

**RHODE ISLAND HIGHER EDUCATION
ASSISTANCE AUTHORITY
(A Component Unit of the State of Rhode Island)**

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2006**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**



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CARLIN, CHARRON & ROSEN, LLP
Certified Public Accountants and Business Advisors

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
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Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
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, as of and for the year ended June 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis presented on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the Authority's basic financial statements. The supplemental information presented on pages 34 through 39 is presented for purposes of additional analysis as required by the State of Rhode Island, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Carlin, Channon & Rosen, LLP

Providence, Rhode Island
September 8, 2006

Management's Discussion and Analysis

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 year ended June 30, 2006. 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 and provides information about the presentation of the financial statements. 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 established July 1, 1977 by an act of the Rhode Island General Assembly and has a distinct legal existence from the State of Rhode Island. 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 respectively, the Scholarship and Grant Program, the Tuition Savings Program, and the Federal Family Education Loan (FFEL) Program.

The Scholarship and Grant Division administers various student financial assistance programs funded by general revenue appropriations from the State of Rhode Island, as well as by funds received from the U.S. Department of Education ("DE") and funds derived from other sources. These programs include the Rhode Island State Scholarship/Grant Program, the Federal Leveraging Educational Assistance Partnership Program ("LEAP"), the Federal Special Leveraging Educational Assistance Partnership Program ("SLEAP"), and the Tuition Savings Scholarship/Grant Programs.

The Tuition Savings Program Division administers the activities of the Rhode Island Higher Education Savings Trust ("RIHEST"), Rhode Island's IRS 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 expenses and student financial assistance programs authorized by the RIHEAA Board of Directors. The Program Fund is managed by AllianceBernstein L.P. ("AllianceBernstein") under an agreement between RIHEAA, the State Investment Commission, and AllianceBernstein. Revenues of the Administrative Fund are derived principally from fees paid by non-Rhode Island participants in the Program Fund. This division also accounts for other activities associated with RIHEAA's contract with AllianceBernstein and administration of the Tuition Savings Program.

The Loan Division (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 Loan Division are segregated into the Federal Student Loan Reserve Fund (the "Federal Fund") and the Guaranty Agency Operating Fund ("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 DE. The AOF principally accounts for the administrative activities related to the operations of the FFEL Program.

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 assets; the statement of revenues, expenses and changes in net assets; the statement of cash flows; the statement of fiduciary net assets; the statement of changes in fiduciary net assets; and notes to the financial statements.

The financial statements (except for the statement of fiduciary net assets and the statement of changes in fiduciary net assets) 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 assets is provided for the Program Fund and the Federal Fund. The statement of changes in fiduciary net assets is provided for the Program Fund.

Financial Highlights and Comparative Analysis

The tables in each section below reflect three years of historical financial data. The related discussion however, addresses only the changes from FY 2005 to FY 2006.

	<u>Net Assets</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Fund	\$ 20,985,000	\$ 20,717,000	\$ 21,499,000
Scholarship and Grant Fund	4,057,000	3,595,000	3,340,000
Total RIHEAA	<u>\$ 25,042,000</u>	<u>\$ 24,312,000</u>	<u>\$ 24,839,000</u>

RIHEAA's total net assets at June 30, 2006 were just over \$25 million, an increase of \$730,000 from the previous year. The change in net assets is made up of increases of \$268,000 in the Operating Fund and \$462,000 in the Scholarship and Grant Fund. All of the net assets within the Scholarship and Grant Fund are restricted for use in the Academic Promise Scholarship Program and 5 & 10 Matching Grant Program. These funds are invested in the Program Fund on behalf of Academic Promise Scholarship recipients and to provide matching funds for low-income individuals who qualify in the 5 & 10 Matching Grant Program. The net assets of the Operating Fund consist of just under \$1.3 million invested in capital assets, \$14.5 million which is restricted by federal statute to the uses of the AOF, and \$5.2 million which is designated by the Board of Directors for Program Fund administration and student financial assistance purposes. The Authority's total assets are just over \$27 million, and include more than \$12 million in cash and cash equivalents, and nearly \$13 million in investments, including the Academic Promise Scholarship and 5 & 10 Matching Grant Program amounts. Total liabilities are \$2.1 million, with the single largest component being a liability for the return of default aversion fees totaling just over \$700,000.

Operating Fund Revenues

	2006	2005	2004
Loan Division:			
Collections-Based Revenue	\$ 5,702,000	\$ 6,308,000	\$ 7,052,000
AMF, LPIF & DAF	2,876,000	2,837,000	2,737,000
Interest and Other	497,000	554,000	257,000
Total Loan Division	9,075,000	9,699,000	10,046,000
Tuition Savings Program:			
Program Fund Fees	5,918,000	5,829,000	5,521,000
Interest and Other	502,000	334,000	267,000
Total Tuition Savings Program	6,420,000	6,163,000	5,788,000
Scholarship and Grant Division	766,000	812,000	893,000
Total Revenues	\$ 16,261,000	\$ 16,674,000	\$ 16,727,000

Revenues in the Loan Division totaled just under \$9.1 million in FY 2006, down \$624,000 from FY 2005. Collections-based revenue (from recoveries, consolidations, and rehabilitations of defaulted student loans) totaled just over \$5.7 million in the current year as compared to just over \$6.3 million in FY 2005. This decrease is primarily due to a smaller portfolio of defaulted loans available for collection during FY 2006 compared to FY 2005. The other major sources of income in the Loan Division are received from DE and consist of:

- Account Maintenance Fees (AMF) that totaled just over \$1.2 million in FY 2006 vs. \$1.4 million in FY 2005. This fee is paid on the outstanding amount of RIHEAA's guaranteed loans, and the decline from the FY 2005 amount is attributable to a change in the method the Department of Education uses to estimate payments.
- Loan Processing Issuance Fees (LPIF) which increased from \$890,000 in FY 2005 to over \$964,000 in the current year. These fees are paid based upon the volume of loans disbursed.
- Default Aversion Fees (DAF) which increased from \$550,000 in FY 2005 to \$683,000 in FY 2006. These fees are paid based on the volume of loans delinquent between 60 and 120 days for which lenders submit a request for assistance.

Revenues in the Tuition Savings Program increased from just under \$6.2 million in FY 2005 to over \$6.4 million in the current year. Account maintenance fees (fees paid by non-Rhode Island participants in *CollegeBoundfund*®), which represent the major source of income, were up slightly from the prior year levels at just over \$4.3 million. Revenues from direct purchase commissions and other administrative fees totaled nearly \$1.6 million in FY 2006. Although revenues in this fund have grown each year, the rate of growth has slowed, and management believes that total program revenues may have stabilized. This trend is not unique to RIHEAA's program, and has been noted as well in other IRS Section 529 programs throughout the country.

Scholarship and Grant Division revenues were down from \$812,000 in FY 2005 to just over \$766,000 in FY 2006 as a result of cuts in State appropriations mandated by the State Budget Office and the General Assembly.

Operating Fund Expenses and Transfers

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Loan Division:			
Collection and Default Aversion	\$ 3,235,000	\$ 3,360,000	\$ 3,734,000
Personnel Expenses	2,327,000	2,266,000	1,970,000
Sallie Mae Guarantee Services	1,122,000	1,227,000	946,000
Other Expenses	<u>825,000</u>	<u>756,000</u>	<u>810,000</u>
 Total Loan Division	 <u>7,509,000</u>	 <u>7,609,000</u>	 <u>7,460,000</u>
 Tuition Savings Program:			
Marketing and Promotion	403,000	399,000	591,000
Personnel Expenses	95,000	74,000	41,000
Other Expenses	<u>60,000</u>	<u>41,000</u>	<u>38,000</u>
 Total Tuition Savings Program	 <u>558,000</u>	 <u>514,000</u>	 <u>670,000</u>
 Scholarship and Grant Division:			
Personnel Expenses	540,000	493,000	592,000
Other Expenses	<u>226,000</u>	<u>319,000</u>	<u>301,000</u>
 Total Scholarship and Grant Division	 <u>766,000</u>	 <u>812,000</u>	 <u>893,000</u>
 Transfers to Scholarship and Grant Fund	 <u>7,161,000</u>	 <u>5,458,000</u>	 <u>3,298,000</u>
 Total Expenses and Transfers	 <u>\$ 15,994,000</u>	 <u>\$ 14,393,000</u>	 <u>\$ 12,321,000</u>

Expenses in the Loan Division totaled just over \$7.5 million in FY 2006, down \$100,000 from FY 2005. Within the category of collection and default aversion expenses, commissions paid to collection agencies were just over \$2 million in FY 2006, about \$103,000 less than in the prior year. In addition to commissions paid to collection vendors, a portfolio management fee of just over \$664,000 was paid to Sallie Mae in FY 2006, down from the FY 2005 amount of \$800,000. The reduction in these collection related expenses are the result of lower overall collection revenues. Fees paid for default aversion and prevention activities increased from \$390,000 in FY 2005 to almost \$508,000 in the current year. These fees are based on the vendor's ability to bring delinquent loans into a current status. Personnel expenses were slightly higher in FY 2006 compared to FY 2005 with state-wide increases in salaries and benefits rates being somewhat offset by a smaller number of filled positions during the current year. Fees paid to Sallie Mae for guarantee processing services decreased from just over \$1.2 million in FY 2005 to \$1.1 million in FY 2006 as a result of a small decline in guarantee volume. Other operating expenses totaled \$825,000 in the current year, an increase of just over \$69,000 from FY 2005.

In the Tuition Savings Program, marketing and promotion expenses, which supplement AllianceBernstein's efforts in the State of Rhode Island, were up slightly from \$399,000 in FY 2005 to \$403,000 in FY 2006, and personnel and other operating expenses increased by \$21,000 and \$19,000 respectively.

Expenses in the Scholarship and Grant Division are funded with State appropriations and were subject to cuts in FY 2006 which reduced the total amount from \$812,000 to \$766,000. The mandated cost reductions were realized by reducing non-personnel related operating expenses by \$93,000 from \$319,000 in FY 2005 to \$226,000 in the current year. Personnel expenses however, increased from \$493,000 to \$540,000 as a result of the state-wide adjustments to salaries and benefits rates.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled nearly \$7.2 million in FY 2006, an increase of over \$1.7 million vs. FY 2005. These transfers consisted of \$500,000 for the 5 & 10 Matching Grant Program, \$1 million for the Academic Promise Scholarship Program and nearly \$5.7 million in supplemental funding for the State Scholarship/Grant Program.

Scholarship and Grant Fund Revenues, Transfers and Expenses

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
State Appropriations	\$ 6,963,000	\$ 9,149,000	\$ 10,158,000
Federal Grants	422,000	432,000	376,000
Investment Income	152,000	149,000	115,000
	<u>7,537,000</u>	<u>9,730,000</u>	<u>10,649,000</u>
Total Revenues			
Transfers from the Operating Fund	<u>7,161,000</u>	<u>5,458,000</u>	<u>3,298,000</u>
Total Revenues and Transfers	<u>\$ 14,698,000</u>	<u>\$ 15,188,000</u>	<u>\$ 13,947,000</u>
Total Expenses	<u>\$ 14,236,000</u>	<u>\$ 14,933,000</u>	<u>\$ 12,886,000</u>

Total revenue and transfers into the Scholarship and Grant Fund totaled nearly \$14.7 million in FY 2006, vs. approximately \$15.2 million in FY 2005. This includes the \$7.2 million transfer in FY 2006 from the Operating Fund described in the previous section. Federal funding for the LEAP/SLEAP programs was \$422,000 in FY 2006, down from \$432,000 in FY 2005. As a result of a mid-year reduction in the general revenue appropriation, the amount available for grant awards decreased from more than \$9 million in FY 2005 to just under \$7 million in FY 2006. All revenues of the Scholarship and Grant Fund are disbursed to, or for the benefit of, qualifying, financially needy Rhode Island students.

Expenses in the Scholarship and Grant Fund in FY 2006 totaled over \$14.2 million, a decline of \$697,000 from the FY 2005 amount. The State Scholarship/Grant Program made awards totaling just under \$13 million and the Academic Promise Scholarship Program awarded over \$1 million to students with the most financial need and highest academic performance.

Statement of Cash Flows

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents (at 6/30)	<u>\$ 12,027,000</u>	<u>\$ 8,255,000</u>	<u>\$ 6,506,000</u>
Provided by (used in):			
Operating activities	\$ (7,605,000)	\$ (7,916,000)	\$ (5,816,000)
Investing activities	6,422,000	(603,000)	(5,635,000)
Purchases of capital assets	(133,000)	(131,000)	(97,000)
Noncapital financing activities	<u>5,088,000</u>	<u>10,399,000</u>	<u>11,660,000</u>
Net Increase	<u>\$ 3,772,000</u>	<u>\$ 1,749,000</u>	<u>\$ 112,000</u>

Cash and cash equivalents increased by nearly \$3.8 million during FY 2006, and totaled just over \$12 million at year-end, with virtually all of that balance in the Operating Fund. This increase was the result of a decision by management to invest the proceeds of maturing treasury securities into cash equivalent accounts which provided higher interest yields.

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. RIHEAA's financing activities during FY 2006 included a transfer of over \$3 million to the Federal Student Loan Reserve Fund associated with the settlement of asset ownership issues with the U.S. Department of Education. Also included in financing activities is the State appropriation for the Scholarship and Grant Division of \$7.7 million, grants from the Federal government totaling \$422,000 and purchases of capital assets totaling just under \$133,000. Investing activities reflect cash receipts of over \$8 million and cash outlays of just under \$1.7 million. These investing transactions include maturities and purchases of U.S. Treasury securities, purchases and redemptions of Program Fund investments related to the Academic Promise Scholarship and 5 & 10 Matching Grant Programs, and interest income on investments.

Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net Assets Held in Trust for Participants	<u>\$6,828,578,000</u>	<u>\$5,749,086,000</u>	<u>\$4,727,920,000</u>

The net assets of the Program Fund totaled nearly \$6.83 billion at June 30, 2006, compared with \$5.75 billion at the end of FY 2005, a net increase of over \$1 billion. The components of the net increase consist of the following: participant investments of \$1.5 billion; investment income of nearly \$175 million; an increase of over \$485 million in the market value of investments held; expenses of just over \$73 million; and participant redemptions totaling over \$1 billion. All of the net assets are held in trust for the participants in the Program Fund. The number of accounts in the Program Fund grew from approximately 458,000 at the end of FY 2005 to over 475,000 at the end of FY 2006.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Federal Fund Total Assets and Liabilities	<u>\$ 12,197,000</u>	<u>\$ 13,909,000</u>	<u>\$ 12,583,000</u>

Total assets and liabilities of the Federal Student Loan Reserve Fund (Federal Fund) were nearly \$12.2 million at the end of FY 2006, down from \$13.9 million at the end of FY 2005. Assets include nearly \$6.6 million in cash and cash equivalents, \$984,000 in U.S. Treasury securities, and a \$3.9 million reinsurance receivable from the Department of Education arising from claims paid to lenders. The liabilities of the Federal Fund include a \$2.5 million liability for unreinsured claims, a federal recall of reserves payable of just under \$737,000, and a payable to the AOF of nearly \$378,000. In addition, the Federal Fund reflects a liability to the Federal government of just over \$8.5 million. Although recorded as a liability in the audited financial statements, this amount substantively reflects the operating reserves of the Federal Fund, and is available for authorized expenditures.

Beginning in May of 2002, the RIHEAA Board of Directors waived guarantee fees on student loans, resulting in significant savings to borrowers. When assessed, guarantee fees were the single largest source of revenue to the Federal Fund, and the waiver of the fee resulted in a steady decline in available reserves. Despite this decline, the Federal Fund reserve balance remains well above the regulatory requirements, and RIHEAA's management carefully monitors the status of the Federal Fund. The recent Higher Education Reconciliation Act (HERA) has required that effective July 1, 2006, guaranty agencies collect and deposit into the Federal Fund a "default fee" which is assessed on loans disbursed after that date. This fee will provide revenue to the Federal Fund and will help to reduce the rate of decline in reserves that the Federal Fund has recently experienced.

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.

Financial Statements

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Operating Fund	Scholarship and Grant Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,451,343	\$ 2,735	\$ 11,454,078
Investments	4,949,687	4,057,430	9,007,117
Receivables and accruals:			
Interest	69,778	-	69,778
Loan processing issuance fee	30,000	-	30,000
Loans	32,492	-	32,492
Other	1,033	-	1,033
Due from Federal Student Loan Reserve Fund	377,922	-	377,922
Prepaid expenses	185,376	-	185,376
Total current assets	17,097,631	4,060,165	21,157,796
Noncurrent assets:			
Restricted cash and cash equivalents	572,794	-	572,794
Investments	3,900,938	-	3,900,938
Loans receivable, less current portion	223,999	-	223,999
Capital assets, net of accumulated depreciation	1,280,171	-	1,280,171
Total noncurrent assets	5,977,902	-	5,977,902
Total assets	23,075,533	4,060,165	27,135,698
LIABILITIES			
Current liabilities:			
Accounts payable	593,826	-	593,826
Payable to federal government	-	2,735	2,735
Liability for estimated default aversion fee returns	262,056	-	262,056
Compensated absences	120,000	-	120,000
Total current liabilities	975,882	2,735	978,617
Noncurrent liabilities:			
Liability for estimated default aversion fee returns, less current portion	440,944	-	440,944
Compensated absences, less current portion	279,127	-	279,127
Deferred default prevention income	394,742	-	394,742
Total noncurrent liabilities	1,114,813	-	1,114,813
Total liabilities	2,090,695	2,735	2,093,430
Commitments and contingencies (Note 12)	-	-	-
NET ASSETS			
Invested in capital assets	1,280,171	-	1,280,171
Restricted	14,475,302	4,057,430	18,532,732
Unrestricted	5,229,365	-	5,229,365
Total net assets	\$ 20,984,838	\$ 4,057,430	\$ 25,042,268

The accompanying notes are an integral part of these 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 ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Operating Fund	Scholarship and Grant Fund	Total
OPERATING REVENUES			
Government Fees:			
Default aversion, net	\$ 683,000	\$ -	\$ 683,000
Loan processing issuance	964,662	-	964,662
Account maintenance	1,228,605	-	1,228,605
Recovery, consolidation and rehabilitation income, net of DE share	5,702,104	-	5,702,104
Tuition Savings Program Fund:			
Account maintenance fees	4,341,230	-	4,341,230
Direct purchase commissions	770,892	-	770,892
Penalty administrative fees and other	805,492	-	805,492
Alliance contract income	250,000	-	250,000
Federal grants	-	422,028	422,028
Other	137,010	-	137,010
Total operating revenues	<u>14,882,995</u>	<u>422,028</u>	<u>15,305,023</u>
OPERATING EXPENSES			
Student financial assistance	-	14,235,916	14,235,916
Salaries, payroll taxes and employee benefits	2,963,324	-	2,963,324
Building and maintenance expenses	127,131	-	127,131
Collection agency commissions	2,063,202	-	2,063,202
Computer services	117,424	-	117,424
Default aversion and prevention expenses	507,814	-	507,814
Depreciation and amortization	230,509	-	230,509
Marketing and promotion	403,178	-	403,178
Office expenses and other	313,590	-	313,590
Printing and postage	106,330	-	106,330
Professional services	97,063	-	97,063
Sallie Mae guarantee services fees	1,122,001	-	1,122,001
Sallie Mae portfolio management fees	664,032	-	664,032
Travel, conferences and workshops	117,529	-	117,529
Total operating expenses	<u>8,833,127</u>	<u>14,235,916</u>	<u>23,069,043</u>
Operating income (loss)	<u>6,049,868</u>	<u>(13,813,888)</u>	<u>(7,764,020)</u>

The accompanying notes are an integral part of these 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 ASSETS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006

	Operating Fund	Scholarship and Grant Fund	Total
NONOPERATING REVENUES			
Investment income	\$ 612,094	\$ 152,785	\$ 764,879
State appropriations	766,259	6,962,769	7,729,028
Total nonoperating revenues	1,378,353	7,115,554	8,493,907
Income (loss) before transfers	7,428,221	(6,698,334)	729,887
TRANSFERS IN (OUT)			
Academic Promise Scholarship Program	(1,000,000)	1,000,000	-
5 & 10 Matching Grant Program	(500,000)	500,000	-
State grant program	(5,660,746)	5,660,746	-
Total transfers	(7,160,746)	7,160,746	-
Change in net assets	267,475	462,412	729,887
NET ASSETS			
Beginning of year	20,717,363	3,595,018	24,312,381
End of year	\$ 20,984,838	\$ 4,057,430	\$ 25,042,268

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

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Operating Fund	Scholarship and Grant Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from:			
Alliance contract income	\$ 250,000	\$ -	\$ 250,000
Tuition Savings Program Fund fees and commissions	5,917,614	-	5,917,614
Government fees	2,988,428	-	2,988,428
Recovery, consolidation and rehabilitation income	5,847,565	-	5,847,565
Repayments of loans	61,244	-	61,244
Other	118,185	-	118,185
Cash paid for:			
Employees for services and benefits	(2,913,729)	-	(2,913,729)
Student financial assistance	-	(14,233,544)	(14,233,544)
Supplies, materials and services	(5,641,104)	-	(5,641,104)
Net cash provided by (used in) operating activities	<u>6,628,203</u>	<u>(14,233,544)</u>	<u>(7,605,341)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating subsidies and transfers (to) from other funds	(7,160,746)	7,160,746	-
Transfer to Federal Student Loan Reserve Fund	(3,063,052)	-	(3,063,052)
State appropriations	766,259	6,962,769	7,729,028
Federal grants	-	422,028	422,028
Net cash provided by (used in) noncapital financing activities	<u>(9,457,539)</u>	<u>14,545,543</u>	<u>5,088,004</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(132,948)	-	(132,948)
Net cash used in capital and related financing activities	<u>(132,948)</u>	<u>-</u>	<u>(132,948)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	-	(1,652,784)	(1,652,784)
Proceeds from sales and maturities of investments	6,000,000	1,190,372	7,190,372
Investment income	731,851	152,785	884,636
Net cash provided by (used in) investing activities	<u>6,731,851</u>	<u>(309,627)</u>	<u>6,422,224</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,769,567	2,372	3,771,939
Cash and cash equivalents, beginning of year	<u>8,254,570</u>	<u>363</u>	<u>8,254,933</u>
Cash and cash equivalents, end of year	<u>\$ 12,024,137</u>	<u>\$ 2,735</u>	<u>\$ 12,026,872</u>
Reconciliation of cash and cash equivalents to the statement of net assets:			
Current assets - cash and cash equivalents	\$ 11,451,343	\$ 2,735	\$ 11,454,078
Noncurrent assets - restricted cash and cash equivalents	572,794	-	572,794
	<u>\$ 12,024,137</u>	<u>\$ 2,735</u>	<u>\$ 12,026,872</u>

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

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006

	Operating Fund	Scholarship and Grant Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO			
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 6,049,868	\$(13,813,888)	\$ (7,764,020)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Federal grants	-	(422,028)	(422,028)
Depreciation	230,509	-	230,509
Provision for default aversion fee refunds	82,000	-	82,000
Changes in assets and liabilities:			
(Increase) decrease in:			
Receivables and accruals:			
Account maintenance fees	100,575	-	100,575
Loan processing issuance fee	(7,239)	-	(7,239)
Loans	61,244	-	61,244
Other	74,833	-	74,833
Due from Federal Student Loan Reserve Fund	70,628	-	70,628
Prepaid expenses	(148,377)	-	(148,377)
Increase (decrease) in:			
Accounts payable	48,309	-	48,309
Payable to federal government	-	2,372	2,372
Liability for estimated default aversion fee returns	16,258	-	16,258
Compensated absences	49,595	-	49,595
Net cash provided by (used in) operating activities	\$ 6,628,203	\$(14,233,544)	\$ (7,605,341)

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

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund Federal Student Loan Reserve Fund</u>
ASSETS		
Cash and cash equivalents	\$ 3,450	\$ 6,585,912
Investments	6,834,851,330	983,750
Receivables and accruals:		
Units sold	3,776,974	-
Investments sold	310,897	-
Interest and dividends	152,758	
Reinsurance claims - federal government	-	3,924,094
Default aversion fee returns	-	703,000
Other	33,262	-
	<u>6,839,128,671</u>	<u>\$ 12,196,756</u>
LIABILITIES		
Accounts payable:		
Investments purchased and units redeemed	3,818,683	\$ -
Other	6,732,195	19,435
Payable to Operating Fund	-	377,922
Liability for unreinsured claims	-	2,500,000
Federal recall reserve payable	-	736,637
Due to the federal government	-	8,562,762
	<u>10,550,878</u>	<u>\$ 12,196,756</u>
NET ASSETS		
Held in trust for participants	<u>\$ 6,828,577,793</u>	

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

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

	Private Purpose Trust Fund
	Tuition Savings Program Fund
From operations:	
Investment income	\$ 174,920,747
Net increase in fair value of investments	485,045,763
Expenses, asset-based charges	(73,409,587)
Net increase in net assets from operations	586,556,923
From unitholder transactions:	
Subscriptions	1,507,339,239
Redemptions	(1,014,404,472)
Net increase in net assets from unitholder transactions	492,934,767
Net increase in net assets	1,079,491,690
Net assets held in trust for participants, beginning of year	5,749,086,103
Net assets held in trust for participants, end of year	\$ 6,828,577,793

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

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - ORGANIZATION AND REPORTING ENTITY

ORGANIZATION

The Rhode Island Higher Education Assistance Authority (the "Authority") is a public corporation established July 1, 1977 by an Act of the Rhode Island General Assembly. It is a component unit of the State of Rhode Island (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, state and local income taxes.

REPORTING ENTITY - BLENDED COMPONENT UNIT

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. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Component units are reported in the financial statements either in separate columns or rows (discrete presentation) or in combination with similar funds of the Authority (blending presentation). The Authority's blended component unit consists of the Rhode Island Higher Education Savings Trust ("RIHEST").

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 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. Earnings on investments are tax free for both federal and state tax purposes provided the earnings are withdrawn for qualified higher education expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The Authority applies all pronouncements of the GASB, as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected not to apply any FASB pronouncements and interpretations issued after November 30, 1989.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

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.

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.

Scholarship and Grant Operating Fund – This fund accounts for all transactions relating to the Authority's administration of scholarships and grants 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 per 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 loan processing issuance fees, 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; c) a state appropriation for administering its grant and scholarship programs; and d) fees and commissions earned from administering RIHEST (such as account maintenance fees and direct purchase commissions).

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND FINANCIAL STATEMENTS (Continued)

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 scholarship and grant programs administered on behalf of the State. Scholarship and grant programs administered on behalf of the federal government require the State to match federal amounts in the form of a minimum maintenance of effort level. The programs are Leveraging Educational Assistance Partnership (“LEAP”) and Special Leveraging Educational Assistance Partnership (“SLEAP”).

5 & 10 Matching Grant Program Fund – This fund accounts for all transactions relating to the Authority’s operation of the 5 & 10 Matching Grant Program. Under the 5 & 10 Matching Grant 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.

Academic Promise Scholarship Fund – This fund accounts for all transactions relating to the Authority’s operation of the Academic Promise Scholarship Program. Under the Academic Promise Scholarship Program, the Authority invests up to \$1,000,000 annually 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 Authority makes an annual contribution for Rhode Island’s participation in the program. This program is sponsored by the New England Board of Higher Education.

The 5 & 10 Matching Grant Program and the Academic Promise Scholarship Program are funded with RIHEST revenues through transfers from the RIHEST Administrative Fund. Such 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.

Agency Fund – An agency fund is used to account for resources held by the Authority in a purely custodial capacity. The Authority administers the Federal Student Loan Reserve Fund (the “Federal Fund”), an agency 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. The sources of revenue for the Federal Fund include principally guarantee fees, reinsurance received for lender claims paid, and income from investments. Assets and liabilities of the Federal Fund are those of the U.S. Department of Education (“DE”). This fund can be used only to pay lender claims and to pay the Agency Operating Fund for default prevention activities, unless otherwise directed by the DE.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

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 include U.S. Treasury Bills, U.S. Treasury Notes, U.S. Agency collateralized obligations 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.

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 history 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 includes escrow deposits with a financial institution under an agreement with Sallie Mae, Inc. ("Sallie Mae") as collateral for certain loans and deposits which are to be used specifically for default prevention activities.

Capital Assets and Depreciation and Amortization

Capital assets are stated at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Authority defines capital assets as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of three years. Expenditures that substantially increase the useful lives of existing assets are capitalized and maintenance is expensed as incurred.

Depreciation and amortization of capital assets is calculated on the straight-line method over estimated useful lives ranging from three to thirty years.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

Compensated Absences

Authority 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, not to exceed the amount of 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 full-time 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.

Net Assets

The Authority's net assets are presented in the following three categories:

Invested in capital assets, net of related debt - This category consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted - This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions, enabling legislation, or federal regulations.

Under the 1998 reauthorization of the Higher Education Act, the Agency Operating Fund's net assets shall be used for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lending training, financial aid awareness and related outreach activities, compliance monitoring, and other student financial aid related activities. Therefore, the Operating Fund's net assets relating to the Agency Operating Fund, in the amount of \$14,475,302, are classified as restricted. Also, the Scholarship and Grant Fund's net assets relating to the Program Fund, in the amount of \$4,057,430, for the Academic Promise Scholarship Program and 5 & 10 Matching Grant Programs are classified as restricted.

Unrestricted - This category consists of net assets which do not meet the definition of the two preceding categories. All of the Authority's unrestricted net assets have been designated for specific purposes by the Authority's Board of Directors (See Note 8).

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted assets first, then unrestricted resources as they are needed.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and recognized at 1% of the total unpaid principal and accrued interest at the time the Authority receives the lender request for assistance. 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.

There is limited historical and projected information available for the evaluation of the provision for fee returns. Management has been working with the Authority's service provider to calculate a provision for fee returns and develop a means to track and evaluate future activity. The Authority records a provision for fee returns at approximately 33% of fee income, which 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. The 2006 default aversion fees are recorded net of a \$343,500 provision for returns, and the allowance for fee returns as of June 30, 2006 is \$703,000.

Loan Processing Issuance Fees

The Authority earns a loan processing issuance fees ("LPIF") from the DE equal to .40% of the total loans disbursed, excluding consolidations.

Account Maintenance Fees

The Authority earns an account maintenance fee ("AMF") from the DE equal to .10% of the original principal balance of guaranteed loans outstanding.

Recovery, Consolidation and Rehabilitation Income

Recovery, consolidation and rehabilitation income is recognized as revenue when received, net of the DE's share.

Account Maintenance Fees – Tuition Savings Program Fund

Tuition Saving Program Fund account maintenance fees are recognized as revenue when transferred by AllianceBernstein.

Direct Purchase Commissions

Direct purchase commissions are recognized as revenue when received.

Penalty Administrative Fees

Penalty administrative fees are recorded as income when received after non-qualified withdrawals or transfers to other Section 529 plans.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

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 State of Rhode Island 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, some 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 and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 3 - CASH DEPOSITS AND INVESTMENTS

CASH DEPOSITS

As of June 30, 2006, the Authority's cash deposits consist of the following:

	Bank Balance	Carrying Amount
Demand deposits	\$ 16,088,235	\$ 12,482,372
State's General Treasury	238,824	168,037
Money market funds	5,616,811	5,616,811
	<u>\$ 21,943,870</u>	<u>\$ 18,267,220</u>

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.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)

CASH DEPOSITS (Continued)

The bank balances of the Authority's cash deposits that were exposed to custodial credit risk as of June 30, 2006 are as follows:

Uninsured, uncollateralized	\$	317,591
Uninsured, but collateralized with securities held by the pledging bank's trust department or agent not held in the Authority's name		<u>21,426,279</u>
	\$	<u><u>21,743,870</u></u>

The Authority is permitted to invest funds in certificates of deposit, 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.

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 of Rhode Island; obligations of any other State with a rating not less than "A" by Standard and Poor's Corporation or Moody's Investor Services, Inc.; 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.

Investments in certain money market funds totaling \$349,014 as of June 30, 2006 are included in cash and cash equivalents in the accompanying statement of net assets. For purposes of disclosure under GASB Statement No. 40, such amounts are considered investments and are included in the investments disclosure in this note.

A reconciliation of the Authority's cash deposits as presented in the accompanying statement of net assets and statement of fiduciary net assets to amounts presented above as of June 30, 2006 is as follows:

Statement of Net Assets:		
Current assets	\$	11,454,078
Noncurrent assets		572,794
Statement of Fiduciary Net Assets:		
Tuition Savings Program Fund		3,450
Federal Student Loan Reserve Fund		<u>6,585,912</u>
		18,616,234
Less: cash equivalents considered investments under GASB Statement No. 40		<u>349,014</u>
Cash deposits	\$	<u><u>18,267,220</u></u>

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS

As of June 30, 2006, the Authority's investments consist of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less Than 1</u>	<u>1 to 5</u>
Debt Securities:			
Money market funds	\$ 349,014	\$ 349,014	\$ -
Mutual funds	6,838,908,760	6,838,908,760	-
U.S. Treasury Notes	9,834,375	4,949,687	4,884,688
	<u>\$ 6,849,092,149</u>	<u>\$ 6,844,207,461</u>	<u>\$ 4,884,688</u>

Because the money market and mutual funds had weighted average maturities of 90 days or less they were presented as investments with maturities of less than one year.

A reconciliation of the Authority's investments as presented in the accompanying statement of net assets and statement of fiduciary net assets to amounts presented above as of June 30, 2006 is as follows:

Statement of Net Assets:

Current assets	\$ 9,007,117
Noncurrent assets	3,900,938

Statement of Fiduciary Net Assets:

Tuition Savings Program Fund	6,834,851,330
Federal Student Loan Reserve Fund	983,750
	<u>6,848,743,135</u>

Add: cash equivalents considered investments

under GASB Statement No. 40	349,014
	<u>\$ 6,849,092,149</u>

Interest Rate Risk

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.

Credit Risk

The Authority has no investment policy that would further limit its investment choices beyond those limited by Rhode Island General Laws. Rhode Island General Laws permit the Authority to invest in certificates of deposit, 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 Standard & Poor's Rating Services and Aaa, Aa by Moody's Investor Service, Inc. As of June 30, 2006, the Authority's investments in money market and mutual funds were unrated. No credit risk disclosures are required under GASB Statement No. 40 relating to the Authority's investments in U.S. Treasury Notes.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

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.

Concentrations of Credit Risk

The Authority places no limit on the amount of investment in any one issuer. In accordance with GASB Statement No. 40, none of the Authority's investments require concentration of credit risk disclosures.

NOTE 4 - LOANS RECEIVABLE

The Authority operates loan programs directed toward students in graduate studies in health-related professions. As of June 30, 2006, the outstanding loan balances total \$256,491, of which \$95,842 is guaranteed by the federal government.

Certain loans, totaling \$51,058, 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 do not bear interest until they enter the repayment phase, which begins nine months after graduation or after the students complete the conditions for forgiveness. Students may also get up to a four-year deferment of principal and interest for being enrolled in internship or residency programs. Loan forgiveness is recorded in the period in which the conditions are satisfied by the borrowers. During 2006, one loan totaling \$5,354 was forgiven.

During 1987, Sallie Mae purchased from the Authority certain loans that were not guaranteed by the federal government. Under the agreements with Sallie Mae, the Authority is required to maintain on deposit with a financial institution an escrow account equal to at least 105% of the outstanding principal balance (approximately \$110,087 of principal balance was outstanding at June 30, 2006).

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated - land	\$ 194,096	\$ -	\$ -	\$ 194,096
Capital assets, being depreciated or amortized:				
Land improvements	28,824	8,235	-	37,059
Building and improvements	1,989,704	78,778	-	2,068,482
Equipment	403,268	45,935	-	449,203
Web-based scholarship and grant program system	420,650	-	-	420,650
Total capital assets, being depreciated or amortized	<u>2,842,446</u>	<u>132,948</u>	<u>-</u>	<u>2,975,394</u>
Less accumulated depreciation and amortization for:				
Land improvements	(17,054)	(1,007)	-	(18,061)
Building and improvements	(1,188,408)	(78,986)	-	(1,267,394)
Equipment	(285,088)	(66,386)	-	(351,474)
Web-based scholarship and grant program system	(168,260)	(84,130)	-	(252,390)
Total accumulated depreciation and amortization	<u>(1,658,810)</u>	<u>(230,509)</u>	<u>-</u>	<u>(1,889,319)</u>
Total capital assets, being depreciated or amortized, net	<u>1,183,636</u>	<u>(97,561)</u>	<u>-</u>	<u>1,086,075</u>
Total capital assets, net	<u>\$ 1,377,732</u>	<u>\$ (97,561)</u>	<u>\$ -</u>	<u>\$ 1,280,171</u>

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Liability for estimated default aversion fees	\$ 621,000	\$ 343,500	\$ (261,500)	\$ 703,000	\$ 262,056
Compensated absences	349,532	49,595	-	399,127	120,000
Deferred default prevention income	378,484	16,258	-	394,742	-
	<u>\$ 1,349,016</u>	<u>\$ 409,353</u>	<u>\$ (261,500)</u>	<u>\$ 1,496,869</u>	<u>\$ 382,056</u>

NOTE 7 - RESERVE FOR UNREINSURED 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 agreement with the federal government, the federal government reimburses guaranty agencies for a percentage of amounts expended in the discharge of its guarantor obligations. The agreement contains certain annual limitations, commonly referred to as the "reinsurance trigger", which could reduce the reinsurance amount during the remainder of any federal fiscal year.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 7 - RESERVE FOR UNREINSURED CLAIMS AND REINSURANCE TRIGGERS
(Continued)

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, 2006, the Authority charged the Federal Fund \$1,114,887 pursuant to the above provisions and as of June 30, 2006, the liability for unreinsured claims totals \$2,500,000.

NOTE 8 - NET ASSETS

Restricted net assets consist of the following as of June 30, 2006:

Scholarship and Grant Fund:	
Academic Promise Scholarship Program	\$ 2,898,776
5 & 10 Matching Grant Program	1,158,654
	<u>4,057,430</u>
Operating Fund:	
Agency Operating Fund	14,475,302
	<u>\$ 18,532,732</u>

Unrestricted net assets have been designated by the Authority's Board of Directors for the following purposes as of June 30, 2006:

Designation of unrestricted net assets for Program	
Fund administration and student financial assistance programs	\$ 5,229,365
	<u>5,229,365</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

The Authority is a related party to the Rhode Island Student Loan Authority (RISLA), another component unit of the State. 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, 2006 were as follows:

Guaranteed loans outstanding at June 30, 2006	\$ 446,953,358
Loans guaranteed during the year	136,517,292
Guarantee claims paid during the year	15,025,912

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 10 - RETIREMENT PLANS

Substantially all full-time permanent employees of the Authority participate in the Employees' Retirement System of the State of Rhode Island (the "System"), a cost-sharing, multiple-employer public retirement system. The System was established and benefits can be amended by the General Assembly. The funding policy is determined by the State Retirement Board. Employees who retire at age 60 or older with 10 years of credited service (at any age with 28 years of credited service) are entitled to a retirement benefit. Employees who have not obtained at least 10 years of contributory services as of July 1, 2005 are eligible to retire at or after age 65 with 10 years of credited service, or at age 59 with 29 years of credited service or at age 55 with 20 years of total service, provided, that the retirement allowance, as listed below, is reduced actuarially for each month that the age of the member is less than 65 years. The benefit is calculated using the number of years of service and the employee's average salary based on the three highest consecutive years of earned salary. Benefits vest upon reaching 10 years of service. The percentage for each year of credited services is as follows:

<u>Years of Credited Service</u>	<u>Ten Years of Service on or Before July 1, 2005</u>	<u>Ten Years of Service After July 1, 2005</u>
1 - 10	1.70%	1.60%
11 - 20	1.90%	1.80%
21 - 34	3.00%	-
21 - 25	-	2.00%
26 - 30	-	2.25%
31 - 37	-	2.50%
35	2.00%	-
38	-	2.25%

The System also provides for death and disability benefits. The System issues a publicly available financial report that includes financial statements and required supplementary information for the State. That report may be obtained by writing to Employees' Retirement System of the State of Rhode Island, 40 Fountain Street, Providence, Rhode Island 02903.

Payroll of the Authority's employees covered by the System was \$1,589,038 in 2006. For the fiscal year ended June 30, 2006, the Authority's actuarially computed contribution rate to the System was 14.8% of annual covered payroll. The employees' contribution rate is 8.75% of their annual covered salary. Employees contributed approximately \$139,000 in 2006. The Authority's contributions for the years ended June 30, 2006, 2005 and 2004 were approximately \$235,000, \$175,000 and \$140,000, respectively, equal to the required contributions for each year.

Some Authority employees are covered under the TIAA-CREF Plan, a defined contribution plan. The Authority's contributions for the year ended June 30, 2006 were 9% of the covered payroll. The Authority's contributions for the years ended June 30, 2006, 2005 and 2004 were approximately \$35,000, \$32,000 and \$30,000, respectively. The Authority's Board of Directors has the authority to establish and/or amend the plan's provisions and the plan's contribution requirements.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 11 - POSTRETIREMENT HEALTH CARE BENEFITS PLAN

In accordance with the General Laws of the State of Rhode Island, postretirement healthcare benefits are provided to all state employees who retire on or after July 1, 1989. The benefits, in general, cover medical and hospitalization costs for pre-Medicare retirees and a Medicare premium. This payment varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years or more of service. During fiscal year 1999, the period covered by the most recent financial report of the System, the State was required to fund the program at a rate of approximately .98% for active member state employees' payroll (exclusive of overtime). The Authority contributed approximately \$45,000 to the plan during 2006. A required actuarial valuation of the plan has been performed; however, significant assumptions and funding options have not been adopted. The cumulative cost of the post retirement healthcare benefits is not available to the Authority. The State Controller is currently analyzing all related transactions occurring since inception of the plan to determine the financial status of the postretirement healthcare benefit plan.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Federal Audits

Under the reinsurance agreement with the federal government, the Authority's accounting records are subject to review and audit by the federal government. Such audits could lead to requests for reimbursement if terms of the various programs and agreements are not met. During 1997, the DE completed a review of the Agency Operating Fund's activities and reports submitted to it. The DE's report of findings and observations required the Authority to respond to three findings related to the FFEL Program and related FFEL reserves. During 1998, the Authority responded to one of the findings, which required the return of certain consolidation recoveries. The Authority has incorporated the other two findings within its settlement with the DE, as discussed in the following section; "Establishment of Federal Student Loan Reserve Fund."

Establishment of Federal Student Loan Reserve Fund

Under the 1998 reauthorization of the Higher Education Act, guaranty agencies were required to establish the Federal Fund, effective October 1, 1998. Therefore, the Authority was required to determine and separate Federal Fund assets and liabilities from assets and liabilities from other sources, principally the State. The Authority calculated the cash and investments attributable to non-FFEL Program sources plus an allocation of investment activity through October 1, 1998. In addition, the Authority's management believed its building and loans receivable (see Note 4) should also be property of the Authority because of the timing of their acquisition and the provisions of certain enacted laws of the Higher Education Act.

Accordingly, effective October 1, 1998, the Authority included within the Agency Operating Fund the calculated amount of cash and investments attributable to non-FFEL Program sources, the building and loans receivable. All other assets and liabilities were transferred to the Federal Fund. The Authority provided the DE with a proposal which included this separation of the funds, and incorporated the resolution of the pending findings discussed in the previous section, "Federal Audits." The DE has accepted the Authority's calculation of cash and investments attributable to non-FFEL Program sources and the resolution of the pending findings. However, the DE has required payment from the Agency Operating Fund to the Federal Fund for the retention of the building and loans receivable. Accordingly, the Authority recorded a transfer payable to the Federal Fund for the building and loans receivable, in the agreed amount of \$3,063,052, as of June 30, 2005, and the payment was made to the Federal Fund on August 31, 2005.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 12 - COMMITMENTS AND CONTINGENCIES

United States Department of Education

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.

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, deferred default prevention income, for the cash balance restricted for default prevention activities, and recognizes income as allowable expenditures are incurred. The liability totaled \$394,742 as of June 30, 2006.

In addition, the 1998 reauthorization of the Higher Education Act requires the Secretary's recall of \$250 million from guaranty agencies. The Authority's share of this recall amount totaled \$1,116,117 and was based on the ratio of the Authority's share of Reserve Funds to the total amount of all guaranty agencies' Reserve Funds, as of September 30, 1996. The Authority's share of the \$250 million recall is payable in three installments. At June 30, 2006, the remaining amount outstanding and recorded in the Federal Fund is \$736,637, which is payable in two installments of \$368,319 and \$368,318 on September 1, 2006 and 2007, respectively.

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 .25% of the original principal balance of loans guaranteed (OPO). As of June 30, 2006, the Authority's OPO totaled \$1,454,936,629 and its corresponding minimum reserve balance was \$3,637,342. Using the method currently prescribed by DE, the Authority's actual reserve fund balance was \$10,857,822 at June 30, 2006 and its reserve ratio was .75%.

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 year ended June 30, 2006 and the Authority has not exceeded the 5% reinsurance trigger.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2006

NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)

Systems Services Agreement

The Authority has an agreement for computer system services with Sallie Mae Guarantee Services. The agreement expires September 30, 2007 and the Authority may cancel the agreement with 180 days notice. The agreement provides for base fees plus .30% of the amount of annual loan applications processed in excess of \$100 million excluding consolidated loans, and specified fees for certain administrative services provided to the Authority on an as requested basis. Fees to Sallie Mae Guarantee Services totaled \$1,122,001 for the year ended June 30, 2006.

Under the same agreement, Sallie Mae Guarantee Services provides portfolio management services to the Authority for defaulted loans outsourced for collection. The Authority receives guaranteed annual revenue from those outsourced collections equal to 2.25% of the defaulted portfolio placed with Sallie Mae, plus 50% of net revenue above the guarantee amount. Net revenue is defined as amounts collected less commissions paid to collection vendors and less amounts remitted to the DE. Fees to Sallie Mae Guarantee Services for portfolio management services totaled \$664,032 for the year ended June 30, 2006.

In the event the Authority should cancel the portfolio management services, the agreement provides for increases in the base fees, a .35% fee on all consolidated loans, and a .40% fee on all other loans in excess of \$100 million processed thereafter.

Default Aversion and Prevention Services Agreement

The Authority has an agreement, which expires in September 2006, for default aversion services with OSI Education Services, Inc. ("OSI") that provides for a .59% fee to be paid to OSI for each loan brought to current status within the specifications of the agreement. Fees to OSI totaled \$507,814 for the year ended June 30, 2006.

Tuition Savings Program Management Agreement

The Authority has an agreement with AllianceBernstein for the management and promotion of the Tuition Savings Program. The agreement expires June 30, 2010, and provides for a management fee payable from the Program Fund assets to AllianceBernstein from the assets under management. The RIHEST Administrative Fund records account maintenance, direct commission and other fees which are derived from its administration of the Program Fund. The RIHEST administrative income totaled \$5,917,614 for the year ended June 30, 2006 and is recorded in the Operating Fund. In addition, the Authority receives \$250,000 annually (in quarterly installments) from AllianceBernstein which is recorded as revenue in the Operating Fund.

Under the agreement with AllianceBernstein, they have committed to spend \$600,000 annually through June 2010 for the marketing and promotion of the Tuition Savings Program in the State of Rhode Island and the Authority provides additional funds to supplement the marketing and promotion. During the year ended June 30, 2006, the Authority paid to Alliance additional funds of \$392,000 under the agreement for the marketing and promotion expenses. For 2007, the Authority has authorized additional funds up to \$600,000 for marketing and promotion expenses.

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2006

NOTE 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 assets 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.

Supplemental Information

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF AGENCY OPERATING FUND TRAVEL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006**

Payee	Purpose of Travel	Airfare	Lodging	Meals	Auto/Other	Total
American Express	C. Miller - Meteor Project Mtg	\$ 614	\$ -	-	-	\$ 614
American Express	W. Hurry - NCHELP Board Mtg	279	471	-	-	750
American Express	G. Silva - MYF Mtg	578	-	-	-	578
American Express	C. Miller - Meteor Project Mtg	-	812	-	-	812
American Express	W. Hurry - MYF Mtg	515	-	-	-	515
American Express	W. Hurry - CSF Legislative Mtg	307	-	-	-	307
American Express	N. Dooley - OSI Mtg	323	-	-	-	323
American Express	C. Cox - OSI Mtg	323	-	-	-	323
American Express	C. Miller - NCHELP Legislative Mtg	232	-	-	-	232
American Express	C. Miller - Meteor Project Mtg	232	-	-	-	232
American Express	W. Hurry - NCHELP Legislative Mtg	-	820	-	-	820
American Express	C. Miller - NCHELP Legislative Mtg	-	615	-	-	615
American Express	C. Miller - Meteor Project Mtg	-	625	-	-	625
American Express	M. Lacroix - NCHELP Legislative Mtg	-	-	250	-	250
American Express	G. Mance-Rios - SallieMae Mtg	282	-	-	-	282
American Express	K. Berard - NCHELP Training	343	-	-	-	343
American Express	N. Dooley - SallieMae Mtg	298	-	-	-	298
G. Silva	G. Silva - MYF Mtg	-	490	-	-	490
G. Mance-Rios	G. Mance-Rios - SallieMae Mtg	298	606	-	-	904
American Express	W. Hurry - MYF Mtg	-	525	-	-	525
American Express	C. Miller - Meteor Project Mtg	217	-	-	-	217
American Express	N. Dooley - NCHELP Training	290	-	-	-	290
American Express	C. Cox - NCHELP Training	290	-	-	-	290
American Express	G. Mance-Rios - College Cost Summit	437	-	-	-	437
American Express	J. Greenough - Meteor Project Mtg	367	-	-	-	367
American Express	G. Mance-Rios - College Cost Summit	437	-	-	-	437
American Express	J. Greenough - Meteor Project Mtg	367	-	-	-	367

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF AGENCY OPERATING FUND TRAVEL EXPENSES (Continued)
FOR THE YEAR ENDED JUNE 30, 2006

Payee	Purpose of Travel	Airfare	Lodging	Meals	Auto/Other	Total
D. Carlin	D. Carlin - NCHELP Training	\$ -	\$ 882	-	\$ 487	\$ 1,369
K. Berard	K. Berard - NCHELP Training	-	874	-	-	874
M. Lacroix	M. Lacroix - NCHELP Leadership Mtg	295	-	-	-	295
American Express	W. Hurry - NCHELP Board Mtg	674	874	-	303	1,851
American Express	C. Miller - NCHELP Training	-	524	-	-	524
American Express	J. Greenough - Meteor Project Mtg	-	701	-	-	701
American Express	C. Cox - NCHELP Training	-	874	-	-	874
American Express	N. Dooley - NCHELP Training	-	1,049	-	272	1,321
American Express	N. Dooley - DE Mtg	227	583	-	-	810
American Express	G. Silva - DE Mtg	227	583	-	-	810
American Express	W. Hurry - Meteor / MYF Mtgs	252	-	-	-	252
American Express	W. Hurry - NCHELP Leadership Mtg	447	-	-	-	447
American Express	C. Miller - Meteor Project Mtg	295	-	-	-	295
American Express	C. Miller - NCHELP Leadership Mtg	335	-	-	-	335
American Express	J. Greenough - Meteor Project Mtg	211	-	-	-	211
M. Cote	M. Cote - Tech Mentor Training	298	-	-	-	298
American Express	W. Hurry - CSPN Mtg	358	-	-	-	358
American Express	W. Hurry - Meteor / MYF Mtgs	-	737	-	-	737
American Express	W. Hurry - NCHELP Leadership Mtg	-	715	-	-	715
American Express	C. Miller - Meteor Project Mtg	-	553	-	-	553
American Express	C. Miller - NCHELP Leadership Mtg	-	715	-	-	715
American Express	M. Lacroix - NCHELP Leadership Mtg	-	953	-	-	953
American Express	J. Greenough - Meteor Project Mtg	-	553	-	-	553
American Express	C. Miller - Meteor Project Mtg	521	-	-	-	521
American Express	N. Dooley - NCHELP Debt Mgt	554	403	-	-	957
American Express	G. Silva - MYF Mtg	353	-	-	-	353

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF AGENCY OPERATING FUND TRAVEL EXPENSES (Continued)
FOR THE YEAR ENDED JUNE 30, 2006**

Payee	Purpose of Travel	Airfare	Lodging	Meals	Auto/Other	Total
M.Cote	M. Cote - Tech Mentor Training	\$ -	\$ 786	\$ -	\$ 436	\$ 1,222
G. Silva	G. Silva - DE Mtg	-	303	-	-	303
J. Palumbo	J. Palumbo - NCHELP Legal Mtg	-	303	-	-	303
American Express	C. Miller - Meteor Project Mtg	346	583	-	-	929
American Express	C. Miller - PESC Tech Summit	317	-	-	-	317
American Express	W. Hurry - MYF Mtg	420	-	-	-	420
American Express	G. Mance-Rios - DE Mtg	442	-	-	-	442
D. Carlin	D. Carlin - NCHELP Debt Mtg	-	610	-	-	610
G. Silva	G. Silva - MYF Mtg	-	480	-	-	480
American Express	C. Miller - PESC Tech Summit	-	618	-	-	618
American Express	C. Cox - NCHELP Debt Mtg	-	609	-	-	609
American Express	N. Dooley - NCHELP Debt Mtg	-	609	-	-	609
American Express	G. Mance-Rios - NCHELP Mtg	332	-	-	-	332
D. Carlin	D. Carlin - SallieMae Training	-	435	-	-	435
American Express	C. Miller - Meteor Project Mtg	-	405	-	-	405
American Express	N. Dooley - NCHELP Mtg	456	-	-	-	456
American Express	N. Dooley - EASFAA Mtg	-	360	-	444	804
American Express	G. Silva - EASFAA Mtg	-	360	-	-	360
American Express	D. Carlin - EASFAA Mtg	-	360	-	-	360
American Express	D. Carlin - SallieMae Training	364	-	-	-	364
American Express	M. Lacroix - NCHELP Mtg	447	-	-	-	447
American Express	W. Hurry - NASFAA Mtg	620	604	-	-	1,224
American Express	W. Hurry - NCHELP Mtg	-	353	-	291	644
American Express	M. Lacroix - NCHELP Mtg	-	526	-	-	526

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF AGENCY OPERATING FUND TRAVEL EXPENSES (Continued)
FOR THE YEAR ENDED JUNE 30, 2006**

Payee	Purpose of Travel	Airfare	Lodging	Meals	Auto/Other	Total
American Express	N. Dooley - NCHELP Mtg	\$ -	\$ 401	\$ -	-	\$ 401
American Express	N. Dooley - NASFAA Mtg	-	558	-	-	558
American Express	N. Dooley - DE Mtg	-	315	-	300	615
American Express	G. Silva - DE Mtg	-	315	-	-	315
Amounts less than \$200		3,180	2,279	7,018	8,027	20,504
		<u>\$ 19,000</u>	<u>\$ 28,709</u>	<u>\$ 7,268</u>	<u>\$ 10,560</u>	<u>\$ 65,537</u>

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF SCHOLARSHIP AND GRANT OPERATING FUND TRAVEL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006**

Payee	Purpose of Travel	Airfare	Lodging	Meals	Auto/Other	Total
American Express	M. Welch - NASSGAP Conf	\$ 358	\$ -	\$ -	-	\$ 358
American Express	M. Welch - NASSGAP Conf	-	793	-	-	793
American Express	M. Welch - NASSGAP Conf	282	-	-	-	282
American Express	M. Welch - NASSGAP Conf	-	560	-	-	560
Amounts less than \$200		-	-	37	115	152
		<u>\$ 640</u>	<u>\$ 1,353</u>	<u>\$ 37</u>	<u>\$ 115</u>	<u>\$ 2,145</u>

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF RIHEST ADMINISTRATIVE FUND TRAVEL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006**

Payee	Purpose of Travel	Airfare	Lodging	Meals	Auto/Other	Total
American Express	W. Hurry - CSPN Mtg	\$ 200	\$ 806	\$ -	\$ -	\$ 1,006
American Express	M. Joyce - CSPN Mtg	-	806	-	-	806
American Express	W. Hurry - CSF Board Mtg	-	1,025	-	-	1,025
American Express	M. Joyce - CSPN Mtg	254	-	-	-	254
American Express	W. Hurry - CSPN Mtg	-	1,232	-	-	1,232
American Express	M. Joyce - CSPN Mtg	-	642	-	-	642
Greenbriar Hotel	W. Hurry - NAST Conference	-	600	-	-	600
American Express	M. Garcia - NAST Conference	566	-	-	-	566
American Express	M. Joyce - NAST Conference	-	300	-	-	300
American Express	W. Hurry - NAST Conference	-	200	-	-	200
American Express	M. Garcia - Government Communications	-	560	-	-	560
American Express	W. Hurry - NAST Conference	742	-	-	-	742
American Express	M. Joyce - NASSGAP Conf	-	560	-	-	560
Amounts less than \$200		-	990	714	1,434	3,138
		\$ 1,762	\$ 7,721	\$ 714	\$ 1,434	\$ 11,631

