



**Consolidated Financial Statements
and Schedule of Expenditures
of Federal Awards**

American Student Assistance

June 30, 2011 and 2010



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Tofias New England Division

AMERICAN STUDENT ASSISTANCE

Consolidated Financial Statements and Schedule of Expenditures of Federal Awards

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Independent Auditors' Report

Board of Directors
Massachusetts Higher Education Assistance Corporation
d/b/a American Student Assistance

We have audited the accompanying consolidated statement of financial position of the Agency Operating Fund of Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance ("ASA") as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of ASA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements as of and for the year ended June 30, 2010 were audited by other auditors whose report dated October 11, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ASA as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2011 on our consideration of ASA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic consolidated financial statements taken as a whole.

Mayer Hoffman McCann P.C.

September 22, 2011
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE
Consolidated Statements of Financial Position

(Dollars in Thousands)

June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	\$ 95,260	\$ 56,543
Certificates of deposit	42,244	15,560
Restricted cash	56	7,084
Investments	72,571	57,156
Prepaid expenses and deposits	2,203	1,296
Receivables		
Due from U.S. Department of Education:		
Loan processing and issuance fees	-	264
Account maintenance fees	5,742	6,270
Due from the Federal Fund:		
Default aversion fees	851	2,784
Net interfund receivable	1,029	9,465
Other receivables	295	281
	<hr/>	<hr/>
Total receivables, net	7,917	19,064
Other assets	826	590
Property and equipment, net	14,275	13,207
	<hr/>	<hr/>
Total assets	\$ 235,352	\$ 170,500
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 15,182	\$ 13,380
Deferred rent and landlord allowances	7,253	8,042
Pension obligation	15,346	19,668
Other liabilities	3,317	9,398
	<hr/>	<hr/>
Total liabilities	41,098	50,488
	<hr/>	<hr/>
Unrestricted net assets:		
Board designated net assets	9,153	9,153
Undesignated net assets	185,101	110,859
	<hr/>	<hr/>
Total unrestricted net assets	194,254	120,012
	<hr/>	<hr/>
Total liabilities and net assets	\$ 235,352	\$ 170,500
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to the consolidated financial statements.

AMERICAN STUDENT ASSISTANCE

Consolidated Statements of Activities

(Dollars in Thousands)

For the Years Ended June 30, 2011 and 2010

	<i>2011</i>	<i>2010</i>
Operating revenues:		
Loan processing and issuance fees	\$ 162	\$ 6,403
Default aversion fees	10,098	17,364
Account maintenance fees	23,472	25,423
Defaulted loan recoveries - net of reimbursement to the U.S. Department of Education:		
Regular collections	17,035	14,765
Consolidation collections	28,011	12,592
Rehabilitation collections	115,709	70,977
Other FFELP related services	3,258	5,503
Interest income	807	1,813
Net realized and unrealized losses on investments	(189)	(1,163)
Total operating revenues	<u>198,363</u>	<u>153,677</u>
Operating expenses:		
Employee compensation and fringe benefit costs	50,696	60,320
Defaulted loan recovery related services	56,085	34,488
Printing and postage expenses	1,318	1,641
Depreciation and amortization expenses	4,540	5,255
Occupancy and building costs	5,755	6,173
Office expenses	463	680
Professional fees and services	7,720	4,984
Information systems equipment and maintenance	3,135	2,375
Travel and industry related activities	1,088	971
Other expenses	1,365	1,201
Total operating expenses	<u>132,165</u>	<u>118,088</u>
Increase in net assets from operating activities	66,198	35,589
(Gains) losses on pension plan	(8,044)	1,424
Change in net assets	74,242	34,165
Net assets, beginning of year	<u>120,012</u>	<u>85,847</u>
Net assets, end of year	<u>\$ 194,254</u>	<u>\$ 120,012</u>

See accompanying notes to the consolidated financial statements.

AMERICAN STUDENT ASSISTANCE

Consolidated Statements of Cash Flows

(Dollars in Thousands)

For the Years Ended June 30, 2011 and 2010

	<i>2011</i>	<i>2010</i>
Cash flows from operating activities:		
Change in net assets	\$ 74,242	\$ 34,165
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization expenses	4,540	5,255
Unrealized and realized losses on investments	189	1,163
Changes in assets and liabilities:		
Prepaid expenses and deposits	(907)	(1)
Receivables:		
Loan processing and issuance fees	264	1,811
Account maintenance fees	528	541
Default aversion fees	1,933	(2,784)
Due to (from) the Federal Fund	8,436	(34,975)
Other receivables	(15)	363
Accounts payable and accrued expenses	1,802	3,925
Deferred rent and landlord allowances	(789)	(714)
Pension obligation	(4,322)	5,206
Other liabilities	711	380
	86,612	14,335
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(187,465)	(76,097)
Sales and maturities of investments	145,178	74,757
Additions to property and equipment	(5,608)	(1,680)
	(47,895)	(3,020)
Net cash used in investing activities		
Increase in cash and cash equivalents	38,717	11,315
Cash and cash equivalents, beginning of year	56,543	45,228
Cash and cash equivalents, end of year	\$ 95,260	\$ 56,543

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 1 - Organization

American Student Assistance (“ASA”) assists students in successfully completing a program of higher education financing and repayment. In doing so, ASA provides various loan-related and other services in connection with the financing of higher education and the Federal Higher Education Act of 1965, as amended (the “Act”).

The ASA organization consists of two related companies as described below:

American Student Assistance is the trade or “doing business” name of Massachusetts Higher Education Assistance Corporation (“MHEAC”). A not-for-profit organization, ASA provides full-service life-of-the-loan services to borrowers, schools, lenders, guaranty agencies and other participants within the Federal Family Education Loan Program (“FFELP”). Under the Act ASA, as a FFELP guaranty agency, is required to maintain and account for activities within two separate funds; an Agency Operating Fund and a Federal Fund (the “Federal Fund”), which is owned and regulated by the U.S. Department of Education (“ED”). The Agency Operating Fund (the “Operating Fund”) is used to record the financial activities incurred by ASA in fulfilling its corporate mission. On behalf of ED, ASA operates the Federal Fund. The financial activities applicable to the Federal Fund are reported in a separate set of financial statements.

American Student Assistance Services, Inc. (“ASA Services”), a wholly-owned for-profit subsidiary of ASA, was established to provide financial and other support services beyond the scope of the Act. This corporation was largely inactive during the reporting periods.

These consolidated financial statements represent the activities of the Operating Fund and ASA Services (collectively referred to as “ASA”). All significant intercompany transactions have been eliminated in consolidation.

As a result of the Student Aid and Fiscal Responsibility Act, which was part of the Health Care and Education Reconciliation Act, no new loans were originated under the FFEL Program beginning July 1, 2010. Accordingly, ASA did not earn loan processing and issuance fees in 2011. All new Stafford, PLUS, and Consolidation Loans will come directly from the U.S. Department of Education under the Direct Loan Program. This change does not impact ASA’s commitment of providing wellness and other services to the student borrowers, but it will cause account maintenance fees and default aversion fees to decrease in the long run.

Reduction in revenues mentioned above will be offset by an increase in defaulted loan recoveries revenues driven by a significant historical increase in the guarantor held defaulted loan portfolio in the past few years. ASA’s guarantor held defaulted loan portfolio is \$3.53 billion and \$3.27 billion for the years ended June 30, 2011 and 2010, respectively. ASA has paid claims for \$1.07 billion and \$1.04 billion for the years ended June 30, 2011 and 2010, respectively. The collections curve tends to peak in the second and third year from the claims paid date.

ASA and the Federal Fund operate in a complex regulatory environment that evolves over time as laws, funding and other factors change over time. While reporting is based on current agreements, there can be no assurance that such will not significantly change in the future which could have a significant effect on ASA and the Federal Fund. ASA is developing new services to assist students and parents in successfully completing a program of education financing and repayment.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 1 - Organization (Continued)

Financial Statement Presentation

ASA's financial statements are prepared on the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles. ASA's net assets are all unrestricted. The ASA board makes an elective decision to designate certain assets when deemed prudent. Under the 1998 amendments to the HEA, ED established a minimum reserve level requirement for guarantee agencies to maintain. The requirement is a net asset balance in the Federal Fund of at least 25 basis points of the total guaranteed principal outstanding. The Federal Fund met the reserve level requirement as of June 30, 2011 and 2010.

All dollar amounts, unless otherwise noted, are expressed in thousands.

Note 2 - Summary of Significant Accounting Policies

Cash and Cash Equivalents

All highly liquid debt instruments, including repurchase agreements, with maturities of three months or less from purchase are considered to be cash equivalents. Repurchase agreements are fully collateralized. ASA monitors its exposure associated with cash in bank deposits and has not experienced any losses in such accounts.

Certificates of Deposit

Certificates of deposit are held at historic cost plus accrued interest.

Restricted Cash/FASTFUNDSM

ASA acts as an escrow agent with respect to cash received from lending institutions for student loans. These funds are generally transferred to borrowers and schools within five days of receipt. The transfer of funds to schools under FASTFUNDSM is determined by the school's preference. This escrowed cash is not available for general ASA purposes. ASA recorded the escrow funds as restricted cash together with a liability for the same amount in accounts payable and accrued expenses as of June 30, 2011 and 2010. FASTFUNDSM activities, as it relates to the FFELP program, had no new loan origination as of July 1, 2010.

Investments

Investments which consist of U.S. Government and Agency bonds are carried at fair value. Fair value is determined as per the fair value policies described later in this section.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Receivables

Accounts receivables are carried at their estimated net realizable value. Accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Provisions for uncollectible accounts on accounts receivables are determined on the basis of loss experience, known and inherent risks and current economic conditions. At June 30, 2011 and 2010, no allowance for doubtful accounts has been recorded as all amounts are considered collectible. A significant portion of receivables are due from the U.S. Department of Education and the Federal Fund.

Due from the Federal Fund

Due from Federal Fund results from default aversion fees billed but not paid, transactions processed on behalf of the Federal Fund and defaulted loan recoveries due to ASA at year end.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are recorded using the straight-line method over estimated useful lives of three to ten year periods. Leasehold improvements are amortized over the shorter of useful life or life of the lease. Ordinary repairs and maintenance are charged to expense when incurred. ASA develops its own proprietary software from time to time. ASA capitalizes the direct costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, and testing. Costs incurred during the preliminary project along with post-implementation stages of internal use computer software development are expensed as incurred. Capitalized development costs are generally amortized over three years. Costs incurred to maintain existing software are expensed as incurred. The capitalization and ongoing assessment of recoverability of development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.

Revenue Recognition

Loan Processing and Issuance Fee

ASA was entitled to receive a loan processing and issuance fee (LPIF) from ED in an amount equal to forty one-hundredths of one percent (0.40%) of the amount of disbursed loans guaranteed. This fee was recognized as revenue upon guarantee of the loan. As a result of the Student Aid and Fiscal Responsibility Act, which was attached to the Health Care and Reconciliation Act, no new loans were issued to ASA, as of July 1, 2010. The Loan Processing and Issuance Fee revenue recorded, for the year ended June 30, 2011, is based on a true-up from the Department of Education.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Default Aversion Fee

The Federal Fund is responsible for payment of a default aversion fee to ASA equal to 1% of the balance of the principal and interest on loans associated with first-time pre-claims assistance requested by lenders. ASA is allowed to withdraw this fee monthly from the Federal Fund. The payment is forfeited should the loan associated with the pre-claim assistance ultimately default. Accordingly, default aversion fee expenses are recognized based on pre-claims assistance requests less the estimated amount of ultimate defaults which would revert to the Federal Fund.

Account Maintenance Fee

ASA receives portfolio maintenance fees from the Department of Education based upon the original principal balance of loans in its loan portfolio. These fees are calculated at six one-hundredths of one percent (0.06%), annually. This fee has been recognized as income as earned.

Defaulted Loan Recoveries

ASA is entitled to retain a portion of defaulted loan collections for which federal reinsurance or reimbursement has been received. ASA records income when the related claim to the Department of Education is paid, as management considers the earnings process complete at that time. Regular collections earn a 16% fee on cash collected. Consolidated loan collections earn a net fee of 10% of cash collected. Rehabilitation which are sold receive a fee of 18.5% of the original loan balance plus 100% of collection costs and accrued interest associated with the loan, which revenue is recognized upon sale.

Other FFELP Related Services

Included in Other FFELP Related Services are fees earned from:

- (i) other FFELP guaranty agencies for providing business processing and information technology services in support of their FFELP activities. For these services, ASA earned \$3,345 and \$4,207 for the years ended June 30, 2011 and 2010, respectively.
- (ii) lenders for providing certain FFELP related loan origination and disbursement services (refer to Restricted Cash/ FASTFUNDSM). For these services, ASA earned \$0 and \$1,676 for the years ended June 30, 2011 and 2010, respectively
- (iii) all other FFELP related activities earned \$87 and \$380 for the years ended June 30, 2011 and 2010, respectively.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Other FFELP Related Services (Continued)

As a component of ASA's full service agreement with the Missouri Department of Higher Education ("MDHE"), ASA provides payment processing services on behalf of MDHE with respect to cash received for collections on defaulted student loans. These funds are deposited directly into MDHE accounts on a daily basis and therefore are not reflected in ASA's consolidated financial statements. The contract for MDHE is valid through June 2012.

Income Tax Status

ASA is recognized by the Internal Revenue Service as an organization described under Section 501(c)(3) of the Internal Revenue Code and is generally exempt from Federal and state income taxes on related income. ASA Services is a for profit subsidiary that is currently inactive. Given the limited taxable activities of ASA, management concluded that disclosures relative to tax provisions are not necessary.

Uncertain Tax Positions

ASA accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. ASA has identified its tax status as a tax-exempt entity and its presentation of certain net operating loss carryforwards as its only significant tax positions; however, ASA has determined that its position relative to tax status does not result in an uncertainty requiring recognition. The position on loss carryforwards is uncertain and thus such carryforwards have not been recognized as tax assets. ASA is not currently under examination by any taxing jurisdiction. ASA's Federal and state tax returns are generally open for examination for three years following the date filed.

Fair Value Measurements

ASA reports certain assets and liabilities at fair value on a recurring and non recurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include ASA's investment accounts. ASA does not have any non recurring measures. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards require ASA to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on a stock exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these consolidated financial statements. For more information on the fair value of ASA's financial instruments, see Note 3 – Investments and Fair Value Measurements.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Significant management estimates included in the financial statements relate to the reserve for contingencies, measurement of the actuarial obligations for defined benefit plan and useful lives of depreciable assets.

Deferred Rent and Landlord Allowances

Lease incentives are amortized over the term of the lease on a straight-line basis. Rent expense is also recorded on a straight-line basis to account for the effects of free rent and changes in lease rates over the lease term. Sublease income is recorded on a straight line basis and the resulting asset/liability is included within the deferred rent and landlord allowance.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Pension Obligation

ASA has a defined benefit pension plan (the "Plan") covering substantially all of its employees. Contributions to the Plan are intended to provide not only for benefits attributed to service to date but also for those benefits expected to be earned in the future. The benefits are based on years of service and the employee's average earnings in the three highest consecutive calendar years during the last ten years prior to the date of termination of employment. Expenses and obligations under the Plan are actuarially determined.

Allocation of Functional Expenses

The cost of providing various programs and other activities has been summarized on a functional basis in the statement of activities. Costs have been allocated to functional classifications based on percentage of effort, usage, square footage and other criteria.

Subsequent Events

ASA has evaluated events and transactions through September 22, 2011, which is the date the consolidated financial statements were issued.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

Note 3 - Investments and Fair Value Measurements

Investments in U.S. Government Agencies of \$72,571 and \$57,156 as of June 30, 2011 and 2010, respectively, are measured at fair value on a recurring basis based on quoted market prices in active markets and therefore are classified as Level 1 inputs under the fair value hierarchy because quoted prices are available at the measurement date.

Fair values of financial instruments for which the ASA did not elect the fair value option includes cash and cash equivalents, certificates of deposits, restricted cash, receivables and accounts payable. Management believes the carrying value approximates the fair value of these items, given the short-term nature of these instruments.

The fair value of investments consists of the following at June 30:

	<i>2011</i>	<i>2010</i>
U.S. Government agencies securities	\$ <u>72,571</u>	\$ <u>57,156</u>
Investments	\$ <u>72,571</u>	\$ <u>57,156</u>

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 3 - Investments and Fair Value Measurements (Continued)

At June 30, 2011, a total of \$7,560 of securities are pledged to secure a letter of credit with a bank, which was used to secure the lease associated with ASA's primary facility as well as activities related to the Missouri Department of Higher Education (MDHE). Such letter of credit expires on April 2012.

The following summarizes the investment return for the years ended June 30:

	<i>2011</i>	<i>2010</i>
Investment return:		
Interest and dividends	\$ 772	\$ 1,790
Net realized and unrealized losses on investments	<u>(189)</u>	<u>(1,163)</u>
Investment return	\$ <u>583</u>	\$ <u>627</u>

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30:

	<i>2011</i>	<i>2010</i>
Computer software systems	\$ 17,168	\$ 12,909
Equipment	12,452	13,315
Furniture and fixtures	2,746	3,327
Leasehold improvements	<u>12,025</u>	<u>11,356</u>
Total property and equipment	44,391	40,907
Less accumulated depreciation and amortization	<u>(30,116)</u>	<u>(27,700)</u>
Net property and equipment	\$ <u>14,275</u>	\$ <u>13,207</u>

Depreciation and amortization expense was \$4,540 and \$5,255 for the years ended June 30, 2011 and 2010, respectively.

For the years ended June 30, 2011 and 2010, ASA capitalized software development costs of \$4,529 and \$1,139, respectively. As of June 30, 2011 and 2010, unamortized capitalized software costs totaled \$4,462 and \$1,809, respectively.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 5 - Functional Expenses

Operating expenses have been presented in the Consolidated Statement of Activities according to natural classification. Presented below are operating expenses reclassified according to functional classification as of June 30:

	<i>2011</i>	<i>2010</i>
Borrower services	\$ 70,646	\$ 48,404
School and lender services	16,135	17,372
Information technology support	27,689	35,685
General and administrative support	<u>17,695</u>	<u>16,627</u>
Total operating expenses	\$ <u><u>132,165</u></u>	\$ <u><u>118,088</u></u>

Note 6 - Employee Benefit Plans

Defined Benefit Plan

ASA has a defined benefit pension plan (the “Plan”) which covers substantially all employees. Benefits under the plan are based on the employees’ earnings before retirement and years of service. The funding policy provides for employer contributions satisfying minimum funding requirements in accordance with the Employee Retirement Income Security Act of 1974 (“ERISA”) guidelines or such higher amounts as approved by the Compensation Committee of the Board of Directors. ASA recognizes in the Statement of Financial Position the overfunded or underfunded status of the Plan, measured as the difference between the fair value of plan assets and the projected benefit obligation. ASA recognizes the change in the funded status of the plan in the year in which the change occurs through the Statement of Activities. The normal pension expense of \$5,327 and \$6,229 is reflected in employee compensation and fringe benefits in the Statement of Activities for 2011 and 2010, respectively.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

Defined Benefit Plan (Continued)

Selected financial data related to the Plan's valuation are as follows at June 30:

	2011	2010
Projected benefit obligation	\$ 51,113	\$ 47,949
Fair value of plan assets	<u>35,767</u>	<u>28,281</u>
Accrued pension liability	<u>\$ 15,346</u>	<u>\$ 19,668</u>
Accumulated benefit obligation	<u>\$ 36,997</u>	<u>\$ 34,260</u>
Pension expense	<u>\$ 5,327</u>	<u>\$ 6,229</u>
Employer contributions	<u>\$ 1,606</u>	<u>\$ 2,446</u>
Benefits paid to participants	<u>\$ 375</u>	<u>\$ 283</u>

Amounts recognized in unrestricted net assets consists of the following at June 30:

	2011	2010
Prior service cost	\$ 67	\$ 80
Net loss	<u>10,327</u>	<u>18,357</u>
Total	<u>\$ 10,394</u>	<u>\$ 18,437</u>

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

Defined Benefit Plan (Continued)

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

	<i>2011</i>	<i>2010</i>
Net (gain) loss	\$ (6,615)	\$ 8,390
Amortization of prior service cost	(13)	(17)
Amortization of net loss, including curtailment of (\$0 in 2011 and \$5,406 in 2010)	<u>(1,416)</u>	<u>(6,949)</u>
Total amount recognized in unrestricted net assets	\$ <u>(8,044)</u>	\$ <u>1,424</u>
Total (credit) expense recognized for plan	\$ <u>(2,717)</u>	\$ <u>7,652</u>

As a result of the Student Aid and Fiscal Responsibility Act, ASA had a reduction in workforce in fiscal year 2010. The reduction in workforce was specifically in areas directly related to loan origination and was considered a plan curtailment.

The estimated net loss and prior service cost for the plan that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year are \$536 and \$13, respectively.

The following assumptions were used to determine benefit obligations for the years ended June 30:

	<i>2011</i>	<i>2010</i>
Weighted average discount rate	5.60%	5.50%
Long-term return on plan assets	7.50%	7.50%
Compensation increase rate	5.50%	5.50%

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

2012	\$	517
2013		642
2014		773
2015		916
2016		1,073
Thereafter		9,050

The Plan assets as of June 30, 2011 consists of the following:

<i>Description</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash equivalents	\$ 798	\$ -	\$ -	\$ 798
Mutual funds				
U.S. equity	14,154	-	-	14,154
International equity	10,744	-	-	10,744
Fixed income intermediate	7,197	-	-	7,197
Fixed income short-term	2,874	-	-	2,874
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 35,767	\$ -	\$ -	\$ 35,767

The Plan assets as of June 30, 2010 consists of the following:

<i>Description</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash equivalents	\$ 3,282	\$ -	\$ -	\$ 3,282
Mutual funds				
U.S. equity	9,931	-	-	9,931
International equity	7,452	-	-	7,452
Fixed income intermediate	5,488	-	-	5,488
Fixed income short-term	2,128	-	-	2,128
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 28,281	\$ -	\$ -	\$ 28,281

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

Estimated Future Benefit Payments (Continued)

The Plan generally follows an investment strategy based upon a target portfolio allocation of 70% equity positions and 30% fixed income positions, including cash. Execution of the strategy is achieved following a dollar-cost-averaging approach utilizing certain approved mutual funds as investment vehicles. The goal of the target portfolio allocation is to conservatively position the Plan's assets in the financial markets taking the Plan's investment horizon and upcoming liabilities into full consideration. The target portfolio allocation provides for long-term capital appreciation, offered by equity securities, while lessening portfolio risk and providing down-side protection via fixed income securities. The Plan's long-term investment return assumption of 7.5% is based upon long-term historical market returns consistent with the Plan's target portfolio allocation.

ASA expects to contribute \$1.9 million to the Plan in fiscal year 2012.

Defined Contribution Plan, Section 401(a)

ASA has a discretionary Retirement Incentive Plan, under Section 401(a) of the Internal Revenue Code, which covers substantially all of its employees. ASA's anticipated contribution is calculated as a percent of employees' gross earnings. ASA's anticipated contribution for the year ended June 30, 2011 is \$1,478 (4% of gross earnings). For the year ended June 30, 2010, a contribution of \$1,699 was made.

Defined Contribution Plan, Section 403(b)

ASA has a tax-deferred annuity plan covering substantially all of its employees under Section 403(b) of the Internal Revenue Code. Contributions into this plan are not funded or matched by ASA, but are elective deferrals by employees.

Deferred Compensation Plan, Section 457(b)

ASA has a deferred compensation plan covering senior management personnel under Section 457(b) of the Internal Revenue Code. The plan documents describes the terms of vesting and ultimate withdrawal of the assets. The assets and a corresponding liability of \$826 and \$590 are included in the assets and other liabilities as of June 30, 2011 and 2010, respectively. Contributions into this plan are not funded or matched by ASA, but are elective deferrals by employees.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 7 - Income Taxes

ASA had net operating loss carryforwards of approximately \$20,601 and \$21,113 at June 30, 2011 and 2010, respectively, resulting from certain activities related to the Missouri Department of Higher Education (MDHE) that is considered unrelated business activity. ASA entered into a service contract in October 2002 with MDHE and receives fees for providing services including originating, payment processing and servicing student loans. Despite the considerable expertise and effort ASA acquired as a result of performing its exempt activities, ASA has been unable to realize taxable income on its business activities with MDHE each taxable year. The net operating losses begin to expire in 2022. Management has determined net operating loss carryforwards are more likely than not disallowed upon examination; therefore deferred tax assets have not been recognized.

Note 8 - Commitments and Contingencies

Office Space Lease

ASA has a lease for the office space that commenced on June 1, 2004 (amended for additional space in September 2005) and has a term of 15 years. The lease includes a provision for renewal options after the initial 15 year term.

The lease agreement (as amended) includes rent escalation and landlord allowances which are accounted for on a straight line basis. The net effect of the straight line expense recognition is a deferred liability of \$7,253 and \$8,042 as of June 30, 2011 and 2010, respectively. Effective June 2011, ASA subleased a portion of their office space to an unrelated third party through May 2019.

Minimum annual lease payments and sublease income under these agreements are as follows:

	<i>Base</i>	<i>Sublease</i>	<i>Net</i>
2012	\$ 4,625	\$ (484)	\$ 4,141
2013	4,625	(830)	3,795
2014	4,648	(830)	3,818
2015	4,902	(830)	4,072
2016	4,913	(830)	4,083
Thereafter	<u>14,370</u>	<u>(2,420)</u>	<u>11,950</u>
	<u>\$ 38,083</u>	<u>\$ (6,224)</u>	<u>\$ 31,859</u>

Contingencies

ASA is subject to ED oversight and audit that at times may result in program issues and potential liabilities payable to ED. The issues relate to possible violations of rules and regulations established by ED to administer the federal loans program. Management diligently attempts to interpret ED's rules and regulations, and believes that its implementation of policies and procedures properly adheres to those rules and regulations.

Supplemental Information

AMERICAN STUDENT ASSISTANCE
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

(Dollars in Thousands)

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Award Receivable/ (Payable) July 1, 2010</u>	<u>July 1, 2010 through June 30, 2011 Activity due From (to) ED</u>	<u>July 1, 2010 through June 30, 2011 (Receipts)/ Payments</u>	<u>Federal Award Receivable/ (Payable) June 30, 2011</u>	<u>Total Expenditures of Federal Awards</u>
U.S. Department of Education ("ED"):						
Federal Family Education Loans (Guaranty Agencies)	84.032					
Due from ED:						
Loan processing and issuance fees		\$ 264	\$ 162	\$ (426)	-	
Advance for claims		<u>40,750</u>	<u>1,237,795</u>	<u>(1,217,617)</u>	<u>60,928</u>	
Total due from ED		<u>41,014</u>	<u>1,237,957</u>	<u>(1,218,043)</u>	<u>60,928</u>	
Due to ED:						
Program recoveries		<u>(31,453)</u>	<u>(456,954)</u>	<u>442,579</u>	<u>(45,828)</u>	
Total due to ED		<u>(31,453)</u>	<u>(456,954)</u>	<u>442,579</u>	<u>(45,828)</u>	
Total		<u>9,561</u>	<u>781,003</u>	<u>(775,464)</u>	<u>15,100</u>	
Total Expenditures of Federal Awards		\$ <u>9,561</u>	\$ <u>781,003</u>			\$ <u>790,564</u>

AMERICAN STUDENT ASSISTANCE

Note to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Note 1 - Basis of Presentation

The accompanying combined Schedule of Expenditures of Federal Awards includes the federal grant activity of American Student Assistance “ASA” and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic combined financial statements.

Reporting Under Government Auditing Standards



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

Board of Directors
Massachusetts Higher Education Assistance Corporation
d/b/a American Student Assistance

We have audited the consolidated financial statements of the Agency Operating Fund for Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance (“ASA”) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

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



Compliance and Other Matters

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

We noted certain matters that we reported to management of ASA in a separate letter dated September 22, 2011.

This report is intended solely for the information and use of the Board of Directors, management and the United States Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

September 22, 2011
Boston, Massachusetts

Reporting Under OMB Circular A-133



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*Report on Compliance with Requirements that Could Have a Direct and Material
Effect on Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133*

Board of Directors
Massachusetts Higher Education Assistance Corporation
d/b/a American Student Assistance

Compliance

We have audited the Agency Operating Fund of Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance's ("ASA") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on ASA's major federal program for the year ended June 30, 2011. ASA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of ASA's management. Our responsibility is to express an opinion on ASA's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ASA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of ASA's compliance with those requirements.

In our opinion, ASA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.



Internal Control over Compliance

Management of ASA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ASA's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ASA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

ASA's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit ASA's response and, accordingly, we express no opinion on the response.

We noted certain matters that we reported to management of ASA in a separate letter dated September 22, 2011.

This report is intended solely for the information and use of the Board of Directors, management and the United States Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

September 22, 2011
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Section 1

Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None Reported |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None Reported |
| 2. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 4. Identification of major programs: | |

CFDA Number

84.032

Name of Federal Program

Federal Family Education Loans
(Guaranty Agencies)

- | | |
|---|-------------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$2,371,692 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

AMERICAN STUDENT ASSISTANCE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Section 2

Financial Statement Findings

None.

Section 3

Federal Award Findings and Questioned Costs

2011-1

Finding – Special Tests and Provisions: Current Records; Federal Family Education Loans (Guarantee Agencies); CFDA #84.032; June 30, 2011 Award Year; U.S. Department of Education

Criteria or Specific Requirement

The guaranty agency shall maintain current, complete records for each loan that it holds. The records must be maintained in a system that allows ready identification of each loan's current status, updated at least once every 10 business days (34 CFR section 682.414(a)).

Condition Found

Out of 40 items selected for testing, 15 records were not updated within 10 business days.

Questioned Costs

None.

Cause

ASA's procedure is to update the loan records monthly and, therefore, some loan records may not be updated within the 10 day requirement.

Effect

Because records are only updated once each month, a record that has a change in status that happens within the first 20 days of the month will not be reported within the 10 business day requirement. Since all data is updated each month before any financial statement computations are made or any submission to the Department of Education (ED), there is no financial statement impact.

AMERICAN STUDENT ASSISTANCE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Section 3 (Continued)

Federal Award Findings and Questioned Costs (Continued)

2011-1 (Continued)

Recommendation

Since the Agency has determined that monthly updates of the manifest data is not possible due to system constraints and has determined that such a significant investment would not improve NSLDS reporting performance with ED or provide any cost benefit, the Agency should reach out to ED for approval of current practices as to avoid any future findings in this area.

Views of Responsible Officials and Planned Corrective Actions

ASA will evaluate the recommendation and explore the possibility requesting approval from ED.

Contact person: Philip S. Imbrescia, Director of Audit & Risk Management

Section 4

Summary of Schedule of Prior Year Findings

2010-1

Finding – Special Tests and Provisions: Current Records; Federal Family Education Loans (Guarantee Agencies); CFDA #84.032; June 30, 2010 Award Year; U.S. Department of Education

Condition Found:

In August 2009, out of 25 items selected for testing, 21 records were identified as not having been updated within 10 business days. In February 2010, out of 25 items selected for testing, 24 records were identified as not having been updated within 10 business days.

Status:

See finding 2011-1.