

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

American Student Assistance

June 30, 2013 and 2012



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

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Agency Operating Fund of Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance ("ASA"), which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ASA as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 27, 2013 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 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 ASA's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

September 27, 2013
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE
Consolidated Statements of Financial Position

(Dollars in Thousands)

June 30, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 111,074	\$ 90,947
Certificates of deposit	28,991	36,925
Restricted cash	55	55
Investments	136,405	97,719
Prepaid expenses and deposits	2,437	1,980
Receivables:		
Due from U.S. Department of Education:		
Account maintenance fees	4,934	5,406
Due from the Federal Fund	78,111	72,346
Net student loan portfolio	213	408
Other receivables	1,046	567
Total receivables, net	84,304	78,727
Other assets	884	762
Property and equipment, net	11,402	12,076
Total assets	\$ 375,552	\$ 319,191
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 18,836	\$ 14,629
Deferred rent and landlord allowances	4,859	5,431
Pension obligation	21,462	33,110
Other liabilities	4,704	4,112
Total liabilities	49,861	57,282
Unrestricted net assets:		
Board designated net assets	9,153	9,153
Board designated net assets - College Planning Services Program	2,345	2,345
Undesignated net assets	314,193	250,411
Total unrestricted net assets	325,691	261,909
Total liabilities and net assets	\$ 375,552	\$ 319,191

See accompanying notes to the consolidated financial statements.

AMERICAN STUDENT ASSISTANCE

Consolidated Statements of Activities

(Dollars in Thousands)

For the Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Default aversion fees	\$ 2,738	\$ 6,257
Account maintenance fees	20,115	21,982
Defaulted loan recoveries - net of reimbursement to the U.S. Department of Education:		
Regular collections	13,492	15,719
Consolidation collections	32,957	39,389
Rehabilitation collections	156,921	152,003
Grant and contracts	1,926	-
Other FFELP and debt management services	4,102	3,003
Interest income	1,450	1,240
Net realized and unrealized losses on investments	(1,023)	(485)
	232,678	239,108
Operating expenses:		
Employee compensation and fringe benefit costs	62,307	54,885
Defaulted loan recovery related services	63,879	69,249
Printing and postage expenses	1,078	1,326
Depreciation and amortization expenses	5,084	4,699
Occupancy and building costs	5,238	5,092
Office expenses	594	384
Professional fees and services	18,259	11,002
Information systems equipment and maintenance	5,080	4,165
Travel and industry related activities	2,081	1,615
Other expenses	2,096	1,647
	165,696	154,064
Increase in net assets from operating activities	66,982	85,044
(Gains) losses on pension plan	(16,050)	19,200
Non-operating sublease loss	-	1,196
Transfer to Federal Fund for reserve support	19,250	-
Acquisition net contribution received	-	(3,007)
	63,782	67,655
Change in net assets		
Net assets, beginning of year	261,909	194,254
Net assets, end of year	\$ 325,691	\$ 261,909

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, 2013 and 2012

	<i>2013</i>	<i>2012</i>
Cash flows from operating activities:		
Change in net assets	\$ 63,782	\$ 67,655
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization expenses	5,084	4,699
Net contributions received in excess of assets received from TERI acquisition	-	(3,007)
Sublease loss	-	1,196
Unrealized and realized losses on investments	1,023	485
Changes in assets and liabilities:		
Restricted cash	-	1
Prepaid expenses and deposits	(457)	(274)
Receivables:		
Account maintenance fees	472	336
Due from the Federal Fund	(5,765)	(70,466)
Other receivables	(284)	(272)
Other assets	(122)	64
Accounts payable and accrued expenses	4,207	(553)
Deferred rent and landlord allowances	(572)	(1,195)
Pension obligation	(11,648)	17,764
Other liabilities	592	675
	56,312	17,108
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(132,489)	(129,152)
Sales and maturities of investments	100,714	108,838
Net cash received from TERI asset acquisition	-	2,719
Additions to property and equipment	(4,410)	(3,826)
	(36,185)	(21,421)
Net cash used in investing activities		
Increase (decrease) in cash and cash equivalents	20,127	(4,313)
Cash and cash equivalents, beginning of year	90,947	95,260
Cash and cash equivalents, end of year	\$ 111,074	\$ 90,947

See accompanying notes to the consolidated financial statements.

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 2013 or 2012. 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 \$3.70 billion and \$3.57 billion for the years ended June 30, 2013 and 2012, respectively. ASA has paid claims for \$1.11 billion and \$1.05 billion for the years ended June 30, 2013 and 2012, 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 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 also 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)

On March 15, 2012, ASA signed an asset acquisition agreement with The Education Resources Institute, Inc. ("TERI"). The agreement stated ASA shall purchase, acquire and accept from TERI, all right, title, and interest in and to certain tangible and intangible assets for TERI related to the College Access Activity and the Small Loan Portfolio, in each case free and clear of all Encumbrances except for the Assumed Liability. The transaction settled on June 28, 2012.

A summary of the consideration paid and assets and liabilities purchased were as follows:

	2012
Purchase price:	
Cash paid by ASA	\$ <u>1,300</u>
Fair value of net assets acquired:	
Student loan portfolio	\$ 408
Cash acquired	<u>4,019</u>
Total assets acquired	4,427
Less assumed liabilities	<u>(120)</u>
Fair value of net assets acquired	\$ <u>4,307</u>
Fair value of assets acquired in excess of purchase price (reflected as acquisition net contribution received in the Consolidated Statement of Activities)	\$ <u>3,007</u>

ASA received a net benefit from this transaction in that it has previously provided restricted gifts which were not subject to creditor claims in the TERI bankruptcy. Such assets were provided to ASA given its interest in the continued operation of this program. In connection with the acquisition, certain employees of TERI are now employees by ASA to operate like programs. These activities did not have a significant effect on ASA's revenue and expense structure.

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.

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

Department of Education Matters

Under the 1998 amendments to the HEA, ED established a minimum reserve level requirement for the Federal Fund of at least 25 basis points of the total guaranteed principal outstanding. While ASA is not legally obligated to fund any shortfalls in the Federal Fund, ASA has provided significant support in the past to enable the Federal Fund to achieve this level of net assets. In September 2012, ASA's board authorized and management contributed \$19,250 to the Federal Fund to assist the Federal Fund in meeting this level of capital. The Federal Fund expects to have funding needs in the future relative to projections that management has completed. ASA will continue to reflect any future amounts contributed to the Federal Fund upon approval of its board to provide such funding. As of June 30, 2013, the reserve shortfall was approximately \$19,204.

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 in excess of three months 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, 2013 and 2012. FASTFUNDSM activities, as it relates to the FFELP, had no new loan origination as of July 1, 2011.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Investments

Investments are carried at fair value. Fair value is determined as per the fair value policies described later in this section. As prescribed by the federal government, the Organization shall invest in obligations issued or guaranteed by the United States or state governments, or in similarly low-risk securities.

Receivables

Receivables are carried at their estimated net realizable value. Receivables are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Provisions for uncollectible accounts on receivables are determined on the basis of loss experience, known and inherent risks and current economic conditions. A significant portion of receivables are due from the U.S. Department of Education and the Federal Fund which management has determined are fully collectible and thus do not require an allowance.

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. The balance consists of the following at June 30:

	<i>2013</i>	<i>2012</i>
Past default aversion fees not yet drawn by ASA	\$ 7,900	\$ 7,900
Current default aversion and other amounts due ASA	78,111	72,346
Expected return of previously advanced default aversion fees	<u>(7,900)</u>	<u>(7,900)</u>
Due from the Federal Fund	\$ <u>78,111</u>	\$ <u>72,346</u>

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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 borrower principal and accrued interest. 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.

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

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 \$3,279 and \$3,295 for the years ended June 30, 2013 and 2012, respectively.
- (ii) all other FFELP related activities earned \$823 and (\$292) for the years ended June 30, 2013 and 2012, respectively.

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 given the agency nature of these transactions. The contract for MDHE is valid through December 2013.

Grants and Contracts

ASA receives grants from federal, state and private sources. This revenue is used to provide information to students and their families about college planning including financial aid for post-high school education and career opportunities. Grants and contracts revenue is recognized when earned. Unconditional grants are considered earned upon signing of the grant agreement, unless funds are unused. All unused funds are included in other liabilities at year end on the consolidated statements of financial position.

In fulfilling its mission, ASA offers the following programs:

College Planning Centers located in the Boston and Brockton areas provide free drop-in college planning services and promote the belief that higher education should be accessible to individuals of all backgrounds. While serving everyone who seeks assistance, the centers' focus is on low-income and minority students and adults who will be the first generation in their families to attend college, and who, without encouragement, will be unlikely to continue their education. Along with in-depth one-on-one assistance with planning and paying for college, the centers also offer: access to public computers for those seeking to research careers, educational opportunities, scholarships and other types of financial aid; free telephone assistance with financial aid questions via a toll-free phone line; workshops and information sessions in the communities at branch libraries, schools, organizations serving similar populations, and career and college fairs; and free publications.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Grants and Contracts (Continued)

School-Based Programs located in selected Boston and Brockton public schools provide college readiness assistance to students in grades 7-12. These programs are targeted to students who have the potential to succeed in higher education but, without guidance and encouragement, are unlikely to enroll in and graduate from college or other career-building education programs. Programming is provided during and after school, and in the summer. Services include academic support through supplemental classes, workshops, and tutoring, peer mentoring, college visits, and career exploration, and support for transitioning from high school to college.

College Success Initiative (Success Boston) provides a cohort of Boston Public School graduates with intensive coaching and support, individual assistance with the financial aid process, course registration, and help in overcoming other challenges students face as they transition from high school to college.

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, its determination of which activities are related and unrelated and its presentation of certain net operating loss carryforwards as its only significant tax positions. ASA, however, has determined that its position relative to tax status or determination of which activities are related and unrelated do 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.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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. The fair value 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 also require ASA to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

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.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 or liability is included within the deferred rent and landlord allowance. Losses on subleases are recognized when incurred.

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 Consolidated Statements 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 27, 2013, which is the date the consolidated financial statements were issued.

Note 3 - Investments and Fair Value Measurements

Investments of \$136,405 and \$97,719 as of June 30, 2013 and 2012, respectively, are measured at fair value on estimated market prices using current market interest rate data and therefore are classified as Level 2 inputs under the fair value hierarchy guidance.

Fair values of financial instruments for which ASA did not elect the fair value option includes cash and cash equivalents, certificates of deposit, 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.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 3 - Investments and Fair Value Measurements (Continued)

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

	<i>2013</i>	<i>2012</i>
Other debt securities	\$ 9,945	\$ 3,566
U.S. Government agencies securities	<u>126,460</u>	<u>94,153</u>
Investments	<u>\$ 136,405</u>	<u>\$ 97,719</u>

Other debt securities, which include corporate and foreign bonds, and U.S. Government agencies securities have maturities that range from three months to six years.

At June 30, 2013, a total of \$7,501 of securities are pledged to secure two letters 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). These letters of credit expire on April 30, 2014 and December 31, 2013, respectively.

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

	<i>2013</i>	<i>2012</i>
Investment return:		
Interest and dividends	\$ 1,395	\$ 1,227
Net realized and unrealized losses on investments	<u>(1,023)</u>	<u>(485)</u>
Investment return	<u>\$ 372</u>	<u>\$ 742</u>

Interest income on the Consolidated Statements of Activities includes interest earned on cash equivalents and loans receivable.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30:

	2013	2012
Computer software systems	\$ 23,167	\$ 20,708
Equipment	11,330	11,072
Furniture and fixtures	2,163	2,163
Leasehold improvements	9,510	9,510
Total property and equipment	46,170	43,453
Less accumulated depreciation and amortization	(34,768)	(31,377)
Net property and equipment	\$ <u>11,402</u>	\$ <u>12,076</u>

Depreciation and amortization expense was \$5,084 and \$4,699 for the years ended June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, ASA capitalized software development costs of \$2,472 and \$3,487, respectively. As of June 30, 2013 and 2012, unamortized capitalized software costs totaled \$4,558 and \$5,360, respectively.

Note 5 - Functional Expenses

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

	2013	2012
Borrower services	\$ 84,097	\$ 85,553
Product development and school services	33,492	23,177
Information technology support	32,931	29,236
General and administrative support	15,175	16,098
Total operating expenses	\$ <u>165,695</u>	\$ <u>154,064</u>

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

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 Consolidated Statements 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 Consolidated Statements of Activities. The normal pension expense of \$6,879 and \$4,123 is reflected in employee compensation and fringe benefits in the Consolidated Statements of Activities for 2013 and 2012, respectively.

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

	<i>2013</i>	<i>2012</i>
Projected benefit obligation	\$ 68,182	\$ 73,916
Fair value of plan assets	<u>46,720</u>	<u>40,806</u>
Accrued pension liability	<u>\$ 21,462</u>	<u>\$ 33,110</u>
Accumulated benefit obligation	<u>\$ 51,446</u>	<u>\$ 53,442</u>
Pension expense	<u>\$ 6,879</u>	<u>\$ 4,123</u>
Employer contributions	<u>\$ 2,478</u>	<u>\$ 5,559</u>
Benefits paid to participants	<u>\$ 552</u>	<u>\$ 470</u>

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

	<i>2013</i>	<i>2012</i>
Prior service cost	\$ 41	\$ 54
Net loss	<u>13,503</u>	<u>29,540</u>
Total	<u>\$ 13,544</u>	<u>\$ 29,594</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:

	2013	2012
Net (gain) loss	\$ (13,755)	\$ 19,749
Amortization of prior service cost	(13)	(13)
Amortization of net loss	<u>(2,282)</u>	<u>(536)</u>
 Total amount recognized in unrestricted net assets	 \$ <u>(16,050)</u>	 \$ <u>19,200</u>
 Total expense (gain) recognized for plan	 \$ <u>(9,171)</u>	 \$ <u>23,323</u>

The estimated net gain (loss), transition asset (obligation) and prior service credit (cost) for the plan that will be amortized from accumulated change in unrestricted net assets into net periodic pension cost over the next fiscal year are (\$690), \$0 and (\$13), respectively.

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

	2013	2012
Weighted average discount rate	4.93%	4.23%
Long-term return on plan assets	7.00%	7.00%
Compensation increase rate	5.00%	5.50%

Estimated Future Benefit Payments

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

2014	\$	855
2015		978
2016		1,094
2017		1,338
2018		1,555
Thereafter		11,175

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

Estimated Future Benefit Payments (Continued)

The Plan assets as of June 30, 2013 consist of the following:

<i>Description</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash equivalents	\$ 1,724	\$ -	\$ -	\$ 1,724
Mutual funds:				
U.S. equity	19,558	-	-	19,558
International equity	13,426	-	-	13,426
Fixed income intermediate	11,578	-	-	11,578
Fixed income short-term	434	-	-	434
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 46,720	\$ -	\$ -	\$ 46,720

The Plan assets as of June 30, 2012 consist of the following:

<i>Description</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash equivalents	\$ 995	\$ -	\$ -	\$ 995
Mutual funds:				
U.S. equity	16,185	-	-	16,185
International equity	11,631	-	-	11,631
Fixed income intermediate	11,588	-	-	11,588
Fixed income short-term	407	-	-	407
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 40,806	\$ -	\$ -	\$ 40,806

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 7.0% is based upon long-term historical market returns consistent with the Plan's target portfolio allocation.

ASA expects to contribute \$2,600 to the Plan in fiscal year 2014.

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, 2013 is \$1,636 (3.75% of gross earnings). For the year ended June 30, 2012, actual contributions of \$1,261 (3.5% of gross earnings) was made for the plan year ended December 31, 2012.

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 document describes the terms of vesting and ultimate withdrawal of the assets. The assets and a corresponding liability of \$884 and \$762 are included in other assets and other liabilities as of June 30, 2013 and 2012, 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 in excess of \$20,000 and \$20,500 at June 30, 2013 and 2012, 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. The net operating losses begin to expire in 2024. Management has determined that deferred tax assets should not be recognized.

Note 8 - Commitments and Contingencies

Office Space Lease

ASA has a lease for the office space for its primary operating facility that runs through 2019. The lease includes a provision for renewal options after the initial 15 year term.

The lease agreement includes rent escalation for certain increases in operating costs as is customary with operating leases. Rent expense and sublease rental income is recorded on the straight-line basis over the lease term. In the event of a loss on a sublease, the loss is recognized upon the signing of the sublease. The net effect of the straight-line recognition is a deferred liability of \$4,859 and \$5,431 as of June 30, 2013 and 2012, respectively.

In connection with the asset acquisition of TERI in 2012, ASA has acquired a lease for office space which runs through June 2016. This lease space will be used to support the college planning programs previously operated by TERI.

ASA has relocated its internal data center to an offsite facility and has entered a 5 year lease agreement. The lease rent expense is recorded on the straight-line basis over the lease term.

Minimum annual lease and sublease payments are as follows:

	<i>Base</i>	<i>Sublease</i>	<i>Net</i>
2014	\$ 5,002	\$ (1,245)	\$ 3,757
2015	5,270	(1,245)	4,025
2016	5,295	(1,245)	4,050
2017	5,287	(1,245)	4,042
2018	5,142	(1,245)	3,897
2019	4,516	(1,141)	3,375
	<u>\$ 30,512</u>	<u>\$ (7,366)</u>	<u>\$ 23,146</u>

AMERICAN STUDENT ASSISTANCE

Notes to Consolidated Financial Statements

(Dollars in Thousands)

Note 8 - Commitments and Contingencies (Continued)

Contingencies

In the ordinary course of business, ASA faces litigation, claims and related matters. Management does not expect that the outcome of any of these matters would have a material adverse impact on operations. Additionally, 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

For the Year Ended June 30, 2013

(Dollars in Thousands)

<i>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Agency or Pass-Through Number</i>	<i>Federal Expenditures</i>
U.S. Department of Education ("ED"):			
Federal Family Education Loans (Guaranty Agencies)	84.032		\$ 768,321
TRIO Cluster:			
TRIO - Talent Search Brockton	84.044		220
TRIO - Talent Search Boston	84.044		269
TRIO - Upward Bound	84.047		272
TRIO - Educational Opportunity Centers	84.066		230
Pass-through from Massachusetts Education & Career Opportunities, Inc.:			
TRIO - Educational Opportunity Centers	84.066	P066A110029	<u>173</u>
Total TRIO Cluster			<u>1,164</u>
Pass-through from Massachusetts Department of Higher Education:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S110038	303
Pass-through from Massachusetts Rehabilitation Commission:			
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126		<u>7</u>
Total U.S. Department of Education			<u>769,795</u>
U.S. Department of Agriculture			
Child Nutrition Cluster:			
Pass-through from Massachusetts Department of Elementary and Secondary Education:			
Summer Food Service Program for Children (SFSPC)	10.559	13-035-SF 242	<u>4</u>
Total Expenditures of Federal Awards			\$ <u><u>769,799</u></u>

AMERICAN STUDENT ASSISTANCE

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Agency Operating Fund for Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance ("ASA") under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of The Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of ASA, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of ASA.

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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Federal Family Education Loans (Guaranty Agencies)

Further detail regarding the Federal Family Education Loans (Guaranty Agencies) CFDA# 84.032 is as follows at June 30, 2013:

(Dollars in Thousands)

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Federal Award Receivable/ (Payable) July 1, 2012</u>	<u>July 1, 2012 through June 30, 2013 Activity Due from (to) ED</u>	<u>July 1, 2012 through June 30, 2013 (Receipts)/ Payments</u>	<u>Federal Award Receivable/ (Payable) June 30, 2013</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:						
Account maintenance fees		\$ 5,405	\$ 20,114	\$ (20,585)	\$ 4,934	
Advance for claims		162,349	1,250,422	(1,380,499)	32,272	
Total due from ED		<u>167,754</u>	<u>1,270,536</u>	<u>(1,401,084)</u>	<u>37,206</u>	
Due from ED:						
Program recoveries		(94,258)	(502,215)	551,591	(44,883)	
Total due to ED		<u>(94,258)</u>	<u>(502,215)</u>	<u>551,591</u>	<u>(44,883)</u>	
Total		<u>\$ 73,496</u>	<u>\$ 768,321</u>	<u>\$ (849,493)</u>	<u>\$ (7,677)</u>	
Total expenditures of federal awards for Federal Family Education Loans (Guaranty Agencies)						<u>\$ 768,321</u>

Reporting Under Government Auditing Standards



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

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

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 consolidated financial statements of the Agency Operating Fund for Massachusetts Higher Education Assistance Corporations d/b/a American Student Assistance (“ASA”), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ASA’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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of ASA’s internal control. Accordingly, we do not express an opinion on the effectiveness of ASA’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 consolidated 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 ASA's consolidated 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hayman McCann P.C.

September 27, 2013
Boston, Massachusetts

Reporting Under OMB Circular A-133



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*Independent Auditors' Report on Compliance for Each
Major Federal Program and Report 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

Report on Compliance for Each Major Federal Program

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 each of ASA's major federal programs for the year ended June 30, 2013. ASA's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of ASA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 on compliance for each major federal program. However, our audit does not provide a legal determination of ASA's compliance.



Opinion on Each Major Federal Program

In our opinion, ASA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of ASA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ASA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

September 27, 2013
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

Section 1

Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| 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 auditors' report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |

4. Identification of major programs:

CFDA Number

Name of Federal Program

84.032

Federal Family Education Loans
(Guaranty Agencies)

84.044, 84.047, 84.066

TRIO Cluster

84.334

Gaining Early Awareness and Readiness
for Undergraduate Programs

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

AMERICAN STUDENT ASSISTANCE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

Section 2

Financial Statement Findings

None noted.

Section 3

Federal Award Findings and Questioned Costs

None noted.

Section 4

Summary Schedule of Prior Year Findings

None noted.