RHODE ISLAND
STUDENT LOAN AUTHORITY

FINANCIAL STATEMENTS
YEARS ENDED
JUNE 30, 2013 AND 2012
REPORT OF INDEPENDENT AUDITORS

RHODE ISLAND STUDENT LOAN AUTHORITY

TABLE OF CONTENTS
JUNE 30, 2013 AND 2012

REPORT OF INDEPENDENT AUDITORS

To the Board Members
Rhode Island Student Loan Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Student Loan Authority, a related organization of the State of Rhode Island and Providence Plantations (State), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 financial statements are free of material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. These procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rhode Island Student Loan Authority as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 on our consideration of the Rhode Island Student Loan Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island Student Loan Authority's internal control over financial reporting and compliance.

Braver P.C.

Providence, Rhode Island
September 30, 2013

As management of the Rhode Island Student Loan Authority (RISLA or the Authority), we offer readers of RISLA's financial statements this overview and analysis of our financial activities for the fiscal year ending June 30, 2013. RISLA's management encourages readers to review the entire financial report and contact us with any questions or comments.

RISLA continues to find ways to help students and parents reduce their cost of attending college. In FY 2013, RISLA continued to offer fixed rate state based student loans through its RISLA fixed rate student loan program. This program offered borrowers two options. Students attending college in Rhode Island and State residents attending an out of state school could choose a ten year immediate repayment option at a fixed rate for the life of the loan at 6.39%. Students could also choose a deferred repayment option at a fixed rate of 7.49% for the fifteen year life of the loan. RISLA was able to offer these low fixed rates for a second consecutive year as well as waive the origination fee for all borrowers that choose the immediate repayment option or take an online financial literacy course. For FY 2014, RISLA will expand its fixed rate student loans to loans for parents who are funding their child's education. RISLA is also reducing the interest rate on immediate repayment loans to 5.39%. RISLA management believes that the RISLA fixed rate student loan program offers attractive terms and conditions as compared to other student loan programs in the market. RISLA originated approximately $27.1 million in fixed rate student loans to 1,716 borrowers in FY 2013.

In fiscal year 2013, RISLA expanded its college access initiatives by partnering with the Association of Independent Colleges and Universities of Rhode Island, The Rhode Island Board of Governors for Higher Education, and the Greater Providence Chamber of Commerce. The goal of the partnership is to help match Rhode Island employers with talented students through the newly developed website www.bridge.jobs. The partnership and website has already helped hundreds of college students and employers. RISLA hosts the website and markets the program to employers and colleges across Rhode Island.

RISLA continues to offer college access initiatives through its College Planning Center of Rhode Island (CPC). Since 1998, The College Planning Center of Rhode Island has provided free expert and personal assistance to students and parents in the areas of college admission and financial aid. In fiscal year 2013, the staff at the CPC provided assistance to approximately 12,804 contacts. The College Planning Center currently operates three locations which are in Warwick, Bristol, and Cumberland. RISLA also serves as coordinator for the Latino College Access Coalition, which was started in FY 2010. The Coalition has partnered with community based and business organizations with a goal of increasing college attendance and success among the Latino residents of the state.

RISLA also administers a student loan forgiveness program that is funded by the Rhode Island Foundation. Under this arrangement, RISLA manages all aspects of the program according to policy guidelines established by the Foundation. The program offers student loan forgiveness to qualified applicants for three different professions, Primary Care Physicians, Nurse Practitioners and Physicians Assistants, and Dentists and Dental Hygienists. All three programs require the applicant to be employed in the State of Rhode Island to be eligible. Qualified applicants receive annual awards that are sent directly to the holder of their student loan. To date, RISLA had received approximately $1.9 million in funds for the programs.

RISLA issued $67,525,000 in new bonds in FY 2013, of which $30,700,000 will be used to fund RISLA's education loan programs in FY 2014 and $36,825,000 was used to retire existing fixed rate bonds. RISLA also issued $371,000,000 in Floating Rate Notes which were used to refinance auction rate bonds and pay off the funds due the Department of Education as part of the Asset Backed Commercial Paper Straight-A Conduit Program that was initiated in FY 2010.

Effective July 1, 2010, all federally guaranteed student loans were originated under the Federal Direct student loan program. RISLA continues to hold and administer its $451,106,950 portfolio of federally guaranteed Stafford, PLUS and Consolidation loans.

FINANCIAL HIGHLIGHTS

- RISLA was able to continue offering the Rhode Island Fixed Rate Loan Program to Rhode Island residents and students attending colleges and universities in Rhode Island. This is an industry leading fixed rate student loan that has been offered by RISLA for 21 years. RISLA originated approximately $27 million in fixed rate loans in the fiscal year ended June 30, 2013 and was able to secure financing to originate another $30,700,000 million for the fiscal year ended June 30, 2014.

- Bonds payable increased from $565,855,000 on June 30, 2012 to $762,799,000 on June 30, 2013. This represents an increase of $196,944,000 or 34.8%. In FY 2013, RISLA issued $67,525,000 in new fixed rate bonds and $371,000,000 in Floating Rate Notes. RISLA retired $241,581,000 in bonds through early retirements of auction rate securities and other scheduled bond payments at par value.

- The liability due to the Federal Government for the Conduit Program decreased from $297,181,943 on June 30, 2012 to zero on June 30, 2013.

- RISLA services its own private loan portfolio (principal balance of approximately $400 million at June 30, 2013) utilizing RISLA employees. Servicing its portfolio of supplemental loans has resulted in better portfolio management, a reduction of defaulted borrowers, and lower servicing costs.

- RISLA's overall operating expenditures decreased by $5.3 million. The general and administrative expenditures decreased by $211,973 or 19.21%. The loan servicing and acquisition costs (expenses to market, service and disburse all student loan portfolios) decreased by $131,374 or 4.96%.

- The gain on the early retirement of $126,450,000 in auction rate bonds amounted to $10,045,000 for the year ending June 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplementary information.

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain key points in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

The Authority's financial statements are prepared in conformity with accounting principles accepted in the United States of America (GAAP) as applied to the government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position. All assets and liabilities associated with the operation of the Authority are included in the Statement of Net Position.

The Statement of Net Position reports the Authority's net position and how they have changed. Net position – the difference between the Authority's assets and liabilities – is one way to measure the Authority's financial health or position.

FINANCIAL ANALYSIS

Net Position

For fiscal year ended June 30, 2013, the Authority's total assets exceeded the total liabilities by $140,841,948 for an increase of 15.24% as compared to June 30, 2012. At June 30, 2012 the total assets exceeded the total liabilities by $122,221,328, which was an increase of 10.75% as compared to June 30, 2011. A condensed summary of the Authority's net position at June 30 is shown below.

Student loan receivables are the largest component of assets and decreased from $1,010,496,016 on June 30, 2011 to $913,255,364 on June 30, 2012, which represents a decrease of 9.62%. Student loan receivables amounted to $810,800,508 on June 30, 2013, a decrease of 11.21%. The other significant component of assets is cash and investments restricted by the terms of various trust indentures. The amount of restricted cash and investments on June 30, 2011 equaled $120,754,527. On June 30, 2012, restricted cash and investments equaled $80,076,458. On June 30, 2013, restricted cash and investments equaled $93,067,832. Restricted cash and investment balances are primarily used to acquire student loans and to retire bond debt.

Liabilities consist primarily of bond debt. On June 30, 2011 bond debt outstanding, net of unamortized bond premium, amounted to $668,202,594. On June 30, 2012 bond debt outstanding amounted to $566,060,602. On June 30, 2013 bond debt outstanding amounted to $764,325,479.

RISLA extinguished the liability due to the U.S. Department of Education under the Asset Backed Commercial Paper Straight-A Conduit Program during 2013. A liability of $297,181,943 was reported at June 30, 2012. In order to pay off the debt, RISLA issued $260 million in LIBOR Floating Rate Notes in November 2012.

	2013	2012	Percentage Change	2011	Percentage Change
Other assets	$934,229,000	$1,024,090,453	-8.77%	$1,167,165,315	-12.26%
Capital assets	92,444	98,297	-5.95%	143,945	-31.71%
Total Assets	934,321,444	1,024,188,750	-8.77%	1,167,309,260	-12.26%
Current liabilities	28,788,685	63,321,970	-54.54%	53,099,560	19.25%
Noncurrent liabilities	764,690,811	838,645,452	-8.82%	1,003,846,951	-16.46%
Total liabilities	793,479,496	901,967,422	-12.03%	1,056,946,511	-14.66%
Net Position					
Investment in capital assets, net of related debt	92,444	98,297	-5.95%	143,945	-31.71%
Restricted for debt service	134,646,517	118,159,475	13.95%	107,696,440	9.72%
Unrestricted	6,102,987	3,963,556	53.98%	2,522,364	57.14%
Total Net Position	$140,841,948	$122,221,328	15.24%	$110,362,749	10.75%

CHANGES IN NET POSITION

The Authority's increase in net position for the fiscal year ended June 30, 2013 was $18,620,620, which was an increase of 57.02% as compared to fiscal year ended June 30, 2012. The increase in net position at June 30, 2012 was $11,858,579, which was a decrease of 53.86% as compared to fiscal year ended June 30, 2011. A condensed summary of the Authority's changes in net position at June 30 is shown below.

Net Loan interest income (Loan interest income less DOE Special Allowance Payments) for the fiscal year ended June 30, 2013 decreased by $1,853,873 or 5.09% as compared to the year ended June 30, 2012. Other income accounts for less than 10% of total revenues and is comprised of investment income, unrealized gains/losses on market adjustment of investment accounts and fee revenue. Other income decreased by $562,128 or 16.67% as compared to June 30, 2012. Interest expense for the fiscal year ended June 30, 2013 decreased by $1,213,853 or 7.72% as compared to June 30, 2012.

	2013	2012	Percentage Change	2011	Percentage Change
Loan interest income	$54,182,368	$60,107,824	-9.86%	$67,306,631	-10.70%
DOE special allowance payments	(19,644,126)	(23,715,709)	-17.17%	(28,536,509)	-16.89%
Other income	2,810,309	3,372,437	-16.67%	2,709,406	24.47%
Total income	37,348,551	39,764,552	-6.08%	41,479,528	-4.13%
Interest expense	14,504,952	15,718,805	-7.72%	17,934,688	-12.36%
Arbitrage rebate	(1,341,583)	2,910,567	-146.09%	(1,170,992)	-348.56%
External loan servicing	2,516,195	2,647,569	-4.96%	4,874,521	-45.69%
DOE loan fees	1,183,600	1,308,677	-9.56%	1,363,240	-4.00%
Provision for loan losses	3,052,500	3,215,818	-5.08%	3,369,958	-4.57%
Other operating expenses	7,963,932	7,346,655	8.40%	7,850,553	-6.42%
Total expenses	27,879,596	33,148,091	-15.89%	34,221,968	-3.14%
Operating Income (Loss)	9,468,955	6,616,461		7,257,560	
Nonoperating Revenues (Expenses)	9,151,665	5,242,118		18,442,643	
Change in net position	18,620,620	11,858,579		25,700,203	
Net position, beginning of year	122,221,328	110,362,749		84,662,546	
Total net position, end of year	$140,841,948	$122,221,328	15.24%	$110,362,749	10.75%

DEBT ADMINISTRATION

RISLA funds student loan notes receivable by issuing tax-exempt and taxable bonds. Tax-exempt bonds must receive an allocation of the State of Rhode Island private activity bond volume ceiling or "cap". The bonds issued by RISLA must comply with state and federal statutes and with rules and regulations of the U.S. Treasury Department and the U.S. Securities and Exchange Commission. Detailed information on RISLA's debt is presented in note 7 of the financial statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority's financial activity for all those interested in the Authority's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Rhode Island Student Loan Authority, 560 Jefferson Blvd., Warwick, Rhode Island, 02886.

RHODE ISLAND STUDENT LOAN AUTHORITY

STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS:		
Current assets:		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	$ 2,441,915	$ 1,051,151
Cash equivalents	2,768,825	1,632,549
Investments	0	1,082,930
Restricted:		
Cash	1,872,443	1,535,834
Cash equivalents	82,126,893	70,461,078
Investments	9,068,496	8,079,546
Student loans receivable	78,376,767	86,471,812
Accrued interest receivable:		
Student loans	18,922,413	22,469,814
Investments	49,739	38,530
Other receivables	819,602	42,715
Prepaid expenses	432,034	615,839
Deferred financing costs	563,530	735,971
Total current assets	197,442,657	194,217,769
Noncurrent assets:		
Student loans receivable - net	732,423,741	826,783,552
Deferred financing costs, net of amortization of $6,236,748 and $4,369,356, respectively	4,362,602	3,089,132
Total noncurrent assets	736,786,343	829,872,684
Capital assets:		
Capital assets, less accumulated depreciation of $390,667 and $343,743, respectively	92,444	98,297
TOTAL ASSETS	934,321,444	1,024,188,750
LIABILITIES:		
Current liabilities:		
Bonds payable	9,690,000	6,335,000
Unearned revenue - current portion	2,032,404	1,852,484
Due to U.S. Department of Education	4,809,943	5,659,768
Accrued interest payable	1,117,781	1,013,122
Accounts payable and accrued expenses	770,067	772,705
Rhode Island Higher Education Assistance Authority Rehab Loans - current portion	0	147,985
Rhode Island Higher Education Assistance Authority Conduit Loans	0	5,782,532
Grants payable	1,359,636	1,020,762
Due to Federal Government - Loan Conduit Program	0	29,718,194
Accrued arbitrage rebate	9,008,854	11,019,418
Total current liabilities	28,788,685	63,321,970
Noncurrent liabilities:		
Bonds payable, net of bond premium (discount) of $1,526,479 and $205,602, respectively	754,635,479	559,725,602
Unearned revenue - net of current portion	9,169,300	9,805,342
Rhode Island Higher Education Assistance Authority Rehab Loans	0	1,241,964
Due to Federal Government - Loan Conduit Program	0	267,463,749
Accrued arbitrage rebate	886,032	408,795
Total noncurrent liabilities	764,690,811	838,645,452
TOTAL LIABILITIES	793,479,496	901,967,422
NET POSITION:		
Invested in capital assets net of related debt	92,444	98,297
Restricted for debt service	134,646,517	118,159,475
Unrestricted	6,102,987	3,963,556
TOTAL NET POSITION	$ 140,841,948	$ 122,221,328

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND STUDENT LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating revenues:		
Interest income:		
Student loans	$ 54,182,368	$ 60,107,825
U.S. Department of Education Special Allowance Payments	(19,644,126)	(23,715,710)
Investments	356,651	510,881
Unrealized gains (losses) on changes in fair value of investments	(388,945)	410,937
Fee income	2,842,603	2,450,619
Total operating revenues	37,348,551	39,764,552
Operating expenses:		
Interest	14,504,952	15,718,805
Provision for risk sharing	3,052,500	3,215,818
Provision for arbitrage rebate and loan discounts	(1,341,583)	2,910,567
Department of Education loan fees - consolidation rebate	1,183,600	1,308,677
Loan servicing and acquisition costs	2,516,195	2,647,569
Credit enhancement and remarketing expenses	1,649,870	1,824,495
Salaries	2,196,876	2,267,729
Administration	891,380	1,103,353
Employee benefits	616,727	581,331
Amortization of deferred financing costs	852,621	378,247
College Planning Center expenses	783,047	579,460
Legal and accounting	378,473	159,459
Miscellaneous bond expenses	383,372	194,924
Payroll taxes	164,641	198,999
Depreciation	46,925	58,658
Total operating expenses	27,879,596	33,148,091
Operating income	9,468,955	6,616,461
Nonoperating revenues and expenses:		
Gain on early retirement of bonds	10,045,000	5,619,830
Write-off of deferred financing costs due to the early retirement of bonds	(893,335)	(377,712)
Total nonoperating revenues and expenses	9,151,665	5,242,118
Changes in net position	18,620,620	11,858,579
Net position, beginning of the year	122,221,328	110,362,749
Net position, end of the year	$ 140,841,948	$ 122,221,328

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Cash received for:		
Student loan interest	$ 36,013,334	$ 43,173,104
Student loan principal	156,687,698	143,858,112
Fee income	2,842,603	2,450,619
Interest on investments	345,442	527,433
Grants	338,874	425,125
Cash paid for:		
Origination and purchase of student loans	(54,232,842)	(46,617,460)
Contractual services	(1,183,600)	(1,275,797)
Goods and services	(9,662,910)	(9,963,758)
Employee salaries	(2,374,541)	(2,453,430)
Employee benefits	(616,727)	(581,331)
Net cash provided by operating activities	128,157,331	129,542,617
Cash flows from noncapital financing activities:		
Payment of bond maturities	(278,965,000)	(132,735,170)
Proceeds from sale of revenue bonds	487,396,309	35,940,000
Proceeds from RIHEAA for Conduit Loans	3,223,583	13,073,878
Payments to RIHEAA for Conduit Loans	(9,006,115)	(7,291,346)
Payment on conduit loans	(297,181,943)	(61,195,693)
Payment on RIHEAA Rehab Loans	(1,389,949)	(235,698)
Interest paid on bonds	(14,400,293)	(15,852,815)
Net cash used for noncapital financing activities	(110,323,408)	(168,296,844)
Cash flows from capital and related financing activities:		
Deferred financing costs	(2,968,423)	(642,394)
Purchase of equipment	(41,071)	(13,010)
Net cash used for capital and related financing activities	(3,009,494)	(655,404)
Cash flows from investing activities:		
Purchases of investment securities	(3,465,627)	0
Sales of investment securities	3,170,662	4,684,834
Net cash provided (used) for investing activities	(294,965)	4,684,834
Net increase (decrease) in cash and cash equivalents	14,529,464	(34,724,797)
Cash and cash equivalents, beginning of year	74,680,612	109,405,409
Cash and cash equivalents, end of year	$ 89,210,076	$ 74,680,612
Cash and cash equivalents consists of:		
Unrestricted:		
Cash	$ 2,441,915	$ 1,051,151
Cash equivalents	2,768,825	1,632,549
Restricted:		
Cash	1,872,443	1,535,834
Cash equivalents	82,126,893	70,461,078
Cash and cash equivalents, end of year	$ 89,210,076	$ 74,680,612

(CONTINUED)

SEE NOTES TO FINANCIAL STATEMENTS.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Reconciliation of operating income to net cash used for operating activities:		
Operating income	$ 9,468,955	$ 6,616,461
Interest expense	14,504,952	15,718,805
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation of capital assets	46,925	58,658
Amortization - bond discounts and deferred issuance costs	852,621	378,247
Increase in allowance for uncollectible accounts	2,038,651	3,255,068
Unrealized (gains) losses on investments	388,945	(410,937)
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	100,416,206	93,985,585
(Increase) decrease in other receivables	(776,886)	(9,839)
(Increase) decrease in accrued interest receivable - loans	2,708,100	6,083,543
(Increase) decrease in accrued interest receivable - investments	(11,208)	15,550
(Increase) decrease in prepaid expenses	183,805	35,549
Increase (decrease) in due to Federal Government	(10,524)	(11,212)
Increase (decrease) in grants payable	338,874	425,126
Increase (decrease) in unearned revenues	(456,121)	708,286
Increase (decrease) in accounts payable and accrued expenses	(1,535,964)	2,693,727
Net cash provided by operating activities	$ 128,157,331	$ 129,542,617

(CONCLUDED)

SEE NOTES TO FINANCIAL STATEMENTS.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Rhode Island Student Loan Authority (the Authority) is a public instrumentality established in May 1981 by an Act of the Rhode Island General Assembly. The Authority is a related organization of the State of Rhode Island for financial reporting purposes. The Authority was created for the purpose of providing a system of financial assistance for qualified students to enable them to obtain a post secondary education by attending public or private institutions. It has the power to issue negotiable notes and bonds to achieve its corporate purpose.

Basis of Accounting

The accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting utilizing the accrual basis.

Income Taxes

The Authority is exempt from Federal and state income taxes.

Recently Issued Accounting Standards

The Authority has implemented GASB No. 60, Accounting and Financial Reporting for Service Concession Arrangements, for the year ended June 30, 2013. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

The Authority has implemented GASB No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, for the year ended June 30, 2013. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

The Authority has implemented GASB No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, for the year ended June 30, 2013. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

The Authority has implemented GASB No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, for the year ended June 30, 2013. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

The Authority will adopt the following new accounting pronouncement in future years:

- ✓ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the Authority's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 66 – Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62, effective for the Authority's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, effective for the Authority's fiscal year ending June 30, 2014.

(CONTINUED)

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards (Continued)

- ✓ GASB Statement No. 68 – Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for the Authority's fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 69 – Government Combinations and Disposals of Government operations, effective for the Authority's fiscal year ending June 30, 2015.
- ✓ GASB Statement No. 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for the Authority's fiscal year ending June 30, 2014.

The impact of these pronouncements on the Authority's financial statements has not been determined.

Deferred Financing Costs

Deferred financing costs incurred in connection with bonds payable are amortized on the straight-line basis over the term of the related debt.

Revenues and Expenses

The Authority distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The Authority's revenue is derived primarily from income on student loans, and secondarily, from investment income. The Authority's primary expense is interest expense on bonds outstanding. Therefore, student loan income, net investment income and interest expense are shown as operating revenues and expenses in the statement of revenue, expenses, and changes in net position. All other revenues and expenses are reported as non-operating revenues and expenses.

Property and Equipment

Property and equipment is stated at cost. The Authority provides for depreciation using the straight-line method over the estimated useful life of the asset. The Authority estimates the useful life for leasehold improvements to be the same as the term of the lease, three years for computer equipment and five years for furniture and fixtures. Depreciation and amortization expense for fiscal years 2013 and 2012 totaled $46,925 and $58,658, respectively. Capital assets are defined by the Authority, as assets with an individual cost of $2,500 or more and an estimated useful life in excess of one year.

Student Loans

The Authority is a holder of federally guaranteed student loans under the Federal Family Education Loan Program (FFELP). The Authority also originates and holds student loans utilizing credit criteria approved by the rating agencies, and as applicable, the Authority's bond insurance company.

(CONTINUED)

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Student Loans (Continued)

Student loans are carried at their uncollected principal balances and are reduced by an allowance for loan losses of $47,732,248 and $45,693,597 at June 30, 2013 and 2012, respectively. The allowance for loan losses is determined by management's evaluation of the student loan portfolios. This evaluation considers such factors as historical loss experience, quality of student loan servicing and collection, and economic conditions. When this evaluation determines that an exposure to loss is probable and reasonably estimated, a provision against current operations net of student loan recoveries is recorded. Actual losses are charged against the allowance for loan losses as they occur.

FFELP student loans and the accrued interest thereon purchased or originated by the Authority are fully guaranteed for loans disbursed prior to September 30, 1993 and are guaranteed at 98% for loans disbursed between October 1, 1993 and June 30, 2006, and are guaranteed at 97% for loans disbursed between July 1, 2006 and June 30, 2010. The Authority's FFELP loans are substantially insured by Rhode Island Higher Education Assistance Authority (RIHEAA). The Federal Government reinsures loans guaranteed by RIHEAA to the extent provided by regulatory guidelines.

Interest on Loans Receivable

Interest on loans receivable is calculated using the simple interest method. Interest is accrued on loans receivable from the date of the last repayment installment to the date of the financial statements.

Bond Discount

The bond discount is amortized (straight-line method) over the term of the bonds series to which it relates.

Basis of Presentation

In order to ensure observances of limitations and restrictions placed on the use of resources available to the Authority, the accounts of the Authority are maintained in accordance with the principles of Fund Accounting. This is a procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Under the Rhode Island General Law section 35-10.1, Rhode Island Collateralization of Public Deposits Act, the Authority must have their funds collateralized 100% for all time deposits with maturities over 60 days and for all deposits if the depository institution does not meet its minimum capital standards as required by its federal regulators.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are carried at fair value.

All of the bond series trust and indenture agreements require that cash and investments be held by the trustee for the benefit of the bondholders and their maturity is to coincide as nearly as practicable with payments due on bonds. Otherwise, uninvested monies are to be invested in available overnight investments. According to the indenture agreements, investments to be held by the trustee are limited to the following:

* United States Treasury Securities
* Demand deposits with banks which are members of the Federal Deposit Insurance Corporation
* Federal Agency or Instrumentality bonds
* Certain repurchase agreements
* Certain bankers acceptances
* Shares in certain Investment Companies
* Certain obligations of any state, or political subdivision, or municipal corporation
* Certain eligible loans
* Investment Agreements approved by the rating agencies
* Commercial paper

Vacation and Sick Leave

The Authority provides all full-time employees with at least two weeks vacation time per year. Employees can carry over up to a maximum of two times their annual accrual. At time of termination the employee is entitled to all accrued vacation time. The June 30 accrual is calculated at the current pay scale.

The Authority provides employees with three weeks of sick time per year which can be accrued up to a maximum of six months. Sick time is not payable to the employee upon termination.

Accrued Arbitrage Rebate Liability

Interest income to the Authority from investments and student loans is limited by U.S. Treasury regulations. Interest income earned in excess of the allowable amounts will be remitted to the Federal Government as required by the applicable laws and regulations.

Investment interest income is limited to the bond yield on certain tax-exempt bond issues. Interest income in excess of this limit has been reserved for rebate in accordance with applicable financing documents.

(CONTINUED)

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Arbitrage Rebate Liability (Continued)

Interest income from student loans is limited to 2% over bond yield of the related tax-exempt bond issue. Student loans, including principal and accrued interest, and cash have been reserved for rebate in the amount of the interest income which exceeded the limit. The Authority can utilize the rebate liability through interest rate and loan forgiveness programs.

Use of Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. The process used by management in formulating the accounting estimates is based upon information available to them and their projection of future events and transactions affecting the Authority. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Accordingly, actual results could differ from those estimates.

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net position. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Any debt related to unspent bond proceeds or other cash and investments is excluded from the determination. Restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net position not included in the above categories.

The financial activity associated with each of the Authority's Student Loan Program Revenue Bonds is recorded in the trust established for each such bond issue. In accordance with the Pledge of Indenture, the accounts held by the trustee are restricted for the "equal and ratable benefit and security of the bondholders." All revenues derived from program activities are deposited in the revenue account applicable to each individual bond series as specified in the Pledge of Indenture. The trustee is then directed to pay items from the revenue account in specific priority order, including periodic transfers to the Authority's operating account in an amount sufficient to pay for its program expenses including: salaries, utilities, office rent, legal, accounting, and other related expenses. Such transfers to the Authority's operating account are limited in amount pursuant to the respective Bond issue trust indenture.

Reclassifications

Certain reclassifications have been made to the Authority's 2012 financial statements to conform to the 2013 presentation.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following table compares the Authority's carrying cash balances to the bank balances. In addition, it discloses the total amount of funds which are insured by the Federal Deposit Insurance Corporation (FDIC). The difference between amounts is due to timing of receipts and withdrawals between the Authority and the bank.

(CONTINUED)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	2013	2012
Cash Deposits:		
Carrying amount of cash deposits:		
Unrestricted	$ 2,441,915	$ 1,051,151
Restricted	1,872,443	1,535,833
TOTAL	$ 4,314,358	$ 2,586,984
Bank Balances:		
Covered by Federal depository insurance	$ 297,152	$ 1,935,892
Collateralized	3,952,578	0
TOTAL	$ 4,249,730	$1,935,892

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has adopted a deposit policy relating to a custodial credit risk. According to the policy, the deposit accounts will be with commercial banks that have acceptable collateral to cover any deposit in excess of the FDIC insurance coverage.

	2013 Fair Value	2012 Fair Value
Cash equivalents and investments unrestricted:		
Cash equivalents (unrestricted):		
Ocean State Investment Pool	$ 500,229	$0
Government Agency Bonds and Security Funds and Commercial Paper	2,268,596	1,632,549
Total cash equivalents	2,768,825	1,632,549
Other investments:		
U.S. Treasury Notes	0	1,082,930
Total - other investments	0	1,082,930
Total - unrestricted	2,768,825	2,715,479
Cash equivalents and investments (restricted):		
Cash equivalents:		
Government Agency Bonds and Securities Funds and Commercial Paper	82,126,893	70,461,078
Other investments:		
U.S. Treasury Notes	7,148,496	4,327,403
Investment agreements	1,920,000	3,752,143
Total - other investments	9,068,496	8,079,546
Total - restricted	91,195,389	78,540,624
Total cash equivalents and investments	$93,964,214	$81,256,103

(CONTINUED)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The restriction of cash, cash equivalents, and investments is for the payment of bonded debt and the issuance of student loans and related expenses. The restricted cash, cash equivalents, and investments are held by the trustee U.S. Bank as collateral for the Bonds (see Note 7).

The Authority has designated $3,500,000 of unrestricted cash and cash equivalents to be used to fund the RISLA Parent Loan program. This program commenced on July 1, 2013 and is a fixed rate education loan available to parents only. The student is not required to be a signor on the loan. Loan disbursements will be for the 2013/14 academic year.

At June 30, 2013, the Authority had the following investments:

Description	Maturity	Fair Value
U S Treasury Note	February 15, 2023	$ 258,891
U S Treasury Note	August 15, 2020	531,905
U S Treasury Note	November 15, 2022	1,903,447
U S Treasury Note	May 15, 2019	554,553
U S Treasury Note	November 15, 2015	550,672
U S Treasury Note	February 15, 2023	606,325
U S Treasury Note	November 15, 2015	555,048
U S Treasury Note	February 15, 2023	502,394
U S Treasury Note	February 15, 2021	834,721
U S Treasury Note	November 15, 2019	850,540
Transamerica Life Insurance Co. (GIC)	December 1, 2028	1,920,000
Total		$9,068,496

Custodial Credit Risk

Custodial Credit Risk for investment securities is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of their investments or collateral securities that are in possession of an outside party. According to the Authority's investment policy, funds held under a bond indenture or other security agreement will be invested following the current rating agency guidelines and with companies which comply with the ratings noted under Credit Risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to the Authority's investment policy, the investment portfolio is structured so that the securities mature to meet cash requirements for ongoing operations and investment are primarily in money market funds backed with U.S. Treasury obligations. The Authority has investments in guaranteed investment contracts as required by the bond indentures which have interest rates that are fixed for long periods and are subject to more variability in their fair value as a result of future changes in interest rates.

Description	Interest Rate	Maturity	Fair Value
Transamerica Life Insurance GIC	4.10%	December 1, 2028	$1,920,000

(CONTINUED)

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to the Authority's investment policy, funds will be invested in Investment Agreements permitted by the Authority's bond indentures. As of June 30, 2013, the Authority's investment in Transamerica Life Insurance Co. Guaranteed Investment Contract was rated AA- by Standard and Poor's and A1 by Moody's Investor Services. If the credit rating of the investment providers decline, the Authority can require the provider to post additional collateral and or other remedies to ensure performance. All the remaining investments are either obligations of the U.S. Government or explicitly guaranteed by the U.S. Government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investments in a single issuer. According to the Authority's investment policy, investments will be diversified to minimize the impact of potential losses from concentration in a specific maturity, a specific issuer or specific class of security. The Transamerica Life Insurance (GIC) of $1,920,000 and represents 21% of the Authority's investments.

3. LOANS RECEIVABLE

Loans receivable represent the unpaid portion of Federal Family Education Loans (FFELP) originated or purchased by the Authority. These loans are guaranteed by the Rhode Island Higher Education Assistance Authority (RIHEAA), a related party (Note 13), and other guarantors which have guarantee agreements covering all or a substantial portion of each loan with the U.S. Department of Education (DOE). The Authority also originates and holds state based private education loans for qualified students and their families.

The FFELP loans have both fixed and variable interest rates which are established by the DOE, and repayment terms which are dependent on the loan type. The return on FFELP loans that lenders actually realize is based on formulas administered by the DOE and is dependent on loan type and date of origination. Any payment by borrowers in excess of the formulas must be returned to the DOE for loans originated after April 1, 2006. The DOE subsidizes the interest for certain FFELP loans during the borrowers' in-school, in-grace, and authorized deferment periods. The subsidized interest rate is determined by a formula and based on indexes published by the U.S. Department of Education. The interest subsidy is included with interest income on loans receivable in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The state based private loans have fixed and variable interest rates with repayment terms between 10 years from the date of disbursement to 15 years from the date the student is no longer enrolled in an eligible institution.

The loan receivable balances at June 30, 2013 and 2012 are as follows:

	2013	2012
FFELP loan receivable	$ 451,106,950	$ 535,431,814
Private loan receivables	407,425,806	423,517,147
Total loan receivable	$ 858,532,756	$ 958,948,961

(CONTINUED)

4. *CAPITAL ASSETS*

Capital activity during the years ended June 30, 2013 and 2012 was as follows:

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Cost:				
Furniture and fixtures	$61,287			$61,287
Equipment	350,946	$30,173		381,119
Leasehold improvements	29,807	10,899		40,706
Total cost	442,040	41,072		483,112
Accumulated depreciation and amortization:				
Furniture and fixtures	52,548	3,291		55,839
Equipment	261,388	42,039		303,427
Leasehold improvements	29,807	1,595		31,402
Total accumulated depreciation	343,743	46,925		390,668
Net capital assets	$98,297	$(5,853)	$0	$92,444

	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Cost:				
Furniture and fixtures	$61,287			$61,287
Equipment	337,936	$13,010		350,946
Repurchase of operating rights	4,100,000		$4,100,000	0
Lease hold improvement	29,807			29,807
Total cost	4,529,030	13,010	4,100,000	442,040
Accumulated depreciation and amortization:				
Furniture and fixtures	46,129	6,419		52,548
Equipment	209,149	52,239		261,388
Repurchase of operating rights	4,100,000		$4,100,000	0
Leasehold improvements	29,807			29,807
Total accumulated depreciation	4,385,085	58,658	4,100,000	343,743
Net capital assets	$143,945	$(45,648)	$0	$98,297

5. *DEFERRED FINANCING COSTS*

Deferred financing costs incurred in connection with bond issuances have been capitalized and will be amortized over the life of the respective bonds. The balances at June 30, 2013 and 2012 relate to costs incurred in connection with all of the Authority's bond issues.

(CONTINUED)

6. *OPERATING LEASES*

The Authority leases its operating facility from a landlord which is a related party (Note 13) under an operating lease. The related party lease requires monthly rental payments of $10,116. The lease agreement expires on October 31, 2013. Lease expense for the year ended June 30, 2013 and 2012 was $121,392.

7. *BONDS PAYABLE*

On June 23, 1994, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $9,250,000 (Senior Series A), $9,250,000 (Senior Series B), $4,000,000 (Senior Series C), and $2,500,000 (Subordinate Series 2). The Senior Series A bonds are auction rate securities bearing interest at a rate reset every thirty five days. The Senior Series B bonds are also auction rate securities bearing interest at a rate reset every thirty five days and they mature in 2014. The existing auction rate at June 30, 2011 was .263% for the Senior Series A bonds and .210% for the Senior Series B bonds. The Senior Series C bonds have matured and there were no amounts outstanding as of June 30, 2012 and 2011. Cost of issuance amounted to $208,013 relating to all four series and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. All 1994 bonds were redeemed and retired in FY 2012.

On September 14, 1995, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $31,000,000 (Senior Series A), $4,440,000 (Senior Series B), and $6,160,000 (Subordinate Series 3). The Senior Series A bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2011 was .228%. The Senior Series B bonds were retired in prior years. The Subordinate Series 3 bonds pay interest at 6.45% and mature in 2015. A cost of issuance of $289,816 relating to the three bond series was taken from the bond proceeds and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. All bonds from this series were redeemed and retired in FY 2012.

On March 13, 1997, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $45,000,000 (Series 1) and $5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of $25,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2013 and 2012 was .263% and .280% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.5% to 5.75% and matured in FY 2012. Cost of issuance amounted to $419,450 relating to all three securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The 1997 Series 3 bonds were redeemed and retired in FY 2004. The final maturity of the 1997 Series 2 bonds occurred in FY 2013.

On April 15, 1998, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $55,000,000 (Series 1) and $5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of $20,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing action rate at June 30, 2013 and 2012 was .123% and .315% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.35% to 5.35% and matured in 2012. Cost of issuance amounted to $379,850 relating to all three securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The 1998 Series 3 bonds were redeemed and retired in FY 2004. The 1998 Series 2 Bonds were redeemed and retired in FY 2012.

(CONTINUED)

7. BONDS PAYABLE (Continued)

On March 1, 1999, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $64,000,000 (Series 1) and $6,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of $30,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 was .350% for Series 1 bonds. The Series 2 bonds pay interest ranging from 3.75% to 4.95% and matured in 2012. Cost of issuance amounted to $462,440 relating to all three securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The 1999 Series 3 bonds were redeemed and retired in FY 2004. The 1999 Series 2 bonds were redeemed and retired in FY 2012. The 1999 Series 1 bonds were redeemed and retired in FY 2013.

On March 15, 2000, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $32,000,000 (Series 1), $32,000,000 (Series 2) and $6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a nominal value of $30,000,000 (Series 4). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2013 and 2012 was .245% and .595% for Series 1 bond, respectively. The Series 3 bonds pay interest ranging from 5.0% to 5.9% and matured in FY 2012. Cost of issuance amounted to $427,820 related to all four securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The 2000 Series 2 bonds were redeemed and retired in FY 2011. The 2000 Series 3 bonds were redeemed and retired in FY 2013.

On January 15, 2001, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $37,000,000 (Series 1), $37,000,000 (Series 2) and $6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a nominal value of $30,000,000 (Series 4). The Series 1 and Series 2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 was .543% for Series 1. The Series 3 bonds pay interest ranging from 4.0% to 5.2% and matured in 2012. Cost of issuance amounted to $493,669 relating to all four securities and is included in deferred financing costs (Note 5). The proceeds of this issuance were used to originate and purchase eligible student loans. The 2001 Series 4 bonds were redeemed and retired in FY 2004. The 2001 Series 2 bonds were redeemed and retired in FY 2011. The 2001 Series 1 bonds and 2001 Series 3 bonds were redeemed and retired in FY 2013.

On February 15, 2002, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of $30,900,000 (Series 1), $45,100,000 (Series 2), $4,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a nominal value of $30,000,000 (Series 4). The Series 2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. In May 2007, the Series 1 bonds were converted from auction rate to fixed rate bonds paying interest at 4.85%. The Series 3 bond pays interest ranging from 3.3% to 4.55%. Cost of issuance amounted to $741,636 relating to all four securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to refund $30,900,000 of the February 22, 1992 bonds outstanding and to originate and purchase eligible student loans. The 2002 Series 4 bonds were retired in FY 2004. The 2002 Series 2 bonds were redeemed and retired in FY 2011. The 2002 Series 3 bonds were redeemed and retired in FY 2012.

(CONTINUED)

7. BONDS PAYABLE (Continued)

On February 19, 2003 the Authority issued tax exempt auction rate Student Loan Program Revenue Bonds with a nominal value of $36,150,000 (Series 1), $73,850,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of $30,000,000 (Series 3). The Series 2 and Series 3 bonds are auction rate securities bearing interest at a rate reset every thirty five days for the Series 2 and every twenty eight days for the Series 3. In May 2007, $16,150,000 of the Series 1 bonds were converted from auction rate to fixed rate bonds paying interest at 4.85%. The existing auction rate at June 30, 2012 was .543% for the Series 1 bonds. The existing auction rate at June 30, 2013 and 2012 was .245% and .543% for Series 2 and .573% and .543% for Series 3 bonds, respectively. Cost of issuance amounted to $605,610 relating to all three securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to refund $8,900,000 of the August 21, 1992 Senior Series A bonds outstanding, $1,100,000 of the August 21, 1992 Subordinate Series 1 bonds outstanding, $10,000,000 of the September 28, 1993 Senior Series bonds outstanding, $2,400,000 of the September 28, 1993 Subordinate Series 1 bonds outstanding and to originate and purchase eligible student loans. The Series 1 auction rate bonds were redeemed and retired in FY 2013.

On April 29, 2003 the Authority issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of $15,000,000 (Series 4), $15,000,000 (Series 5). The Series 4 and Series 5 bonds are auction rate securities bearing interest at a rate reset every twenty eight days. The existing auction rate at June 30, 2013 and 2012 was .679% and .719% for Series 4. Cost of issuance amounted to $117,000 relating to both securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans. The 2003 Series 5 bonds were redeemed and retired in FY 2010.

On January 21, 2004, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a nominal value of $38,000,000 (Series A1); $38,000,000 (Series A2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a nominal value of $24,000,000 (Series A3). The Series A1 and Series A2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate for the Series A1 at June 30, 2010 was 1.193%. The existing auction rate at June 30, 2013 and 2012 for Series A2 was .300% and .875%, respectively. The Series A3 bond pays interest ranging from 1.50% to 4.25% and mature between 2005 and 2018. Cost of issuance amounted to $408,344 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans. The 2004 Series A1 bonds were redeemed and retired in FY 2011.

On July 27, 2006, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a nominal value of $30,000,000 (Series 1); $30,000,000 (Series 2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a nominal value of $40,000,000 (Series 3). The Series 1 and Series 2 Bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2013 and 2012 was .420% and .901% for Series 1 and for Series 2. The Series 3 bond pays interest ranging from 4.6% to 4.9% and mature between 2007 and 2026. Cost of issuance amounted to $566,250 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans. The 2006 Series 3 bonds were redeemed and retired in FY 2013.

On May 1, 2008, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of $60,000,000 (Senior Series A); $4,000,000 (Subordinated Series I). The Senior Series A bonds pays interest ranging from 4.75% to 6.00% and mature between 2013 and 2028. The Subordinated Series I bonds pays interest at 6.75% and mature in 2028. Cost of issuance amounted to $638,597 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans.

7. BONDS PAYABLE (Continued)

On August 5, 2008, the Authority issued Tax Exempt Weekly Interest Rate Student Loan Program Revenue Bonds with a nominal value of $20,000,000 (Series B-1); $20,000,000 (Series B-2); $25,000,000 (Series B-3); $20,000,000 (Series B-4). The Authority also issued Taxable Weekly Interest Rate Student Loan Program Revenue Bonds with a nominal value of $15,000,000 (Series B-5). The existing interest rate for the Series B-1, Series B-2, Series B-3 and Series B-4 at June 30, 2012 was .180% and mature between 2026 and 2048. The existing interest rate for the Series B-5 at June 30, 2013 and 2012 was and .150% and .180% respectively, and matures in 2048. Proceeds from the Series B-1, Series B-2 and Series B-3 were exchanged for the like principal amount of the 1996 Series I, Series II and Series III bonds (collectively the 1996 bonds). The 1996 bonds were canceled and are no longer outstanding under the indenture in which they were issued. Cost of issuance amounted to $391,047 relating to the Series B-4 and Series B-5 bonds which is included in deferred financing costs (Note 5). Proceeds from the issuance of the Series B-4 and Series B-5 are used to originate and purchase eligible student loans. On August 30, 2012, the 2008 Series B1 through B4 bonds were refinanced and redeemed with the proceeds of the 2012 B bonds.

On July 9, 2009, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of $25,570,000 (Senior Series A). The Senior Series A bonds pays interest ranging from 4.20% to 6.30% and mature between 2013 and 2029. Proceeds of the issuance were net of a cost of issuance of $441,004 relating to all securities. The cost of issuance is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans.

On March 31, 2010, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of $16,970,000 (Senior Series A). The Senior Series A bonds pays interest ranging from 2.25% to 5.25% and mature between 2013 and 2027. Cost of issuance amounted to $373,987 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

On December 16, 2010, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of $25,570,000 (Senior Series B). The Senior Series B bonds pays interest ranging from 2.00% to 5.00% and mature between 2012 and 2026. Cost of issuance amounted to $440,435 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

On October 6, 2011, the Authority issued Taxable Weekly Interest Rate Student Loan Program Revenue Bonds with a nominal value of $18,000,000 (Senior Series A). The interest rate on the Senior Series A bonds is reset weekly. The interest rate for the Senior Series A bonds was .160% at June 30, 2012 and matures in 2051. Cost of issuance amounted to $236,096 relating to all securities and is included in deferred financing costs (Note 5). Proceeds from this issuance are used to acquire eligible student loans financed by other bond issues of the Authority.

On March 21, 2012, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a face value of $17,940,000 (Senior Series A). The Senior Series A bonds pays interest ranging from 2.00% to 4.00% and mature between 2013 and 2026. Cost of issuance amounted to $406,928 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

On August 30, 2012, the Authority issued $111,000,000 in 2012 Series-1 Taxable LIBOR Floating Rate Notes. The 2012 Series-1 Notes bear interest at a rate of one month LIBOR plus .90%. The interest rate resets on the second business day of each month. The notes have a final maturity date on July 1, 2031 and costs of issuance amounted to $703,496. On June 30, 2013 interest on the 2012 Series -1 Notes was 1.09378%. Proceeds of the notes were used to finance eligible student loans and refund and redeem certain obligations of the Authority.

(CONTINUED)

7. BONDS PAYABLE (Continued)

On August 30, 2012, the Authority issued $78,000,000 in 2012 Series B taxable Student Loan Program Revenue Bonds. The interest rate on the bonds resets weekly. The bonds have a final maturity date of June 1, 2052 and costs of issuance amounted to $383,067. On June 30, 2013 interest on the 2012-B Bonds was .12%. Proceeds of the bonds were used to finance eligible student loans and to refund and redeem the 2008 Series B-1 through B-4 Bonds.

On November 19, 2012, the Authority issued $260,000,000 in 2012-2 Taxable LIBOR Floating Rate Notes. The 2012-2 Notes bear interest at a rate of one month LIBOR plus .65%. The interest rate resets on the second business day of each month. The notes have a final maturity date of September 1, 2036 and costs of issuance amounted to $1,197,964. On June 30, 2013 interest on the 2012-2 Notes was .84378%. Proceeds of the notes were used to finance eligible student loans and refund and redeem certain obligations of the Authority.

On March 8, 2013, the Authority issued $67,525,000 in 2013 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 2.00% and 3.75% and maturities ranging from December 1, 2013 through December 1, 2028. Costs to issue the bonds amounted to $683,894. Proceeds of the bonds are used to originate and purchase eligible student loans. Proceeds were also utilized to retire and redeem certain obligations of the Authority.

In 2013 and 2012, the Authority redeemed bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at par or at a discount of the Bond's stated par value ranging from 91.75% to 100% and 70% to 96% in 2013 and 2012, respectively. $207,200,000 and $67,625,000 of the outstanding Bonds were retired which resulted in a gain in the amount of $10,045,000 and $5,619,830 in 2013 and 2012, respectively.

Payment of principal and interest on the 1997, 1998, 2000, 2002, 2003, 2004 and 2006 bonds are insured by a municipal bond insurance policy, issued by Ambac Assurance Corporation. Ambac's parent corporation emerged from bankruptcy under Chapter 11 of the U.S. bankruptcy code in May 2013. Standard and Poor's rating services and Fitch rating services have withdrawn rating on all debt insured by Ambac. Management strongly believes that the Authority will continue to meet its obligations under the bond issues and trust indentures insured by Ambac.

Interest on all tax-exempt bonds issued by the Authority is payable semi-annually. Interest on taxable auction rate bonds is paid every 28 days on the day after an interest rate reset. Interest on taxable variable rate demand obligation bonds is paid on the first business day of every month. The bonds are secured by eligible student loans, monies in restricted funds established by the trust indenture including investment earnings, payment of principal and interest, federal interest subsidy payments, special allowance payments, claim payments by Rhode Island Higher Education Assistance Authority or other guarantors, and proceeds of any sale or assignment by the Authority of any loans.

(CONTINUED)

7. BONDS PAYABLE (Continued)

Pursuant to the terms of the various Trust Indentures, the Authority placed the proceeds of the bonds into various restricted funds. The loan fund was established to account for all recoveries of principal and any amounts which are required to be deposited therein pursuant to the Trust Indentures and to fund the origination and purchase of eligible student loans as described in the Trust Indenture. The revenue fund was established for the recoveries of interest investment earnings from all accounts and for interest payments. The reserve fund was established for the payment of interest in the event that the Authority does not have sufficient funds from other sources. The required reserve for the March 1997, April 1998, Series 1, 2 and 3 of the March 2000, February 2002, February 2003, and April 2003 Bond issues is 2% of principal bonds outstanding. The required reserve for the January 2004 and July 2006 Bond issues is 1% of principal bonds outstanding. The required reserve for the May 2008 bond issue is 4% of the principal bonds outstanding. The required reserve for the July 2009, March 2010, December 2010, March 2012 and March 2013 Bond issues is 3% of principal bonds outstanding. The Authority has purchased a surety bond issued by Ambac to fulfill the debt reserve fund obligation for the March 2000, and April 2003 Bond issues.

The Trust Indentures also require the establishment of other restricted funds (administrative and rebate funds). The Authority also established the restricted clearing account to account for transfers between restricted funds.

The Authority has been in compliance with the respective debt covenants as outlined in the Trust Indentures for fiscal years 2013 and 2012.

The Authority maintains a Letter of Credit in the original stated amount of $113,052,740 on its 2008 Series B-5, 2011 Series A and 2012 Series B Weekly Adjustable Interest Rate Bonds. The Letter of Credit obligates the Letter of Credit Provider to pay to the Trustee an amount equal to principal and interest on the Bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the Bonds tendered or deemed tendered for purchase but not remarketed as contemplated by the Indenture.

The Letter of Credit will expire on the earliest to occur: (a) June 30, 2014, (b) date the Letter of Credit is surrendered to the Letter of Credit Provider, (c) when an alternative facility is substituted for the Letter of Credit, (d) when the bonds commence bearing interest at a fixed rate, (e) when an Event of Default has occurred, (f) or when no amount becomes available to the Trustee under the Letter of Credit.

The following schedule summarizes the Authority's outstanding bonds payable as of June 30:

Bond Issue	2013	2012
March 1997		
Series I	$20,600,000	$21,100,000
April 1998		
Series I	4,500,000	11,900,000
March 1999		
Series I	0	32,700,000
March 2000		
Series I	2,000,000	25,900,000
January 2001		
Series I	0	29,500,000
Series III	0	1,025,000

(CONTINUED)

7. BONDS PAYABLE (Continued)

February 2002		
Series 1	16,900,000	28,200,000
February 2003		
Series 1	6,650,000	14,450,000
Series 2	2,500,000	3,100,000
Series 3	2,800,000	9,900,000
April 2003		
Series 4	2,050,000	13,800,000
January 2004		
Series A-2	14,500,000	29,500,000
Series A-3	7,520,000	9,460,000
July 2006		
Series 1	17,850,000	22,350,000
Series 2	23,850,000	29,350,000
Series 3	0	29,570,000
May 2008		
Senior Series A	41,125,000	46,000,000
Subordinated Series I	4,000,000	4,000,000
August 2008		
Series B-1	0	20,000,000
Series B-2	0	20,000,000
Series B-3	0	25,000,000
Series B-4	0	20,000,000
Series B-5	11,000,000	15,000,000
July 2009		
Senior Series A	21,070,000	25,570,000
March 2010		
Senior Series A	16,970,000	16,970,000
December 2010		
Senior Series B	25,020,000	25,570,000
October 2011		
Series A	18,000,000	18,000,000
March 2012		
Senior Series A	17,940,000	17,940,000
August 2012		
Series B	76,000,000	0
August 2012		
Series 2012-1	96,522,000	0
November 2012		
Series 2012-2	245,907,000	0
March 2013		
Senior Series A	67,525,000	0

(CONTINUED)

7. BONDS PAYABLE (Continued)

Subtotal	762,799,000	565,855,000
Add: premium	1,887,206	314,893
Less: discount	360,727	109,291
Less: current portion	9,690,000	6,335,000
Total	$754,635,479	$559,725,602

The following schedule reflects the changes in bonds payable:

Balance at June 30, 2011	$ 668,270,000
Additions	35,940,000
Retirements	(138,355,000)
Balance at June 30, 2012	565,855,000
Additions	516,525,000
Retirements	(319,581,000)
Balance at June 30, 2013	$762,799,000

(CONTINUED)

7. BONDS PAYABLE (Continued)

Presented below is a summary of debt service requirements to maturity for fiscal years ending June 30:

Year	Principal	Interest	Total
2014	$9,690,000	$14,105,835	$23,795,835
2015	11,180,000	13,813,386	24,993,386
2016	12,060,000	13,380,318	25,440,318
2017	12,535,000	12,854,013	25,389,013
2018	12,615,000	12,339,971	24,954,971
2019	15,595,000	11,688,654	27,283,654
2020	14,355,000	11,051,874	25,406,874
2021	13,320,000	10,522,890	23,842,890
2022	13,220,000	9,896,538	23,116,538
2023	12,060,000	9,395,707	21,455,707
2024	13,630,000	8,930,363	22,560,363
2025	15,170,000	8,329,720	23,499,720
2026	14,105,000	7,646,467	21,751,467
2027	12,270,000	6,983,310	19,253,310
2028	9,420,000	6,349,226	15,769,226
2029	6,900,000	5,899,689	12,799,689
2030	-	5,520,939	5,520,939
2031	28,145,000	5,373,628	33,518,628
2032	96,522,000	4,289,127	100,811,127
2033	-	4,194,833	4,194,833
2034	-	4,194,833	4,194,833
2035	2,000,000	4,192,001	6,192,001
2036	2,050,000	4,184,391	6,234,391
2037	262,807,000	1,705,738	264,512,738
2038	11,950,000	737,638	12,687,638
2039	14,500,000	564,270	15,064,270
2040	-	547,413	547,413
2041	41,700,000	328,722	42,028,722
2042	-	170,200	170,200
2043	-	170,200	170,200
2044	-	170,666	170,666
2045	-	170,200	170,200
2046	-	170,200	170,200
2047	-	170,200	170,200
2048	11,000,000	170,666	11,170,666
2049	-	150,400	150,400
2050	-	150,400	150,400
2051	18,000,000	150,400	18,150,400
2052	76,000,000	121,933	76,121,933
Total	$762,799,000	$200,786,959	$963,585,959

(CONTINUED)

8. LINE-OF-CREDIT

In Fiscal Year 2012, the Authority entered into a line-of-credit agreement with the Rhode Island Higher Education Assistance Authority (RIHEAA) to purchase FFELP loans that are over 240 days delinquent from the Asset-Backed Commercial Paper Conduit program (ABCP) that was established by the United States Department of Education (DOE) with funds advanced from RIHEAA. Previous to this agreement, these delinquent Conduit loans would be sold or "Put" back to the DOE at which time RIHEAA would lose the guarantee and the associated future revenue streams of these loans. The Authority's purchasing of these loans maintains RIHEAA as the guarantor and allows the Authority and RIHEAA to continue default prevention and borrower counseling initiatives.

The agreement requires RIHEAA to advance funds that are required to remove the loan from the Conduit Program, which equates to 97% of the loan value and the Authority absorbs the lender risk share of 2-3%. All claim and borrower payments of principal and interest received by the Authority are remitted to RIHEAA to reduce the outstanding balance of the line-of-credit. The Authority has also agreed to repurchase loans (at 100% of accrued interest and principal) that become current at which time the funds are also remitted to RIHEAA to reduce the line. The maximum amount of the line-of-credit is $6.5 million. The line-of-credit was extinguished in December 2012. The outstanding balance at June 30, 2013 and 2012 was $0 and $5,782,532, respectively.

9. ACCRUED ARBITRAGE REBATE

Accrued arbitrage rebate at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Current portion	$9,008,854	$11,019,418
Noncurrent portion	886,032	408,795
Total accrued arbitrage rebate	$9,894,886	$11,428,213

The following schedule reflects the changes in accrued arbitrage rebate:

Balance at June 30, 2011	$8,815,014
Increase	5,307,374
Decrease	(2,694,175)
Balance at June 30, 2012	11,428,213
Increase	631,353
Decrease	(2,164,680)
Balance at June 30, 2013	$9,894,886

In July 2012, the Authority submitted a request to the Internal Revenue Service (the IRS) for a voluntary closing agreement (VCA) with respect to certain tax-exempt bonds issued by the Authority, as described in IRS Announcement 2012-14, 2012-14 I.R.B. 721. On September 27, 2013, the Authority signed a VCA with the IRS. The VCA relate to various bond issues from Series 1997-1 through Series 2006-2 (the Bonds). The closing agreement provides that the interest on the Bonds will remain excluded from gross income of the holders. The Authority also agreed to discontinue the practice of reallocating loans from one Bond issue to another Bond issue except as permitted by IRS regulations and that the Authority pay a settlement amount to the IRS. The closing agreement also provides that the Authority has no acquired purpose arbitrage liability on the Bonds. The Authority believes that the terms of the closing agreement will not impact the Authority's ability to continue to honor it's obligations or to continue to provide the lowest cost education loans in the country.

(CONTINUED)

10. ASSET-BACKED COMMERCIAL PAPER STRAIGHT-A CONDUIT PROGRAM

In fiscal year 2010, the Authority elected to participate in the U.S. Department of Education's Asset-Backed Commercial Paper Straight-A Conduit Program (Conduit) which was created under the authority of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Under this program, eligible FFELP loans are financed by asset backed commercial paper issued by the Conduit and the Conduit holds a security interest in the loans. The program, set to expire on January 19, 2014, is managed by the Bank of Montreal and is administered by the Bank of New York Mellon. The Authority initially financed loans with this program on September 29, 2009, and two subsequent financings took place in 2010. In November 2012, the Conduit Program was extinguished through the issuance of Taxable Libor Floating Rate Bonds (see Note 7). The interest rate, exclusive of fees and expenses, is calculated based on the weighted average rate of asset backed commercial paper issued by the Straight-A Conduit. As of June 30, 2013 and 2012, the Authority's outstanding balance of FFELP loans financed by the Conduit was $0 and $297,181,943, respectively. Interest expense incurred for the year ended June 30, 2013 and 2012 was $968,005 and $2,577,479, respectively.

11. LOAN SERVICING AGREEMENTS

in April 2011, the Authority entered into a servicing agreement with Nelnet Servicing LLC (Nelnet), under which Nelnet collects and accounts for the principal and interest on FFELP loans originated and purchased by the Authority and placed with Nelnet for servicing for a monthly fee, which is based on the borrower status of the loans being serviced. Nelnet is also responsible for servicing the loans in a diligent manner according to regulations established by the DOE. This agreement is in effect until terminated or modified.

In July 1992, the Authority entered into a servicing agreement with Pennsylvania Higher Education Assistance Authority (PHEAA) under which PHEAA collects and accounts for the principal and interest on the Rhode Island Family Education Loans placed with PHEAA for servicing for a monthly fee which is based on the number of loans in repayment status. PHEAA is also responsible for servicing the loans in a diligent manner according to the terms of the guarantee agreements. The agreement continues on a month to month basis until a new agreement is entered into.

In July 2010, the Authority entered into a servicing agreement with University Accounting Services (UAS) under which UAS provides access to their servicing system software and the Authority collects and accounts for the principal and interest on the private loans that the Authority originated. UAS is responsible for maintaining the servicing system. The fees charged are based upon the volume and types of loans being serviced on a monthly basis. The contract does call for certain payments to be processed by UAS and these transactions are charged on a per transaction basis. This agreement is in effect until terminated or modified.

(CONTINUED)

11. LOAN SERVICING AGREEMENTS (Continued)

In June 2003, the Authority entered into a servicing agreement with Great Lakes Educational Loan Services, Inc. (Great Lakes) under which Great Lakes collects and accounts for principal and interest on FFELP loans originated and purchased by the Authority and placed with Great Lakes for servicing for a monthly fee, which is detailed in the agreement. Great Lakes is also responsible for servicing loans in a diligent manner according to regulations established by DOE. This agreement is in effect until terminated or modified.

In December 2012 the Authority entered into a servicing agreement with Aspire Resources Inc. to perform all servicing activities related to Federal Student Loans that were allocated to the Authority as an eligible Not for Profit Servicer under the Health Care and Education Reconciliation Act of 2010 (HCERA). Aspire entered into a Memorandum of Understanding (MOU) with the Department of Education (DOE) and having satisfied the requirements of the MOU, they subsequently signed a contract with the DOE to service and manage federally-owned loan assets. The contract with the DOE allows Aspire to add the Authority as a Key Subcontractor. In March 2013, 100,000 borrower accounts were transferred to Aspire for servicing. Aspire is responsible for servicing all of the federal accounts according to the DOE Contract and pays the Authority a monthly fee based upon the borrower status of the loans being serviced. In addition, Aspire paid the Authority a one-time up-front fee of $715,000. This fee can be fully realized by the Authority only if the Authority does not initiate the opening of a call center to handle inbound and outbound borrower call volume. The contract expires March 31, 2017.

After year two of the agreement, the Authority has the option to perform certain call center functions associated with loan servicing. If this option is exercised, the monthly payments made to the Authority will increase but will still be based upon the borrower status of the loans being serviced.

The Authority received $126,147 in revenue from Aspire to service the Federal Student Loans for the year ended June 30, 2013.

12. DEFINED CONTRIBUTION RETIREMENT PLAN

In July 1989, the Authority established a defined single-employer contribution plan named Rhode Island Student Loan Authority pursuant to Section 403 (b) of the Internal Revenue Code, which provides pension benefits for all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The assets of the plan are held with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Employees are eligible to participate on the first of the month following employment. The Authority contributes 10% of the employee's salary each month and all contributions and investment earnings are fully vested immediately. Employer contributions for 2013 and 2012 amounted to $244,101 and $241,104, respectively. Employee contributions for 2013 and 2012 amounted to $132,136 and $133,598, respectively. All plan provisions and amendments require Board approval. There are no post-retirement benefits for Authority employees.

13. RELATED PARTY TRANSACTIONS

The Rhode Island Student Loan Authority is a related party to the Rhode Island Higher Education Assistance Authority (RIHEAA). RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law. The outstanding FFELP loans guaranteed by RIHEAA was $423,231,633 and $502,286,268 at June 30, 2013 and 2012, respectively.

(CONTINUED)

13. RELATED PARTY TRANSACTIONS (Continued)

In Fiscal Year 2012, the Authority entered into a line-of-credit agreement with RIHEAA to purchase FFELP loans that are over 240 days delinquent from the Asset-Backed Commercial Paper Conduit program that was established by the DOE with funds advanced from RIHEAA (Note 8). This line-of-credit was extinguished in December 2012. The outstanding balance at June 30, 2013 and 2012 was $0 and $5,782,532, respectively.

In January 2009, the Authority entered into an agreement with RIHEAA to administer and service FFELP Rehabilitation loans. Under this agreement, the Authority uses its capacity as an eligible lender to purchase Rehabilitation loans. RIHEAA fully funds these loans and receives all borrower payments that are made on the loans. RIHEAA reimburses the Authority for all actual servicing costs and Department of Education loan fees and pay a monthly administrative fee of thirty five basis points of the outstanding loan balance. This agreement expired in December 2012. At June 30, 2013 and 2012, the loan and interest balance was $0 and $1,389,859, respectively. At June 30, 2013 and 2012, the Authority owed RIHEAA a net amount of $0 and $16,795, respectively.

Lease expense paid to RIHEAA for fiscal years ended June 30, 2013 and 2012 was approximately $121,392, respectively.

14. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; errors and omissions; and workers' compensation claims for which the Authority carries commercial insurance. Settled claims resulting from these risks have not exceeded the Authority's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, management has estimated the reserve for such claims to be $-0- at June 30, 2013 and 2012.

15. SUBSEQUENT EVENT

In July, August and September 2013, the Authority early retired Bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at the Bonds stated par value. Outstanding Bonds of $9,870,000 were retired.

(CONCLUDED)