

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	6-19

Supplemental Information:

Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	21

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>	22-23
---	-------

Reporting Under the Uniform Guidance:

Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	24-25
Schedule of Findings and Questioned Costs	26-27



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, 2018 and 2017, 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, 2018 and 2017, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), 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 13, 2018 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 Hoffmann McCann P.C.

September 13, 2018
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE
Consolidating Statements of Financial Position

(Dollars in Thousands)

June 30,

	2018	2017
Assets		
Cash and cash equivalents	\$ 28,800	\$ 80,192
Certificates of deposit	8,619	20,779
Investments	582,861	473,762
Prepaid expenses and deposits	2,103	2,815
Receivables:		
Account maintenance fees	3,296	3,612
Due from the Federal Fund	8,768	1,274
Net student loan portfolio and other receivables	456	777
Total receivables, net	12,520	5,663
Other assets	845	1,276
Property and equipment, net	2,529	2,157
Total assets	\$ 638,277	\$ 586,644
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 23,325	\$ 32,424
Deferred rent and landlord allowances	27	886
Pension obligation	7,627	12,692
Other liabilities	3,284	4,822
Total liabilities	34,263	50,824
Unrestricted net assets:		
Net assets held by ASA Fund as Quasi Endowment	120,504	111,048
Other net assets	483,510	424,772
Total unrestricted net assets	604,014	535,820
Total liabilities and net assets	\$ 638,277	\$ 586,644

See accompanying notes to the consolidating financial statements.

AMERICAN STUDENT ASSISTANCE
Consolidating Statements of Activities

(Dollars in Thousands)

For the Years Ended June 30,

	2018	2017
Operating revenues:		
Account maintenance fees	\$ 13,516	\$ 14,916
Default aversion fees	5,101	9,236
Defaulted loan recoveries - net of reimbursement to the U.S. Department of Education:		
Regular collections	6,863	8,064
Consolidation collections	15,874	17,252
Rehabilitation collections	66,615	82,641
Grants and contracts	2,006	1,975
Other debt management services	<u>846</u>	<u>2,048</u>
Gross revenues	110,821	136,132
Service fees due to third party servicer	<u>23,830</u>	<u>-</u>
Total revenue available for operations	<u>86,991</u>	<u>136,132</u>
Operating expenses:		
Employee compensation and fringe benefit costs	24,633	45,288
Defaulted loan recovery related services	18,191	45,318
Printing and postage expenses	97	287
Depreciation and amortization expenses	887	1,378
Occupancy and building costs	2,827	5,034
Office expenses	594	945
Professional fees and services	5,840	9,013
Information systems equipment and maintenance	3,579	3,896
Travel and industry related activities	657	1,392
Other expenses	<u>1,166</u>	<u>1,527</u>
Total operating expenses	<u>58,471</u>	<u>114,078</u>
Increase in net assets from operating activities	<u>28,520</u>	<u>22,054</u>
Non-operating revenue (expense):		
Interest and dividends	12,445	10,944
Net realized and unrealized gains on investments	26,154	41,796
Gains on pension plan	5,004	24,084
Non-operating expense	(4,013)	(2,262)
Voluntary separation program	<u>84</u>	<u>(16,811)</u>
Total non-operating revenue	<u>39,674</u>	<u>57,751</u>
Change in net assets	68,194	79,805
Net assets, beginning of year	<u>535,820</u>	<u>456,015</u>
Net assets, end of year	<u>\$ 604,014</u>	<u>\$ 535,820</u>

See accompanying notes to the consolidating financial statements.

AMERICAN STUDENT ASSISTANCE

Consolidating Statements of Cash Flows

(Dollars in Thousands)

For the Years Ended June 30,

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 68,194	\$ 79,805
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization expenses	887	1,378
Loss on disposal of property and equipment	268	657
Net realized and unrealized gains on investments	(26,154)	(41,796)
Changes in assets and liabilities:		
Prepaid expenses and deposits	712	858
Receivables:		
Account maintenance fees	316	361
Due from the Federal Fund	(7,494)	270
Other receivables	321	306
Other assets	431	(32)
Accounts payable and accrued expenses	(9,099)	19,351
Deferred rent and landlord allowances	(859)	(1,125)
Pension obligation	(5,065)	(19,218)
Reserve for future DAF Refunds	-	(3,349)
Other liabilities	(1,538)	(340)
	20,920	37,126
Net cash provided by operating activities	20,920	37,126
Cash flows from investing activities:		
Purchases of investments	(317,449)	(76,432)
Sales and maturities of investments	246,664	46,043
Additions to property and equipment	(1,527)	(1,097)
	(72,312)	(31,486)
Net cash used in investing activities	(72,312)	(31,486)
Increase (decrease) in cash and cash equivalents	(51,392)	5,640
Cash and cash equivalents, beginning of year	80,192	74,552
Cash and cash equivalents, end of year	\$ 28,800	\$ 80,192

See accompanying notes to the consolidating financial statements.

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”). ASA engages students as early as middle school to help them make informed choices about their college and career options. With a legacy of more than 60 years of working directly with students to increase their access to higher education, ASA is now helping kids earlier in their education journey to put them on a path to meaningful learning and fulfilling jobs.

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’s portfolio under management was approximately \$21.78 billion and \$24.07 billion for the years ended June 30, 2018 and 2017, respectively. ASA’s defaulted loan portfolio under management was approximately \$2.16 billion and \$2.43 billion for the years ended June 30, 2018 and 2017, respectively. ASA paid claims for defaulted loans guaranteed in period years of approximately \$447.3 million and \$524.9 million for the years ended June 30, 2018 and 2017, 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. During 2018, ASA entered into an outsourced services agreement with another FFELP guarantee agency to carry out a significant portion of the activities that previously were performed directly by ASA. Such outsourcing commenced January 1st and provides for compensation of this party a significant portion of the revenues. The agreement runs for a period of five years and provides for cancelation with due notice among other terms as provided for under the agreement. ASA remains directly responsible for compliance with the attributes of the program and continues to be a guarantee agency notwithstanding these arrangements.

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

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 pursuant to a policy adopted by ASA's Board. 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 not have funding needs in the future relative to projections when looking at a longer term horizon than the measurement date established by ED to measure reserve levels. No support was paid or accrued relating to the reserve requirement and the Board's policy to fund such for the years ended June 30, 2018 and 2017.

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. ASA monitors its exposure associated with certificates of deposit and has not experienced any losses in such accounts.

Investments

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

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 the 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.

Revenue Recognition

Default Aversion Fee

ASA is entitled to a fee from the Federal Fund 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. These payments must be returned should the loan associated with the pre-claim assistance ultimately default. As such, when such fees are availed, management records revenue from this fee net of the estimated amount that is estimated to be returned using historical data.

In 2014, ASA prefunded the expected obligation for the return of default aversion fees that it would expect to need to return over time as loans default. Inherent in the estimation of this amount 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 from this cohort; if amounts are less, ASA does not have a reversionary interest in such an overpayment. Management continues to monitor this estimate. Management analyzes the estimated return of funds over time compared to the amounts advance funded to date. The expected future returns amount to \$21,402 and \$22,234 at June 30, 2018 and 2017, respectively, which is less than the prefunded amount of \$31,300, meaning that no obligation exists to the Federal Fund for expected future default aversion fee returns.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Default Aversion Fee (Continued)

In the past, ASA has elected to not avail itself to such fees given the existing Board Policy seeking to support the Federal Fund in meeting its minimum reserve requirements. Such past undrawn default aversion fees are considered to have been permanently 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 is recognized as income when earned. These fees are available through September 30, 2018 and may be extended for an additional year if approved through the legislative process.

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. Gains and losses on loans are netted against the associated revenue from rehabilitations sold as management views this as an integral part of the net compensation available to it under the program. Such gains and losses are recorded in the same period. ED has established a floor of 94% of face value of loans as a price they will pay should market participants not be willing to make purchases at this level or higher. Since, generally, the collection revenues significantly exceed the possible loss on sale when less than face value is received, no implied loss exists on rehabilitations in progress and thus no loss is recorded on such until the related collection revenue is recorded. ASA further accounts for any loss or gain on sale of rehabilitation loans to third parties as a reduction or increase in fee income as such transactions occur.

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:

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)

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.

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, tutoring, peer mentoring, college visits, 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.

Accounting for Outsource Arrangement

ASA considers all revenue earned from the administration of FFELP as under its responsibility, and accordingly, such amounts are presented gross in the consolidating financial statements. Given the significance of the fees paid under its outsourcing arrangement, management has presented a deduction from revenues in order to more clearly present the net amounts available after such fees for program and management of its other activities and affairs.

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.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

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 does not result in an uncertainty requiring recognition. The position on loss carryforwards is uncertain and thus such carryforwards have not been recognized as tax assets. ASA is not currently under examination by any taxing jurisdiction. ASA's federal and state tax returns are generally open for examination for three years following the date filed.

Fair Value Measurements

ASA reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include ASA's certificates of deposit and its 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), minimize the use of unobservable inputs (such as appraisals or valuation techniques) or to use the net asset value per share as a practical expedient in reporting and measuring its financial instruments. Fair value standards also require ASA to classify its financial instruments (but for those measured using NAV) 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.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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 of support accrued for the reserve requirement associated with the Federal Fund, measurement of the actuarial obligations for defined benefit plan, measurement of accruals for losses on leases, obligation relative to the voluntary separation program and useful lives of depreciable assets.

Deferred Rent and Landlord Allowances

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

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 2 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

ASA has evaluated events and transactions through September 13, 2018, which is the date the consolidating financial statements were issued.

Note 3 - Investments and Fair Value Measurements

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

	2018	2017
Mutual funds:		
Fixed income	\$ 120,637	\$ 92,052
U.S. equity	249,520	219,446
International stock	135,206	131,303
U.S. Government agencies securities	77,498	30,961
	<u>77,498</u>	<u>30,961</u>
Investments	<u>\$ 582,861</u>	<u>\$ 473,762</u>

The above investment fair values were determined using Level 1 methods. Investment 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.

At June 30, 2018, a total of \$1,500 of securities were pledged to secure two letters of credit with a bank. Of the \$1,500, \$1,000 is used to secure the lease associated with ASA's existing primary facility, and the remaining \$500 is used to secure a lease with an effective date of September 14, 2018. The letters of credit expire on April 30, 2019 and April 14, 2019, respectively.

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

	2018	2017
Investment return:		
Interest and dividends	\$ 12,236	\$ 10,695
Net realized and unrealized gains on investments	26,123	41,796
	<u>26,123</u>	<u>41,796</u>
Investment return	<u>\$ 38,359</u>	<u>\$ 52,491</u>

Interest included in the Consolidating Statements of Activities is somewhat higher given interest earned outside of the investment portfolio.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 4 - Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Computer software systems	\$ 3,033	\$ 8,834
Equipment	2,875	4,559
Furniture and fixtures	831	1,279
Leasehold improvements	2,159	4,303
Total property and equipment	<u>8,898</u>	<u>18,975</u>
Less accumulated depreciation and amortization	<u>(6,369)</u>	<u>(16,818)</u>
Net property and equipment	<u>\$ 2,529</u>	<u>\$ 2,157</u>

Depreciation and amortization expense was \$887 and \$1,378 for the years ended June 30, 2018 and 2017, respectively. During 2018 and 2017, ASA disposed of property and equipment resulting in a loss of \$268 and \$657, respectively.

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:

	2018	2017
Borrower services	\$ 27,343	\$ 63,625
Product development and school services	9,616	21,383
Information technology support	11,686	17,604
General and administrative support	<u>9,826</u>	<u>11,466</u>
Total operating expenses	<u>\$ 58,471</u>	<u>\$ 114,078</u>

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans

Voluntary Separation Program

During 2017, ASA offered eligible employees the opportunity to participate in a voluntary separation program. Under the program, employees opting in have a right to a monetary incentive, certain medical and dental coverage among other inducements to encourage participation. The estimated costs of the plan amounted to approximately \$16,800 during the year ended June 30, 2017. ASA has estimated that curtailment savings of \$9,128 relative to pension costs will also be realized effectively reducing the overall cost of the program. In 2018, a gain in the amount of \$84 was recorded given estimates that were made at the date of the program. Certain accruals remain on the books and are subject to change particularly associated with medical coverage.

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. 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 (\$61) and \$4,867 is reflected in employee compensation and fringe benefits in the Consolidating Statements of Activities for 2018 and 2017, respectively.

As a result of the voluntary separation program offered in 2017, the Plan experienced a decline in the number of active participants. In accordance with accounting standards applicable to defined benefit plans, ASA recognized a curtailment gain of \$9,128, which was recognized within gains on pension plan in 2017, on the accompanying Consolidating Statements of Activities.

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

	2018	2017
Projected benefit obligation	\$ 73,039	\$ 83,240
Fair value of plan assets	<u>65,412</u>	<u>70,548</u>
Accrued pension liability	<u>\$ 7,627</u>	<u>\$ 12,692</u>
Accumulated benefit obligation	<u>\$ 70,568</u>	<u>\$ 78,510</u>
Pension expense (charged to operations)	<u>\$ (61)</u>	<u>\$ 4,867</u>
Employer contributions	<u>\$ -</u>	<u>\$ -</u>
Benefits paid to participants	<u>\$ 9,998</u>	<u>\$ 1,369</u>

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

Defined Benefit Plan (Continued)

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

	2018	2017
Prior service cost	\$ -	\$ -
Net (gain) loss	(3,455)	1,549
Total	<u>\$ (3,455)</u>	<u>\$ 1,549</u>

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

	2018	2017
Net gain	\$ (5,539)	\$ (13,233)
Settlement	535	-
Curtailment gain	-	(9,128)
Amortization of prior service costs	-	(2)
Amortization of net loss	-	(1,721)
Total amount recognized in non-operating unrestricted net assets	<u>\$ (5,004)</u>	<u>\$ (24,084)</u>
Total gain recognized for plan	<u>\$ (5,065)</u>	<u>\$ (19,218)</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 \$0, \$0 and \$0, respectively.

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

	2018	2017
Weighted average discount rate	4.11%	3.84%
Long-term return on plan assets	6.75%	6.88%
Compensation increase rate	3.00%	3.00%

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

Defined Benefit Plan (Continued)

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

2019	\$	2,674
2020		2,198
2021		2,718
2022		2,575
2023		2,899
Thereafter		17,719

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

	2018	2017
Cash equivalents	\$ 1,015	\$ 419
Mutual funds:		
U.S. equity	21,347	25,461
International equity	14,089	16,703
Fixed income intermediate	3,221	20,881
Fixed income short-term	25,740	1
Real Estate	-	7,083
Total	\$ 65,412	\$ 70,548

The Plan 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 6.75% 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 2018.

AMERICAN STUDENT ASSISTANCE

Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 6 - Employee Benefit Plans (Continued)

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, 2018 is zero. For the years ended June 30, 2018 and 2017, actual contributions of \$571 and \$925, were made for the plan years ended December 31, 2017 and 2016, respectively.

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 \$845 and \$1,276 are included in other assets and other liabilities as of June 30, 2018 and 2017, 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, 2018 and 2017. 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 and other facilities that run through 2033. 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 are 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.

AMERICAN STUDENT ASSISTANCE
Notes to Consolidating Financial Statements

(Dollars in Thousands)

Note 8 - Commitments and Contingencies (Continued)

Office Space Lease (Continued)

Minimum annual lease and sublease payments are as follows:

	Base	Sublease	Net
2019	\$ 3,548	\$ (380)	\$ 3,168
2020	1,550	-	1,550
2021	1,577	-	1,577
2022	1,604	-	1,604
2023	1,631	-	1,631
Thereafter	16,962	-	16,962
	<u>\$ 26,872</u>	<u>\$ (380)</u>	<u>\$ 26,492</u>

ASA is relocating its primary operating facility in the fall of 2018. The lease commitment associated with the new premises was signed before year end and thus included in the above lease table. In addition, management accrued the remaining lease costs on its existing lease based on the amount of such payments remaining after the estimated final date of occupancy less any sublease income.

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.

Note 9 - Subsequent Events

ASA has evaluated events and transactions through September 13, 2018, which is the date the financial statements were issued.

Supplemental Information

AMERICAN STUDENT ASSISTANCE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

(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") Direct Awards:			
Federal Family Education Loans/Total expended on Guarantee Programs	84.032		\$ 227,019
TRIO Cluster Direct Awards:			
TRIO - Talent Search Brockton	84.044		251
TRIO - Talent Search Boston	84.044		328
TRIO - Upward Bound	84.047		274
TRIO - Educational Opportunity Centers	84.066		239
TRIO - Boston EOC	84.066A		263
Pass-through from Massachusetts Education & Career Opportunities, Inc.:			
TRIO - Educational Opportunity Centers	84.066	P066A110029	184
Total TRIO Cluster			1,539
Pass-through from Massachusetts Department of Higher Education:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S110038	285
Total U.S. Department of Education			228,843
Total Expenditures of Federal Awards			\$ 228,843

AMERICAN STUDENT ASSISTANCE

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the 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, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of ASA, it is not intended to and does not present the consolidating 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 the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. ASA has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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, 2018:

<i>(Dollars in Thousands)</i>						
<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Federal Award Receivable/ (Payable) July 1, 2017</u>	<u>July 1, 2017 through June 30, 2018 Activity Due from (to) ED</u>	<u>July 1, 2017 through June 30, 2018 (Receipts)/ Payments</u>	<u>Federal Award Receivable/ (Payable) June 30, 2018</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		\$ 3,611	\$ 13,516	\$ (13,831)	\$ 3,296	
Advance for claims		18,057	582,885	(570,462)	30,480	
Total due from ED		<u>21,668</u>	<u>596,401</u>	<u>(584,293)</u>	<u>33,776</u>	
Due to ED:						
Program recoveries		<u>(33,675)</u>	<u>(369,382)</u>	<u>370,336</u>	<u>(32,721)</u>	
Total due to ED		<u>(33,675)</u>	<u>(369,382)</u>	<u>370,336</u>	<u>(32,721)</u>	
Total		<u>\$ (12,007)</u>	<u>\$ 227,019</u>	<u>\$ (213,957)</u>	<u>\$ 1,055</u>	
Total expenditures of federal awards for Federal Family Education Loans (Guaranty Agencies)						<u>\$ 227,019</u>

See Independent Auditors' Report.

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 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 Corporation d/b/a American Student Assistance ("ASA"), which comprise the consolidating statement of financial position as of June 30, 2018, 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 13, 2018.

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.

Maya Heyman McCann P.C.

September 13, 2018
Boston, Massachusetts

Reporting Under the Uniform Guidance



*Independent Auditors' Report on Compliance For Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance*

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 *Compliance Supplement* that could have a direct and material effect on ASA's major federal program for the year ended June 30, 2018. 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 federal statutes, regulations and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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, 2018.

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 programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffmann McCann P.C.

September 13, 2018
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

Section 1

Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major federal programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None reported |
| 2. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

4. Identification of major federal 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: | \$750,000 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

AMERICAN STUDENT ASSISTANCE
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section 2

Financial Statement Findings

None noted.

Section 3

Federal Award Findings and Questioned Costs

None noted.