

**RHODE ISLAND**  
**STUDENT LOAN AUTHORITY**

**FINANCIAL STATEMENTS**  
**YEARS ENDED**  
**JUNE 30, 2012 AND 2011**  
**REPORT OF INDEPENDENT AUDITORS**

**RHODE ISLAND STUDENT LOAN AUTHORITY**

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JUNE 30, 2012 AND 2011**

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## **REPORT OF INDEPENDENT AUDITORS**

To the Board Members  
Rhode Island Student Loan Authority

We have audited the accompanying financial statements of the Rhode Island Student Loan Authority, a component unit of the State of Rhode Island and Providence Plantations (State), as of and for the years ended June 30, 2012 and 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Rhode Island Student Loan Authority's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Rhode Island Student Loan Authority as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012 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, and 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* and should be considered in assessing the results of our audit.

Needham  
Boston  
Concord  
Taunton

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 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 inquiries, 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.

*Brian PC*

Providence, Rhode Island  
September 21, 2012

**RHODE ISLAND STUDENT LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012**

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, 2012. RISLA's management encourages readers to review the entire financial report and contact us with any questions or comments.

During a difficult and turbulent economic environment, RISLA has continued to find ways to help students and parents reduce their cost of attending college. In FY 2012, RISLA continued to offer fixed rate state based student loans through its Rhode Island Family Education Loan program (RIFEL). In Fiscal Year 2012, qualified 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 life of the loan. In FY 2013, RISLA will be able to offer these low fixed rates for a second consecutive year, as well as waive the 4% origination fee for all borrowers that choose the immediate repayment option or take an online financial literacy course. RISLA management believes that the Rhode Island Family Education Loan offers attractive terms and conditions as compared to other student loan programs in the market. RISLA originated approximately \$24,000,000 in RIFEL loans to 1,578 borrowers in FY 2012.

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 2012, the staff at the CPC provided assistance to approximately 13,168 contacts, which was an increase of 23% as compared to the prior year. The College Planning Center currently operates three locations which are in Warwick, Bristol, and Cumberland. RISLA also supports the Latino College Access Coalition, which it 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 issued \$17,940,000 in new fixed rate bonds in FY 2012. These funds will be used to fund RISLA's education loan programs in FY 2013. RISLA also retired \$67,625,000 in auction rate bonds in FY 2012.

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 \$535,866,315 portfolio of federally guaranteed Stafford, PLUS and Consolidation loans. As a not for profit lender/servicer, RISLA has submitted an application to the U.S. Department of Education to service Direct Student Loans.

## **FINANCIAL HIGHLIGHTS**

- RISLA was able to continue offering the Rhode Island Family Education Loan (RIFEL) 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 nearly 20 years. RISLA originated approximately \$24 million in RIFEL loans in the fiscal year ended June 30, 2012 and was able to secure financing to originate another \$17,940,000 million for the fiscal year ended June 30, 2013.
- Bonds payable decreased from \$668,270,000 on June 30, 2011 to \$565,855,000 on June 30, 2012. This represents a decrease of \$102,415,000 or 15.3%. In FY 2012, RISLA issued \$17,940,000 in new fixed rate bonds and \$18,000,000 in taxable bonds. RISLA retired \$138,355,000 in bonds through early retirements of auction rate securities at a discount and other scheduled bond payments at par value.
- FY 2012 was the first full year of RISLA servicing their private loan portfolio (principal balance of approximately \$405 million at June 30, 2012) in house. The transfer of loans from a contracted servicer (Granite State Management & Resources) to RISLA was completed on June 15, 2011. The transfer has been extremely successful and has resulted in a reduction in servicing costs and has allowed RISLA to decrease the number of defaulted borrowers.
- RISLA's overall operating expenditures decreased by \$1.08 million. The general and administrative expenditures decreased by \$288,866 or 21%. The loan servicing and acquisition costs decreased by \$2,233,939 or 45.8%. This decrease was mainly the result of signing a new lower cost FFELP servicing agreement with Nelnet in April 2011 as well as servicing all private loans in house.
- The gain on the early retirement of \$67,625,000 in auction rate bonds amounted to \$5,619,830 for the year ending June 30, 2012.

## **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 Assets. All assets and liabilities associated with the operation of the Authority are included in the Statement of Net Assets.

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

## FINANCIAL ANALYSIS

### Net Assets

For fiscal year ended June 30, 2012, the Authority's total assets exceeded the total liabilities by \$122,221,328 for an increase of 10.75% as compared to June 30, 2011. At June 30, 2011 the total assets exceeded the total liabilities by \$110,362,749, which was an increase of 30.36% as compared to June 30, 2010. A condensed summary of the Authority's net assets at June 30 is shown below.

Student loan receivables amounted to \$913,255,364 on June 30, 2012 and \$1,010,496 on June 30, 2011. The student loan receivable decreased of 9.62% in 2012. The other significant component of assets is cash and investments restricted by the terms of various trust indentures. On June 30, 2011, restricted cash and investments equaled \$120,754,527. On June 30, 2012, restricted cash and investments equaled \$80,076,458. 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, 2010 bond debt outstanding, net of unamortized bond premium, amounted to \$918,919,466. On June 30, 2011 bond debt outstanding amounted to \$668,202,594. On June 30, 2012 bond debt outstanding amounted to \$566,060,602.

RISLA has recorded a liability of \$297,181,943 due to the U.S. Department of Education under their Asset Backed Commercial Paper Straight-A Conduit Program. RISLA pays monthly debt financing fees on this liability and the facility must be refinanced before January 2014.

	2012	2011	Percentage Change	2010	Percentage Change
Other assets	\$1,024,090,453	\$1,167,165,315	-12.26%	\$1,612,828,375	-27.63%
Capital assets	98,297	143,945	-31.71%	1,912,130	-92.47%
<b>Total Assets</b>	<b>1,024,188,750</b>	<b>1,167,309,260</b>	<b>-12.26%</b>	<b>1,614,740,505</b>	<b>-27.71%</b>
Current liabilities	63,321,970	53,099,560	19.25%	232,244,944	-77.14%
Noncurrent liabilities	838,645,452	1,003,846,951	-16.46%	1,297,833,015	-22.65%
<b>Total Liabilities</b>	<b>901,967,422</b>	<b>1,056,946,511</b>	<b>-14.66%</b>	<b>1,530,077,959</b>	<b>-30.92%</b>
<b>Net Assets</b>					
Investment in capital assets, net of related debt	98,297	143,945	-31.71%	(135,869)	-205.94%
Restricted for debt service	118,159,475	107,696,440	9.72%	83,613,169	28.80%
Unrestricted	3,963,556	2,522,364	57.14%	1,185,246	112.81%
<b>Total Net Assets</b>	<b>\$122,221,328</b>	<b>\$110,362,749</b>	<b>10.75%</b>	<b>\$84,662,546</b>	<b>30.36%</b>



## CHANGES IN NET ASSETS

The Authority's increase in net assets for the fiscal year ended June 30, 2012 was \$11,858,579, which was a decrease of 53.86% as compared to fiscal year ended June 30, 2011. The increase in net assets at June 30, 2011 was \$25,700,203, which was an increase of 191.32% as compared to fiscal year ended June 30, 2010. A condensed summary of the Authority's changes in net assets at June 30 is shown below.

Loan interest income for the fiscal year ended June 30, 2012 decreased by \$2,378,007 or 6.13% as compared to the year ended June 30, 2011. Investment interest income for the year ended June 30, 2011 increased by \$197,148 or 27.21%. Interest expense for the fiscal year ended June 30, 2012 decreased by \$2,215,883 or 12.36% as compared to the fiscal year ended June 30, 2011. Fee income is predominantly revenues derived by amortizing the four percent supplemental fee that is added to the private loan principal balance. Fee income for the fiscal year ended June 30, 2012 increased by \$465,883 or 23.47% as compared to the year ended June 30, 2011.

	<u>2012</u>	<u>2011</u>	Percentage Change	<u>2010</u>	Percentage Change
Loan interest income	\$36,392,115	\$38,770,122	-6.13%	\$38,868,192	-0.25%
Investment interest income	921,818	724,670	27.21%	525,582	37.88%
Other income	<u>2,450,619</u>	<u>1,984,736</u>	23.47%	<u>1,379,405</u>	43.88%
Total income	39,764,552	41,479,528	-4.13%	40,773,179	1.73%
Interest expense	15,718,805	17,934,688	-12.36%	18,651,433	-3.84%
Arbitrage rebate	2,910,567	(1,170,992)	-348.56%	(2,141,304)	-45.31%
External loan servicing	2,640,582	4,874,521	-45.83%	4,811,873	1.30%
DOE loan fees	1,275,797	1,363,240	-6.41%	4,198,901	-67.53%
Provision for loan losses	3,215,818	3,369,958	-4.57%	4,174,467	-19.27%
Other operating expenses	<u>7,386,522</u>	<u>7,850,553</u>	-5.91%	<u>10,171,443</u>	-22.82%
Total expenses	<u>33,148,091</u>	<u>34,221,968</u>	-3.14%	<u>39,866,813</u>	-14.16%
Operating Income	6,616,461	7,257,560		906,366	
Nonoperating Revenues (Expenses)	<u>5,242,118</u>	<u>18,442,643</u>		<u>7,915,512</u>	
Change in net assets	11,858,579	25,700,203		8,821,878	
Net assets, beginning of year	<u>110,362,749</u>	<u>84,662,546</u>		<u>75,840,668</u>	
Total net assets, end of year	<u>\$122,221,328</u>	<u>\$110,362,749</u>	10.75%	<u>\$84,662,546</u>	30.36%

## 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 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 ASSETS  
JUNE 30, 2012 AND 2011**

<b>ASSETS:</b>	<u>2012</u>	<u>2011</u>
<b>Current assets:</b>		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	\$ 1,051,151	\$ 1,030,042
Cash equivalents	1,632,549	791,616
Investments	1,082,930	0
Restricted:		
Cash	1,535,834	645,470
Cash equivalents	70,461,078	106,938,281
Investments	8,079,546	13,170,776
Student loans receivable	86,471,812	76,557,855
Accrued interest receivable:		
Student loans	22,469,814	29,421,510
Investments	38,530	55,082
Other receivables	42,715	32,876
Prepaid expenses	615,839	651,388
Deferred financing costs	735,971	354,172
<b>Total current assets</b>	<u>194,217,769</u>	<u>229,649,068</u>
<b>Noncurrent assets:</b>		
Student loans receivable - net	826,783,552	933,938,161
Deferred financing costs, net of amortization of \$4,369,356 and \$4,326,100, respectively	3,089,132	3,578,086
<b>Total noncurrent assets</b>	<u>829,872,684</u>	<u>937,516,247</u>
<b>Capital assets:</b>		
Capital assets, less accumulated depreciation and amortization of \$343,743 and \$4,385,085, respectively	98,297	143,945
<b>TOTAL ASSETS</b>	<u>1,024,188,750</u>	<u>1,167,309,260</u>
 <b>LIABILITIES:</b>		
<b>Current liabilities:</b>		
Bonds payable	6,335,000	6,450,000
Deferred revenue - current portion	1,852,484	1,608,600
Due to U.S. Department of Education	5,659,768	6,540,135
Accrued interest payable	1,013,122	1,147,132
Accounts payable and accrued expenses	772,705	692,178
Rhode Island Higher Education Assistance Authority Rehab Loans - current portion	147,985	182,819
Rhode Island Higher Education Assistance Authority Conduit Loans	5,782,532	0
Grants payable	1,020,762	595,637
Due to Federal Government - Loan Conduit Program	29,718,194	35,837,764
Accrued arbitrage rebate	11,019,418	45,295
<b>Total current liabilities</b>	<u>63,321,970</u>	<u>53,099,560</u>
<b>Noncurrent liabilities:</b>		
Bonds payable, net of bond premium (discount) of \$205,602 and (\$66.406), respectively	559,725,602	661,753,594
Deferred revenue - net of current portion	9,805,342	9,340,938
Rhode Island Higher Education Assistance Authority Rehab Loans	1,241,964	1,442,828
Due to Federal Government - Loan Conduit Program	267,463,749	322,539,872
Accrued arbitrage rebate	408,795	8,769,719
<b>Total noncurrent liabilities</b>	<u>838,645,452</u>	<u>1,003,846,951</u>
<b>TOTAL LIABILITIES</b>	<u>901,967,422</u>	<u>1,056,946,511</u>
 <b>NET ASSETS:</b>		
Invested in capital assets net of related debt	98,297	143,945
Restricted for debt service	118,159,475	107,696,440
Unrestricted	3,963,556	2,522,364
<b>TOTAL NET ASSETS</b>	<u>\$ 122,221,328</u>	<u>\$ 110,362,749</u>

SEE NOTES TO FINANCIAL STATEMENTS.

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Interest income:		
Student loans	\$ 36,392,115	\$ 38,770,122
Investments	921,818	724,670
Fee income	2,450,619	1,984,736
<b>Total operating revenues</b>	<u>39,764,552</u>	<u>41,479,528</u>
<b>Operating expenses:</b>		
Interest	15,718,805	17,934,688
Provision for risk sharing	3,215,818	3,369,958
Provision for arbitrage rebate and loan discounts	2,910,567	(1,170,992)
Department of Education loan fees - consolidation rebate	1,275,797	1,363,240
Loan servicing and acquisition costs	2,640,582	4,874,521
Credit enhancement and remarketing expenses	1,864,363	2,056,754
Salaries	2,267,729	2,254,786
Administration	1,103,353	1,392,219
Employee benefits	581,331	584,827
Amortization of deferred financing costs	378,247	421,376
College Planning Center expenses	579,460	511,804
Legal and accounting	159,459	322,765
Miscellaneous bond expenses	194,923	57,170
Payroll taxes	198,999	188,915
Depreciation	58,658	59,937
<b>Total operating expenses</b>	<u>33,148,091</u>	<u>34,221,968</u>
<b>Operating income</b>	6,616,461	7,257,560
<b>Nonoperating revenues and expenses:</b>		
Cost recovery on U.S. Department of Education Put loans	0	5,950,426
Gain on early retirement of bonds	5,619,830	15,351,500
Write-off of deferred financing costs due to the early retirement of bonds	(377,712)	(1,014,283)
Amortization of repurchase of operating rights agreement	0	(1,845,000)
<b>Total nonoperating revenues and expenses</b>	<u>5,242,118</u>	<u>18,442,643</u>
<b>Changes in net assets</b>	<u>11,858,579</u>	<u>25,700,203</u>
<b>Net assets, beginning of the year</b>	<u>110,362,749</u>	<u>84,662,546</u>
<b>Net assets, end of the year</b>	<u>\$ 122,221,328</u>	<u>\$ 110,362,749</u>

SEE NOTES TO FINANCIAL STATEMENTS.

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><i>Cash flows from operating activities:</i></b>		
Cash received for:		
Student loan interest	\$ 45,623,723	\$ 48,986,814
Student loan principal	143,858,112	129,113,762
Loans PUT to US Department of Education	0	183,351,812
Interest on investments	938,370	716,699
Grants	425,125	18,637
Cash paid for:		
Origination and purchase of student loans	(46,617,460)	(38,428,068)
Contractual services	(1,275,797)	(1,363,240)
Goods and services	(9,963,758)	(13,322,841)
Employee salaries	(2,453,430)	(2,431,507)
Employee benefits	(581,331)	(584,827)
<b><i>Net cash provided by operating activities</i></b>	<b><u>129,953,554</u></b>	<b><u>306,057,241</u></b>
<b><i>Cash flows from noncapital financing activities:</i></b>		
Payment of bond maturities	(132,735,170)	(260,958,500)
Payment of note payable	0	(2,047,999)
Proceeds from sale of revenue bonds	35,940,000	25,570,000
Proceeds from sale of participating interest in loans	0	23,278,442
Proceeds from RIHEAA for Conduit Loans	13,073,878	0
Payments to RIHEAA for Conduit Loans	(7,291,346)	0
Payment on the sale of participating loans	0	(194,523,713)
Payment on conduit loans	(61,195,693)	(53,988,788)
Payment on RIHEAA Rehab Loans	(235,698)	(667,044)
Cost recovery on U.S Department of Education put loans	0	5,950,426
Interest paid on bonds	(15,852,815)	(18,387,486)
<b><i>Net cash used for noncapital financing activities</i></b>	<b><u>(168,296,844)</u></b>	<b><u>(475,774,662)</u></b>
<b><i>Cash flows from capital and related financing activities:</i></b>		
Deferred financing costs	(642,394)	(450,526)
Purchase of equipment	(13,010)	(136,753)
<b><i>Net cash used for capital and related financing activities</i></b>	<b><u>(655,404)</u></b>	<b><u>(587,279)</u></b>
<b><i>Cash flows from investing activities:</i></b>		
Purchases of investment securities	0	(1,547,123)
Sales of investment securities	4,273,897	3,673,926
<b><i>Net cash provided for investing activities</i></b>	<b><u>4,273,897</u></b>	<b><u>2,126,803</u></b>
<b><i>Net decrease in cash and cash equivalents</i></b>	<b>(34,724,797)</b>	<b>(168,177,897)</b>
<b><i>Cash and cash equivalents, beginning of year</i></b>	<b><u>109,405,409</u></b>	<b><u>277,583,306</u></b>
<b><i>Cash and cash equivalents, end of year</i></b>	<b><u>\$ 74,680,612</u></b>	<b><u>\$ 109,405,409</u></b>
<b><i>Cash and cash equivalents consists of:</i></b>		
<b><i>Unrestricted:</i></b>		
Cash	\$ 1,051,151	\$ 1,030,042
Cash equivalents	1,632,549	791,616
<b><i>Restricted:</i></b>		
Cash	1,535,834	645,470
Cash equivalents	70,461,078	106,938,281
<b><i>Cash and cash equivalents, end of year</i></b>	<b><u>\$ 74,680,612</u></b>	<b><u>\$ 109,405,409</u></b>

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SEE NOTES TO FINANCIAL STATEMENTS.

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

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	<u>2012</u>	<u>2011</u>
<b><i>Reconciliation of operating income to net cash used for operating activities:</i></b>		
Operating Income	\$ 6,616,461	\$ 7,257,560
Interest expense	15,718,805	17,934,688
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation of capital assets	58,658	59,937
Amortization - bond discounts and deferred issuance costs	378,247	421,376
Increase in allowance for uncollectible accounts	3,255,068	1,647,067
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	93,985,585	272,390,439
(Increase) decrease in other receivables	(9,839)	76,934
(Increase) decrease in accrued interest receivable - loans	6,083,543	6,381,815
(Increase) decrease in accrued interest receivable - investments	15,550	(7,971)
(Increase) decrease in prepaid expenses	35,549	334,174
Increase (decrease) in due to Federal Government	(11,212)	(322,905)
Increase (decrease) in grants payable	425,126	18,637
Increase (decrease) in deferred revenues	708,286	1,773,207
Increase (decrease) in accounts payable and accrued expenses	2,693,727	(1,907,717)
	<hr/>	<hr/>
<b><i>Net cash provided by operating activities</i></b>	<b>\$ 129,953,554</b>	<b>\$ 306,057,241</b>

SEE NOTES TO FINANCIAL STATEMENTS.

(CONCLUDED)

**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. It is a component unit of the State of Rhode Island for financial reporting purposes and as such, the financial statements of the Authority will be included in the State of Rhode Island's comprehensive annual financial report. 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.

In accordance with State reporting requirements, the Authority has elected not to apply Financial Accounting Standards Board statements and interpretations, accounting principles, board opinions, and accounting research bulletins of the Committee of Accounting Procedures issued after November 30, 1989.

***Income Taxes***

The Authority is exempt from Federal and state income taxes.

***Recently Issued Accounting Standards***

The Authority has implemented GASB No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53, for the year ended June 30, 2012. 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. 60 – Accounting and Financial Reporting for Service Concession Arrangements, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for the Authority's fiscal year ending June 30, 2013.
- ✓ GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities, effective for the Authority's fiscal year ending June 30, 2014.

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(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

***Recently Issued Accounting Standards (Continued)***

- ✓ 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.
- ✓ 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.

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 assets. 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 2012 and 2011 totaled \$58,658 and \$1,904,937, 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.

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(CONTINUED)



**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**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 \$45,693,597 and \$42,438,530 at June 30, 2012 and 2011, 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 after July 1, 2006. 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.

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(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**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 may be allowed to carryover from one year to the next the amount of vacation time accrued in that one particular year. 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.

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(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**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 Assets***

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted for capital activity and debt service; and unrestricted net assets. 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 assets 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 assets 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 issue's Bond Insurance Agreement.

***Reclassifications***

Certain reclassifications have been made to the Authority's 2011 financial statements to conform to the 2012 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.

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(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

	<u>2012</u>	<u>2011</u>
Cash Deposits:		
Carrying amount of cash deposits:		
Unrestricted.....	\$ 1,051,151	\$ 1,030,042
Restricted.....	<u>1,535,833</u>	<u>645,470</u>
<b>TOTAL.....</b>	<b><u>\$ 2,586,984</u></b>	<b><u>\$ 1,675,512</u></b>
Bank Balances:		
Covered by Federal depository insurance .....	\$ 1,935,892	\$ 561,207
Collateralized .....	<u>0</u>	<u>1,351,402</u>
<b>TOTAL.....</b>	<b><u>\$ 1,935,892</u></b>	<b><u>\$ 1,912,609</u></b>

**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.

	<u>2012</u>	<u>2011</u>
	<u>Fair Value</u>	<u>Fair Value</u>
<b>Cash equivalents and investments unrestricted:</b>		
<b>Cash equivalents (unrestricted):</b>		
Government Agency Bonds and Security Funds and Commercial Paper .....	\$ 1,632,549	\$ 791,616
<b>Total cash equivalents .....</b>	<b><u>1,632,549</u></b>	<b><u>791,616</u></b>
<b>Other investments:</b>		
Investment agreements .....	<u>1,082,930</u>	<u>0</u>
<b>Total - other investments .....</b>	<b><u>1,082,930</u></b>	<b><u>0</u></b>
<b>Total - unrestricted .....</b>	<b><u>2,715,479</u></b>	<b><u>791,616</u></b>
<b>Cash equivalents and investments (restricted):</b>		
<b>Cash equivalents:</b>		
Government Agency Bonds and Securities Funds and Commercial Paper .....	70,461,078	106,938,281
<b>Other investments:</b>		
Investment agreements .....	<u>8,079,546</u>	<u>13,170,776</u>
<b>Total - other investments .....</b>	<b><u>8,079,546</u></b>	<b><u>13,170,776</u></b>
<b>Total - restricted.....</b>	<b><u>78,540,624</u></b>	<b><u>120,109,057</u></b>
<b>Total cash equivalents and investments.....</b>	<b><u>\$81,256,103</u></b>	<b><u>\$120,900,673</u></b>

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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).

At June 30, 2012, the Authority had the following investments:

<u>Description</u>	<u>Maturity</u>	<u>Fair Value</u>
U S Treasury Note	November 30, 2014	\$ 511,676
U S Treasury Note	August 15, 2020	560,180
U S Treasury Note	November 15, 2015	571,254
U S Treasury Note	May 15, 2012	580,782
U S Treasury Note	November 15, 2015	604,124
Transamerica Life Insurance Co. (GIC)	June 30, 2013	687,743
U S Treasury Note	November 15, 2015	801,342
Ixis Funding Corp. (GIC)	December 1, 2030	816,400
U S Treasury Note	February 15, 2021	886,653
U S Treasury Note	November 12, 2019	894,322
Transamerica Life Insurance Co. (GIC)	December 1, 2028	<u>2,248,000</u>
Total		<u>\$9,162,476</u>

***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. The security providers guarantee to pay the authority the bond interest rate plus 123 basis points for the Ixis Funding Corp GIC.

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>
Ixis Funding Corp. GIC	1.58%	December 1, 2030	\$816,400
Transamerica Life Insurance GIC	4.10%	December 1, 2028	\$2,248,000

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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, 2012, the Authority's investment in Ixis Funding Corp. Guaranteed Investment Contract was rated A by Standard and Poor's and A2 by Moody's Investor Service. The 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 \$2,248,000 and \$687,743 represents 32% of the Authority's investments and the Ixis Funding Corp. (GIC) of \$816,400 represents 9% 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 Assets. 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, 2012 and 2011 are as follows:

FFELP loan receivable	\$ 535,431,814	\$ 619,350,835
Private loan receivables	423,517,147	433,583,711
Total loan receivable	<u>\$ 958,948,961</u>	<u>\$ 1,052,934,546</u>

(CONTINUED)



RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**4. CAPITAL ASSETS**

Capital activity during the years ended June 30, 2012 and 2011 was as follows:

	Balance at June 30, <u>2011</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2012</u>
<b>Cost:</b>				
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
Leasehold improvements .....	29,807			29,807
<b>Total cost .....</b>	<b>4,529,030</b>	<b>13,010</b>	<b>4,100,000</b>	<b>442,040</b>
<b>Accumulated depreciation and amortization:</b>				
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
<b>Total accumulated depreciation .....</b>	<b>4,385,085</b>	<b>58,658</b>	<b>4,100,000</b>	<b>343,743</b>
<b>Net capital assets .....</b>	<b>\$143,945</b>	<b>\$(45,648)</b>	<b>\$0</b>	<b>\$ 98,297</b>

	Balance at June 30, <u>2010</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2011</u>
<b>Cost:</b>				
Furniture and fixtures .....	\$ 52,814	\$ 8,473		\$ 61,287
Equipment .....	209,656	128,280		337,936
Repurchase of operating rights .....	4,100,000			4,100,000
Lease hold improvement .....	29,807			29,807
<b>Total cost .....</b>	<b>4,392,277</b>	<b>136,753</b>		<b>4,529,030</b>
<b>Accumulated depreciation and amortization:</b>				
Furniture and fixtures .....	35,572	10,557		46,129
Equipment .....	159,868	49,281		209,149
Repurchase of operating rights .....	2,255,000	1,845,000		4,100,000
Leasehold improvements .....	29,707	100		29,807
<b>Total accumulated depreciation .....</b>	<b>2,480,147</b>	<b>1,904,938</b>		<b>4,385,085</b>
<b>Net capital assets .....</b>	<b>\$1,912,130</b>	<b>\$(1,768,185)</b>		<b>\$143,945</b>

**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, 2012 and 2011 relate to costs incurred in connection with all of the Authority's bond issues.

(CONTINUED)



**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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, 2012 and 2011 was \$121,392 and \$114,836, respectively.

The future minimum lease payments are summarized below:

Year Ending <u>June 30,</u>	<u>Amount</u>
2012 .....	\$121,392
2013 .....	<u>40,464</u>
Total .....	<u>\$161,856</u>

**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, 2012 and 2011 was .280% and .193% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.5% to 5.75% and matured in 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 \$25,000,000 Series 3 bonds were redeemed and retired in 2004.

(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**7. BONDS PAYABLE (Continued)**

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 auction rate at June 30, 2012 and 2011 was .315% and .210% 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 \$20,000,000 Series 3 bonds were redeemed and retired in 2004.

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 and 2011 was .350% and .228% for Series 1 bonds, respectively. 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 \$30,000,000 Series 3 bonds were redeemed and retired in 2004.

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, 2012 and 2011 was .595% and .490% for Series 1 bond, respectively. The Series 3 bonds pay interest ranging from 5.0% to 5.9% and matured in 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 \$32,000,000 Series 2 bonds were redeemed and retired in 2011.

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 and 2011 was .543% and .473% for Series 1, respectively. 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 \$30,000,000 Series 4 bonds were redeemed and retired in 2004. The \$37,000,000 Series 2 bonds were redeemed and retired in 2011.

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 \$30,000,000 Series 4 bonds were retired in 2004. The \$45,100,000 Series 2 bonds were redeemed and retired in 2011. The \$4,000,000 Series 3 bonds were redeemed and retired in 2012.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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 and 2011 was .543% and .473% for Series 1 and 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. \$20,000,000 of the \$30,000,000 Series 3 bonds were redeemed and retired in 2004.

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, 2012 and 2011 was .719% and .684% 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 \$15,000,000 Series 5 bonds were redeemed and retired in 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, 2011 and 2010 for Series A2 was .770% and .769%, 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 \$38,000,000 Series A1 bonds were redeemed and retired in 2011.

On July 27, 2006, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a face nominal 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, 2012 and 2011 was .901% and .663% 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.

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.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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 and 2011 was .180% and .800% and mature between 2026 and 2048 and .160% and .150% for the Series B-5 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 November 17, 2008, the Authority issued Tax Exempt Weekly Interest Rate Student Loan Program Revenue Bonds with a nominal value of \$30,000,000 (Series C-1); \$55,000,000 (Series C-2). The Authority also issued Taxable Weekly Interest Rate Student Loan Program Revenue Bonds with a nominal value of \$15,000,000 (Series C-3). The existing interest rate for the Series C-1, and Series C-2 at June 30, 2009 was 1.0% and .70% for the Series C-3. Proceeds from the Series C-1 were exchanged for the like principal amount of the 1995 Series 1 bonds. The 1995 Series 1 bonds were canceled and are no longer outstanding under the indenture in which they were issued. Cost of issuance amounted to \$587,750 relating to the Series C-2 and Series C-3 bonds and is included in deferred financing costs (Note 5). Proceeds from the issuance of the Series C-2 and Series C-3 were used to originate and purchase eligible student loans. The \$30,000,000 Series C-1, \$55,000,000 Series C-2 and \$15,000,000 Series C-3 bonds were redeemed and retired in 2010.

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 issuances 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 face 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.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**7. BONDS PAYABLE (Continued)**

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.

In 2012 and 2011, the Authority early retired bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at a discount of the Bond's stated par value ranging from 70% to 96% and 85% to 95% in 2012 and 2011, respectively. \$67,625,000 and \$263,100,000 of the outstanding Bonds were retired which resulted in a gain in the amount of \$5,619,830 and \$15,351,500 in 2012 and 2011, respectively.

Payment of principal and interest on the 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004 and 2006 bonds are insured by a municipal bond insurance policy, issued by Ambac Assurance Corporation. Ambac's parent corporation filed for bankruptcy under Chapter 11 of the U.S. bankruptcy code on November 8, 2010. Standard and Poor's rating services and Fitch rating services have withdrawn rating on all debt insured by Ambac. Management believes these actions will adversely impact Ambac's ability to pay potential claims in a timely manner. 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.

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, March 1999, Series 1, 2 and 3 of the March 2000, January 2001, February 2002, February 2003, April 2003 and February 2004 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 and March 2012 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, January 2001, February 2002, and the February and April 2003 Bond issues. As mentioned, Ambac has filed for bankruptcy. Management believes that this action will adversely impact Ambac's ability to fund the debt service reserve account if necessary.

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 2012 and 2011.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**7. BONDS PAYABLE (Continued)**

The Authority maintains two Letters of Credit in the original stated amount of \$89,610,959 on its November 2008 Series B-1, B-2, B-3 and B-4 Weekly Adjustable Interest Rate Bonds and \$33,610,274 on its November 2008 Series B-4 and October 2011 Series A Weekly Adjustable Interest Rate Bonds. The Letters of Credit obligate 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 two Letters 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) 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:

<u>Bond Issue</u>	<u>2012</u>	<u>2011</u>
June 1994		
Series A.....	\$ 0	\$9,250,000
Series B.....	0	9,250,000
Subordinated Series II.....	0	2,500,000
September 1995		
Series A.....	0	24,400,000
Subordinate Series III.....	0	4,245,000
March 1997		
Series I.....	21,100,000	35,400,000
Series II.....	0	50,000
April 1998		
Series I.....	11,900,000	15,800,000
Series II.....	0	1,430,000
March 1999		
Series I.....	32,700,000	38,600,000
Series II.....	0	2,220,000
March 2000		
Series I.....	25,900,000	29,400,000
Series III.....	0	2,785,000
January 2001		
Series I.....	29,500,000	37,000,000
Series III.....	1,025,000	3,210,000
February 2002		
Series 1.....	28,200,000	30,900,000
Series 3.....	0	1,000,000
February 2003		
Series 1.....	14,450,000	24,950,000
Series 2.....	3,100,000	3,100,000
Series 3.....	9,900,000	9,900,000
April 2003		
Series 4.....	13,800,000	15,000,000

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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January 2004		
Series A-2 .....	29,500,000	38,000,000
Series A-3 .....	9,460,000	11,455,000
July 2006		
Series 1 .....	22,350,000	30,000,000
Series 2 .....	29,350,000	29,350,000
Series 3 .....	29,570,000	34,765,000
May 2008		
Senior Series A .....	46,000,000	52,200,000
Subordinated Series I.....	4,000,000	4,000,000
August 2008		
Series B-1 .....	20,000,000	20,000,000
Series B-2 .....	20,000,000	20,000,000
Series B-3 .....	25,000,000	25,000,000
Series B-4 .....	20,000,000	20,000,000
Series B-5 .....	15,000,000	15,000,000
July 2009		
Senior Series A .....	25,570,000	25,570,000
March 2010		
Senior Series A .....	16,970,000	16,970,000
December 2010		
Senior Series B .....	25,570,000	25,570,000
October 2011		
Series A.....	18,000,000	0
March 2012		
Senior Series A .....	17,940,000	0
Subtotal .....	<u>565,855,000</u>	<u>668,270,000</u>
Add: premium.....	314,893	80,525
Less: discount .....	109,291	146,931
Less: current portion .....	<u>6,335,000</u>	<u>6,450,000</u>
Total .....	<u>\$559,725,602</u>	<u>\$661,753,594</u>

The following schedule reflects the changes in bonds payable:

Balance at June 30, 2010 .....	\$ 919,010,000
Additions .....	25,570,000
Retirements .....	<u>(276,310,000)</u>
Balance at June 30, 2011 .....	668,270,000
Additions .....	35,940,000
Retirements .....	<u>(138,355,000)</u>
Balance at June 30, 2012 .....	<u>\$565,855,000</u>

**7. BONDS PAYABLE (Continued)**

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

(CONTINUED)



RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**7. BONDS PAYABLE (Continued)**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,335,000	\$ 11,340,754	\$ 17,675,754
2014	8,465,000	11,073,323	19,538,323
2015	7,645,000	10,830,357	18,475,357
2016	7,855,000	10,626,433	18,481,433
2017	7,940,000	10,378,632	18,318,632
2018	8,035,000	10,204,077	18,239,077
2019	26,395,000	9,482,058	35,877,058
2020	10,095,000	8,903,028	18,998,028
2021	9,745,000	8,681,442	18,426,442
2022	9,710,000	8,489,239	18,199,239
2023	9,150,000	8,297,378	17,447,378
2024	14,390,000	7,911,792	22,301,792
2025	7,820,000	7,562,817	15,382,817
2026	71,130,000	7,299,327	78,429,327
2027	2,950,000	7,252,187	10,202,187
2028	27,700,000	5,360,378	33,060,378
2029	4,000,000	4,009,568	8,009,568
2030	500,000	3,721,193	4,221,193
2031	68,745,000	3,473,292	72,218,292
2032	-	3,312,693	3,312,693
2033	-	3,303,695	3,303,695
2034	-	3,303,695	3,303,695
2035	25,900,000	3,214,610	29,114,610
2036	43,300,000	3,003,228	46,303,228
2037	28,200,000	2,103,287	30,303,287
2038	25,650,000	1,125,292	26,775,292
2039	29,500,000	686,181	30,186,181
2040	-	559,145	559,145
2041	51,700,000	288,336	51,988,336
2042	-	91,800	91,800
2043	-	91,800	91,800
2044	-	92,052	92,052
2045	-	91,800	91,800
2046	-	91,800	91,800
2047	-	91,800	91,800
2048	35,000,000	28,879	35,028,879
2049	-	28,800	28,800
2050	-	28,800	28,800
2051	18,000,000	28,800	18,028,800
Total	<u>\$565,855,000</u>	<u>\$176,463,768</u>	<u>\$742,318,768</u>

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**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 outstanding balance at June 30, 2012 was \$5,782,532.

**9. ACCRUED ARBITRAGE REBATE**

Accrued arbitrage rebate at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Current portion .....	\$11,019,418	\$ 45,295
Noncurrent portion .....	408,795	8,769,719
<b>Total accrued arbitrage rebate .....</b>	<b><u>\$11,428,213</u></b>	<b><u>\$8,815,014</u></b>

The following schedule reflects the changes in accrued arbitrage rebate:

Balance at June 30, 2010 .....	\$10,562,130
Increase .....	1,040,914
Decrease .....	<u>(2,788,030)</u>
Balance at June 30, 2011 .....	8,815,014
Increase .....	5,307,374
Decrease .....	<u>(2,694,175)</u>
Balance at June 30, 2012 .....	<b><u>\$11,428,213</u></b>

In July 2012, the Authority submitted a request to the Internal Revenue Service for a voluntary closing agreement (VCA) with respect to certain tax-exempt obligations issued by the Authority, as described in IRS Announcement 2012-14, 2012-14 I.R.B. 721, titled *TEB Voluntary Closing Agreement Program: Relief from Allocation and Accounting Errors for Certain Issuers of Tax-Exempt Student Loan Bonds*. The Authority believes that it has been at all times in compliance with the federal tax regulations applicable to the Authority's Tax-Exempt Bonds. The Authority understands that a number of other state programs that have financed student loans on a tax-exempt basis have recently submitted requests for voluntary closing agreements pursuant to the Announcement.

(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**9. ACCRUED ARBITRAGE REBATE (Continued)**

The settlement provisions proposed in the Request would include a payment to be made by the Authority upon entry into the VCA. The Authority does not currently expect the resolution of the matters addressed in the Request to reduce the amount of Available Funds and other Trust Estate assets that are available to fund mandatory payments with respect to the Notes and the Trust Estate under the Indentures or to materially affect its ability to administer its student loan programs. However, any such payments would reduce funds that would otherwise be available to the Authority to provide for additional student loan forgiveness, student loan interest rate reductions relative to its financed student loans.

**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. 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, 2012 and 2011, the Authority's outstanding balance of FFELP loans financed by the Conduit was \$297,181,943 and \$358,377,636, respectively. Interest expense incurred for the year ended June 30, 2012 and 2011 was \$2,577,479 and \$2,769,202, respectively.

**11. LOAN SERVICING AGREEMENTS**

In 2011, the Authority conducted an RFP for the servicing of its federal loans. Based on the results of this RFP, in April the Authority renewed a servicing agreement with Nelnet Servicing LLC (Nelnet), under which Nelnet collects and accounts for the principal and interest on loans originated and purchased by the Authority and placed with Nelnet for servicing for a monthly fee, which is based on the number of loans in promissory and repayment status. 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 will continue 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.

In February 2002, the Authority entered into a servicing agreement with Granite State Management and Resources (GSMR) under which GSMR collects and accounts for the principal and interest on loans originated and purchased by the Authority and placed with GSMR for servicing for a monthly fee, which is detailed in the agreement. This agreement was renewed in January 2004 and was terminated in June 2011.

(CONTINUED)

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**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 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.

**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 2012 and 2011 amounted to \$241,104 and \$235,841, respectively. Employee contributions for 2012 and 2011 amounted to \$133,598 and \$148,957, 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 \$502,286,268 and \$579,819,010 at June 30, 2012 and 2011, respectively.

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). 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 maximum amount of the line-of-credit is \$6.5 million. The outstanding balance at June 30, 2012 was \$5,782,532.

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. At June 30, 2012 and 2011, the loan and interest balance was \$1,389,859 and \$1,625,647, respectively. At June 30, 2012 and 2011, the Authority owed RIHEAA a net amount of \$16,795 and \$14,928, respectively.

Lease expense paid to RIHEAA for fiscal years ended June 30, 2012 and 2011 was approximately \$121,392 and \$114,836, respectively.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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**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, 2012 and 2011.

**15. SUBSEQUENT EVENT**

In July and August 2012, the Authority retired Bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at a discount ranging from 91% to 95% of the Bonds stated par value. Outstanding Bonds of \$126,750,000 were retired which resulted in a gain in the amount of \$8,332,500.

On August 30, 2012, the Authority issued \$111,000,000 in taxable LIBOR floating rate Notes. Proceeds from this issuance were used to refinance FFELP loans that were previously pledged to secure other debt obligations of the Authority and to provide funds to retire those obligations. The Authority also issued \$78,000,000 in taxable bonds on August 30, 2012. These proceeds were used to retire bonds from the 2008 B 1-4 Series bonds.

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