June 30, 2014. The adoption of this Statement did not have an impact on the Authority’s financial position or results of operations.

The Authority has implemented GASB No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, for the year ended June 30, 2014. The adoption of this Statement did not have an impact on the Authority’s financial position or results of operations.

The Authority has implemented GASB No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees, for the year ended June 30, 2014. The adoption of this Statement did not have an impact on the Authority’s financial position or results of operations.

The Authority will adopt the following new accounting pronouncement in future years:


- GASB Statement No. 69 – Government Combinations and Disposals of Government operations, effective for the Authority’s fiscal year ending June 30, 2015.

- GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68, effective for the Authority’s fiscal year ending June 30, 2015.

The impact of these new pronouncements on the Authority’s financial statements has not been determined.
2. Summary of significant accounting policies:

Financial statement presentation, measurement focus and basis of accounting:

The Authority uses the economic resources measurement focus and accrual basis of accounting.

Except for the fiduciary funds, the Authority engages only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external users. The proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and 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.

The Authority distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority are charges to the federal government and other third parties for fees and services provided. Operating expenses include the cost of providing services, administrative expenses, and depreciation and amortization expense on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When restricted and unrestricted resources are available for use, it is the Authority’s practice to use restricted resources first.

Fund financial statements:

The Authority reports the following major proprietary funds:

Operating Fund:

This fund consists of the following sub-funds which are combined for financial reporting purposes:

Agency Operating Fund - This fund accounts for all transactions relating to the Authority's activities as a State guaranty agency for the Federal Family Education Loan (FFEL) Program.
2. Summary of significant accounting policies (continued):

Fund financial statements (continued):

Operating Fund (continued):

Scholarship and Grant Operating Administrative Fund - This fund accounts for all transactions relating to the Authority's administration of scholarship and grant programs on behalf of the federal government and the State.

RIHEST Administrative Fund - This fund accounts for all transactions relating to the Authority's administration of RIHEST.

AllianceBernstein L.P. Contract Fund - This fund accounts for fees received by the Authority based on terms of an agreement with AllianceBernstein L.P. (AllianceBernstein) for the management and promotion of the Tuition Savings Program.

The principal sources of revenue for the Operating Fund include a) fees paid principally by the federal government for administering the FFEL Program (such as default aversion fees and account maintenance fees); b) recovery, consolidation, and rehabilitation income earned as a result of collection and consolidation of previously defaulted loans; and c) fees and commissions earned from administering RIHEST (such as asset-based fees and direct purchase commissions).

Scholarship and Grant Fund:

This fund consists of the following sub-funds which are combined for financial reporting purposes:

Scholarship and Grant Program Fund - This fund accounts for the State's need-based grant program which is funded by State appropriations and a supplement provided from revenues derived from the Tuition Savings Program.
2. Summary of significant accounting policies (continued):

Fund financial statements (continued):

Scholarship and Grant Fund (continued):

CollegeBoundfund® Matching Grant Program Fund - This fund accounts for all transactions relating to the Authority's operation of the CollegeBoundfund® Matching Grant Program. Under this program the Authority may make available up to $500,000 annually to invest in the Program Fund as matching contribution accounts for individuals' accounts established for the benefit of income-qualifying students and their families. During fiscal year 2013, the Board decided to phase-out the program as it was then constituted. The phase-out provides that current participants will be able to continue to receive matching awards for up to a five-year period. The Board also asked management to develop proposals which would revise or replace the program. At June 30, 2014 the fund balance within the Matching Grant Program was $502,000, and management believes that this amount is approximately what will be required to fund the phase-out. However, the Board is prepared to designate additional funds if needed to support commitments to existing participants.

Academic Promise Scholarship Program Fund - This fund accounts for all transactions relating to the Authority's operation of the Academic Promise Scholarship Program. Under this program, the Authority invests in the Program Fund for the benefit of academic and income-qualifying students to provide up to $10,000 to each student over a four-year scholarship period ($12,500 for students in qualifying five-year programs).

New England Regional Student Program Fund - This fund accounts for all transactions relating to the New England Regional Student Program, whereby students from the six New England states pay significantly reduced tuition at out-of-state public colleges and universities within New England when they enroll in certain academic programs that are not offered by their home-state public colleges and universities. The State makes an annual appropriation to the Authority for Rhode Island's participation in the program. This program is sponsored by the New England Board of Higher Education.
2. Summary of significant accounting policies (continued):

Fund financial statements (continued):

The CollegeBound Fund® Matching Grant Program and the Academic Promise Scholarship Program are funded with RIHEST revenues through transfers from the RIHEST Administrative Fund. These programs are subject to certain conditions and limitations including, but not limited to, income eligibility, academic performance, and contribution and withdrawal restrictions.

In addition, the Authority reports the following fund types:

Private Purpose Trust Fund - This fund type is used to account for trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The Authority utilizes this fund type to account for the activities of the RIHEST Tuition Savings Program Fund. The net position held in trust for participants under this arrangement totaled $7,862,830,299 as of June 30, 2014.

Agency Fund — The Authority administers the Federal Student Loan Reserve Fund (the Federal Fund) on behalf of the federal government. Under the 1998 reauthorization of the Higher Education Act, guaranty agencies were required to establish a Federal Fund effective October 1, 1998. Additions to the Federal Fund include principally complement fees, default aversion fee returns, reinsurance received for lender claims paid, and income from investments. Deductions from the Federal Fund include only lender claims and default aversion fee payments to the Agency Operating Fund, unless otherwise directed by the U.S. Department of Education (DE). Assets and liabilities of the Federal Fund are those of the DE.

Cash and cash equivalents:

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments:

Investments of the Operating Fund may include U.S. Treasury Bills, U.S. Treasury Notes, U.S. Agency collateralized obligations, certificates of deposit, and deposits in AllianceBernstein Funds. Investments of the Scholarship and Grant Fund are solely units in the Program Fund. Investments in U.S. Treasury Bills are reported at their amortized value, which approximates their fair value. All other investments, including mutual funds of the Program Fund, are reported at their estimated fair value established by quoted market prices. Unrealized gains and losses from the changes in fair value are recognized as investment income.
2. Summary of significant accounting policies (continued):

Receivables:

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. This estimate is based on historical and current information regarding the credit worthiness of the debtors. The Authority does not require collateral or other forms of security from its debtors.

Restricted cash and cash equivalents:

Restricted cash and cash equivalents classified as current assets include amounts held on behalf of the Department of Children Youth and Families (DCYF), which will be remitted to various colleges and universities during the fiscal year ending June 30, 2014. According to an agreement with DCYF, the Authority serves as a fiscal intermediary with respect to the DCYF's scholarship program.

Restricted cash and cash equivalents classified as noncurrent assets include escrow deposits with a financial institution under an agreement with Navient Corporation (formally Sallie Mae) as collateral for certain loans, and deposits associated with the DE's recall from the Federal Student Loan Reserve Fund, which funds are to be used specifically for default prevention activities.

Capital assets:

Capital assets are stated at cost. Depreciation and amortization of capital assets is calculated using the straight-line method over the estimated useful lives of the assets. Useful lives of the assets are as follows:

- Land improvements: 15 - 30 years
- Buildings: 30 years
- Building improvements: 5 years
- Office equipment: 5 years
- Computers and software: 3 - 5 years

Capital assets are defined by the Authority as assets with an initial individual cost of $2,500 or more and an estimated useful life in excess of one year.
2. Summary of significant accounting policies (continued):

Compensated absences:

Authority union employees receive vacation time under a union contract based upon their years of service. This time may be carried over from one calendar year to another, in an amount not to exceed the vacation time earned in two calendar years. In the event of termination, employees are paid for unused time up to the amount of vacation time earned in one calendar year.

Sick leave is granted to all union employees based on total hours worked in a pay period, up to a maximum number of hours as designated under the union contract. In the event of termination, employees are paid for accrued sick time based on a formula in the union contract.

Compensated absences are calculated at the current rate of pay.

Nonunion employees follow the same guidelines for vacation and sick time as union employees.

Deferred outflows / inflows of resources:

In addition to assets, the statement of financial position can report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2014, there were no deferred outflows of resources.

In addition to liabilities, the statement of financial position can report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2014, there were no deferred outflows of resources.

Net position:

The Authority’s net position has been segregated into the following three components:

Net investment in capital assets — This category consists of capital assets, net of accumulated depreciation and amortization.

Restricted — This category consists of net position whose use is restricted either through external restrictions imposed by creditors, grantors, laws or regulations of governments, or through restrictions imposed by law through constitutional provisions, enabling legislation, or federal regulations.

Unrestricted — This category consists of all other net position not included in the above categories.
2. Summary of significant accounting policies (continued):

Net position (continued):

Under the 1998 reauthorization of the Higher Education Act, the Agency Operating Fund's net position may only be used for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring, and other student financial aid related activities. In addition, the net position of the Scholarship and Grant Operating Fund must be used in the administration of scholarships and grants on behalf of the federal government and the State, the net position of the RIHEST Administrative Fund must be used in the administration of RIHEST and student financial assistance programs authorized by the Board and the net position of the AllianceBerstein L.P. Contract Fund must be used for the management and promotion of the Tuition Savings Program and student financial assistance programs authorized by the Board. Also, the Scholarship and Grant Fund's net position invested in the Program Fund, in the amount of $4,051,244, for the Academic Promise Scholarship Program, and the CollegeBoundfund® Matching Grant Program is classified as restricted.

Revenue recognition:

Default aversion fees:

The Agency Operating Fund receives a default aversion fee from the Federal Fund. This fee is received for any loan on which a lender request for assistance is received by the Authority after a loan is between 60 and 120 days delinquent. The fee is calculated at 1% of the total unpaid principal and accrued interest at the time the Authority receives the lender request for assistance and is recognized when received. If a default aversion fee is received on a loan and the loan subsequently defaults, fees must be returned to the Federal Fund. The amount that must be returned is determined by the principal amount of the loan on the date of default plus accrued interest, if applicable.

The Authority records an allowance for its estimate of default aversion fees to be returned to the DE as a result of future loan defaults. The allowance for default aversion fee returns is management's best estimate of potential fee returns based on the information that is available. Consequently, it is at least reasonably possible that this estimate could change in the near term and the change could be material to the financial statements. During fiscal year 2014, the default aversion fee income was $505,676, the amount added to the allowance for fee returns was $258,400 and charges against the allowance for actual fee returns were $383,400.

Account maintenance fees:

The Authority earns an account maintenance fee (AMF) from the DE equal to 6 basis points (0.06%) of the annual average balance of the original principal amount of guaranteed loans outstanding.
2. Summary of significant accounting policies (continued):

Revenue recognition (continued):

Recovery, consolidation, and rehabilitation income:

Recovery, consolidation and rehabilitation income is the result of RIHEAA’s collections of defaulted student loans on behalf of the Department of Education (DE), and recognized as revenue when received, net of the DE’s share, which approximates recording this revenue on the accrual basis.

Asset-based fees — Tuition Savings Program Fund:

Tuition Savings Program Fund asset-based fees are recognized as revenue when earned on a quarterly basis. (See Note 12 for the description of how asset-based fees are determined).

Direct purchase commissions:

Direct purchase commissions are commissions paid by non-Rhode Island participants who make direct investments in the program fund and are recognized as revenue when received, which approximates recording this revenue on the accrual basis.

Grants and appropriations:

Revenue from grants and appropriations is recognized to the extent expenditures under such grants or appropriations have been made.

Retirement and postretirement healthcare benefit plans:

Substantially all Authority employees are covered for retirement and postretirement health benefits by plans administered by the State. Funding, eligibility, participation, and vesting provisions are determined by the State Retirement Board.

Under State law, individuals hired by the Authority who previously participated in certain other retirement plans may elect to remain in those plans rather than participate in the State retirement plan. Currently, certain Authority personnel participate in a defined contribution plan offered by TIAA-CREF, which is substantively identical to the plan offered to employees of the State’s colleges and university.

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.
2. Summary of significant accounting policies (continued):

Subsequent events:

Subsequent events have been evaluated through September 30, 2014, which is the date the financial statements were available for issuance. Management has expanded the disclosure in Note 14 to include information on changes in funding effective July 1, 2014.

3. Cash deposits and investments:

Cash deposits:

As of June 30, 2014, the Authority's cash deposits consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Bank Balance</th>
<th>Carrying Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>$37,309,032</td>
<td>$36,342,568</td>
</tr>
<tr>
<td>State’s general treasury</td>
<td>$530,033</td>
<td>$530,033</td>
</tr>
<tr>
<td>Money market funds</td>
<td>$188,746</td>
<td>$188,746</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$38,027,811</strong></td>
<td><strong>$37,061,347</strong></td>
</tr>
</tbody>
</table>

Custodial credit risk is the risk that, in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a deposit policy for custodial credit risk except for that which is provided by Rhode Island General Laws, Chapter 35-10-1 as described below.

The bank balances of the Authority’s cash deposits that were exposed to custodial credit risk as of June 30, 2014 are as follows:

Uninsured, collateralized
Uninsured, but collateralized with securities held by the pledging bank's trust department or agent not held in the Authority's name

$530,033

36,801,960

$37,331,993

The Authority is permitted to invest funds in certificates of deposit, including Certificate of Deposit Account Registry Service (CDARS), savings accounts, money market accounts and obligations of the United States Government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository, for a period not exceeding 30 days.

(Continued)
3. Cash deposits and investments (continued):

Cash deposits (continued):

In accordance with Rhode Island General Laws, Chapter 35-10-1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to 100 percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to 100 percent of deposits, regardless of maturity. Eligible collateral per the agreement and Rhode Island General Laws, Chapter 35-10-1 includes the following: obligations of the United States; obligations of the State; obligations of any other state with a rating not less than "A" by Standard and Poor's Corporation (S&P) or Moody's Investor Services, Inc. (Moody's); certain one to four-family residential mortgage loans providing they meet certain provisions; and other marketable securities and debt instruments determined to be satisfactory for purposes of providing liquid assets in the event of default or insolvency of a qualified depository institution providing that this type of collateral does not exceed 10% of the total collateral pledged by the financial institution.

The Authority's cash deposits are presented in the accompanying statements of net position and fiduciary net position as of June 30, 2014 as follows:

<table>
<thead>
<tr>
<th>Statement of net position:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$ 27,776,899</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>628,847</td>
</tr>
<tr>
<td>Statement of fiduciary net position:</td>
<td></td>
</tr>
<tr>
<td>Federal Student Loan Reserve Fund</td>
<td>8,655,601</td>
</tr>
<tr>
<td>Cash deposits</td>
<td>$ 37,061,347</td>
</tr>
</tbody>
</table>
3. Cash deposits and investments (continued):

**Investments:**

As of June 30, 2014 the Authority's investments consist of the following:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Fair Value</th>
<th>Investment maturities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Less than 1</td>
</tr>
<tr>
<td>Money market funds</td>
<td>$78,807</td>
<td>$78,807</td>
</tr>
<tr>
<td>Mutual funds:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stable value funds</td>
<td>4,051,244</td>
<td>4,051,244</td>
</tr>
<tr>
<td>Mutual funds investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vehicles and other pooled investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vehicles</td>
<td>7,869,071,105</td>
<td>7,869,071,105</td>
</tr>
<tr>
<td>CDARS</td>
<td>8,750,101</td>
<td>8,750,101</td>
</tr>
</tbody>
</table>

$7,881,951,257 $7,881,951,257 $7,881,951,257

The Authority's investments are presented in the accompanying statements of net position and fiduciary net position as follows:

**Statement of net position:**

- Current assets $10,832,473

**Statement of fiduciary net position:**

- Tuition Savings Program Fund 7,869,071,105
- Federal Student Loan Reserve Fund 204,767

$7,881,951,257

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
3. Cash deposits and investments (continued):

Credit risk:

The Authority has no investment policy that would further restrict its investment choices beyond the limitations in Chapter 10 of Title 35 of the Rhode Island General Laws. Chapter 10 of Title 35 permits the Authority to invest in certificates of deposit (including CDARS), savings accounts, money market accounts, obligations of the United States Government or certain obligations thereof, repurchase agreements with any eligible depository for a period not to exceed 30 days, commercial paper with a rating of P-1, A-1 or higher, and investment grade corporate debentures with a rating of AAA, AA by S&P and Aaa, Aa by Moody's. As of June 30, 2014, the Authority's investments in money market and mutual funds were unrated.

Custodial credit risk:

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's current approved board investment policy includes only low-risk securities, such as obligations of the United States Government or a state. The Authority's investments in U.S. Treasury Notes were not subject to custodial credit risk as they are held in the Authority's name. The Authority's investments in money market and mutual funds are not exposed to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

4. Health education assistance loans receivable:

The Authority administers loan programs which were made to students in graduate studies in health-related professions. As of June 30, 2014, the outstanding loan balances total $21,842, a portion of which is guaranteed by the federal government.

Certain loans, totaling $508, contain provisions whereby up to 75% of the original loan balance may be forgiven if the borrowers work in or for the State for a specified period of time. These loans did not bear interest until they entered the repayment phase, which began nine months after graduation or after the students complete the conditions for forgiveness. Students may also have been able to have received up to a four-year deferment of principal and interest during their enrollment in internship or residency programs. Loan forgiveness is recorded in the period in which the conditions are satisfied by the borrowers. During fiscal year 2014, no health related profession loans were forgiven.
**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014

5. Capital assets:

Capital asset activity for the year ended June 30, 2014 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Transfers</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets not being depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$194,096</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$194,096</td>
</tr>
<tr>
<td>Capital projects in process</td>
<td>470,825</td>
<td></td>
<td></td>
<td></td>
<td>470,825</td>
</tr>
<tr>
<td>Total capital assets not being depreciated</td>
<td>664,921</td>
<td></td>
<td></td>
<td></td>
<td>664,921</td>
</tr>
<tr>
<td>Capital assets being depreciated or amortized:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land improvements</td>
<td>135,740</td>
<td></td>
<td></td>
<td></td>
<td>135,740</td>
</tr>
<tr>
<td>Building and improvements</td>
<td>2,222,868</td>
<td>11,319</td>
<td></td>
<td></td>
<td>2,234,187</td>
</tr>
<tr>
<td>Equipment</td>
<td>748,108</td>
<td>40,448</td>
<td></td>
<td></td>
<td>788,556</td>
</tr>
<tr>
<td>Web-based scholarship and grant program system</td>
<td>420,650</td>
<td>144,068</td>
<td></td>
<td></td>
<td>564,718</td>
</tr>
<tr>
<td>Web portal</td>
<td>453,500</td>
<td>625,000</td>
<td></td>
<td></td>
<td>1,078,500</td>
</tr>
<tr>
<td>Total capital assets being depreciated or amortized</td>
<td>3,980,866</td>
<td>820,835</td>
<td></td>
<td></td>
<td>4,801,701</td>
</tr>
</tbody>
</table>

Accumulated depreciation and amortization:

<table>
<thead>
<tr>
<th></th>
<th>(65,836)</th>
<th>(8,088)</th>
<th></th>
<th></th>
<th>(73,924)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and improvements</td>
<td>(1,970,085)</td>
<td>(70,768)</td>
<td></td>
<td></td>
<td>(2,040,853)</td>
</tr>
<tr>
<td>Equipment</td>
<td>(711,306)</td>
<td>(24,153)</td>
<td></td>
<td></td>
<td>(735,459)</td>
</tr>
<tr>
<td>Web-based scholarship and grant program system</td>
<td>(420,650)</td>
<td></td>
<td></td>
<td></td>
<td>(420,650)</td>
</tr>
<tr>
<td>Web portal</td>
<td>(408,139)</td>
<td>(45,361)</td>
<td></td>
<td></td>
<td>(453,500)</td>
</tr>
<tr>
<td>Total Accumulated depreciation and amortization</td>
<td>(3,576,016)</td>
<td>(148,370)</td>
<td></td>
<td></td>
<td>(3,724,386)</td>
</tr>
<tr>
<td>Total capital assets being depreciated or amortized, net</td>
<td>404,830</td>
<td>672,465</td>
<td></td>
<td></td>
<td>1,077,315</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$1,069,771</td>
<td>$672,465</td>
<td>$</td>
<td>$</td>
<td>$1,742,236</td>
</tr>
</tbody>
</table>

(continuing)
6. Long-term liabilities:

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

<table>
<thead>
<tr>
<th>Liability for estimated default</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
<th>Due within one year</th>
</tr>
</thead>
<tbody>
<tr>
<td>aversion fee returns</td>
<td>$1,725,000</td>
<td>$258,400</td>
<td>($383,400)</td>
<td>$1,600,000</td>
<td>$480,000</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>196,955</td>
<td>-</td>
<td>(11,142)</td>
<td>183,813</td>
<td>55,744</td>
</tr>
<tr>
<td>Unearned default prevention income</td>
<td>446,116</td>
<td>1,356</td>
<td>-</td>
<td>447,472</td>
<td>-</td>
</tr>
</tbody>
</table>

| Total                        | $2,368,071       | $259,756  | ($394,542) | $2,233,285     | $335,744          |

7. Allowance for uninsured claims and reinsurance triggers:

The Authority primarily acts as a guaranty agency for educational loans made to students by lending institutions which have agreed to participate in the FFEL Program. Under the terms of the reinsurance agreements with the federal government, the federal government reimburses guaranty agencies for a percentage of amounts expended in the discharge of their guarantor obligations. The agreements contain certain annual limitations, commonly referred to as the "reinsurance trigger," which could reduce the reinsurance amount during the remainder of any federal fiscal year.

The "reinsurance trigger" clause provides that whenever default claims in any federal fiscal year exceed 5% and 9% of the insured loans that were in repayment at the end of the previous federal fiscal year, the amount of reinsurance for loans disbursed prior to October 1, 1993 will drop from 100% to 90% and 80%, respectively, of the default claims for the balance of the federal fiscal year. For loans disbursed between October 1, 1993 and September 30, 1998, the maximum amount of reinsurance that guaranty agencies may receive from the federal government was reduced by 2% (the Authority will receive 98%, 88% or 78% of the claims paid to lenders based upon its "reinsurance trigger"). For loans disbursed on or after October 1, 1998, the maximum amount of reinsurance was reduced by 5% (the Authority will receive 95%, 85% or 75% of the claims paid to lenders based on its "reinsurance trigger"). During the year ended June 30, 2014, default claims did not exceed the applicable reinsurance trigger, and accordingly, the federal government’s reinsurance payments to the Authority never fell below the maximum amount allowable by law. During the year ended June 30, 2014, the reduction in the Federal Fund for uninsured claims payments totaled $1,752,053.
7. Allowance for uninsured claims and reinsurance triggers (continued):

The Federal Fund records an allowance for uninsured claims based on management's best estimate of amounts payable to lending institutions as a result of a borrower's default that is not insured by the DE. During fiscal year 2014, RIHEAA management adjusted the estimate of the allowance and decreased the liability from $7.5 million at June 30, 2013 to $7.0 million at the end of June 30, 2014. Management believes that the reduction in the allowance is reasonable given that the balance of loans guaranteed is declining at an annual rate of approximately 10%. It is at least reasonably possible that this estimate could change in the near term and the change could be material to the financial statements. Also, it should be noted that this change in the amount of the allowance does not adversely affect RIHEAA's Federal Fund reserve ratio (see "reserve fund requirements" within Note 12).

8. Net position:

Restricted net position consisted of the following as of June 30, 2014:

Scholarship and Grant Fund:
  Academic Promise Scholarship Program $ 3,549,079
  CollegeBoundfund® Matching Grant Program $ 502,165

Operating Fund:
  Guaranty Agency Operating Fund $27,940,056
  Alliance Contract Fund $5,271,565
  RIHEST Administrative Fund $1,579,304

$ 38,842,169

9. Related party transactions:

The Authority is a related party to the Rhode Island Student Loan Authority (RISLA). RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. Transactions with RISLA as of and during the year ended June 30, 2014 were as follows:

Guaranteed loans outstanding with RISLA as of June 30, 2014 $ 369,144,698
 Guarantee claims paid to RISLA during the year $ 15,681,004

In addition, the Authority leases office space to RISLA. For the year ended June 30, 2014, rental income totaled $117,973. The accounts receivable and accounts payable balance with RISLA is $0 as of June 30, 2014.
10. Retirement plans:

The State administered retirement system includes both defined benefit and defined contribution plan components.

Defined Benefit Plan Description:

RIHEAA's employees participate in a cost-sharing multiple-employer defined benefit pension plan administered by the State of Rhode Island Employees' Retirement System (ERS). The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The level of benefits provided to state employees is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly.

Funding Policy:

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. The Authority's employees are required to contribute 3.75% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate; the rate was 23.05% of annual covered payroll for the fiscal year ended June 30, 2014. The Authority contributed $255,000, $253,000, and $336,000 for the fiscal years ended June 30, 2014, 2013 and 2012, respectively, equal to 100% of the required contributions for each year.

New Accounting Guidance Effective For Fiscal 2015:

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, is effective for fiscal 2015 and is applicable for employees participating in a cost-sharing multiple employer plan such as ERS. The Authority will be required to restate beginning net position as of July 1, 2014 to recognize the employer's proportionate share of the plan's net pension obligation. Pension expense reported in the Authority's financial statements will reflect the change in the net pension liability for the fiscal year.
10. Retirement plans (continued):

Definitions Contribution Plan Description:

Employees participating in the defined benefit plan, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. Employees may choose among various investment options available to plan participants. Employees contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws, which are subject to amendment by the General Assembly.

Amounts in the defined contribution plan are available to participants in accordance with Internal Revenue Service guidelines for such plans.

The Authority contributed $11,000 and $12,000 for the fiscal years ended June 30, 2014 and 2013 respectively, equal to 100% of the required contributions for each year to the defined contribution plan. The fiscal year ended June 30, 2013 was the first year of the defined contribution plan.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained by writing to the Employees' Retirement System of Rhode Island, 50 Service Avenue, Warwick, RI 02886.
11. Postemployment Health Care Plan:

Plan description:

The Authority contributes (for certain employees) to the State Employees' defined benefit postemployment health care plan, a cost sharing multiple employer plan administered through the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers including the Authority.

Pursuant to legislation enacted by the General Assembly, a trust has been established to accumulate assets and pay benefits and other costs associated with the system.

The OPEB system issues a stand-alone financial report. A copy can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

Funding policy:

RIGL Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB System.

For fiscal 2014, employers were required to contribute 7.07% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the General Laws and as adopted by the OPEB System Board. The Authority fully funded its required contribution to the plan for the years ended June 30, 2014, 2013 and 2012 which were $78,000, $86,000 and $100,000, respectively.

(CONTINUED)
12. Commitments and contingencies:

**United States Department of Education (DE):**

Preservation and recovery of reserves:

The Secretary of the DE is authorized to require the return of all of a guaranty agency's Federal Fund if the Secretary determines that such return is in the best interests of the Federal Family Education Loan or Federal Direct Student Loan Programs. Alternatively, the Secretary has the authority to require a guaranty agency to return to the Secretary any portion of the Reserve Funds from the Federal Fund that the Secretary determines is unnecessary for paying the program expenses and contingent liabilities of the programs.

Pursuant to the Omnibus Budget Reconciliation Act of 1993, the Secretary required the return of $1 billion in guaranty agency Reserve Funds nationwide. The Authority's share of Reserve Funds to be returned was $4,310,909. The Authority was required to account separately for 20% of the $4,310,909 in each of the fiscal years 1998 through 2002, and the entire amount was returned to the Secretary on August 30, 2002. Until the funds were returned to the Secretary, the Authority received interest on the funds, restricted for use in default prevention activities. Upon payment of the $4,310,909, the Authority was authorized to transfer the accumulated interest to the Agency Operating Fund, subject to its restricted use in default prevention activities. The Authority reports a corresponding liability, unearned default prevention income, for the cash balance restricted for default prevention activities, and recognizes income as allowable expenditures are incurred. The liability totaled $447,472 as of June 30, 2014.

Reserve fund requirements:

The DE has established guidelines for guaranty agency Federal Student Loan Reserve Funds to assist in determining an agency's ability to meet its guarantor obligations. Under these guidelines, the minimum reserve fund requirement is 0.25% of the original principal balance of loans guaranteed (OPO). As of June 30, 2014, the Authority's OPO totaled $1,188,828,503 and its corresponding minimum reserve balance was $2,972,071. The actual balance in the reserve fund at year-end was $5,364,894, and using the method currently prescribed by the DE (which provides that the liability for unreinsured losses be added back to the fund balance), the reserve ratio was 1.04%, substantially in excess of the minimum required.

In the event an agency does not meet the minimum reserve fund level, the Secretary will require a management plan. The Secretary also may request a management plan if the agency exceeds the 5% reinsurance trigger as defined in the reinsurance agreement (see Note 7).

The Authority has met the required reserve fund level for the federal fiscal year ended September 30, 2013 and the Authority has not exceeded the 5% reinsurance trigger.
12. Commitments and contingencies (continued):

*Systems Services Agreement:*

The Authority has an agreement for computer system services with Navient Corporation (formerly Sallie Mae). In addition, Navient provides portfolio management services to the Authority for defaulted loans collections. In July 2008, after concluding a competitive bid process, RIHEAA and Navient entered into an agreement which provided for an initial four-year term beginning October 1, 2008 through September 30, 2012, with up to three additional two-year terms at RIHEAA's option, provided that the parties reached mutually agreed upon financial terms. The initial agreement provided for fixed fees plus incremental fees for loan guarantee systems services based upon the amount of annual loan applications processed excluding consolidation loans, as well as specified fees for certain administrative services provided to the Authority on an as requested basis. The portfolio management component of the agreement provided that the Authority compensate Navient at the rate of 24% of net revenue generated from collection activities. Net revenue is defined as amounts collected less commissions paid to collection vendors and less amounts remitted to the DE.

In September of 2012, Navient presented RIHEAA with a proposal to extend the agreement, and at the RIHEAA Board meeting of September 28, 2012, the Board authorized RIHEAA senior management to execute the extension agreement, subject to final review by the Authority's legal counsel. Subsequently, RIHEAA and Navient agreed to a two-year extension through September 30, 2014. The extension provides that fees for system services are calculated at the rate of 0.04% (4 basis points) annually on the balance of RIHEAA's guaranteed loan portfolio. The fee is billed and paid monthly at a pro-rata amount based upon the 4 basis point rate. Fees to Navient for those services totaled $500,000 for the year ended June 30, 2014. The extension also provided that the fees for portfolio management services would be calculated at 27.5% of net revenue. Fees to Navient for portfolio management services totaled $2,163,359 for the year ended June 30, 2014. In the event that the Authority should cancel the portfolio management services, the agreement provides for increases in the fee structure for loan guarantee systems services.

*Default Aversion and Prevention Services Agreement:*  

The Authority had an agreement for default aversion services with NCO Financial Systems, Inc. (NCO) that expired in September 2010 and had been extended on a month-to-month basis. On September 30, 2012 RIHEAA entered into an extension of the agreement through September 30, 2013. The extension provided that either party could terminate the agreement without cause upon 60 days written notice to the other party. NCO is paid a fee equal to 0.59% of the delinquent loan balance for each loan brought to current status within the specifications of the agreement. During FY 2014, RIHEAA issued an RFP for default aversion services and is still in the process of evaluating proposals. Although another extension with NCO covering the current period from October 1, 2013 is not in place, NCO has continued to provide services while RIHEAA evaluates options. Fees to NCO totaled $172,986 for the year ended June 30, 2014.

(CONTINUED)
12. Commitments and contingencies (continued):

Tuition Savings Program Management Agreement:

Effective July 1, 2010, the Authority, the SIC, and AllianceBernstein entered into a contract for the management and promotion of the Tuition Savings Program for a period of five years (July 1, 2010 – June 30, 2015) with one five-year renewal option. In June of 2014, the contract was amended to extend the initial term to six years ending June 30, 2016. The agreement provides for a management fee payable from the Program Fund assets to AllianceBernstein from the assets under management. Under the terms of the contract:

- The Authority receives an asset-based fee of 9.5 basis points (0.095%) of the average net position value of the assets (as defined by the agreement) held in non-Rhode Island resident accounts and the agreement contains provisions whereby the asset-based fee will not fall below the level of the account maintenance fee in place under the previous contract. The total of asset-based fees recorded in the RIHEST administrative fund totaled $6,939,688 for the year ended June 30, 2014.

- The Authority receives direct purchase commission revenue when non-Rhode Island participants make direct investments in the Program Fund. The total of direct purchase commissions recorded in the RIHEST administrative fund totaled $1,472,014 for the year ended June 30, 2014.

- AllianceBernstein deposits $100 into the account of every child born to or adopted by a Rhode Island resident for which an account has been established within one year of birth; also the Authority will receive $50 per child for every child born to a Rhode Island resident who does not establish an account within the program. The total of CollegeBoundBaby income recorded in the operating fund totaled $530,550 for the year ended June 30, 2014.

- The Authority receives $275,000 annually to assist it with marketing, promotion, and review of the Tuition Savings Program. These funds are also available for programs of student financial assistance as determined by the RIHEAA Board.

- AllianceBernstein is committed to spend $750,000 annually for the marketing and promotion of the Tuition Savings Program in Rhode Island. In the event that the amount spent in any year does not reach the $750,000 level, the unspent amounts are available for use in future years. During FY 2014, total marketing expenses were $1,117,600, including a carry-forward amount of $367,600.

(CONTINUED)
12. Commitments and contingencies (continued):

   Web Portal Development and Services Agreement:

   The Authority has an agreement with a software developer, XAP Corporation (XAP), to develop and maintain an internet-based program (WaytogoRI.org) that helps students explore career options and prepare and apply for a college education. The web portal, which became operational in the fall of 2008, provides a platform for individualized learning plans, electronic portfolios, and additional services. The portal is available at no cost to all Rhode Island students, parents, and educators. During fiscal year 2013, the Authority and the Rhode Island Department of Education entered into a Memorandum of Understanding whereby RIHEAA would amend its agreement with XAP to include the development and operation of an e-transcript system and other enhancements to the web portal. The design and development costs for the new features totaled $900,000 and were paid with federal grant funds obtained by RIDE. During fiscal year 2014, the Authority recognized $625,000 of revenue from the RIDE grant and recorded a capital asset for that amount. For the year ended June 30, 2014, maintenance, marketing, and training expenses associated with the web portal totaled approximately $604,000. Under the terms of its agreement with XAP, and including the expenses associated with the additions and enhancements, the Authority is committed to expend the following:

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$619,815</td>
</tr>
<tr>
<td>2016</td>
<td>$417,800</td>
</tr>
</tbody>
</table>

13. Risk management:

   The Authority is exposed to various risks of loss related to torts, errors and omissions, property casualty and liability, and workers' compensation claims for which the Authority carries commercial insurance or participates in State programs and coverage. Management believes the Authority has sufficient net position for potential claims, if any, that are subject to deductibles or are in excess of stated coverage maximums. The Authority is not aware of any potential claims. Claims settled in the past three years have not exceeded the Authority's coverage, and there have been no significant reductions in insurance coverage.

(CONTINUED)
14. Legislative developments and continuing operations:

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the FFEL Program effective July 1, 2010. Since that date, new guaranteed student loans have originated solely under the Federal Direct Loan Program. RIHEAA’s role as a guaranty agency in the FFEL Program has historically been its single largest activity, and nearly 85% of the Authority’s employees have been allocated to the guaranty agency functions. As the guaranteed loan portfolio diminishes, revenues from collections, account maintenance fees and default aversion fees will decline, and the ability of the guaranty agency operations to be self-sustaining will be affected.

In addition, the Bipartisan Budget Act of December 2013 included a provision which slashed guaranty agency revenues from defaulted loan rehabilitations by nearly 50%. This change went into effect on July 1, 2014. Given that revenues from loan rehabilitations were approximately 75% of the total guaranty agency operating revenues makes the task of managing profitable guarantee operations even more difficult. Although some of the expenses associated with loan rehabilitation transactions are variable and/or tied to RIHEAA’s net revenue, the overall margins have diminished significantly.

RIHEAA’s management and its Board continue to evaluate the impact of the changes described above and the options for future operations. The Authority intends to continue in its role as the State designated Guaranty Agency. Over a number of years, RIHEAA has moved away from performing some functions with in-house personnel, and its number of employees has declined, mostly by attrition. However, the severity of the most recent change could result in outsourcing additional functions and reductions in the workforce. The successful operating model for small state-based guaranty agencies could be one where virtually all activities are outsourced to large servicers and only a small number of in-house employees perform financial, regulatory reporting and contract oversight services. Nevertheless, a time will come when the volume of defaulted and outstanding loans will not be sufficient to produce enough revenue to support a guaranty agency infrastructure. It is very difficult to predict the time period over which even a pared-down guaranty agency would be financially viable. RIHEAA currently anticipates the time period to be in the range of two to three years; however weakness in the economic environment and further federal regulatory changes could have a negative effect on that outlook.

RIHEAA will also continue to promote awareness of and access to post-secondary education opportunities and programs. RIHEAA continues to support the Rhode Island Department of Education by developing enhancements to and providing WaytogoRI to all elementary and secondary schools, students, and families. Additionally, RIHEAA’s efforts in developing and implementing an Adult Learner Portal within the WaytogoRI system positions the agency to provide educational and support program information to adult learners. RIHEAA expects that the Adult Learner Portal and its associated resources and tools could provide positive support for State economic development.
SUPPLEMENTARY INFORMATION
<table>
<thead>
<tr>
<th>Statement of Net Position</th>
<th>Attachment B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 26,813,689</td>
</tr>
<tr>
<td>Investments</td>
<td>10,832,473</td>
</tr>
<tr>
<td>Receivables (net)</td>
<td>2,106,910</td>
</tr>
<tr>
<td>Restricted assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>963,210</td>
</tr>
<tr>
<td>Due from other governments</td>
<td>918,789</td>
</tr>
<tr>
<td>Other assets</td>
<td>188,752</td>
</tr>
<tr>
<td>Total current assets</td>
<td>41,823,823</td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
</tr>
<tr>
<td>Restricted assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>628,847</td>
</tr>
<tr>
<td>Capital assets - nondepreciable</td>
<td>664,921</td>
</tr>
<tr>
<td>Capital assets - depreciable (net)</td>
<td>1,077,315</td>
</tr>
<tr>
<td>Total noncurrent assets</td>
<td>2,371,083</td>
</tr>
<tr>
<td>Total assets</td>
<td>44,194,906</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Attachment B</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
</tr>
<tr>
<td>Cash overdraft</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,356,964</td>
</tr>
<tr>
<td>Due to other governments</td>
<td>20,252</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>55,744</td>
</tr>
<tr>
<td>Current portion of long-term liabilities</td>
<td>480,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>1,912,960</strong></td>
</tr>
<tr>
<td>Noncurrent liabilities:</td>
<td></td>
</tr>
<tr>
<td>Uncashed revenue</td>
<td>447,472</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,120,000</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>130,069</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td><strong>1,697,541</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>3,610,501</strong></td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>1,742,236</td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>38,842,169</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td><strong>$40,384,405</strong></td>
</tr>
<tr>
<td>Statement of Changes in Net Position</td>
<td>Attachment C</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Expenses</td>
<td>$ 24,147,424</td>
</tr>
<tr>
<td><strong>Program revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Charges for services</td>
<td>22,483,341</td>
</tr>
<tr>
<td>Operating grants and contributions</td>
<td>4,333,323</td>
</tr>
<tr>
<td>Capital grants and contributions</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total program revenues</strong></td>
<td>26,816,664</td>
</tr>
<tr>
<td><strong>Net (Expenses) Revenues</strong></td>
<td>2,669,240</td>
</tr>
<tr>
<td><strong>General revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Interest and investment earnings</td>
<td>183,948</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>750,473</td>
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<tr>
<td><strong>Total general revenue</strong></td>
<td>934,421</td>
</tr>
<tr>
<td><strong>Special items</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Extraordinary items</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in net position</strong></td>
<td>3,603,661</td>
</tr>
<tr>
<td><strong>Total net position - beginning</strong></td>
<td>36,980,744</td>
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<tr>
<td><strong>Total net position - ending</strong></td>
<td>$ 40,584,405</td>
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</table>
### Schedule of Changes in Long Term Liabilities

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
<th>Due within one year</th>
<th>Amounts Due Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability for estimated default</td>
<td>$1,725,000</td>
<td>$258,400</td>
<td>($383,400)</td>
<td>$1,600,000</td>
<td>$480,000</td>
<td>$1,120,000</td>
</tr>
<tr>
<td>aversion fee returns</td>
<td>196,955</td>
<td>-</td>
<td>(11,142)</td>
<td>185,813</td>
<td>55,744</td>
<td>130,069</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>446,116</td>
<td>1,256</td>
<td>-</td>
<td>447,472</td>
<td>-</td>
<td>447,472</td>
</tr>
<tr>
<td>Uncarried default prevention income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$2,368,071</td>
<td>$259,756</td>
<td>($394,542)</td>
<td>$2,233,285</td>
<td>$535,744</td>
<td>$1,697,541</td>
<td></td>
</tr>
</tbody>
</table>
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)  
SCHEDULE OF TRAVEL EXPENSES  
YEAR ENDED JUNE 30, 2014

<table>
<thead>
<tr>
<th>Payee</th>
<th>Purpose of Travel</th>
<th>Airfare</th>
<th>Lodging</th>
<th>Meals / Auto / Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Express</td>
<td>NASSGAP Conference</td>
<td></td>
<td></td>
<td>$208</td>
</tr>
<tr>
<td>&quot;</td>
<td>NCHER Conference</td>
<td>218</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;</td>
<td>NCHER Conference</td>
<td>354</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;</td>
<td>NCHER Conference</td>
<td></td>
<td></td>
<td>$816</td>
</tr>
<tr>
<td>&quot;</td>
<td>NCHER Conference</td>
<td>516</td>
<td></td>
<td>370</td>
</tr>
<tr>
<td>&quot;</td>
<td>NASSGAP Conference</td>
<td>752</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;</td>
<td>NCHER Conference</td>
<td></td>
<td></td>
<td>223</td>
</tr>
<tr>
<td>&quot;</td>
<td>NCHER Conference</td>
<td>328</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;</td>
<td>NCHER Conference</td>
<td></td>
<td></td>
<td>328</td>
</tr>
<tr>
<td>Lisa Shevlin</td>
<td>XAP Meeting</td>
<td>1,125</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lisa Shevlin</td>
<td>XAP Meeting</td>
<td></td>
<td></td>
<td>416</td>
</tr>
<tr>
<td><strong>Amounts less than $200</strong></td>
<td></td>
<td>1,032</td>
<td>808</td>
<td>$2,032</td>
</tr>
<tr>
<td><strong>Total Guaranty Agency</strong></td>
<td></td>
<td>9,227</td>
<td>3,386</td>
<td>$3,231 $2,610</td>
</tr>
</tbody>
</table>

|                  | Tuition Savings Program  |         |         |                      |
| American Express | Children's Savings Conf  | 271     |         |                      |
| American Express | Children's Savings Conf  |         |         | 570                  |
| "              | CSPN Meeting             | 400     |         |                      |
| "              | CSPN Meeting             |         |         | 228                  |
| **Amounts less than $200** |                  | 165     | 134     | 102                  |
| **Total Tuition Savings Program** |                  | 1,868   | 831     | 932 102 |
| **Grand Total** |                          | 11,095  | 4,220   | 4,163 2,712 |

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board Members
Rhode Island Higher Education Assistance Authority
Warwick, Rhode Island

We have audited, in accordance with the 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, the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Rhode Island Higher Education Assistance Authority (a component unit of the State of Rhode Island and Providence Plantations), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Rhode Island Higher Education Assistance Authority (a component unit of the State of Rhode Island and Providence Plantations) basic financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rhode Island Higher Education Assistance Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rhode Island Higher Education Assistance Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Higher Education Assistance Authority’s internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Internal Control Over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhode Island Higher Education Assistance Authority’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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, Rhode Island
September 30, 2014