

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rhode Island Higher Education Assistance Authority

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, 2015, 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.

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, 2015, 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.

Emphasis of Matter – Student Loan Originations

As disclosed in Note 13, 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 Federal Family Education Loans (FFEL) Program. Approximately 45% of the Authority's Operating Fund operating revenues for the year ended June 30, 2015 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, 2015. 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, 2015. Our opinions are not modified with respect to this matter.

Emphasis of Matter – Changes in Legislation Impact on The Rhode Island Higher Education Assistance Authority

As disclosed in Note 13, the Corporation known as “Rhode Island Higher Education Assistance Authority” will cease to exist effective July 1, 2015. At that time, the functions and programs of the Rhode Island Higher Education Assistance Authority will transfer to the Rhode Island Department of Post-Secondary Education. In addition, the functions and programs of the Rhode Island Higher Education Savings Trust will transfer to the Rhode Island Department of the Treasury.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules on RIHEAA's proportionate share of the net pension liability and RIHEAA's contributions on Pages 4-14 and Pages 59-60 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 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, RI
October 30, 2015

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, 2015. 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 (DCYF) and the College Crusade of Rhode Island. In FY 2015, RIHEAA worked with the Providence City School District to support the increased completion of the Free Application for Federal Student Aid (FAFSA)

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®*

Introduction (continued)

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.

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, ending June 30, 2016. 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 remits to RIHEAA \$50 for each child born and an account was not established. Starting on January 1, 2015, every child born to a RI resident has the option to have \$100 deposited into a master account held in trust by the Office of the General Treasurer. The family must permit the release of certain information in order to communicate information with the child/family. 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 "WaytogoRI" web portal. WaytogoRI 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

Introduction (continued)

career goals. The WaytogoRI web portal is currently in use in all public school systems in Rhode Island and in many private and parochial institutions as well.

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 aversion 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 were involved in the ongoing process of evaluating the changes described above and options for future operations. (see Note 13 to the financial statements).

As of July 1, 2015, the general assembly further finds that higher education financial assistance needs of Rhode Islanders will be better served by transferring the functions and programs handled by the Rhode Island Higher Education Assistance Authority to the Rhode Island Division of Higher Education Assistance and the Office of the General Treasurer. The Division of Higher Education Assistance was established within the Office of the Postsecondary Commissioner to assume some of the duties of RIHEAA. In addition, the CollegeBound-fund and CollegeBound Baby programs were transferred to the General Treasurer's office.

For FY 2015, the Authority implemented GASB 68 regarding the Pension Plan. Certain employees of the Authority participate in a cost sharing multiple-employer defined benefits pension plan – the Employees' Retirement System plan – administered by the Employees Retirement System of the State of Rhode Island. Under a cost-sharing plan, pension obligations for employees are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. For FY 2015 the pension adjustment for the Authority was \$220,349, however, the opening reinstatement entry of the net position adjustment for the Authority was \$3,025,755.