

**RHODE ISLAND DIVISION OF
HIGHER EDUCATION
ASSISTANCE**

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

FINANCIAL STATEMENTS

JUNE 30, 2018

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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

Financial Statements

June 30, 2018

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**RHODE ISLAND DIVISION OF HIGHER EDUCATION
ASSISTANCE**

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

Financial Statements

June 30, 2018

C O N T E N T S

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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, 2018, the related statements of revenues and expenses, changes 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, 2018, and the respective change in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Other Postemployment Benefits

As discussed in Note 2 of the financial statements, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for fiscal year 2018 and required the Division to restate beginning net position to recognize its proportionate share of the net postemployment benefits other than pension obligations determined for the State Employees' and Electing Teachers OPEB System. Our opinion is not modified with respect to that matter.

Transfer of Loan Portfolio to the Federal Government

As discussed in Note 1 of the financial statements, the Division assigned the entire Federal Family Education Loan Program portfolio to the Department of Education ("ED") on July 1, 2018. The Division's revenue for servicing the loans assigned to the ED for the year ended June 30, 2018 was \$6.5 million or 100% of its operating revenue for the year ended June 30, 2018. 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 liability and net OPEB liability on page 47 and 51, respectively, the schedule of the Division's pension contributions and OPEB contributions on page 48 and 52, respectively and the notes to the required supplementary information on pages 49-50 and 53 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 55 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 travel and entertainment expenses and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2018 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'Connor and Duen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2018

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, 2018

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, 2018. 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 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 was 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 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.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Introduction – Continued

The Rhode Island fiscal year 2016 budget created the Division of Higher Education Assistance (the "Division") replacing RIHEAA and merging it into the Office of the Postsecondary Commissioner ("OPC"). This budget went into effect as of July 1, 2015. The Commissioner would now serve as the executive director of the Division, which would assume 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.

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. 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 was in use in all public school systems in Rhode Island and in many private and parochial institutions as well. As of June 30, 2018, this program will no longer be available due to the absence of funding.

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Transfer of the Guarantee Loan Portfolio

The transfer of the Guarantee Loan Portfolio was effective July 1, 2018. It was entered into by and between the Educational Credit Management Corporation ("ECMC"). This transfer was approved by the United States Department of Education ("ED"). The Division notified ED that it will cease participation in the Federal Family Education Loan Program. Subject to the receipt of reinsurance from ED, ECMC agrees to assume the Division's outstanding liability on those loans previously guaranteed by the Division that are non-defaulted loans currently held by lenders, and also assigns and transfers to ECMC rights in and to the portfolio of loans held by the Division for which it has paid claims to lenders.

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.

The Division implemented GASB 68 regarding pension for fiscal year 2015. Certain employees of the Division participate in a cost sharing multiple-employer defined benefits pension plan — the Employees' Retirement System plan — administered by the Employees Retirement System of the State of Rhode Island. Under a cost-sharing plan, pension obligations for employees are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. For fiscal 2018 the pension adjustment for the Division was \$318,608.

The Division implemented GASB 75 regarding other post-employment benefit ("OPEB") plans for fiscal year 2018. Certain employees of the Division participate in one of two OPEB plans: the State Employees' Cost-Sharing OPEB Plan ("SEP") and the Board of Education OPEB Cost-Sharing Plan ("BOEP") (collectively referred to as the "Plans"). Under a cost sharing plan, OPEB

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Overview of the Financial Statements

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 OPEB benefits through the plan regardless of the status of the employers' payment of its OPEB obligation to the plan. The Plans provides health care benefits to plan members. The Division restated balances in 2017 to reflect the implementation.

Financial Highlights and Comparative Analysis

The tables in each section below reflect financial data.

Net Position		
	2018	(Restated) 2017
Current assets	\$ 28,432,000	\$ 36,159,000
Noncurrent assets	969,000	1,456,000
Total assets	\$ 29,401,000	\$ 37,615,000
Deferred outflows of resources	384,000	306,000
Total assets and deferred outflows of resources	\$ 29,785,000	\$ 37,921,000
Current liabilities	1,788,000	3,709,000
Noncurrent liabilities	2,654,000	4,086,000
Total liabilities	\$ 4,442,000	\$ 7,795,000
Deferred inflows of resources	1,208,000	1,184,000
Total liabilities and deferred inflows of resources	\$ 5,650,000	\$ 8,979,000
Net position:		
Net investment in capital assets	\$ 336,000	\$ 825,000
Restricted - expendable	23,799,000	28,117,000
Total net position	\$ 24,135,000	\$ 28,942,000

The net position of the Operating Fund at June 30, 2018 and 2017 consists of \$24 million and \$28 million, respectively, which is restricted by federal and state statute for the uses of the Division's operations and for student financial assistance purposes.

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, 2018

Financial Highlights and Comparative Analysis - Continued

The largest components of AOF's total liabilities are the accounts payable of \$1.7 million and the net pension liability of \$1.6 million as of June 30, 2018 and \$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.

Operating Fund Revenues, Expenses and Transfers

	2018	2017
Operating revenues	\$ 6,483,000	\$ 6,140,000
Operating expenses	18,007,000	18,940,000
Operating loss	(11,524,000)	(12,800,000)
Non-operating revenue	70,000	60,000
Change in net position	(11,454,000)	(12,740,000)
Transfer in from primary government	6,647,000	6,757,000
Change in Net Position	(4,807,000)	(5,983,000)
Net Position, Beginning of Year	28,942,000	35,357,000
Adjustments to beginning net position	-	(432,000)
Net Position, End of Year	\$ 24,135,000	\$ 28,942,000

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

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2018

Cash Flows

	2018	2017
Restricted Cash and Cash Equivalents	\$ 27,794,000	\$ 35,043,000
Provided by (used in):		
Operating activities	\$ (13,988,000)	\$ (10,326,000)
Noncapital financing activities	6,682,000	9,749,000
Investing activities	57,000	84,000
Net Decrease	\$ (7,249,000)	\$ (493,000)

Requests for Information

This financial report is designed to provide a general overview of the Division'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 Plantation)

Statement of Net Position

June 30, 2018

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

Statement of Net Position

June 30, 2018

Assets

	<u>Operating Fund</u>
Current Assets:	
Restricted cash and equivalents	\$ 27,160,744
Investments	389,198
Portfolio maintenance receivable	106,875
Due from State of Rhode Island	511,657
Due from Federal Fund	179,808
Prepaid expenses and other current assets	<u>83,822</u>
Total Current Assets	<u>28,432,104</u>
Noncurrent Assets:	
Restricted cash and equivalents:	
Escrow Sallie Mae principal	182,161
Recall account, interest	451,075
Capital assets, net	<u>335,955</u>
Total Noncurrent Assets	<u>969,191</u>
Total Assets	<u>29,401,295</u>
Deferred Outflows of Resources:	
Deferred outflows related to pension	286,641
Deferred outflows related to OPEB	<u>97,863</u>
Total Deferred Outflows of Resources	<u>384,504</u>

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

Liabilities, Deferred Inflows of Resources and Net Position

	Operating Fund
Current Liabilities:	
Accounts payable and accrued expenses	\$ 1,749,665
Compensated absences	<u>39,141</u>
Total Current Liabilities	<u>1,788,806</u>
Noncurrent Liabilities:	
Compensated absences, less current portion	93,604
Net pension liability	1,647,676
Net OPEB liability	461,572
Unearned default prevention income	<u>451,075</u>
Total Noncurrent Liabilities	<u>2,653,927</u>
Total Liabilities	<u>4,442,733</u>
Deferred Inflows of Resources:	
Deferred inflows related to pension	1,172,191
Deferred inflows related to OPEB	<u>35,932</u>
Total Deferred Inflows of Resources	<u>1,208,123</u>
Net Position:	
Net investment in capital assets	335,955
Restricted - expendable	<u>23,798,988</u>
Total Net Position	<u>\$ 24,134,943</u>

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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

Statement of Revenues and Expenses

For the Year Ended June 30, 2018

	Operating Fund
Operating Revenues:	
Government fees:	
Default aversion	\$ 1,158,438
Portfolio maintenance	452,141
Recovery, consolidation, and rehabilitation income, net of U.S. Department of Education share	<u>4,872,103</u>
Total Operating Revenues	<u>6,482,682</u>
Operating Expenses:	
Student financial assistance	11,645,832
Salaries and employee benefits	706,238
Building and maintenance	97,125
Collection agency commissions	2,285,789
Computer services	36,768
Default aversion and prevention	300,956
Depreciation and amortization	488,627
Office and other	269,373
Professional services	131,842
Provision for default aversion fee returns	93,133
Navient guarantee services fee	450,295
Navient portfolio management fees	1,024,819
Travel, conferences, and workshops	909
Web portal maintenance and services	<u>475,000</u>
Total Operating Expenses	<u>18,006,706</u>
Operating Loss	<u>(11,524,024)</u>

**RHODE ISLAND DIVISION OF HIGHER
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Statement of Revenues and Expenses - Continued

For the Year Ended June 30, 2018

	Operating <u>Fund</u>
Non-Operating Revenue:	
Investment income	<u>70,494</u>
Change in Net Position Before Transfer:	<u>(11,453,530)</u>
Transfer:	
Transfer in from primary government	<u>6,646,741</u>
Change in Net Position	<u><u>\$ (4,806,789)</u></u>

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

**RHODE ISLAND DIVISION OF HIGHER
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Statement of Changes in Net Position

For the Year Ended June 30, 2018

	<u>Investment in Capital Assets</u>	<u>Restricted Expendable</u>	<u>Total</u>
Balance June 30, 2017, as previously reported	\$ 824,582	\$ 28,549,703	\$ 29,374,285
Prior Period Adjustment - Implemenation of newly effective accounting standard (Note 2)	<u>-</u>	<u>(432,553)</u>	<u>(432,553)</u>
Balance June 30, 2017, as restated	824,582	28,117,150	28,941,732
Changes in net position for 2018	<u>(488,627)</u>	<u>(4,318,162)</u>	<u>(4,806,789)</u>
Balance, June 30, 2018	<u>\$ 335,955</u>	<u>\$ 23,798,988</u>	<u>\$ 24,134,943</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, 2018

	Operating Fund
Cash Flows from Operating Activities:	
Receipts from:	
Recovery, consolidation, and rehabilitation income	\$ 4,895,435
Government fees	696,788
Payments for:	
Salaries and benefits	(1,108,185)
Supplies, materials, and services	(5,199,668)
Student financial assistance	<u>(13,272,285)</u>
 Net Cash Applied to Operating Activities	 <u>(13,987,915)</u>
 Cash Flows from Noncapital Financing Activity:	
Transfer in from primary government	<u>6,682,306</u>
 Cash Flows from Investing Activities:	
Proceeds from sales and maturities of investments	(13,497)
Investment income	<u>70,494</u>
 Net Cash Provided by Investing Activities	 <u>56,997</u>
 Net Decrease in Restricted Cash and Equivalents	 (7,248,612)
 Restricted Cash and Equivalents, Beginning of Year	 <u>35,042,592</u>
 Restricted Cash and Equivalents, End of Year	 <u><u>\$ 27,793,980</u></u>

**RHODE ISLAND DIVISION OF HIGHER
EDUCATION ASSISTANCE**
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Statement of Cash Flows - Continued

For the Year Ended June 30, 2018

Reconciliation of Operating Loss to Net Cash Applied in Operating Activities:

Operating loss	\$ (11,524,024)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	488,627
Changes in Assets and Liabilities:	
Receivables	202,258
Prepaid expenses and other current assets	252,811
Accounts payable and accrued expenses	(1,912,924)
Compensated absences	(86,801)
Default aversion fee allowance and unearned default prevention income	(1,092,717)
Pension	(348,057)
OPEB	<u>32,912</u>
Net Cash Applied To Operating Activities	<u>\$ (13,987,915)</u>

Restricted cash and equivalents consist of the following at June 30, 2018:

Current:

Restricted cash and equivalents	\$ 27,160,744
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Noncurrent:

Restricted cash and equivalents:	
Escrow Sallie Mae principal	182,161
Recall account, interest	<u>451,075</u>

\$ 27,793,980

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

**RHODE ISLAND DIVISION OF HIGHER
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Statement of Fiduciary Net Position

June 30, 2018

Assets

	<u>Federal Fund</u>
Assets:	
Restricted cash and equivalents	\$ 9,996,057
Reinsurance claims, Federal Government	<u>2,438,413</u>
Total Assets	<u>\$ 12,434,470</u>

Liabilities

Liabilities:	
Accounts payable	\$ 34,313
Due to Operating Fund	179,808
Due to Federal Government	<u>12,220,349</u>
Total Liabilities	<u>\$ 12,434,470</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)

Notes to the Financial Statements

June 30, 2018

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

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Notes to the Financial Statements - Continued

June 30, 2018

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.

Subsequent Event

On July 1, 2018, the Division assigned the entire Federal Family Education Loan Program portfolio to ED. The assignment of the portfolio requires the Division to return the fiduciary funds balance to the Federal government. The Division anticipates transferring approximately \$12.2 million from the Federal Fund.

As a component unit of the State of Rhode Island and Providence Plantations, management is in constant contact regarding the future for the Division. Although the long-term future of the Division is unknown, management believes the Division will assist post-secondary students with scholarship funding in the near term.

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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

Note 1 - Summary of Significant Accounting Policies - Continued

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.

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, 2018. 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 \$1,039,033 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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

Note 1 - Summary of Significant Accounting Policies - Continued

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.

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, 2018. 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

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Notes to the Financial Statements - Continued

June 30, 2018

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

Postemployment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Employees' Cost-Sharing OPEB Plan ("SEP") and the Board of Education OPEB Cost-Sharing Plan ("BOEP") (collectively referred to as the "Plans") and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 15% 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 2018 health premiums amounted to approximately \$182,000. Employee contributions for 2018 were approximately \$31,000.

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 4.2%. The assessed fringe benefit cost for the year ended June 30, 2018 was approximately \$31,000.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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 and determining the net pension and OPEB 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 60th and 120th 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. For the year ended June 30, 2018, the Operating Fund recognized default aversion fee revenue of \$1,158,438. The estimate for refunds is based upon historical loan collections of the portfolio. 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. In July, 2018, as part of assigning the loan portfolio to the ED, the Division agreed to pay \$100,000 to settle the claims for all future defaults. This amount is recognized as accounts payable in the Operating Fund at June 30, 2018.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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

Revenue Recognition - continued

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, 2018, the Federal Fund was the guarantor of loans outstanding with original principal amounts of \$691,663,748 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, 2018, the unpaid balances were \$691,835,969 including student loans as described in Note 7.

New Governmental Accounting Pronouncements

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 completed its review of the requirements of this standard and its applicability

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Notes to the Financial Statements - Continued

June 30, 2018

Note 2 - **Restatement of Prior Year Balances**

As a result of implementing GASB Statement 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Division has restated net position in the statement of net position by (\$432,553). The prior period restatement of net position reflected the recognition of net other postemployment benefits other than pension liability as of June 30, 2018 as required by the application of GASB 75.

<u>As of June 30, 2017</u>	<u>As originally reported</u>	<u>As restated</u>
Statement of Net Position:		
Net OPEB liability	\$ -	\$ (469,856)
Deferred outflows related to OPEB	-	37,303
Restricted - expendable net position	28,549,703	28,117,150

Note 3 - **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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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

At June 30, 2018, the carrying amounts of the Division's cash deposits were \$37,790,037 and the bank balances were \$39,517,336. 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, \$8,483,529 was covered by federal depository insurance as of June 30, 2018. The remaining amount of \$31,033,807 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, 2018.

Investments

As of June 30, 2018, 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, 2018, 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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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

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, 2018.

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.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 4 - **Capital Assets, Net**

Capital assets consist of the following at June 30, 2018:

	<u>Estimated lives (in years)</u>	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
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>1,272,791</u>	<u>960,000</u>
Total capital assets depreciated depreciated or amortized		<u>5,573,917</u>	<u>-</u>	<u>1,272,791</u>	<u>4,301,126</u>
Less accumulated depreciation:					
Land improvements		91,062	3,805	-	94,867
Building and improvements		2,250,551	15,358	-	2,265,909
Equipment		857,537	39,668	-	897,205
Software and web portal		<u>1,744,281</u>	<u>429,796</u>	<u>1,272,791</u>	<u>901,286</u>
Total accumulated depreciation		<u>4,943,431</u>	<u>488,627</u>	<u>1,272,791</u>	<u>4,159,267</u>
Total capital assets depreciated, net		<u>630,486</u>	<u>(488,627)</u>	<u>-</u>	<u>141,859</u>
Total capital assets, net		<u>\$ 824,582</u>	<u>\$ (488,627)</u>	<u>\$ -</u>	<u>\$ 335,955</u>

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Notes to the Financial Statements - Continued

June 30, 2018

Note 5 - **Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	(Restated) Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Due within <u>One Year</u>
Default aversion fee allowance	\$ 1,093,623	\$ 93,133	\$(1,186,756)	\$ -	\$ -
Compensated absences	153,722	-	(20,977)	132,745	39,141
Net pension liability	1,966,284	-	(318,608)	1,647,676	-
Net OPEB liability	469,856	-	(8,284)	461,572	-
Unearned default prevention income	<u>450,169</u>	<u>906</u>	<u>-</u>	<u>451,075</u>	<u>-</u>
	<u>\$4,133,654</u>	<u>\$ 94,039</u>	<u>\$(1,534,625)</u>	<u>\$2,693,068</u>	<u>\$ 39,141</u>

Note 6 - **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”).

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

Note 6 - **Allowance for Unreinsured Claims and Reinsurance Triggers - Continued**

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”).

During the year ended June 30, 2018, 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, 2018, the reduction in the Federal Fund for unreinsured claims payments totaled \$109,488.

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.

As a result of the portfolio assignment to ED on July 1, 2018, the Division is not responsible for future reinsurance triggers. As a result, the default aversion fee allowance at June 30, 2018 is \$0.

Note 7 - **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, 2018 were as follows:

Guaranteed loans outstanding with RISLA as of June 30, 2018	\$ 16,424,899
Guarantee claims paid to RISLA during the year	\$ 6,504,845

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **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.

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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **Pension - Continued**

Benefit Provisions - continued

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.

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 2018, 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 24.87% of annual covered payroll for the fiscal year ended June 30, 2018. The Division contributed \$115,212, \$128,356 and \$147,431 for the fiscal years ended June 30, 2018, 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, 2018, the Division reported a liability of \$1,647,676 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, 2017, 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, 2016 rolled forward to June 30, 2017. The Division proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2017 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2017, the Division's proportion was 0.07%.

For the year ended June 30, 2018, the Division recognized a reduction in pension expense of \$232,846. At June 30, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **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	\$ 37,025
Changes of assumptions	134,404
Contributions made subsequent to measurement date	<u>115,212</u>
	<u>\$ 286,641</u>

Deferred Inflows of Resources

Difference between expected and actual experience	\$ 33,611
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>1,138,580</u>
	<u>\$ 1,172,191</u>

Contributions of \$115,212 are reported as deferred outflows of resources related to pensions resulting from the Division's contributions in fiscal year 2018 subsequent to the measurement date and will be recognized as a reduction of the net pension liability at the June 30, 2018 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:

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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **Pension - Continued**

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

Year Ended <u>June 30,</u>	
2019	\$ (358,300)
2020	(331,188)
2021	(244,997)
2022	(58,210)
2023	<u>(8,067)</u>
	<u>\$ (1,000,762)</u>

Actuarial Assumptions

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

Inflation	2.50%
Salary increases	3.25% to 6.25%
Investment rate of return	7.00%

Mortality rates were based on the RP-2014 combined healthy for males with blue collar adjustments, projected with scale AA Ultimate MP16 mortality tables and RP-2014 combined healthy for females, projected with scale AA Ultimate MP16 mortality tables.

The actuarial assumptions used in the June 30, 2016 valuations rolled forward to June 30, 2017 and the calculation of the total pension liability at June 30, 2017 were consistent with the results of an actuarial experience study performed as of June 30, 2016.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **Pension - Continued**

Actuarial Assumptions - continued

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, 2018 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Long-Term Target Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity		
U.S. Equity	20.60%	6.85%
International Developed Equity	15.90%	6.71%
International Emerging Markets	3.50%	8.91%
Private Growth		
Private Equity	11.30%	9.62%
Non-Core RE	2.20%	5.17%
OPP Private Credit	1.50%	9.62%
Income		
High Yield Infrastructure	1.00%	4.26%
REITS	1.00%	5.17%
Liquid Credit	2.80%	4.26%
Private Credit	3.20%	4.26%
Crisis Protection Class		
Treasury Duration	4.00%	0.83%
Systematic Trend	4.00%	3.81%
Inflation Protection		
Core Real Estate	3.60%	5.17%
Private Infrastructure	2.40%	5.57%
TIPs	1.00%	1.72%
Natural Resources	1.00%	3.98%
Volatility Protection		
IG Fixed Income	11.50%	2.12%
Absolute Return	6.50%	3.81%
Cash	3.00%	0.83%

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Notes to the Financial Statements - Continued

June 30, 2018

Note 8 - **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 7.0 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.

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 7.0% 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.

	Current Discount	
1.00% Decrease	Rate	1.00% Increase
6.00%	7.00%	8.00%
\$ 2,051,773	\$ 1,647,676	\$ 1,346,685

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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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

Plan Description

Certain employees of the Division participate in one of two OPEB plans: the State Employees' Cost-Sharing OPEB Plan ("SEP") and the Board of Education OPEB Cost-Sharing Plan ("BOEP") (collectively referred to as the "Plans"). The Plans are cost-sharing multiple-employer defined benefit OPEB plans included within the Rhode Island State Employees' and Electing Teachers OPEB System (the "OPEB System").

Under a cost sharing plan, OPEB 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 OPEB benefits through the plan, regardless of the status of the employers' payment of its OPEB obligation to the plan. The Plans provides health care benefits to plan members.

The OPEB System is administered by the OPEB Board and was authorized, created, and established under Chapter 36-12.1 of the RI General Laws. The OPEB Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB System. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

The OPEB System issues separately publicly available financial reports that includes financial statements and required supplementary information for each plan. The reports may be obtained at <http://www.oag.ri.gov/reports.html>.

Membership and Benefit Provisions

The Plans within the OPEB System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

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Notes to the Financial Statements - Continued

June 30, 2018

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

Contributions

SEP

The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plan. The Division is required to contribute at an actuarially determined rate; the rate was 5.98% of annual covered payroll for the fiscal year ended June 30, 2018. The Division contributed \$58,802, \$30,832 and \$43,204 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Active employees do not make contributions to the plan. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service.

BOEP

The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plan. The Division is required to contribute at an actuarially determined rate; the rate was 4.36% of covered payroll for the fiscal year ended June 30, 2018. The Division contributed \$8,383, \$6,471 and \$7,190 for the fiscal years ended June 30, 2018, 2017 and 2016, respectively, equal to 100% of the required contributions for each year.

Active employees contribute 0.9% of payroll to the plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Division reported a liability of \$374,790 and \$86,782 for its proportionate share of the net OPEB liability related to its participation in the SEP and BOEP, respectively. The net OPEB liability was measured as of June 30, 2017, the measurement date, and the total OPEB liability used to calculate the net OPEB liability was determined for each plan by a separate actuarial valuation as of June 30, 2017. The Division's proportion of the net OPEB liability was based on its share of contributions to the Plans for fiscal year 2017 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2017, the Division's proportion was 0.07% and 0.17% for SEP and BOEP, respectively.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

For the year ended June 30, 2018, the Division recognized OPEB expense of \$27,931 and \$6,342 for SEP and BOEP, respectively. At June 30, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SEP	BOEP	Total
<u>Deferred Outflows of Resources</u>			
Changes of assumptions	\$ 22,487	\$ 8,191	\$ 30,678
Contributions subsequent to measurement date	58,802	8,383	67,185
Total	\$ 81,289	\$ 16,574	\$ 97,863
<u>Deferred Inflows of Resources</u>			
Difference between expected and actual experience	\$ 19,541	\$ 10,141	\$ 29,682
Net difference between projected and actual investment earnings	4,593	1,657	6,250
Total	\$ 24,134	\$ 11,798	\$ 35,932

Contributions of \$58,802 and \$8,383 to SEP and BOEP, respectively, are reported as deferred outflows of resources related to OPEB expense resulting from the Division's contributions in fiscal year 2018 subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability determined at the June 30, 2018 measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Year Ended June 30:	Net Deferred Outflows (Inflows) of Resources:		
	SEP	BOEP	Total
2018	\$ (686)	\$ (736)	\$ (1,422)
2019	(686)	(736)	(1,422)
2020	(686)	(736)	(1,422)
2021	(686)	(736)	(1,422)
2022	463	(321)	142
Thereafter	634	(342)	292
	\$ (1,647)	\$ (3,607)	\$ (5,254)

Actuarial Assumptions

The total OPEB liability was determined using the following significant actuarial assumptions:

Inflation	2.75%
Salary increases	3.00% to 6.00%
Investment rate of return	5.00%
Healthcare cost trend rate	9.00% in fiscal year 2018 decreasing annually to 3.5% in fiscal year 2031 and later

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

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

Actuarial Assumptions - continued

The long-term expected rate of return best-estimate on the Plans' 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 OPEB plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 8 nationally recognized investment consulting firms. The June 30, 2017 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table for the Plans:

<u>Asset Class</u>	<u>Long-Term Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	65.00%	5.58%
Fixed Income	35.00%	0.52%
	<u>100.00%</u>	

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 OPEB liability for the Plans was 5.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members, if any, 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 Plans' 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 the Plans' investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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Notes to the Financial Statements - Continued

June 30, 2018

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

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability calculated using the discount rate of 5.0% as well as what the net OPEB liability 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% Decrease (4.0% Discount Rate)	(5.0% Discount Rate)	1% Increase (6.0% Discount Rate)
SEP	\$ 437,330	\$ 374,790	\$ 322,716
BOEP	\$ 106,373	\$ 86,782	\$ 70,698

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

The following table presents the net OPEB liability calculated using the healthcare cost trend rate of 9.0% and gradually decreasing to an ultimate rate of 3.5%, as well as what the employers' net OPEB liability would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Lower	Baseline	1% Higher
SEP	\$ 315,412	\$ 374,790	\$ 448,582
BOEP	\$ 68,577	\$ 86,782	\$ 109,801

Note 10 - **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.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Retirement Plan**

State of Rhode Island Employees Retirement System Defined Contribution - continued

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:

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

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 \$4,450 for the fiscal year ended June 30, 2018, 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.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 10 - **Retirement Plan - Continued**

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>.

Note 11 - **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.

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 \$451,075 as of June 30, 2018.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Financial Statements - Continued

June 30, 2018

Note 12 - 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, 2018, the Division's OPO totaled \$691,835,969 and its corresponding minimum reserve balance was \$1,729,590. The actual balance in the reserve fund (Due to Federal Government) at year-end was \$12,220,349, 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 1.99%, 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, 2017 and the Division has not exceeded the 5% reinsurance trigger.

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. In June 2018, the Division notified Navient of its intention to cancel the agreement at the time the portfolio is returned to ED. The Division settled with Navient for \$100,000 to cancel the agreement early. This amount is reflected as accounts payable and accrued expenses on the Statement of Net Position.

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.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 12 - Commitments and Contingencies - Continued

Systems Services Agreement - continued

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 \$450,295 for the year ended June 30, 2018. 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 \$1,024,819 for the year ended June 30, 2018.

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 \$300,956 for the year ended June 30, 2018 and the Division terminated the agreement as of July 1, 2018.

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, 2018, 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 spend \$79,166 from July 1, 2018 through August 31, 2018.

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Notes to the Financial Statements - Continued

June 30, 2018

Note 13 - **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.

**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, 2018	June 30, 2017	June 30, 2016
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015
Valuation date	June 30, 2016	June 30, 2015	June 30, 2014
Division's proportionate share of the net pension liability	0.07%	0.09%	0.15%
Division's proportion of the net pension liability	\$ 1,647,676	\$ 1,966,284	\$ 2,953,800
Division's covered employee payroll	\$ 506,535	\$ 623,651	\$ 1,323,817
Division's proportionate share of the net pension liability as a percentage of its covered employee payroll	325.28%	315.29%	223.13%
Plan fiduciary net position as a percentage of the total pension liability	51.83%	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
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Schedule of Division's Pension Contributions (Unaudited)

For the Year Ended June 30, 2018

Year ended	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Statutorily required contribution	\$ 115,212	\$ 128,356	\$ 147,431
Contributions in relation to the statutorily required contribution	<u>(115,212)</u>	<u>(128,356)</u>	<u>(147,431)</u>
Contribution deficiency (excess)	<u> -</u>	<u> -</u>	<u> -</u>
Division's covered-employee payroll	<u>\$ 463,257</u>	<u>\$ 506,535</u>	<u>\$ 623,651</u>
Contribution as a percentage of covered-employee payroll	24.87%	25.34%	23.64%

Notes:

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.

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

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Notes to the Pension Required Supplemental Information (Unaudited)

Pension Schedules

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

Measurement Date - June 30, 2017

There were no changes in benefits reflected in the calculation of the net pension liability as of the June 30, 2017 measurement date compared to the June 30, 2016 measurement date. The following is a listing of actuarial methods or assumptions for the following measurement dates:

<u>Measurement Date</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Investment rate of return	7.00%	7.50%
Projected salary increases	3.25% - 6.25%	3.50% - 6.50%
Inflation rate	2.50%	2.75%
Mortality rates - males	Male employees - RP-2014 Combined Healthy for Males with Blue Collar adjustments, projected with Scale Ultimate MP16	Male employees - 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000
Mortality rates - females	Male employees - RP-2014 Combined Healthy for Females, projected with Scale Ultimate MP16	Female employees - 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000

Measurement Date - June 30, 2016

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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Notes to the Pension Required Supplemental Information (Unaudited) - Continued

Pension Schedules

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

Measurement Date - June 30, 2015

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 is 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.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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Schedule of the Division's Proportionate Share of the Net OPEB Liability (Unaudited)

State Employees' and Electing Teachers OPEB System Plan

State Employees' Cost-Sharing OPEB Plan

Year ended	June 30, 2018
Measurement date	June 30, 2017
Valuation date	June 30, 2016
Division's proportionate share of the net pension liability	0.07%
Division's proportion of the net pension liability	\$ 374,790
Division's covered employee payroll	\$ 516,453
Division's proportionate share of the net pension liability as a percentage of its covered employee payroll	72.57%
Plan fiduciary net position as a percentage of the total pension liability	22.38%

Board of Education's OPEB Cost-Sharing Plan

Year ended	June 30, 2018
Measurement date	June 30, 2017
Valuation date	June 30, 2016
Division's proportionate share of the net pension liability	0.17%
Division's proportion of the net pension liability	\$ 86,782
Division's covered employee payroll	\$ 207,414
Division's proportionate share of the net pension liability as a percentage of its covered employee payroll	41.84%
Plan fiduciary net position as a percentage of the total pension liability	32.05%

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, 2017 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
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Schedule of Division's OPEB Contributions (Unaudited)

State Employees' and Electing Teachers OPEB System Plan

State Employees' Cost-Sharing OPEB Plan

Year ended	<u>June 30, 2018</u>
Statutorily required contribution	\$ 58,802
Contributions in relation to the statutorily required contribution	<u>(58,802)</u>
Contribution deficiency (excess)	<u>-</u>
Division's covered-employee payroll	<u>\$ 983,311</u>
Contribution as a percentage of covered-employee payroll	5.98%

Board of Education's OPEB Cost-Sharing Plan

Year ended	<u>June 30, 2018</u>
Statutorily required contribution	\$ 8,383
Contributions in relation to the statutorily required contribution	<u>(8,383)</u>
Contribution deficiency (excess)	<u>-</u>
Division's covered-employee payroll	<u>\$ 192,271</u>
Contribution as a percentage of covered-employee payroll	4.36%

Notes:

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.

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 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

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Notes to the OPEB Required Supplemental Information (Unaudited)

OPEB Schedules

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

The actuarial methods and assumptions used to calculate the net OPEB liability of the participating employers are described in Note 10 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

Measurement Date - June 30, 2017

Certain actuarial assumptions for the State Employees' OPEB Cost-Sharing Plan ("SEP") and the Board of Education Cost-Sharing OPEB Plan ("BOEP") (collectively referred to as the "Plans") were updated to match the assumptions used for State Employees in the pension valuation for the Employees' Retirement System of Rhode Island ("ERSRI") and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability
- The rate of wage inflation
- The mortality assumption
- The trend assumption
- Aging factors and health and inflation trends

The excise tax load on pre-65 liabilities was changed from 13.8% to 11.0%. The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the Plans will be subject to the excise tax in 2022.

Note 2 - **Actuarially Determined Contributions**

The annual required contributions for fiscal year 2017 were determined based on the June 30, 2013 valuation of the Plans.

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, 2018

<u>Payee</u>	<u>Purpose</u>	<u>Airfare</u>	<u>Lodging</u>	<u>Meals/Auto Other</u>
Pearce, Tom	NCHER Fall Conference	\$ 247	\$ 662	\$ 43
Amounts less than \$200		<u>-</u>	<u>-</u>	<u>236</u>
Total Guaranty Agency		<u>247</u>	<u>662</u>	<u>279</u>
Grand Total				<u>\$ 1,188</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, 2018

	<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>
NON-CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Federal Family Education Loans (FFEL) Program (beginning of year)	84.032	N/A	N/A	\$ 644,206,829	\$ -
Portfolio maintenance fee	84.032	N/A	N/A	452,141	-
Default aversion fee	84.032	N/A	N/A	<u>1,158,438</u>	<u>-</u>
Total Non-Cluster				<u>645,817,408</u>	<u>-</u>
Total Federal Funds				<u>\$ 645,817,408</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, 2018

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, 2018, the insured loan balance outstanding under FFEL was \$538,943,557. This amount represents the amounts outstanding as reported by the National Student Loan Data System (“NSLDS”).

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.

Note 5 - **Determination of Major Programs**

The determination of major Federal financial assistance programs was based on the overall level of expenditures for all Federal programs for the State of Rhode Island, of which the Division is a component unit. As such, the determination of major programs is made at the state level, where it was determined that none of the Division’s federal programs were major programs during the state fiscal year ended June 30, 2018.

**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, 2018, 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 30, 2018.

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 Dineen, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2018