

**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, 2008**

**TOGETHER WITH**

**INDEPENDENT AUDITORS' REPORT**

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
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**JUNE 30, 2008**

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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, 2008, 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, 2008, 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 30, 2008 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 and the Schedule of Funding Progress presented on page 38 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 39 through 43 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.

*Carlton, Chamon & Rosen, LLP*

Providence, Rhode Island  
September 30, 2008

# **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, 2008. 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 and funds derived from other sources. These programs include the Rhode Island State Scholarship/Grant Program, the Federal LEAP/SLEAP Programs, 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 and marketing expenses and student financial assistance programs authorized by the RIHEAA Board of Directors. The Program Fund is managed by AllianceBernstein, L.P. 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 U.S. Department of Education (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 financial data. The related discussion however, addresses only the changes from FY 2007 to FY 2008.

	<b><u>Net Assets</u></b>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Fund	\$ 22,222,000	\$ 21,501,000	\$ 20,985,000
Scholarship and Grant Fund	3,865,000	4,049,000	4,057,000
<b>Total RIHEAA</b>	<b><u>\$ 26,087,000</u></b>	<b><u>\$ 25,550,000</u></b>	<b><u>\$ 25,042,000</u></b>

RIHEAA’s total net assets at June 30, 2008 were nearly \$26.1 million, an increase of \$537,000 from the previous year. The change in net assets is made up of an increase of nearly \$721,000 in the Operating Fund and a decrease of \$184,000 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, the Matching Grant Program and the Adult Education Grant Program. These funds are invested in the Program Fund on behalf of Academic Promise Scholarship recipients, to provide funding for low-income individuals who qualify for the Matching Grant Program, and for academic and income-qualifying students in the Adult Education Grant Program. The net assets of the Operating Fund consist of \$18 million which is restricted by federal statute to the uses of the AOF, just over \$3 million which is restricted for use in Tuition Savings Program administration and student financial assistance purposes, and just over \$1.2 million invested in capital assets. The Authority’s total assets are nearly \$28.5 million, and include just over \$17.5 million in cash and cash equivalents and nearly \$8 million in investments, including the amounts invested in CollegeBoundfund® for the Academic Promise Scholarship, Matching Grant and Adult Education Grant Programs. Total liabilities are just under \$2.4 million, with the single largest component being a liability to the Federal Fund for the return of default aversion fees totaling \$716,000.

### Operating Fund Revenues

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Loan Division:			
Collections-Based Revenue	\$ 5,525,000	\$ 6,458,000	\$ 5,702,000
AMF, LPIF & DAF	3,137,000	3,610,000	2,876,000
Interest and Other	965,000	939,000	497,000
Total Loan Division	<u>9,627,000</u>	<u>11,007,000</u>	<u>9,075,000</u>
Tuition Savings Program:			
Program Fund Fees	6,227,000	6,067,000	5,918,000
Interest and Other	439,000	527,000	502,000
Total Tuition Savings Program	<u>6,666,000</u>	<u>6,594,000</u>	<u>6,420,000</u>
Scholarship and Grant Division	<u>732,000</u>	<u>738,000</u>	<u>766,000</u>
<b>Total Revenues</b>	<b><u>\$ 17,025,000</u></b>	<b><u>\$ 18,339,000</u></b>	<b><u>\$ 16,261,000</u></b>

Revenues in the Loan Division totaled just over \$9.6 million in FY 2008, a decrease of \$1.4 million from FY 2007. Collections-based revenue (from recoveries, consolidations, and rehabilitations of defaulted student loans) totaled just over \$5.5 million in the current year as compared to \$6.5 million in FY 2007. The change is primarily attributable to a decrease in the total amount of rehabilitation and consolidation activity combined with a reduction in the percentage guaranty agencies are allowed by DE to retain for recovery efforts. Interest income increased \$30,000 from \$782,000 in FY 2007 to \$812,000 in the current year. 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 \$1.3 million in FY 2008 vs. \$1.8 million in FY 2007. This fee is based on the outstanding amount of RIHEAA's guaranteed loans, and although the outstanding loan balance grew in FY 2008, the decrease in revenue is attributable to a 40% reduction in the percentage amount of the fee. The reduction was put in place by DE effective October 1, 2007.
- Loan Processing Issuance Fees (LPIF) which increased from \$1 million in FY 2007 to \$1.1 million in the current year. These fees are paid based upon the volume of loans disbursed. The volume of loans disbursed with a RIHEAA guarantee increased approximately 10% in FY 2008 as compared to FY 2007.
- Default Aversion Fees (DAF) which decreased from \$745,000 in FY 2007 to \$693,000 in FY 2008. These fees are paid based on the volume of loans delinquent between 60 and 120 days for which lenders submit a request for assistance. This fee revenue is recorded net of a provision for fee returns, and although the gross revenue increased, RIHEAA recorded a greater amount for potential fee returns, and net revenue was lower. (See Note 2 – Default Aversion Fees)

Revenues in the Tuition Savings Program increased from just under \$6.6 million in FY 2007 to approximately \$6.7 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 unchanged from the prior year level at just under \$4.3 million. Revenues from direct purchase commissions and other administrative fees totaled just over \$1.9 million in FY 2008. Although revenues in this fund have grown each year, the rate of growth has slowed, and management believes that total program revenues 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, which represent the State appropriation used for the personnel and administrative expenses of the Scholarship and Grant Division, decreased by \$6,000 from FY 2007 to FY 2008.

**Operating Fund Expenses and Transfers**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Loan Division:			
Collection and Default Aversion	\$ 3,542,000	\$ 3,956,000	\$ 3,235,000
Personnel Expenses	2,513,000	2,283,000	2,327,000
Sallie Mae Guarantee Services	1,119,000	1,186,000	1,122,000
Other Expenses	<u>1,295,000</u>	<u>1,278,000</u>	<u>825,000</u>
 Total Loan Division	 <u>8,469,000</u>	 <u>8,701,000</u>	 <u>7,509,000</u>
Tuition Savings Program:			
Marketing and Promotion	320,000	304,000	403,000
Personnel Expenses	158,000	148,000	95,000
Other Expenses	<u>45,000</u>	<u>40,000</u>	<u>60,000</u>
 Total Tuition Savings Program	 <u>523,000</u>	 <u>492,000</u>	 <u>558,000</u>
Scholarship and Grant Division:			
Personnel Expenses	549,000	512,000	540,000
Other Expenses	<u>192,000</u>	<u>226,000</u>	<u>226,000</u>
 Total Scholarship and Grant Division	 <u>741,000</u>	 <u>738,000</u>	 <u>766,000</u>
 Transfers to Scholarship and Grant Fund	 <u>6,571,000</u>	 <u>7,892,000</u>	 <u>7,161,000</u>
 <b>Total Expenses and Transfers</b>	 <b><u>\$ 16,304,000</u></b>	 <b><u>\$ 17,823,000</u></b>	 <b><u>\$ 15,994,000</u></b>

Expenses in the Loan Division totaled just under \$8.5 million in FY 2008, a \$209,000 decrease from FY 2007. Within the category of collection and default aversion expenses, commissions paid to collection agencies were down slightly in FY 2008 at \$2.4 million vs. \$2.5 million in FY 2007. In addition to commissions paid to collection vendors, a portfolio management fee of \$620,000 was paid to Sallie Mae in FY 2008, a reduction of nearly \$322,000 from the FY 2007 amount. This fee is based upon the amount of net revenue generated from outsourced collection activities, and the reduction is attributable to the decrease in that revenue. Fees paid for default aversion and prevention activities increased slightly from \$511,000 in FY 2007 to \$530,000 in the current year. These fees are based on the vendor's ability to bring delinquent loans into a current status. Personnel expenses increased approximately 10% in FY 2008, with most of the expense attributable to increased employee benefit costs. Total fees paid to Sallie Mae for guarantee processing services decreased slightly from the FY 2007 level to just over \$1 million. Other operating expenses, which primarily include office, administrative and building-related costs, totaled just over \$1.3 million in the current year, an increase of \$40,000 from FY 2007.

In the Tuition Savings Program, marketing and promotion expenses, which supplement AllianceBernstein's efforts in the State of Rhode Island, increased from \$304,000 in FY 2007 to \$320,000 in FY 2008, personnel expense increased from 148,000 to \$158,000, and other expenses were up from \$40,000 to \$45,000.

Expenses in the Scholarship and Grant Division, which are funded with State appropriations, totaled \$741,000 in FY 2008, a \$3,000 increase from FY 2007.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled nearly \$6.6 million in FY 2008, a decrease of just over \$1.3 million vs. FY 2007. These transfers consisted of \$325,000 for the Academic Promise Scholarship Program, \$600,000 for the Adult Education Grant Program and over \$5.6 million in supplemental funding for the State Scholarship/Grant Program.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
State Appropriations	\$ 9,488,000	\$ 5,970,000	\$ 6,963,000
Federal Grants	368,000	359,000	422,000
Investment Income	<u>149,000</u>	<u>158,000</u>	<u>152,000</u>
 Total Revenues	 10,005,000	 6,487,000	 7,537,000
 Transfers from the Operating Fund	 <u>6,571,000</u>	 <u>7,892,000</u>	 <u>7,161,000</u>
 <b>Total Revenues and Transfers</b>	 <b><u>\$ 16,576,000</u></b>	 <b><u>\$ 14,379,000</u></b>	 <b><u>\$ 14,698,000</u></b>
 <b>Total Expenses</b>	 <b><u>\$ 16,759,000</u></b>	 <b><u>\$ 14,388,000</u></b>	 <b><u>\$ 14,236,000</u></b>

Total revenue and transfers into the Scholarship and Grant Fund totaled nearly \$16.8 million in FY 2008, vs. approximately \$14.4 million in FY 2007. The State appropriation made to fund the need-based grant program increased by over \$3.5 million in FY 2008 vs. FY 2007. In addition, the total includes the \$6.6 million transfer from the Operating Fund described in the previous section. Federal funding for the LEAP/SLEAP programs was \$368,000 in FY 2008, up from \$359,000 in FY 2007, and investment income declined slightly from \$158,000 to \$149,000. 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 represent the total student financial assistance provided during FY 2008. That total was nearly \$2.4 million higher in the current year than in FY 2007 and includes State Scholarship/Grant Program awards totaling over \$15.3 million, and just under \$1.3 million in the Academic Promise Scholarship Program and CollegeBoundfund® Matching Grant Program.

### Statement of Cash Flows

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Cash and Cash Equivalents</b> (at 6/30)	<b><u>\$ 17,557,000</u></b>	<b><u>\$ 12,911,000</u></b>	<b><u>\$ 12,027,000</u></b>
Provided by (used in):			
Operating activities	\$(10,963,000)	\$ (8,059,000)	\$ (7,605,000)
Noncapital financing activities	10,588,000	7,067,000	5,088,000
Purchases of capital assets	(100,000)	(329,000)	(133,000)
Investing activities	<u>5,121,000</u>	<u>2,205,000</u>	<u>6,422,000</u>
<b>Net Increase</b>	<b><u>\$ 4,646,000</u></b>	<b><u>\$ 884,000</u></b>	<b><u>\$ 3,772,000</u></b>

Cash and cash equivalents increased by \$4.6 million during FY 2008, and totaled over \$17.5 million at year-end, with virtually all of that balance in the Operating Fund. The components of the statement of cash flows are principally the revenue and expense items, presented on a cash rather than an accrual basis, that have been described in the previous sections. In addition, the statement of cash flows reflects financing and investing activities. Included in financing activities is the State appropriation for the Scholarship and Grant Division of \$10.2 million, grants from the Federal government totaling \$368,000 and purchases of capital assets totaling \$100,000. Investing activities reflect cash receipts of just over \$10 million and cash outlays of just under \$5 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 Matching Grant Programs, and interest income on investments.

### Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Net Assets Held in Trust for Participants</b>	<b><u>\$7,893,552,000</u></b>	<b><u>\$8,320,452,000</u></b>	<b><u>6,828,578,000</u></b>

The net assets of the Program Fund totaled nearly \$7.9 billion at June 30, 2008, compared with \$8.3 billion at the end of FY 2007, a net decrease of approximately \$427,000. The components of the net decrease consist of the following: participant investments of just over \$1.1 billion; investment income of over \$542 million; a decrease of over \$1.1 billion in the market value of investments held; expenses of just under \$103 million; and participant redemptions totaling \$875 million. All of the net assets are held in trust for the participants in the Program Fund. The number of accounts grew from approximately 488,000 at the end of FY 2007 to over 492,000 at the end of FY 2008.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Federal Fund Total Assets and Liabilities</b>	<b><u>\$ 16,744,000</u></b>	<b><u>\$ 13,632,000</u></b>	<b><u>\$ 12,197,000</u></b>

Total assets and liabilities of the Federal Student Loan Reserve Fund (Federal Fund) were over \$16.7 million at the end of FY 2008, up from \$13.6 million at the end of FY 2007. Assets include nearly \$5.9 million in cash and cash equivalents and a \$10.1 million reinsurance receivable from the Department of Education arising from claims paid to lenders. The liabilities of the Federal Fund include a \$4 million allowance for unreinsured claims, a liability for claims payable to lenders of approximately \$1.4 million, and a payable to the AOF of \$987,000. In addition, the Federal Fund reflects a liability to the Federal government of \$10.3 million. Although recorded as a liability in the audited financial statements, this amount substantively reflects the operating reserves of the Federal Fund, and is restricted by federal statutes to 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 remained well above the minimum regulatory requirements, and RIHEAA's management has always carefully monitored the status of the Federal Fund. The recent Higher Education Reconciliation Act (HERA) required that effective July 1, 2006, guaranty agencies collect and deposit into the Federal Fund a "default fee" which is assessed on loans guaranteed and disbursed after that date. This fee has provided a significant source of revenue to the Federal Fund substantially similar to guarantee fees and has served to stabilize the reserve fund balance. (See Note 12 – Reserve Fund Requirements)

### **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, 2008**

	Operating Fund	Scholarship and Grant Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 16,943,028	\$ -	\$ 16,943,028
Investments	2,009,063	3,865,292	5,874,355
Receivables and accruals:			
Interest	42,432	-	42,432
Loan processing issuance fee	57,000	-	57,000
Loans	32,730	-	32,730
Portfolio maintenance fee	254,406	-	254,406
Other	16,004	-	16,004
Due from Federal Student Loan Reserve Fund	987,349	-	987,349
Prepaid expenses	192,175	-	192,175
Total current assets	20,534,187	3,865,292	24,399,479
Noncurrent assets:			
Restricted cash and cash equivalents	614,080	-	614,080
Investments	2,102,813	-	2,102,813
Loans receivable, less current portion	143,570	-	143,570
Capital assets, net of accumulated depreciation	1,211,756	-	1,211,756
Total noncurrent assets	4,072,219	-	4,072,219
Total assets	24,606,406	3,865,292	28,471,698
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	794,572	-	794,572
Payable to federal government	74,767	-	74,767
Liability for estimated default aversion fee returns	509,325	-	509,325
Compensated absences	156,724	-	156,724
Total current liabilities	1,535,388	-	1,535,388
Noncurrent liabilities:			
Liability for estimated default aversion fee returns, less current portion	206,675	-	206,675
Compensated absences, less current portion	208,500	-	208,500
Deferred default prevention income	433,751	-	433,751
Total noncurrent liabilities	848,926	-	848,926
Total liabilities	2,384,314	-	2,384,314
Commitments and contingencies (Note 12)	-	-	-
<b>NET ASSETS</b>			
Invested in capital assets	1,211,756	-	1,211,756
Restricted	21,010,336	3,865,292	24,875,628
Total net assets	\$ 22,222,092	\$ 3,865,292	\$ 26,087,384

*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, 2008**

	Operating Fund	Scholarship and Grant Fund	Total
<b>OPERATING REVENUES</b>			
Government Fees:			
Default aversion, net	\$ 693,000	\$ -	\$ 693,000
Loan processing issuance	1,124,730	-	1,124,730
Account maintenance	1,319,096	-	1,319,096
Recovery, consolidation and rehabilitation income, net of DE share	5,524,408	-	5,524,408
Tuition Savings Program Fund:			
Account maintenance fees	4,298,409	-	4,298,409
Direct purchase commissions	1,100,113	-	1,100,113
Penalty administrative fees and other	828,828	-	828,828
AllianceBernstein contract income	250,000	-	250,000
Other	153,429	-	153,429
Total operating revenues	15,292,013	-	15,292,013
<b>OPERATING EXPENSES</b>			
Student financial assistance	-	16,758,623	16,758,623
Salaries, payroll taxes and employee benefits	3,219,609	-	3,219,609
Building and maintenance expenses	129,381	-	129,381
Collection agency commissions	2,393,011	-	2,393,011
Computer services	154,302	-	154,302
Web portal maintenance services	208,717	-	208,717
Default aversion and prevention expenses	530,106	-	530,106
Depreciation and amortization	256,777	-	256,777
Marketing and promotion	356,813	-	356,813
Office expenses and other	332,307	-	332,307
Printing and postage	127,223	-	127,223
Professional services	161,079	-	161,079
Sallie Mae guarantee services fees	1,119,312	-	1,119,312
Sallie Mae portfolio management fees	619,568	-	619,568
Travel, conferences and workshops	124,860	-	124,860
Total operating expenses	9,733,065	16,758,623	26,491,688
Operating income (loss)	5,558,948	(16,758,623)	(11,199,675)

*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, 2008**

	Operating Fund	Scholarship and Grant Fund	Total
<b>NONOPERATING REVENUES</b>			
Investment income	\$ 1,001,008	\$ 148,580	\$ 1,149,588
State appropriations	731,992	9,487,800	10,219,792
Federal grants	-	367,919	367,919
Total nonoperating revenues	1,733,000	10,004,299	11,737,299
Income (loss) before transfers	7,291,948	(6,754,324)	537,624
<b>TRANSFERS IN (OUT)</b>			
Academic Promise Scholarship Program	(325,000)	325,000	-
Adult Education Grant Program	(600,000)	600,000	-
State grant program	(5,645,519)	5,645,519	-
Total transfers	(6,570,519)	6,570,519	-
Change in net assets	721,429	(183,805)	537,624
<b>NET ASSETS</b>			
Beginning of year	21,500,663	4,049,097	25,549,760
End of year	\$ 22,222,092	\$ 3,865,292	\$ 26,087,384

*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, 2008**

	Operating Fund	Scholarship and Grant Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from:			
Recovery, consolidation and rehabilitation income	\$ 5,282,787	\$ -	\$ 5,282,787
Tuition Savings Program Fund fees and commissions	6,227,350	-	6,227,350
Government fees	3,245,474	-	3,245,474
AllianceBerstein contract income	250,000	-	250,000
Other	153,429	-	153,429
Repayments of loans	44,267	-	44,267
Cash paid for:			
Employees for services and benefits	(3,219,079)	-	(3,219,079)
Supplies, materials and services	(6,185,148)	-	(6,185,148)
Student financial assistance	-	(16,761,660)	(16,761,660)
Net cash provided by (used in) operating activities	<u>5,799,080</u>	<u>(16,761,660)</u>	<u>(10,962,580)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating subsidies and transfers (to) from other funds	(6,570,519)	6,570,519	-
State appropriations	731,992	9,487,800	10,219,792
Federal grants	-	367,919	367,919
Net cash provided by (used in) noncapital financing activities	<u>(5,838,527)</u>	<u>16,426,238</u>	<u>10,587,711</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(99,798)	-	(99,798)
Net cash used in capital and related financing activities	<u>(99,798)</u>	<u>-</u>	<u>(99,798)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investments	(3,928,059)	(1,069,581)	(4,997,640)
Proceeds from sales and maturities of investments	8,000,000	1,253,386	9,253,386
Investment income	716,047	148,580	864,627
Net cash provided by investing activities	<u>4,787,988</u>	<u>332,385</u>	<u>5,120,373</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,648,743	(3,037)	4,645,706
Cash and cash equivalents, beginning of year	<u>12,908,365</u>	<u>3,037</u>	<u>12,911,402</u>
Cash and cash equivalents, end of year	<u>\$ 17,557,108</u>	<u>\$ -</u>	<u>\$ 17,557,108</u>
Reconciliation of cash and cash equivalents to the statement of net assets:			
Current assets - cash and cash equivalents	\$ 16,943,028	\$ -	\$ 16,943,028
Noncurrent assets - restricted cash and cash equivalents	614,080	-	614,080
	<u>\$ 17,557,108</u>	<u>\$ -</u>	<u>\$ 17,557,108</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, 2008**

	Operating Fund	Scholarship and Grant Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 5,558,948	\$ (16,758,623)	\$ (11,199,675)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	256,777	-	256,777
Provision for default aversion fee refunds	(47,500)	-	(47,500)
Changes in assets and liabilities:			
(Increase) decrease in:			
Receivables and accruals:			
Portfolio maintenance fees	125,648	-	125,648
Loan processing issuance fee	(17,000)	-	(17,000)
Loans	44,267	-	44,267
Other	(12,702)	-	(12,702)
Due from Federal Student Loan Reserve Fund	(228,919)	-	(228,919)
Prepaid expenses	4,699	-	4,699
Increase (decrease) in:			
Accounts payable and accrued expenses	70,103	-	70,103
Payable to federal government	33,517	(3,037)	30,480
Deferred default prevention income	17,162	-	17,162
Compensated absences	(5,920)	-	(5,920)
Net cash provided by (used in) operating activities	\$ 5,799,080	\$ (16,761,660)	\$ (10,962,580)

*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, 2008**

	Private Purpose Trust Fund	Agency Fund Federal Student Loan Reserve Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 320	\$ 5,866,733
Investments	7,901,428,881	-
Receivables and accruals:		
Units sold	5,327,721	-
Investments sold	1,664,602	-
Interest and dividends	76,948	-
Reinsurance claims - federal government	-	10,136,000
Default aversion fee returns	-	716,000
Other	33,602	25,109
	<u>7,908,532,074</u>	<u>\$ 16,743,842</u>
<b>LIABILITIES</b>		
Accounts payable:		
Investments purchased and units redeemed	6,730,945	\$ -
Accrued asset-based charges	8,249,593	-
Lender claims	-	1,354,268
Other	-	92,102
Payable to Operating Fund	-	987,349
Liability for unreinsured claims	-	4,000,000
Due to the federal government	-	10,310,123
	<u>14,980,538</u>	<u>\$ 16,743,842</u>
<b>NET ASSETS</b>		
Held in trust for participants	<u>\$ 7,893,551,536</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, 2008**

	Private Purpose Trust Fund
	Tuition Savings Program Fund
From operations:	
Investment income	\$ 542,500,189
Net decrease in fair value of investments	(1,124,889,481)
Expenses, asset-based charges	(102,889,495)
Net decrease in net assets from operations	(685,278,787)
From unitholder transactions:	
Subscriptions	1,133,300,293
Redemptions	(874,921,592)
Net increase in net assets from unitholder transactions	258,378,701
Net decrease in net assets	(426,900,086)
Net assets held in trust for participants, beginning of year	8,320,451,622
Net assets held in trust for participants, end of year	\$ 7,893,551,536

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

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**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, 2008**

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**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, 2008**

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**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”).

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

***Adult Education Grant Program*** – This fund accounts for all transactions relating to the Authority’s operation of the Adult Education Grant Program. The Authority invested \$600,000 in the Program Fund for the benefit of academic and income-qualifying students to provide up to \$3,000 to each student enrolled less than half time basis at a Rhode Island college or University over a two-year scholarship period.

***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 Matching Grant Program, Academic Promise Scholarship Program and Adult Education Grant 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.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**  
**JUNE 30, 2008**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)**

**FUND FINANCIAL STATEMENTS (*Continued*)**

**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 default 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.

**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, 2008**

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**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 lender training, financial aid awareness and related outreach activities, compliance monitoring, and other student financial aid related activities. In addition, the net assets of the Scholarship and Grant Operating Fund must be used in the administration of scholarships and grants on behalf of the federal government and the State, the net assets of the RIHEST Administrative Fund must be used in the administration of RIHEST or student financial assistance programs authorized by the Authority's Board of Directors, and the net assets of the AllianceBerstein L.P. Contract Fund must be used for the management and promotion of the Tuition Savings Program or student financial assistance programs authorized by the Authority's Board of Directors. Therefore, the entire balance of the Operating Fund's net assets is classified as restricted in the accompanying statement of net assets. Also, the Scholarship and Grant Fund's net assets relating to the Program Fund, in the amount of \$3,865,292, for the Academic Promise Scholarship Program and Matching Grant Program are classified as restricted.

***Unrestricted*** - This category consists of net assets which do not meet the definition of the two preceding categories.

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, 2008**

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**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. The Authority recorded a provision for fee returns during 2008 at approximately 40% 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 2008 default aversion fees are recorded net of a \$462,500 provision for returns, and the allowance for fee returns as of June 30, 2008 is \$716,000.

**Loan Processing Issuance Fees**

The Authority earns 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 based on a percentage of the annual average balance of the original principal amount of guaranteed loans outstanding. Effective October 1, 2007 the AMF rate was reduced to .06% from the previous rate of .10%.

**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, 2008**

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**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, 2008, the Authority's cash deposits consist of the following:

	<b>Bank Balance</b>	<b>Carrying Amount</b>
Demand deposits	\$ 20,167,781	\$ 19,490,645
State's General Treasury	57,895	57,895
Money market funds	3,652,801	3,652,801
	<u>\$ 23,878,477</u>	<u>\$ 23,201,341</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, 2008**

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**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, 2008 are as follows:

Uninsured, uncollateralized	\$ 143,750
Uninsured, but collateralized with securities held by the pledging bank's trust department or agent not held in the Authority's name	23,539,933
	\$ 23,683,683

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 \$222,822 as of June 30, 2008 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, 2008 is as follows:

Statement of Net Assets:	
Current assets	\$ 16,943,030
Noncurrent assets	614,080
Statement of Fiduciary Net Assets:	
Tuition Savings Program Fund	320
Federal Student Loan Reserve Fund	5,866,733
	23,424,163
Less: cash equivalents considered investments under GASB Statement No. 40	222,822
Cash deposits	\$ 23,201,341

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2008**

**NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)**

**INVESTMENTS**

As of June 30, 2008, 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>
<b>Debt Securities:</b>			
Money market funds	\$ 222,822	\$ 222,822	\$ -
Mutual funds	7,905,294,173	7,905,294,173	-
U.S. Treasury Notes	4,111,876	2,009,063	2,102,813
	<u>\$ 7,909,628,871</u>	<u>\$ 7,907,526,058</u>	<u>\$ 2,102,813</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, 2008 is as follows:

Statement of Net Assets:

Current assets	\$ 5,874,355
Noncurrent assets	2,102,813

Statement of Fiduciary Net Assets:

Tuition Savings Program Fund	7,901,428,881
	<u>7,909,406,049</u>

Add: cash equivalents considered investments  
under GASB Statement No. 40

222,822
<u>\$ 7,909,628,871</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, 2008, 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, 2008**

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**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, 2008, the outstanding loan balances total \$176,300, of which \$65,207 is guaranteed by the federal government.

Certain loans, totaling \$31,586, 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 2008, loans totaling \$5,354 were 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 \$46,191 of principal balance was outstanding at June 30, 2008).

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2008**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 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
Web portal development	113,375	-	-	113,375
Total capital assets, not being depreciated	<u>307,471</u>	<u>-</u>	<u>-</u>	<u>307,471</u>
Capital assets, being depreciated or amortized:				
Land improvements	95,244	-	-	95,244
Building and improvements	2,112,774	37,639	-	2,150,413
Equipment	562,756	62,159	-	624,915
Web-based scholarship and grant program system	420,650	-	-	420,650
Total capital assets, being depreciated or amortized	<u>3,191,424</u>	<u>99,798</u>	<u>-</u>	<u>3,291,222</u>
Less accumulated depreciation and amortization for:				
Land improvements	(22,479)	(5,389)	-	(27,868)
Building and improvements	(1,365,053)	(101,319)	-	(1,466,372)
Equipment	(406,108)	(65,939)	-	(472,047)
Web-based scholarship and grant program system	(336,520)	(84,130)	-	(420,650)
Total accumulated depreciation and amortization	<u>(2,130,160)</u>	<u>(256,777)</u>	<u>-</u>	<u>(2,386,937)</u>
Total capital assets, being depreciated or amortized, net	<u>1,061,264</u>	<u>(156,979)</u>	<u>-</u>	<u>904,285</u>
Total capital assets, net	<u>\$ 1,368,735</u>	<u>\$ (156,979)</u>	<u>\$ -</u>	<u>\$ 1,211,756</u>

**NOTE 6 - LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2008 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	\$ 763,500	\$ 462,500	\$ (510,000)	\$ 716,000	\$ 509,325
Compensated absences	371,144	-	(5,920)	365,224	156,724
Deferred default prevention income	416,589	17,162	-	433,751	-
	<u>\$ 1,551,233</u>	<u>\$ 479,662</u>	<u>\$ (515,920)</u>	<u>\$ 1,514,975</u>	<u>\$ 666,049</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, 2008**

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**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, 2008, the Authority charged the Federal Fund \$3,449,918 pursuant to the above provisions and as of June 30, 2008, the liability for unreinsured claims totals \$4,000,000.

**NOTE 8 - NET ASSETS**

Restricted net assets consist of the following as of June 30, 2008:

Scholarship and Grant Fund:	
Academic Promise Scholarship Program	\$ 2,391,900
Matching Grant Program	860,334
Adult Education Grant Program	<u>613,058</u>
	3,865,292
Operating Fund:	
Agency Operating Fund	<u>21,010,336</u>
	<u>\$ 24,875,628</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, 2008 were as follows:

Guaranteed loans outstanding at June 30, 2008	\$ 509,527,282
Loans guaranteed during the year	247,588,042
Guarantee claims paid during the year	21,668,656

In addition, the Authority leases office space to RISLA. For the year ended June 30, 2008, rental income (including common area maintenance, utilities and reception services) received from RISLA totaled approximately \$110,000.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2008**

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**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:

<b>Years of Credited Service</b>	<b>Ten Years of Service on or Before July 1, 2007</b>	<b>Ten Years of Service After July 1, 2007</b>
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 approximately \$1,682,000 in 2008. For the fiscal year ended June 30, 2008, the Authority's actuarially computed contribution rate to the System was 20.77% of annual covered payroll. The employees' contribution rate is 8.75% of their annual covered salary. Employees contributed approximately \$147,000 in 2008. The Authority's contributions for the years ended June 30, 2008, 2007 and 2006 were approximately \$350,000, \$291,000 and \$235,000, 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, 2008 were 9% of the covered payroll. The Authority's contributions for the years ended June 30, 2008, 2007 and 2006 were approximately \$37,000, \$36,000 and \$35,000, 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, 2008**

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**NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN**

**Plan Description**

The Authority participates in a State administered defined benefit postemployment health care plan known as the Rhode Island Retiree Health Care Benefit Plan (RIRHCBP). The RIRHCBP is an agent multiple employer plan.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree (plan member) contributions to the plan. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the plan. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the plan. For the year ended June 30, 2008 the Plan operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members. The RIRHCBP does not issue a stand-alone financial report.

**Funding Policy**

RIGL Sections 36-10-2, 36-12.1, 36-12.2.2 and 36-12-4 govern the provisions of the RIRHCBP. The contribution requirements of plan members, the State and other participating employers are established and may be amended by the General Assembly.

For anyone who retires on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

In fiscal year 2008, non-Medicare retirees paid the active monthly premium rate and the State paid the difference between the active group rate and the more costly, early retiree rate (the "Tier I" benefit). Pursuant to RIGL Section 36-12-4 the State paid a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2008**

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**NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN (Continued)**

**Funding Policy (Continued)**

The retirees' fiscal 2008 contributions are as follows:

<b>Retiree Age</b>	<b>Years of Service</b>	<b>Amount of Cost Paid by Retiree</b>
<b>Below 60: (1)</b>		
	28-34	10%
	35+	0%
<b>Retiree Age from 60 to 65: (2)</b>		
	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
<b>Retiree Age Greater than 65: (3)</b>		
	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

- (1) The monthly premium rate is \$708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of \$452.28 (the active plan rate).
- (2) The monthly premium rates are the same as indicated above for the Retiree Age Below 60 category.
- (3) The monthly premium rate for the Medicare Supplemental plan is \$179.77 for the individual plan, and the monthly premium for the Medicare HMO plan was \$100.00 for the first six months of fiscal year 2008 and \$107 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2008**

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**NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN (Continued)**

**Annual OPEB Cost**

The Authority recognized an expense equal to the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Authority actually contributed 3.91% of annual covered payroll, resulting in a net OPEB obligation of \$35,000, which is included in accounts payable and accrued expenses in the accompanying statement of net assets at June 30, 2008. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal 2008, the first year of GASB 45 implementation, was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$100,000	65%	\$35,000

**Funded Status and Funding Progress**

The funded status of the Authority's share of the plan as of June 30, 2008, was as follows:

Actuarial Accrued Liability (AAL)	\$1,789,802
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$1,789,802</u>
Funded ratio (Actuarial Value of Plan Assets / AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$1,682,000
UAAL as a Percentage of Covered Payroll	106%

Separate actuarial valuations were not performed to determine the actuarial accrued liability for the Authority, a participating employer. The total AAL for all general employees participating in RIRHCBP was apportioned to each participating entity based on their pro rata share of active covered employees to all active covered employees.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**  
**JUNE 30, 2008**

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**NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN (*Continued*)**

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal year ended June 30, 2008. The annual required contribution was determined using the individual entry age actuarial cost method. The unfunded actuarial accrued liability as of the June 30, 2005 transition date is amortized over a period of 30 years using the level (principal and interest combined) percent of payroll contribution amortization method.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuation performed as of June 30, 2005.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond. The discount rate was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the State's General Fund.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment, mortality and healthcare cost trends. Actuarial valuations are subject to continual revision as actual results are compared to past expectations and new estimates are formulated about the future.

**Significant Legislation Affecting Plan**

On May 1, 2008 Public Law 2008-09 was enacted. This law, among other provisions, establishes a Trust to be effective in fiscal year 2009 to fund other post employment health care benefits, requires annual actuarial valuations of the OPEB liability, and commits the State to funding the actuarially determined OPEB contribution beginning in fiscal year 2009. In addition, the legislation changes the eligibility requirements for State contributions for health care coverage for those retiring on or after October 1, 2008. For anyone who retires on or after that date and has a minimum of 20 years of service and who is a minimum of 59 years of age, the State will pay 80% of the actual cost of such health care coverage.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**  
**JUNE 30, 2008**

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**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.

**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.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**  
**JUNE 30, 2008**

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**NOTE 12 - COMMITMENTS AND CONTINGENCIES (*Continued*)**

**United States Department of Education (*Continued*)**

***Preservation and Recovery of Reserves (Continued)***

Pursuant to the Omnibus Budget Reconciliation Act of 1993, the Secretary required the return of \$1 billion in guaranty agency Reserve Funds nationwide. The Authority's share of Reserve Funds to be returned was \$4,310,909. The Authority was required to account separately for 20% of the \$4,310,909 in each of the fiscal years 1998 through 2002, and the entire amount was returned to the Secretary on August 30, 2002. Until the funds were returned to the Secretary, the Authority received interest on the funds, restricted for use in default prevention activities. Upon payment of the \$4,310,909, the Authority was authorized to transfer the accumulated interest to the Agency Operating Fund, subject to its restricted use in default prevention activities. The Authority reports a corresponding liability, deferred default prevention income, for the cash balance restricted for default prevention activities, and recognizes income as allowable expenditures are incurred. The liability totaled \$433,751 as of June 30, 2008.

In addition, the 1998 reauthorization of the Higher Education Act required 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 was payable in three installments. At June 30, 2008, there were no remaining amounts outstanding and recorded in the Federal Fund as the final installment of \$368,318, which was paid on August 30, 2007.

***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, 2008, the Authority's OPO totaled \$1,749,906,636 and its corresponding minimum reserve balance was \$4,374,767. Using the method currently prescribed by DE, the Authority's actual reserve fund balance was \$14,310,123 at June 30, 2008 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 federal fiscal year ended September 30, 2007 and the Authority has not exceeded the 5% reinsurance trigger.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (*Continued*)**  
**JUNE 30, 2008**

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**NOTE 12 - COMMITMENTS AND CONTINGENCIES (*Continued*)**

**Systems Services Agreement**

The Authority has an agreement for computer system services with Sallie Mae Guarantee Services. In July of 2007, RIHEAA and Sallie Mae agreed to a one year extension of an existing agreement which provided for services through September 30, 2008. In July of 2008, after concluding a competitive bid process, RIHEAA and Sallie Mae entered into a new agreement which provides for an initial 4 year term beginning October 1, 2008 through September 30, 2012 with up to 3 additional 2 year terms at RIHEAA's option.

The existing agreement, the extension to that agreement, and the new agreement provide for fixed fees plus incremental fees for loan guarantee systems services based upon the amount of annual loan applications processed excluding consolidated loans, as well as specified fees for certain administrative services provided to the Authority on an as requested basis. Fees to Sallie Mae for those services totaled \$1,119,312 for the year ended June 30, 2008.

Under the same agreement, Sallie Mae provides portfolio management services to the Authority for defaulted loans outsourced for collection. The Authority compensates Sallie Mae at the rate of 24% of net revenue generated from collection activities. Net revenue is defined as amounts collected less commissions paid to collection vendors and less amounts remitted to the DE. Fees to Sallie Mae for portfolio management services totaled \$619,568 for the year ended June 30, 2008. In the event the Authority should cancel the portfolio management services, the agreement provides for increases in the fee structure for loan guarantee systems services.

**Default Aversion and Prevention Services Agreement**

The Authority has an agreement, which expires in September 2008, 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. RIHEAA is in the process of negotiating with OSI to provide services after the expiration of the current agreement. Fees to OSI totaled \$530,106 for the year ended June 30, 2008.

**Default Fees**

Beginning July 1, 2006, guaranty agencies were required to collect and deposit into the Federal Student Loan Reserve Fund a 1% default fee on all loans disbursed (excluding consolidation loans). The fee is either charged directly to borrowers or paid by lenders or guaranty agencies on behalf of borrowers. Initially, and through the beginning of calendar year 2008, these fees were primarily paid by lenders on behalf of borrowers. However, during 2008, in response to changes in the student loan marketplace, most lenders ceased payment of default fees. In March of 2008, the RIHEAA Board of Directors voted to utilize Agency Operating Fund reserves to begin paying the default fee for RIHEAA Stafford Loan, PLUS Loan and Grad PLUS Loan borrowers effective July 1, 2008 for the 2008/2009 academic year. The policy to pay the fee on behalf of borrowers is subject to periodic review by the RIHEAA Board. RIHEAA estimates that the total amount required to pay the fees for the 2008/2009 academic year will be approximately \$4 million.

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2008**

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**NOTE 12 - COMMITMENTS AND CONTINGENCIES (Continued)**

**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 \$6,277,380 for the year ended June 30, 2008 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, AllianceBernstein has 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, 2008, the Authority paid to Alliance additional funds of \$320,000 under the agreement for the marketing and promotion expenses. For 2009, the Authority has authorized additional funds up to \$500,000 for marketing and promotion expenses.

**Web Portal Development and Services Agreement**

The Authority has an agreement with XAP / Bridges Corporation to develop and maintain an internet-based program (WaytogoRI.org) that helps students explore career options and prepare and apply for a college education. The web portal, which will be fully operational in the fall of 2008, will also provide a platform for individualized learning plans, electronic portfolios and electronic transcripts. It is being made available at no cost to all Rhode Island students, parents, and educators. During 2008, expenses associated with the web portal totaled \$245,735. For 2009, RIHEAA anticipates that total expenses for development, maintenance and services, and marketing and training will be approximately \$800,000.

**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.

**Required  
Supplementary  
Information**

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2008**

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**Schedule of Funding Progress for the Rhode Island Retiree Health Care Benefit Plan**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2008	\$ -	\$ 1,789,802	\$1,789,802	0%	\$ 1,682,000	106%

# **Supplemental Information**

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF AGENCY OPERATING FUND TRAVEL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Payee</u>	<u>Purpose of Travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Auto/Other</u>	<u>Total</u>
Kim Cournoyer	K. Cournoyer - VMWare Training	\$ 246	\$ -	\$ -		\$ 246
Kevin Fanion	K. Fanion - LINUX Training	-	1,325	-	201	1,526
American Express	W. Hurry - NASFAA Mtg	-	838	-	265	1,103
American Express	C. Miller - NCHELP Electronic Standards	-	559	-	-	559
Joseph Palumbo	J. Palumbo - NCHELP Legal Conf	-	417	-	-	417
American Express	W. Hurry - NCHELP Legislative Mtg	279	-	-	-	279
American Express	W. Hurry - NCHELP CEO Mtg	-	300	-	-	300
American Express	M. Lacroix - NCHELP Legislative Mtg	279	-	-	-	279
Kim Cournoyer	K. Cournoyer - VMWare Training	-	1,067	-	-	1,067
Greg Silva	G. Silva MYF Mtg	381	-	-	-	381
American Express	W. Hurry - NCHELP Legislative Mtg	-	490	-	208	698
American Express	M. Lacroix - NCHELP Legislative Mtg	-	490	-	-	490
American Express	C. Bermeo - College Access Conf	384	-	-	-	384
American Express	M. Garcia - NCAN Conf	438	-	-	-	438
Kevin Fanion	K. Fanion - SQL Training	305	1,334	-	-	1,639
Nancy Dooley	N. Dooley - NCHELP Training	1,116	-	-	-	1,116
American Express	W. Hurry - NCHELP CEO Mtg	-	413	-	-	413
American Express	M. Garcia - NCAN Conf	-	771	-	-	771
Council for Opportunity	Dr. A. Mitchem - College Access Conf	626	-	-	-	626
American Express	C. Miller - Meteor Project Mtg	-	549	-	-	549
American Express	N. Dooley - NCHELP Training	-	549	-	-	549
American Express	M. Lacroix - NCHELP Leadership Mtg	238	-	-	-	238
American Express	W. Hurry - NCHELP Leadership Mtg	238	-	-	-	238
American Express	W. Hurry - NCHELP Debt Mtg	-	201	-	-	201
American Express	D. Carlin - NCHELP Debt Mtg	-	201	-	-	201
American Express	C. Cox - NCHELP Debt Mtg	-	201	-	-	201
American Express	G. Silva - MYF Mtg	422	-	-	-	422
American Express	T. Pearce - SallieMae Training	372	-	-	-	372
American Express	K. Fanion - LINUX Training	-	2,730	-	-	2,730

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**SCHEDULE OF AGENCY OPERATING FUND TRAVEL EXPENSES (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<u>Payee</u>	<u>Purpose of Travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Auto/Other</u>	<u>Total</u>
American Express	J. Knight - LINUX Training	\$ -	\$ 2,730	\$ -	\$ -	\$ 2,730
American Express	K. Sisson - XAP/Mentor Training	579	-	-	-	579
American Express	G. Mance-Rios - XAP/Mentor Training	579	-	-	-	579
American Express	M. Garcia - XAP/Mentor Training	579	-	-	-	579
Tom Pearce	T. Pearce - SallieMae Training	-	477	-	-	477
Kevin Fanion	K. Fanion - LINUX Training	-	-	-	224	224
American Express	K. Sisson - XAP/Mentor Training	-	516	-	-	516
American Express	G. Mance-Rios - XAP/Mentor Training	-	516	-	-	516
American Express	M. Garcia - XAP/Mentor Training	-	516	-	-	516
American Express	G. Mance-Rios - NCHELP Leadership Mtg	254	-	-	-	254
Greg Silva	G. Silva - MYF Mtg	-	294	-	-	294
American Express	W. Hurry - NCHELP Leadership Mtg	-	884	-	298	1,182
American Express	W. Hurry - College Board Mtg	-	358	-	-	358
American Express	W. Hurry - NCHELP Debt Mtg	214	-	-	-	214
American Express	M. Lacroix - NCHELP Leadership Mtg	-	884	-	-	884
American Express	G. Mance-Rios - NCHELP Leadership Mtg	-	1,018	-	-	1,018
American Express	C. Miller - Meteor Project Mtg	-	626	-	-	626
American Express	N. Dooley - NCHELP Program Operations	-	566	-	-	566
American Express	M. Welch - NASSGAP Exec Comm	398	-	-	-	398
American Express	J. Knight - GBPI Training	-	481	-	-	481
American Express	W. Hurry - MYF Board Mtg	-	886	-	-	886
American Express	C. Miller - PESC Tech Mtg	450	-	-	-	450
American Express	M. Cote - Tech Mentor Conf	-	1,119	-	-	1,119
Clordine Cox	C. Cox - NCHELP Debt Mtg	-	806	-	-	806
Diane Carlin	D. Carlin - NCHELP Debt Mtg	-	806	-	335	1,141
American Express	W. Hurry - NCHELP Debt Mtg	-	806	265	312	1,383

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY**  
**SCHEDULE OF AGENCY OPERATING FUND TRAVEL EXPENSES (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

<u>Payee</u>	<u>Purpose of Travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Auto/Other</u>	<u>Total</u>
American Express	W. Hurry - DE Mtg	\$ 249	\$ -	\$ -	\$ -	\$ 249
American Express	M. Welch - NASSGAP Mtg	492	-	-	-	492
Greg Silva	G. Silva - MYF Mtg	-	536	-	-	536
Joseph Palumbo	J. Palumbo - NCHELP Legal Conf	-	372	-	-	372
American Express	W. Hurry - DE Mtg	-	308	-	-	308
American Express	C. Miller - MYF Mtg	-	536	-	-	536
American Express	C. Miller - PESC Tech Mtg	-	630	-	-	630
American Express	K. Sisson - ASCA Conf	491	-	-	-	491
American Express	G. Mance-Rios - ASCA Conf	491	-	-	-	491
American Express	M. Garcia - ASCA Conf	491	-	-	-	491
American Express	K. Sisson - XAP/Mentor Mtg	350	-	-	-	350
American Express	G. Mance-Rios - XAP/Mentor Mtg	350	-	-	-	350
Margaret Cote	M. Cote - Tech Mentor Conf	231	-	-	223	454
Greg Silva	G. Silva - EASFAA Mtg	-	417	-	-	417
Clordine Cox	C. Cox - ASA Symposium	-	473	-	-	473
American Express	W. Hurry - NCHELP Conf	367	806	-	221	1,394
American Express	W. Hurry - EASFAA Mtg	-	276	-	-	276
American Express	M. Welch - NASSGAP Mtg	-	856	-	-	856
American Express	K. Sisson - CFNC Mtg	367	-	-	-	367
American Express	G. Mance-Rios - CFNC Mtg	367	-	-	-	367
American Express	C. Miller - Meteor Project Mtg	688	-	-	-	688
American Express	M. Garcia - ASCA Conf	-	241	-	-	241
American Express	G. Mance-Rios - ASCA Conf	-	408	-	-	408
American Express	M. Lacroix - NCHELP CFO Mtg	-	464	-	-	464
American Express	K. Sisson - XAP/Mentor Mtg	-	550	-	-	550
American Express	G. Mance-Rios - XAP/Mentor Mtg	-	550	-	-	550
Amounts less than \$200		945	1,083	6,782	10,394	19,204
		<u>\$ 14,256</u>	<u>\$ 35,230</u>	<u>\$ 7,047</u>	<u>\$ 12,681</u>	<u>\$ 69,214</u>

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF SCHOLARSHIP AND GRANT OPERATING FUND TRAVEL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Payee</u>	<u>Purpose of Travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Auto/Other</u>	<u>Total</u>
American Express	M. Welch - NASFAA Conf	\$ -	\$ 629	\$ -	\$ -	\$ 629
American Express	M. Welch - NASSGAP Conf	421	-	-	-	421
American Express	M. Welch - CCRA Bill Signing	249	-	-	-	249
American Express	M. Welch - NASSGAP Conf	-	877	-	-	877
John Knight	J. Knight - GBPI Training	-	-	-	252	252
Amounts less than \$200		49	-	244	300	593
		<u>\$ 719</u>	<u>\$ 1,506</u>	<u>\$ 244</u>	<u>\$ 552</u>	<u>\$ 3,021</u>

**RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF RIHEST ADMINISTRATIVE FUND TRAVEL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Payee</u>	<u>Purpose of Travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Auto/Other</u>	<u>Total</u>
American Express	W. Hurry - CSPN Mtg	\$ -	\$ 226	\$ -	\$ -	\$ 226
American Express	M. Joyce - CSPN Mtg	-	549	-	-	549
Xay Khamsyvoravong	X. Khamsyvoravong - CSPN Mtg	365	536	-	-	901
American Express	W. Hurry - CSPN Mtg	760	292	-	-	1,052
American Express	W. Hurry - AllianceBernstein Mtg	-	315	-	-	315
RI General Treasurer	F. Caprio - AllianceBernstein Mtg	-	830	-	-	830
American Express	M. Joyce - CSF Mtg	-	1,306	-	204	1,510
American Express	W. Hurry - CSF Mtg	259	1,306	-	-	1,565
American Express	M. Joyce - NAST Mtg	-	755	-	-	755
American Express	W. Hurry - NAST Mtg	-	502	-	300	802
American Express	M. Joyce - NASSGAP Conference	-	-	-	204	204
American Express	M. Joyce - NASSGAP Conference	-	642	-	-	642
Amounts less than \$200		188	147	736	2,172	3,243
		<u>\$ 1,572</u>	<u>\$ 7,406</u>	<u>\$ 736</u>	<u>\$ 2,880</u>	<u>\$ 12,594</u>