

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

YEAR ENDED JUNE 30, 2009



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

YEAR ENDED JUNE 30, 2009

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Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Rhode Island Higher Education Assistance Authority (the Authority), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2009, 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 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, 2009, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2009 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.

Independent Auditors' Report (Continued)

Board of Directors
Rhode Island Higher Education
Assistance Authority

The Management's Discussion and Analysis presented on pages 3 through 10 and the Schedule of Funding Progress presented on page 46 are not required parts of the basic financial statements but consist of supplementary information required by accounting principles generally accepted in the United States. 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 47 through 53 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.

Handwritten signature in cursive script: Jeffrey A. Finkel, CPA

September 30, 2009

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, 2009. The MD&A consists of an introduction section, and a financial highlights and comparative analysis section. In addition, a section titled "Legislative Development" follows the financial highlights and comparative analysis. 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 legislative development section discusses some of the concerns for the Authority's Loan Division Guaranty Agency operations as a result of the passage of U.S. House Bill HR 3221. 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 on July 1, 1977 by an act of the Rhode Island General Assembly and has a distinct legal existence from the State of Rhode Island (the State). It was created to administer financial assistance programs to expand access to and choice among post-secondary education opportunities for Rhode Islanders. Functionally, and for management financial reporting purposes, RIHEAA's activities are organized into three divisions which administer respectively, the Scholarship and Grant Program, the Tuition Savings Program, and the Federal Family Education Loan (FFEL) Program.

The Scholarship and Grant Division administers various student financial assistance programs funded by general revenue appropriations from the State of Rhode Island, as well as by funds received from the U.S. Department of Education (DE) and funds derived from other sources. These programs include the Rhode Island State Scholarship/Grant Program, the Federal LEAP/SLEAP and College Access Challenge Grant 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. (AllianceBernstein) under an agreement between RIHEAA, the State Investment Commission, and AllianceBernstein. Revenues of the Administrative Fund are derived principally from fees paid by non-Rhode Island participants in the Program Fund. This division also accounts for other activities associated with RIHEAA's contract with AllianceBernstein and administration of the Tuition Savings Program.

The Loan Division (FFEL Program Guaranty Agency) provides services that assist students and their parents in financing higher education expenses with guaranteed student loans. The financial transactions of the Loan Division are segregated into the Federal Student Loan Reserve Fund (the “Federal Fund”) and the Guaranty Agency Operating Fund (the “AOF”), pursuant to the provisions and restrictions of the 1998 reauthorization of the Higher Education Act. RIHEAA administers the Federal Fund on behalf of the DE. The AOF principally accounts for the administrative activities related to the operations of the FFEL Program. In addition to providing the services directly related to guaranteed loan origination, portfolio maintenance, default aversion and defaulted loan collections, Guaranty Agencies are charged with promoting awareness of and access to post-secondary education opportunities and programs. Towards that purpose, RIHEAA has committed AOF resources to develop and maintain the “WaytogoRI” web portal. WaytogoRI is a free, internet-based program that helps students, parents, and educators explore educational options, discover a wide variety of occupations, and make plans to achieve education and career goals. The WaytogoRI web portal is currently in use in all public school systems in Rhode Island and in many private and parochial institutions as well.

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; however, the related discussion addresses only the changes from FY 2008 to FY 2009.

	<u>Net Assets</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Fund	\$ 18,260,000	\$ 22,222,000	\$ 21,501,000
Scholarship and Grant Fund	<u>5,468,000</u>	<u>3,865,000</u>	<u>4,049,000</u>
Total RIHEAA	<u>\$ 23,728,000</u>	<u>\$ 26,087,000</u>	<u>\$ 25,550,000</u>

RIHEAA's total net assets at June 30, 2009 were just over \$23.7 million, a decrease of \$2.4 million from the previous year. The change in net assets consists of a decrease of approximately \$4 million in the Operating Fund and an increase of \$1.6 million 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 CollegeBoundfund® 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. At June 30, 2009, the net assets of the Operating Fund consist of \$13.8 million which is restricted by federal statute to the uses of the AOF, \$3 million which is restricted for use in Tuition Savings Program administration and student financial assistance purposes, and just under \$1.5 million invested in capital assets. The Authority's total assets are nearly \$26 million, and include nearly \$5 million in cash and cash equivalents and \$17.1 million in investments, including the amounts invested in CollegeBoundfund® for the Academic Promise Scholarship, Matching Grant and Adult Education Grant Programs. Assets also include net rehabilitation loans receivable of just under \$1.5 million. These loans were made with AOF reserve funds in order to assist some qualifying borrowers who were unable to complete rehabilitation transactions due to a shortage of funding from traditional sources. (See Note 5 to the financial statements). Total liabilities are \$2.2 million, with the largest components being a liability for the return of default aversion fees of \$721,000 and accounts payable totaling \$719,000.

Operating Fund Revenues

	2009	2008	2007
Loan Division:			
Collections-Based Revenue	\$ 4,860,000	\$ 5,525,000	\$ 6,458,000
AMF, LPIF & DAF	3,354,000	3,137,000	3,610,000
Interest and Other	549,000	965,000	939,000
	8,763,000	9,627,000	11,007,000
Tuition Savings Program:			
Program Fund Fees	6,491,000	6,227,000	6,067,000
Interest and Other	319,000	439,000	527,000
	6,810,000	6,666,000	6,594,000
Scholarship and Grant Division	654,000	732,000	738,000
Total Revenues	\$ 16,227,000	\$ 17,025,000	\$ 18,339,000

Revenues in the Loan Division totaled just under \$8.8 million in FY 2009, a decrease of \$864,000 from FY 2008. Collections-based revenue (from recoveries, consolidations, and rehabilitations of defaulted student loans) totaled nearly \$4.9 million in the current year as compared to \$5.5 million in FY 2008. The decline is primarily attributable to a decrease in the amount of rehabilitation loans funded during FY 2009 as a result of an industry-wide disruption of credit markets. Interest income declined from \$812,000 in FY 2008 to \$386,000 in the current year as a result of lower interest rates on investments and smaller balances of funds invested. The other major sources of income in the Loan Division are received from the DE and consist of:

- Account Maintenance Fees (AMF) that totaled just over \$1.3 million in FY 2009 and were virtually unchanged vs. FY 2008. This fee is based on the outstanding amount of RIHEAA's guaranteed loans, and although the outstanding loan balance grew in FY 2009, revenue remained level as a result of a reduction in the percentage amount of the fee which initially went into effect during FY 2008.

- Loan Processing Issuance Fees (LPIF) which increased from \$1.1 million in FY 2008 to over \$1.5 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 40% in FY 2009 as compared to FY 2008.
- Default Aversion Fees (DAF) which decreased from \$693,000 in FY 2008 to \$510,000 in FY 2009. These fees are paid based on the volume of loans delinquent between 60 and 120 days for which lenders submit a request for assistance and are recorded net of a provision for fee returns. The decrease was attributable to a decline of \$134,000 in gross revenue combined with an increase in the percentage amount used to estimate potential fee returns. (See Note 2 to the financial statements – Default Aversion Fees)

Revenues in the Tuition Savings Program increased from just under \$6.7 million in FY 2008 to approximately \$6.8 million in the current year. Account maintenance fees (fees paid by non-Rhode Island participants in CollegeBoundfund®), which represent the major source of income, increased \$338,000 from \$4.3 million in FY 2008 to over \$4.6 million in the current year. However, revenues from direct purchase commissions, other administrative fees and interest income declined by approximately \$200,000 in FY 2009. Although total revenues in this fund have grown each year, the rate of growth has slowed, and management believes that program revenues have stabilized. This trend is not unique to RIHEAA’s program, and has also been noted 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 from \$732,000 in FY 2008 to \$654,000 in FY 2009 as a result of State budget cuts.

Operating Fund Expenses and Transfers

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Loan Division:			
Federal Default Fees	\$ 3,813,000	\$ - 0 -	\$ - 0 -
Collection and Default Aversion	3,641,000	3,542,000	3,955,000
Personnel Expenses	2,264,000	2,513,000	2,283,000
Sallie Mae Guarantee Services	1,369,000	1,119,000	1,186,000
Web Portal Expenses	707,000	246,000	- 0 -
Other Expenses	<u>909,000</u>	<u>1,049,000</u>	<u>1,277,000</u>
Total Loan Division	<u>12,703,000</u>	<u>8,469,000</u>	<u>8,701,000</u>
Tuition Savings Program:			
Personnel Expenses	276,000	158,000	148,000
Marketing and Promotion	- 0 -	320,000	304,000
Other Expenses	<u>65,000</u>	<u>45,000</u>	<u>40,000</u>
Total Tuition Savings Program	<u>341,000</u>	<u>523,000</u>	<u>492,000</u>
Scholarship and Grant Division:			
Personnel Expenses	430,000	549,000	512,000
Other Expenses	<u>184,000</u>	<u>192,000</u>	<u>226,000</u>
Total Scholarship and Grant Division	<u>614,000</u>	<u>741,000</u>	<u>738,000</u>
Transfers to Scholarship and Grant Fund	<u>6,532,000</u>	<u>6,571,000</u>	<u>7,892,000</u>
Total Expenses and Transfers	<u>\$ 20,190,000</u>	<u>\$ 16,304,000</u>	<u>\$ 17,823,000</u>

Expenses in the Loan Division totaled \$12.7 million in FY 2009, an increase of \$4.2 million from FY 2008. Most of that increase (\$3.9 million) results from a decision by the RIHEAA Board of Directors to provide a benefit to student loan borrowers by subsidizing the federally mandated default fee during the 2008 – 2009 academic year. The default fee is 1% of the amount of guaranteed loans made and must be paid into the Federal Student Loan Reserve Fund. Within the category of collection and default aversion expenses, commissions paid to collection agencies were up slightly in FY 2009 at \$2.5 million vs. \$2.4 million in FY 2008. In addition to commissions paid to collection vendors, a portfolio management fee of \$685,000 was paid to Sallie Mae in FY 2009, an increase of \$66,000 from the FY 2008 amount. This fee is based upon the amount of net revenue generated from outsourced collection activities. Fees paid for default aversion and prevention activities decreased from \$530,000 in FY 2008 to \$431,000 in the current year. These fees are based on the vendor’s ability to bring delinquent loans into a current status. Personnel expenses decreased approximately \$250,000 in FY 2009, with increased employee benefit costs being offset by lower staffing levels. Total fees paid to Sallie Mae for guarantee processing services increased from \$1.1 million to just under \$1.4 million. Those fees are based upon RIHEAA’s gross guarantees (excluding consolidation loans) which rose from \$311,000,000 in FY 2008 to \$447,000,000 in the current year. Other operating expenses, which include office and administrative expenses, building-related expenses and depreciation and amortization, totaled just over \$909,000 in the current year, a decrease of \$140,000 from FY 2008. During FY 2009, the “WaytogoRI” web portal became fully operational, and the expenses associated with maintenance, services, marketing and training totaled \$707,000 vs. \$246,000 in FY 2008.

In the Tuition Savings Program, personnel expense increased from \$158,000 to \$276,000 as a result of the addition of staff responsible for management and marketing efforts. As a result of those staff additions, as well as a change in approach to the advertising strategy, no expense was incurred during FY 2009 to supplement the \$600,000 which AllianceBernstein is committed to devote to marketing and promotion efforts in Rhode Island each year. Other administrative expenses increased from \$45,000 in FY 2008 to \$65,000 in the current year.

Expenses in the Scholarship and Grant Division, which are funded with State appropriations, totaled \$614,000 in FY 2009, a decrease of \$127,000 from FY 2008. Personnel and operating expenses were cut by \$87,000 in order to meet State budget reductions. In addition, the financial statements reflect a non-cash adjustment to employee benefit liabilities which further reduced total expenses.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled just over \$6.5 million in FY 2009, a slight decrease vs. FY 2008. These transfers consisted of nearly \$2.7 million for the Academic Promise Scholarship Program and over \$3.8 million in supplemental funding for the State Scholarship/Grant Program.

Scholarship and Grant Fund Revenues, Transfers and Expenses

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
State Appropriations	\$ 6,630,000	\$ 9,488,000	\$ 5,970,000
Federal Grants	574,000	368,000	359,000
Investment Income	<u>104,000</u>	<u>149,000</u>	<u>158,000</u>
 Total Revenues	 7,308,000	 10,005,000	 6,487,000
 Transfers from the Operating Fund	 <u>6,532,000</u>	 <u>6,571,000</u>	 <u>7,892,000</u>
 Total Revenues and Transfers	 <u>\$ 13,840,000</u>	 <u>\$ 16,576,000</u>	 <u>\$ 14,379,000</u>
 Total Expenses	 <u>\$ 12,237,000</u>	 <u>\$ 16,759,000</u>	 <u>\$ 14,388,000</u>

Total revenue and transfers into the Scholarship and Grant Fund totaled over \$13.8 million in FY 2009 vs. approximately \$16.6 million in FY 2008. The State appropriation made to fund the need-based grant program decreased by nearly \$2.9 million in FY 2009 vs. FY 2008 as a result of budget cuts. The total includes the \$6.5 million transfer from the Operating Fund which was provided by Tuition Savings Program revenues. Federal funding for the LEAP/SLEAP programs was \$363,000 in FY 2009, down slightly from \$368,000 in FY 2008. During FY 2009, federal grants also included over \$211,000 in funds for a new program, the College Access Challenge Grant. Investment income declined from \$149,000 to \$104,000. 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 2009. That total was \$4.5 million less in the current year than in FY 2008, and is attributable to the reduction in the State appropriation for the need-based grant program as well as a reduction in the amount of supplemental funds used in that program provided by Tuition Savings Program sources. The total expenses include State Scholarship/Grant Program awards of nearly \$10.7 million, just under \$1.2 million in the Academic Promise Scholarship and CollegeBound*fund*® Matching Grant Programs, and approximately \$359,000 in other award expenditures.

Statement of Cash Flows

	2009	2008	2007
Cash and Cash Equivalents (at 6/30)	\$ 4,774,000	\$ 17,334,000	\$ 12,187,000
Provided by (used in):			
Operating activities	\$(11,555,000)	\$(10,963,000)	\$ (8,059,000)
Noncapital financing activities	7,858,000	10,588,000	7,067,000
Purchases of capital assets	(482,000)	(100,000)	(329,000)
Investing activities	(8,381,000)	5,622,000	2,205,000
 Net (Decrease) / Increase	 \$ (12,560,000)	 \$ 5,147,000	 \$ 884,000

Cash and cash equivalents stood at \$4.8 million at the end of FY 2009, a decrease of \$12.6 million from FY 2008. This decrease resulted from a \$4 million loss in the Loan Division combined with a decision to make net investments of over \$8 million in U.S. Treasuries and certificates of deposit during FY 2009 which had been held in cash and cash equivalent accounts at the end of FY 2008. 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 \$7.3 million and grants from the Federal government totaling \$574,000. Purchases of capital assets totaled \$482,000. Investing activities reflect cash receipts of over \$9 million and cash outlays of \$17.9 million. These investing transactions include maturities and purchases of U.S. Treasury securities and certificates of deposit, 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

	2009	2008	2007
Net Assets Held in Trust for Participants	<u>\$6,280,483,000</u>	<u>\$7,893,552,000</u>	<u>\$8,320,452,000</u>

The net assets of the Program Fund totaled nearly \$6.3 billion at June 30, 2009, compared with \$7.9 billion at the end of FY 2008, a decrease of just over \$1.6 billion. That significant decrease in the value of participant assets was the result of the stock market downturn which occurred during the last quarter of 2008 and the first quarter of 2009, with the decrease in the fair value of the investments held in the plan totaling almost \$1.7 billion. The other components of the total change consist of the following: participants invested \$1.3 billion while redeeming approximately \$1.4 billion; investments in the plan provided income of \$237 million; and the plan incurred expenses of just under \$76 million. All of the net assets are held in trust for the participants in the Program Fund. The number of accounts declined from approximately 492,000 at the end of FY 2008 to 478,000 at the end of FY 2009.

	2009	2008	2007
Federal Fund Total Assets and Liabilities	<u>\$ 15,079,000</u>	<u>\$ 16,744,000</u>	<u>\$ 13,632,000</u>

Total assets and liabilities of the Federal Student Loan Reserve Fund (the “Federal Fund”) were just over \$15 million at the end of FY 2009, down from \$16.7 million at the end of FY 2008. Assets include \$10.4 million in cash and cash equivalents and a \$4 million reinsurance receivable from the DE arising from claims paid to lenders. The liabilities of the Federal Fund include a \$4.5 million allowance for unreinsured claims and a payable to the AOF of \$344,000. In addition, the Federal Fund reflects a liability to the Federal government of \$10.2 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.

In May 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 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 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 13 to the financial statements – Reserve Fund Requirements)

Legislative Development

On September 16, 2009, the U.S. House of Representatives passed HR 3221, the Student Aid and Fiscal Responsibility Act (SAFRA). SAFRA makes sweeping changes in student financial assistance programs and includes a provision which would eliminate loan originations under the FFEL Program effective July 1, 2010. As a result, all new guaranteed student loans would be originated under the Federal Direct Loan Program. RIHEAA’s role as a guaranty agency in the FFEL Program constitutes its single largest activity, and approximately 75% of the Authority’s employees allocated to the guaranty agency functions. The elimination of new loan originations would have a significant impact on the Authority’s ongoing operations.

The Authority's management has been evaluating the potential impact of this legislation for several months, and RIHEAA has been participating in a national effort by the state-based non-profit guaranty agencies which would allow the agencies to continue to provide services to students, families and schools even if all new student loans are originated by the Federal Direct Program. The U.S. Senate has yet to pass this or some form of companion legislation, and it is possible that compromise legislation could result in a more favorable outcome for guaranty agencies.

Even if efforts to secure a role for guaranty agencies in support of Direct Lending originations are unsuccessful, it is expected that agencies would continue to provide services for loans currently in their portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. Although it is difficult to predict the time period over which such services would be required, and to what extent these responsibilities would constitute a substantive activity for RIHEAA, it is generally assumed within the guaranty agency community that the period would be in the range of 6 to 10 years.

RIHEAA's senior management is in the process of preparing a strategic analysis and management plan which will be submitted to the RIHEAA Board of Directors in order to provide the Board with options concerning the future of the Authority, subsequent to the enactment of SAFRA and/or similar legislation.

Requests for Information

This financial report is designed to provide a general overview of RIHEAA's finances for any interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Rhode Island Higher Education Assistance Authority, 560 Jefferson Blvd, Warwick, RI, 02886.

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

STATEMENT OF NET ASSETS – JUNE 30, 2009

	<u>Operating Fund</u>	<u>Scholarship and Grant Fund</u>	<u>Total</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 4,152,859		\$ 4,152,859
Investments	6,012,806	\$ 5,467,961	11,480,767
Receivables and accruals:			
Interest	72,816		72,816
Loan processing issuance fee	75,000		75,000
Portfolio maintenance fee	296,114		296,114
Due from Federal Student Loan Reserve Fund	343,504		343,504
Health education assistance loans receivable	40,000		40,000
Rehabilitation loans receivable (Note 5)	200,000		200,000
Other	31,291		31,291
Prepaid expenses	192,700		192,700
	<u>11,417,090</u>	<u>5,467,961</u>	<u>16,885,051</u>
Noncurrent assets:			
Restricted cash and cash equivalents	621,414		621,414
Investments	5,628,750		5,628,750
Health education assistance loans receivable, less current portion	87,900		87,900
Rehabilitation loans receivable, less current portion, net (Note 5)	1,269,048		1,269,048
Capital assets, less accumulated depreciation	1,449,336		1,449,336
	<u>9,056,448</u>		<u>9,056,448</u>
	<u>20,473,538</u>	<u>5,467,961</u>	<u>25,941,499</u>

(continued)

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

STATEMENT OF NET ASSETS – JUNE 30, 2009 (CONTINUED)

	Operating Fund	Scholarship and Grant Fund	Total
LIABILITIES:			
Current liabilities:			
Accounts payable and accrued expenses	\$ 719,178		\$ 719,178
Payable to federal government	29,723		29,723
Allowance for default aversion fee returns	506,500		506,500
Compensated absences	91,042		91,042
	1,346,443		1,346,443
Total current liabilities			
Noncurrent liabilities:			
Allowance for default aversion fee returns, less current portion	214,500		214,500
Compensated absences, less current portion	212,432		212,432
Deferred default prevention income	440,607		440,607
	867,539		867,539
Total noncurrent liabilities			
	2,213,982		2,213,982
Total liabilities			
Commitments and contingencies (Notes 13 and 15)			
NET ASSETS:			
Invested in capital assets	1,449,336		1,449,336
Restricted	16,810,220	\$ 5,467,961	22,278,181
	\$ 18,259,556	\$ 5,467,961	\$ 23,727,517
Total net assets			

See notes to 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

YEAR ENDED JUNE 30, 2009

	Operating Fund	Scholarship and Grant Fund	Total
Operating revenues:			
Government fees:			
Default aversion, net	\$ 510,500		\$ 510,500
Loan processing issuance	1,533,802		1,533,802
Account maintenance	1,309,579		1,309,579
Recovery, consolidation and rehabilitation income, net of DE share	4,860,553		4,860,553
Tuition Savings Program Fund:			
Account maintenance fees	4,636,168		4,636,168
Direct purchase commissions	866,391		866,391
Penalty administrative fees and other	988,709		988,709
AllianceBernstein contract income	250,000		250,000
Other	29,906		29,906
	14,985,608		14,985,608
Total operating revenues			
Operating expenses:			
Student financial assistance		\$ 12,237,433	12,237,433
Salaries, payroll taxes and employee benefits	2,970,550		2,970,550
Building and maintenance expenses	135,170		135,170
Collection agency commissions	2,524,461		2,524,461
Computer services	137,032		137,032
Web portal maintenance services	388,323		388,323
Web portal marketing and training	318,260		318,260
Default aversion and prevention expenses	430,848		430,848
Depreciation and amortization	244,332		244,332
Office expenses and other	292,000		292,000
Printing and postage	96,639		96,639
Professional services	160,517		160,517
Sallie Mae guarantee services fees	1,368,418		1,368,418
Sallie Mae portfolio management fees	685,154		685,154
Default fees	3,812,913		3,812,913
Travel, conferences and workshops	92,960		92,960
	13,657,577	12,237,433	25,895,010
Total operating expenses			
Operating income (loss)	1,328,031	(12,237,433)	(10,909,402)

(continued)

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)

YEAR ENDED JUNE 30, 2009

	Operating Fund	Scholarship and Grant Fund	Total
Nonoperating revenue:			
Investment income	\$ 454,983	\$ 103,730	\$ 558,713
Rental income	132,734		132,734
State appropriations	653,978	6,629,700	7,283,678
Federal grants		574,410	574,410
Total nonoperating revenue	1,241,695	7,307,840	8,549,535
Income (loss) before transfers	2,569,726	(4,929,593)	(2,359,867)
Transfers in (out):			
Academic Promise Scholarship Program	(2,675,000)	2,675,000	- 0 -
State grant program supplement	(3,857,262)	3,857,262	- 0 -
Total transfers	(6,532,262)	6,532,262	- 0 -
Change in net assets	(3,962,536)	1,602,669	(2,359,867)
Net assets:			
Beginning of year	22,222,092	3,865,292	26,087,384
End of year	\$ 18,259,556	\$ 5,467,961	\$ 23,727,517

See notes to financial statements.

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

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

	Operating Fund	Scholarship and Grant Fund	Total
Cash flows from operating activities:			
Cash received from:			
Recovery, consolidation and rehabilitation income	\$ 5,475,773		\$ 5,475,773
Tuition Savings Program Fund fees and commissions	6,491,268		6,491,268
Government fees	3,306,029		3,306,029
AllianceBernstein contract income	250,000		250,000
Rental income	132,734		132,734
Loan repayments:			
Health education assistance loans	56,534		56,534
Rehabilitation loans receivable	7,304		7,304
Cash paid for:			
Employees for services and benefits	(3,038,750)		(3,038,750)
Default fees	(3,812,913)		(3,812,913)
Supplies, materials and services	(6,701,051)		(6,701,051)
Purchase of rehabilitation loans	(1,484,486)		(1,484,486)
Student financial assistance		\$ (12,237,433)	(12,237,433)
	682,442	(12,237,433)	(11,554,991)
Net cash provided by (used in) operating activities			
Cash flows from noncapital financing activities:			
Operating subsidies and transfers (to) from other funds	(6,532,262)	6,532,262	- 0 -
State appropriations	653,978	6,629,700	7,283,678
Federal grants		574,410	574,410
	(5,878,284)	13,736,372	7,858,088
Net cash provided by (used in) noncapital financing activities			
Cash used in capital and related financing activities,			
purchase of capital assets	(481,912)		(481,912)
Cash flows from investing activities:			
Purchases of investments	(15,216,895)	(2,718,862)	(17,935,757)
Proceeds from sales and maturities of investments	8,000,000	1,219,923	9,219,923
Interest income	334,636		334,636
	(6,882,259)	(1,498,939)	(8,381,198)
Net cash used in investing activities			

(continued)

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

STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2009

	Operating Fund	Scholarship and Grant Fund	Total
Net decrease in cash and cash equivalents	\$ (12,560,013)	\$ - 0 -	\$ (12,560,013)
Cash and cash equivalents, beginning of year	17,334,286	- 0 -	17,334,286
Cash and cash equivalents, end of year	\$ 4,774,273	\$ - 0 -	\$ 4,774,273
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 1,328,031	\$ (12,237,433)	\$ (10,909,402)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	244,332		244,332
Rental income	132,734		132,734
Provision for:			
Default aversion fee refunds	5,000		5,000
Unreinsured loan losses	10,500		10,500
Amortization of deferred rehabilitation revenue	(2,365)		(2,365)
Changes in assets and liabilities:			
Receivables and accruals:			
Portfolio maintenance fees	(41,708)		(41,708)
Loan processing issuance fee	(18,000)		(18,000)
Health education assistance loans receivable	48,400		48,400
Rehabilitation loans receivable	(1,477,183)		(1,477,183)
Other	(15,287)		(15,287)
Due from Federal Student Loan Reserve Fund	643,845		643,845
Prepaid expenses	(525)		(525)
Accounts payable and accrued expenses	(75,394)		(75,394)
Payable to federal government	(45,044)		(45,044)
Deferred default prevention income	6,856		6,856
Compensated absences	(61,750)		(61,750)
Net cash provided by (used in) operating activities	\$ 682,442	\$ (12,237,433)	\$ (11,554,991)

See notes to financial statements.

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

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

	Private Purpose Trust Fund	Agency Fund
	Tuition Savings Program Fund	Federal Student Loan Reserve Fund
ASSETS:		
Cash and cash equivalents	\$ 3,064	\$ 10,410,352
Investments	6,286,364,613	
Receivables and accruals:		
Units sold	26,533,902	
Investments sold	1,199,001	
Interest and dividends	67,984	
Reinsurance claims, federal government		3,948,093
Default aversion fee returns, Operating Fund		721,000
Other	40,770	
Total assets	6,314,209,334	\$ 15,079,445
LIABILITIES:		
Accounts payable:		
Investments purchased and units redeemed	27,604,533	
Accrued asset-based charges	6,121,418	
Other		\$ 7,812
Payable to Operating Fund		343,504
Allowance for unreinsured claims		4,500,000
Due to the federal government		10,228,129
Total liabilities	33,725,951	\$ 15,079,445
NET ASSETS:		
Held in trust for participants	\$ 6,280,483,383	

See notes to financial statements.

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

YEAR ENDED JUNE 30, 2009

	Private Purpose Trust Fund
	Tuition Savings Program Fund
From operations:	
Investment income	\$ 236,569,722
Net decrease in fair value of investments	(1,658,229,985)
Expenses, asset-based charges	(75,804,738)
Net decrease in net assets from operations	(1,497,465,001)
From unitholder transactions:	
Subscriptions	1,309,744,185
Redemptions	(1,425,347,337)
Net decrease in net assets from unitholder transactions	(115,603,152)
Net decrease in net assets	(1,613,068,153)
Net assets held in trust for participants, beginning of year	7,893,551,536
Net assets held in trust for participants, end of year	\$ 6,280,483,383

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2009

1. Organization and reporting entity:

Organization:

Rhode Island Higher Education Assistance Authority:

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 and state income taxes.

Rhode Island Higher Education Savings Trust:

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

RIHEST is exempt from federal and state income taxes.

Reporting entity:

In evaluating the inclusion of other separate and distinct legal entities as component units within its financial reporting structure, the Authority applies the criteria prescribed by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units."

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies:

Financial statement presentation, measurement focus and basis of accounting:

The Authority uses the economic resources measurement focus and accrual basis of accounting. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the accompanying financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. The Authority has the option of following private-sector guidance, subject to this same limitation; however, the Authority has elected not to follow subsequent private-sector guidance.

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 nonoperating 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 nonoperating 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 the scholarship and grant programs on behalf of the federal government and the State.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies (continued):

Fund financial statements (continued):

Operating Fund (continued):

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

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

The principal sources of revenue for the Operating Fund include a) fees paid principally by the federal government for administering the FFEL Program (such as 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).

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 and funded by State appropriations made to the Authority and a supplement provided by the Authority. 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), Special Leveraging Educational Assistance Partnership (SLEAP) and the College Access Challenge Grant.

CollegeBoundfund® Matching Grant Program Fund - This fund accounts for all transactions relating to the Authority's operation of the CollegeBoundfund® Matching Grant Program. Under this program, the Authority may make available up to \$500,000 annually to invest in the Program Fund as matching contribution accounts for individuals' accounts established for the benefit of income-qualifying students and their families. No additional funds were invested during fiscal year 2009.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies (continued):

Fund financial statements (continued):

Scholarship and Grant Fund (continued):

Academic Promise Scholarship Fund - This fund accounts for all transactions relating to the Authority's operation of the Academic Promise Scholarship Program. Under this program, the Authority invests in the Program Fund for the benefit of academic and income-qualifying students to provide up to \$10,000 to each student over a four-year scholarship period (\$12,500 for students in qualifying five-year programs). The Authority invests \$1,000,000 to support each cohort of approximately 100 students over their eligibility period.

Adult Education Grant Program Fund - This fund accounts for all transactions relating to the Authority's operation of the Adult Education Grant Program. The Authority invests in the Program Fund for the benefit of academic and income-qualifying students to provide up to \$3,000 to each student enrolled on less than a half-time basis at a Rhode Island college or university over a two-year scholarship period. During fiscal year 2008, the Authority made an initial investment of \$600,000 to the Program Fund to support this program. No additional funds were invested during fiscal year 2009.

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

The CollegeBound*fund*® 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
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies (continued):

Fund financial statements (continued):

Agency Fund - 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, complement 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 default aversion fees to the Agency Operating Fund, unless otherwise directed by the DE.

Cash and cash equivalents:

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

Investments:

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies (continued):

Capital assets:

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

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, in an amount not to exceed the vacation time earned in two calendar years. In the event of termination, employees are paid for unused time up to the amount of vacation time earned in one calendar year.

Sick leave is granted to all 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 have been segregated into the following two components in accordance with GASB Statement No. 34:

Invested in capital assets - 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, laws or regulations of governments, or through restrictions imposed by law through constitutional provisions, enabling legislation, or federal regulations.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies (continued):

Net assets (continued):

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. Also, the Scholarship and Grant Fund's net assets invested in the Program Fund, in the amount of \$5,467,961, for the Academic Promise Scholarship Program, CollegeBoundfund® Matching Grant Program and the Adult Education Grant Program are classified as restricted.

Unrestricted – A residual category for the balance of net assets.

Revenue recognition:

Default aversion fees:

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

The Authority records an allowance for its estimate for default aversion fees to be returned as a result of future loan defaults. For the year ended June 30, 2009, the Authority recorded a provision for fee returns of approximately 50% of fee income. The allowance for default aversion fee returns is management's best estimate of potential fee returns based on the information that is available. Consequently, it is at least reasonably possible that this estimate could change in the near term and the change could be material to the financial statements. The 2009 default aversion fees are recorded net of a \$510,500 provision for returns, and the allowance for fee returns as of June 30, 2009 is \$721,000.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies (continued):

Revenue recognition (continued):

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 equal to .06% of the annual average balance of the original principal amount of guaranteed loans outstanding.

Recovery, consolidation and rehabilitation income:

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

Account maintenance fees - Tuition Savings Program Fund:

Tuition Saving Program Fund account maintenance fees are recognized as revenue when transferred to the RIHEST Administrative Fund 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 in the event of nonqualified withdrawals or transfers to other Section 529 plans.

Grants and appropriations:

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. Summary of significant accounting policies (continued):

Retirement and postretirement healthcare benefit plans:

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

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

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications:

Certain amounts reported in the 2008 financial statements have been reclassified to conform with the 2009 presentation.

3. Cash deposits and investments:

Cash deposits:

As of June 30, 2009, the Authority's cash deposits consist of the following:

	Bank balance	Carrying amount
Demand deposits	\$ 14,650,757	\$ 14,285,765
State's general treasury	137,772	280,510
Money market funds	621,414	621,414
	\$ 15,409,943	\$ 15,187,689

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. Cash deposits and investments (continued):

Cash deposits (continued):

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

The bank balances of the Authority's cash deposits that were exposed to custodial credit risk as of June 30, 2009 are as follows:

Uninsured, uncollateralized	\$ 140,836
Uninsured, but collateralized with securities held by the pledging bank's trust department or agent not held in the Authority's name	<u>14,838,000</u>
	<u>\$ 14,978,836</u>

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. Cash deposits and investments (continued):

Cash deposits (continued):

The Authority's cash deposits are presented in the accompanying statements of net assets and fiduciary net assets as of June 30, 2009 as follows:

Statement of net assets:		
Current assets		\$ 4,152,859
Noncurrent assets		621,414
Statement of fiduciary net assets:		
Tuition Savings Program Fund		3,064
Federal Student Loan Reserve Fund		<u>10,410,352</u>
Cash deposits		<u><u>\$ 15,187,689</u></u>

Investments:

As of June 30, 2009, the Authority's investments consist of the following:

Investment type	Fair value	Investment maturities (in years)	
		Less than 1	1 to 5
Money market funds	\$ 1,019,484	\$ 1,019,484	
Mutual funds	6,291,832,574	6,291,832,574	
CDARS	3,500,000	3,000,000	\$ 500,000
U.S. Treasury notes	7,122,072	1,993,322	5,128,750
	<u>\$ 6,303,474,130</u>	<u>\$ 6,297,845,380</u>	<u>\$ 5,628,750</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. Cash deposits and investments (continued):

Investments (continued):

The Authority's investments are presented in the accompanying statements of net assets and fiduciary net assets as of June 30, 2009 as follows:

Statement of net assets:	
Current assets	\$ 11,480,767
Noncurrent assets	5,628,750
Statement of fiduciary net assets:	
Tuition Savings Program Fund	<u>6,286,364,613</u>
	<u>\$ 6,303,474,130</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 Chapter 10 of Title 35 of the Rhode Island General Laws. Chapter 10 of Title 35 permits the Authority to invest in certificates of deposit (including CDARS), savings accounts, money market accounts, obligations of the United States Government or certain obligations thereof, repurchase agreements with any eligible depository for a period not to exceed 30 days, commercial paper with a rating of P-1, A-1 or higher, and investment grade corporate debentures with a rating of AAA, AA by S&P and Aaa, Aa by Moody's. As of June 30, 2009, the Authority's investments in money market and mutual funds were unrated.

Custodial credit risk:

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

4. Health education assistance loans receivable:

The Authority operates loan programs directed toward students in graduate studies in health-related professions. As of June 30, 2009, the outstanding loan balances total \$127,900, of which \$43,163 is guaranteed by the federal government.

Certain loans, totaling \$19,487, 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 2009, loans totaling \$2,677 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 \$39,266 of principal balance was outstanding at June 30, 2009).

5. Rehabilitation loans receivable and allowance for loan losses:

Rehabilitation loans receivable consists of the following:

Rehabilitation loans receivable	\$ 2,188,008
Less:	
Adjustment to reduce to DE equitable share	(708,460)
Allowance for loan losses	(10,500)
	<hr/>
	1,469,048
Less current portion	<hr/>
	200,000
Rehabilitation loans receivable	<hr/> <hr/>
	\$ 1,269,048

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. Rehabilitation loans receivable and allowance for loan losses (continued):

During January 2009, the Authority's Board of Directors adopted a resolution authorizing the Authority to use reserve funds to enable some students to rehabilitate defaulted loans under the FFEL Program using the RI Student Loan Authority as the eligible FFELP lender. In May 2009, the Authority acquired loans having outstanding principal totaling approximately \$2,195,000. The Authority's acquisition of the aforementioned loans required a transfer of approximately \$1,484,000 from RIHEAA to the DE, which amount constituted the DE equitable share of those loans. The difference between the outstanding principal and the DE equitable share has been recognized as a reduction of the borrowers' outstanding principal and is being amortized over the life of the related loans using the effective interest method.

The allowance for loan losses is an amount that management believes will be adequate for loan losses based on evaluation of collectability, known and inherent risk in the portfolio, overall portfolio quality, specific problem loans with questionable collectability, insurance coverage and current and anticipated economic conditions that may affect the respective borrower's ability to pay. All loans are subject to insurance from the DE in the event that loans enter default status. Insurance rates which are predicated upon original loan origination dates range from 98% to 100% of outstanding principal and accrued interest. Such insurance rates have been considered in management's estimate of the allowance for loan losses.

6. Capital assets:

Capital asset activity for the year ended June 30, 2009 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Land	\$ 194,096	\$ - 0 -	\$ - 0 -		\$ 194,096
Web portal	113,375			\$ (113,375)	- 0 -
Total capital assets not being depreciated	<u>307,471</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>(113,375)</u>	<u>194,096</u>
Capital assets being depreciated or amortized:					
Land improvements	95,244	40,496	- 0 -		135,740
Building and improvements	2,150,413	49,960			2,200,373
Equipment	624,915	51,331			676,246
Web-based scholarship and grant program system	420,650				420,650
Web portal	- 0 -	340,125		113,375	453,500
Total capital assets being depreciated or amortized	<u>3,291,222</u>	<u>481,912</u>	<u>- 0 -</u>	<u>113,375</u>	<u>3,886,509</u>

(continued)

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. Capital assets (continued):

Capital assets being depreciated or amortized (continued):					
Less accumulated depreciation and amortization:					
Land improvements	\$ (27,868)	\$ (5,614)	\$ - 0 -	\$ - 0 -	\$ (33,482)
Building and improvements	(1,466,372)	(113,113)			(1,579,485)
Equipment	(472,047)	(80,255)			(552,302)
Web-based scholarship and grant program system	(420,650)				(420,650)
Web portal		(45,350)			(45,350)
	<u> </u>				
Total accumulated depreciation and amortization	<u>(2,386,937)</u>	<u>(244,332)</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>(2,631,269)</u>
Total capital assets being depreciated or amortized, net	<u>904,285</u>	<u>237,580</u>	<u>- 0 -</u>	<u>113,375</u>	<u>1,255,240</u>
Total capital assets, net	<u>\$ 1,211,756</u>	<u>\$ 237,580</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 1,449,336</u>

7. Long-term liabilities:

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Beginning balance	Increases	Decreases	Ending balance	Due within one year
	<u> </u>				
Liability for estimated default aversion fee returns	\$ 716,000	\$ 511,000	\$ (506,000)	\$ 721,000	\$ 506,500
Compensated absences	365,224		(61,750)	303,474	91,042
Deferred default prevention Income	433,751	6,856		440,607	
	<u>433,751</u>	<u>6,856</u>	<u> </u>	<u>440,607</u>	<u> </u>
	<u>\$ 1,514,975</u>	<u>\$ 517,856</u>	<u>\$ (567,750)</u>	<u>\$ 1,465,081</u>	<u>\$ 597,542</u>

8. Allowance 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 agreements with the federal government, the federal government reimburses guaranty agencies for a percentage of amounts expended in the discharge of its guarantor obligations. The agreements contain certain annual limitations, commonly referred to as the "reinsurance trigger," which could reduce the reinsurance amount during the remainder of any federal fiscal year.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

8. Allowance 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, 2009, the Authority charged the Federal Fund \$2,727,085 pursuant to the above provisions.

The Federal Fund records an allowance for unreinsured claims based on management’s best estimate of amounts payable to lending institutions as a result of a borrower’s default that is not insured by the DE. The allowance for unreinsured claims is based on an evaluation of historical experience and current and anticipated economic conditions. 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.

9. Net assets:

Restricted net assets consist of the following as of June 30, 2009:

Scholarship and Grant Fund:	
Academic Promise Scholarship Program	\$ 4,146,722
CollegeBoundfund® Matching Grant Program	692,825
Adult Education Grant Program	628,414
Operating Fund	<u>16,810,220</u>
	<u>\$ 22,278,181</u>

10. 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, 2009 were as follows:

Guaranteed loans outstanding at June 30, 2009	\$ 664,794,645
Loans guaranteed during the year	301,411,742
Guarantee claims paid during the year	18,966,521

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. Related party transactions (continued):

In addition, the Authority leases office space to RISLA. For the year ended June 30, 2009, rental income (including common area maintenance, utilities and reception services) received from RISLA totaled approximately \$133,000.

During 2009, RISLA performed loan servicing activities related to the rehabilitation loans receivable portfolio (see Note 5). Servicing activities principally included collection of borrower loan repayments on the Authority's behalf, and subsequent remittance to the Authority. Loan servicing fees paid to RISLA totaled approximately \$3,500 for the year ended June 30, 2009.

11. 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 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 \$1,515,000 in 2009. For the fiscal year ended June 30, 2009, the Authority's actuarially computed contribution rate to the System was 21.64% of annual covered payroll. The employees' contribution rate is 8.75% of their annual covered salary; employees contributed approximately \$130,000 in 2009. The Authority's contributions for the years ended June 30, 2009, 2008 and 2007 were approximately \$315,000, \$350,000 and \$291,000, respectively, equal to the required contributions for each year.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. Retirement plans (continued):

Some Authority employees are covered under the TIAA-CREF Plan, a defined contribution plan. The Authority's contributions for the year ended June 30, 2009 were 9% of the covered payroll. The Authority's contributions for the years ended June 30, 2009, 2008 and 2007 were approximately \$40,000, \$37,000 and \$36,000, 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.

12. 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 Operating Fund 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, 2009, 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. Postemployment Health Care Plan (continued):

Funding policy (continued):

For anyone who retired 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.

For those who retired on or before September 30, 2008, the fiscal 2009 contributions paid by retirees were determined as follows:

Retiree age	Years of service	Amount of cost paid by retiree
Below 60: (1)	28-34	10%
	35+	0%
Retiree age from 60 to 65: (2)	10-15	50%
	16-22	30%
	23-27	20%
	28+	0%
Retiree age greater than 65: (3)	10-15	50%
	16-19	30%
	20-27	10%
	28+	0%

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. Postemployment Health Care Plan (continued):

Funding policy (continued):

- (1) The monthly premium rate is \$789.76 for the individual plan. The retiree's cost is then calculated based on a maximum of \$481.28 (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 \$201.16 for the individual plan, and the monthly premium for the Medicare HMO plan was \$107 for the first six months of fiscal year 2009 and \$115 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on their years-of-service subsidy above.

For anyone who retired on or after October 1, 2008 at age 58 through 64, with a minimum of 20 years of service, the State will pay 80% of the actual cost of health care coverage. The Authority contributed \$631.81 per month for these retirees during fiscal 2009. For eligible retirees ages 65 or older, the Authority pays 80% of the cost of the Medicare supplemental products as described in (3) above.

Annual OPEB cost:

The Authority recognized an expense equal to the annual required contribution of the employer (ARC), which is actuarially determined in accordance with the parameters of GASB Statement No. 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 ARC for fiscal 2009 was determined based on an actuarial valuation performed as of June 30, 2005. Separate valuations were not performed at June 30, 2005 for each participating component unit. For fiscal 2009, the ARC for participating component units was 6.01% of covered payroll, which was the same for all active plan members. Beginning with the actuarial valuation performed as of June 30, 2007, separate ARCs and unfunded actuarial accrued liabilities were determined for each component unit. The Authority actually contributed 5.62% of annual covered payroll, resulting in a net OPEB obligation of \$42,500 which is included in accounts payable and accrued expenses in the accompanying statement of net assets.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. Postemployment Health Care Plan (continued):

Annual OPEB cost (continued):

The Authority's annual OPEB cost and the net OPEB obligation for fiscal 2009 was as follows:

Annual required contribution (ARC)	\$ 89,489
Plus:	
Interest on net OPEB obligation at beginning of year	1,250
Adjustment to ARC	418
Annual OPEB cost	91,157
 Contributions made	 83,657
 Increase in OPEB obligation	 7,500
Net obligation at beginning of year	35,000
 Net obligation at end of year	 \$ 42,500

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2008 (the first year of GASB 45 implementation) were 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
June 30, 2009	\$ 91,157	92%	\$ 42,500

Funded status and funding progress:

The funded status of the Authority's share of the plan as of June 30, 2007 (the date of the most recent valuation) was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,107,110
Actuarial Value of Plan Assets	- 0 -
 Unfunded Actuarial Accrued Liability (UAAL)	 \$ 2,107,110

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. Postemployment Health Care Plan (continued):

Funded status and funding progress(continued):

Funded ratio (Actuarial Value of Plan Assets / AAL)	0%
Annual Covered Payroll (Active Plan Members)	\$ 1,515,000
UAAL as a Percentage of Covered Payroll	139%

A separate actuarial valuation was performed to determine the actuarial accrued liability for the Authority, a participating employer.

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.

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 ARC for fiscal 2009 was determined based on the June 30, 2005 valuation. The most recent actuarial valuation was performed as of June 30, 2007. The Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006.

Plan changes effective for employees retiring after October 1, 2008 have been reflected in the actuarial valuations performed as of June 30, 2007 and June 30, 2005.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. Postemployment Health Care Plan (continued):

Actuarial methods and assumptions (continued):

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 for the June 30, 2005 valuation; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond for the 2005 valuation. 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. In the June 30, 2007 valuation, the health care cost trend assumption was changed to a rate of 10% progressively declining to 4.5% after 8 years and the salary growth assumption was changed to a rate of 9.00% in the first year of service to 4.5% in year 15 and beyond. Other changes in assumptions between the 2005 and 2007 valuations include changes in the assumed rates of termination, rates of retirement, percent married, and retiree health care election rates. These assumptions were based on the experience study for the Employees' Retirement System of Rhode Island as well as anticipated experience changes in conjunction with the adopted plan changes.

13. Commitments and contingencies:

United States Department of Education:

Preservation and recovery of reserves:

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

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 \$440,607 as of June 30, 2009.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. Commitments and contingencies (continued):

United States Department of Education (Continued):

Preservation and recovery of reserves (continued):

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, 2009, there were no remaining amounts outstanding.

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, 2009, the Authority's OPO totaled \$2,024,512,204 and its corresponding minimum reserve balance was \$5,061,281. Using the method currently prescribed by DE, the Authority's adjusted reserve fund balance was \$13,595,758 at June 30, 2009 and its reserve ratio was .67%.

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 8).

The Authority has met the required reserve fund level for the federal fiscal year ended September 30, 2008 and the Authority has not exceeded the 5% reinsurance trigger.

Systems Services Agreement:

The Authority has an agreement for computer system services with Sallie Mae Guarantee Services. In July 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 2008, after concluding a competitive bid process, RIHEAA and Sallie Mae entered into a new agreement which provides for an initial four year term beginning October 1, 2008 through September 30, 2012 with up to three additional two-year terms at RIHEAA's option.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. Commitments and contingencies (continued):

Systems Services Agreement (continued):

The agreement provides 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 \$1,368,418 for the year ended June 30, 2009.

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 \$685,154 for the year ended June 30, 2009. 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 2009, for default aversion services with OSI Education Services, Inc. (OSI) that provides for a .59% fee to be paid to OSI for each loan brought to current status within the specifications of the agreement. Fees to OSI totaled \$430,848 for the year ended June 30, 2009.

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 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. Effective May 2009, the Board of Directors voted to cease the utilization of Agency Operating Fund reserves to pay the default fees on behalf of borrowers. Default fees paid to the Federal Student Loan Reserve Fund for the year ended June 30, 2009 totaled \$3,812,913.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

13. 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 \$6,491,268 for the year ended June 30, 2009 and is recorded in the Operating Fund. In addition, the Authority receives \$250,000 annually (in quarterly equal 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. For 2010, the Authority has authorized additional funds up to \$400,000 for marketing and promotion expenses. In 2009, the Authority did not provide additional funds for marketing and promotion expenses.

Web Portal Development and Services Agreement:

The Authority has an agreement with two software developers, XAP and 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 became operational in the fall of 2008, provides a platform for individualized learning plans, electronic portfolios and electronic transcripts. The portal is available at no cost to all Rhode Island students, parents and educators. For the year ended June 30, 2009, maintenance, marketing and training expenses associated with the web portal totaled approximately \$707,000. During 2009, the Authority entered into a systems maintenance agreement with XAP and Bridges which expires in March 2010. Under the terms of the agreement, the Authority is committed to expend approximately \$302,000 through the contract termination date for scheduled maintenance and system upgrades. Although an option to extend the contract beyond March 2010 exists, the Authority has not executed such extension.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

14. 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.

15. Recent legislative development:

On September 16, 2009, the U.S. House of Representatives passed HR 3221, the Student Aid and Fiscal Responsibility Act (SAFRA). SAFRA makes sweeping changes in student financial assistance programs, and includes a provision which would eliminate loan originations under the FFEL Program effective July 1, 2010. As a result, all new guaranteed student loans would be originated under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constitutes its single largest activity, and approximately 75% of the Authority's employees are allocated to the guaranty agency functions. The elimination of new loan originations would have a significant impact on the Authority's ongoing operations.

The Authority's management has been evaluating the potential impact of this legislation for several months, and RIHEAA has been participating in a national effort by the state-based non-profit guaranty agencies which would allow the agencies to continue to provide services to students, families and schools even if all new student loans are originated by the Federal Direct Program. The U.S. Senate has yet to pass this or some form of companion legislation, and it is possible that compromise legislation could result in a more favorable outcome for guaranty agencies.

Even if efforts to secure a role for Guaranty Agencies in support of Direct Lending originations are unsuccessful, it is expected that agencies would continue to provide services for loans currently in their portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. Although it is difficult to predict the time period over which such services would be required, and to what extent these responsibilities would constitute a substantive activity for RIHEAA, it is generally assumed within the Guaranty Agency community that the period would be in the range of 6 to 10 years.

RIHEAA's senior management is in the process of preparing a strategic analysis and management plan which will be submitted to RIHEAA's Board of Directors in order to provide the Board with options concerning the future of the Authority, subsequent to the enactment of SAFRA and/or similar legislation.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

YEAR ENDED JUNE 30, 2009

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, 2007*	\$ - 0 -	\$ 2,107,110	\$ 2,107,110	0%	\$ 1,515,000	139%

* Prior to the valuation performed at June 30, 2007, separate actuarial valuations were not performed to determine the actuarial accrued liability for Rhode Island Higher Education Assistance Authority, a participating employer.

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

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2009

<u>Statement of Net Assets</u>	<u>Attachment B</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 4,152,859
Investments	11,480,767
Receivables	715,221
(Receivables allowance)	
Restricted assets:	
Cash and cash equivalents	
Investments	
Other assets	
Due from primary government	
Due from other governments	343,504
Inventories	
Other assets	192,700
Total current assets	16,885,051
Noncurrent assets:	
Investments	5,628,750
Receivables	1,367,448
(Receivables allowance)	(10,500)
Restricted assets:	
Cash and cash equivalents	621,414
Investments	
Other assets	
Capital assets - nondepreciable	
Capital assets - depreciable (net)	1,449,336
Other assets, net of amortization	
Total noncurrent assets	9,056,448
Total assets	25,941,499

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

STATE OF RHODE ISLAND REQUIRED FORMAT

JUNE 30, 2009

<u>Statement of Net Assets (continued)</u>	<u>Attachment B</u>
Liabilities	
Current liabilities:	
Cash overdraft	
Accounts payable	\$ 719,178
Due to primary government	
Due to (from) other component units	
Due to other governments	29,723
Deferred revenue	
Other liabilities	597,542
Current portion of long-term debt	
Total current liabilities	<u>1,346,443</u>
Noncurrent liabilities:	
Due to primary government	
Due to other governments	
Deferred revenue	440,607
Notes payable	
Loans payable	
Obligations under capital leases	
Other liabilities	214,500
Compensated absences	212,432
Bonds payable	
Total noncurrent liabilities	<u>867,539</u>
Total liabilities	<u>2,213,982</u>
Net assets	
Invested in capital assets, net of related debt	1,449,336
Restricted for:	
Debt	
Other	22,278,181
Other nonexpendable	
Unrestricted	
Total net assets	<u>\$ 23,727,517</u>

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

STATE OF RHODE ISLAND REQUIRED FORMAT

YEAR ENDED JUNE 30, 2009

<u>Statement of Changes in Net Assets</u>	<u>Attachment C</u>
Operating revenues:	
Charges for services	\$ 14,955,702
Interest income on loans	
Interest on investments	
Net increase (decrease) in fair value of investments	
Other operating income	29,906
Total operating revenues	14,985,608
Operating expenses:	
Personal services	2,970,550
Supplies, materials, and services	10,687,027
Interest expense	
Grants, scholarships and contract programs	12,237,433
Depreciation, depletion and amortization	
Other operating expenses	
Total operating expenses	25,895,010
Operating income (loss)	(10,909,402)
Nonoperating revenues (expenses):	
Interest revenue	558,713
Grants	574,410
Payments from primary government	7,283,678
Gain (loss) on sale of property	
Interest expense	
Payments (to) from other component units	132,734
Net increase (decrease) in fair value of investments	
Other nonoperating revenue (expenses)	
Total nonoperating revenue (expenses)	8,549,535
Income (loss) before contributions	(2,359,867)
Capital contributions	
Special items	
Extraordinary items	
Change in net assets	(2,359,867)
Total net assets - beginning	26,087,384
Total net assets - ending	\$ 23,727,517

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF TRAVEL EXPENSES

YEAR ENDED JUNE 30, 2009

<u>Payee</u>	<u>Purpose of travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Automobile and other</u>
Loan Division					
Kim Cournoyer	K. Cournoyer - VMWare Training	\$ 363			
Kim Cournoyer	K. Cournoyer - VMWare Training				\$ 205
Greg Silva	G. Silva - MYF Mtg	536			
American Express	M. Lacroix - NCHELP Legislative Mtg	202			
"	W. Hurry - NCHELP Legislative Mtg	216			
"	K. Cournoyer - VMWare Training		\$ 214		
Joseph Palumbo	NCHELP Legal Mtg		488		
John Knight	J. Knight - SQL Server Training				254
American Express	C. Miller - Meteor Project Mtg		874		
"	C. Miller - Meteor Project Mtg	317			
"	K. Cournoyer - VMWare Training		239		
Greg Silva	G. Silva - MYF Mtg		222		
American Express	W. Hurry - NCHELP Legislative Mtg				247
"	W. Hurry - NCHELP Legislative Mtg		250		
"	M. Lacroix - NCHELP Legislative Mtg		250		
"	C. Cox - NCHELP Debt Mtg	369			
"	K. Cournoyer - VMWare Training		716		
American Express	W. Hurry - NCHELP CEO Mtg	616	436		
"	M. Lacroix - NCHELP CFO Mtg	616	436		
"	C. Cox - NCHELP Training	228	641		
"	T. Pearce - NCHELP Training	228	641		
"	N. Dooley - NCHELP Debt Mgt		868		
Nancy Dooley	N. Dooley - NCHELP Program Ops	395			
American Express	W. Hurry - NEBHE Mtg		300		
"	W. Hurry - NCHELP CEO Mtg	536			
"	C. Miller - Meteor Project Mtg		563		
"	C. Miller - MYF Mtg	332			
American Express	W. Hurry - CSF / MYF Mtgs	269			
"	K. Sisson - Pathways to College		265		

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF TRAVEL EXPENSES (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Payee</u>	<u>Purpose of travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Automobile and other</u>
Loan Division (Continued)					
"	G. Mance-Rios - Pathways to College		\$ 265		
"	K. Sisson - XAP / Mentor Mtg	\$ 275			
"	G. Mance-Rios - XAP / Mentor Mtg	275			
"	W. Hurry - XAP / Mentor Mtg	275			
American Express	W. Hurry - MYF Mtg		596		
"	W. Hurry - CSF / MYF Mtgs				\$ 238
"	C. Miller - MYF Mtg		596		
"	K. Sisson - XAP / Mentor Mtg		218		
American Express	W. Hurry - NCHELP CEO Mtg		205		
"	C. Miller - PESC Mtg	377			
"	M. Lacroix - NCHELP Mtg	231			
"	W. Hurry - NCHELP Mtg	231			
"	K. Sisson - XAP / Mentor Mtg		654		
"	G. Mance-Rios - XAP / Mentor Mtg		654		
Greg Silva	G. Silva - MYF Mtg	264			
Joseph Palumbo	J. Palumbo - NCHELP Legal Mtg		398		
American Express	K. Sisson - XAP Client Training	400			
"	G. Mance-Rios - XAP Client Training	400			
"	K. Sisson - ASCA Conf	473			
"	G. Mance-Rios - ASCA Conf	428			
Greg Silva	G. Silva - MYF Mtg		507		
American Express	W. Hurry - NCHELP Strategic Plan Mtg		475		
"	C. Miller - PESC Mtg		479		
"	C. Miller - Meteor Project Mtg	814			
"	C. Cox - Dept of ED Mtg		821		
American Express	C. Miller - Meteor Project Mtg		288		201
"	C. Cox - NCHELP Debt Mtg		468		
"	K. Sisson - XAP Client Training		376		
"	G. Mance-Rios - XAP Client Training		376		

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY

SCHEDULE TRAVEL EXPENSES (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Payee</u>	<u>Purpose of travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Automobile and other</u>
Loan Division (Continued)					
American Express	W. Hurry - NCHELP Mtg		\$ 670		\$ 208
"	M. Lacroix - NCHELP Mtg		670		
"	K. Sisson - ASCA Conf		549		
"	G. Mance-Rios - ASCA Conf		549		
Amounts less than \$200		\$ 3,300	1,913	\$ 5,880	10,933
Total Loan Division		<u>12,966</u>	<u>19,130</u>	<u>5,880</u>	<u>12,286</u>
Scholarship and Grant Division					
American Express	M. Joyce - NASSGAP Conf		646		
American Express	W. Hurry - EASFAA Mtg	207	807		245
Amounts less than \$200				133	142
Total S & G		<u>207</u>	<u>1,453</u>	<u>133</u>	<u>387</u>
RIHEST					
Frank Caprio	F. Caprio - AllianceBernstein Mtg		535		
"	X. Khamsyvoravong - AB Mtg		320		
American Express	P. Kerwin - CSPN Mtg	377			
American Express	M. Joyce - CACG Mtg		423		
"	W. Hurry - CSPN Mtg	430			
American Express	W. Hurry - CSPN Mtg		628		376
"	P. Kerwin - CSPN Mtg		471		
"	P. Kerwin - AllianceBernstein Mtg				222
American Express	W. Hurry - CSF Mtg		818		
American Express	W. Hurry - NAST Mtg		1,003		282
"	P. Kerwin - CSPN Mtg	292			

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY

SCHEDULE TRAVEL EXPENSES (CONTINUED)

YEAR ENDED JUNE 30, 2009

<u>Payee</u>	<u>Purpose of travel</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals</u>	<u>Automobile and other</u>
RIHEST (Continued)					
American Express	P. Kerwin - CSPN Mtg		\$ 544		
American Express	W. Hurry - AllianceBernstein Mtg		231		
"	P. Kerwin - AllianceBernstein Mtg		231		
"	M. Joyce - CBF Mtg		389		
Amounts less than \$200		<u>\$ 252</u>	<u>168</u>	<u>\$ 626</u>	<u>\$ 2,009</u>
Total RIHEST		<u>1,351</u>	<u>5,761</u>	<u>626</u>	<u>2,889</u>
Grand Total		<u><u>\$ 14,524</u></u>	<u><u>\$ 26,344</u></u>	<u><u>\$ 6,639</u></u>	<u><u>\$ 15,562</u></u>



Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants / Business Consultants

**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

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

We have audited the financial statements 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, 2009 and have issued our report thereon dated September 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards (Continued)**

Board of Directors
Rhode Island Higher Education Assistance Authority

Internal Control over Financial Reporting (Continued)

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Authority in a separate letter dated September 30, 2009.

This report is intended solely for the information and use of the Board of Directors, management and the State of Rhode Island Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

DeFronzo, Jay Lunkel, Campi & DeGuzio, P.C.

September 30, 2009