

**RHODE ISLAND DIVISION OF  
HIGHER EDUCATION  
ASSISTANCE**

**(a Component Unit of the State of Rhode Island and  
Providence Plantations)**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Financial Statements**

**June 30, 2017**

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Education of  
State of Rhode Island and Providence Plantations  
Providence, Rhode Island

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Rhode Island Division of Higher Education Assistance (a component unit of the State of Rhode Island and Providence Plantations) (the "Division"), which comprise the statement of net position and statement of fiduciary net position for the year ended June 30, 2017, the related statement of revenues and expenses, change in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Division of Higher Education Assistance as of June 30, 2017, and the respective change in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter – Other Postemployment Benefits***

As discussed in Note 1, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal 2018 and will require the Division to restate beginning net position at July 1, 2017 to recognize its proportionate share of the net postemployment benefits other than pensions obligation determined for the Rhode Island Retiree Health Care Benefit Plan. Our opinion is not modified with respect to that matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9, the schedule of the Division's proportionate share of the net pension asset on page 43, the schedule of the Division's contributions on page 44 and the notes to the required supplementary information on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The schedule of travel and entertainment expenses on page 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 47 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget and the provisions of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and it is also not a required part of the basic financial statements.

The schedule of travel and entertainment expenses and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the schedule of travel and entertainment expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of the Rhode Island Division of Higher Education Assistance'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island Division of Higher Education Assistance's internal control over financial reporting and compliance.

*O'Connell and Duen, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

September 29, 2017

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2017**

The Rhode Island Division of Higher Education Assistance (the "Division") Management's Discussion and Analysis ("MD&A") of the Division's operations and financial results is intended to provide readers with information which will assist them in understanding and evaluating the division's financial statements as of and for the fiscal year ended June 30, 2017. The MD&A consists of an introduction section and a financial highlight. The introduction section outlines the Division's programs and operations, provides information about the presentation of the financial statements and describes major statutory and regulatory actions which have a material effect on the Division's operations. The financial highlight focuses on significant items disclosed within the Division's financial statements or affecting its financial condition. The MD&A should be read in conjunction with the financial statements, notes to financial statements and other information included in the audit document.

### **Introduction**

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

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the "Act"). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the FFEL Program effective July 1, 2010. As a result, all federally guaranteed student loans are now originated under the Federal Direct Loan Program. This Act has effectively ended the growth of the student loan portfolio administered by RIHEAA and placed this division of RIHEAA into a wind-down mode which is anticipated to last from three to five years.

In December 2013, the U.S. Congress passed the Bipartisan Budget Act of 2013 (the "Budget Act"). One of the provisions of the Budget Act was to reduce the Guaranty Agency revenue derived from the rehabilitation of defaulted student loans by approximately 50%, effective July 1, 2014. Revenues from loan rehabilitations constitute a major source of income for most

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2017**

## **Introduction – Continued**

Guaranty Agencies, and this reduction will have major implications on the ability of Guaranty Agencies to operate profitably, especially as portfolio balances decline over time.

The Rhode Island Fiscal Year 2016 Budget Appropriation Act changed Rhode Island General Law (“RIGL”) §16-57-4 to create the Division of Higher Education Assistance (the “Division”) replacing RIHEAA and merging it into the Office of the Postsecondary Commissioner (“OPC”). RIGL §16-57-4 went into effect as of July 1, 2015. As the Commissioner of Postsecondary Education for the State of Rhode Island, Dr. Brenda Dann-Messier serves as the executive director of the Division, which assumed the rights, assets, powers and obligations of RIHEAA, including our role as a guarantor participating in FFEL and the Rhode Island State Grant Promise Programs.

Additionally, RIGL §16-57-4 transferred oversight and operations of the CollegeBound*fund* to the Rhode Island Office of the General Treasurer.

In its current form, the Division is responsible for the administration of the following:

### **Scholarships and Grants**

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

### **FFEL Program Guaranty Agency (“Guaranty Agency”)**

The FFEL Program Guaranty Agency provides services that assist students and their parents in financing higher education expenses with guaranteed student loans. The financial transactions of the Guaranty Agency are segregated into the Federal Student Loan Reserve Fund (the "Federal Fund") and the Guaranty Agency Operating Fund (the "AOF"), pursuant to the provisions and restrictions of the 1998 reauthorization of the Higher Education Act. The Division administers the Federal Fund on behalf of the U. S. Department of Education. The AOF principally accounts for the administrative activities related to the operations of the FFEL Program.

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

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**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2017**

## **Introduction – Continued**

In addition to providing the services directly related to guaranteed loan origination, portfolio maintenance, default prevention and aversion, and defaulted loan collections, Guaranty Agencies are charged with promoting awareness of and access to post-secondary education opportunities and programs. Toward that end, the Division 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 statewide systems in Rhode Island and in many private and parochial institutions as well.

## **Overview of the Financial Statements**

The financial statements present the financial picture of the Division from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the division as well as all liabilities including long-term debt. The Division 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, the Division's basic financial statements include: the statement of net position; the statement of revenues, expenses and changes in net position; the statement of cash flows; the statement of fiduciary net position; and notes to the financial statements. The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

### Financial Highlights and Comparative Analysis

The tables in each section below reflect financial data.

Net Position		
	2017	2016
Current assets	\$ 36,159,000	\$ 39,538,000
Noncurrent assets	1,456,000	1,881,000
Total assets	\$ 37,615,000	\$ 41,419,000
Deferred outflows of resources	269,000	147,000
Total assets and deferred outflows of resources	\$ 37,884,000	\$ 41,566,000
Current liabilities	3,709,000	1,089,000
Noncurrent liabilities	3,617,000	4,770,000
Total liabilities	\$ 7,326,000	\$ 5,859,000
Deferred inflows of resources	1,184,000	350,000
Total liabilities and deferred inflows of resources	\$ 8,510,000	\$ 6,209,000
Net position:		
Net investment in capital assets	\$ 825,000	\$ 1,250,000
Restricted - expendable	28,550,000	34,107,000
Total net position	\$ 29,374,000	\$ 35,357,000

The net position of the Operating Fund consists of \$28 million which is restricted by federal and state statute for the uses of the Division's operations and for student financial assistance purposes.

The three largest components of AOF's total liabilities are \$1.0 million for the return of default aversion fees, net pension liability of \$2 million and \$3.7 million of accounts payable as of June 30, 2017 and \$1.3 million for the return of default aversion fees, \$3 million for net pension liability and \$1.0 million for accounts payable as of June 30, 2016.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

### Operating Fund Revenues, Expenses and Transfers

	2017	2016
Operating revenues	\$ 6,140,000	\$ 6,112,000
Operating expenses	18,940,000	17,371,000
Operating loss	(12,800,000)	(11,259,000)
Non-operating revenue	60,000	241,000
Change in net position before special item and transfer	(12,740,000)	(11,018,000)
Transfer in from primary government	6,757,000	8,027,000
Special items	-	38,348,000
Change in Net Position	(5,983,000)	35,357,000
Net Position, Beginning of Year	\$ 35,357,000	\$ -
Net Position, End of Year	\$ 29,374,000	\$ 35,357,000

The transfer in from the primary government represents the funding for scholarships. The amount of the transfer is comprised of a fixed and variable component paid by the third party that manages the State of Rhode Island's college tuition savings plan to the Rhode Island Office of the General Treasurer. The variable component is a percentage of the portfolio's out-of-state accounts. During fiscal year 2017, the contract for these services was renewed and contained a lower fixed amount and variable rate.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2017

### Statement of Cash Flows

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	2017	2016
Restricted Cash and Cash Equivalents	\$ 35,043,000	\$ 35,535,000
Provided by (used in):		
Operating activities	\$ (10,326,000)	\$ (11,169,000)
Noncapital financing activities	9,749,000	4,488,000
Investing activities	84,000	460,121
Transfer of Restricted Cash and Cash Equivalents	-	39,223,000
Net Increase (Decrease)	\$ (493,000)	\$ 35,535,000

The operating activity from fiscal year 2017 to fiscal year 2016 remained consistent since no new loans have been issued 2010 and borrowers have continued to satisfy their loan obligations.

#### **Requests for Information**

This financial report is designed to provide a general overview of DHEA'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, Office of Postsecondary Commissioner, Division of Higher Education Assistance, 560 Jefferson Blvd, Warwick, RI 02886.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION  
ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

**Statement of Net Position**

**June 30, 2017**

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Statement of Net Position

June 30, 2017

### Assets

	<b>Operating Fund</b>
<b>Current Assets:</b>	
Restricted cash and equivalents	\$ 34,410,649
Investments	375,701
Portfolio maintenance receivable	130,207
Due from State of Rhode Island	547,222
Due from Federal Fund	358,734
Prepaid expenses and other current assets	<u>336,632</u>
<b>Total Current Assets</b>	<b><u>36,159,145</u></b>
<b>Noncurrent Assets:</b>	
Restricted cash and equivalents:	
Escrow Sallie Mae principal	181,774
Recall account, interest	450,169
Capital assets, net	<u>824,582</u>
<b>Total Noncurrent Assets</b>	<b><u>1,456,525</u></b>
<b>Total Assets</b>	<b><u>37,615,670</u></b>
<b>Deferred Outflows of Resources:</b>	
Net difference between projected and actual investment earnings	140,356
Contributions subsequent to the measurement date	<u>128,356</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>268,712</u></b>

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

## Liabilities, Deferred Inflows of Resources and Net Position

	<b>Operating Fund</b>
<b>Current Liabilities:</b>	
Accounts payable and accrued expenses	\$ 3,662,588
Compensated absences	<u>46,117</u>
<b>Total Current Liabilities</b>	<u>3,708,705</u>
<b>Noncurrent Liabilities:</b>	
Default aversion fee allowance	1,093,623
Compensated absences, less current portion	107,605
Net pension liability	1,966,284
Unearned default prevention income	<u>450,169</u>
<b>Total Noncurrent Liabilities</b>	<u>3,617,681</u>
<b>Total Liabilities</b>	<u>7,326,386</u>
<b>Deferred Inflows of Resources:</b>	
Difference between expected and actual experience	52,070
Changes of assumptions	9,763
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,121,878</u>
<b>Total Deferred Inflows of Resources</b>	<u>1,183,711</u>
<b>Net Position:</b>	
Net investment in capital assets	824,582
Restricted - expendable	<u>28,549,703</u>
<b>Total Net Position</b>	<u>\$ 29,374,285</u>

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2017

	<b>Operating Fund</b>
<b>Operating Revenues:</b>	
Government fees:	
Default aversion	\$ 240,992
Portfolio maintenance	534,870
Recovery, consolidation, and rehabilitation income, net of U.S. Department of Education share	5,357,457
Other	<u>6,295</u>
<b>Total Operating Revenues</b>	<b><u>6,139,614</u></b>
<b>Operating Expenses:</b>	
Student financial assistance	12,447,279
Salaries and employee benefits	898,158
Building and maintenance	38,403
Collection agency commissions	2,421,004
Computer services	45,029
Default aversion and prevention	185,401
Depreciation and amortization	425,504
Office and other	293,955
Professional services	94,198
Provision for default aversion fee returns	120,496
Navient guarantee services fee	524,449
Navient portfolio management fees	967,712
Travel, conferences, and workshops	3,263
Web portal maintenance and services	<u>475,000</u>
<b>Total Operating Expenses</b>	<b><u>18,939,851</u></b>
<b>Operating Loss</b>	<b><u>(12,800,237)</u></b>

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**

(a Component Unit of the State of Rhode Island and Providence Plantations)

**Statement of Revenues, Expenses and Changes in Net Position - Continued**

**For the Year Ended June 30, 2017**

	<b>Operating Fund</b>
<b>Non-Operating Revenue:</b>	
Investment income	<u>60,399</u>
<b>Change in Net Position Before Transfer:</b>	<u>(12,739,838)</u>
<b>Transfer:</b>	
Transfer in from primary government	<u>6,757,041</u>
<b>Change in Net Position</b>	<u>(5,982,797)</u>
Net Position, Beginning of Year	<u>35,357,082</u>
<b>Net Position, End of Year</b>	<u>\$ 29,374,285</u>

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

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

**Statement of Cash Flows**

**For the Year Ended June 30, 2017**

	<b><u>Operating Fund</u></b>
<b>Cash Flows from Operating Activities:</b>	
Receipts from:	
Recovery, consolidation, and rehabilitation income	\$ 5,371,102
Government fees	463,429
Other	6,295
Payments for:	
Salaries and benefits	(1,180,075)
Supplies, materials, and services	(4,166,508)
Student financial assistance	<u>(10,820,826)</u>
Net Cash Applied to Operating Activities	<u>(10,326,583)</u>
<b>Cash Flows from Noncapital Financing Activity:</b>	
Transfer in from primary government	<u>9,748,819</u>
<b>Cash Flows from Investing Activities:</b>	
Proceeds from sales and maturities of investments	24,021
Investment income	<u>60,399</u>
Net Cash Provided by Investing Activities	<u>84,420</u>
<b>Net decrease in Restricted Cash and Equivalents</b>	<b>(493,344)</b>
<b>Restricted Cash and Equivalents, Beginning of Year</b>	<u><b>35,535,936</b></u>
<b>Restricted Cash and Equivalents, End of Year</b>	<u><b>\$ 35,042,592</b></u>

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Statement of Cash Flows - Continued

For the Year Ended June 30, 2017

**Reconciliation of Operating Loss to Net Cash Used in Operating Activities:**

Operating loss	\$ (12,800,237)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	425,504
Changes in Assets and Liabilities:	
Receivables	(138,953)
Prepaid expenses and other current assets	7,297
Accounts payable and accrued expenses	2,621,558
Compensated absences	(22,205)
Default aversion fee allowance and unearned default prevention income	(159,835)
Pension	<u>(259,712)</u>
 Net Cash Applied To Operating Activities	 <u><u>\$ (10,326,583)</u></u>

**Restricted cash and equivalents consist of the following at June 30, 2017:**

**Current:**

    Restricted cash and equivalents \$ 34,410,649

**Noncurrent:**

    Restricted cash and equivalents:

        Escrow Sallie Mae principal 181,774

        Recall account, interest 450,169

\$ 35,042,592

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

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**

(a Component Unit of the State of Rhode Island and Providence Plantations)

**Statement of Fiduciary Net Position**

**June 30, 2017**

**Assets**

	<b><u>Federal Fund</u></b>
<b>Assets:</b>	
Restricted cash and equivalents	\$ 10,563,499
Reinsurance claims, Federal Government	3,005,996
Default aversion fee returns receivable, guaranty agency operating fund	<u>1,093,623</u>
<b>Total Assets</b>	<b><u>\$ 14,663,118</u></b>

**Liabilities**

<b>Liabilities:</b>	
Accounts payable	\$ 54,222
Due to Operating Fund	358,734
Due to Federal Government	<u>14,250,162</u>
<b>Total Liabilities</b>	<b><u>\$ 14,663,118</u></b>

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

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Financial Statements**

**June 30, 2017**

Note 1 - **Summary of Significant Accounting Policies**

**Organization**

The Rhode Island Division of Higher Education Assistance (the “Division”) is a division within the Rhode Island Office of the Postsecondary Commissioner (“RIOPC”) established on July 1, 2015 by an Act of the Rhode Island General Assembly. The Division is a distinct legal entity from the State of Rhode Island (the “State”) and not a department of State government, but is a governmental agency and public instrumentality of the State. It is a component unit of the State for financial reporting purposes and, as such, the financial statements of the Division will be included in the State’s Comprehensive Annual Financial Report (“CAFR”).

The Division 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 Division.

The Federal Family Education Loan Program (“FFELP”) was established by Congress and is administered by the U.S. Department of Education (“ED”) through the Division and other guaranty agencies. As a guarantee agency, the Division makes loans available through lending institutions to students attending colleges, universities, vocational and other postsecondary schools. FFELP allows the Division to guarantee payment of principal and accrued interest to lenders for eligible student loans. The Division has the responsibility of providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, and performing certain collection activities on loans after purchase by the Division.

On March 30, 2010, the President of the United States signed into law H.R. 4872 – The Health Care and Education Reconciliation Act of 2010, which terminated new loan originations in FFELP on June 30, 2010. Effective July 1, 2010, all new Stafford, PLUS or consolidated loans are originated under the U.S. Department of Education Direct Loan Program. Existing FFELP loans will continue to be eligible for program benefits. The Operating Funds and Federal Fund of Division continue to administer its existing FFELP portfolio of both active and defaulted student loans.

The Division consists of two funds: The Federal Fund and the Operating Fund. The Federal Fund finances FFELP insurance activities. The Operating Fund provides substantially all FFELP operational costs as well as state scholarships, financial aid awareness, and related outreach activities.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

### Note 1 - Summary of Significant Accounting Policies - Continued

#### Organization - continued

The Federal Fund assets and earnings on those assets are restricted in use and are property of the ED. The Operating Fund is property of the Division and its assets and earnings are restricted in use for student financial aid activities.

#### Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met. Operating revenues and expenses result from activities associated with FFELP, including collection on defaulted loans, default prevention, default loan purchase activities. All revenues and expenses not derived from the administration of FFELP are reported as non-operating revenues and expenses. The transfer in from primary government represents the funding for scholarships and the amount is based on the performance of the state controlled tuition savings program.

The Division has determined that the Operating Fund operates as a Business Type Activity and the Federal Fund operates as a fiduciary fund, as defined by GASB.

#### Net Position

Resources are classified for accounting purposes into the following two net position categories:

**Net investment in capital assets:** Capital assets, net of accumulated depreciation, accounts payable, accrued expenses and of outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

**Restricted – expendable:** Net position whose use is subject to externally imposed conditions that can be fulfilled by the specific actions of the Division or by the passage of time.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - Summary of Significant Accounting Policies - Continued

Net Position - continued

The Division has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds.

Restricted Cash and Equivalents

Restricted cash and equivalents consist entirely of highly liquid debt instruments with an original maturity date of three months or less.

Restricted cash and equivalents classified as current assets include amounts held on behalf of the Department of Children Youth and Families (“DCYF”), which will be remitted to various colleges and universities during the fiscal year ending June 30, 2017. According to an agreement with DCYF, the Division serves as a fiscal intermediary with respect to the DCYF’s scholarship program. A corresponding liability of \$1,210,738 is reflected in accounts payable and accrued expenses.

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

Investments

Investments in marketable securities are stated at fair value. Dividends, interest, and net gains or losses on investments of endowments and similar funds are reported in the statements of activities and changes in net position.

Receivables

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

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Financial Statements - Continued**

**June 30, 2017**

Note 1 - **Summary of Significant Accounting Policies - Continued**

*Capital Assets*

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of date of donation. In accordance with the Division's capitalization policy, all land is capitalized, regardless of value. The Division's capitalization threshold is a unit cost of at least \$2,500. Interest costs on debt related to capital assets are capitalized during the construction period and then depreciated over the life of the asset. The Division did not capitalize any interest costs during the year ended June 30, 2017. Capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 30 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

*Compensated Absences*

Certain employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and sick days allowable in accordance with the applicable union contract or in the case of non-union personnel, according to State or Division policy. Amounts of vested and accumulated vacation and sick leave are reported as accrued compensation and benefits. Amounts are determined based upon the compensation rates in effect as of the balance sheet date.

*Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System plan ("ERS") and the additions to/deductions from ERS' fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - Summary of Significant Accounting Policies - Continued

Post-Employment Benefits

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, requires governments to account for other postemployment benefits (“OPEB”) on the accrual basis, rather than pay-as-you go (cash basis). Furthermore, the determination of the OPEB liability is dependent upon the type of plan in which the employer participates. Effective July 1, 2011, the State of Rhode Island established an independent entity titled the OPEB Board, to manage OPEB benefits for all state government employers including the Division. A separate legal OPEB entity classified as a cost sharing multiple employer plan, as established by the State, assesses the annual required contribution (“ARC”) of each participating entity based on the plan’s parameters to each participating employer. To the extent the employer does not pay the entire ARC or contractual obligation, they will have an OPEB related liability. As discussed later, GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces GASB 45 and will require a restatement of balances at July 1, 2017.

Health Insurance

The State offers one state-paid health plan to each of its participating agencies. The premiums for these plans are divided among the agencies based upon their number of eligible employees. All employees share in healthcare costs. Employee co-pays range from 20% to 25% of healthcare premiums. The employee contributions are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the Division for the 2017 health premiums amounted to approximately \$197,000. Employee contributions for 2017 were approximately \$48,000.

Assessed Fringe Benefit Administrative Fund

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers’ compensation charges, unemployment payments and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge based on bi-weekly payrolls of all State agencies. The fringe benefit assessment rate was 4.49%. The assessed fringe benefit cost for the year ended June 30, 2017 was approximately \$33,000.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating depreciation, the default aversion fee allowance, and determining the net pension liability.

*Revenue Recognition*

The 1998 reauthorization of the Higher Education Act established two fees recorded in the Operating Fund for administering the loan program on behalf of the Federal Government based on performance of a guarantee agency.

A default aversion fee is recognized in the Operating Fund on delinquent loans at the time the lenders request aversion assistance between the 60<sup>th</sup> and 120<sup>th</sup> day of a borrower's delinquency. A fee of 1% of principal and interest on the loan may be charged to the Federal Fund at the time the guaranty agency receives a request from a lender for assistance. However, the fee must be refunded by the Operating Fund to the Federal Fund in the event the loan is later paid as a default claim. Accordingly, an estimate of default aversion fee refunds of \$1,093,623 at June 30, 2017 is reported as a liability in the Operating Fund and a receivable in the Federal Fund. The net default aversion fee is transferred from the Federal Fund to the Operating Fund on a monthly basis. For the year ended June 30, 2017, the Operating Fund recognized default aversion fee revenue of \$240,992. The estimate for refunds is based upon historical loan collections of the portfolio.

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Financial Statements - Continued**

**June 30, 2017**

Note 1 - **Summary of Significant Accounting Policies - Continued**

*Revenue Recognition - continued*

A portfolio maintenance fee is calculated on the original principal amount of loans outstanding at a rate of .06%. This fee is paid to the Federal Fund by the ED and transferred to the Operating Fund on a quarterly basis.

Recovery, consolidation and rehabilitation income is the result of the Division's collections of defaulted student loans on behalf of the ED and recognized as revenue when received, net of the ED's share. Due to the timing of receipt, this method of revenue recognition approximates the accrual basis.

*Tax Status*

The Division is a component unit of the State of Rhode Island and Providence Plantations and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

*Guaranteed Loans Outstanding*

As of June 30, 2017, the Federal Fund was the guarantor of loans outstanding with original principal amounts of \$815,182,855 made to students by participating lending institutions. The Division guarantees approximately 1% of these loans, with the balance guaranteed by the ED. At June 30, 2017, the unpaid balances were \$815,592,083 including student loans as described in Note 7.

Based on historical data, certain of these loans will go into default status requiring the Federal Fund to purchase the loan from the respective lender. The Federal Fund will be reimbursed for these actions by the ED in accordance with the ED's guarantee.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - Summary of Significant Accounting Policies - Continued

*New Governmental Accounting Pronouncements*

GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (“OPEB”). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. As discussed in Note 9, management is anticipating a restatement of balances during the upcoming fiscal year to include the effect of this statement.

GASB Statement 84 – *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position. Pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be combined and shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 1 - **Summary of Significant Accounting Policies - Continued**

*New Governmental Accounting Pronouncements - continued*

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this standard and its applicability.

Note 2 - **Restricted Cash and Equivalents and Investments**

The Division does not have a policy for custodial credit risk associated with deposits except for which is provided by Chapter 35-10.1 of the Rhode Island General Laws dealing with the Public Finance, which states that any depository institutions holding public deposits shall insure or pledge eligible collateral equal to one hundred percent (100%) of any time deposit with maturities greater than sixty days. If any depository institution does not meet its minimum capital standards as prescribed by its federal regulator, it shall insure or pledge eligible collateral equal to one hundred percent (100%) of all public deposits.

At June 30, 2017, the carrying amounts of the Division's cash deposits were \$45,606,091 and the bank balances were \$44,797,462. Deposits are exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are:

- a) Uncollateralized,
- b) Collateralized with securities held by the pledging financial institution, or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

Of the bank balances, \$9,493,023 was covered by federal depository insurance as of June 30, 2017. The remaining amount of \$35,304,439 was uninsured but collateralized with securities held by the pledging bank's trust department or an agent not held in the Division's name as of June 30, 2017.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 3 - **Restricted Cash and Equivalents and Investments - Continued**

*Investments*

As of June 30, 2017, the Division's investments are contained in the Rhode Island CollegeBound Saver Plan fund. The Division 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 Division has no investment policy that would further restrict its investment choices beyond the limitations in Chapter 10 of Title 35 of the Rhode Island General Laws. As of June 30, 2017, the Division's investments were unrated.

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Division's current approved board investment policy includes only low-risk securities.

*Fair Value Hierarchy*

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for the assets. There have been no changes in the methodologies used at June 30, 2017.

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Financial Statements - Continued**

**June 30, 2017**

Note 3 - **Restricted Cash and Equivalents and Investments - Continued**

*Fair Value Hierarchy – Continued*

*Rhode Island CollegeBound Saver Plan:* All investments are with the Invesco Stable Value Portfolio Fund (the “Fund”). The Fund is offered through the Rhode Island CollegeBound Saver Plan and is valued at the daily closing net asset value price as reported by the Fund multiplied by the number of shares held. The Fund does not have any redemption restrictions or limitations. The Fund is not actively traded.

The Fund invests 100% of its assets in investment contracts issued by insurance companies and banks, which are in turn backed by a diversified portfolio of high-quality bonds, including government securities, corporate bonds, mortgage-backed and asset-backed securities and cash equivalents. Interest rate futures, options and swaps may be used to manage yield curve or duration or other risk positions and must abide by the duration, credit quality and other constraints in the Portfolio’s investment guidelines. Each contract contains general obligations of the issuing company to pay Account Owner distributions at contract value, even if the market value of the assets in the Portfolio is less than the contract value of those assets. The contract value is generally equal to the Portfolio’s invested capital plus a rate of return related to the investment performance of the assets.

The Fund is classified as Level 2 due to the underlying investments of its portfolio.

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**  
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**Notes to the Financial Statements - Continued**

**June 30, 2017**

Note 3 - **Capital Assets, Net**

Capital assets consist of the following at June 30, 2017:

	Estimated lives (in years)	Beginning balance	Increases	Decreases	Ending balance
Capital assets not depreciated:					
Land	-	\$ 194,096	\$ -	\$ -	\$ 194,096
Capital assets depreciated:					
Land improvements	15-25	135,740	-	-	135,740
Building and improvements	10-50	2,291,087	-	-	2,291,087
Equipment	5-15	914,299	-	-	914,299
Software and web portal	3-5	<u>2,232,791</u>	<u>-</u>	<u>-</u>	<u>2,232,791</u>
Total capital assets depreciated depreciated or amortized		<u>5,573,917</u>	<u>-</u>	<u>-</u>	<u>5,573,917</u>
Less accumulated depreciation:					
Land improvements		86,537	4,525	-	91,062
Building and improvements		2,189,579	60,972	-	2,250,551
Equipment		810,411	47,126	-	857,537
Software and web portal		<u>1,431,400</u>	<u>312,881</u>	<u>-</u>	<u>1,744,281</u>
Total accumulated depreciation		<u>4,517,927</u>	<u>425,504</u>	<u>-</u>	<u>4,943,431</u>
Total capital assets depreciated, net		<u>1,055,990</u>	<u>(425,504)</u>	<u>-</u>	<u>630,486</u>
Total capital assets, net		<u>\$ 1,250,086</u>	<u>\$ (425,504)</u>	<u>\$ -</u>	<u>\$ 824,582</u>

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 4 - **Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Due within <u>One Year</u>
Default aversion fee allowance	\$1,254,356	\$120,496	\$ (281,229)	\$1,093,623	\$ -
Compensated absences	160,242	-	(6,520)	153,722	46,117
Net pension liability	2,953,800	-	(987,516)	1,966,284	-
Unearned default prevention income	<u>449,271</u>	<u>898</u>	<u>-</u>	<u>450,169</u>	<u>-</u>
	<u>\$4,817,669</u>	<u>\$121,394</u>	<u>\$(1,275,265)</u>	<u>\$3,663,798</u>	<u>\$ 46,117</u>

Note 5 - **Allowance for Unreinsured Claims and Reinsurance Triggers**

The Division primarily acts as a guaranty agency for educational loans made to students by lending institutions which have agreed to participate in the FFEL Program. Under the terms of the reinsurance agreements with the Federal Government, the Federal Government reimburses guaranty agencies for a percentage of amounts expended in the discharge of their guarantor obligations. The agreements contain certain annual limitations, commonly referred to as the “reinsurance trigger”, which could reduce the reinsurance amount during the remainder of any federal fiscal year. The “reinsurance trigger” clause provides that whenever default claims in any federal fiscal year exceed 5% and 9% of the insured loans that were in repayment at the end of the previous federal fiscal year, the amount of reinsurance for loans disbursed prior to October 1, 1993 will drop from 100% to 90% and 80%, respectively, of the default claims for the balance of the federal fiscal year which ends on September 30. 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 Division will receive 98%, 88% of 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 Division will receive 95%, 85% or 75% of the claims paid to lenders based on its “reinsurance trigger”).

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 5 - **Allowance for Unreinsured Claims and Reinsurance Triggers - Continued**

During the year ended June 30, 2017, default claims did not exceed the applicable reinsurance trigger, and accordingly, the Federal Government's reinsurance payments to the Division never fell below the maximum amount allowed by law. During the year ended June 30, 2017, there were no unreinsured claims payments made.

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 ED. Management believes that the allowance is reasonable given that the balance of loans guaranteed is declining at an annual rate of approximately 10% (see "reserve fund requirements" within Note 11). 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.

Note 6 - **Related Party Transactions**

The Division is a related party to the Rhode Island Student Loan Authority ("RISLA"). RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. Transactions with RISLA as of and during the year ended June 30, 2017 were as follows:

Guaranteed loans outstanding with RISLA as of June 30, 2017	\$ 193,715,868
Guarantee claims paid to RISLA during the year	\$ 10,982,017

Note 7 - **Pension**

**Plan Description**

Certain employees of the Division participate in a cost-sharing multiple-employer defined benefit pension plan - the Employees' Retirement System plan - administered by the Employees' Retirement System of the State of Rhode Island (the "System"). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Pension - Continued**

*Plan Description - continued*

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

*Benefit Provisions*

The level of benefits provided to participants is established by Chapter 36-10 of the Rhode Island General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the Rhode Island General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after 5 years of service.

The plan provides for survivor's benefits for service connected death and certain lump sum death benefits. Joint and survivor benefit provision options are available to members.

Cost of living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at four-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability benefits with no minimum service requirement.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Pension - Continued**

*Contributions*

The funding policy, as set forth in the Rhode Island General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2017, Division employees, with less than 20 years of service as of July 1, 2015, were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of July 1, 2015 were required to contribute 11% of their annual covered salary. The Division is required to contribute at an actuarially determined rate; the rate was 25.34% of annual covered payroll for the fiscal year ended June 30, 2017. The Division contributed \$128,356 and \$147,431 for the fiscal years ended June 30, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

*Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2017, the Division reported a liability of \$1,966,284 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2016, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016. The Division proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2016 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2016, the Division's proportion was 0.09%.

For the year ended June 30, 2017, the Division recognized a reduction in pension expense of \$147,038. At June 30, 2017, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**RHODE ISLAND DIVISION OF HIGHER  
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**Notes to the Financial Statements - Continued**

**June 30, 2017**

Note 7 - **Pension - Continued**

*Pension Liabilities, Pension Expense and Deferred Outflows of Resources and  
Deferred Inflows of Resources - continued*

**Deferred Outflows of Resources**

Net difference between projected and actual investment earnings	\$	140,356
Contributions made subsequent to measurement date		<u>128,356</u>
	\$	<u>268,712</u>

**Deferred Inflows of Resources**

Difference between expected and actual experience	\$	52,070
Changes of assumptions		9,763
Changes in proportion and differences between employer contributions and proportionate share of contributions		<u>1,121,878</u>
	\$	<u>1,183,711</u>

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Pension - Continued**

*Pension Liabilities, Pension Expense and Deferred Outflows of Resources and  
Deferred Inflows of Resources - continued*

Contributions of \$128,356 are reported as deferred outflows of resources related to pensions resulting from the Division's contributions in fiscal year 2017 subsequent to the measurement date and will be recognized as a reduction of the net pension liability at the June 30, 2017 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction in pension expense as follows:

Year Ended <u>June 30,</u>	
2018	\$ (298,736)
2019	(298,736)
2020	(264,406)
2021	<u>(181,477)</u>
	<u><u>\$ (1,043,355)</u></u>

*Actuarial Assumptions*

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50% to 6.50%
Investment rate of return	7.50%

Mortality rates were based on 115% (males) and 95% (females) of the RP-2000 combined healthy mortality tables with white collar adjustments projected with scale AA from 2000.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Pension - Continued**

*Actuarial Assumptions - continued*

The actuarial assumptions used in the June 30, 2015 valuations rolled forward to June 30, 2016 and the calculation of the total pension liability at June 30, 2016 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 35 sources. The June 30, 2016 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Target allocation	Medium-Term Expected Real Rate of Return
Global Equity:	38.00%	
U.S. Equity		6.98%
International Developed		7.26%
International Emerging Markets		9.57%
Equity Hedge Funds	8.00%	4.10%
Private Equity	7.00%	10.15%
Core Fixed Income	15.00%	2.37%
Absolute Return Hedge Funds	7.00%	4.10%
Infrastructure	3.00%	5.58%
Real Estate	8.00%	5.33%
Other Real Return Assets:	11.00%	
Master Limited Partnerships		4.97%
Credit		4.97%
Inflation Linked Bonds		1.76%
Cash, Overlay and Money Market	3.00%	0.82%
	100.00%	

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Pension - Continued**

*Actuarial Assumptions - continued*

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

*Discount rate*

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In May 2017, the Employees' Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7% which will be reflected in the determination of the net pension liability for the various plans administered by the System beginning with the June 30, 2017 measurement date valuations.

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate*

The following presents the net pension liability (asset) calculated using the discount rate of 7.5 percent as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

1.00% Decrease	Current Discount Rate	1.00% Increase
6.50%	7.50%	8.50%
\$ 2,407,794	\$ 1,966,284	\$ 1,604,839

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 7 - **Pension - Continued**

*Pension Plan Fiduciary Net Position*

As noted earlier, the System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The report contains detailed information about the pension plan's fiduciary net position.

Note 8 - **Retirement Plan**

*State of Rhode Island Employees Retirement System Defined Contribution*

Plan Description

Certain employees participating in the defined benefit plan (those with less than 20 years of service as of July 1, 2015), as described in Note 7, also participate in a defined contribution plan of the Employees' Retirement System as authorized by Rhode Island General Law Chapter 36-10.3. The defined contribution plan was established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Contributions

Certain employees (those with less than 20 years of service as of July 1, 2015) contribute 5% of their annual covered salary and employers contribute at the following percentages of annual covered salary for these employees based on their years of service as of July 1, 2015:

<b><u>Years of Service</u></b> <b><u>As of 7/1/2015</u></b>	<b><u>Employer Contribution</u></b> <b><u>Rate</u></b>
15 - 20 years	1.50%
10 - 15 years	1.25%
0 - 10 years	1.00%

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 8 - **Retirement Plan - Continued**

*State of Rhode Island Employees Retirement System Defined Contribution - continued*

Contributions

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the Rhode Island General Laws, which are subject to amendment by the General Assembly.

The Division contributed and recognized as pension expense \$7,461 for the fiscal year ended June 30, 2017, equal to 100% of the required contributions for that year.

Plan Vesting and Contribution Forfeiture Provisions

The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Retirement Benefits

Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at <http://ersri.org>.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 9 - **Other Post-Employment Benefits**

*Rhode Island Retiree Health Care Benefit Plan*

Plan Description

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

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

The OPEB System issues a stand-alone financial report. A copy can be obtained from the State Controller's Office, 1 Capitol Hill, Providence, RI 02903.

Funding Policy

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

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

Note 9 - **Other Post-Employment Benefits - Continued**

*Rhode Island Retiree Health Care Benefit Plan - continued*

Funding Policy - Continued

For fiscal 2017, employers were required to contribute 5.97% of covered payroll. The employer required contribution rate is determined on an actuarially determined basis consistent with a funding approach outlined in the Rhode Island General Laws and as adopted by the OPEB System Board. The Division fully-funded its required contribution to the plan for the years ended June 30, 2017 and 2016 which were \$30,329 and \$43,204, respectively.

*New Accounting Guidance Effective for Fiscal 2018*

As discussed in Note 1, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* is effective for fiscal 2018 and is applicable for employees participating in a cost-sharing multiple employer plan such as the Rhode Island Retiree Health Care Benefit Plan. The Division will be required to restate beginning net position as of July 1, 2017 to recognize the employer's proportionate share of the plan's net OPEB obligation. OPEB expense reported in the Division's financial statements will reflect the change in the net OPEB liability for the fiscal year.

Note 10 - **Preservation and Recovery of Reserves**

The Secretary of the ED 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 can require a guaranty agency to return to the Secretary any portion of the Reserve Funds from the Federal Fund that the Secretary determines is unnecessary for paying the program expenses and contingent liabilities of the programs.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

### Note 10 - Preservation and Recovery of Reserves - Continued

Pursuant to the Omnibus Budget Reconciliation Act of 1993, the Secretary required the return of \$1 billion in guaranty agency Reserve Funds nationwide. The Division's share of Reserve Funds to be returned was \$4,310,909. The Division 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 Division received interest on the funds, restricted for use in default prevention activities. Upon payment of the \$4,310,909, the Division was authorized to transfer the accumulated interest to the Operating Fund, subject to its restricted use in default prevention activities. The Division reports a corresponding liability, unearned default prevention income, for the cash balance restricted to default prevention activities, and recognizes income as allowable expenditures are incurred. The liability totaled \$450,169 as of June 30, 2017.

### Note 11 - Commitments and Contingencies

#### Reserve Fund Requirements

The ED has established guidelines for guaranty agency Federal Student Loan Reserve Funds to assist in determining an agency's ability to meet its guarantor obligations. Under these guidelines, the minimum reserve fund requirement is 0.25% of the original principal balance of loans guaranteed ("OPO"). As of June 30, 2017, the Division's OPO totaled \$815,182,855 and its corresponding minimum reserve balance was \$2,038,980. The actual balance in the reserve fund (Due to Federal Government) at year-end was \$12,789,416, and using the method currently prescribed by the ED (which provides that the liability for unreinsured losses be added back to the fund balance), the reserve ratio was 2.43%, substantially in excess of the minimum required.

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

The Division met the required reserve fund level for the federal fiscal year ended September 30, 2016 and the Division has not exceeded the 5% reinsurance trigger.

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Financial Statements - Continued**

**June 30, 2017**

### Note 11 - **Commitments and Contingencies - Continued**

#### *Systems Services Agreement*

The Division has an agreement for computer system services with Navient Corporation (“Navient”) that expired in September 2016 and is automatically renewed, subject to prior mutual agreement of any adjustment of fees, for up to two (2) additional one (1) year periods, unless Navient or the Division, not less than 180 days prior to the expiration date of the current term or any renewal term, if applicable, notifies the other party in writing of its intent to allow this Agreement to expire. The Division renewed the agreement at the end of the term in September 2016 and does not intend to allow the account to expire in September 2017.

In addition, Navient provides portfolio management services to the Division for defaulted loans collections. The agreement provides for fixed fees plus incremental fees for loan guarantee systems services based upon the amount of annual loan applications processed excluding consolidation loans, as well as specified fees for certain administrative services provided to the Division when requested.

The agreement provides that fees for system services are calculated at the rate of 0.04% annually on the balance of the Division’s guaranteed loan portfolio and paid monthly. Fees to Navient for those services totaled \$524,449 for the year ended June 30, 2017. The agreement also provides that the fees for portfolio management services would be calculated at 27.5% of net revenue. Net revenue is defined as amounts collected less commissions paid to collection vendors and less amounts remitted to the ED. Fees to Navient for portfolio management services totaled \$967,712 for the year ended June 30, 2017. In the event that the Division should cancel the portfolio management services, the agreement provides for increases in the fee structure for administrative services.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Notes to the Financial Statements - Continued

June 30, 2017

### Note 11 - Commitments and Contingencies - Continued

#### Default Aversion and Prevention Services Agreement

The Division has an agreement for default aversion services with NCO Financial Systems, Inc. (“NCO”) that expired in September 2016 and is automatically renewed, subject to prior mutual agreement of any adjustment of fees, for up to two (2) additional one (1) year periods, unless NCO or the Division, not less than 180 days prior to the expiration date of the current term or any renewal term, if applicable, notifies the other party in writing of its intent to allow this Agreement to expire. The Division renewed the agreement at the end of the term in September 2016. NCO is a paid service fee equal to 0.59% of the delinquent loan balance for each loan brought to current status within the specifications of the agreement. Fees to NCO totaled \$185,401 for the year ended June 30, 2017 and does not intend to allow the account to expire in September 2017.

#### Web Portal Development and Services Agreement

The Division has an agreement, expiring August 31, 2018, with a software developer, XAP Corporation (“XAP”), to develop and maintain an internet-based program (WaytogoRI.org) that helps students explore career options and prepare and apply for a college education. The web portal provides a platform for individualized learning plans, electronic portfolios and additional services. The portal is available at no cost to all Rhode Island students, parents and educators. For the year ended June 30, 2017, maintenance, marketing and training expenses associated with the web portal totaled \$475,000. Under the terms of its agreement with XAP, and including the expenses associated with the additions and enhancements, the Division is committed to expend the following:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 475,000
2019	<u>79,166</u>
	\$ <u>554,166</u>

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Financial Statements - Continued**

**June 30, 2017**

Note 12 - **Risk Management**

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

Note 13 - **Continuing Operations**

Due to changes in the FFELP, the guaranteed loan portfolio will decrease and as a result, revenues from collections, portfolio maintenance fees and default aversion fees will decline, affecting the ability of the guaranty agency's operation to be self-sustaining.

The Division's management continues to evaluate the impact of the changes to FFELP and the options for future operations. The Division intends to continue in its role as the State's designated Guaranty Agency. Over a number of years, the Division has moved away from performing some functions with in-house personnel, and its number of employees has declined.

The successful operating model for small state-based guaranty agencies could be one where virtually all activities are outsourced to large servicers and only a small number of in-house employees perform financial, regulatory reporting and contract oversight services. Nevertheless, a time will come when the volume of defaulted and outstanding loans will not be sufficient to produce enough revenue to support a guaranty agency infrastructure. The Division's management cannot accurately predict the time period over which even a pared-down guaranty agency would be financially viable. Management anticipates the time period to be in the range of three to five years. However, weakness in the economic environment and federal regulatory changes could have a negative effect on that outlook.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Schedule of the Division's Proportionate Share of the Net Pension Liability (unaudited)

### Employees Retirement System

Year ended	June 30, 2017	June 30, 2016
Measurement date	June 30, 2016	June 30, 2015
Valuation date	June 30, 2015	June 30, 2014
Division's proportionate share of the net pension liability	0.09%	0.15%
Division's proportion of the net pension liability	\$ 1,966,284	\$ 2,953,800
Division's covered employee payroll	\$ 623,651	\$ 1,323,817
Division's proportionate share of the net pension liability as a percentage of its covered employee payroll	315.29%	223.13%
Plan fiduciary net position as a percentage of the total pension liability	51.88%	55.03%

Notes:

The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

*See accompanying notes to the required supplementary information.*

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island and Providence Plantations)

## Schedule of Division's Contributions (unaudited)

For the Year Ended June 30, 2017

Year ended	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Statutorily required contribution	\$ 128,356	\$ 147,431
Contributions in relation to the statutorily required contribution	<u>(128,356)</u>	<u>(147,431)</u>
Contribution deficiency (excess)	<u>                  -</u>	<u>                  -</u>
Division's covered-employee payroll	<u>\$ 506,535</u>	<u>\$ 623,651</u>
Contribution as a percentage of covered-employee payroll	25.34%	23.64%

**Notes:**

- 1) Employers participating in the State Employees' Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.
- 2) The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2014 and is intended to provide data for the most recent ten years.

*See accompanying notes to the required supplementary information.*

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Required Supplementary Information**

**June 30, 2017**

Note 1 - **Factors Affecting Trends for Amounts Related to the Net Pension Liability**

There were no changes in actuarial methods or assumptions or benefits reflected in the calculation of the net pension liability as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date. Benefits were also unchanged between these measurement dates.

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.
- The COLA formula was adjusted to 50% of the COLA calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first \$25,855, effective, 01/01/2016, and indexed as of that date as well.
- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first \$25,000), two \$500 stipends, and minor adjustments.

# **SUPPLEMENTAL INFORMATION**

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**

(a Component Unit of the State of Rhode Island and Providence Plantations)

**Schedule of Travel and Entertainment Expenses**

**For the Year Ended June 30, 2017**

<u>Payee</u>	<u>Purpose</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals/Auto Other</u>
Mance-Rios, Gail	NCHER Summer Legal Conference	\$ -	\$ 356	\$ 264
Mance-Rios, Gail	NCHER Fall Conference	273	853	31
Mance-Rios, Gail	National College Access Network Conference	-	-	247
Mance-Rios, Gail	NCHER Spring Conference	234	-	-
Pearce, Tom	NCHER Fall Conference	315	853	137
Amounts less than \$200		<u>-</u>	<u>-</u>	<u>812</u>
Total Guaranty Agency		<u>822</u>	<u>2,062</u>	<u>1,491</u>
Grand Total				<u>\$ 4,375</u>

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**  
(a Component Unit of the State of Rhode Island and Providence Plantations)

**Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2017**

	<u>CFDA Number</u>	<u>Pass-Through Entity</u>	<u>Pass-Through Entity Award Number</u>	<u>Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<b>NON-CLUSTER</b>					
<b>U.S. Department of Education:</b>					
<b>Direct Awards:</b>					
Federal Family Education Loans (FFEL) Program (beginning of year)	84.032	N/A	N/A	\$ 750,656,105	\$ -
Portfolio maintenance fee	84.032	N/A	N/A	534,870	-
Default aversion fee	84.032	N/A	N/A	<u>240,992</u>	<u>-</u>
Total Non-Cluster				<u>751,431,967</u>	<u>-</u>
<b>Total Federal Funds</b>				<u>\$ 751,431,967</u>	<u>\$ -</u>

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island and Providence Plantations)**

## **Notes to the Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2017**

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Rhode Island Division of Higher Education Assistance (a component unit of the State of Rhode Island and Providence Plantations) (the "Division") under programs of the Federal Government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Division, it is not intended to and does not present the financial position, changes in net position or cash flows of the Division.

Note 2 - **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

Note 3 - **Federal Family Education Loan ("FFEL") Program**

As of June 30, 2017, the insured loan balance outstanding under FFEL was \$633,207,347. This amount represents the amounts outstanding as reported by the National Student Loan Data System ("NSLDS") as of July 31, 2018 to allow for member institutions of NSLDS to complete their loan update.

There were no loans made under FFEL during the current year.

Note 4 - **Indirect Cost Rate**

The Division has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**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***



## **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***

The Board of Education of  
State of Rhode Island and Providence Plantations  
Providence, Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rhode Island Division of Higher Education Assistance (the "Division"), which comprise the statement of net position and statement of fiduciary net position for the year ended June 30, 2017, the related statement of revenues and expenses, change in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and we have issued our report thereon dated September 29, 2017.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

O'Connor and Drew, P.C.

**Certified Public Accountants  
Braintree, Massachusetts**

September 29, 2017