

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

**American Student Assistance**

**June 30, 2015 and 2014**



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

# AMERICAN STUDENT ASSISTANCE

## *Consolidating Financial Statements and Schedule of Expenditures of Federal Awards*

### *Table of Contents*

#### ***Consolidating Financial Statements:***

Independent Auditors' Report	1-2
Consolidating Statements of Financial Position	3
Consolidating Statements of Activities	4
Consolidating Statements of Cash Flows	5
Notes to Consolidating Financial Statements	6-20

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

Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22

#### ***Reporting Under Government Auditing Standards:***

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23-24
---	-------

#### ***Reporting Under OMB Circular A-133:***

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133	25-26
Schedule of Findings and Questioned Costs	27-28



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

500 Boylston Street ■ Boston, MA 02116  
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

## *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 consolidating financial statements of the Agency Operating Fund of Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance (“ASA”), which comprise the consolidating statements of financial position as of June 30, 2015 and 2014, and the related consolidating statements of activities, and cash flows for the years then ended, and the related notes to the consolidating financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating 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 consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the consolidating financial position of ASA as of June 30, 2015 and 2014, 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 consolidating 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 consolidating 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 consolidating financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating 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 consolidating 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 24, 2015 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 Heffman McCann P.C.*

September 24, 2015  
Boston, Massachusetts

**AMERICAN STUDENT ASSISTANCE**  
**Consolidating Statements of Financial Position**

(Dollars in Thousands)

June 30, 2015 and 2014

	<i>Agency Operating Fund</i>	<i>SALT Sponsorship Fund</i>	<i>Total 2015</i>	<i>2014</i>
<b>Assets</b>				
Cash and cash equivalents	\$ 89,534	\$ -	\$ 89,534	\$ 88,662
Cash and cash equivalents - SALT Sponsorship Fund as Quasi Endowment	-	-	-	100,006
Certificates of deposit	10,699	-	10,699	46,648
Investments	203,560	102,205	305,765	124,544
Prepaid expenses and deposits	2,557	-	2,557	3,241
Receivables:				
Due from U.S. Department of Education:				
Account maintenance fees	4,292	-	4,292	4,618
Due from the Federal Fund	51,373	-	51,373	59,392
Net student loan portfolio	132	-	132	226
Other receivables	484	-	484	1,125
Total receivables, net	56,281	-	56,281	65,361
Other assets	1,145	-	1,145	1,051
Property and equipment, net	5,245	-	5,245	8,637
<b>Total assets</b>	<b>\$ 369,021</b>	<b>\$ 102,205</b>	<b>\$ 471,226</b>	<b>\$ 438,150</b>
<b>Liabilities and Net Assets</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 14,688	\$ 9	\$ 14,697	\$ 17,136
Deferred rent and landlord allowances	3,361	-	3,361	4,198
Pension obligation	17,228	-	17,228	23,908
Other liabilities	5,340	-	5,340	4,909
Total liabilities	40,617	9	40,626	50,151
<b>Unrestricted net assets:</b>				
Board designated net assets	944	-	944	2,944
Board designated net assets - College Planning Services Program	2,345	-	2,345	2,345
Net assets held by SALT Sponsorship Fund as Quasi Endowment	-	102,196	102,196	100,006
Other net assets	325,115	-	325,115	282,704
Total unrestricted net assets	328,404	102,196	430,600	387,999
<b>Total liabilities and net assets</b>	<b>\$ 369,021</b>	<b>\$ 102,205</b>	<b>\$ 471,226</b>	<b>\$ 438,150</b>

**AMERICAN STUDENT ASSISTANCE**

*Consolidating Statements of Activities*

*(Dollars in Thousands)*

*For the Years Ended June 30, 2015 and 2014*

	<i>Agency Operating Fund</i>	<i>SALT Sponsorship Fund</i>	<i>Total 2015</i>	<i>2014</i>
<b>Operating revenues:</b>				
Account maintenance fees	\$ 17,605	\$ -	\$ 17,605	\$ 18,854
Defaulted loan recoveries - net of reimbursement to the U.S. Department of Education:				
Regular collections	10,405	-	10,405	12,265
Consolidation collections	29,343	-	29,343	31,373
Rehabilitation collections	111,236	-	111,236	195,415
Grants and contracts	1,893	-	1,893	1,926
Other FFELP and debt management services	2,856	-	2,856	4,643
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total operating revenues</b>	<b>173,338</b>	<b>-</b>	<b>173,338</b>	<b>264,476</b>
<b>Operating expenses:</b>				
Employee compensation and fringe benefit costs	55,256	-	55,256	59,315
Defaulted loan recovery related services	54,107	-	54,107	71,356
Printing and postage expenses	774	-	774	987
Depreciation and amortization expenses	3,690	-	3,690	4,941
Occupancy and building costs	5,708	-	5,708	5,918
Office expenses	814	-	814	826
Professional fees and services	8,449	-	8,449	10,902
Information systems equipment and maintenance	4,566	-	4,566	4,795
Travel and industry related activities	1,643	-	1,643	1,929
Other expenses	1,334	-	1,334	2,042
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>136,341</b>	<b>-</b>	<b>136,341</b>	<b>163,011</b>
<b>Increase in net assets from operating activities</b>	<b>36,997</b>	<b>-</b>	<b>36,997</b>	<b>101,465</b>
<b>Non-operating (revenue) expense:</b>				
Interest income	(3,364)	(1,451)	(4,815)	(1,491)
Net realized and unrealized losses (gains) on investments	1,134	(739)	395	625
DAF refund obligation accrued and paid	-	-	-	31,291
(Gains) losses on pension plan	(3,184)	-	(3,184)	2,523
Transfer to Federal Fund for reserve support	2,000	-	2,000	6,209
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total non-operating (revenue) expense</b>	<b>(3,414)</b>	<b>(2,190)</b>	<b>(5,604)</b>	<b>39,157</b>
<b>Change in net assets</b>	<b>40,411</b>	<b>2,190</b>	<b>42,601</b>	<b>62,308</b>
Net assets, beginning of year	287,993	100,006	387,999	325,691
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net assets, end of year</b>	<b>\$ 328,404</b>	<b>\$ 102,196</b>	<b>\$ 430,600</b>	<b>\$ 387,999</b>

**AMERICAN STUDENT ASSISTANCE**

*Consolidating Statements of Cash Flows*

*(Dollars in Thousands)*

*For the Years Ended June 30, 2015 and 2014*

	<i>Agency Operating Fund</i>		<i>SALT Sponsorship Fund</i>		<i>Total 2015</i>		<i>2014</i>
<b>Cash flows from operating activities:</b>							
Change in net assets	\$ 40,411	\$	2,190	\$	42,601	\$	62,308
Adjustments to reconcile change in net assets to cash provided by operating activities:							
Depreciation and amortization expenses	3,690		-		3,690		4,941
Unrealized and realized (losses) gains on investments	1,134		(739)		395		625
Changes in assets and liabilities:							
Restricted cash	-		-		-		55
Prepaid expenses and deposits	684		-		684		(804)
Receivables:							
Account maintenance fees	326		-		326		316
Due from the Federal Fund	8,019		-		8,019		18,719
Other receivables	735		-		735		(92)
Other assets and net student loan portfolio	(94)		-		(94)		(167)
Accounts payable and accrued expenses	(2,448)		9		(2,439)		(1,700)
Deferred rent and landlord allowances	(837)		-		(837)		(661)
Pension obligation	(6,680)		-		(6,680)		2,446
Other liabilities	431		-		431		205
	<u>45,371</u>		<u>1,460</u>		<u>46,831</u>		<u>86,191</u>
<b>Net cash provided by operating activities</b>							
<b>Cash flows from investing activities:</b>							
Purchases of investments	(241,050)		(101,473)		(342,523)		(116,893)
Sales and maturities of investments	196,849		100,013		296,862		110,466
Establish SALT Sponsorship Fund	-		-		-		(100,000)
Additions to property and equipment	(298)		-		(298)		(2,176)
	<u>(44,499)</u>		<u>(1,460)</u>		<u>(45,959)</u>		<u>(108,603)</u>
<b>Net cash used in investing activities</b>							
<b>Increase (decrease) in cash and cash equivalents</b>	<b>872</b>		<b>-</b>		<b>872</b>		<b>(22,412)</b>
Cash and cash equivalents, beginning of year	88,662		-		88,662		111,074
<b>Cash and cash equivalents, end of year</b>	<b>\$ 89,534</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>89,534</b>	<b>\$</b>	<b>88,662</b>

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating Financial Statements*

*(Dollars in Thousands)*

### ***Note 1 - Organization***

American Student Assistance (“ASA”) is a private nonprofit dedicated to opening the gateway to opportunity by revolutionizing the way students approach, finance and repay their higher education. 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”).

Massachusetts Higher Education Assistance Corporation (“MHEAC”) is the legal name of the organization which does business as ASA. 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.

ASA established ASA Fund LLC (“ASA Fund”, also referred to as “SALT Sponsorship Fund” or “SALT”), a single member LLC, to hold funds designated by the Board as a quasi-endowment for the benefit of the SALT program. The SALT program offers online and one-to-one interactions to empower students and alumni to confidently approach, manage, and pay back college costs while gaining financial skills for life.

These consolidating financial statements represent the activities of the above organizations. All significant intercompany transactions have been eliminated in consolidation. Major aspects of ED’s lending programs changed a number of years ago, which have led to new loans to students to be issued directly by ED, who is fully responsible for their management and collection. ASA continues to work with loans issued under the prior structure where private entities issued loans with appropriate federal guarantees. As such, management expects that over time there will be fewer loans under the prior programs for ASA to earn revenue from going forward, however the portfolio remains substantial.

ASA’s portfolio under management was approximately \$28.61 billion and \$30.79 billion for the years ended June 30, 2015 and 2014, respectively. ASA’s defaulted loan portfolio under management was approximately \$3.39 billion and \$3.74 billion for the years ended June 30, 2015 and 2014, respectively. ASA paid claims for defaulted loans guaranteed in period years of approximately \$751.6 million and \$1.12 billion for the years ended June 30, 2015 and 2014, respectively. Recent experience shows that the collection activity that ASA undertakes tends to peak in the second and third years after the year a claim is paid, and, accordingly ASA’s ability to earn fees on collections follows those patterns.

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, changes may occur in the future which could have a significant effect on ASA and the Federal Fund. ASA also continues to develop new services to assist students and parents in successfully completing a program of education financing and repayment.

# AMERICAN STUDENT ASSISTANCE

## Notes to Consolidating 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 accounting principles generally accepted in the United States of America. 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.

#### Support for the Federal Fund

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 as determined each year as of September 30. ASA accrues such estimated amounts at June 30. 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. ASA expects that the Federal Fund will have funding needs in the future relative to projections when looking at longer term horizon than the measurement date established by ED to measure reserve levels. ASA will continue to reflect any future amounts contributed to the Federal Fund subject to the policy as approved by its Board. These amounts are recorded as an offset to "Due from the Federal Fund" on the accompanying Consolidating Statements of Financial Position at June 30, 2015.

In August 2015, ED provided final guidance of how to compute the minimum reserve level changes based on their closer examination of the rules and regulations guiding the Federal Fund. During 2015, ASA adopted such revised computational methodology and has accrued such amounts at June 30, 2015 based on this model.

The following represents a summary of activity relating to the Federal Fund reserve requirement:

	<i>2015</i>	<i>2014</i>
Cash transfers to Federal Fund for reserve needs	\$ 2,000	\$ 4,709
Accrued amounts to Federal Fund for estimated reserve needs	<u>-</u>	<u>1,500</u>
<b>Total Federal Fund reserve support expense</b>	<b>\$ <u>2,000</u></b>	<b>\$ <u>6,209</u></b>

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating Financial Statements*

*(Dollars 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 and cash equivalents and has not experienced any losses in such accounts.

#### ***Certificates of Deposit***

Certificates of deposit in excess of three months are held at fair value as determined by the policy described later in this note. Fair values of certificates of deposit are based on level 2 fair value methods.

#### ***Investments***

Investments are carried at fair value. Fair value is determined as per the fair value policies described later in this section.

#### ***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 transactions processed on behalf of the Federal Fund for 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. Costs incurred to maintain existing software are expensed as incurred. In the past, ASA had developed and capitalized costs for certain applications, however the primary strategy is to acquire such software from third parties when required.

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating Financial Statements*

*(Dollars in Thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *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.

Given the ongoing financial needs of the Federal Fund, ASA has elected to forgo its default aversion fees for 2015 and 2014. In 2014, ASA also determined it would fund estimated future default aversion fees that would be forfeited over time based on expected future defaults which as stated require repayment of such default aversion fees previously received, and this amounted to \$31.3 million in 2014. This liability had not previously been accrued as management determined that previously undrawn default aversion fees roughly offset the expected refunds to be paid over time and given ASA's plan to never avail itself to the past default aversion fees. Inherent in the estimated future default aversion fees paid to the Federal Fund is the possibility that a greater or lesser portion of loans will go into default. If the number is greater, additional amounts will be payable to the Federal Fund; if amounts are less, ASA will forgo its interest. Management continues to monitor this estimate.

ASA could determine in the future that it would be advisable to resume availing itself to default aversion fees from the Federal Fund, however all past undrawn amounts are considered to have been forfeited.

##### *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 when earned.

##### *Defaulted Loan Recoveries*

ASA is entitled to retain a portion of defaulted loan collections for which federal reinsurance or reimbursement has been received. Regular collections earn a 16% fee on cash collected. Consolidated loan collections earn a net fee of 10% of borrower principal and accrued interest. Rehabilitations which are sold receive collection costs of 16% and 100% of the accrued interest associated with the loan, which revenue is recognized upon sale. Rehabilitations prior to July 1, 2014 received a fee of 18.5% of the original loan balance plus collection costs of 16% and 100% of the accrued interest associated with the loan.

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating Financial Statements*

*(Dollars in Thousands)*

### *Note 2 - Summary of Significant Accounting Policies (Continued)*

#### *Revenue Recognition (Continued)*

##### *Defaulted Loan Recoveries (Continued)*

On July 10, 2015, ASA along with other guarantors received a dear colleague letter clarifying ED's view that borrowers who enter into a timely repayment agreement including rehabilitation agreement and who honor such are not to be charged collection costs associated with such loans. ASA's understanding is that this view is subject to ongoing litigation; however management intends to follow this guidance effective July 10, 2015 subject to further information being available relative to the proper treatment of past and future collection costs. Management does not have an assessment of the amount of cost charged in the past for those who entered into timely arrangements, but management will monitor this closely and believes its past practices were appropriate and supported by ED.

##### *Other FFELP and Debt Management Services*

Included in Other FFELP and Debt Management 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 \$1,293 and \$3,265 for the years ended June 30, 2015 and 2014, respectively.
- (ii) all other FFELP related activities earned \$1,563 and \$1,378 for the years ended June 30, 2015 and 2014, respectively.

##### *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 which generally is when the related underlying costs associated with the grant are incurred. Funds received in advance are accounted for in other liabilities pending such costs being incurred.

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 Consolidating 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. Given the limited taxable activities of ASA and its subsidiaries, 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 Consolidating 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 nonrecurring 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 nonrecurring 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 are 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 change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these consolidating 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 consolidating financial statements in accordance with accounting principles generally accepted in the United States of America 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 consolidating 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, default aversion fees refundable to the Federal Fund, estimates support accrued for the reserve requirement associated with the Federal Fund, measurement of the actuarial obligations for defined benefit plan and useful lives of depreciable assets.

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating 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 Consolidating 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 24, 2015, which is the date the consolidating financial statements were issued.

## AMERICAN STUDENT ASSISTANCE

### *Notes to Consolidating Financial Statements*

*(Dollars in Thousands)*

#### *Note 3 - Investments and Fair Value Measurements*

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

	<i>Agency Operating Fund</i>	<i>SALT Sponsorship Fund</i>	<i>Total 2015</i>	<i>2014</i>
Mutual funds:				
Fixed income	\$ 48,899	\$ 24,102	\$ 73,001	\$ -
U.S. equity	97,716	48,684	146,400	-
International stock	55,764	29,419	85,183	-
Other debt securities	-	-	-	11,834
U.S. Government agencies securities	1,181	-	1,181	112,710
	<u>1,181</u>	<u>-</u>	<u>1,181</u>	<u>112,710</u>
<b>Investments</b>	<b>\$ <u>203,560</u></b>	<b>\$ <u>102,205</u></b>	<b>\$ <u>305,765</u></b>	<b>\$ <u>124,544</u></b>

In 2015, fair values were determined predominantly using level 1 fair value methods. In 2014, fair values were based on level 2 methods. 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. Investments allocations are made based on a board approved investment policy which seeks to balance risk, return and other factors associated with the prudent investment of such funds.

In 2015, ASA has transitioned from a variety of lower yield liquid investment vehicles such as U.S. Government agencies and other debt securities to moderate risk tolerance vehicles like equity and fixed income mutual funds to generate an appreciable return and ongoing support for future programs. Thus cash flows from level 2 investments were used to fund the purchase of level 1 investments.

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

At June 30, 2015, a total of \$1,181 of securities was pledged to secure a letter of credit with a bank, which was used to secure the lease associated with ASA's primary facility. The letter of credit expires on April 30, 2016.

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating Financial Statements*

*(Dollars in Thousands)*

### *Note 3 - Investments and Fair Value Measurements (Continued)*

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

	<i>Agency Operating Fund</i>	<i>SALT Sponsorship Fund</i>	<i>Total 2015</i>	<i>2014</i>
Investment return:				
Interest and dividends	\$ 3,297	\$ 1,451	\$ 4,748	\$ 1,459
Net realized and unrealized losses on investments	<u>(1,134)</u>	<u>738</u>	<u>(396)</u>	<u>(625)</u>
<b>Investment return</b>	<b>\$ <u>2,163</u></b>	<b>\$ <u>2,189</u></b>	<b>\$ <u>4,352</u></b>	<b>\$ <u>834</u></b>

Interest included in the statement of activities is somewhat higher given interest earned outside of the investment portfolio.

### *Note 4 - Property and Equipment*

Property and equipment consists of the following at June 30:

	<i>2015</i>	<i>2014</i>
Computer software systems	\$ 24,134	\$ 24,732
Equipment	6,308	10,952
Furniture and fixtures	2,163	2,163
Leasehold improvements	<u>9,134</u>	<u>9,134</u>
Total property and equipment	41,739	46,981
Less accumulated depreciation and amortization	<u>(36,494)</u>	<u>(38,344)</u>
<b>Net property and equipment</b>	<b>\$ <u>5,245</u></b>	<b>\$ <u>8,637</u></b>

Depreciation and amortization expense were \$3,690 and \$4,941 for the years ended June 30, 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, ASA capitalized software development costs of \$0 and \$1,763, respectively. As of June 30, 2015 and 2014, unamortized capitalized software costs totaled \$1,293 and \$3,286, respectively.

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating Financial Statements*

*(Dollars in Thousands)*

### *Note 5 - Functional Expenses*

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

	<i>2015</i>	<i>2014</i>
Borrower services	\$ 72,757	\$ 90,638
Product development and school services	23,983	26,880
Information technology support	25,592	30,738
General and administrative support	<u>14,009</u>	<u>14,755</u>
<b>Total operating expenses</b>	<b>\$ <u>136,341</u></b>	<b>\$ <u>163,011</u></b>

### *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 Consolidating 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 Consolidating Statements of Activities. The normal pension expense of \$6,504 and \$4,427 is reflected in employee compensation and fringe benefits in the Consolidating Statements of Activities for 2015 and 2014, respectively.

Eligible former employees who have a vested pension plan benefit as of January 1, 2015 were given a one-time temporary option to receive a 100% lump sum payment option. Receipt of a lump sum was voluntary (eligible former employees must opt-in to receive) and payment was scheduled for June 2015. The benefits paid out to 167 former terminated vested employees amounted to \$9.343 causing total benefits paid to increase to \$10.160 in 2015.

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating 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:

	<i>2015</i>		<i>2014</i>
Projected benefit obligation	\$ 77,719	\$	83,138
Fair value of plan assets	<u>60,491</u>		<u>59,230</u>
Accrued pension liability	<u>\$ 17,228</u>	\$	<u>23,908</u>
Accumulated benefit obligation	<u>\$ 61,797</u>	\$	<u>62,803</u>
Pension expense	<u>\$ 6,504</u>	\$	<u>4,427</u>
Employer contributions	<u>\$ 10,000</u>	\$	<u>4,504</u>
Benefits paid to participants	<u>\$ 10,160</u>	\$	<u>699</u>

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

	<i>2015</i>		<i>2014</i>
Prior service cost	\$ 15	\$	28
Net loss	<u>12,867</u>		<u>16,039</u>
<b>Total</b>	<b><u>\$ 12,882</u></b>	<b>\$</b>	<b><u>16,067</u></b>

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

	<i>2015</i>		<i>2014</i>
Net (gain) loss	\$ (2,390)	\$	3,226
Amortization of prior service cost	(13)		(13)
Amortization of net loss	<u>(781)</u>		<u>(690)</u>
<b>Total amount recognized in unrestricted net assets</b>	<b><u>\$ (3,184)</u></b>	<b>\$</b>	<b><u>2,523</u></b>
<b>Total expense recognized for plan</b>	<b><u>\$ 3,319</u></b>	<b>\$</b>	<b><u>6,950</u></b>

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating Financial Statements*

*(Dollars in Thousands)*

### *Note 6 - Employee Benefit Plans (Continued)*

#### *Defined Benefit Plan (Continued)*

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 (\$542), \$0 and (\$13), respectively.

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

	<i>2015</i>	<i>2014</i>
Weighted average discount rate	4.51%	4.41%
Long-term return on plan assets	7.00%	7.00%
Compensation increase rate	4.00%	5.00%

#### *Estimated Future Benefit Payments*

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

2016	\$	1,220
2017		1,400
2018		1,553
2019		1,721
2020		1,945
Thereafter		14,162

Plan assets are all valued using level 1 fair value methods and consist of the following at June 30:

	<i>2015</i>		<i>2014</i>
Cash equivalents	\$ 1,290	\$	3,253
Mutual funds:			
U.S. equity	29,961		27,935
International equity	12,410		11,711
Fixed income intermediate	16,222		15,789
Fixed income short-term	608		542
	608		542
<b>Total</b>	<b>\$ 60,491</b>	<b>\$</b>	<b>59,230</b>

# AMERICAN STUDENT ASSISTANCE

## *Notes to Consolidating 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.

There is no minimum required contribution to the Plan in fiscal year 2016.

#### ***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 percentage of employees' gross earnings. ASA's anticipated contribution for the plan year ended December 31, 2015 is \$1,264 (3.5% of gross earnings). For the year ended June 30, 2015, actual contributions of \$1,327 (3.5% of gross earnings) were made for the plan year ended December 31, 2014.

#### ***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 \$1,145 and \$1,051 are included in other assets and other liabilities as of June 30, 2015 and 2014, respectively. Contributions into this plan are not funded or matched by ASA, but are elective deferrals by employees.

### **Note 7 - Income Taxes**

ASA had a net operating loss carryforward of approximately \$19,000 at June 30, 2015 and 2014. The net operating losses begin to expire in 2024. Management has determined that deferred tax assets should not be recognized.

# AMERICAN STUDENT ASSISTANCE

## Notes to Consolidating Financial Statements

(Dollars in Thousands)

### Note 8 - Commitments and Contingencies

#### Office Space Lease

ASA has a lease for the office space for its primary operating facility and other facilities that run through 2019. Certain leases include renewal options at market rates.

Certain lease agreements include 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 \$3,361 and \$4,198 as of June 30, 2015 and 2014, respectively.

Minimum annual lease and sublease payments are as follows:

	<i>Base</i>	<i>Sublease</i>	<i>Net</i>
2016	\$ 5,296	\$ (1,245)	\$ 4,051
2017	5,312	(1,245)	4,067
2018	5,314	(1,245)	4,069
2019	<u>4,516</u>	<u>(1,141)</u>	<u>3,375</u>
	<u>\$ 20,438</u>	<u>\$ (4,876)</u>	<u>\$ 15,562</u>

#### 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, 2015*

*(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		\$ <u>323,756</u>
TRIO Cluster:			
TRIO - Talent Search Brockton	84.044		247
TRIO - Talent Search Boston	84.044		322
TRIO - Upward Bound	84.047		242
TRIO - Educational Opportunity Centers	84.066		225
Pass-through from Massachusetts Education & Career Opportunities, Inc.:			
TRIO - Educational Opportunity Centers	84.066	P066A110029	<u>181</u>
Total TRIO Cluster			<u>1,217</u>
Pass-through from Massachusetts Department of Higher Education:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S110038	<u>453</u>
Pass-through from Massachusetts Rehabilitation Commission:			
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	H126A140028	<u>7</u>
Total U.S. Department of Education			<u>325,433</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>5</u>
<b>Total Expenditures of Federal Awards</b>			\$ <u><u>325,438</u></u>

# AMERICAN STUDENT ASSISTANCE

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

*For the Year Ended June 30, 2015*

### ***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, 2015. 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*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, 2015:

*(Dollars in Thousands)*

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Federal Award Receivable/ (Payable) July 1, 2014</u>	<u>July 1, 2014 through June 30, 2015 Activity Due from (to) ED</u>	<u>July 1, 2014 through June 30, 2015 (Receipts)/ Payments</u>	<u>Federal Award Receivable/ (Payable) June 30, 2015</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		\$ 4,618	\$ 17,605	\$ (17,931)	\$ 4,292	
Advance for claims		46,854	889,591	(926,386)	10,059	
Total due from ED		<u>51,472</u>	<u>907,196</u>	<u>(944,317)</u>	<u>14,351</u>	
Due to ED:						
Program recoveries		(55,363)	(583,440)	579,205	(59,598)	
Total due to ED		<u>(55,363)</u>	<u>(583,440)</u>	<u>579,205</u>	<u>(59,598)</u>	
Total		<u>\$ (3,891)</u>	<u>\$ 323,756</u>	<u>\$ (365,112)</u>	<u>\$ (45,247)</u>	
Total expenditures of federal awards for Federal Family Education Loans (Guaranty Agencies)						<u>\$ 323,756</u>

*Reporting Under Government Auditing Standards*



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

500 Boylston Street ■ Boston, MA 02116  
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ [www.cbiztofias.com](http://www.cbiztofias.com)

*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 consolidating financial statements of the Agency Operating Fund for Massachusetts Higher Education Assistance Corporations d/b/a American Student Assistance (“ASA”), which comprise the consolidating statement of financial position as of June 30, 2015, and the related consolidating statements of activities and cash flows for the year then ended, and the related notes to the consolidating financial statements, and have issued our report thereon dated September 24, 2015.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the consolidating 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 consolidating 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 consolidating 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 consolidating 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 Heffman McCann P.C.*

September 24, 2015  
Boston, Massachusetts

***Reporting Under OMB Circular A-133***



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

500 Boylston Street ■ Boston, MA 02116  
Tel: 617.761.0600 ■ Fax: 617.761.0601 ■ www.cbiztofias.com

*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 ASA's major federal program for the year ended June 30, 2015. ASA's major federal program is 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 ASA's major federal program 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 the 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 its major federal program for the year ended June 30, 2015.

### **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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Heffman McCann P.C.*

September 24, 2015  
Boston, Massachusetts

# AMERICAN STUDENT ASSISTANCE

## *Schedule of Findings and Questioned Costs*

*For the Year Ended June 30, 2015*

### *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

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: | \$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, 2015*

*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.